

Federated Hermes Multi Strategy Credit Fund

Global Mixed Bond

Introduction

(Offshore)

This is a high conviction, actively managed credit fund with specific selection and defensive trades guided by top down, macro analysis combined with fundamental company analysis. The team searches for relative value opportunities across optimal issuers and their capital structures.



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

Why RSMR Rate this Fund

- The fund has a highly differentiated approach to the asset class
- The fund combines strong bottom up name selection with a systematic top down overlay
- The manager has extensive experience and a strong team
- The fund leans heavily on an integrated ESG analysis which sits alongside the investment process. The team is able to leverage the ESG analyst team within Federated Hermes EOS, the in-house stewardship team. The fund does not invest in cluster munitions, WMDs and philosophically the team exclude fossil fuels, tobacco and pornography

Fund Process

Federated Hermes believe that the credit market is dominated by larger capitalised companies and that alpha is generated based not just on which companies are selected, but also on how you access that company. The managers believe that investing for relative value anomalies across a company's capital structure presents different investment opportunities and this selection is much more flexible in generating returns.

The starting point of the process is the credit strategy meeting (CSM) and the output from this steers the direction of the analysts. The meeting directs which parts of the market are good or bad from a risk/reward perspective and forms an overall view on the appetite for credit and gives a steer to where in the credit stack, or in which sectors, to invest. This also sets the direction for where the analysts will look on a stock specific basis.

The investible universe is split such that any company with only one bond issued is discarded. Federated Hermes is only interested in multi-layered multinational type companies. There are around 300 of these companies across the market and they have market caps of over \$5bn.

Research work is prioritised by sensitivity to urgency, performance-at-risk associated with the name, sector valuations, the depth of research required, and the outcomes from the CSM. This is determined during monthly sector meetings between the analyst, portfolio managers and Head of Credit Research.

Each issuer is assessed depending on the level of portfolio risk and exposure. Analysts assign investment scores to all names covered. Issuer research takes the form of a multi-step process, which includes gathering of information; assessment of operating, financial and ESG risks; assignment of internal credit and ESG scores; and internal peer review of the credit and trade recommendations.

ESG considerations are fully integrated into the investment process and make up about a third of the discussion. The responsibility sits with the credit analyst rather than using a third party ESG score or a separate analyst. The analyst may have joint meetings with the Hermes EOS group who will add value to the process. The team works with Hermes EOS, the in-house, fully integrated stewardship team that provides company engagement services. Hermes EOS alerts the team on any corporate governance issues affecting any holdings within the portfolio and attends the general assembly meetings of companies. The research team conducts its primary research through the systematic research process described above.

The bottom-up approach is based on detailed analysis of the issuer. Companies within the wider investment universe are screened based on their valuation, their contribution to benchmark risk (nominal, duration and duration time spread/DTS), recent trading volatility and news flow. Once the initial screen is complete, this universe of potential securities is narrowed further by assessing relative value, credit quality, and liquidity to identify potential candidates for investment. The Federated Hermes Credit Team then employ several methods to determine what they think the right value should be for a specific security.

Once the initial due diligence has been conducted an issuer is likely to remain in the fund. The managers collaborate with the traders to constantly monitor prices to understand the relative value opportunities across an issuers capital structure and will be active in switching between different securities within the same company.

Trading costs are low as they look to trade the capital stack rather than trading different names. Additionally, the pool of investment names are the large /giant stocks where there is much more liquidity than smaller lower rated / unquoted names.

By optimising the convexity of the fund, the managers can clip tiny elements of performance which accumulate, meaning they are not required to move down the credit risk scale to gain that performance.

Evaluation

The fund sits in the broadly Libor + 3-5% type return profile with volatility of 2-4 but has performed well since launch in 2013. They invest in loans, convertibles, preference shares, investment grade and high yield bonds, hybrids, EM credit and EM sovereigns.

Where Federated Hermes differs from many in the market is that they do not rely on duration to manage risk. Most players will have a structural longer duration on interest rates which will protect on a traditional sell off (where there is a flight to quality, safe haven assets such as treasuries) but not protect in environments where rates also sell off (taper tantrum, bund shock, Trump election). This fund should offer some protection in conditions where both safe haven assets are jittery and where there is volatility in rates.

Application

This fund can be used as a core credit fund holding and could easily complement most other fixed interest funds.

Our Opinion

A unique feature of the Federated Hermes process is that they leverage the EOS stewardship team which adds a great deal of insight and engagement. The amount of ESG analysis conducted alongside its investment process adds significantly to its risk mitigation.

We believe that this fund can deliver a good risk adjusted return by taking a structured, relative value approach that is differentiated to competitors in the market.



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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