

## Federated Hermes Europe ex-UK Equity Fund

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# 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 diversified portfolio of equity securities and equity related securities with a European bias (including Russia and Turkey) quoted or traded on Regulated Markets.

### 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	21 December 2011
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Fund value	EUR57.40m
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Benchmark	MSCI Europe ex UK Net
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Co-Fund Managers	Martin Todd James Rutherford
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Base currency	Euro
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## Market and Performance Review

European equity markets continued to increase in June as the easing of lockdown measures in the region continued and supported by the abundance of liquidity and lower for longer interest rates that make it difficult to find an attractive investment alternative.

The Fund outperformed the benchmark in June with ASM International, ASML and Sika contributing the most to relative returns. ASM International and ASML both displayed continued strong momentum due to positive trends in the semiconductor market. Sika should benefit from infrastructure investment, supported by the Green New Deal which highlights the decarbonisation potential in building renovation.

Sartorius, Orsted and Novo Nordisk were the largest individual detractors. Sartorius traded sideways following a period of strong performance, alongside the rotation towards cyclicals. Orsted fell after its CEO resigned in mid-June. Novo Nordisk also suffered, in line with the underperforming Health Care sector, despite reporting strong test results for its Semaglutide obesity drug.

## Activity

The most notable trading activity within the Fund was the switch into Adyen, funded by the sale of Wirecard. Adyen looks set to be one of the long-term winners in the global electronic payments industry. Current market share is set to grow rapidly as their single tech platform gives the company a major competitive advantage, enabling it to win big contracts like eBay and Facebook. While valuation looks full on near-term multiples, on our time horizon and given their returns profile and operating leverage we see significant upside on our discounted cashflow valuation model.

We sold our remaining holding in Wirecard after KPMG said it was unable to obtain the data it needed to complete its audit. We had been reducing the position since January on declining conviction, Wirecard's uncooperative stance with KPMG removed the remaining trust we had in the management team, so we closed it out completely.

## Outlook

Despite the strong rally since the end of March, there are reasons to believe that markets are well supported. European equities are still substantially lower than at the start of the year, while low interest rates and a lack of attractive alternatives continue to provide a boost. The recovery has, in many ways, followed a normal pattern: Growth has retraced the most, while Value has lagged – both of which are understandable given the uncertainty.

However, companies whose earnings have been decimated will undoubtedly see a return to growth in the next year or so. This recovery will vary, and we expect cyclical companies that have a structural or thematic exposure to growth to benefit the most.

Meanwhile, it is notable that European equities outperformed their US counterparts in recent weeks – a trend that has the potential to continue. The region has managed the pandemic much better than the US, while there is more constructive talk about the trajectory of the Euro. As a rule of thumb, a positive view on the currency tends to boost the region's assets – something that could stand European equities in good stead in the months ahead.

## Fund breakdown

### Top 10 relative Fund positions

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
ASML	Netherlands	7.08	2.47	4.61
Lonza Group	Switzerland	5.13	0.62	4.51
Novo Nordisk	Denmark	5.77	1.81	3.96
Sartorius	Germany	3.69	0.18	3.51
Deutsche Boerse	Germany	3.46	-	3.46
ASM International	Netherlands	3.45	-	3.45
Umicore	Belgium	3.33	0.15	3.18
Euronext	France	3.14	-	3.14
Orsted	Denmark	3.48	0.34	3.13
Sika	Switzerland	3.56	0.43	3.13

### Top 10 absolute Fund positions

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
ASML	Netherlands	7.08	2.47	4.61
Novo Nordisk	Denmark	5.77	1.81	3.96
Lonza Group	Switzerland	5.13	0.62	4.51
SAP	Germany	4.59	2.30	2.29
Adidas	Germany	3.81	0.79	3.02
Sartorius	Germany	3.69	0.18	3.51
Sika	Switzerland	3.56	0.43	3.13
Orsted	Denmark	3.48	0.34	3.13
Deutsche Boerse	Germany	3.46	-	3.46
ASM International	Netherlands	3.45	-	3.45

Performance attribution - 1 month

Top 10 contributors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
ASM International	Netherlands	3.45	-	31.64	0.72
ASML	Netherlands	7.08	2.47	11.58	0.33
Sika	Switzerland	3.56	0.43	11.33	0.22
Wirecard	Germany	-	-	-	0.20
Roche	Switzerland	-	3.85	-	0.18
Deutsche Boerse	Germany	3.46	-	8.88	0.16
Kion Group	Germany	2.93	0.06	9.05	0.15
Nestlé	Switzerland	-	5.20	-	0.13
Novartis	Switzerland	-	2.95	-	0.12
SAP	Germany	4.59	2.30	9.53	0.12

Top 10 detractors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Sartorius	Germany	3.69	0.18	-12.19	-0.64
Orsted	Denmark	3.48	0.34	-2.65	-0.26
Novo Nordisk	Denmark	5.77	1.81	-1.61	-0.22
Qiagen	Germany	3.28	0.16	-2.50	-0.20
Grifols	Spain	1.89	-	-5.05	-0.17
Adidas	Germany	3.81	0.79	-1.62	-0.17
Wolters Kluwer	Netherlands	2.55	0.34	-2.98	-0.14
Amadeus IT	Spain	2.49	0.35	-1.13	-0.12
Merck	Germany	3.21	0.24	0.20	-0.11
Allianz	Germany	-	1.35	-	-0.09

