

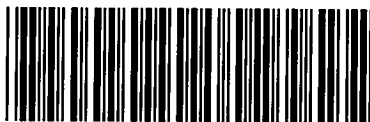
ANNUAL REPORT AND FINANCIAL STATEMENTS

HERMES FUND MANAGERS LIMITED

31 DECEMBER 2014

Registered No: 1661776

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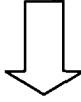




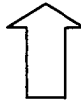

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HERMES FUND MANAGERS LIMITED

OUR YEAR IN BRIEF

2014 Financial and Business Highlights

Revenue 2014: £90.4m 2013: £87.5m	 3%
Statutory Pre-Tax result 2014: £8.1m loss 2013: £3.4m loss	 £4.7m
Underlying Profit (pre-tax) * 2014: £4.0m profit 2013: £3.4m loss	 £7.4m
Consolidated Net Assets Including Pension Liabilities 2014: £44.2m 2013: £32.0m	 38%
Recurring Management Fee Revenue from New Third Party Business 2014: £9.8m 2013: £7.4m	 32%
Assets Under Management 2014: £27.5bn 2013: £25.2bn	 9%
Third Party Assets Under Management 2014: £6.8bn 2013: £5.5bn	 24%
Assets Under Stewardship** 2014: £134.0bn 2013: £98.3bn	 36%

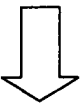
* Underlying profit before tax excludes the one-off costs in the year related to the strategic review discussed in the strategic report. See page 10 for further information.

** Assets under Stewardship relate to Hermes Equity Ownership Services Limited.

HERMES FUND MANAGERS LIMITED

OUR YEAR IN BRIEF

2014 Financial and Business Highlights (continued)

2014 Percentage of all portfolios (by number) to beat their One-Year benchmark		68%
2013 Percentage of all portfolios (by number) to beat their One-Year benchmark		73%
2014 Percentage of all portfolios (by number) to beat their 3-Year benchmark		80%
2013 Percentage of all portfolios (by number) to beat their 3-Year benchmark		80%

HERMES FUND MANAGERS LIMITED

OVERVIEW

Who we are

Hermes Fund Managers Limited ("Hermes" or the "Company") is a global investment management firm focused on delivering superior, sustainable, risk adjusted returns for our clients, responsibly.

What we do

We operate under the "Hermes Investment Management" brand and comprise 11 specialist investment teams and our leading engagement business, Hermes EOS. Each investment team focuses exclusively on a particular asset class or style across equities, fixed income and private markets.

Our structure allows each investment team to focus on delivering excellent long-term risk adjusted performance to our clients, supported by a robust operating and risk control infrastructure. The teams develop their own unique investment philosophies and processes. This enables them to generate returns in the most effective ways for their asset class, without the constraints of an imposed house view or style.

Portfolios are continuously monitored by our Investment Office, which exists to ensure the investment teams are managing their portfolios in the best interests of our clients. Operating independently of the investment teams, they play a central role in our mission to deliver superior, sustainable, risk adjusted returns for our clients, responsibly.

Our culture

Since inception in 1983, Hermes has been owned by and acted as the principal investment manager for the BT Pension Scheme – the UK's largest corporate pension fund.

Our ownership by the scheme and our duty to serve its 320,000 pensioners gives us a strong sense of fiduciary responsibility which is embedded throughout the firm and which informs the decisions we make and the actions we take. It also gives us an unrivalled insight into the long-term needs of savers and helps us develop investment strategies that will enable them to meet their goals.

Our responsibilities

Behaving responsibly is important to us and not limited to the way we manage money for our clients. We have a strong focus on environmental, social and governance issues and participate fully in industry and sector initiatives to develop best practice. We believe that influencing companies and public policy in this way produces better long-term returns for shareholders and investors. Our specialist engagement team, Hermes EOS, advises on over £134bn of investments, making Hermes one of the leaders in this field.

Beyond this, we believe in acting responsibly as a company in all aspects of our business. We have a strong corporate social responsibility programme that is focused on helping the communities in which we live and work. We have ISO14001 accreditation and we adhere to the London living wage. We also provide pro-bono support for the independent 300 Club, which was co-founded by our Chief Executive Saker Nusseibeh to challenge investment orthodoxy and improve the contribution of financial services to society.

HERMES FUND MANAGERS LIMITED

CHAIRMAN'S STATEMENT

Review of 2014

Overview

The year ending 31 December 2014 was a significant year for the company. Revenues increased to £90.4 million (2013: £87.5 million) and the firm achieved an operating profit before the implementation costs of our strategic review, which is covered in detail elsewhere in this document. The total costs, including the one-off expenditure associated with implementing our strategic changes during the year, were £105.7m (2013: £95.1 million). Like-for-like costs reduced to £93.6m in 2014 despite the increase in revenue. Third party assets grew and the associated revenues now account for 40% of our total earnings. Importantly, our reliance on performance fees has been reduced, with the encouraging increase in annual management fees achieved as a result of continued strong growth in third party sales. Most importantly, our investment teams continued to deliver strong long-term investment performance to our clients. During the year we closed some activities where we believed it was in the best interest of our clients and launched others that are closely aligned with their future needs. The result is a business well positioned to grow and deliver value to its stakeholders in the coming years.

The Board

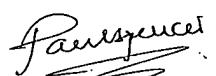
As chairman of Hermes, I view our strong culture of responsibility as fundamental to the continuing creation and delivery of value to our stakeholders. It is encouraging to see the importance of a responsible approach to investment management being more widely accepted by asset owners and asset managers, as well as those who seek to represent them in industry bodies. We will continue to lead debate and contribute to the transformation of the investment industry to the benefit of our clients, their stakeholders and ultimately, society at large.

During the year, John Mould and Jim Pettigrew resigned as directors of the company. On behalf of all the Board, I would like to thank them for their contribution and wish them well in their future endeavours. We have identified a new independent non-executive director who will be appointed shortly.

