

# Hermes UK Smaller Companies Fund Performance summary

# Q4

Quarterly Update to end of December 2009

## Investment objective

The investment objective of the Hermes UK Smaller Companies Fund ("Fund") is to provide long-term capital appreciation.

## Performance (%)

	Q4 09	YTD	Since Inception
Fund	-1.71	56.13	54.37
Benchmark	-6.79	63.42	64.75
Relative	5.44	-4.46	-6.30

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	56.13	n/a	n/a	n/a	n/a
Benchmark	63.42	n/a	n/a	n/a	n/a
Relative	-4.46	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 continued to reduce non-core completion holdings\* during the quarter, as the stocks purchased earlier in the year to increase portfolio risk (and reduce tracking error) were sold down. New long term holdings were established for, amongst others, Renovo (biotech; wound care) and Kewill Systems (software; supply chain systems).

### Performance

The FTSE AllSmall index reached its peak for the year around the start of the quarter and subsequently gave up around 7% of its 94% gain from the March low to record a rise of 63% for the year.

The steady long term performers that the fund manager seeks out are by nature relatively low risk stocks and in this context it was unlikely that the fund would be able to keep up with its benchmark when the asset class had a very strong year, as it did in 2009. The introduction of completion holdings to compensate for this resulted in the fund restricting its underperformance to a tolerable level of 4.5% (gross).

### Outlook

The more settled economic environment is better for the fund manager's investment style as stock specific performance will be a more important contributor to returns (rather than the contribution from beta when markets are more volatile). An economy continuing to recover from recession also provides a positive backdrop for smaller companies.

### Key Risks to Our View

The key macro risk is a "double dip", likely to be driven by debt defaults sapping investor confidence. At fund level, underperformance by a large number of core holdings is the principal risk other than the Fund's low beta which would cause further underperformance were SmallCap to have another strong year.

\*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)	124.57
No. of holdings	61
Base currency	GBP
Benchmark	FTSE All Small Ex Inv Trusts
Valuation Point	31/12/2009
ISIN	IE00B3FPHY36

## Risk

Concentration (Top 10 Holdings)	31.59%
Beta	0.81
Ex-Ante tracking error	7.05
Sharpe ratio	-
Annualised tracking ratio	-
Annualised information ratio	-
Ex-Post tracking error	-
Volatility	-

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## Top 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
Carclo	1.53	3.67	Signed an agreement with a large US semiconductor company to produce novel touch-screen displays.
Bioquell*	0.73	3.47	Launched a new product for bio-decontaminating rooms. It is the only such technology approved by the NHS.
McBride*	0.52	2.44	Further upgrades on the back of strong trading across Europe led to outperformance.
Cranswick*	0.48	1.61	The market refocussed in Q4 on the growth attractions of this meat business after shunning its defensive qualities earlier in the year.
Phoenix IT Group	0.38	2.09	IT services company seeing a recovery in demand and a better pipeline for large IT contracts

\* Not held in benchmark

## Bottom 5 contributors to performance

	Relative Contribution (%)	Relative Weighting (%)	Contributor Commentary
Tribal Group	-1.24	1.45	A company that provides support services to the government, saw its shares hit by concerns over exposure to cuts in the public sector.
Air Partner	-1.13	1.64	The air charter broker is going through a cyclical low but will be gaining market share from weaker competitors.
Melrose Resources**	-1.09	2.02	The oil E & P company gave up the gains made in the third quarter despite continued progress with its activities.
Minerva***	-0.88	-0.52	Not held by the Fund.
Alphameric	-0.82	1.28	No longer in bid talks.

\*\* Not held in the benchmark

\*\*\* Not held in the Fund

## Top 10 Holdings

	Actual Weight (%)	Relative Weight (%)
Development Secs	4.10	2.90
Carclo	4.02	3.67
FTSE 250 Index Futures	3.67	3.67
Bioquell	3.47	3.47
Anglo Pacific Resources	2.97	1.94
Unite Group	2.89	2.89
Hardy Underwriting	2.88	2.26
Phoenix IT Group	2.73	2.09
McBride	2.44	2.44
Care UK	2.43	1.33

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