

Why invest in trade finance?

The demand for trade finance – short-term loans to facilitate physical cross-border transactions – continues to increase, creating a compelling investment opportunity.

A flourishing segment

Global merchandise trade volumes reached US\$25tn in 2022 – up from approximately US\$14tn in 2007¹ – bolstered by rapid growth in so-called south-south trade (between developing countries), which is forecast to represent 40% of global trade by 2030².

However, a complex regulatory environment coupled with a lack of understanding about the asset class has contributed to a global shortage of trade financing: the gap for global trade finance opportunities was valued at US\$2.5tn by the Asian Development Bank in 2022³, up from US\$1.7tn two years previously, and is forecast to continue widening. This shortfall has created an array of potentially high-yielding financing deals for providers with the right resources, analytical teams and banking connections.

Uncorrelated returns

Among the factors that makes trade finance a unique investment proposition is that it sits between public and private markets: it offers institutional investors with the potential of uncorrelated returns of fixed income private markets – without any of associated liquidity constraints (Federated Hermes’ Trade Finance Strategy provides quarterly redemptions and daily mark-to-market information).

Quick read

- Financing the flow of essential primary goods between countries around the world
- Diversified portfolio by sector, geography and loan type
- Loan access via long-standing partner banks
- Low duration, low volatility and uncorrelated returns
- Quarterly liquidity

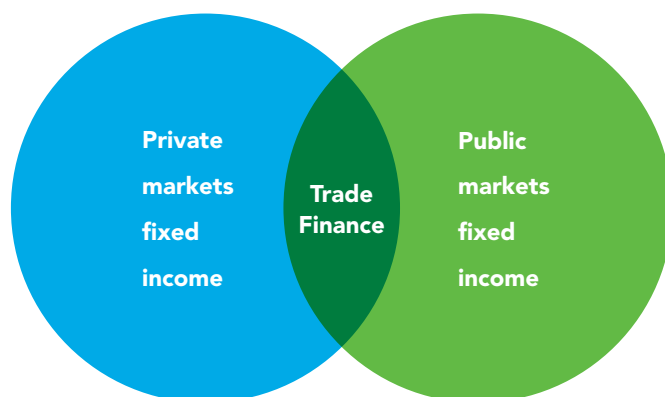


Figure 1: Federated Hermes Trade Finance returns vs traditional market indices

1 Federated Hermes Trade Finance Fixed Income Composite (Gross)	1.00								
2 Federated Hermes Trade Finance Fixed Income Composite (Net)	1.00	1.00							
3 J.P. Morgan Emerging Markets Bond Index Plus (EMBI+)	0.36	0.36	1.00						
4 ICE BofA Gbl HY Constnd TR USD	0.34	0.34	0.77	1.00					
5 ICE BofA Global Corporate Index	0.26	0.26	0.78	0.72	1.00				
6 Morningstar LSTA US LL100 TR USD	0.36	0.36	0.51	0.84	0.50	1.00			
7 MSCI World NR USD	0.18	0.18	0.62	0.85	0.53	0.73	1.00		
8 MSCI EM NR USD	0.19	0.19	0.66	0.81	0.52	0.64	0.79	1.00	
9 S&P 500 TR USD	0.16	0.16	0.57	0.79	0.50	0.70	0.98	0.72	1.00

Colour coding shows darker shades as highly correlated to asset class (anything close to 1.0) and lighter shades as more lowly correlated. **Past performance is not a reliable indicator of future performance.** Source: Morningstar

¹ UNCTAD

² World Trade Organization

³ Global Trade Finance Gap Expands to \$2.5 Trillion in 2022 | Asian Development Bank

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.

