

## Federated Hermes Asia ex-Japan Equity Fund

# Fund Investment Report



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## Fund information

### Investment objective

The Investment objective of the Fund is to achieve long-term capital appreciation.

### Investment policy

The Fund will seek to achieve its objective by investing primarily in a portfolio of equity and equity-related securities of, or relating to companies in, or companies that derive a substantial proportion of their revenues from, the Asia ex-Japan region. These companies will be listed or traded on a Regulated Market worldwide. The Investment Manager will focus investment in (or exposure to) companies that derive revenue from emerging market countries within the Asia ex-Japan region.

### Approach to ESG integration and stewardship

ESG integration and stewardship are integral to delivering sustainable returns. Through quantitative data and fundamental bottom-up research, we assess the absolute and change in ESG performance of companies. Engagement allows us to understand the effectiveness of their approach, the management of strategic issues and to exert positive influence.

## Fund information

Fund inception date	1 November 2012
Fund value	USD2,177.79m
Benchmark	MSCI AC Asia ex Japan IMI Net
Lead Fund Manager	Jonathan Pines
Deputy Portfolio Manager	Sandy Pei
Base currency	US Dollar

## Market and Performance review

The benchmark MSCI All Countries Asia ex Japan Index returned 8.39% in June. The Fund underperformed the benchmark over the month. This was primarily due to stock selection in China and Korea which was offset by strong relative returns in Taiwan.

MediaTek, a Taiwanese chip supplier, rose sharply after the US moved to tighten restrictions on Huawei by barring chipmakers using American equipment from supplying Huawei without approval. MediaTek, viewed as an alternative supplier, is seen as a beneficiary of the restrictions. Chow Tai Fook Jewellery, a Hong Kong-based conglomerate, rose on encouraging dividend payout guidance and recovering retail sales momentum. Hon Hai Precision Industry, a Taiwanese electronics manufacturer, rose on positive 2Q revenue guidance amid a renewed focus towards a ramp up in new iPhone production.

Not holding Tencent detracted as the company rose on strong quarterly results, driven by a rebound in advertising revenue from social ads and mobile gaming revenue growth which is benefitting from strong seasonality, more user activity resulting from the Coronavirus and a market preference for growing, high quality, dominant companies. Youngone Corporation, a Korean manufacturer of outdoor clothing and products, pulled back after consecutive monthly gains driven by plans to reopen apparel stores. Tingyi, an Asia-based food and beverage maker and market leader in instant noodles, retreated having held up well on food-supply stockpiling as a result of the Coronavirus outbreak.

## Activity

We have added to some economically sensitive stocks with strong balance sheets that have been hit hard and continue to seek new opportunities where stocks have adjusted inappropriately in response to the changing economic landscape.

We sold Shenergy, an A share listed stock after it had held up well in the initial market sell off. We initiated positions in real estate company, China Overseas Land & Investment and port operator, Adani Ports after the stock price fell and offered an attractive entry point. We also opened a position in Kumho PetroChemical, which stands to benefit from an eventual resumption in economic activity and increased demand for its synthetic rubber component, which are used to manufacture gloves.

## Outlook

E-commerce, Mega Cap, Growth and Quality stocks have risen to record valuations as a result of an improved relative industry positioning and even lower interest rates. While the valuations of some of these companies are potentially justified in view of these new dynamics, others have, in our view, risen too much. While we are not yet calling a bubble in the largest benchmark names, there are some slightly smaller companies that are trading at valuations that are hard to justify given even very optimistic assumptions. The market is focusing on opportunities among the fastest-growing companies at present, but ignoring other stocks that have the potential to rerate from depressed levels despite a less rosy outlook. It is in this second category that we believe there is better potential for outperformance over the medium-to-long term.

