

# 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 of, or relating to companies in, or companies that derive a large proportion of their revenues from, global emerging markets. These companies will be listed or traded on a Regulated Market worldwide and the Fund will invest at least two-thirds of its assets in these securities.

### 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	9 December 2008
Fund value	USD4,866.36m
Benchmark	MSCI Emerging Markets Net
Co-Fund Managers	Gary Greenberg Kunjal Gala
Base currency	US Dollar

## Market and Performance Review

The benchmark MSCI Emerging Markets Index rose 7.35% in June. Emerging Markets continued their recovery for the third consecutive month. Asia, where the COVID-19 spread seems to be contained (Mainland China, Korea and Taiwan) outperformed CEEMEA and Latin America markets where there are increasing concerns around rising cases. China and Taiwan contributed a significant portion of the outperformance in Asia markets, both up more than 9%. Services PMI in mainland China rose to 55.0 in May, far exceeding expectations (47.3) and marked the first expansion in the index since COVID-19 hit. Taiwan's performance was led by Industrials and Technology. India underperformed (6.81%) as manufacturing PMI and industrial production continued to contract. South Africa outperformed despite a collapse in exports as inflation touched the bottom of the central bank target range. A surge in COVID-19 cases in Latin America led Brazil's central bank to cut rates by 75 bps to 2.25% and Mexico's central bank cut the policy rate by 50bps to 5.0%.

The Fund outperformed the benchmark index. Stock selection contributed to the most relative returns, notably stocks in China, Russia and Taiwan. Our overweight China also benefitted as the country outperformed and the currency appreciated (reduced to a modest underweight by quarter end).

Baozun, a leading Chinese e-commerce services provider for global brands, rose after reporting strong results benefitting from digitalisation and more international brands allocating marketing resources online to offset the loss of offline sales. Shares in Tencent continued higher as sales for China's leading internet services provider are expected to be resilient in the face of a potential second lockdown. Delta Electronics, a Taiwanese global leader in switching power supply solutions, rose as earnings are expected to be driven by strong PC/server demand momentum. Delta's leading position in power should ensure it keeps benefitting from increasing cloud applications and telecom infrastructure upgrades. Its IA business should also benefit from ongoing supply chain relocation and increasing automation.

Shares in Accton Technology, a Taiwanese manufacturer of high-speed 100G and 400G switch solutions, fell given management's cautious view on H2 2020 operations amid market uncertainties. Credicorp, a well-capitalised Peruvian bank, moved lower given the fragile political and macroeconomic environment. Shenzhen International, a state-owned enterprise that operates a wide range of transportation businesses, including logistics zones, fell as COVID-19 is expected to have a modest impact on its logistics business but a more severe impact on Shenzhen Airlines, in which the company has a 49% equity interest. Its toll road business has largely recovered.

## Activity

The team initiated a position in WEG, a Brazilian manufacturer of electric motors, energy generation, storage and transmission equipment, benefiting from industrial net zero carbon emissions targets and ever-increasing efficiency standards. They added Baja Finance, an Indian consumer and SME finance company, which has a solid deposit base (no reliance on Wholesale funding), a strong distribution network and a market leading technology platform, bought at an attractive valuation, down 50% from peak in February. They trimmed several names following strong performance including Tencent, Accton, NC Soft, AIA and Techtronic Industries.

## Outlook

Emerging Markets have rallied strongly from the March bottom, initially driven by unprecedented central bank and government monetary and fiscal stimulus, subsequently from a gradual relaxation of lockdowns as markets anticipate an economic recovery in the second half of 2020. The broadening out of the recovery has extended investor interest to more value sectors, sensitive to the economic recovery and trading at low valuations (at one-point trading close to GFC levels). Market sentiment has improved, and the focus has shifted to a sharp rebound in economic activity.

However, investors must weigh the possibility of further economic damage if there is a second wave and economies move towards lockdown again. Also, the timing and efficacy of vaccines under development is far from clear, the business/consumer sentiment remains low and tensions between the US and China are rising over Huawei and Hong Kong. Crucially, the team believe that the world is likely to remain in a slow growth environment after the initial rebound. Hence, the Fund remains focused on Quality Growth and marginally, adding to cyclicalities where they feel that there is enough margin of safety and the company benefits from medium/long-term catalysts.

