

Federated Hermes Global Emerging Markets  
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 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	USD5,504.42m
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 2.21% in August. Emerging Market equities rose in August for a fifth consecutive month. Positive economic data from China and signs of global growth over the third quarter, supported investor sentiment despite the continued spread of the virus which recorded 25 million cases globally. China Manufacturing PMI data for July came in at 52.8, indicating sustained expansion. Economic data for China in July was generally positive pointing to a continued recovery. India, Indonesia and South Korea reported a rise in daily new Covid cases. However, the number declined in most other Asian countries. In Brazil, while the number of new cases remains high, the pace of gains slowed in July. The US Dollar moved lower against most major currencies after the US Federal Reserve affirmed its dovish stance and pledged support for further stimulus.

The Fund outperformed the benchmark index over the period. Stock selection contributed to relative returns, notably in India and Russia. The (underweight) exposure to China also benefited as the Renminbi appreciated.

Techtronic Industries, a Hong-Kong listed manufacturer of cordless power tools, rose after reporting strong quarterly results driven by innovation in new product development. Techtronic has benefitted from the positive momentum in DIY and strong traction in ecommerce sales. Bharat Forge, a global manufacturer of automotive engine components, rose after quarterly results beat consensus expectations for EBITDA and highlighted an impressive focus on cost control and productivity, whilst operating at a lower utilisation capacity. Yandex, Russia's leading search and e-commerce provider, rose on the improving outlook for both its taxi business and the Russian economy and currency. The company also benefited from the MSCI August rebalance and subsequent inclusion to the index.

Non exposure to Meituan Dianping, a Chinese e-commerce provider, detracted after the company reported a strong second quarter which highlighted expedited growth and an increase in market share in its food delivery business. Samsung Electronics underperformed on continued weakness in the DRAM industry and on concerns that the Huawei ban may act as a further headwind for its memory business. Delta Electronics, a Taiwanese global leader in switching power supply solutions, retreated as investors took profits following strong performance year-to-date.

## Activity

The team sold Galaxy Entertainment given the impact of Covid on the Macau casino and resort operator as well as an update to our exclusions policy. They trimmed several names including Tencent, Alibaba and Samsung Electronics following strong performance year to date. They continued building positions in Epiroc, a Swedish-listed mining tools and equipment company which derives most of its revenue from Emerging Markets countries, and Polymetal, a leading gold producer.

## 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. 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 the second wave lasts longer and economies are lockdown again. Also, the timing and efficacy of vaccines under development is far from clear, the business/consumer sentiment remains low and geopolitical tensions are rising. With US elections coming up, the Trump administration has engaged in an expanding clash with China on various fronts from Huawei, Hong Kong, apps such as TikTok, We Chat and 5G wireless technology to a blame game over Covid-19 and Taiwan. Tensions and rhetoric have escalated recently as the US election draws closer. The team believes that the world is likely to remain in a slow growth environment after the initial rebound. Hence, the Fund remains focused on Growth/Quality and marginally adding to cyclicalities where the team 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 (%)
Techtronic Industries	China	3.41	-	3.41
Samsung Electronics	Korea	6.38	3.38	3.00
Delta Electronics	Taiwan	3.04	0.20	2.84
Nari Technology	China	2.66	0.01	2.65
Sberbank	Russia	2.77	0.51	2.26
AIA	China	2.14	-	2.14
HDFC Bank	India	2.03	-	2.03
Baozun (ADR)	China	1.97	0.03	1.94
Yandex	Russia	1.86	-	1.86
China Mengniu Dairy	China	1.96	0.21	1.75

### Top 10 absolute Fund positions

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Alibaba (ADR)	China	9.05	8.41	0.64
Tencent	China	7.72	6.12	1.61
Taiwan Semiconductor Mftg	Taiwan	6.39	5.58	0.80
Samsung Electronics	Korea	6.38	3.38	3.00
Techtronic Industries	China	3.41	-	3.41
Delta Electronics	Taiwan	3.04	0.20	2.84
Sberbank	Russia	2.77	0.51	2.26
Nari Technology	China	2.66	0.01	2.65
AIA	China	2.14	-	2.14
HDFC Bank	India	2.03	-	2.03