**Fund breakdown**

**Top 10 relative Fund positions**

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
ASE Technology	Taiwan	5.65	0.13	5.52
Samsung Electronic	Korea	8.45	3.64	4.81
CK Hutchison	Hong Kong	4.91	0.30	4.61
MediaTek	Taiwan	4.21	0.52	3.70
PowerTech Technology	Taiwan	3.54	0.05	3.50
Hon Hai Precision	Taiwan	4.07	0.63	3.44
Tingyi	China	3.18	0.05	3.12
Sinopharm	China	3.07	0.06	3.01
Beijing Enterprises	China	2.93	0.03	2.90
China South Publishing & Media Group	China	2.51	0.00	2.51

**Top 10 absolute Fund positions**

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Samsung Electronic	Korea	8.45	3.64	4.81
Alibaba (ADR)	China	7.32	7.04	0.28
ASE Technology	Taiwan	5.65	0.13	5.52
CK Hutchison	Hong Kong	4.91	0.30	4.61
MediaTek	Taiwan	4.21	0.52	3.70
Hon Hai Precision	Taiwan	4.07	0.63	3.44
PowerTech Technology	Taiwan	3.54	0.05	3.50
Taiwan Semiconductor Mftg	Taiwan	3.51	4.54	-1.03
Tingyi	China	3.18	0.05	3.12
Sinopharm	China	3.07	0.06	3.01

Performance attribution - 1 month

Top 10 contributors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
MediaTek	Taiwan	4.21	0.52	26.94	0.57
Chow Tai Fook Jewellery	Hong Kong	1.86	-	29.78	0.29
Hon Hai Precision	Taiwan	4.07	0.63	15.79	0.23
Kinsus Interconnect	Taiwan	0.46	0.01	50.25	0.21
ASE Technology	Taiwan	5.65	0.13	11.30	0.14
PowerTech Technology	Taiwan	3.54	0.05	12.26	0.12
AAC Technologies Holdings	China	1.29	0.08	19.51	0.10
Ping An Insurance	China	-	1.04	-	0.07
China Construction Bank	China	-	1.35	-	0.07
Kunlun Energy	China	2.38	0.04	11.53	0.06

Top 10 detractors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Tencent	China	-	6.41	-	-0.69
Youngone	Korea	2.17	0.01	-14.68	-0.57
Tingyi	China	3.18	0.05	-4.82	-0.41
Lotte Fine Chemical	Korea	1.65	0.01	-6.29	-0.25
Beijing Enterprises	China	2.93	0.03	0.63	-0.22
Simplo Technology	Taiwan	2.49	0.03	1.59	-0.17
KB Financial	Korea	2.58	0.19	2.71	-0.15
CK Hutchison	Hong Kong	4.91	0.30	5.07	-0.15
AIA	Hong Kong	-	1.96	-	-0.14
Celltrion	Korea	-	0.42	-	-0.11

Top 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Kinsus Interconnect	Taiwan	0.46	0.01	50.25	0.21
Chow Tai Fook Jewellery	Hong Kong	1.86	-	29.78	0.29
MediaTek	Taiwan	4.21	0.52	26.94	0.57
AAC Technologies Holdings	China	1.29	0.08	19.51	0.10
Hon Hai Precision	Taiwan	4.07	0.63	15.79	0.23
Chin-Poon Industrial	Taiwan	0.86	0.01	12.83	0.03
Baidu (ADR)	China	1.14	0.57	12.69	0.02
PowerTech Technology	Taiwan	3.54	0.05	12.26	0.12
Kunlun Energy	China	2.38	0.04	11.53	0.06
ASE Technology	Taiwan	5.65	0.13	11.30	0.14

Bottom 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Youngone	Korea	2.17	0.01	-14.68	-0.57
Lotte Fine Chemical	Korea	1.65	0.01	-6.29	-0.25
Tingyi	China	3.18	0.05	-4.82	-0.41
China Mobile	China	0.84	0.72	-3.65	-0.02
Hyundai Steel	Korea	0.75	0.03	-3.42	-0.09
China Overseas Land & Investmnt	China	0.49	0.20	-2.83	0.00
Kumho Petrochemical	Korea	0.25	0.02	-2.77	-0.01
Trip.com (ADR)	China	0.52	0.21	-2.45	-0.03
ROHM	Japan	0.48	-	-1.59	-0.08
Honda Motor	Japan	1.15	-	-1.20	-0.11