## Fund breakdown

### Top 10 relative Fund positions

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Samsung Electronic	Korea	7.36	3.62	3.73
Tencent	China	9.68	6.37	3.32
Techtronic Industries	China	3.06	-	3.06
Delta Electronics	Taiwan	3.16	0.19	2.97
Nari Technology	China	2.68	0.01	2.67
AIA	China	2.58	-	2.58
HDFC Bank	India	2.34	-	2.34
Sberbank	Russia	2.66	0.53	2.13
Alibaba (ADR)	China	9.10	7.00	2.10
NC Soft	Korea	2.24	0.21	2.03

### Top 10 absolute Fund positions

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Tencent	China	9.68	6.37	3.32
Alibaba (ADR)	China	9.10	7.00	2.10
Samsung Electronic	Korea	7.36	3.62	3.73
Taiwan Semiconductor Mftg	Taiwan	5.90	4.51	1.39
Delta Electronics	Taiwan	3.16	0.19	2.97
Techtronic Industries	China	3.06	-	3.06
Nari Technology	China	2.68	0.01	2.67
Sberbank	Russia	2.66	0.53	2.13
AIA	China	2.58	-	2.58
HDFC Bank	India	2.34	-	2.34

Performance attribution - 1 month

Top 10 contributors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Baozun (ADR)	China	2.05	0.03	45.18	0.54
Tencent	China	9.68	6.37	21.58	0.43
Delta Electronics	Taiwan	3.16	0.19	23.50	0.38
Yandex	Russia	1.73	-	24.34	0.24
AIA	China	2.58	-	16.55	0.22
Taiwan Semiconductor Mftg	Taiwan	5.90	4.51	13.46	0.22
Mail.Ru	Russia	1.32	-	25.98	0.20
Hangzhou Tigermed Consulting	China	1.46	0.01	21.60	0.17
Techtronic Industries	China	3.06	-	13.50	0.17
NC Soft	Korea	2.24	0.21	15.97	0.14

Top 10 detractors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Accton Technology	Taiwan	1.27	0.07	-3.87	-0.20
Credicorp	Peru	1.52	0.16	-3.33	-0.16
Shenzhen International	China	1.20	0.03	-4.65	-0.15
Sberbank	Russia	2.66	0.53	0.63	-0.14
China Communication Services	China	1.31	0.03	-2.99	-0.14
Wal-Mart de Mexico	Mexico	1.24	0.22	-4.04	-0.12
Meituan Dianping	China	-	1.36	-	-0.11
Celltrion	Korea	-	0.41	-	-0.11
Chemical Works	Hungary	0.90	0.05	-4.68	-0.11
LG Household & Healthcare	Korea	1.81	0.18	1.16	-0.10

Top 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Baozun (ADR)	China	2.05	0.03	45.18	0.54
Mail.Ru	Russia	1.32	-	25.98	0.20
Alibaba	China	0.23	0.18	24.46	0.01
Yandex	Russia	1.73	-	24.34	0.24
Delta Electronics	Taiwan	3.16	0.19	23.50	0.38
Hangzhou Tigermed Consulting	China	1.46	0.01	21.60	0.17
Tencent	China	9.68	6.37	21.58	0.43
Weg	Brazil	0.52	0.13	17.89	0.02
Duratex	Brazil	0.74	-	16.91	0.04
AIA	China	2.58	-	16.55	0.22

Bottom 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Richter Gedeon	Hungary	0.90	0.05	-4.68	-0.11
Shenzhen International	China	1.20	0.03	-4.65	-0.15
Wal-Mart de Mexico	Mexico	1.24	0.22	-4.04	-0.12
Accton Technology	Taiwan	1.27	0.07	-3.87	-0.20
Credicorp	Peru	1.52	0.16	-3.33	-0.16
China Communication Services	China	1.31	0.03	-2.99	-0.14
Bharat Forge	India	1.02	0.02	-2.10	-0.10
Autohome (ADR)	China	0.97	0.08	-1.87	-0.08
Motherson Sumi Systems	India	1.01	0.02	-0.53	-0.08
Sberbank	Russia	2.66	0.53	0.63	-0.14

Performance attribution - 1 month

Sector level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Communication Services	15.94	13.50	2.44	6.57	0.08	0.10	0.91	1.09
Financials	18.46	19.07	-0.61	2.41	-0.09	0.01	0.55	0.47
Energy	-	5.95	-5.95	-	0.04	0.17	-	0.21
Materials	0.74	6.86	-6.12	11.18	0.00	0.12	0.07	0.19
Utilities	-	2.27	-2.27	-	0.01	0.16	-	0.17
Industrials	9.73	4.69	5.04	3.12	0.00	-0.14	0.31	0.16
Real Estate	-	2.58	-2.58	-	0.01	0.05	-	0.06
Information Technology	24.76	16.93	7.83	-0.91	0.11	0.15	-0.24	0.01
Consumer Staples	5.88	6.48	-0.59	-0.83	0.01	0.01	-0.06	-0.03
Health Care	5.51	4.30	1.21	-4.22	-0.04	0.12	-0.21	-0.13
Consumer Discretionary	17.94	17.38	0.56	-1.12	0.08	0.01	-0.29	-0.19
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	1.02	-	1.02	-	0.02	-0.06	-	-0.04

