

Hermes Global Equity Selection Fund Performance summary

Q4/09

Quarterly Update to end of December 2009

Investment objective

The objective of the Hermes Global Equity Selection Fund ("Fund") is to outperform the MSCI All Country World Index (NR) by 2-5% while running a target tracking error of 4-8% over three year rolling periods from an actively managed portfolio of 45-55 global large cap stocks.

Performance (%)

	Q4 09	YTD	Since Inception
Fund	n/a	n/a	6.87
Benchmark	n/a	n/a	7.56
Relative	n/a	n/a	-0.64

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	n/a	n/a	n/a	n/a	n/a
Benchmark	n/a	n/a	n/a	n/a	n/a
Relative	n/a	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.**

Commentary

Activity

We launched the fund at the beginning of November. Over the two month period from inception global equity markets closed out a strong 2009 led by the materials and technology sectors. Materials were driven higher by momentum in precious metals and technology was led by strong gains in the semiconductor space. Our strategy underperformed the benchmark during the period, as we were primarily hurt by our stock selection within the consumer discretionary and energy sectors. Assisting performance was our stock selection within the technology, industrials and consumer staples sectors.

Performance

We have positioned the portfolio to best capture the growth appearing in selective pockets of the market. We believe the industrial segment within the US will be a significant beneficiary of a corporate cash-flow-led recovery and the favorable exchange rate environment. During the credit crisis, working capital and inventories were slashed to below average run rates due to a general lack of credit and financing. We believe companies with strong operating leverage will benefit directly from corrections in capex and inventory restocking. We also have solid exposure to innovation-led technologies where we see strong growth opportunities. Overall, our portfolio structure seeks to neutralize factor risk (so that we are not substantially vulnerable to inflection points) while concentrating risk and conviction on stock-specific growth stories.

Outlook

Entering 2010 we maintain our view that we will see a modest recovery led by the corporate sector. Despite the downturn, companies have been managing their balance sheets exceptionally well through aggressive cost cuts and staff reductions. A lean corporate sector will benefit from the increased operating leverage they have created as demand recovers. As we are anticipating solid investment and capital expenditures from the corporate segment, we have positioned the strategy in several areas that will likely benefit from this trend.

Key Risks to Our View

In order for the recovery to have some sustainability we will also need to see the consumer begin to participate. With unemployment rates running high we do not anticipate wage pressures leading to inflation in the short term. However we anticipate higher rates globally in the later half of 2010 as policy makers seek to strike a balance between managing the recovery and warding off inflationary pressures. Markets such as the US, UK and Japan will also need to balance their monetary policy against a potential government bond funding crisis. As a sharp rise in real yields in those markets will likely require significant tightening of fiscal policy in order to stabilize government debt to GDP ratios. Clearly a challenging balancing act lies ahead for policy makers in 2010. While we do not anticipate a double-dip recession, we remain cognizant of the risks and its implications within our portfolio positioning.

Fund statistics

Fund inception date	02/11/2009
Fund size (£m)	65.19
No. of holdings	53
Base currency	USD
Benchmark	MSCI All Country World Index
Valuation Point	31/12/2009
ISIN	IE00B515N091

Risk

Concentration (Top 10 Holdings)	25.25%
Beta	-
Ex-Ante tracking error	-
Sharpe ratio	-
Annualised tracking error	-
Annualised information ratio	-
Ex-Post tracking error	-
Volatility	-

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Top 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
ASML Holding	0.39	2.49	The shares rallied amidst improving visibility on customers and expectations for higher capex in the broader semiconductor space.
Posco*	0.27	1.81	The large Korean steel producer performed well as analysts raised estimates on the expectation that a recovery in regional spot prices and favorable currency dynamics will help fuel earnings gains.
Vertex Pharmaceuticals	0.23	2.15	Vertex Pharmaceuticals rallied following the announcement of significantly positive results in their clinical trials for Telaprevir, a key drug for the treatment of HCV.
Union Pacific Corporation	0.21	2.37	Union Pacific Corporation rallied along with other railroads after Warren Buffet's announced acquisition of Burlington Northern.
Potash Corporation of Saskatchewan	0.19	1.58	Potash Corporation of Saskatchewan performed solidly following the announced settlement of 2010 contract prices for potash imports in China which gave buyers greater transparency of the price floor.

* Not held in the benchmark

Top 10 Holdings

	Actual Weight (%)	Relative Weight (%)
IShares inc MSCI Taiwan Index	3.13	3.13
BP	2.92	2.19
ASML Holding	2.55	2.49
Union Pacific Group	2.49	2.37
Roche Holdings	2.49	2.01
Teva Pharma	2.49	2.49
Halliburton	2.42	2.31
Exxon Mobil	2.29	0.98
HSBC Holdings	2.24	1.44
Telefonica	2.22	1.74

Bottom 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
EFG Eurobank Ergasias	-0.47	0.56	Sold off primarily on escalating macro concerns resulting from the public finances situation in Greece.
CVS Caremark	-0.35	2.01	CVS Caremark came under pressure after the company reported better than expected Q3 earnings but the pharmacy benefit management (PBM) business showed significant losses, leading management to reduce their guidance.
Nitori**	-0.21	-0.01	The Japanese furniture retailer was weak on a combination of profit-taking, Japanese market weakness and a weaker yen boding better for some of the exporters.
Sumitomo Metal Mining	-0.21	1.50	Sumitomo Metal Mining underperformed primarily as a result of weakness within the Japanese market and currency volatility.
McAfee	-0.18	1.92	The maker of security software saw weak performance in the period after reporting a drop in earnings for the third quarter due to acquisition-related charges and other items.

* Not held in the Portfolio

Disclaimer

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