Performance attribution - 1 month

Top 10 contributors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Techtronic Industries	China	3.41	-	21.56	0.55
Bharat Forge	India	1.24	0.02	30.80	0.30
Yandex	Russia	1.86	-	18.58	0.26
AIA	China	2.14	-	13.92	0.22
Samsonite	China	1.06	-	23.72	0.19
Alibaba (ADR)	China	9.05	8.41	14.36	0.18
Galaxy Entertainment	China	-	-	16.36	0.15
Mail.Ru	Russia	1.16	-	16.68	0.15
Aier Eye Hospital	China	1.16	0.03	16.73	0.14
HDFC Bank	India	2.03	-	9.81	0.14

Top 10 detractors to relative return

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Meituan Dianping	China	-	1.83	-	-0.42
Samsung Electronics	Korea	6.38	3.38	-6.46	-0.28
Delta Electronics	Taiwan	3.04	0.20	-5.66	-0.24
JD.com (ADR)	China	-	1.04	-	-0.18
Xiaomi Corp	China	-	0.49	-	-0.18
Container Corp	India	0.83	0.02	-11.45	-0.13
Autohome (ADR)	China	1.15	0.07	-8.50	-0.12
SBI Life	India	1.06	0.07	-7.85	-0.10
Tencent	China	7.72	6.12	-0.58	-0.10
LG Chemical	Korea	-	0.45	-	-0.10

Top 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Bharat Forge	India	1.24	0.02	30.80	0.30
Samsonite	China	1.06	-	23.72	0.19
Techtronic Industries	China	3.41	-	21.56	0.55
Yandex	Russia	1.86	-	18.58	0.26
Motherson Sumi Systems	India	1.06	0.02	17.49	0.14
Aier Eye Hospital	China	1.16	0.03	16.73	0.14
Mail.Ru	Russia	1.16	-	16.68	0.15
Galaxy Entertainment	China	-	-	16.36	0.15
ICICI Bank	India	1.57	0.43	15.75	0.13
Alibaba (ADR)	China	9.05	8.41	14.36	0.18

Bottom 10 absolute returns

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Alibaba	China	0.79	0.14	-13.01	0.00
Container Corp	India	0.83	0.02	-11.45	-0.13
BIM Biresik Magazalar	Turkey	0.38	0.07	-9.83	-0.04
WEG	Brazil	0.85	0.15	-8.63	-0.06
Autohome (ADR)	China	1.15	0.07	-8.50	-0.12
SBI Life	India	1.06	0.07	-7.85	-0.10
BB Seguridade	Brazil	0.95	0.05	-7.14	-0.08
Notre Dame Intermedica	Brazil	-	0.10	-7.08	0.00
Samsung Electronics	Korea	6.38	3.38	-6.46	-0.28
LandMark Optoelectronics	Taiwan	0.78	-	-6.44	-0.07

Performance attribution - 1 month

Sector level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Financials	18.66	17.75	0.91	4.67	0.13	0.00	0.72	0.84
Industrials	11.54	4.47	7.07	5.26	0.14	-0.07	0.42	0.49
Health Care	5.19	4.20	0.99	3.72	-0.05	0.01	0.23	0.19
Utilities	-	2.03	-2.03	-	0.01	0.14	-	0.15
Consumer Staples	6.39	6.25	0.13	2.37	0.03	0.00	0.12	0.15
Energy	-	5.60	-5.60	-	0.01	0.10	-	0.11
Communication Services	13.27	12.95	0.32	1.05	0.16	-0.03	-0.02	0.10
Consumer Discretionary	17.14	19.77	-2.63	0.63	0.33	-0.05	-0.22	0.06
Real Estate	-	2.39	-2.39	-	0.00	0.06	-	0.06
Materials	1.53	7.06	-5.52	-8.65	-0.03	-0.10	-0.03	-0.16
Information Technology	23.86	17.54	6.32	0.07	0.00	-0.32	0.02	-0.30
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.43	-	2.43	-	-0.01	-0.02	-	-0.03

Regional level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
EM Asia	78.90	80.53	-1.63	1.13	0.64	0.00	0.25	0.89
EM EMEA	9.85	11.94	-2.10	5.45	-0.04	0.02	0.55	0.54
EM Latin America	7.60	7.53	0.06	2.54	0.11	0.02	0.10	0.23
Sweden	1.23	-	1.23	-	0.01	0.02	-	0.03
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.43	-	2.43	-	-0.01	-0.02	-	-0.03

