

Hermes Unconstrained Credit Fund

Fund Summary, Q1 2020

A dynamic multi-sector credit solution throughout market cycles

By combining unconstrained, high-conviction credit selection with a hedge against adverse market conditions, we aim to maximise long-term total returns.

Andrew Jackson, Head of Fixed Income

Why Hermes Unconstrained Credit?

- Bottom-up skill:** through fundamental credit analysis, we identify issuers that drive returns in each credit market before searching their capital structures for the most attractive instruments.
- Top-down oversight:** applying expertise from across the credit spectrum, the Multi Asset Credit Investment Committee (MACIC) determines top-down, dynamic credit allocations throughout market cycles.
- Full spectrum:** unrestricted by security type or geographical silos, we exploit opportunities in developed and emerging markets for investment-grade and high-yield corporate bonds, credit default swaps, loans, asset-backed securities, government securities and other credit derivatives.
- Downside defence:** high-conviction, bottom-up positions are shielded using simple index options to hedge against down markets.
- Experience:** skilled, integrated team with expertise across liquid-credit markets, asset-based lending and derivatives.

Portfolio Managers

Andrew Jackson

As Head of Fixed Income, Andrew leads the strategic development of our Credit, Asset Based Lending and Direct Lending investment teams, and our Multi-Asset Credit offering.



Fraser Lundie, CFA

Head of Credit and Lead Manager of our credit strategies since inception.



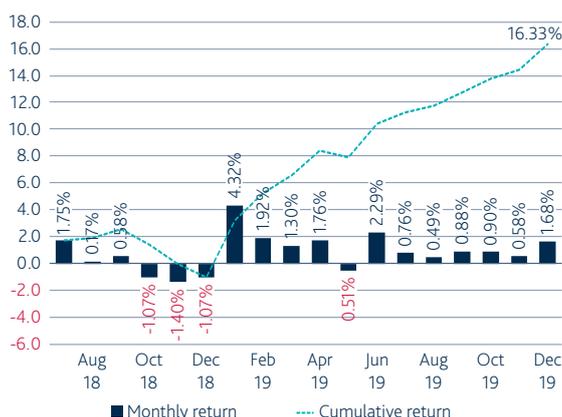
Fund information

Fund size (m)	£392.1/€462.8/A\$739.0/US\$519.4/S\$698.5
Inception dates	30 May 2018
Eligible investments	Global corporate and sovereign bonds, derivatives, loan and credit-index options
Bloomberg ticker	HUCRFUA
ISIN (Accum)	IE00BFB40Q11
Portfolio concentration	Approximately 100-150 issuers

Performance

Cumulative return of the strategy since inception in USD (%)

The inception date of the strategy is 1 July 2018.



Rolling year fund performance (%)

Year to date the fund has returned 16.67% net of fees. On a cumulative basis the fund has returned 8.75% since inception.

End date	31/12/18 to 31/12/19	31/12/17 to 31/12/18	31/12/16 to 31/12/17	31/12/15 to 31/12/16	31/12/14 to 31/12/15
Fund	16.67	-	-	-	-

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Unconstrained Credit funds do not guarantee a positive return and you could get back less than you invested. Past performance is not a reliable indicator of future results and targets are not guaranteed.

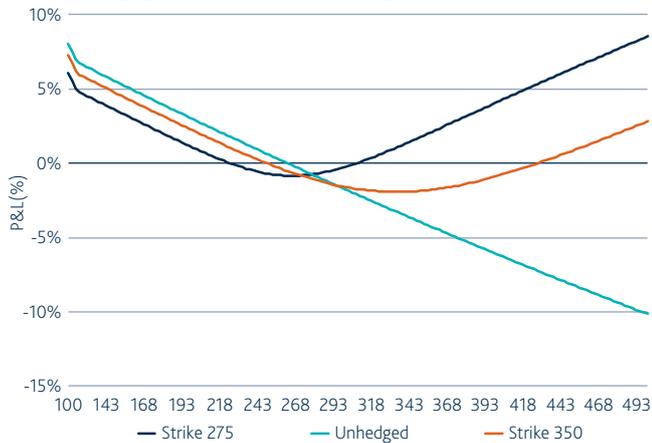
Fund performance relates to the F share class US Dollar Accumulating net of all costs and management fees since seeding on 30 May 2018, valued at close of business. Subscription and redemption fees are not included in the performance figures. Strategy performance shown is the Unconstrained Credit strategy since inception in US Dollars gross of fees. Citywire UK as at January 2020, ratings have been awarded to the Portfolio Managers based on their risk-adjusted performance track record. Source: Federated Hermes as at 31 December 2019.

Our dynamic investment approach provides a solution for investors seeking to outsource their full credit exposure, or enhance their traditional fixed income allocations.

Fraser Lundie, CFA

Head of Credit and Lead Credit Portfolio Manager

Dynamic hedging overlay provides convexity



Source: Federated Hermes and City Velocity as at February 2018. For illustrative purposes only.

This illustrative trade demonstrates the role a dynamic options overlay plays in the Strategy. It mitigates the risks within the prevailing market environment by providing cover for our bottom-up, high-conviction security positions against broad, adverse market moves. Simultaneously, the overlay can exploit risks as the team can act on opportunities to buy out-of-the-money option payers (at higher strike prices) in order to profit if spreads widen significantly in the wake of a market correction.

Investment process

The investment process combines top-down allocation across the global liquid-credit spectrum with bottom-up, high-conviction security selection. This is complemented by a dynamic options overlay to exploit or manage risks within the prevailing market environment.

The MACIC meets on a monthly basis and provides expert credit-allocation guidance in light of the investment environment. It establishes an appetite for credit risk and determines how to best allocate it by exploiting opportunities throughout the global liquid-credit spectrum in investment-grade and high-yield corporate bonds, credit-default swaps, asset-backed securities, loans, government securities and other credit derivatives. These top-down allocations direct our bottom-up credit selection, which is implemented through intensive fundamental credit analysis that includes pricing in environmental, social, and governance risks. Our unconstrained approach to liquid-credit markets allows the team to choose which securities within these allocations offer the best relative value.

The options overlay hedges our high-conviction, long-only positions by mitigating the impact of any broad-based material deterioration in credit markets. Should a major correction occur, the strategy can preserve capital by using out-of-the-money option payers (puts).

Risk management is integrated into our investment process through the use of our risk barometer, which guides research and portfolio management activities, provides a continuous feedback loop about risks and opportunities and ensures the integrity of the strategy.

Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment solutions include:

Active equities, Fixed-income, liquidity, private markets and stewardship.

For more information, visit www.hermes-investment.com or connect with us on social media:



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