Outlook

There is little doubt that global economic and political uncertainty will persist during 2015, but the Board are confident that we will continue the strong momentum achieved over the last three years under the leadership of the executive team. The strategic review we undertook in 2014 places the firm on a strong footing, with growing profitability and a product set aligned with the future needs of our clients. We have strong performance in the vast majority of our strategies, a growing external reputation and a broad set of strategies to meet our clients' needs in different environments. Our focus continues to be on increasing profitability by growing with our clients' growth. We will continue to invest prudently in the growth areas of our business whilst controlling costs and improving efficiency.

The Board recognises that the long-term success of the business and the maximisation of shareholder returns will be built on the foundations of strong, sustainable, risk-adjusted performance, coupled with a firm belief in excellence, responsibility and innovation. I would like to thank everyone at Hermes for their hard work and dedication over the last year. We have created a growing business that is well placed to thrive in the years ahead.



Paul Spencer CBE
Chairman
31 March 2015

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT

Our Purpose

"To deliver excellent, long-term, risk-adjusted performance – responsibly. To lead debate and contribute to the transformation of the investment industry, to the benefit of our clients, their stakeholders and ultimately, society at large."

To achieve our purpose, we manage the firm with the following objectives:

- Deliver superior, risk-adjusted returns for our clients
- Provide client-focused products and services
- Embed client alignment in our culture and working practices
- Ensure robust and transparent investment oversight that operates in clients' interests
- Lead debate and seek to improve corporate governance at a corporate and public policy level
- Support our clients with outstanding client service
- Strive to provide innovative thought leadership in the field of investment theory

Embedded in Hermes' purpose is a deep commitment to our core values of Excellence, Responsibility and Innovation.

Excellence

We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance, where 68% of our funds by number and 83% by assets under management beat their performance benchmarks for the year under review. These numbers increase to 80% and 90% respectively over three years to the end of December 2014.

We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.

We aim to hire excellent people across all parts of the firm and encourage a culture of positive challenge that seeks to deliver constant improvement across the business, for the benefit of our clients.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Our Purpose (continued)

Responsibility

We have a strong culture of responsibility, which we have continued to foster since our inception in 1983. We have always sought positive engagement with the firms in which we invest and, in our engagement service, Hermes EOS, have the largest engagement resource in the industry.

Responsibility is, of course, a far wider concept than shareholder engagement. We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and ultimately, society at large. We are active participants in public policy discussions and support the 300 Club, founded and chaired by our CEO Saker Nusseibeh, as an independent forum for discussion and debate about the responsibilities of the industry.

We also believe that we should lead by example. We have a strong community engagement programme in which many of our personnel participate. We have ISO 14001 accreditation for environmental responsibility and we adhere to the London living wage guidelines. Our internship and work experience programmes actively seek out candidates from across the social spectrum.

Innovation

We seek to create an investment management firm that is different from the norm. In doing so, we define innovation more broadly than our industry's traditional focus on new products.

Culture

Our culture is one where the client is truly at the centre of our firm and responsibility embedded in it. We seek to create a thoughtful environment where orthodoxies are challenged in the way that we invest, in the way that we engage and in the way that we work. One example of this innovative thinking is our Investment Office. It is, we believe, unrivalled in its proactive and pre-emptive engagement with our investment teams, the breadth and depth of its approach and critically, in its transparency with clients.

Competence

We actively seek talented individuals with broad expertise to add to the collective knowledge and wisdom of the firm. Recent recruits come from a wide spectrum of organisations including asset management, investment banking, alternative investments, professional services and NGOs.

Capabilities

We believe in developing capabilities that are aligned with the long term needs of our clients and that enable them to invest in hard-to-access areas at reasonable cost. Our ownership by the UK's largest corporate pension scheme gives us unrivalled insight into the needs of pension funds and their beneficiaries, which we use to inform our product development strategy.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Business review

We achieved considerable success during the year as the figures on page 1 show, enjoying strong growth in clients, assets and revenues. We gained over 100 new mandates across a broad range of investment strategies, increasing third party assets to almost £7 billion. We achieved an underlying net profit margin of 4% in 2014 as assets under management increased by 9% and third party revenues by 22%. As a consequence, revenues from third parties now account for 40% of our earnings and we are on course to surpass 50% by the end of 2016 - two years ahead of plan. Excluding the one-off costs of implementing our strategic plan, we moved into profitability, with strong momentum established for 2015 and beyond.

Our business development activities are now well established in our core markets of the UK and Europe, with clients from a wide range of countries investing across our investment capabilities. At the beginning of 2014 we established a sales presence in Singapore, which we have identified as our Asian hub. While we are at an early stage in the development of our Asian business, the indications are that our proposition has strong resonance with investors in the region and, in the medium-term, we see strong growth potential. We will continue to invest in our business development capabilities as we grow. Media recognition grew considerably during the year, with more than 5,000 press articles from respected publications in the UK, Europe, North America and Asia, covering Hermes at an investment and corporate level.

Implementing our strategic growth plan

During the year, we carried out a comprehensive review of our business. Our objective was to ensure we are aligned with the long-term challenges that our clients face and the consequent impact on their investment needs. We therefore focused on areas where:

- there is long-term appeal from long-term investors;
- our ownership structure enables us to offer clients hard-to-access co-investment opportunities alongside the largest corporate pension scheme in the UK; and
- we have a differentiated approach in the way we manage assets.

Our ambition is to be regarded as an excellent manager of high value-add investment solutions, delivered responsibly and at a competitive price - we are not interested in size for its own sake. The following developments reflect our long-term thematic beliefs and align strongly with our corporate ethos and ownership.

Development of “access” solutions

A long-term advantage of our ownership structure is the ability to offer clients the opportunity to invest in hard-to-access sources of investment return alongside the UK's largest corporate pension fund. We have successfully offered solutions in Real Estate, Infrastructure and Private Equity and are now developing further access strategies including Residential Real Estate.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Strategy

Residential Real Estate

In October we announced that we are entering into a joint venture with Countrywide plc ("Countrywide") to develop a residential real estate capability. Countrywide are one of the largest residential property experts in the UK, with systems and structures in place that effectively manage residential lettings.