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Country level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
India	12.36	8.30	4.05	5.23	0.06	-0.01	0.62	0.68
China	38.55	42.53	-3.98	1.64	0.62	-0.12	0.01	0.51
Russia	6.31	2.93	3.39	9.22	0.00	-0.08	0.54	0.47
Brazil	3.83	4.84	-1.01	2.14	0.09	0.08	0.08	0.24
South Africa	1.67	3.54	-1.88	4.89	-0.01	0.07	0.08	0.14
Malaysia	-	1.66	-1.66	-	-0.03	0.13	-	0.10
Thailand	-	1.94	-1.94	-	0.00	0.09	-	0.09
Chile	-	0.53	-0.53	-	0.01	0.06	-	0.07
Indonesia	3.67	1.41	2.26	1.58	0.01	0.00	0.06	0.07
Hungary	1.01	0.21	0.80	7.98	-0.02	-0.02	0.08	0.04
Sweden	1.23	-	1.23	-	0.01	0.02	-	0.03
Egypt	0.48	0.11	0.37	-0.53	0.00	0.03	0.00	0.03
Philippines	-	0.74	-0.74	-	-0.01	0.02	-	0.01
Argentina	-	0.13	-0.13	-	0.00	0.00	-	0.00
Pakistan	-	0.02	-0.02	-	0.00	0.00	-	0.00
Greece	-	0.13	-0.13	-	0.00	0.00	-	0.00
Colombia	-	0.18	-0.18	-	0.00	0.00	-	0.00
Czech Republic	-	0.10	-0.10	-	0.00	0.00	-	0.00
Peru	1.03	0.25	0.78	-4.53	-0.01	0.04	-0.04	-0.01
Qatar	-	0.80	-0.80	-	0.00	-0.01	-	-0.01
Poland	-	0.71	-0.71	-	-0.01	0.00	-	-0.01
Turkey	0.38	0.34	0.04	-1.61	0.00	0.00	-0.01	-0.01
United Arab Emirates	-	0.50	-0.50	-6.99	0.00	-0.02	-	-0.02
Saudi Arabia	-	2.56	-2.56	-	0.00	-0.07	-	-0.07
Mexico	2.73	1.61	1.12	-1.84	0.02	-0.05	-0.05	-0.08
Taiwan	13.39	12.45	0.93	-0.15	0.00	-0.04	-0.04	-0.08
Korea	10.93	11.47	-0.55	-4.18	0.00	0.00	-0.48	-0.47
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.43	-	2.43	-	-0.01	-0.02	-	-0.03

