Federated Hermes

Federated Hermes, Inc.
1001 Liberty Avenue
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August 16, 2022

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

VIA E-MAIL TO RULE-COMMENTS@SEC.GOV

Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File Number S7-17-22)

Dear Ms. Countryman:

Federated Hermes, Inc., and its subsidiaries ("**Federated Hermes**")[1] submit this comment letter to the U.S. Securities and Exchange Commission (the "**Commission**" or the "**SEC**") regarding the Commission's proposal to require registered investment advisers and companies to provide additional disclosures relating to their environmental, social, and governance ("**ESG**") investment practices ("**Proposal**")[2].

As a leader in ESG investment integration, Federated Hermes is focused on meeting the diverse and evolving needs of today's investors through active, responsible investment management. As such, we support the Commission's goals to reduce the risk of greenwashing and to promote understanding of ESG funds among investors. Given the well-publicized proliferation of different of ESG-related investment strategies, these goals are important steps toward aligning investor expectation with outcomes. We also recognize that ESG investing is still evolving, and we want to be sure that the proposed disclosure regime doesn't unduly inhibit further evolution that would benefit investors.

Federated Hermes does, however, have some concerns regarding the new proposed disclosure requirements and as such, fully endorses and supports the comments and recommendations provided by Investment Company Institute ("**ICI**") in their comment letter dated August 16, 2022, including, but not limited to, the following considerations:

(i) The current disclosure framework supports effective disclosure and any new prescribed disclosure requirements should be consistent with and built upon this long-standing framework.

(ii) Any new prescribed disclosure for particular investment strategies should be modest and narrowly tailored in order to avoid misleading investors by undue prominence.

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[1] Federated Hermes, Inc. (NYSE: FHI) is a global leader in active, responsible investment management, with $631.9 billion in assets under management as of June 30, 2022. We deliver investment solutions that help investors target a broad range of outcomes and provide equity, fixed-income, alternative/private markets, multi-asset and liquidity management strategies to more than 11,000 institutions and intermediaries worldwide. Our clients include corporations, government entities, insurance companies, foundations and endowments, banks and broker-dealers.
[2] *See Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 25, 2022) (Proposing Release), available at https://www.sec.gov/rules/proposed/2022/33-11068.pdf.

(iii) Narrative discussion, rather than granular, quantitative data, can in many cases be more informative for investors. Narrative discussion can provide context and explanation that would promote investor understanding.

(iv) Any new prescribed disclosure obligations imposed on funds should follow appropriate regulatory sequencing. Funds should not be required to report portfolio data which is not required regulatory disclosure from public company holdings.

More specifically:

1. To the extent an Integration Fund is required to disclose what and how it integrates specific factors, it should *not* be required to include such disclosure in the Summary Prospectus. The fund should determine where the disclosure belongs consistent with the current structure of Form N-1A. For the Commission to prescribe otherwise would elevate ESG factors above any others for mandated specific disclosures, even though, under the Commission's proposed definition of Integration Funds, ESG factors are "no more significant than other factors in the investment selection process" and are not "determinative in deciding to include or exclude any particular investment." Any mandated heightened focus on ESG factors in a fund's summary and statutory prospectuses could mislead and confuse investors regarding the relative importance of those factors and serve as its own form of greenwashing.

2. We agree that ESG-Focused Funds should succinctly define what criteria and attributes are part of the principal investment strategy and what techniques contribute to the buy and sell investment and portfolio construction decisions. However, the use of a table with a check-the-box format can mislead investors. Narrative disclosure allows for context and nuance which is necessary to provide an informative description. Although narrative disclosure is less able to be easily compared between funds, we do not believe the proposed attributes cited in the boxes are used by investors as material comparison criteria for choosing an investment.

3. To the extent an ESG-Focused Fund cites proxy voting as a significant means of implementing its ESG strategy, it should *not* be required to report the percentage of votes on Governance matters furthering its initiatives. There is no insight gained from volume statistics which, in fact, can lead to greenwashing or other misleading conclusions. Voting statistics on Environmental- and Social-related shareholder proposals can be equally misleading since it would not reflect the nuance of the proposals themselves. As a fiduciary, asset managers consider all elements of a shareholder proposal which may be poorly formulated, not appropriate for the company's business strategy, redundant to a currently well-executed company activity, or otherwise not considered in the best interest of shareholders. Statistical comparisons are not insightful and use of them could lead to poor outcomes for investors and could cause fund advisers to focus on statistics rather than the substance of the proposal.

