

INVESTMENT NOTE

28 MAY 2015

HERMES: 5 TOP PERFORMING UNKNOWN INDIA & CHINA STORIES

As regional allocation comes to the fore in the emerging markets, Gary Greenberg, Head of Hermes Emerging Markets and Lead Portfolio Manager, reveals some of his EM playbook.

The paths of the major EM markets have grown increasingly divergent. Russia has bounced from a very low base, but remains speculative, as Putin continues his bellicose approach to foreign policy. Brazil's voters have already lost confidence in the newly re-elected government, while both China and India have seen rapid stock market growth in the last year.

In this environment, getting country asset allocation right has been critical to success. Taking underweights in Brazil, Mexico and Malaysia has been positive – while our two large overweight positions in China and India have driven outperformance.

At a stock level, a resurgent India under Modi is undergoing a manufacturing transformation, creating an environment for some stellar performers. Meanwhile in China, the A-share market has seen a strong recent spike on flows from domestic investors. In this market, we have invested in growth companies in manufacturing, digital technology and liquor.

Below are examples of some key largely unknown names driving performance for our Hermes Global Emerging Markets Fund.

Kweichow Moutai

Moutai is the Chateau Lafite Rothschild of China. The drink originates back to the Qing Dynasty (1644–1912) and became the first Chinese liquor to be produced in large-scale production, with an annual output of 170 tonnes. The company dominates in the sale of luxury in China. The stock price took a dive when President Xi Jinping issued 'Eight Regulations', which warned officials against hosting lavish parties replete with luxury liquor. However, we are now seeing signs of recovery.

Gree Electric

Gree is the number one air conditioning brand in China and one of the largest OEM manufacturers, exporting all over the world. It is a company with a very high return on equity – in the 30s – and P/E in the high single digits. This is a company that has demonstrated good management, and we believe it has good growth potential.

Hangzhou Hikvision

This is a digital technology company making surveillance cameras – mostly for corporates, but also for homes. It has the number one market share in China, but it is also expanding internationally by about 100% annually and its local business is growing by about 30% a year. The technology is cutting edge and it has impressive management.

Bharat Forge

This is the type of 'best-in-class' manufacturer President Modi's Make-in-India campaign is aspiring to create. This Indian industry leader has evolved from a low-cost domestic auto component maker in the 1960s, to a global provider of advanced end-to-end engineering solutions. Based in Pune, it has manufacturing centres in India, Germany, France and Sweden – while it sells products to North America, Europe, China, Brazil, Russia and Australia. This scale has enabled it to surpass smaller, regionally-focused competitors and achieve a dominant position in the global forging industry.

Motherson Sumi

This is a leading Indian automotive mirror and wiring harness manufacturer for passenger cars. It is operating in an industry that has undergone strong consolidation. Manufacturers are no longer in the mode of trying to squeeze the supplier for every last penny, but rather looking for longer term high-visibility partnerships. Motherson Sumi has been acquiring failing auto parts companies and has

achieved numerous restructuring successes. It is also moving swiftly with technology, evidenced by the incorporation of radar into rear view windows.

The views and opinions contained herein are those of Gary Greenberg, and may not necessarily represent views expressed or reflected in other Hermes communications, strategies or products.

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Website: www.hermes-investment.com

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For further information, please contact:

Hermes Investment Management

Jeannie Dumas
+44 (0)20 7680 2152
jeannie.dumas@hermes-investment.com

Melanie Bradley
+44 (0)20 7680 2218
Melanie.bradley@hermes-investment.com

Katie Sunderland
+44 (0)20 7680 2315
katie.sunderland@hermes-investment.com

Notes to Editors:

Hermes Investment Management

Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

Hermes manages assets on behalf of more than 200 clients* across equities, fixed income, alternatives and real estate, with £30.1 billion* assets under management. In Hermes EOS, we have the industry's leading engagement resource, advising on more than £124.3 billion* of assets.

We believe in **Excellence, Responsibility and Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.
- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.
- **Innovation:** We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure gives clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Equities:** Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan, Greater China
- **Fixed Income:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Real Estate:** Segregated, Unitised, Debt, UK, US Residential, European, UK PRS
- **Alternatives:** Multi Asset, Infrastructure, Private Equity

*Please note the total AuM figure includes £3.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.5bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 March 2015.