

## When down is up and South is North

Tariffs continue to dominate headlines, drawing the focus of policymakers, businesses and consumers alike. These trade barriers, often enacted to shield domestic industries, can have profound effects on global commerce. A well-structured trade finance strategy offers investors the potential ability to seize these emerging opportunities.



Since 2007, Federated Hermes has offered investors access to shorter-term trade finance loans that support cross-border transactions between exporters and importers. These self-liquidating investments are secured by the underlying goods and typically float at a spread over short-duration benchmarks like the Secured Overnight Financing Rate (SOFR). This structure offers low interest rate and credit duration exposure, which can make it well-suited for volatile risk environments.

To help mitigate risk, we incorporate safeguards such as permanent control of goods' titles, ring-fenced cash flows and various insurances. The structure of each investment is tailored to the specifics of the transaction, the countries involved and the credit quality of the counterparties.

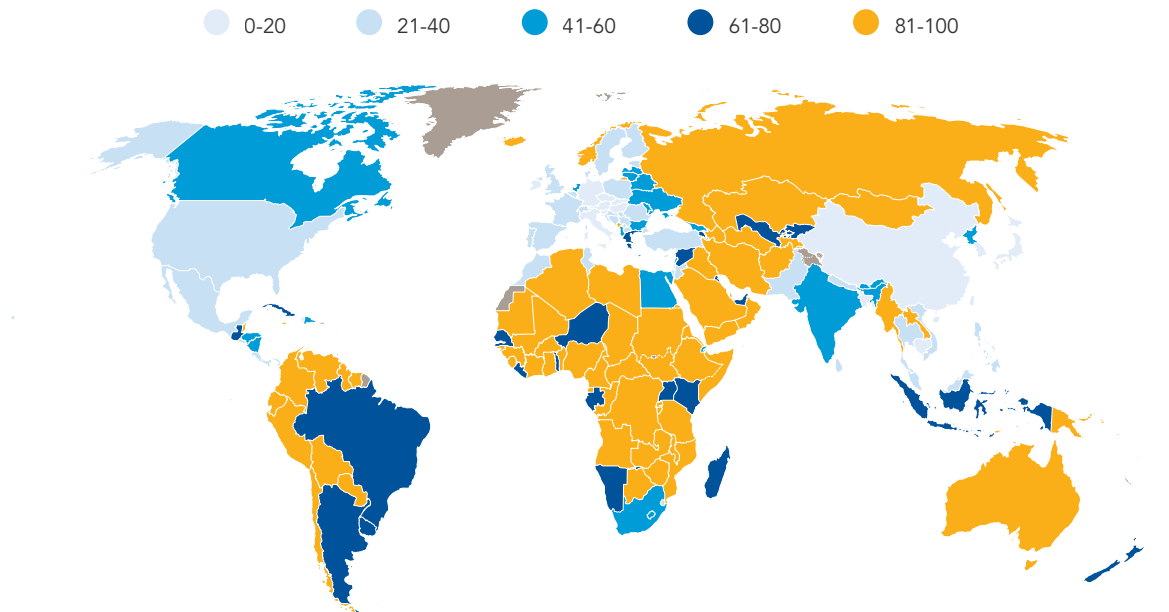
In today's shifting tariff landscape, we believe a well-structured trade finance strategy must balance risk mitigation with the agility to seize emerging opportunities.

## Understanding global flow

A successful trade finance strategy begins with a deep understanding of trade flows—particularly the dynamics between North-North and South-South trade.

- **North-North trade** involves high-income economies like the US, Canada, EU nations, Japan and South Korea. These routes typically involve manufactured goods—electronics, vehicles, and machinery—often shipped via containers.
- **South-South trade**, on the other hand, connects developing economies such as Brazil, India, China and South Africa. Here, the focus is on essential goods—food, fuel and medicine—with two-thirds of these economies being dependent on these exports.

