

# Hermes Quant Global Equity Fund Performance Summary

# Q4/09

Quarterly Update to end of December 2009

## Investment objective

The investment objective of the Hermes Quant Global Equity Fund ("Fund") is to achieve long-term capital appreciation.

## Performance (%)

	Q4 09	YTD	Since Inception
Fund	4.17	22.02	31.68
Benchmark	3.07	15.73	25.00
Relative	1.06	5.43	5.34

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	22.02	n/a	n/a	n/a	n/a
Benchmark	15.73	n/a	n/a	n/a	n/a
Relative	5.43	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

Several new positions were added to the Fund in December, although over the quarter turnover was below average. Most notable amongst the changes are increased positions in Barclays PLC, Wells Fargo & Co. and Pfizer Inc.

### Performance

Global equity markets continued to advance and the Fund had another strong quarter, outperforming the benchmark by 1.06% in the fourth quarter of 2009. The Fund has now outperformed the MSCI World Index in every quarter since inception on December 8, 2008, producing an annualized excess return of 5.43% over the period. The Fund's outperformance over the quarter was largely driven by the excellent performance of the stocks held within the Industrial, Oil & Gas and Technology sectors. Within the Oil & Gas sector the exposure to Natural Gas worked very well during the fourth quarter. The Basic Materials sector, to which the Fund is underweight, performed strongly over the quarter. Despite the underweight to this sector, strong stock selection, with stocks such as Yara International ASA and Kazakhmys PLC, ensured that the Fund added value within this sector. The Fund's holdings within the Consumer Services sector did not add value over the quarter. This was largely due to the underperformance of stocks such as Vivendi and Lagardere.

### Outlook

We believe that the swift response from policy makers helped to limit the global recession and as a result we do not see a prolonged depression. We continue to believe in an elongated-V-shaped global economic recovery and see equity markets performing well in 2010, although it is unlikely that global markets can continue to advance at the rates seen since March 2009. We expect that the current low-interest rate environment will continue into 2010 to support this recovery.

We believe that many of the themes seen during the markets since the lows of March 2009 may be less effective in 2010. For example, we have seen significant outperformance by stocks characterised as "low-quality" and "high-risk". It is our view that this particular rally is over and that companies with strong earnings and growth potential will outperform over the next quarter.

### Key Risks to Our View

The economic recovery is reliant upon banks being both able and willing to provide liquidity. A tightening of monetary policy earlier than expected would further constrain available finance for consumers and businesses and delay the recovery. We anticipate that inflationary pressures will increase throughout 2010 and this will inevitably lead to interest rate rises. Although the ECB has taken small steps in this direction it does not appear that this will be followed by interest rate increases in the short term and policy makers are generally signalling that they are not currently considering rate increases.

## Fund statistics

Fund inception date	08/12/2008
Fund size (£m)	29.5
No. of holdings	174
Base currency	GBP
Benchmark	MSCI World
Valuation Point	31/12/2009
ISIN	IE00B3FPH541

## Risk

Concentration (Top 10 Holdings)	19.68%
Beta	1.03
Ex-Ante tracking error	2.59
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
Microsoft Corporation	0.30	2.38	The stock had previously underperformed despite exceeding earnings expectations, but a strong reception for Windows 7 saw Microsoft leading the Technology sector higher during the fourth quarter.
Nippon Electric Glass	0.21	0.70	Signs of recovery in the LCD market along with a number of analyst upgrades led to strong outperformance.
Chaoda Modern Agriculture*	0.19	0.45	The strength of the Chinese economy combined with better than-expected earnings led to three very strong months for this stock.
Yara	0.19	0.55	Despite weaker than expected earnings, a strong outlook and analyst upgrades saw Yara's share price set new 52 week highs.
Chevron Corporation	0.14	2.37	A sharp rise in oil price in October, followed by a positive earnings surprise, saw Chevron's share price increase significantly over the quarter.

\* Not held in the Index

## Top 10 Holdings

	Actual Weight (%)	Relative Weight (%)
Microsoft Corporation	3.38	2.38
Chevron Corporation	3.05	2.37
JP Morgan Chase	2.76	1.96
Apache Corporation	1.81	1.66
Merck & Co	1.65	1.43
Viacom Inc	1.62	1.55
Vodafone Group	1.43	0.86
AT&T	1.35	0.58
Noble Affiliates	1.34	1.29
IBM	1.30	0.54

## Bottom 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
JP Morgan Chase	-0.24	1.96	Financial stocks are typically early cyclicals and performed very well in the previous two quarters. The fourth quarter, however, saw financial stocks, in particular banks, underperform and the large overweight in JPMorgan was a drag on the fund's performance.
NTT Docomo	-0.24	0.76	As markets rallied this holding underperformed the benchmark due to its defensive nature.
Sumitomo Mitsui Financial Group	-0.21	0.50	Continued concern regarding the company's loan losses and the need for further capital led the stock lower.
State Street Corporation	-0.19	0.68	State Street reported higher than expected Q3 earnings but the share price fell after the company reduced its earnings outlook for 2009 following significant margin pressure and legal exposure.
Vivendi Universal	-0.15	1.05	In a turbulent quarter the price fell following legal issues but rose on positive earnings and the disposal of the minority stake in NBC Universal.

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