Floating rate asset class with robust loan structures

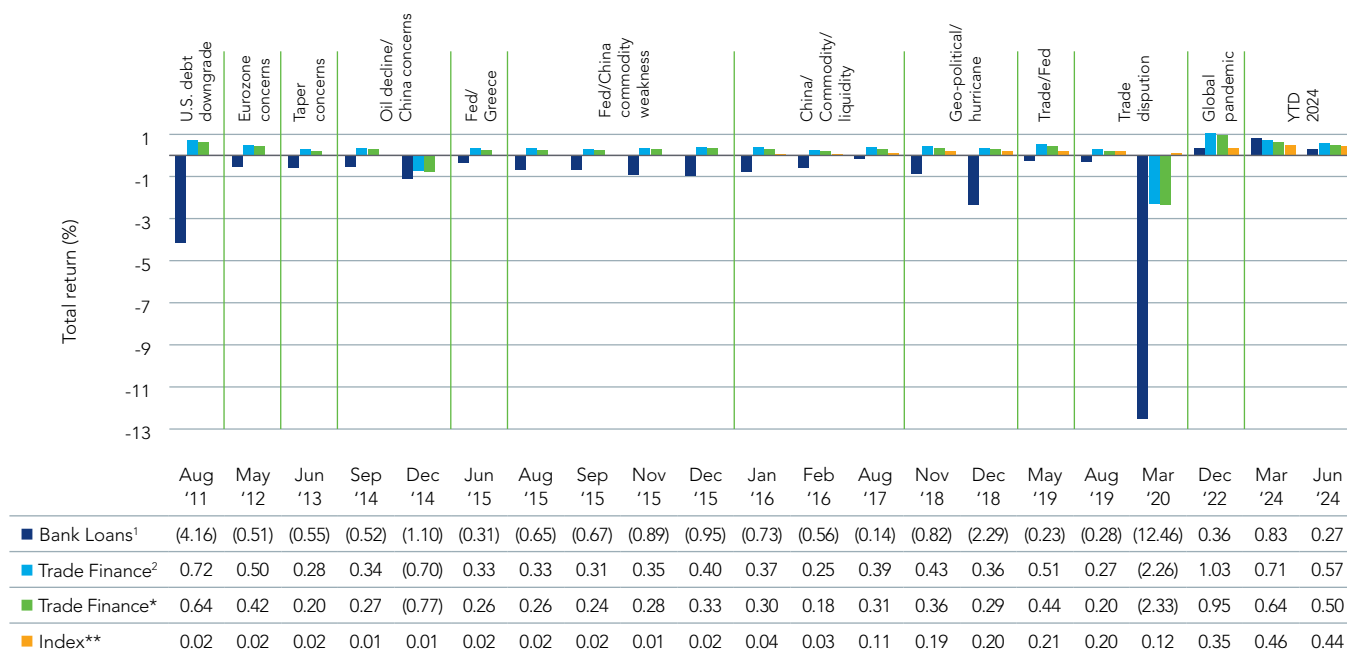
In common with leveraged loans, trade finance as an asset class benefits from having little sensitivity to the movement of interest rates – all loans are issued based on a spread over a floating rate (such as SOFR or the ICE BofA US Dollar 1-Month Deposit Offered Rate Constant Maturity Index).

However, where trade finance loans differ from leveraged credit is that each transaction within a trade finance portfolio is originated as part of a structure with specific covenants (loans are typically collateralised by the goods being financed), typically avoiding the risks that leveraged loans are most exposed to (such as default risk).

Figure 2: Performs in a credit spread widening environment

Bank loan spread widening environments

Monthly performance



1 Credit Suisse Leveraged Loan Index.

2 Federated Hermes Trade Finance Fixed Income Composite (gross)

*Federated Hermes Trade Finance Fixed Income Composite (net)

**ICE BofA USD 1-month Deposit Offered Rate Constant Maturity Index

Currency: USD

Past performance is not a reliable indicator of future performance.

Source: Morningstar

Low volatility and reduced drawdown vs. public fixed income

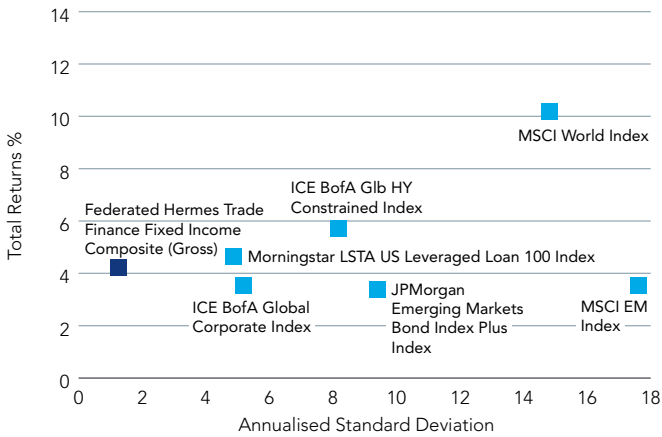
The short-term nature of trade finance transactions – the average length of a deal is less than 24 months – ensures that the portfolio has lower volatility and a reduced drawdown profile compared to other fixed income asset classes. This is achieved by focusing on two main elements: the structure of the loan and the average life of the loan.