Figure 1. Commodities as a percentage of merchandise exports



Source: UN Conference on Trade and Development (UNCTAD)

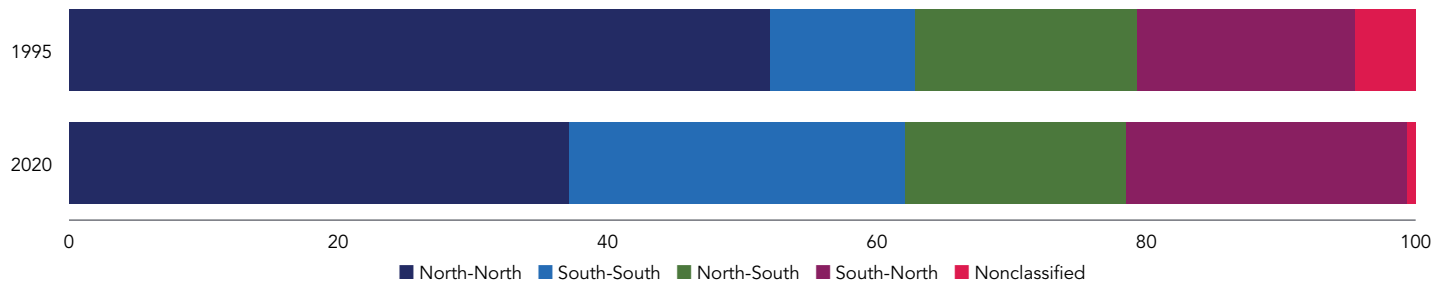
As shown in the chart above, between 2020 and 2022, 66% of developing countries—and 80% of least developed countries—remained in commodity dependence, with over 60% of their merchandise exports derived from primary commodities. Essential goods are often shielded from high tariffs to ensure affordability and prevent social or economic disruption. Manufactured goods, being less critical to immediate survival, are more likely to face higher tariffs aimed at protecting domestic industries or adjusting trade balances.

Figure 2. Essential goods vs. manufactured goods

	Essential goods	Manufactured goods
Trade directions	Primarily South to South	Primarily North to North
Focus	<ul style="list-style-type: none"><li>• Raw materials</li><li>• Agricultural products</li><li>• Energy resources</li></ul>	<ul style="list-style-type: none"><li>• Finished products</li><li>• Machinery</li><li>• Electronics</li></ul>
Examples	<ul style="list-style-type: none"><li>• Grains</li><li>• Minerals</li><li>• Crude oil</li></ul>	<ul style="list-style-type: none"><li>• Automobiles</li><li>• Textiles</li><li>• Technology</li></ul>
Shipping	<ul style="list-style-type: none"><li>• Primarily bulk shipping</li></ul>	<ul style="list-style-type: none"><li>• Primarily container shipping</li></ul>
Finance	<ul style="list-style-type: none"><li>• May involve pre-export finance, supply chain finance or commodity trade finance to support production, storage and transportation</li></ul>	<ul style="list-style-type: none"><li>• May involve letters of credit, purchase order finance or invoice discounting</li></ul>
Risk profile	<ul style="list-style-type: none"><li>• Price volatility</li></ul>	<ul style="list-style-type: none"><li>• Complex supply chains</li><li>• Quality control</li><li>• Long production times</li></ul>

The last 25 years have seen a notable shift. Developed economies’ share of global trade has declined by almost 15%, while South-South trade has grown by 14.1%, according to UNCTAD. While North-North trade still accounts for 37.1% of global flows, South-South trade now accounts for 25%—a sign of changing global dynamics.

Figure 3. South-South trade growth, 1995-2020

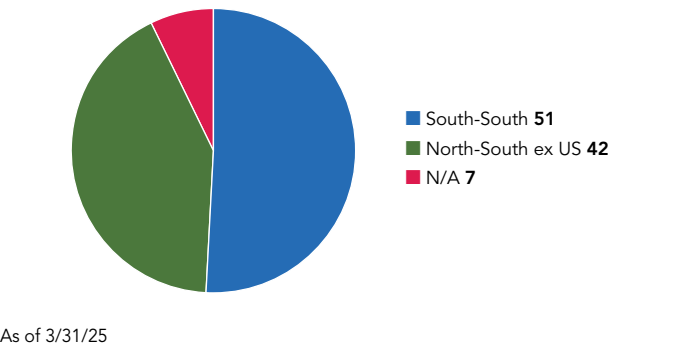


Source: UNCTAD Trade and Development Report, 2022

Federated Hermes has embraced this trend. As of March 31, 2025, 51% of our Strategy's notional value is allocated to South-South trade, with a strong emphasis on essential goods. The next largest allocation (42%) of our Strategy is North-South ex-US.

