

## SHINING A LIGHT ON..... HERMES GLOBAL EMERGING MARKETS FUND

### Update....

We reviewed this fund in March. At the time we felt this was a hidden gem and one which is often missed by people due to its poor long term performance. However, digging beneath the surface investors can see that a change of management took place in 2011. This is significant because Gary spent the next two years introducing his style of management and weeding out what he classed as 'dead' ideas.

What happened was that 2013 reflected his first full year of management after the changes and the fund significantly outperformed the index which is how it first came to our attention. In 2014 he has continued this trend.

The fund is actively managed considering both macro issues as well as searching out good companies. Good companies can struggle if the macro picture is poor. His style of management means he is seeking quality companies at cheap prices but with a catalyst to re-rate. Another area of focus is on companies' corporate governance, environmental issues and social mandates.

With this in mind the update was to see how the fund is fairing and where his focus is.

Although there has been some re-rating in emerging markets it remains cheap compared to developed markets and Gary believes compared to the US it offers the opportunity over the next two years to outperform developed markets.

In meetings we have had with Gary it is clear that selective investment is key to success. The good economies are moving away from the old emerging market model i.e. from cheap labour to more sustainable long term growth. He believes around 60% of the potential market falls into this category which means there are plenty of opportunities.

From an economic point those economies with surplus are likely to do well whereas these with deficits will struggle. This reflects the funds leaning towards China, India, South Korea and Taiwan. Examples of a business he likes is Tech Mahindra which is an IT software company in India.

It is global telecom player gaining market share but cheap relative to peers. The emphasis on quality is key – a company can be cheap for a reason! The company has a strong balance sheet, is delivering on growth and diversification strategies and has a strong management team. When Gary invested the share price was around INR1800, it is now INR2600.

From a sector viewpoint the fund is skewed towards financials, consumer discretionary and IT. In consumer discretionary Gary sees this as a growth area playing on the emerging middle class and with IT he sees many opportunities with innovation coming from China and Taiwan in particular.

Clearly Gary still sees opportunities and his management style continues to outperform the sector. It is early days and investors need to recognise that long term the track record on this fund is unknown. The breadth and depth of the team is important with members of the team previously working in central banks and governments as well as different nationalities which gives a good blend for discussions and ideas.

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In summary we continue to watch the fund and Gary's style is delivering above benchmark returns. His care on considering the macro position as well as focusing on quality companies which includes corporate governance, environmental issues and social mandates has clearly helped drive the performance. Hermes might not be a household name but they are part of the BT Pension Scheme and have a long track in equity investing.

### Fund performance

Performance vs MSCI Emerging Markets to 2014 is shown below:

|   | 2010   | 2011    | 2012   | 2013   | 2014  |
|---|--------|---------|--------|--------|-------|
| <b>Hermes Global Emerging Market Fund</b> | 17.68% | -17.88% | 8.72%  | 7.91%  | 8.66% |
| <b>iShares MSCI Emerging Markets</b>      | 22.72% | -18.72% | 11.86% | -5.82% | 5.50% |

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

*The source of information in this note has been provided by Hermes and is correct as at November 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*