A lot of loan structures are self-liquidating. In our transactions, many loans typically have a built-in 'floor' preventing their mark-to-market values being written down as aggressively as can sometimes be evidenced in corporate bonds.

Moreover, by seeking to maintain the average life of the Federated Hermes' Trade Finance Strategy at around 24 months, it ensures that a large proportion of the portfolio is focused on self-liquidating shorter-term transactions.



Figure 3: Risk/Reward profile relative to traditional market indices



Currency: USD

Past performance is not a reliable indicator of future performance.

Source: Morningstar

Why invest in Federated Hermes' Trade Finance Strategy?

A focus on essential goods which are material to livelihood of populations around the globe.

While many in the West often associate imported goods with high-end items, for much of the developing world such shipments cater to more basic needs.

Our Trade Finance portfolio and investment philosophy focuses on financing essential goods which are material to populations especially in emerging economies where the trade finance gap is most prominent. The Strategy enables investors to help reduce this gap, by co-investing in large corporate or financial players alongside leading global banks. It's also an area that has seen rapid growth in trade volumes in the last few years and has the potential to provide superior deal margins.

Diversification across sectors, regions and loan types

Not all trade finance strategies are created equal. Some trade finance managers typically focus on one segment of the loan market. We strongly believe in the benefits of diversification.

The Federated Hermes' Trade Finance Strategy invests across a wide spectrum of loan types – ranging from shorter-term self-liquidating structures which enhance the liquidity profile of the portfolio, to more longer-term alpha generating project finance deals – while also utilising our expertise within the reserve-based loan space.

Ultimately, this approach means we can access differentiated alpha sources and have a well-diversified portfolio which enables us to maintain a consistent risk-reward profile in various market conditions.