Performance attribution - 1 month

Sector level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Information Technology	38.01	19.10	18.91	0.99	0.21	0.25	0.33	0.79
Utilities	6.75	2.55	4.20	6.91	0.00	-0.34	0.44	0.10
Real Estate	2.17	5.60	-3.43	0.36	0.06	0.04	0.00	0.10
Energy	1.17	3.13	-1.96	-1.54	0.01	0.01	-0.02	0.00
Industrials	9.32	6.48	2.85	-0.02	-0.06	-0.09	0.05	-0.09
Financials	5.70	18.08	-12.39	-4.32	0.12	0.16	-0.38	-0.10
Consumer Staples	3.18	5.40	-2.22	-8.73	-0.01	0.09	-0.28	-0.20
Health Care	5.40	5.28	0.12	-5.91	-0.01	0.01	-0.30	-0.30
Materials	4.84	4.27	0.57	-6.92	0.04	-0.02	-0.40	-0.38
Consumer Discretionary	15.12	17.30	-2.17	-3.70	0.13	0.01	-0.68	-0.55
Communication Services	7.64	12.81	-5.17	-5.75	0.09	-0.23	-0.55	-0.69
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.69	-	0.69	-	-0.07	-0.16	-	-0.23

Country level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Taiwan	28.92	15.06	13.86	3.33	0.11	0.00	0.95	1.06
Singapore	-	3.28	-3.28	-	-0.01	0.15	-	0.14
Malaysia	-	2.15	-2.15	-	-0.01	0.13	-	0.12
India	1.98	9.34	-7.37	1.92	0.06	0.00	0.03	0.09
Thailand	3.39	2.69	0.70	2.33	0.01	-0.04	0.08	0.04
Indonesia	-	1.68	-1.68	-	-0.02	0.04	-	0.01
Pakistan	-	0.08	-0.08	-	0.00	0.00	-	0.01
Philippines	-	0.93	-0.93	-	-0.01	0.00	-	0.00
Hong Kong	7.48	8.64	-1.16	-0.59	0.01	-0.05	-0.05	-0.09
Japan	1.64	-	1.64	-	-0.02	-0.17	-	-0.19
Korea	17.83	13.60	4.24	-5.45	0.08	-0.11	-1.02	-1.05
China	38.07	42.56	-4.48	-3.70	0.35	-0.05	-1.75	-1.45
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.69	-	0.69	-	-0.07	-0.16	-	-0.23

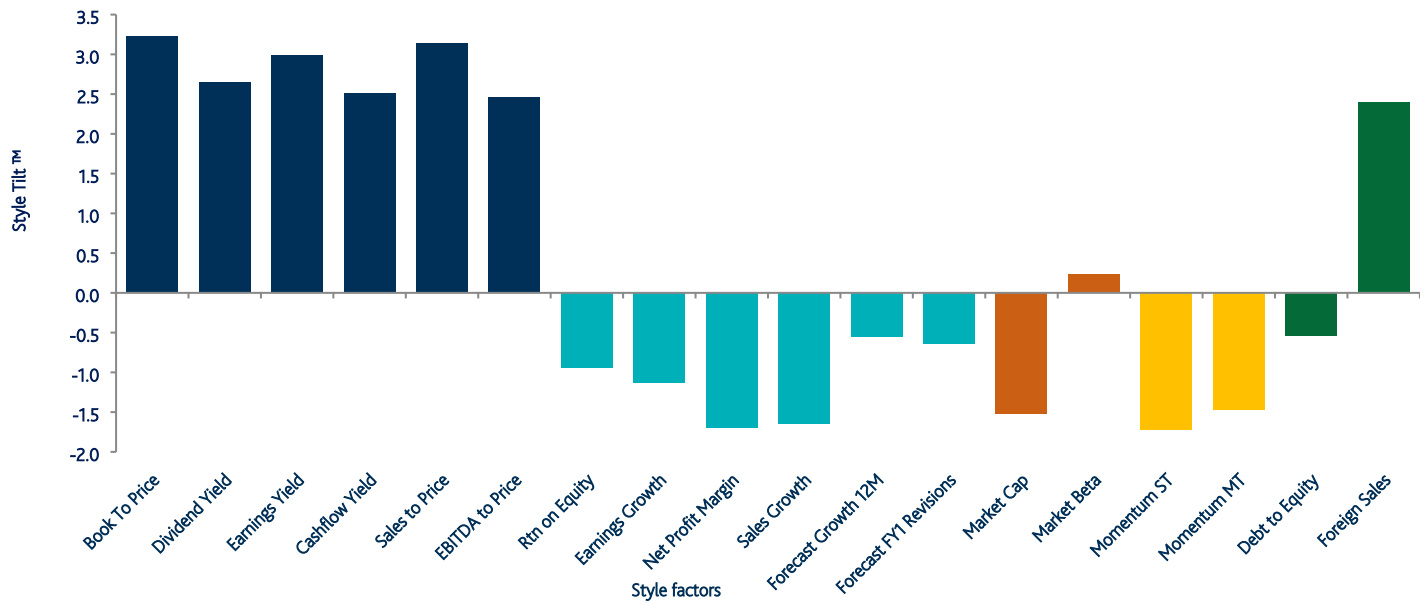
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 0.25B	-	0.11	-0.11	-	0.00	0.01	-	0.01
0.25 - 1B	5.94	4.50	1.44	1.79	0.05	-0.06	0.08	0.07
1 - 5B	28.40	15.39	13.01	-3.25	0.06	-0.26	-0.94	-1.14
5 - 10B	19.61	11.36	8.25	1.77	0.02	-0.19	0.34	0.16
10 - 20B	9.27	15.40	-6.13	0.42	0.01	0.09	0.01	0.11
20B+	36.09	53.24	-17.15	-0.77	0.07	-0.23	-0.39	-0.55
Unclassified	-	0.00	0.00	-	0.00	0.00	-	0.00
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.69	-	0.69	-	-0.07	-0.16	-	-0.23