The combination of Countrywide's origination and asset management strength and our investment expertise and access to capital is, we believe, compelling. We estimate that, based on reasonable market assumptions, we can create a capability that offers a sustainable and attractive net yield to institutional investors.

Creation of new investment teams

Hermes Multi Asset

Our ethos and ownership are unique and align us strongly with the client base for multi asset strategies that seek to deliver the long-term outcomes that investors need. We have established skills in manager and asset class research, quality control and due diligence combined with sophisticated modelling and portfolio construction expertise.

In October we announced the Hermes Multi Asset Inflation Fund, our first offering in this area, but by no means the last. The approach we have taken is, we believe, a new one for this large and fast growing sector as we build inflation into both asset allocation and security selection in order to target real investor outcomes, specifically targeting risk premium that few multi asset managers have so far addressed.

Hermes Greater China

One of our fastest growing areas during the year was emerging markets, where we have highly regarded global emerging market and Asia ex-Japan strategies. Like many firms, we see considerable potential both investing in and distributing to China. However, we are realistic about our ability to market directly and we are therefore developing partnerships with strong local firms, where our skill sets are complimentary and where our ownership structure has strong resonance.

The first example of this is a partnership with CSOP, the Hong Kong subsidiary of ChinaSouthern Asset Management - one of China's largest and best known investment managers. In partnership with CSOP we launched the CSOP Hermes A share fund, a fund offering the ability to invest in high performing domestic Chinese fund managers.

We also created the Hermes Greater China investment team, based in Singapore. The team has a strong reputation as managers of China strategies established over several years and we are excited about their growth potential.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Strategy (continued)

Review of the year

As well as launching new strategies and establishing new teams, we have withdrawn from some areas where we believe there is limited potential for us to create value for investors in the medium-term. We closed our Japan equity business in the first half of the year and announced the closure of our Commodities and fund of hedge funds businesses in October.

Strengthened investment leadership

As well as building new investment teams and strategies, another major organisational initiative we undertook during the year was the strengthening of our investment leadership. We established the following roles to reflect the growth of our business, increasing client base and unique ethos of responsibility.

Head of Private Markets

Chris Taylor, CEO of Hermes Real Estate, assumed the additional role of Head of Private Markets. Chris has also joined our Executive Committee.

Head of Equities

Andrew Parry, CEO of Hermes Sourcecap, our European equities business, assumed the additional role of Head of Equities.

Head of Fixed Income

Zoe Shaw joined as Head of Fixed Income, with a specific remit to expand our range of specialist credit capabilities.

Head of Responsibility

Leon Kamhi, Head of Engagement in Hermes EOS, assumed the additional role of Head of Responsibility. Leon will lead the evolution of our approach to responsibility across the firm.

Strong investment performance

Central to our growth strategy is delivering continually strong investment performance to our clients. 68% of all Hermes portfolios by number outperformed their relevant benchmarks in 2014 (equivalent to 83% of assets under management). This represents a continuation of the excellent performance achieved in recent years and demonstrates that our business can perform at these high levels consistently and deliver sustainable, risk-adjusted alpha to our clients. We believe that our Investment Office contributes meaningfully to this ability to generate consistently strong risk-adjusted returns. Our performance was recognised by the investment industry with awards for our Emerging Markets, European, Asia ex Japan, Greater China and Real Estate investment teams.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Financial Review

The 2014 results reflect the impact of significant investment in the strategic review discussed above.

	2014 £'000	2013 £'000
Turnover	90,446	87,466
Administrative expenses	(93,600)	(95,065)
Non-operating items	7,148	4,201
Underlying Group profit / (loss)	<u>3,994</u>	<u>(3,398)</u>
Strategic implementation costs	(12,141)	-
Statutory Group loss	<u>(8,147)</u>	<u>(3,398)</u>

Revenue for the year increased to £90.4m (2013: £87.5m) primarily due to net new funds of £0.5bn and strong performance. Performance fee revenue reduced marginally to £18.1m (2013: £18.3m) demonstrating the ability of the group to deliver investment performance against the continuing backdrop of a challenging economic environment.

Operating costs have been tightly controlled during 2014 despite the increase in revenue. Operating expenses have been reduced to £93.6m (2013: £95.1m) excluding the strategic review costs of £12.1m. The Group undertook a significant restructuring programme during the year. The costs of £12.1m associated with this restructuring are shown above as strategic implementation costs. During the second half of the year our owners, BTPS, injected £20m ordinary share capital into the company. This re-confirms the clear commitment from our owners to support Hermes.

Consolidated net assets as at 31 December 2014 were £44.2m (31 December 2013: £32.0m), representing an increase of 38% on prior year. The increase is a result of the net impact of the capital injection from our owners BTPS, and a statutory loss for the year. Cash balances at 31 December 2014 increased to £55.4m (2013: £41.3m) for the same reason. New client mandates continued to be won in 2014 and both gross and net asset inflows for the year were ahead of target, with £9.8m of new gross third party annualised revenue funded and in transition. On a funded basis our assets under management have grown from £25.2bn to £27.5bn during the year, an increase of 9%.

Hermes is the principal sponsor of the Hermes Group Pension Scheme ("HGPS"). HGPS is a defined benefit pension scheme that was closed to new entrants in 2008 and was closed to future accrual in 2011. The FRS 17 valuation of the pension scheme improved during 2014 principally due to the return from pension assets exceeding expectations.

Regulatory capital

The company continues to maintain a regulatory capital surplus above the Group capital requirement.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Financial Review (continued)

The Group has both the financial strength and capital resources to support and execute its strategic plans and the Board remains focused on growing and developing the core businesses.