By aligning with these evolving trade routes, we seek to help clients diversify away from US-centric tariff risks and build resilience against geopolitical disruptions.

Figure 4. Federated Hermes Trade Finance Strategy: trade directions



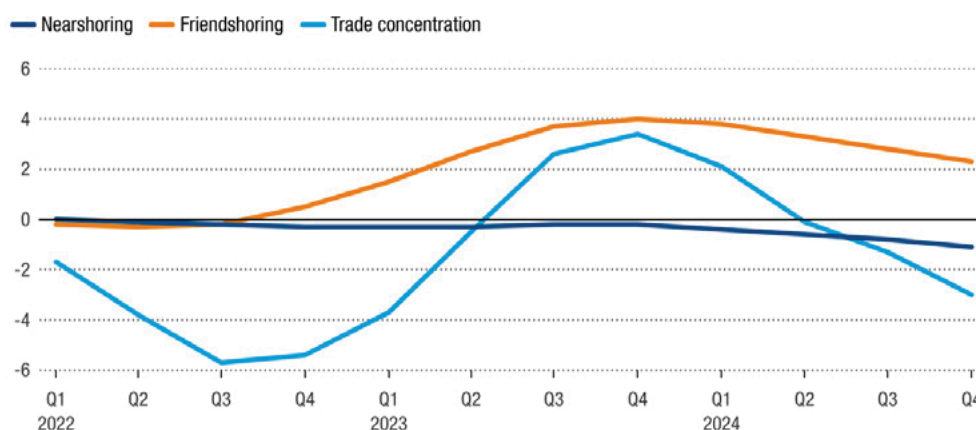
## Supply chain strategies

In a world of shifting trade policies, consideration of supply chain strategy may be more critical than ever. Companies which have previously adopted strategies like below are now shifting to accommodate the resurgence in trade between geographically distant countries.

- **Nearshoring** focuses on relocating production or sourcing closer to the company's home country, reducing shipping times and costs while improving supply chain resilience.
- **Friendshoring** involves relocating production and sourcing to countries that share similar political and economic values, aiming to reduce geopolitical risks by partnering with trusted allies.
- **Allyshoring** is similar to friendshoring and emphasises reliance on countries with strong diplomatic ties, focusing on building supply chains with strategic allies to enhance security and stability.

Figure 5 illustrates the evolving dynamics of nearshoring and friendshoring in relation to trade concentration, which reflects the degree of diversification in a country's exports. As shown, both friendshoring activity and trade concentration reached their peak in 2023 before beginning to taper off in 2024. And while friendshoring activity remains above 2021 levels, it has also steadily declined throughout the year. This indicates a shift away from trade among geopolitically-aligned nations, which we believe the introduction of new tariffs is likely to further accelerate.

Figure 5. Nearshoring, friendshoring and trade concentration trends



Source: UNCTAD, 2021–2024

We believe Federated Hermes is well-positioned to capitalise on emerging supply chain strategies, with a focus on low-interest, short-duration investments to allow for flexibility and quick adjustments to changing economic conditions.

## Conclusion: The need for a resilient and adaptive Trade Finance Strategy

Over the last five years, international trade supply chains have undergone significant transformations due to geopolitical tensions, technological advancements and changing consumer expectations. These forces are driving a broader transformation toward supply chains that are more resilient, transparent and sustainable.

The Federated Hermes Trade Finance Strategy has continued to demonstrate strong resilience amid tariff fluctuations. By prioritising trade loans tied to essential goods that may be less susceptible to tariffs—and maintaining a diversified approach across not only trade directions but supply chain structures as well, we believe we have sheltered the majority of our portfolio from high tariffs.