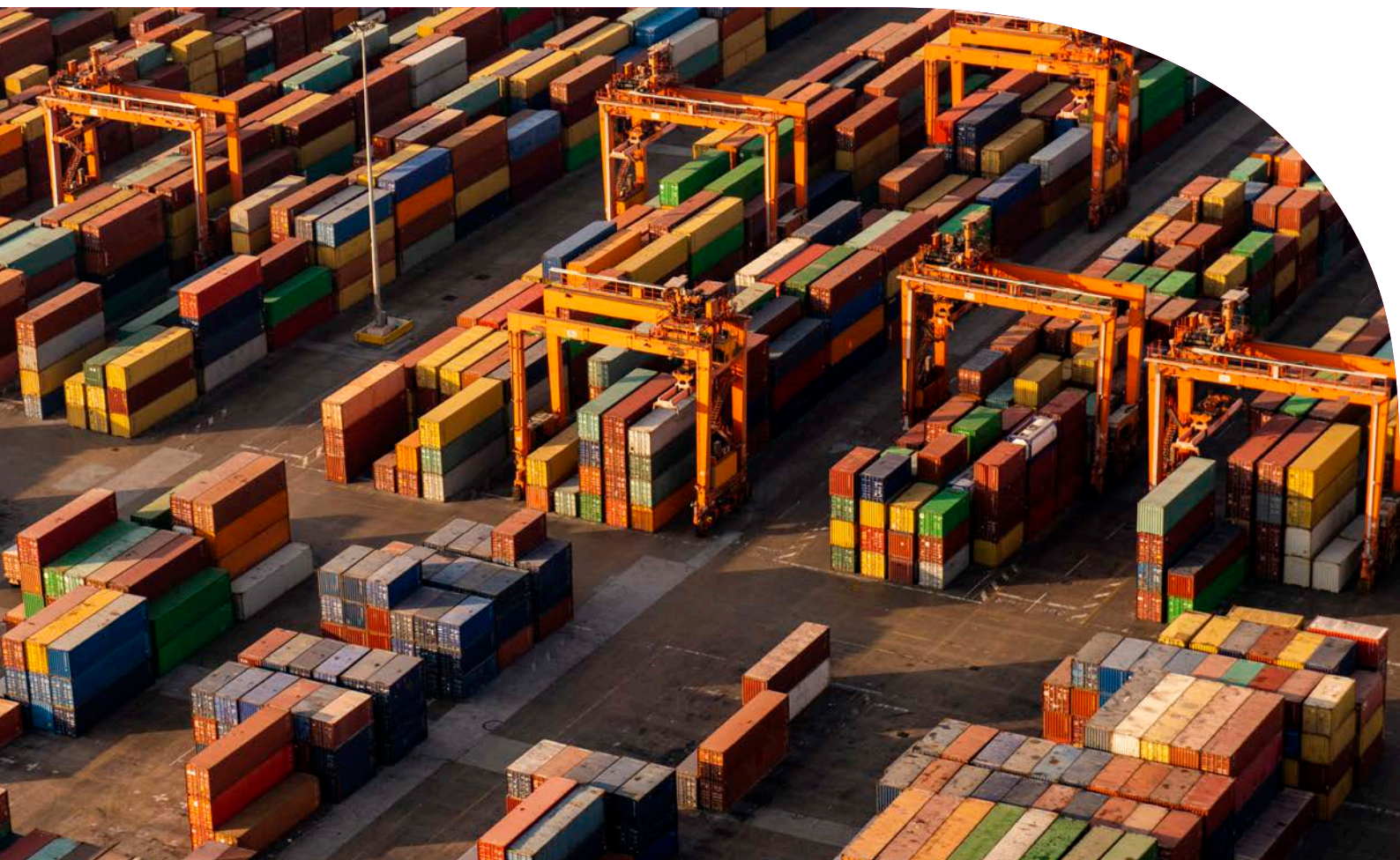
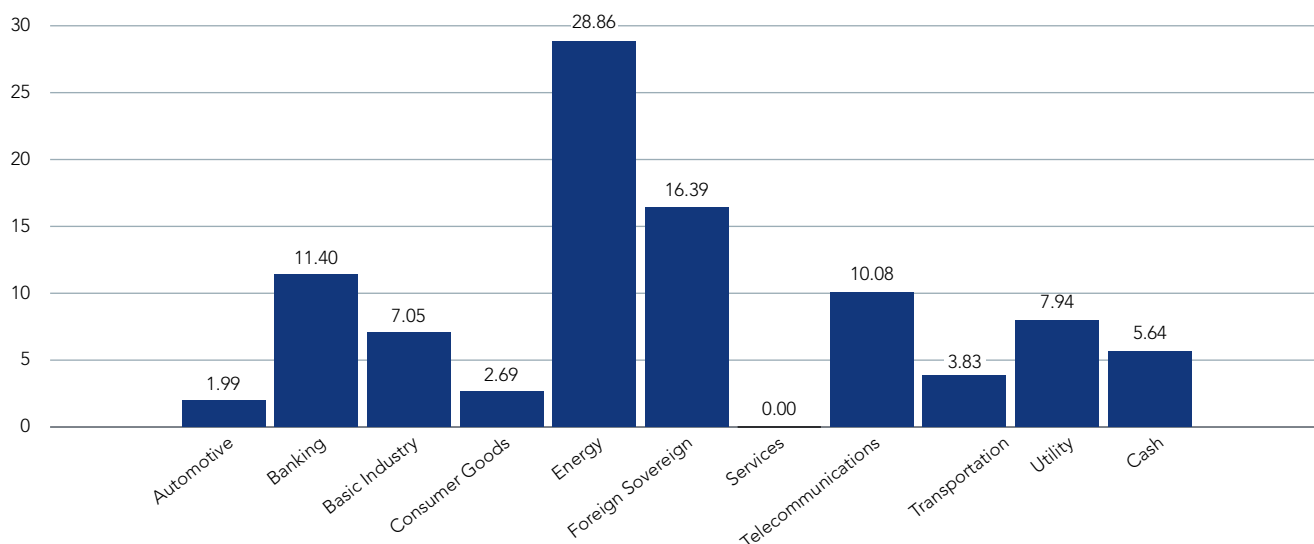


Figure 5: Geographical and sector diversification (%)

