



# Global Short Duration

The what, the why  
and the when

June 2025

**Federated  
Hermes**  
Limited



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For professional investors only

In June 2025, Federated Hermes launched a new strategy dedicated to global credit opportunities at the shorter end of the curve. In this Q&A we explore the rationale behind the launch and why we think the time is right for this kind of offering.

### What does the Strategy do?

The Federated Hermes' Global Short Duration Strategy's aim is to provide total return by investing at least 80% in a globally diversified portfolio of short-duration debt securities. These are predominantly corporate bonds but there is also freedom to include a meaningful allocation to Asset Backed Securities (ABS), Mortgage Backed Securities (MBS), government bonds and money market instruments for cash management purposes. The Strategy also includes the ability to invest in both developed and emerging market securities.

### Why launch now?

Based on our recent experience, we believe the short-dated investment grade space has very much become 'the place to be', with rates likely to remain elevated and the pace of future monetary policy easing likely to be slow and gradual and to take time to come through. We expect the market to be driven by further geopolitical risks, idiosyncratic events and ongoing political upheavals.

For this reason, we believe the case for the asset class will remain strong from here and into at least the medium term.

One other noteworthy development is how short duration strategies have begun to offer higher yields than liquidity portfolios. Historically, with the exception of periods of rapidly

rising interest rates, these strategies have tended to outperform liquidity investments over the long term. In light of our expectations that interest rates may remain on a flat or downwards trajectory (albeit a slow and gradual one), this provides another argument in support of considering an allocation to the short-duration space.

Finally, for investors seeking additional yield and total return, the Strategy offers investors an attractive option: the ability to take a step further along the yield curve from liquidity products while still maintaining a lower exposure to interest rate and credit risk than intermediate and long-duration fixed income offerings.

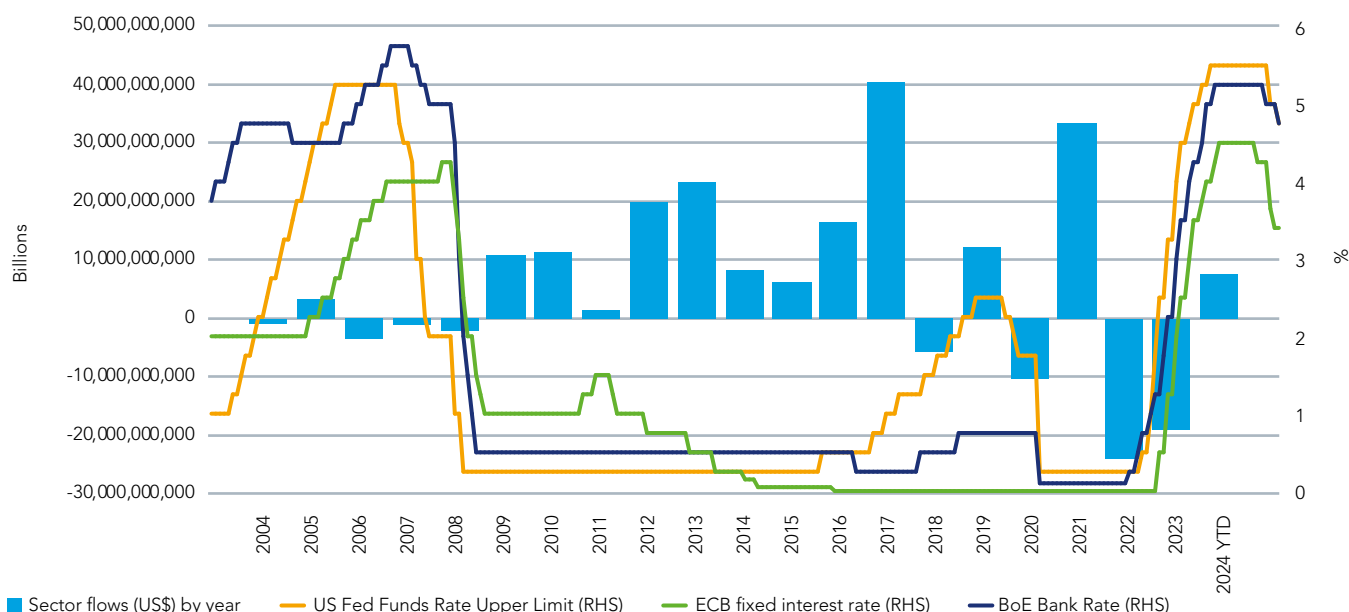
"In a world of high volatility and stretch valuations in many asset classes, we believe investors can benefit from some allocation to the short duration space earning in the region of 4-5% returns with limited downside," explains Ihab Salib, Head of International Fixed Income, Federated Hermes.