The remaining is concentrated in sectors with the flexibility to pivot sourcing strategies if needed, potentially ensuring minimal disruption.

By staying agile and forward-looking, we continue to navigate the complexities of global trade with confidence—seeking to deliver uncorrelated returns and opportunity for our clients in an unpredictable world.

**Federated Hermes offers Trade Finance investment solutions to suit customised needs. Learn more by visiting our [page](#).**

## Schedule of rates of return and statistics

Composite Federated Hermes Trade Finance  
 Index ICE BofA USD 1-Mo Deposit Offered Rate Constant Maturity  
 Periods ending 6/30/25

	Returns (%)		
	Gross composite return	Index	Net composite return (assuming maximum fee)
<b>Q2 25</b>	1.79	1.09	1.57
<b>YTD</b>	3.61	2.19	3.17
<b>1 Year</b>	8.37	4.86	7.45
<b>3 Years (Annld)</b>	8.85	4.73	7.92
<b>5 Years (Annld)</b>	6.27	2.88	5.37
<b>10 Years (Annld)</b>	4.74	2.09	3.85
<b>15 Years (Annld)</b>	4.42	1.46	3.50
<b>Apr 10 - Jun 25 (Annld)^^</b>	4.41	1.44	3.48

	Composite gross return (%)	Composite net return (%)	Benchmark return (%)	*Composite 3-yr st dev	*Benchmark 3-yr st dev	Number of portfolios	**Dispersion	Composite assets (\$mil)	Firm assets (\$bil)
<b>2014</b>	2.78	1.91	0.18	0.86	0.01	5	0.07	488.5	343.4
<b>2015</b>	4.00	3.12	0.48	0.83	0.04	5	0.07	556.2	342.3
<b>2016</b>	2.00	1.13	1.07	0.81	0.11	<5	N/A	586.7	354.7
<b>2017</b>	4.77	3.88	1.99	0.71	0.19	<5	N/A	651.6	377.2
<b>2018</b>	3.72	2.84	2.34	0.74	0.17	<5	N/A	674.7	503.1
<b>2019</b>	2.33	1.46	0.66	1.69	0.24	<5	N/A	654.4	585.7
<b>2020</b>	2.79	1.92	0.10	1.66	0.30	<5	N/A	1,448.7	634.2
<b>2021</b>	4.24	3.35	1.58	1.97	0.31	<5	N/A	1,245.7	627.4
<b>2022</b>	9.17	8.24	5.17	1.39	0.65	<5	N/A	1,391.8	720.0
<b>2023</b>	9.17	8.24	5.40	1.35	0.55	<5	N/A	2,000.3	792.2

^^Represents composite inception period. See additional notes to the schedule of rates of return and statistics.

\*Represents the 3-year annualized standard deviation for both the gross composite and the index returns. Statistic is used to measure the volatility of composite returns.

\*\*Standard deviation is calculated using gross returns. Standard deviation is not applicable ("N/A") for any period if fewer than five accounts are in the composite for that period. (See footnote 5)

This composite includes portfolios utilizing Federated Hermes' trade finance approach, focusing on both fundamental credit sensitive security selection and top-down risk controls to ensure proper portfolio diversification. From the inception of this composite through September 2013, this process utilized a partner who provided expertise in credit research and security selection. Personnel from the partner were hired by Federated Hermes in October 2013. Effective October 2022, the ICE BofA USD 1-Mo Deposit Offered Rate Constant Maturity index represents the Secured Overnight Financing Rate (SOFR), prior to October 2022, the index represented the London Interbank Offered Rate (LIBOR) rate. Portfolios eligible for this composite may include portfolios managed on behalf of registered investment companies (mutual funds) or separate account portfolios. Due to the nature of the investments in these portfolios, a longer transition period may be required to achieve an initial cash position of no more than 25%. Investments in trade finance-related instruments may entail credit, liquidity, currency, and market risks in addition to other risks, such as the risk of investing in foreign securities and emerging market securities. Investments in less developed or emerging markets generally entail greater political, economic, market, tax, credit, and other risks, and generally have greater price volatility than securities issued or traded in developed markets. This composite was created in June 2010. Federated Hermes has managed portfolios in this investment style since August 2009. Performance shown for 2010 is for a partial period starting on April 1, 2010. Federated Hermes claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Hermes has been independently verified for the period of January 1, 1992, through March 31, 2025. The verification report is available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The firm's separately managed account fee schedule for this product is 0.85% on the first \$25 million; 0.75% on \$25 - \$50 million; 0.65% on \$50 - \$75; 0.50% on assets greater than \$75 million. Currently, all composite net-of-fee returns are calculated using highest fee. See disclosure notes for any appropriate historical fee calculations. Actual fees may vary by client.