Assets Under Management (in £billions)

At 1 January 2014	25.2
New funds raised	1.9
Redemptions, realisations and withdrawals	(1.4)
Net new funds	0.5
Market movement	1.8
At 31 December 2014	27.5
<i>% Increase in assets under management</i>	9%

Please note the total assets under management figure above for Hermes Fund Managers Limited (HFM) excludes assets under sub-advice of £1.0 billion (2013: £1.2 billion) and includes £2.9 billion of assets that are managed by Hermes GPE LLP (HGPE), which is a joint venture between HFM and GPE Partner Limited (2013: £2.7 billion).

Business Outlook

Continued progress was made during 2014 in implementing the strategic plan. We have seen both asset flows into the company and the performance to-date exceed our expectations. Investment performance has continued to be above benchmarks for the majority of our investment strategies.

While the global economic outlook remains uncertain, we remain confident in our business model. Within our core businesses we remain committed to a combined strategy of growth and continuing cost control and improvement in efficiency to achieve sustained profitability. Beyond this core, we are developing our solutions business which provides investors with capabilities that meet their real long-term needs.

The Board recognises that the long-term success of the business and the maximisation of shareholder returns will be founded on delivering sustainable investment performance, together with a firm belief in Responsible Asset Management and continued leadership in innovation.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Investment Review

Economics and markets review

Despite initial fears of a repeat of 1994, when financial assets dramatically fell in value as US interest rate hikes took markets off guard, 2014 was instead about preserving the green shoots of recovery, weathering geopolitical risk and trying tentatively to become less dependent on quantitative easing (QE).

The US and UK pulled themselves further away from the economic downturn of 2008-09. Yet, after six years of unprecedented stimulus, inflation has failed to accelerate; oil being the latest disinflationary force.

We now have a three-speed recovery. In the fast lane are the US, Canada, New Zealand and Australia. In the middle, the UK's gross domestic product (GDP) is 5% higher than pre-crisis. But, in the slow lane, Japan and the euro-zone are barely back to 'square one'. Yet, wages in many big economies have struggled to outpace inflation. Between the start of 2007 and the end of 2014, the US consumer price index rose by 15% and wages by 19%. In the UK, the retail price index was 27% higher and average wages up only 12%.

In the euro-zone, despite record low interest rates, there was depressed economic growth, private sector de-leveraging, uncoordinated government responses and ineffective monetary measures. QE in 2014 looked increasingly likely. Over the past two decades, people would have associated this characterisation with Japan, but this is now an accurate description of the *status quo* in many euro-zone countries.

Central banks have guarded bloated balance sheets, and their ample liquidity, cheap cash and soothing words have allowed equities and many other growth assets to climb.

Yet, with disinflation, weaker demand from emerging markets, and central banks running QE, this came without a concomitant rise in bond yields. The end of the Federal Reserve's 'tapering' in November squeezed inflation expectations further. Based on the data the Federal Reserve monitors, US inflation expectations at about 2% closed the year no higher than when QE was first mooted in late 2008.

The lesson of 2014 was that QE has only been partially successful. With consumers and firms stuck in a 'liquidity trap' - caused when consumers and firms hoard cash because they expect an adverse event such as deflation or insufficient employment opportunities - the inflation QE stoked came more from asset prices than the direct consumer route hoped for. With wages subdued, QE could thus be accused of reaching those that 'needed' it least.

Looking at 2015

Despite the slide in oil prices, there are reasons to remain cautious on world growth, especially when we consider the euro-zone in its current economic position. With sustained deflation still a risk, central banks will take only minimal steps to normalising policy rates. Our macro outlook for 2015 is based on four core beliefs.

First, not only do we expect US and UK real policy rates to stay negative until 2017, we also expect 'peak' rates, when they come, to be much lower than we have been used to. Critical to achieving economic recovery will be the labour market. Given disparate worker participation rates, wage inflation looks more likely in the US than the UK. Japan's higher consumer price index needs to be matched by wages; if it isn't, the Japanese government's progress could be another false dawn. China's productivity has already ground to a halt.

HERMES FUND MANAGERS LIMITED**STRATEGIC REPORT (continued)****Investment Review (continued)**

Second, we expect these lower peak rates to ultimately be delivered by central banks pulling on the second lever available to them. That is, by running down some of their assets via quantitative tightening. If this is done, the coming years could provide a still constructive platform for equities and other growth assets relative to conventional government bonds.

Third, markets are at last focussing on the right thing – a euro-zone whose monetary union lacks economic union. Its private asset purchases have been small and ineffective, so the European Central Bank is starting its own sovereign QE programme. The amounts look sizeable (equating to a Eur 1.1trn expansion of the ECB's balance sheet by September 2016) and should provide extra liquidity.

But, it will be no panacea. Competitiveness shifts within the euro-zone are still too disparate for this monetary union to gain sufficient economic union.

The risk of sustained deflation is building at a time when Germany's economically dominant status is being tested by a slower China and Russia's crisis. France's export competitiveness is eroding. With Russia accounting for two-thirds of Germany's oil/gas imports, and EU demand accounting for one half of Russia's tax-take, logic at least suggests a long-term settlement.

Fourth, we do not expect any large-scale liquidity withdrawal to herald a 'blanket' crisis in emerging markets, despite the global macro strains. Few emerging markets now have rigid currency pegs to defend, meaning weaker currencies can be used as a pressure-release without eroding reserves and risking default.

In summary, low policy rates and QE seem likely to again impact the investment landscape over 2015. Even if QE has run its course in the fast-growing US and UK, it is accelerating in Japan - even after 16 years - and will play an increasing role in other countries, such as the euro-zone and, if needed, some of the emerging markets too.

In these respects, 2015 should look more like 2014 than 1994.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Investment Review (continued)

Investment Performance

Investment Performance in 2014 continued to demonstrate Hermes' ability to deliver relative to both benchmark and peers.

Some 68% of strategies out-performed their benchmarks, equivalent to 83% of assets under management. Of those funds with three year track records, 80% were ahead of benchmark as of the end of 2014, equivalent to 90% of assets under management.

60% of measurable strategies were first quartile over one year (80% ahead of median). Over three years 59% were first quartile, increasing to 77% ahead of median.

Portfolio analysis

HFML performance was strong across the majority of asset classes in 2014.

