

Hermes Pan European Small Cap Companies Fund Performance summary

Q4

Quarterly Update to end of December 2009

Investment objective

The Investment objective of the Hermes Pan European Small Cap Companies Fund ("Fund") is to provide long-term capital appreciation.

Performance (%)

	Q4 09	YTD	Since Inception
Fund	1.00	39.68	50.02
Benchmark	-0.60	47.28	63.09
Relative	1.61	-5.16	-8.01

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	39.68	n/a	n/a	n/a	n/a
Benchmark	47.28	n/a	n/a	n/a	n/a
Relative	-5.16	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

The first half of 2009 was characterised by heightened market volatility during which the manager took benchmark weight positions in a broad range of higher beta stocks. This increased the volatility of the fund closer to index levels and ensured it remained within its tracking error constraints.

The process of unwinding these "completion" holdings* began in the third quarter and accelerated further in the fourth quarter as volatility continued to decline. As a result the number of positions held in the fund declined from 109 to 97, and it is expected that this number will further diminish as relatively normal market conditions return.

Performance

The fund outperformed its benchmark over the reporting period. The fund increased by 1.0% in the quarter, thus outperforming the MSCI Europe Small Cap by 1.6%. Overall the fund rose 39.7% in 2009, lagging its benchmark by 5.1% primarily due to its low beta exposure.

Outlook

The fund manager has raised the ex-ante beta closer to 1.0 and increased the fund's exposure to more cyclical industries. Stock selection remains the key driver of performance in the longer term, and the fund manager remains confident that the investment process will continue to generate outperformance in the future.

Key Risks to Our View

The manager aims to run a sector neutral fund with risk concentrated at the stock level. As the Beta is now closer to 1.0, the relative performance of the fund should not be substantially affected by the direction of the market, and the key risk is thus from underperformance of a large number of holdings.

*A completion holding is a position acquired with the aim of reducing portfolio tracking error in periods of high volatility to prevent breach of tracking error constraints. It is not intended to be held for an extended period of time.

Fund statistics

Fund inception date	08/12/2008
Fund size (£m)	63.4
No. of holdings	98
Base currency	GBP
Benchmark	MSCI Europe Small Cap
Valuation Point	31/12/2009
ISIN	IE00B3FPJB49

Risk

Concentration (Top 10 Holdings)	19.00%
Beta	0.95
Ex-Ante tracking error	4.32
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
Duerr	0.38	2.23	The German robot manufacturer gained a number of new contracts in the automotive industry.
Dufry	0.38	1.93	The Swiss duty free retailer produced better than expected results and signed two new concessions.
Devgen	0.31	1.14	The Belgian company that develops biotechnology based crop protection was buoyed by positive news regarding regulatory approval and product development.
Paddy Power	0.29	1.67	The Irish bookmaker's core business performed well and it announced further expansion into the French and Australian markets.
Acergy	0.28	1.34	The Norwegian oil services company continues to benefit from improved spending by oil majors.

Bottom 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
Sky Deutschland	-0.52	0.76	The German pay-TV company had poor subscriber additions in the third quarter and a change of CEO was announced.
Iofina*	-0.46	0.87	The British natural gas exploration and production company suffered from delays in getting to production.
Goals Soccer Centers	-0.29	1.16	The British operator of five-a-side soccer centres weakened on softer trading and some evidence that new sites were taking longer to mature.
Bolsas Y Mercados	-0.20	1.08	The Spanish stock exchange underperformed on concerns of increased competition from other trading platforms.
Seloger.Com	-0.19	0.75	The French equivalent to Rightmove.com suffered from rumours that Google was stepping up its entry into the online property market.

* Not held by the Index during the period

Top 10 Holdings

	Actual Weight (%)	Relative Weight (%)
DCC	2.26	1.96
Duerr	2.26	2.23
Dufry	2.01	1.93
Unit 4 Agresso	1.95	1.89
Paddy Power	1.87	1.67
Temenos Group	1.76	1.57
Care UK	1.75	1.75
TGS Nopec Geophysical	1.74	1.50
Acergy	1.73	1.34
SDL	1.66	1.60

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