Regional level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
EM Asia	81.10	79.21	1.89	1.63	0.31	0.01	1.01	1.33
EM EMEA	10.32	12.77	-2.44	5.59	-0.08	0.10	0.65	0.66
EM Latin America	7.55	8.02	-0.47	0.08	-0.02	0.00	0.05	0.02
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	1.02	-	1.02	-	0.02	-0.06	-	-0.04

Federated Hermes Global Emerging Markets Equity Fund

June 2020

Country level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
China	40.85	40.95	-0.10	2.48	0.34	0.01	0.66	1.02
Russia	5.71	3.23	2.48	14.55	-0.05	-0.16	0.77	0.56
Taiwan	13.47	12.28	1.20	2.15	0.01	0.01	0.28	0.29
Saudi Arabia	-	2.66	-2.66	-	0.01	0.13	-	0.14
Brazil	4.09	5.14	-1.06	2.98	0.03	-0.02	0.13	0.14
Thailand	-	2.27	-2.27	-	-0.05	0.17	-	0.12
Malaysia	-	1.76	-1.76	-	-0.01	0.09	-	0.08
Qatar	-	0.83	-0.83	-	0.01	0.06	-	0.06
Poland	-	0.71	-0.71	-	0.00	0.04	-	0.04
South Africa	1.84	3.76	-1.92	4.72	-0.01	-0.03	0.07	0.03
Mexico	1.95	1.73	0.21	2.13	-0.01	-0.01	0.04	0.02
Greece	-	0.14	-0.14	-	0.00	0.02	-	0.01
Colombia	-	0.19	-0.19	-	0.00	0.01	-	0.01
United Arab Emirates	-	0.52	-0.52	-4.51	0.00	0.01	-	0.01
Chile	-	0.58	-0.58	-	0.02	-0.01	-	0.01
Pakistan	-	0.02	-0.02	-	0.00	0.00	-	0.00
Czech Republic	-	0.11	-0.11	-	0.00	0.00	-	0.00
Indonesia	2.65	1.47	1.19	0.07	0.02	-0.03	0.00	0.00
Argentina	-	0.13	-0.13	-	0.00	0.00	-	0.00
Philippines	-	0.84	-0.84	-	-0.01	0.00	-	-0.01
Turkey	0.49	0.45	0.04	-3.18	0.00	0.00	-0.02	-0.02
Korea	12.58	11.61	0.96	-0.45	0.02	0.00	-0.07	-0.05
Egypt	1.37	0.12	1.26	0.19	-0.03	-0.05	0.00	-0.08
Hungary	0.90	0.23	0.67	-4.95	-0.01	-0.03	-0.05	-0.10
India	11.54	8.02	3.53	-0.95	-0.02	0.00	-0.11	-0.13
Peru	1.52	0.25	1.27	-5.29	-0.06	-0.07	-0.04	-0.16
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	1.02	-	1.02	-	0.02	-0.06	-	-0.04