Asia ex-Japan

For the year, the strategy out-performed the benchmark by 4.3%, driven by stock selection, notably in Korea and China, together with an under-weight exposure to South East Asia. Another year of significant out-performance in 2014 has contributed to the since inception numbers increasing to 10.4% on an annualised basis. Relative to peers the strategy was first quartile over one and three years, with a top decile track record since inception.

Global Emerging Markets

The team continued to add to their long term success built up over the last three years, beating their main benchmark by 4.8% in 2014. Since the team inception, on an annualised basis, the strategy has out-performed by 4.4%. The strategy was well placed in the run up to the summer, given the increasingly isolationist rhetoric from the Kremlin, deteriorating economic data and the sharp decline in the price of oil. At a country level, an over-weight exposure to India, an off benchmark exposure to mainland China A-shares, and a non exposure to Mexico and Malaysia all proved rewarding however it was stock selection that remained the primary contributor to out-performance. The strategy remains top quartile over one and three years.

Global Equities

All of the strategies that the Global Equities team manage finished the year ahead of their respective benchmarks. The core Global Equities strategy outperformed for its sixth consecutive year and remains 2.6% ahead of its benchmark since inception on an annualised basis. The out-performance in 2014 was particularly impressive given that a significant majority of active managers struggled in the period. The excess return ensured the strategy remains in the top decile in its peer group over 3 years, 5 years and since inception.

As part of the strategic reorganisation carried out during the year, the Global Equities' strategies, previously managed from Boston, were transferred to the Global Equities team based in the UK.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Investment Review (continued)

Greater China

Calendar 2014 saw the strategy returning 7.6%, relative to the MSCI China which delivered 8.3%, however the over three and five years the strategy continues to out-perform the index. It is worthy to note that since inception the team has out-performed the MSCI China on an annualised basis by 2.5%. Furthermore, the team partnered with CSOP in September, acting as the investment advisory for a China A-share fund. For the period through to the end of 2014, the fund delivered 10.1% on an absolute basis.

Multi Asset

The strategy was launched on 3 November 2014 and returned performance to the year end in line with the 0.4% RPI +3% target. The top three contributors to performance were equity indices, global bonds and a position in duration-hedged inflation linked bonds. The three largest detractors were commodities, risk factors led by the value-equity and real assets.

Sourcecap

2014 was a difficult year for active managers in general and Hermes Sourcecap was no exception, with the flagship European Alpha strategy along with Europe ex-UK both lagging the index return by -5.7% and -5.9% respectively. Although since inception, both strategies are comfortably ahead of their respective benchmarks by 2.7% and 2.0% on an annualised basis. The Eurozone strategy ended its first full year well ahead of its benchmark by 1.5% due to strong stock selection and sector allocation.

US SMID & Global Small Cap

The US SMID strategy had a difficult fourth quarter ending the year down by -1.15% on a relative basis however it still managed to return 5.8% in absolute terms. Sector allocation accounted for the majority of this under-performance, notably over-weight regional banks, and under-weight REITs, utilities and healthcare. The strategy remains firmly ahead of its index over three, five years and since inception. The Global Small Cap strategy had a difficult year, ending down by 4.1% relative to its index however it continues to out-perform its benchmark by 2.6% since inception.

Credit

The team's three strategies all out-performed their respective benchmarks over all periods including since inception to the end of the year – notably for 2014 the High Yield strategy out-performed by +2.9%, Multi Strategy +2.8% and Investment Grade 0.3%. Global High Yield also continued to deliver top quartile performance relative to its peers similarly over all periods. The three primary drivers of out-performance have been the strategies minimal exposure to US energy, a dynamic allocation to basic material issuers in Emerging Markets, coupled with strong performance from a defensive bucket. Detractors to performance were largely down to rate hedging.

HERMES FUND MANAGERS LIMITED**STRATEGIC REPORT (continued)****Investment Review (continued)****Government Bonds**

The teams index-linked gilt strategy performed very strongly over the year (+21.6% in absolute terms – out-performing by 15 basis points), driven by the rally in global conventional bond markets stemming from collapsing oil prices and geo-political concerns in the second half of 2014. The Overseas inflation-linked strategy also produced a significant 66 basis points of out-performance relative to its respective benchmark. All index-linked strategies continue to remain ahead of benchmarks since inception. The exception remained the Active Gilts strategy which under-performed by 47 basis points over 2014 and is now under-performing marginally since inception.

Real Estate

Performance in 2014 for the Core and International portfolios were not available at the time writing but at the end of the third quarter on a YTD basis, both had out-performed their benchmarks by 5.6% and 4.4% respectively. Full year returns for the Hermes Property Unit Trust were available, out-performing its benchmark by 200 basis points, putting the Trust in top spot within the larger All Balanced Property Funds Index (25 funds) over three, five and ten year periods. HPUT was third in its benchmark in 2014.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Risk Management

Hermes has a strong risk culture, which emphasises the importance of rigorous controls and procedures to safeguard the interests of its clients and other key stakeholders. It is the responsibility of all employees to uphold the risk and control culture throughout all levels of the organisation.

The Role of the Board

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives.

For the Board to accomplish its responsibilities it has established a governance framework primarily consisting of: the Risk and Compliance Committee, the Audit Committee and the Remuneration Committee, all the members of which are Non-Executive Directors. Day-to-day management of the business has been delegated to the CEO who has established an Executive Committee, as well as a number of oversight committees to support the governance framework, namely:

- Risk and Control Executive;
- New Products and Instruments Committee;
- Valuations Committee;
- Liquidity, Capacity and Pricing Committee;
- Outsourcing Review Group;
- Counterparty Credit Risk Group; and
- Portfolio Review Committee.

Risk Management Framework

A Group wide risk management framework is in place to identify, measure and manage key risks and controls throughout the Hermes Group. The risk and control framework is founded on three pillars:

- Risk appetite - key parameters which set out how much risk the Group is prepared to accept;
- Corporate governance - the legal, organisational and management structure; and
- Policies and standards - the rules that determine how the business should conduct itself.

