



Federated Hermes MDT US All Cap Core – Manager Review

Strategy overview

The Federated Hermes MDT US All Cap Core Strategy provides broad exposure to the US equity market through a systematic, style-neutral process that seeks to deliver consistent outperformance versus the Russell 3000 Index.

Launched in 2002, the strategy is managed by MDT Advisers, Federated Hermes's quantitative equity team. The approach blends 45 years of US equity data with machine-learning-based multi-decision-tree models to forecast near-term relative performance for approximately 3,000 stocks.

Key features:

- Invests in ~175 stocks drawn from the Russell 3000 universe.
- Three-month alpha forecast horizon refreshed daily.
- Rigorous risk controls:
 - Stock weight $\pm 2.5\%$ vs benchmark.
 - Sector $\pm 1\%$.
 - Industry $\pm 5\%$.
 - Target tracking error 3–5%.
- Style-neutral core exposure, avoiding strong growth or value bias.
- Systematic, evidence-based process designed for stable alpha and lower drawdown risk.

This disciplined structure aims to capture the full breadth of the US market—large, mid, and small caps—while maintaining balanced exposure across factors and reduced dependency on market style cycles.

Team

Federated Hermes MDT Advisers is an autonomous quantitative group within Federated Hermes, managing over US \$23 billion in US equity strategies (as of August 2025).

The team is organised into three core disciplines:

1. Research: ongoing factor discovery and model refinement.
2. Portfolio construction & trading: implementation, optimisation, and execution oversight.
3. Process analytics: model validation, data governance, and performance attribution.

All members focus exclusively on US equities and a single unified model, ensuring cohesion and alignment. The culture emphasises collaborative problem-solving, continuous improvement, and measurable innovation.

The strategy's Decision-Tree Model—pioneered by MDT since 2001—has evolved into a sophisticated “boosted random forest” engine, blending human insight with machine learning. This intellectual continuity and process depth are major differentiators versus other quant managers.

Process

The process is deliberately bottom-up, driven by daily stock-level forecasts rather than macro or style bets.

1. Alpha Modelling

- A multi-decision-tree ensemble analyses fundamental, technical, and sentiment factors for every stock in the Russell 3000.
- The model determines which questions matter most for each company (e.g. value vs growth drivers, momentum vs quality).
- Trees are continuously retrained using ~45 years of data, incorporating new factors such as company age, industry moat strength, and market sentiment.
- Forecasts are updated nightly, generating new expected alpha scores for each security.

2. Portfolio Construction

- Stocks with the highest forecasted outperformance are selected into a ~175-stock portfolio.
- Sector, industry, and factor exposure constraints maintain risk neutrality.
- Weighting is optimised for diversified alpha contribution and stable tracking error (3–5 %).

3. Risk Management

- Automated daily compliance with all stock-, sector-, and industry-level limits.
- Portfolio beta and factor exposures monitored to minimise unintended tilts.
- Extensive stress-testing and scenario analysis ensure robustness across regimes.

This data-driven, adaptive process allows the portfolio to exploit changing market dynamics without relying on subjective judgement.

Portfolio Characteristics (Q3 2025)

Metric	MDT US All Cap Core	Russell 3000 Index
Holdings	≈ 175	≈ 2,983
P/E (TTM)	24.5 ×	27.1 ×
P/B (TTM)	4.2 ×	4.6 ×
ROE	31.6 %	32.1 %
Debt/Capital	37 %	36 %
Top 10 Weight	30 %	34 %
12 m Yield	0.4 %	1.2 %

Style: Core / Style-neutral

Market-cap exposure: ≈ 60 % large, 25 % mid, 10 % small.

Sector tilts (vs benchmark): Slight overweights in Financials & Industrials; underweights in Mega-cap Tech and Healthcare.

Performance

(Source: Morningstar Direct to 30 Sep 2025, GBP terms; past performance is not a reliable indicator of future returns.)

Period	MDT All Cap Core	Russell 3000 TR	Relative
1 Year	+21.2 %	+17.0 %	+4.2 %
3 Years p.a.	+17.4 %	+16.6 %	+0.8 %
5 Years p.a.	+18.8 %	+15.5 %	+3.3 %
10 Years p.a.	+17.7 %	+16.1 %	+1.6 %

- Sharpe ratio (3 Y): 1.36 - Tracking error (5 Y): ~3.4 % - Up/Down capture (10 Y): 104 % / 98 %.

The strategy has shown steady alpha generation and lower drawdowns during market stress (e.g. 2022 and 2025 corrections) compared with style-biased peers.

Investment Theme and Edge

1. Broader market reach: Access to the full Russell 3000 gives exposure to smaller-cap alpha often missed by S&P 500 managers.
2. Decision-tree intelligence: Combines human economic logic with machine-learning adaptability—“where code meets capital.”
3. Factor innovation: Ongoing research into new drivers such as company age and industry moat factors.
4. Style neutrality: Balanced exposure ensures relevance across changing market regimes.
5. Consistency: Low turnover and tight risk budget produce smoother returns versus peers.

Strengths

- Proven alpha engine with 30-year track record.
- High data integrity and model transparency.
- Experienced, specialised team with clear succession structure.
- Systematic discipline reduces behavioural bias.
- Strong risk controls and daily rebalancing.
- Consistent outperformance over 1, 3, 5 and 10 years.

Risks

- Model risk: Patterns may break down in unusual regimes.
- Market risk: High beta (~1.0) to US equities.
- Turnover and transaction costs from daily updates (though well managed).
- Style cycles: Although neutral on average, short spells of style dominance can affect relative returns.
- Currency risk for non-USD investors.

Role in a portfolio

The MDT US All Cap Core Strategy plays a clear role as a core US equity allocation within a diversified portfolio. Its construction, spanning the full Russell 3000 universe, provides investors with exposure across the entire market capitalisation spectrum — large, mid and small cap — within a single, risk-controlled framework.

The portfolio’s style-neutral approach and tight risk parameters make it particularly valuable in multi-asset and multi-manager contexts, where excessive bias toward growth or value can amplify volatility or cyclicality. By remaining balanced across market factors, the strategy offers consistent participation in US market growth without concentration in the “Magnificent Seven” mega-caps that dominate passive benchmarks.

Key benefits within a diversified structure include:

- Core US equity exposure with systematic alpha potential and strong benchmark alignment.
- Reduced style and sector bias, ensuring complementarity with active or thematic satellite managers.
- Stable risk characteristics, with 3–5% tracking error and disciplined exposure limits supporting efficient portfolio construction.
- All-weather consistency, contributing to smoother overall portfolio performance across market cycles.

In short, MDT US All Cap Core acts as a foundational building block for investors seeking broad US equity access, reliable alpha generation, and balanced risk control — making it an effective anchor within any diversified equity allocation.

Summary

Federated Hermes MDT US All Cap Core represents a scientifically rigorous yet pragmatic approach to US equity investing.

By fusing machine learning, economic intuition, and disciplined risk control, MDT has produced a robust, style-neutral core solution capable of consistent outperformance over full market cycles.

Verdict: Positive (Accumulate / Core US Equity Allocation).

A strong candidate for investors seeking broad US exposure with quantitative discipline, balanced risk, and proven long-term alpha.

Disclaimer

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