### Notes to the schedule of rates of return and statistics

1. Federated Hermes is a global, independent, multi-strategy investment management firm. For GIPS® purposes, Federated Hermes is defined to include the assets of registered investment companies that are advised or sub-advised by the various Federated Hermes advisory companies. Effective September 30, 2020, for GIPS® purposes the name of the firm was officially changed to Federated Hermes. Firm assets on this report exclude assets affiliated with Hermes GPE and the advisory-only, model-based assets that may be included in other reports providing total firm assets.
2. Interest income and dividends are recognized on an accrual basis. Returns include the reinvestment of all income.
3. All market values and performance information are valued in USD unless currency is denoted in composite description.
4. Annual composite dispersion is measured and presented using the asset weighted standard deviation of the gross returns of all of the portfolios included in the composite over the entire year. Prior to January 2023, annual dispersion for the CW Henderson composites was measured using the equal weighted standard deviation of the returns of all the portfolios included in the composite over the entire year. Effective January 2023 this was changed to asset weighted. Prior to March 2020 with regard to Federated Clover Investment Advisors composites, annual dispersion was measured using the equal weighted standard deviation of the returns of all the portfolios included in the composite over the entire year.
5. Composite dispersion does not measure the risk of the product presented, it simply measures the return variance among portfolios managed in a similar fashion. This variance can be affected by variations in cash flow or specific client parameters among the portfolios comprising the composites, as well as by execution of strategy across accounts.
6. See the composite description language for a discussion on appropriate fees currently applied to calculate composite performance. With regard to the institutional composites not managed by the MDT Advisers and Federated Hermes London office teams, for the period July 1, 1992 through September 30, 2009, net of fee performance was calculated monthly by reducing the gross composite return by the highest actual fee of any account in the composite for that month, regardless of investment vehicle. Prior to July 1992, the maximum management fee for third quarter 1992 was used to calculate net of fee performance historically to inception of the composite. For those composites managed by the Federated Hermes London office investment team, net composite results are based off model fees using the stated fee schedule. In addition, further fee information can be obtained from the firm's respective Forms ADV Part 2 Brochure Item 5.
7. Additional information regarding the policies for valuing investments, calculating performance, and preparing GIPS® reports, as well as a complete list and description of the firm's composites and pooled funds is available upon request.
8. Past performance is not indicative of future results.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
10. See disclosures on the Schedule of Rates of Return and Statistics Reports for additional information.

Views are as August 2025 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

**Past performance is no guarantee of future results.** See the attached GIPS Report for additional information.

#### A word about risk

Diversification does not assure a profit nor protect against loss.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

Trade finance-related securities will be located primarily in, or have exposure to, global emerging markets. International investing involves special risks including currency risk, increased volatility, political risks and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