The Board regularly performs an assessment of the risks that may affect the strategic direction of the Group. Each business area is also required to perform a risk control self assessment specific to its own function. Business areas are required to sign off quarterly that all controls have operated effectively during the quarter and to review their risk assessments semi-annually for any changes in the business, systems and processes. Risk owners assess risks in terms of impact and likelihood of the risks crystallising. All errors and breaches are recorded in an operational risk database which allows for any failures in controls to be linked to the risk control self assessment process. A suite of key indicators is in place to measure key risks against the risk appetite statement and the risk register.

The Three Lines of Defence

Hermes operates a 'three lines of defence' model to risk management.

1. Business areas are responsible for the identification and management of risks;
2. The Risk, Compliance, Legal and Finance areas provide further oversight; and
3. Independent assurance is provided by internal audit.

Comprehensive insurance coverage provides an extra layer of assurance.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Risk Management (continued)

Capital Adequacy

The primary purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to inform the Board of the ongoing assessment of the Group's risks, how the Group intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors. The ICAAP is formally undertaken annually, with more frequent updates when a material change occurs. Stress and scenario testing have been developed in order to test the robustness of the Group's regulatory capital against a variety of events.

Further details of the Group's approach to capital adequacy can be found on the Hermes website: <http://www.hermes-investment.com/en-gb/literature.aspx>

The following table summarises the key business risks and mitigating actions:

Risk	Mitigants
REPUTATIONAL RISK	
Reputational risk relates to the Hermes brand, press and marketing activity as well as ethics, trust, relationships with stakeholders, conduct and the overall culture and values of the firm.	Responsibility, appropriate conduct and a principled approach to treating investors fairly, are integral to Hermes' culture. This is reflected in the Hermes values of 'Excellence, Responsibility, Innovation', which guide how the organisation carries out its activities. In 2014, Hermes undertook a re-branding exercise to ensure that this messaging was also communicated externally.
Reputational risk can arise from any of the key risks outlined below.	Hermes engages in proactive communications with all stakeholders and monitors media coverage to understand how the Hermes reputation is perceived. Reputational risk is a key consideration in any strategic decision.
STRATEGY EXECUTION / SALES GROWTH RISK	
The risk that Hermes does not meet its long terms strategic objectives.	Hermes has a detailed strategic vision and plan, which is cascaded throughout the organisation. Strategic planning includes an assessment of risks, client impact and consideration of risk appetite and capital. Indicators and financial metrics are in place to monitor progress against strategic objectives.
	A diversified range of products is offered, with regular new product launches to ensure that the offering remains in keeping with client requirements.
	A broad range of distribution channels mitigates against an excessive dependency on any single sales channel.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Risk Management (continued)

Risk	Mitigants
CONCENTRATION RISK	
This key risk relates to the loss of a key client or support from a key stakeholder.	This risk is mitigated by the Group growing its third party offering, diversifying its client base, whilst continuing to meet the requirements of its clients and stakeholders.
MARKET / ECONOMIC RISK	
Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.	Hermes offers a diversified and broad product range which provides clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies.
	The Board has a limited appetite for market risk, therefore Hermes does not trade on its own account and only holds proprietary investments for hedging purposes.
	The Group minimises its exposure to foreign exchange risks through regular review of its foreign currency business needs.
INVESTMENT PERFORMANCE RISK	
The risk that portfolios will not meet their investment objectives, adversely affecting levels of net new business or fee income.	The Hermes Investment Risk Framework provides monitoring and challenge of investment risks and performance across teams. The Hermes Investment Office independently monitors risk and ensures the rigour of team strategies. Investment teams adhere to clearly-defined investment processes. Various committees such as the Valuation, Pricing and Portfolio Review are in place, providing an extra layer of mitigation.
PEOPLE RISK	
The risk that key staff across the business leave or are not adequately motivated in their role.	To mitigate people risks, the Group has competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. In line with its Principles, the Group puts in place sustainable succession and development plans. Clear objectives are set and success is measured in the annual review process, allowing the Group to identify motivational development initiatives for its staff including regular and sufficient training.
PENSION RISK	
The risk that the defined benefit pension liability increases and consequently reduces solvency levels. This could also create an obligation to increase funding into the scheme leading to cash flow difficulties.	To mitigate the possible detrimental effects caused by pension volatility, the Group has obtained a Deed of Support from its owner, BTPS, to inject capital into the Group if the pension deficit increases significantly to the extent that it is required for regulatory capital purposes.
	The deficit on the scheme is regularly monitored.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Risk Management (continued)

Risk	Mitigants
REGULATORY AND LEGAL RISK	
<p>The risk of legal or regulatory action resulting in fines, penalties, censure or legal action arising from failure to identify or meet regulatory and legislative requirements in those jurisdictions in which Hermes operates.</p>	<p>Hermes relies on its employees, with support from the Compliance, Risk, Finance and Legal functions, to consider carefully the obligations the Group assumes and compliance with them.</p>
<p>The risk that new regulation or changes to the interpretation or implementation of existing regulation affects the Group's operations and cost base.</p>	<p>Hermes maintains compliance procedures across the Group and compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Key regulatory change risks are identified by Compliance as part of regulatory change monitoring and are also included on an Emerging Risks Assessment where appropriate.</p>
MATERIAL ERROR / MANDATE BREACH / INAPPROPRIATE CONDUCT	
<p>The risk of a material error, investment mandate breach or unauthorised / fraudulent activity occurring.</p>	<p>A strong control environment exists at Hermes which is supported by policies and procedures. Robust controls are in place to mitigate and monitor client and fund limits. All pre and post trade monitoring is automated.</p> <p>Hermes has a whistleblowing policy in place which encourages open communication and the highest standards of integrity and honesty.</p> <p>Hermes expects employees to behave responsibly, which is one of the Group's core values. The firm demands high ethical standards of all staff. Controls are in place to prevent and detect unauthorised activity.</p>
PRODUCT RISK	
<p>Product risk arises from product complexity and the risk that these products either do not meet their performance objectives or are unsuitable for certain clients.</p>	<p>Hermes has a dedicated Product Development team and a product approval and review procedure. The suitability of products for clients is carefully considered.</p>
<p>Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market.</p>	<p>Hermes monitors potential capacity constraints and mitigates them by restricting or preventing inflows into products where necessary.</p>
FINANCIAL PROMOTIONS / DISTRIBUTION RISK	
<p>The risk that products are misrepresented to clients.</p>	<p>Distribution and investment teams work closely with Compliance to ensure that marketing material is accurate and not misleading.</p> <p>A number of training sessions are run by Compliance. Financial promotions are subject to regular Compliance monitoring.</p>