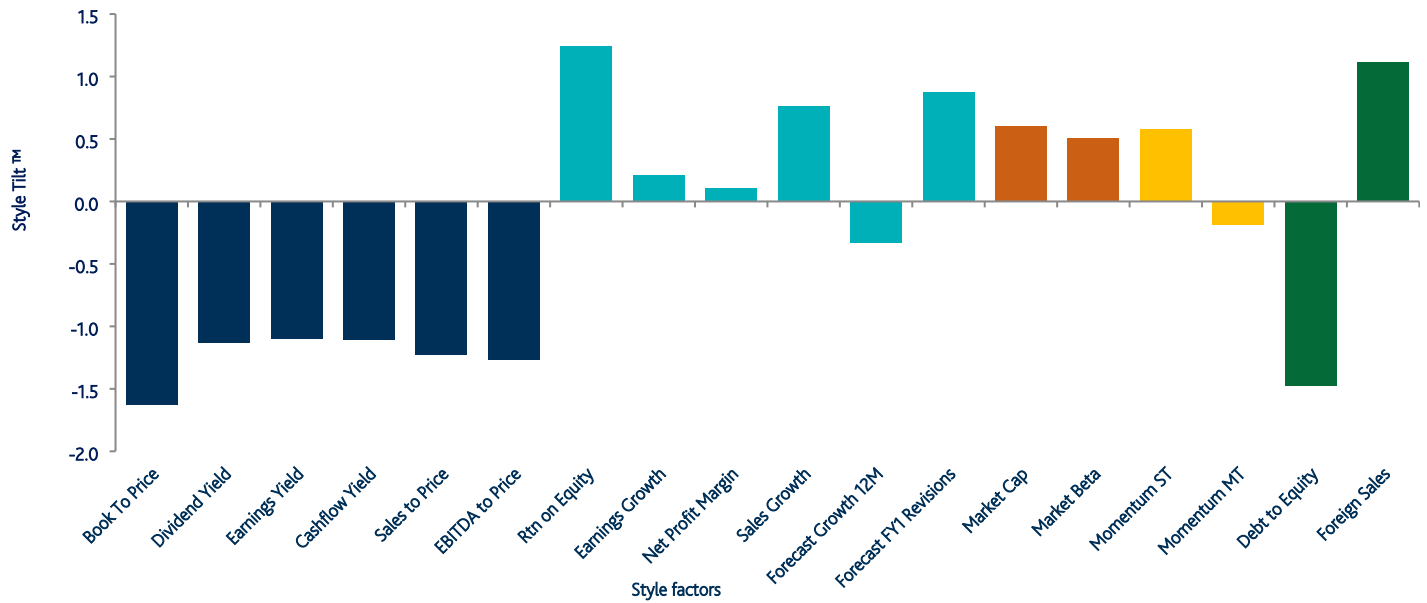
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 1B	0.78	0.17	0.61	-0.68	0.00	-0.06	0.00	-0.06
1 - 5B	14.92	11.47	3.45	4.43	0.07	-0.07	0.59	0.59
5 - 10B	6.35	14.19	-7.84	2.27	-0.11	0.20	0.20	0.29
10 - 20B	22.95	15.73	7.22	3.31	0.10	-0.18	0.80	0.72
20B+	51.41	58.44	-7.03	0.22	0.01	-0.05	0.04	0.00
Unclassified	1.16	-	1.16	-	0.00	0.15	-	0.15
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.43	-	2.43	-	-0.01	-0.02	-	-0.03

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
45.59	78.50	1.90	184,648.80	5.43

Fund Style Skyline™



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



## Risk analysis

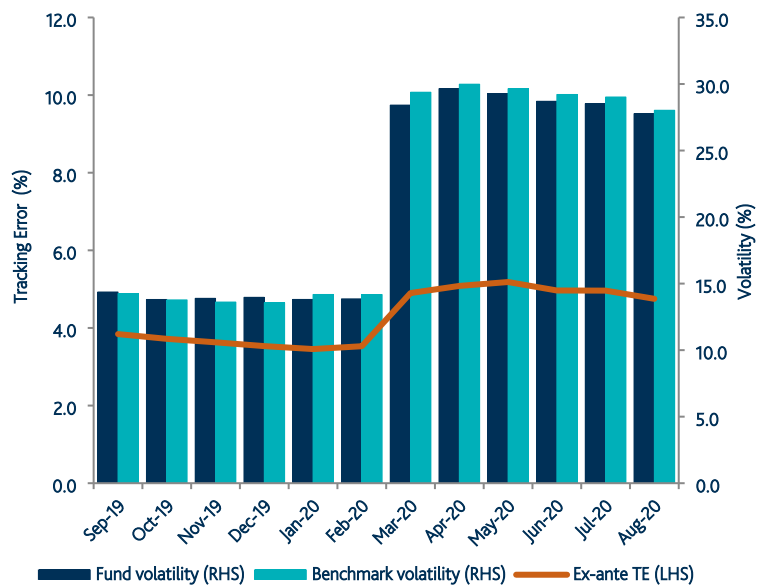
### Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
Yandex	Russia	4.95
Techtronic Industries	Hong Kong	4.56
Delta Electronics	Taiwan	4.01
Taiwan Semiconductor Manufacturing	Taiwan	3.91
HDFC Bank	India	3.91
NARI Technology	China	3.81
Samsung Electronics	Korea	3.19
Baozun	China	3.13
Bharat Forge	India	3.08
HDFC Bank	India	2.70

## Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	4.75	0.98	27.77	28.03	-	-
Ex-post	3.10	1.04	19.55	18.64	1.28	0.26

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



## Fund statistics

Number of stocks (Fund)	54
Number of stocks (Benchmark)	1383
Upside market capture ratio	111.70
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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