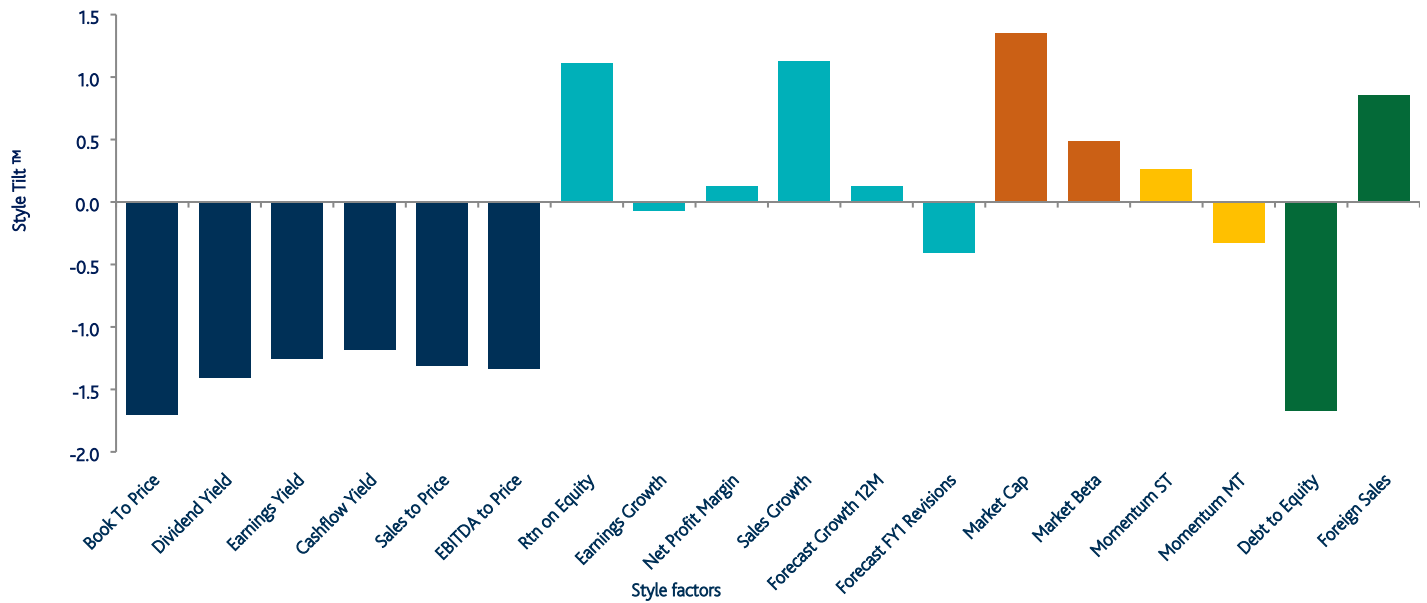
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 1B	1.05	0.20	0.85	9.88	0.01	-0.03	0.08	0.06
1 - 5B	14.76	13.59	1.17	2.39	-0.05	-0.03	0.39	0.32
5 - 10B	11.06	14.90	-3.84	1.27	-0.20	0.09	0.32	0.21
10 - 20B	22.20	16.58	5.63	4.32	0.06	-0.06	0.89	0.89
20B+	48.59	54.73	-6.15	0.87	0.07	-0.07	0.32	0.33
Unclassified	1.32	-	1.32	-	-0.02	0.17	0.04	0.20
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	1.02	-	1.02	-	0.02	-0.06	-	-0.04

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
48.53	78.94	1.98	165,867.50	5.71

Fund Style Skyline™



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



## Risk analysis

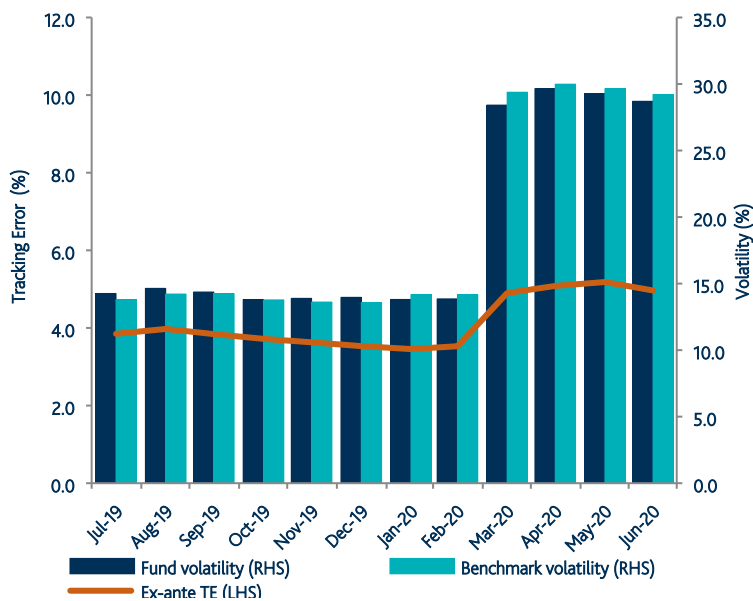
### Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
Taiwan Semiconductor Manufacturing	Taiwan	8.62
NARI Technology	China	5.10
NC Soft	Korea	4.34
Tencent	China	4.31
Samsung Electronics	Korea	4.10
Techtronic Industries	Hong Kong	4.08
Delta Electronics	Taiwan	4.01
Baozun	China	3.78
Yandex	Russia	3.37
HDFC Bank	India	3.03

## Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	4.97	0.97	28.70	29.21	-	-
Ex-post	3.21	1.02	18.88	18.26	0.94	0.17

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



### Fund statistics

Number of stocks (Fund)	54
Number of stocks (Benchmark)	1385
Upside market capture ratio	108.38
Downside market capture ratio	96.42

## 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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