Top 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
ASM International	Netherlands	3.45	-	31.64	0.72
ASML	Netherlands	7.08	2.47	11.58	0.33
Bankinter	Spain	1.69	0.05	11.37	0.10
Sika	Switzerland	3.56	0.43	11.33	0.22
Barrick Gold	United Kingdom	1.69	-	10.98	0.12
SAP	Germany	4.59	2.30	9.53	0.12
Adyen	Netherlands	1.25	0.42	9.51	0.05
Duerr	Germany	1.81	-	9.13	0.08
Kion Group	Germany	2.93	0.06	9.05	0.15
Deutsche Boerse	Germany	3.46	-	8.88	0.16

Bottom 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Sartorius	Germany	3.69	0.18	-12.19	-0.64
Grifols	Spain	1.89	-	-5.05	-0.17
Wolters Kluwer	Netherlands	2.55	0.34	-2.98	-0.14
Orsted	Denmark	3.48	0.34	-2.65	-0.26
Qiagen	Germany	3.28	0.16	-2.50	-0.20
Adidas	Germany	3.81	0.79	-1.62	-0.17
Novo Nordisk	Denmark	5.77	1.81	-1.61	-0.22
Amadeus IT	Spain	2.49	0.35	-1.13	-0.12
Lundin Energy	Sweden	1.60	0.07	-0.86	-0.07
Merck	Germany	3.21	0.24	0.20	-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	20.27	9.26	11.02	5.29	-0.01	0.23	1.00	1.22
Materials	8.58	6.89	1.69	3.59	-0.01	0.02	0.31	0.32
Consumer Staples	-	13.35	-13.35	-	-0.01	0.26	-	0.25
Energy	4.32	2.91	1.41	1.28	0.00	-0.02	0.04	0.02
Communication Services	2.17	4.04	-1.87	0.94	0.00	-0.01	0.03	0.02
Real Estate	-	1.46	-1.46	-	0.00	0.01	-	0.01
Consumer Discretionary	8.55	11.03	-2.48	-0.95	0.00	0.01	-0.08	-0.07
Financials	12.44	14.41	-1.98	-0.17	-0.01	-0.08	-0.01	-0.09
Industrials	12.50	14.21	-1.71	-2.14	-0.01	-0.02	-0.28	-0.31
Utilities	3.48	5.21	-1.74	-7.49	0.00	-0.03	-0.32	-0.35
Health Care	27.39	17.23	10.15	-1.26	-0.01	-0.42	-0.31	-0.74
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.30	-	0.30	-	0.02	0.25	-	0.27

Country level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Netherlands	16.08	8.94	7.14	5.46	-0.01	0.16	0.82	0.97
Switzerland	10.20	21.34	-11.14	5.63	-0.03	0.24	0.55	0.76
United Kingdom	1.69	-	1.69	-	-0.02	0.14	-	0.12
Finland	-	2.09	-2.09	-	0.00	0.07	-	0.08
Belgium	3.33	1.92	1.41	0.89	0.00	0.01	0.03	0.03
Ireland	-	1.33	-1.33	-	0.00	0.03	-	0.03
Portugal	-	0.35	-0.35	-	0.00	0.01	-	0.02
Sweden	1.60	6.32	-4.72	-3.18	0.00	0.07	-0.05	0.01
Austria	-	0.35	-0.35	-	0.00	0.01	-	0.01
Norway	2.67	1.07	1.60	3.41	-0.01	-0.09	0.09	0.00
France	11.85	22.56	-10.71	0.88	0.01	-0.12	0.09	-0.02
Italy	2.39	4.73	-2.34	-3.78	0.00	-0.07	-0.09	-0.16
Spain	8.62	4.99	3.63	-2.14	0.00	-0.03	-0.19	-0.22
Denmark	9.25	4.84	4.40	-3.28	0.00	-0.14	-0.32	-0.47
Germany	32.02	19.15	12.87	-3.21	-0.01	0.18	-1.05	-0.87
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.30	-	0.30	-	0.02	0.25	-	0.27

