

SHINING A LIGHT ON THE.....
Hermes Global Emerging Markets Fund

AT A GLANCE

Investment Objective
The investment objective of the Fund is to achieve long-term capital appreciation. The Fund will seek to achieve its objective over a rolling period of any five years, by investing at least 80% in a diversified portfolio of equity securities and equity related securities of, or relating to companies in, or companies that derive a large proportion of their revenues from, global emerging markets. The Fund will invest at least 67% of its assets in companies listed or traded on a Regulated Market worldwide.

Inception Date	
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000QIMT

Management	
Manager Name	Start Date
Kunjai Gala	1 st September 2020

FUND PERFORMANCE

Performance from 1st January 2016 to 30th September 2020:

	2016	2017	2018	2019	2020
Federated Hermes Global Emerging Markets Fund	30.06%	34.64%	-10.88%	20.05%	4.31%
iShares MSCI EM ETF	33.56%	24.43%	-9.25%	12.62%	1.12%

Performance over 12 months, 3 years, and 5 years:

	1 year	3 years	5 years
Federated Hermes Global Emerging Markets Fund	8.96%	19.37%	113.19%
iShares MSCI EM ETF	5.64%	10.09%	76.20%

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.

Tracking Error	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
4.21	111.96	101.33	58.33	2.40	1.06	Growth/Large

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Volatility Measurements	
3-Yr Std Dev (volatility)	15.88%
3-Yr Mean Return (average)	6.08%

Investment Style Details	
Giant	50.49%
Large	35.13%
Medium	12.16%
Small	0.91%
Micro	0.00%

Top 5 Holdings – 54 equity holdings, 48% in the top ten		
Tencent Holdings Ltd	Communications Services	9.68%
Alibaba Group Holding Ltd ADR	Consumer Cyclical	9.07%
Samsung Electronics Co Ltd Parti...	Technology	7.35%
Taiwan Semiconductor Manufacturi...	Technology	5.86%
Delta Electronics Inc	Technology	3.16%

Top 5 Sectors	
Technology	25.57%
Financial Services	18.75%
Communication Services	17.98%
Consumer Cyclical	16.84%
Industrials	8.53%

Top 5 Regions	
China	33.03%
Taiwan	13.60%
South Korea	12.74%
India	11.69%
Hong Kong	7.12%

UPDATE....

These updates have been written at the time of the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

A few years ago we uncovered this fund. It had had several years of poor performance and then suddenly it had 12 months of exceptional performance. We met the manager and found out that he had recently taken this on and had spent a period rebuilding the strategy, and the exceptional performance reflected those changes.

Since then the performance has remained strong, although the manager has now retired. This update was to meet the new team. Our initial thoughts were that the drive that was behind the old manager is not there in the new team. The team were quick to add that nothing has changed, and the investment process would remain the same. To some extent you want this, but you also want a period of reflection. Is what was right a few years ago still the same? Are the holdings still the right ones? None of this was mentioned by the team.

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Although the performance has been strong, we can see that it has started to slip and our concern is whether the new team can carry forward the legacy. This update covered both a macro view, and where the fund is currently positioned.

They remain very positive, especially in North Asia. The tailwinds include phased normalisation, fiscal stimulus across developed and emerging markets, limited dependency on oil and gas, global funds are underweight emerging markets and there is now a stabilisation of outflows. In terms of headwinds these include second wave of the virus, removal of stimulus packages, subdued business/consumer sentiment, rising unemployment, prolonged recovery, lower growth, US election uncertainty, and escalating trade/tech tensions.

In terms of companies in Asia, the majority are expected to outgrow developed economy businesses, and yet the relative price to book is on a 34% discount to developed markets and 18% to history. These businesses have significantly lower levels of debt and healthy cash balance sheets. Emerging markets also make up 87% of the world's population and 57% of the world's growth.

The fund focuses on healthcare, enterprises, households, and technology. Examples of holdings include:

5G – TSMC, China Communication Services, Tech Mahindra
Data Centres, Digitalisation and Industrial IoT – WEG, Samsung, Accton Technology
Financial – AIA, Bank Central Asia, Bajaj Finance

The focus of the fund is to find a few well managed companies using a developed markets mindset. They have reduced holdings in China as they worry about the impact of increased tensions with the US and a Trump victory. They see great opportunities in North Asia, especially China, Korea, and Taiwan. They feel India and Indonesia have not responded as well in the recent climate but there are positive reforms coming through. In Latin America, many economies have failed to stop the spread of the virus and they have moved underweight to the region because of the potential damage.

In summary, this had an excellent manager, however, the performance, although beating the benchmark, has dropped behind its peers. Any change in management, even if it is within the existing team, would expect challenges and potential changes. The concern is that none of this seems to be happening. The team also seem very downbeat about China which they may be right about, but it appears they are talking more about China as an exporter rather than the domestic growth story within China. Potential investors need to therefore decide whether to hold with the existing team or watch and wait.

The source of information in this note has been provided by Hermes and is correct as at October 2020. 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. We would also recommend that you receive advice before following up on any decision.