LATAM		15.94		W. Europe		14.36		SSA		31.52		Asia		9.63	
Coupon	8.47	Coupon	7.12	Coupon	8.50	Coupon	8.69	Argentina	0.15	Denmark	2.88	Angola	5.68	China	0.67
Brazil	9.53	Estonia	0.96	Benin	1.49	Indonesia	0.79	Chile	0.91	Italy	1.27	Congo, Republic of	0.21	New Caledonia	0.23
Colombia	1.68	Serbia	1.42	Ivory Coast	4.38	Papua New Guinea	0.34	Dominican Republic	0.63	Spain	0.86	Ghana	1.67	Singapore	0.33
Suriname	0.99	Switzerland	3.80	Kenya	0.62	Uzbekistan	7.28	Trinidad & Tobago	2.06	United Kingdom	3.17	Nigeria	7.94	United States	6.27
E. Europe		9.37		MENA		7.28		N. America		6.27		Cash		5.63	
Coupon	7.14	Coupon	8.29	Coupon	8.03	United States	6.27	Coupon	5.30	Azerbaijan	0.67	Senegal	4.34		
Russia	0.89	Egypt	3.28	South Africa	0.84	Ukraine	0.48	Tanzania	2.01	Russia	0.89	South Africa	0.84		
Turkey	7.32	Oman	1.96	Tanzania	2.01			Zambia	0.42	Turkey	7.32				
Saudi Arabia	0.10	Qatar	1.21	Zambia	0.42					Saudi Arabia	0.10				
United Arab Emirates	0.72	United Arab Emirates	0.72							United Arab Emirates	0.72				



Source: Federated Hermes



Long-term relationships with partner banks

Less-established trade finance operations can sometimes struggle to access the wider global trade finance market. It generally requires close relationships with leading international banks, which often play a key role in deal origination and typically help to co-finance the transactions (our average deal size can vary from US\$500m to US\$1.5bn).

Federated Hermes has been offering trade finance in a fund format to institutional investors since 2009. The team is very experienced and has built up long-standing relationships with more than 50 global finance institutions since inception. The team has specific expertise working with banks to originate attractive and varied deals.

In-depth analysis by skilled investment professionals

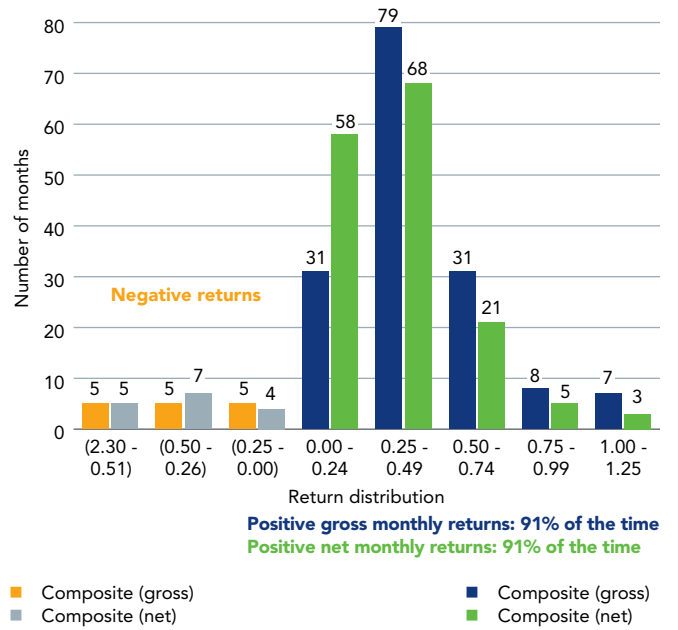
Every trade finance transaction is unique, specific to the cross-border flow of a particular set of goods. We never only rely on a bank's assessment of any deal and will always conduct our own rigorous due diligence on the institution, the transaction, the loan structure, the legal landscape and the underlying collateral.

Federated Hermes' Trade Finance team typically performs a rigorous credit review on more than 150 deals in a given year.

We also have a stringent focus on risk management; each portfolio position typically represents approximately 80-90bps in terms of the overall weight of the portfolio.

Our approach allows us to reduce idiosyncratic risks at the portfolio level.

Figure 4: Monthly performance since inception



Composite: Federated Hermes Trade Finance
Date: 1 April 2010 (inception) to 30 September 2024

Past performance is not a reliable indicator of future performance.

Source: Morningstar



Rolling year performance (%)

	30/09/2024	30/09/2023	30/09/2022	30/09/2021	30/09/2020	30/09/2019	Since inception 4/2010 - 9/30/2024
Federated Hermes Trade Finance Fixed Income Composite (Net)	8.24	8.64	1.28	2.48	1.13	3.14	3.30

Past performance is not a guide to future performance. Performance information valued in USD. Source: Federated Hermes, 30 September 2024.

For more information on our Trade Finance Strategy, please visit our [website](#).

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Federated Hermes

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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, where possible, to contribute to positive outcomes that benefit the wider world.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate and infrastructure
- **Stewardship:** corporate engagement, proxy voting and policy advocacy

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

