



Stable Value

## **An ESG integrated approach to capital preservation**

A conservative investment option for qualified  
retirement plan investors



## Executive Summary

- Environmental, Social and Governance (ESG) research is conducted as part of the investment team’s comprehensive credit analysis to identify risks and opportunities while pursuing stability of principal and current income.
- Our ESG research goes far beyond third-party ratings and is supported by the 18-year proprietary database of engagement information from our global team of ESG engagement specialists at EOS at Federated Hermes.
- Given the difficulty of predicting when an ESG risk will materialize into an event with significant financial effects, we believe that authentically integrating ESG factors is important when seeking to maintain stability of principal within retirement investing.

At Federated Hermes, we believe that incorporating ESG factors into our research provides greater insight into investment risks and opportunities. There is little dispute that the assessment of ESG factors can reveal important information about a company’s practices and leadership. However, extracting value from ESG factors within a portfolio can depend on how they are incorporated into the investment process.

To this end, Federated Hermes’ global team of engagement and responsible investing experts provides proprietary ESG data and analytics, which our investment teams use to manage risk and identify opportunities. A key input of our data comes from our leading engagement and stewardship division, EOS at Federated Hermes. EOS’s direct engagement with companies is not only important to obtain insights into a company’s ESG practices, it can also encourage improvement in an issuer’s ESG profile which may help reduce risks over the longer term. Using our engagement and other proprietary ESG data, we generate custom “materiality” assessments that focus on long-term ESG considerations that are financially relevant to each industry. Our investment teams use our ESG data analytics, materiality assessments and engagement in ways that are appropriate to their specific strategies in order to seek better outcomes for our clients.

## Stability rooted in comprehensive credit analysis

The Federated Hermes Capital Preservation Fund seeks stability of principal and current income by investing in stable value products such as traditional, synthetic and separate account guaranteed investment contracts (GICs) as well as money market instruments. Comprehensive credit analysis is performed in order to develop an approved list of traditional GIC issuers and wrap providers (banks, insurance companies, or other financial institutions which provide the financial backing to enable a stable value investment option to maintain principal value and minimize return volatility). This process involves conducting ongoing due diligence, engaging in meetings with senior management, and monitoring financials, earnings, press releases and news articles daily. In addition to our extensive internal resources, the investment team uses external resources such as rating agency reports and industry journals—all while employing the CAMEL approach. Through the CAMEL approach, the team considers Capital, Asset quality, Management, Earnings and Liquidity to evaluate potential investments.



## The CAMEL approach

	Objective	Factors considered
<b>C</b> apital	Assess quality of capital	Equity base, leverage, quality of capital, regulatory requirements, dividend payout policy, share repurchase program
<b>A</b> sset quality	Analyze the general account	Sector breakdown by asset class, non-performing assets, below-investment-grade allocation
<b>M</b> anagement	Qualitatively assess the corporate structure, ownership and philosophy	Senior management, personnel turnover, succession plans, bench strength, market presence, risk-management process, ESG issues
<b>E</b> arnings	Evaluate earnings components	Diversification of business units, recurring vs. non-recurring revenue sources, expense controls, margins, material ESG risks
<b>L</b> iquidity	Review funding sources, asset/liability management and contingency planning	Access to capital markets, debt profile, financial flexibility



# EOS: The engagement advantage

Federated Hermes is one of the largest active managers with a dedicated engagement and stewardship division. EOS at Federated Hermes is a pioneer in the engagement space with a 18-year database providing a competitive advantage for the investment-grade fixed-income strategies and our firm. Engagers are ESG subject-matter experts on topics such as climate change, human capital management, sustainable supply chains and corporate governance, and are uniquely positioned to assess the ESG progress and momentum of a corporate issuer.

EOS specialists have deep industry-specific knowledge, with extensive experience in particular sectors and on the select companies they cover. EOS engages on material ESG objectives along key environmental, social, governance and strategic themes which comprise 36 unique sub-themes. Engagers can provide meaningful insight into a company's willingness and ability to manage ESG risks. By integrating engagers' deep understanding of financially relevant ESG factors, our portfolio managers are better equipped to assess the quality of current and potential holdings. [Learn more about EOS at Federated Hermes here.](#)

## Timing, materiality and the need for vigilance

In the short-term investment space, long-term outcomes matter—particularly with regard to stability of principal within retirement investing. Adverse ESG events have ramifications that play out over the long term and it is difficult to pinpoint when one will occur. Authentic ESG integration can make a significant difference when preparing for financially material ESG events. For this reason, it is important to incorporate ESG factors into the credit analysis process to better understand potential risk.

Our experienced portfolio management team benefits from the informational advantage provided by our ESG engagement experts at EOS. Integrating engagement insights and ESG considerations into our overall investment research helps us pursue stability of principal and current income to provide a conservative investment option for clients.