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)
Risk Management (continued)

Risk	Mitigants
OUTSOURCING RISK	
The risk that an outsource provider fails to deliver the expected levels of service.	Before entering into outsourcing arrangements, the Group undertakes due diligence on outsource providers. A programme of regular oversight and assessment against agreed service levels is in place, overseen by the Outsourcing Review Group Committee.
IT, BUSINESS CONTINUITY AND CYBER CRIME RISK	
The risks that technology systems and support are inadequate or fail to adapt to changing requirements; that systems are vulnerable to third-party penetration; or that the business cannot continue in the event of a disaster.	Hermes relies on technology and qualified professionals to maintain its infrastructure and invests in IT accordingly. A dedicated Information Security Officer is responsible for monitoring cyber crime attacks. A business continuity programme is in place, with regular testing.
COUNTERPARTY AND LIQUIDITY RISK	
The risk that Hermes places its cash with a counterparty that defaults or that Hermes is unable to maintain adequate liquidity levels.	Hermes only places cash with the highest rated counterparties, within prescribed limits. Counterparties are regularly reviewed for creditworthiness.
	Hermes undertakes regular cash flow forecasting to ensure sufficient liquidity at all times.
SOLVENCY RISK	
The risk that the Group does not have sufficient capital to meet internal and regulatory requirements.	The Group regularly monitors its capital resources against an internal requirement, which is more stringent than the regulatory requirement.
	The Group ensures significant risks against solvency are identified and mitigated (such as the pension risk above).

Approved by order of the Board of Directors and signed on behalf of the Board



S Nusseibeh
Chief Executive

31 March 2014

HERMES FUND MANAGERS LIMITED

DIRECTORS

The Board comprises the following Directors:

Name	Biography
P Spencer*	Paul was appointed Chairman of Hermes Fund Managers in June 2011. He is the Chairman of the BT Pension Scheme, the BA and Rolls Royce pension funds. He is a past President of the Association of Corporate Treasurers, a past Chairman of NS&I (National Savings), a past Chairman of the Audit Committee of WPP and was appointed CBE in the 2010 New Years Honours 'for services to financial services'.
K Matthews*	Kathryn was appointed Non-Executive Director of Hermes Fund Managers in August 2009. Kathryn also serves as a non-executive director of Rathbone Brothers Plc and Chairman of the Royal London Investment Committee. Her career has been spent entirely in the asset management industry with extensive UK and international experience managing money, leading investment management teams and building the institutional business of asset managers. She spent six years at Fidelity in various roles, most recently as CIO for the Asia Pacific region. Her career has also included senior roles at William Mercer, Axa Investment Managers, Santander Global Advisers and Baring Asset Management. Kathryn has a BSc in Economics from Bristol University.
W McClory*	Billy was appointed Non-Executive Director of Hermes Fund Managers in August 2010. He was employed by Post Office Telecommunications 1968-78, became a National Officer of CPSA, then National Communications Union ("NCU") in 1984 and Communication Workers Union in 1995. Responsible in the NCU for pension matters in the Post Office and BT, Billy was the lead officer on pension matters for the BT Unions 1990-97. He is a Trustee Director of the BT Pension Scheme and a member of UNITE (formerly the National Federation of Post Office & BT Pensioners).
S Nusseibeh	Saker is the Head of Investment and Chief Executive Officer of Hermes Fund Managers Ltd. Saker was appointed as Chief Executive Officer in May 2012 having been interim Chief Executive Officer since November 2011. Saker joined Hermes in June 2009 as a main board director to drive, support and represent the investment capabilities of Hermes. In 2005, Saker joined Fortis Investments USA as CIO Global Equities and moved on to become Global Head of Equities, responsible for managing the company's 12 Equity centres. Previously he was CIO Global Equities and Head of Marketing of SGAM UK where he re-orientated the company offering to include high alpha UK strategies and a Global offering, following on from the sale of Trust Company of the West (TCW) to SGAM, where he was Managing Director running various Global and International strategies as well as the London office. Saker started his career at Mercury Asset Management in 1987.

HERMES FUND MANAGERS LIMITED

DIRECTORS (continued)

H Steel	Harriet Steel joined Hermes Fund Managers as Head of Sales and Marketing in November 2011. Prior to Hermes, Harriet ran Portico Advisors from 2004. Portico raised assets globally for independent alternative asset managers across a range of strategies including Hedge Funds, Private Equity, Real Estate and Structured Products. Previously Harriet sold Fixed Income and Currency Derivatives at both Morgan Stanley and Bankers Trust Company. Harriet has a degree in Architecture from Princeton University.
D Watson*	David is an Associate of the Institute of Chartered Accountants in England and Wales and was appointed Non-Executive Director of Hermes Fund Managers in July 2011. Currently, David is Senior Independent Director of Countrywide Plc, a Non-Executive Director and Chairman of the Audit Committee at Charles Taylor Consulting Plc and TR Property Investment Trust Plc and Non-Executive Director of Kames Capital Plc and TR Property Investment Trust Plc. Prior to joining Hermes, David was the Chief Financial Officer (CFO) of Aviva General Insurance UK Division and between 2003 and 2007 he was the CFO of Morley Fund Management, the asset management arm of the Aviva Group. Previous to this, he spent nine years at M&G Group Plc (now M&G Investments), where he was Group Finance Director, responsible for financial management and strategic development of the group. He has a BSc in Business Studies from the Cass Business School, London.