### What tailwinds does the asset class benefit from?

History shows that the short duration sector generally grows and shrinks in line with interest rate movements, with clients tending to move out of cash and extending duration when interest rates fall as they search for more attractive returns. We have already begun to see this trend play out; the short-term sector saw positive flows in 2024, after experiencing net outflows over one, three and five years (see Figure 1 below).

The current market size of the EAA Short-Term Bond Morningstar Sector is US\$126bn but based on the above we expect this to grow from here.

**Figure 1:** Short term sector flows (US\$) [LHS] vs interest rates (%)



Source: Morning Star, Federated Hermes as at 19 November 2024. Active only, third-party only, funds domiciled in Ireland, Luxembourg & UK only. For illustrative purposes only.



## Who manages the Strategy and what are their responsibilities?

Ihab Salib, Head of International Fixed Income, Federated Hermes, manages the Strategy along with Nick Tripodes, Head of Low Duration/Structured Products Group.

John Polinski, Fixed Income, Pittsburgh, is responsible for European Credit research. His counterpart, Andrew Lennox, Fixed Income, London, is responsible for European ABS research. Yulia DI Mambro, Fixed Income, London, is responsible for emerging markets corporate research.

## Where is the Strategy domiciled?

The Strategy is domiciled in Ireland denominated in US dollars. It may own derivatives for investment or efficient portfolio management purposes (including credit default swaps) and currency swaps but these are not its main focus. Its benchmark is the ICE BofA 1-3 Year US Corporate & Government Index.

## What experience does the team have in managing this kind of Strategy?

Federated Hermes has capabilities in the US- and UK-based fixed income teams that are perfectly suited to run this type of Strategy. Between them, our portfolio managers, Ihab, John and Nick, along with the rest of the team, have more than 100 years' experience of successfully running global ultrashort, US short duration and securitised asset strategies.

Nick Tripodes has worked at Federated Hermes for 31 years and has been an analyst and portfolio manager on the US-dollar low duration strategies for 22 years. Likewise, Ihab Salib has managed global short duration portfolios – both UCITS and separate accounts – for more than 25 years for Federated Hermes.

## What responsible investing characteristics does the Strategy have?

The Strategy is classified as Article 8 under SFDR and, as such, promotes investments with environmental or social outcomes, with investee companies subject to a 'good governance' requirement. It also uses ESG integration through a proprietary ESG scoring model, exclusions, and engagement to achieve these outcomes.

## How does the new Strategy fit in with other Federated Hermes capabilities?

The Federated Hermes' fixed income offering previously consisted of money market strategies (denominated in US dollar, euro and sterling); a global ultrashort duration

strategy (the Federated Hermes Euro-Kurzläufer Strategy) with a duration of less than a year; and then credit strategies with longer duration characteristics such as the Federated Hermes Unconstrained Credit strategy and the Federated Hermes Emerging Market Debt strategy.

This new addition to our range offers international investors a multi-currency share class product that invests across the one-to-three-year part of the duration curve. By launching this Strategy we have a capability across the entire duration and credit curves to meet the needs of both existing and new clients.

"We believe this new offering perfectly complements our existing liquidity and ultrashort duration strategies including our Kurzläufer ultrashort strategies," Ihab Salib concludes.

### Key points

- Federated Hermes Global Short Duration is an investment-grade strategy with the ability to invest up to 20% of the fund in high yield in order to maximise the yield profile and aim to deliver an absolute return (typically a good alternative to cash/money markets) throughout the cycle with very low volatility.
- It invests globally and seek to capture upside by looking at relative value across regions and currencies.
- It seeks to identify investment opportunities in special situations (potential upcoming downgrades, idiosyncratic stories) but remains short on the curve, as it looks to generate alpha.
- It aims to have multiple small, uncorrelated positions to exploit a yield advantage over money markets while seeking to minimise price fluctuations caused by changes in interest rates.
- It allows duration of one to three years which should, we believe, ensure it has limited sensitivity to interest rate volatility.
- Typical short duration strategies are limited by a regional focus. Our global approach creates more opportunities and diversifies sources of alpha.



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Where the strategy invests in debt instruments (such as bonds) there is a risk that the entity who issues the contract will not be able to repay the debt or to pay the interest on the debt. If this happens then the value of the strategy may vary sharply and may result in loss. The strategy makes extensive use of Financial Derivative Instruments (FDIs), the value of which depends on the performance of an underlying asset. Small changes in the price of that asset may cause larger changes in the value of the FDIs, increasing either potential gain or loss.

The strategy has environmental and/or social characteristics and so may perform differently to other strategies, as its exposures reflect its sustainability criteria.

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## 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, 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

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