

# Federated Hermes Global Emerging Markets SMID Equity

Global Emerging Markets

## Introduction

(Offshore)

The fund is a high conviction strategy, with a concentrated portfolio of 50 – 80 mid and smaller capitalised emerging market stocks. It is actively managed, with no consideration given to benchmark positions. The style is a blend of growth and value, as the managers want the flexibility to invest where they see the opportunity dependent on position in the economic cycle. The managers use both top-down country and sector analysis along with in-depth fundamental bottom-up stock picking and are supported by equity research analysts and investment specialists who are responsible for the coverage of emerging market stocks. The bottom-up approach is complemented by inputs from the wider investment platform including ESG analysts from the Federated Hermes stewardship company EOS.



[Click here to read the Federated Hermes approach to ESG investing.](#)

## Why RSMR Rate this Fund

This fund has been placed Under Review due to concerns over performance.

## Fund Process

The process looks at both country and sector factors rather than being just purely bottom up in approach. The top down view is formally assessed twice a year and sets the backdrop to the desirability of exposure to each of the 16 major countries in the EM region, which account for 90% of the market cap. The work is conducted by the analysts on a regional and country basis and split in to two parts, fundamental analysis and an analysis of ESG factors. At the fundamental level, there must be an understanding of what the government is doing in each country and what its policy and reform agenda is. A lot of work is done on understanding what the central banks do with regard the interest rate cycle, the state of the fiscal current account and foreign direct investment.

Several secular themes are also identified that are expected to provide an attractive structural growth backdrop. These include digitalisation and the 'Internet of Things', 5g, healthcare, financials, logistics and premiumisation (EM consumers trading up to premium products). The managers are looking for quality companies trading at attractive valuations in countries with conditions that are supportive to growth. Some factors that are desirable are moats and defensible franchises, improving cash flow generation, high ROE and consistency of revenue and earnings.

Federated Hermes has identified 35,000 companies across the EM universe which are then filtered down to 2,300 companies for size and liquidity. (>\$100m & < \$14bn mkt cap, >\$500k av. daily trading). Each month, these companies are ranked using a proprietary quantitative model for quality valuation and momentum factors, with a 60% weighting applied to value, and equal weighting given to quality and momentum. This identifies stocks which appear attractive to buy with a margin of safety built in.

Backtesting has shown that the top quintile (460 stocks) from this list have outperformed the broader market over 5- and 10-year periods and it is on this pool that the analysts conduct further research. They assess whether the company is optically cheap for a reason (value traps, long term terminal declines), or is cheap because of short term mispricing factors. Other non-investible sectors (Chinese banks, telcos, real estate) are also excluded.

Names which the managers and analyst team find interesting will then start the 3-4 week process of deep dive analysis which begins with a meeting with company management to understand the company's business model, its operational efficiencies, and to be able to model the cash flow and balance sheet.

ESG factors are fully integrated into the investment process and Federated Hermes use a proprietary ESG quantitative dashboard that ranks companies relative to their peer group and their own history which gives an indication of the trajectory from a ESG perspective.

The analyst then assess the companies from the ESG perspective to determine if there is any material risk. They are not selecting companies which are either best in class or whiter than white, the managers are looking for companies which are on the right path and improving. The team collaborate with EOS, their stewardship consultancy business, to engage positively the company's management. EOS can give a unique insight to the wider practices of the company's management and determine to what extent they will engage in bad business practice.

## Evaluation

This is a flexible mandate with no structural bias to growth or value style and should therefore perform well throughout the cycle.

## Application

This is a multi-cap fund with a bias to large cap stocks so would be best used as a core holding alongside other funds with a lower market cap weighting.

## Our Opinion

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This fund has been placed Under Review due to concerns over performance.



#### **Important Notice**

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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