4. Similarly, to the extent an ESG-Focused Fund indicates that it uses engagement as a significant means of implementing its ESG strategy, statistical comparisons can be misleading. We agree that there are many forms of engagement, and your proposed definition is one that defines true consultative engagement. Federated Hermes conducts this type of engagement through EOS at Federated Hermes, an affiliated company where 30+ engagers consult with more than 1,000 companies per year. Each company has targeted objectives and the engager records meeting notes

and progress toward milestones over time. This type of engagement is unusual in the industry and takes experienced thematic experts to engage in productive conversations with senior level management including C-level executives and independent board members. Although we clearly endorse the benefits of consultative engagement, it is important to also recognize traditional interactions by investment managers/analysts or other ESG specialists representing an investment team or group of investment teams. In either case, as acknowledged in the Proposal, statistics would imply a "more is better" assumption where, in fact, fewer more productive conversations may be more beneficial toward an outcome.

It is our view that a fund that uses engagement as a significant means of implementing its ESG strategy should be free to report on its consultative engagement progress and outcomes in separate, support material but should *not be required* to do so in a prescribed manner in a fund's annual report. Additionally, we agree that general letter writing, press releases, public pronouncements, "meet and greets," panel participation, sign-on letters and other incidental and high-level contacts/interactions could be noted as such, but should not be counted or represented as consultative engagements and should not be required to be discussed in disclosure in a fund's annual report or prospectus.

5. As it relates to greenhouse gas (GHG) emission reporting metrics, we agree that carbon footprint and weighted average carbon intensity metrics would be informative to investors. However, this reporting should only be required in a fund's annual report if it is an ESG-Focused Fund that has a focus on such emissions as part of its principal investment strategy. Additionally, when GHG emission reporting is required, Scope 3 should not be included. The variability of calculating Scope 3 emissions is well documented and can result in wide variation from company to company despite significant effort to capture reasonable estimates and assumptions. Therefore, a fund that relies on corporate reporting of Scope 1 and 2 has a reasonable expectation of comparability, but this could not be considered true for Scope 3. Required reporting for Integration Funds or other types of ESG-Focused Funds where GHG emissions are considered, but not determinative in security selection or portfolio construction, can mislead investors as to its weighting in the decision-making process.

6. We appreciate the definition of "Impact Funds" and agree that it would clearly limit the use of the term to those funds that invest "for" impact which would, therefore, include a non-financial goal as part of its investment objective. To the extent a fund has this dual objective, we support reporting on progress toward that goal. However, the specifics of reporting should not be prescribed solely at the portfolio level. While that may be one way to illuminate progress toward the objective, in many cases it may be more appropriate to report on individual or groups of securities where a common achievement is sought. The fund should determine the most appropriate way to report on its progress through qualitative and/or quantitative metrics, as appropriate, in the annual report.

   If the definition of an "Impact Fund" is adopted as proposed, it would result in only a small set of funds currently characterized as Impact Funds to fall under that label. We recognize there are many funds that invest "in" impact by pursuing a singular financial investment objective through companies that are contributing positively to a societal goal. These funds should also be required to report on the impact associated with their holdings regardless of the fact they do not have an

impact defined in their investment objective. This will allow investors to better understand how the fund assesses and measures a company's positive contribution toward a societal goal which would otherwise not be evident. We are comfortable allowing funds that invest "in" impact to continue to be labeled as such, but they too should report on the impact of their holdings in their annual report, in an informative, qualitative and/or quantitative manner consistent with the fund's principal investment strategy.

7. The Commission should not underestimate the significance of the changes the proposal contemplates. In order to create the ESG data reporting hub and data governance processes along with operational and compliance oversight procedures for regulatory filings, we believe the proposed implementation dates of one year for prospectus disclosure and 18 months for annual report requirements are too aggressive. We propose the compliance period for prospectus disclosure be extended to two years and also allow firms to roll language in throughout the year with annual fund prospectus updates. We propose that the annual report disclosure period realistically should be extended to three years.

Please let us know if you have any questions on these comments.

Sincerely,

Peter J. Germain
Chief Legal Officer

cc: The Honorable Gary Gensler
The Honorable Caroline A. Crenshaw
The Honorable Jaime Lizárraga
The Honorable Hester M. Peirce
The Honorable Mark T. Uyeda

William A. Birdthistle - Director, Division of Investment Management
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