**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.**

Distributed by Federated Hermes Limited, being Federated Hermes Limited and its subsidiaries ("Federated Hermes"). The main entities operating under Federated Hermes are: Hermes Investment Management Limited ("HIML"); Hermes Fund Managers Ireland Limited ("HFML"); Hermes Alternative Investment Management Limited ("HAIML"); Hermes Real Estate Investment Management Limited ("HREIML"); Hermes Equity Ownership Services Limited ("EOS"); Hermes Stewardship North America Inc. ("HSNA"); Hermes GPE LLP ("Hermes GPE"); Hermes GPE (USA) Inc. ("Hermes GPE USA"), Hermes GPE (Singapore) Pte. Ltd. ("HGPE Singapore"), Federated Investors Australia Services Pty Ltd. ("FIAS") and Federated Hermes Japan Ltd ("FHJL"), Federated Hermes (UK) LLP ("FHUK"). HIML, HAIML and FHUK are each authorised and regulated by the Financial Conduct Authority. HAIML and HIML carry out regulated activities associated with HREIML. FHUK, HIML, Hermes GPE and Hermes GPE USA are each a registered investment adviser with the United States Securities and Exchange Commission ("SEC") and HAIML and HFML are each an exempt reporting adviser. HGPE Singapore is regulated by the Monetary Authority of Singapore. FHJL is regulated by Japan Financial Services Agency and FIAS holds an Australian Financial Services Licence. HFML is authorised and regulated by the Central Bank of Ireland. HREIML, EOS and HSNA are unregulated and do not engage in regulated activity.

**In Australia:** This Strategy Document relates to potential offer of financial products or investment opportunities in Australia (Investment opportunities). Both Hermes Investment Management Ltd (HIML) and Federated Investors Australia Services Ltd. ACN 161 230 637 (FIAS) are the distributors of the Investment opportunities. HIML does not hold an Australian financial services licence (AFS licence) under the Corporations Act 2001 (Cth) ("Corporations Act"). HIML operates under the relevant class order relief from the Australian Securities and Investments Commission (ASIC) while FIAS holds an AFS licence (Licence Number – 433831). The offer of Investment opportunities only made in circumstances under which no disclosure is required under Chapter 6D and Part 7.9 of the Corporations Act. Nothing in this Strategy Document is, or purports to be, an offer to a person to whom disclosure would be required under Chapter 6D or Part 7.9 of the Corporations Act.

This Strategy Document is not a disclosure document under Chapter 6D of the Corporations Act or a product disclosure statement for the purposes of Part 7.9 of the Corporations Act. This Strategy Document has not been and will not be lodged with ASIC and does not contain all the information that a disclosure document or a product disclosure statement is required to contain. The distribution of this Strategy Document in Australia has not been authorised by ASIC or any other regulatory authority in Australia. In addition, the Fund is not a registered managed investment scheme, as defined in the Corporations Act.

This Strategy Document is provided for general information purposes only and is not intended to constitute, and does not constitute, the provision of any financial product advice or recommendation and must not be relied upon as such. This Strategy Document is not intended to influence a person in making a decision in relation to a particular financial product or class of financial products, or an interest in a particular financial product or class of financial products.

This Strategy Document has been prepared without taking account of your objectives, financial situation or needs and you should obtain independent professional financial advice that considers your circumstances before making any financial or investment decisions.

**In Japan:** Federated Hermes Japan Ltd is registered as a Financial Instruments Business Operator in Japan (Registration Number: Director General of the Kanto Local Finance Bureau (Kinsho) No. 3327), and conducting the Investment Advisory and Agency Business as defined in Article 28 (3) of the Financial Instruments and Exchange Act (FIEA). Federated Hermes Japan Ltd is acting as agent or intermediary for the conclusion of investment advisory contracts or discretionary investment contracts between affiliated companies within the Federated Hermes group and Japanese licensed discretionary investment managers, trust banks and other Japanese financial institutions. Federated Hermes Japan Ltd is a member of Japan Investment Advisers Association (JIAA). Reference to Federated Hermes in this material is not limited to Federated Hermes Japan Ltd, but includes group affiliates.

**In Spain:** This document is issued by Hermes Fund Managers Ireland Limited, Branch in Spain, with Fiscal Identity Number W0074815B, registered in the Mercantile Registry of Madrid, – Volume 40448, Book 0, Sheet 16, Section 8, Page M-718259, first registration, with domicile at Paseo de la Castellana 18, 5<sup>o</sup> planta, 28046 Madrid – Spain, and registered in the Comisión Nacional del Mercado de Valores with official registration number 36.