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
47.91	83.08	3.73	85,386.94	10.42

Fund Style Skyline™



Source: \*Northern Trust. \*\* Barra. \*\*\*Style Research, Market Cap is the Portfolio Weighted Average.

## Risk analysis

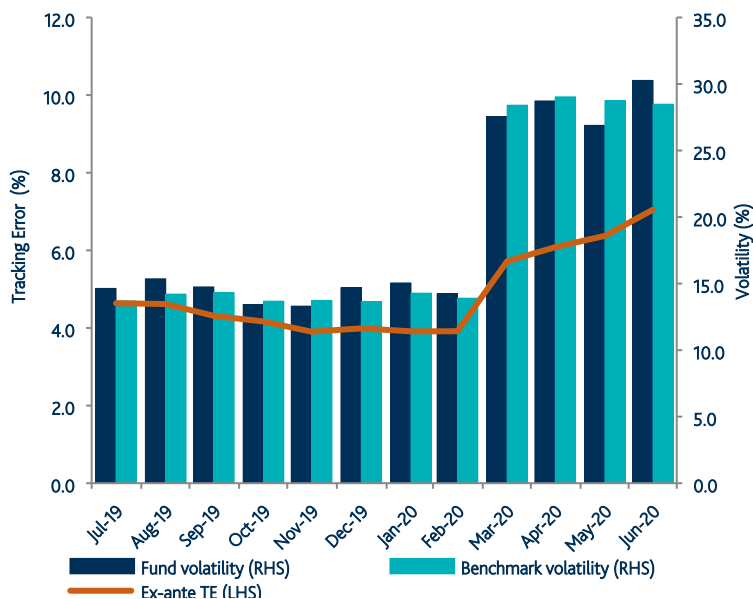
### Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
ASE Technology	Taiwan	11.81
Tencent	China	10.04
CK Hutchison	United Kingdom	6.90
Powertech Technology	Taiwan	6.57
Samsung Electronics	Korea	6.03
MediaTek	Taiwan	5.15
KB Financial Group	Korea	4.66
Hon Hai Precision Industry	Taiwan	4.47
Youngone	Korea	4.03
Cosco Shipping Ports	China	3.58

## Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	7.05	1.03	30.27	28.48	-	-
Ex-post	5.68	1.02	18.75	17.54	-0.55	-0.11

### Tracking error (TE) and volatility history (ex-ante)



### Fund statistics

Number of stocks (Fund)	48
Number of stocks (Benchmark)	2541
Upside market capture ratio	90.48
Downside market capture ratio	103.61



## Contact us

If you have any general questions concerning your investment, or specifically related to the content of this Fund investment report, please let us know using the contact details below.

Hermes Client Services [ClientServices@hermes-investment.com](mailto:ClientServices@hermes-investment.com)

Hermes Marketing [Marketing@hermes-investment.com](mailto:Marketing@hermes-investment.com)

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