## ESG research is part of our internal credit review process

The investment team conducts ESG research as part of their extensive credit analysis in order to determine the overall score assigned to each issuer and wrap provider.

As shown in the graphic below, each issuer and wrap provider considered for our approved list is assigned an internal credit rating which is the culmination of various factors, such as capitalization and profitability, that we use to determine quality. ESG factors are among the many factors considered as part of this rating.

ESG considerations may influence the overall internal rating positively, negatively or not at all. This qualitative analysis does not automatically result in including or excluding specific securities. Instead, ESG information is used to better evaluate the overall risk profile of issuers and wrap providers.






### A selection of a few factors of our internal credit rating



## ESG integration: One of many advantages

The investment team's thorough ESG integration is just one of the many reasons why investors might see the Federated Hermes Capital Preservation Fund as an attractive retirement investment opportunity. Our deep bench of liquidity and fixed-income investment professionals have used their decades of experience and investment knowledge to successfully manage the fund through all types of market environments.

### Points of distinction

 <p><b>Conservative culture &amp; approach</b></p>	 <p><b>Diversification</b></p>	 <p><b>Experience &amp; continuity</b></p>	 <p><b>Stringent credit analysis</b></p>	 <p><b>Strong historical performance</b></p>
<ul style="list-style-type: none"> <li>• Money market experience offers unique perspective</li> <li>• Primary objective is preservation of principal; yield is secondary</li> </ul>	<ul style="list-style-type: none"> <li>• Balanced fund comprised of traditional GICs, synthetic GICs and cash</li> <li>• Approved list of traditional GIC issuers maintained</li> <li>• Six distinct synthetic GICs</li> </ul>	<ul style="list-style-type: none"> <li>• 30+ year track record</li> <li>• Consistent strategy</li> <li>• Senior Portfolio Manager associated with fund since inception</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative and qualitative elements</li> <li>• Leverages money market and fixed-income research experience</li> <li>• Independent credit research; less reliant on ratings agencies</li> <li>• Integrated ESG approach</li> </ul>	<ul style="list-style-type: none"> <li>• Historical performance outpaced inflation and met yield objective</li> <li>• Impact of 2008 financial crisis was minimal</li> <li>• Competitive history of market-to-book value ratios</li> <li>• All withdrawal demands met through cash component</li> </ul>

The Federated Hermes Capital Preservation Fund management team is committed to providing qualified retirement plan investors with a conservative investment option. We believe integrating ESG considerations directly into the extensive credit review process improves our ability to evaluate risks and opportunities, thereby supporting our efforts to provide stability of principal and current income to clients.

Terminology such as "ESG integrated", "sustainable" or "impact", among other terms, is not uniformly defined across the industry. Investment managers may understand and apply ESG factors in different ways, and that the role those factors play in investment decisions also varies. Therefore, we recommend investors understand the role of ESG factors in a strategy to ensure that approach is consistent with their investment objectives. Like any aspect of investment analysis, there is no guarantee that an investment strategy that considers ESG factors will result in performance better than or equal to products that do not consider such factors. Investing and making buy and sell decisions that emphasize ESG factors carries the risk that, under certain market conditions, the fund or strategy may underperform those that do not incorporate such factors explicitly into the decision-making process. The application of ESG criteria may affect exposure to certain sectors or securities and may impact relative investment performance depending on whether such sectors or securities are generally in or out of favor in the market.

ESG ratings are one consideration among others as part of the security selection process. The analysis described does not automatically result in including or excluding specific securities but is used as an additional input to improve portfolio risk/return characteristics.

Views are as of October 2022 and are subject to change based on market conditions and other factors.

These views should not be construed as a recommendation for any specific security or sector.

**Federated Hermes Capital Preservation Fund (Fund) is a collective investment fund that may only accept assets of certain defined contribution plans which are specified in the Fund's Declaration of Trust. These include most (i) pension, profit-sharing or stock bonus plan trusts qualified under § 401(a) of the Internal Revenue Code and exempt from taxation under Code § 501(a); and (ii) state, local or other governmental plans described in Code § 414(d) or Code § 457. The Fund does not accept investments from defined benefit plans, individual retirement accounts (IRAs) or Keogh or Plans (except for Keogh Plans qualified under SEC Rule 180) directly or through commingled funds or separate accounts. Units of participation in the Fund are not registered with the SEC or any state securities regulatory authority and are offered in reliance upon an exemption from registration. There are restrictions on withdrawals from the Fund. Total plan withdrawal requests require 12 months' advance written notice, and other limits on transfers and redemptions may apply, as detailed in the Fund's Offering Circular.**

There is no guarantee that considering ESG factors will be a successful investment approach.