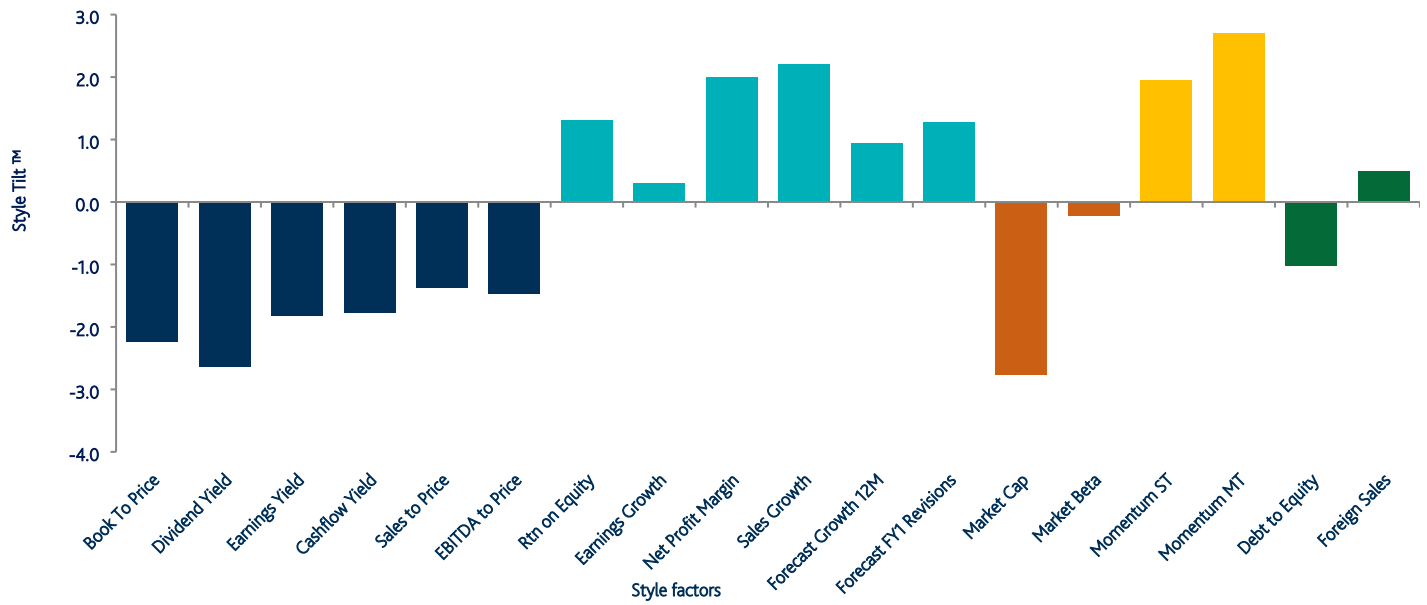
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 2B	7.12	-	7.12	-	-0.01	-13.73	16.00	0.07
2B - 5B	11.30	1.80	9.50	10.24	-0.02	-1.00	1.11	0.09
5B - 10B	23.72	10.67	13.05	5.47	-0.01	-0.20	1.26	1.05
10B - 25B	21.30	26.02	-4.72	-3.65	0.01	-0.01	-0.80	-0.80
25B - 50B	18.82	23.35	-4.53	-1.43	-0.01	-0.02	-0.24	-0.28
50B +	17.44	38.16	-20.72	1.86	-0.03	-0.10	0.36	0.23
Unclassified	-	-	-	-	-	-	-	-
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	0.30	-	0.30	-	0.02	0.25	-	0.27

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
44.03	87.33	1.36	38,085.59	6.01

Fund Style Skyline™



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

## Risk analysis

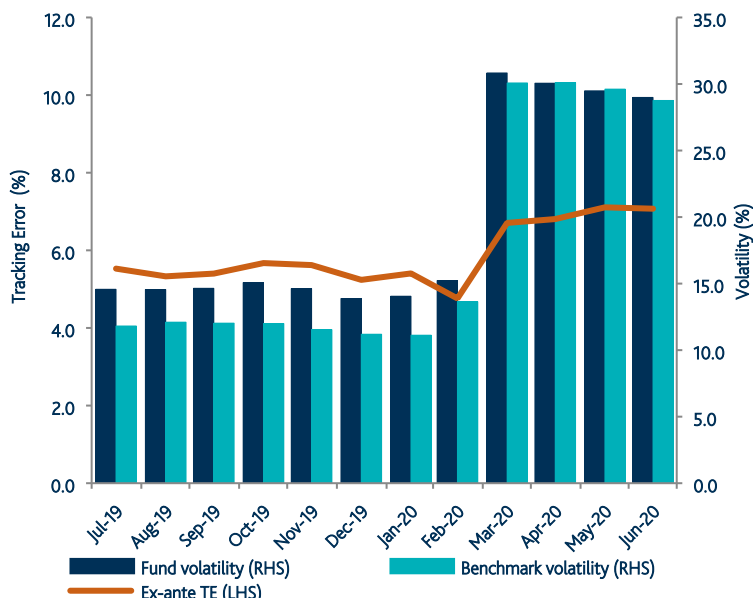
### Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
ASM International	Netherlands	8.65
ASML	Netherlands	8.59
Sartorius	Germany	8.46
Lonza Group	Switzerland	6.77
Qiagen	United States	6.28
Novo-Nordisk	Denmark	5.02
Umicore	Belgium	4.56
Tomra Systems	Norway	3.51
Siemens Gamesa	Spain	3.13
Orsted	Denmark	3.06

## Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	7.07	0.98	28.99	28.76	-	-
Ex-post	5.56	1.08	16.42	14.27	0.81	0.44

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



## Fund statistics

Number of stocks (Fund)	34
Number of stocks (Benchmark)	349
Upside market capture ratio	122.64
Downside market capture ratio	99.97



## 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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