

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

Update....

Our last review was at the end of 2014. Our view remains unchanged in that this is a hidden gem which doesn't appear on many people's screens due to its poor long term track record. However, research shows that a significant change in the management of the fund in 2011 meant the fund was re-engineered and only from 2013 did the fruits of this labour begin to show.

The fund was launched in December 2008 and up to 30 June 2011 the fund had returned 97.69% against the index which had returned 114.62%. Gary took over the fund on 1 July 2011 and since that point to 31 March 2015 the fund has returned 18.99% against the index which has returned 3.83%.

Looking closer you can see that the real change came through in 2013. Up to the end of 2012 the fund was still behind the index but through 2013 onwards it started to pull away delivering 28.62% against the index of 9.36% to the end of March. Obviously past performance is no guide to the future and investments can fall as well as rise.

Nothing has really changed in the style we talked about previously. 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.

Gary touched briefly on his team explaining that they speak nine languages, cover 5 continents and five members of the team have an accountancy background. This is important because much of the work is about identifying risks, but as he pointed out if someone wants to hid something in the accounts then they will but with the background they have, they have a better chance of avoiding those companies that do.

In all previous discussions Gary has been very positive about emerging markets and he believes there is a misconception about economies within emerging markets. He believes two thirds of economies are on the road to sustainable growth, and some have already arrived (Taiwan and Korea being good examples). So in the past where Emerging Markets has been about tactical investment it is moving to a sustainable long term investment.

Before covering specific investments and regions we covered two points; oil and US monetary policy. Firstly he believes lower oil prices is a positive for many economies especially as they are less commodity orientated. And with US monetary policy he believes there will be volatility but the impact will not as severe because a lot of the economies are much stronger.

Regions he likes include China, India, Indonesia, Philippines, Saudi Arabia, Poland and Mexico. We touched on China and India briefly. Gary believes there are many exciting developments in China; monetary easing seems to be working and there is a gradual transformation of the economy. What he is seeing are more start-ups and in particular strong ecommerce businesses. India is reforming, there is still more to be done but areas of particular interest include infrastructure and energy.

In contrast economies like Brazil, Turkey, Hungary and South Africa seem stuck and although they have a chance to move forward there is little evidence of this coming through at the moment. Other areas

LWM Consultants Ltd

he feels less positive on include Venezuela, Argentina, Greece and Russia. With Russia although he sees a short term bounce he doesn't believe this a place to be for the long term.

Turning to companies the team are searching out those hidden gems; those companies which are good quality, have attractive valuations and the ability to grow. Sectors where he is finding opportunities include Consumer Discretionary and Innovation in Internet and Software.

When looking at the Internet Gary explained that Internet can mean many things, in some cases it can be users of technology, and also Science. What this all leads to is a fund which doesn't replicate the benchmark. As an example some of the top holdings include Gree (Air Conditioning Manufacturer in China), Baidu (the largest search engine in China), China Mengniu Dairy, Motherson Sumi Systems (auto products) and Daqin Railway (transportation of coal).

In summary the fund remains relatively small in the Emerging Market space with assets of circa £350 in part this is likely to be reflective of the poor performance over the long term. However, Gary has shown under his tenure he has been able to reverse this and it is likely that if he can continue this reversal in performance over a three year period it will come to the attention of others. At this point further inflows could see the fund restrict new money but for the time being it remains a small fund, hidden amongst the bigger names delivering strong performance.

Fund performance

Performance vs iShares MSCI Emerging Markets 2010 to 2015 is shown below:

	2010	2011	2012	2013	2014	2015
Hermes Global Emerging Market Fund	17.68%	-17.88%	8.72%	7.91%	8.35%	10.01%
iShares MSCI Emerging Markets	22.72%	-18.72%	11.86%	-5.82%	2.62%	7.02%

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 April 2015. 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.