Hermes Global Emerging Markets Fund
Performance summary Q4/09

Quarterly Update to end of December 2009

Investment objective

The objective of the Hermes Global Emerging Markets Fund ("Fund") is to provide long-term capital appreciation and to exceed the return of the benchmark on a three year rolling basis.

Fund statistics

Fund inception date	10/12/2008
Fund size (£m)	178.15
No. of holdings	103
Base currency	GBP
Benchmark	MSCI Emerging Markets
Valuation Point	31/12/2009
ISIN	IE00B3DJ5Z44

Performance (%)

	Q4 09	YTD	Since Inception
Fund	6.78	62.42	69.08
Benchmark	7.51	58.93	65.67
Relative	-0.68	2.20	2.06

Figures shown are gross, £ ,on a single swing basis. Past performance may not be a reliable guide to future performance.

Standard past performance (%)

	31/12/08 to 31/12/09	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 31/12/06	31/12/04 to 31/12/05
Fund	62.42	n/a	n/a	n/a	n/a
Benchmark	58.93	n/a	n/a	n/a	n/a
Relative	2.20	n/a	n/a	n/a	n/a

Figures shown on an annualised basis. Past performance may not be a reliable guide to future performance.

Risk

Concentration (Top 10 Holdings)	28.42%
Beta	0.93
Ex-Ante tracking error	4.06
Sharpe ratio	-
Annualised tracking error	-
Annualised information ratio	-
Ex-Post tracking error	-
Volatility	-

Commentary

Activity

During the quarter we increased our exposure to Thailand, Korea, Israel and South Africa, while we decreased our exposure to Taiwan and Brazil. We initiated positions in platinum mining company Impala (South Africa), utility Eletrobras (Brazil) and investment company Bradespar (Brazil).

Performance

After a strong rally in the previous two quarters the markets calmed down somewhat in the fourth quarter, gaining 7.5%. Our relative performance was disappointing. Despite a good beginning we ended the quarter at -0.7%. The main reasons for the underperformance were the underweight in commodities and the overweight in telecoms, the Middle East and Chinese internet stocks. The overweight positions in Russia and Turkey contributed positively to performance.

Outlook

We start 2010 with a positive outlook. Although it is unlikely that the strong market rally as seen in 2009 will be repeated, the continued policy stimulus by governments and central banks create a positive backdrop for markets. We expect inflation to remain low, emerging currencies to remain strong and interest hikes to be modest given the still fragile state of the economic recovery. We also expect risk appetite to remain healthy with investors being attracted to the growth differential between emerging and developed markets.

In Asia, we believe growth will be led by China and India whereby domestic demand will be the engine of growth in the region. Easier credit conditions, healthy corporate balance sheets and demand recovery will stimulate capital formation, while we also expect personal consumption to grow strongly. A recovery in demand for manufactured goods would be positive for exporting economies.

Economies in Central Europe are facing a difficult period and deleveraging will take a long time. External debt levels are still high and an absence of significant stimulus packages will complicate a quick recovery. However, we remain positive on Russia from a valuation and cyclical recovery basis and on Turkey due to their economy's resilience to recent economic turmoil and positive earnings momentum into 2010.

The outlook for Latin America is somewhat mixed. Brazil has come out of the recession almost unscathed and is benefiting from growing demand for commodities and strong internal dynamics. Mexico's economic fate is still highly correlated with that of the US as the main export destination. The decline in remittances and tourist income will also turn around slowly. We see good investment opportunities in the smaller markets in the region.

Key Risks to Our View

The key risks to a good performance of Emerging Markets in 2010 are the return of inflation and rising interest rates earlier than expected and asset prices running too far ahead of the economic recovery due to the loose monetary policy. Furthermore, earnings growth expectations for 2010 are ambitious and might disappoint.

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Top 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
Totvs	0.51	2.24	This Latin American provider of ERP software continued its acquisition policy by increasing its distribution platform to penetrate further into the SME market in Brazil, helping expand margins to levels more comparable with global peers.
CLSA China Life*	0.30	-	We bought the 'A' (Shanghai listed) counter in the hope of benefiting from an anomaly in the discount between the A and the H counter. In the end, although this thesis has not yet played out, we benefited from fortuitously timed purchases and sales.
Sberbank Rossii	0.25	0.80	The premier Russian bank continued to outperform, as the turn in the Russian economy was well anticipated and bad debts didn't develop as aggressively as feared.
Tong Yang Industry	0.25	0.99	The stock of this world leading After Markets parts supplier continued to benefit from a re-rating of auto-related stocks globally and solid performance in its Chinese operations.
Banpu	0.25	1.14	We benefited from holding this company as its valuation continued to improve throughout the period from what we considered to be very depressed levels.

* No longer held in the Fund and not listed in the benchmark

Top 10 Holdings

	Actual Weight (%)	Relative Weight (%)
Samsung Electronics	3.92	1.30
Gazprom OAO	3.78	2.02
TSMC	3.74	2.22
Petrobras	3.71	-0.01
China Mobile	3.07	1.33
Teva Pharmaceutical	2.27	0.67
Totvs	2.24	2.24
Lukoil Oil Company	2.22	1.42
Itau Unibanco	1.77	0.36
Turkiye Garanti Bank	1.69	1.42

Bottom 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
Netease.com	-0.17	0.54	This US listed leading Chinese internet gaming company was volatile ending the second half approximately where it started after rising as much as 50%. The drop near the end of the year was caused by negative market reaction to issues that the company was having with a local regulator.
Kinross Gold	-0.17	0.61	Despite the Gold price reaching all time highs, disappointing production at Kinross' key Brazilian mine led to lowered production guidance and share price underperformance.
Vale	-0.19	-1.78	Our relative underweight position in Vale based on rich valuations, detracted performance, as the news flow on rising Iron ore spot prices on continued Chinese demand drove the stock higher.
Syneron Medical	-0.20	1.10	Acquisition of Canadian competitor Candela pressured Syneron's share price as the deal was financed with equity issuance. It leaves the combined new company in an even more dominant market position.
Central European Distributors	-0.32	1.43	A large equity issuance to consolidate debt and minorities from recent Russia acquisitions, and to de-leverage their balance sheet took time for the market to digest and pressured the share price.

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