* Non-executive

The following Directors resigned from the Board during the year	J C Mould J N Pettigrew
-----------------------------------------------------------------	----------------------------

Each member of the Board and each Committee is considered independent, although Paul Spencer and William McClory do not meet the definition of independence in the UK Corporate Governance Code as they serve as Trustees of the BT Pension Scheme, the Group's ultimate parent company.

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE

MEMBERSHIP

The Audit Committee currently comprises three Non-Executive Directors, David Watson (Chairman), William McClory and Kathryn Matthews. Jim Pettigrew resigned from the committee on 31 October 2014. Members of the Committee are appointed by the Board following recommendations from the Nomination Committee.

Each member of the Committee brings relevant financial services experience from senior executive experience. David Watson, the Committee Chairman is considered by the Board to have significant, recent and relevant financial experience.

RESPONSIBILITIES

The Committee's primary responsibilities are to assist and advise the Board. The scope includes, but is not limited to:

- reviewing and challenging, where appropriate, the actions and judgements of management in relation to the Company's financial statements, business review and any related formal statements before submission to, and approval by, the Board;
- monitoring and reviewing the activities, processes and performance of both internal and external audit;
- monitoring compliance with internal codes of conduct and other policies;
- monitoring the quality and integrity of the financial statements of the Company; and
- reviewing and challenging, where appropriate, the risk management framework, systems, processes, procedures and controls in relation to all investment management activity and administration services that the Company has contracted to provide to its clients.

WORK OF THE COMMITTEE DURING 2014

Major topics considered or activities performed by the Committee during the financial year were:

- review of the Group's reporting, financial statements and key accounting judgements;
- review of briefings on the latest consultation papers from regulatory and professional bodies on company stewardship and corporate governance;
- approval of new Group policies and material changes to existing policies;
- approval, monitoring and resourcing of the Internal Audit Plan;
- review and debate of issues raised in Internal Audit reports including the sufficiency of management responses;
- active monitoring of the timely completion of agreed action points from past reports and escalation of important overruns;
- the appointment, scope of work and findings of the external auditor and consideration of any conflicts of interest;
- active monitoring of regulatory capital and capital funding requirements; and
- consideration of the accounting implications as a result of the new accounting standard FRS102.

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE

MEMBERSHIP

The Risk and Compliance Committee currently comprises three Non-Executive Directors; David Watson, William McClory and Kathryn Matthews. For the period to 31 October 2014 Jim Pettigrew acted as Chairman of the Committee. Following his resignation, David Watson assumed the role of interim Chairman. A new Non-Executive Director has been identified and will act as Chairman of this Committee following their appointment. Members of the Committee are appointed by the Board following recommendations from the Nomination Committee. Each member of the Committee brings relevant financial services and senior executive experience.

The Group Chief Executive Officer and/or Chief Operating Officer, Chief Legal and Risk Officer, Head of Risk and Head of Compliance will attend meetings at the request of the Committee. The Chairman of the Committee may also require other employees or external advisors to attend meetings as required to enable the Committee to carry out its responsibilities.

RESPONSIBILITIES

The committee's primary responsibilities are to assist and advise the Board of Directors on the following:

- the Risk Management Framework and specifically the effectiveness of risk management, governance and compliance activity within the Group. The Committee will support the Board in its consideration of business activities that expose the business to material risk focusing on current and forward-looking aspects of risk exposure;
- the methodology and assumptions used in the Group's models for determining its regulatory capital, satisfying itself the models are fit for purpose;
- ensuring adequate identification, measurement, monitoring and reporting on all types of risk including, but not limited to, business risk, operational risk (including regulatory risk), market/investment risk, credit risk, reputational risk and liquidity risk;
- ensuring that risk is properly considered in setting the overall remuneration policy for the Group and the remuneration of the executive directors and other senior executives;
- oversee the management of relationships and registrations regulatory authorities and to review developments and prospective changes in the regulatory environment; and
- any material or prospective legal actions involving the Group.

WORK OF THE COMMITTEE DURING 2014

Major topics considered by the Committee during the year were:

- review of the Hermes Risk Appetite Statement and ICAAP including risk assessment, capital and liquidity, stress tests, scenario tests, and Pillar III disclosures;
- approval of new Group policies and material changes to existing policies;
- consideration of major regulatory changes;
- consideration of cyber-crime related risks;
- review of outsourcing oversight arrangements;
- in-depth interviewing of senior management on risks facing their business area and how these risks are mitigated;
- review and challenge of reports received from internal audit, regulators, risk and compliance functions; and
- review and debate of reports received from regulators and the risk and compliance functions.
- review of the risks in relation to the Hermes Group Pension Scheme ("HGPS").

HERMES FUND MANAGERS LIMITED**REPORT OF THE REMUNERATION COMMITTEE****MEMBERSHIP**

The Remuneration Committee currently comprises four Non-Executive Directors, Kathryn Matthews (Chair), Paul Spencer, David Watson and William McClory.

STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Consistent with previous years, our primary focus is to advise the Board on remuneration matters in an ever-changing and challenging environment. It is essential that our policies and philosophy continue to motivate and retain high-calibre executive directors, senior management and staff. The financial services industry has continued to evolve through 2014, particularly with regard to remuneration policy. Hermes' Equity Ownership Services team has articulated principles that publicly highlight this obligation and in keeping with these beliefs Hermes continues to review its own remuneration policy to ensure that it stays in line with the best practice. We believe that compensation must be aligned with long-term performance, reflect strong risk management and encourage a responsible culture with regards to both our investments and our relationships with key stakeholders. It is important that our remuneration framework must be clear, understandable and achievable in order to motivate and retain our employees and ensure alignment with the strategic business targets agreed with our parent's sponsor BT Plc. This is done by using a combination of fixed and variable compensation tools which include an element of discretionary judgement enabling management to encourage the right behaviours and also a responsible risk management culture. In addition to this, our bonus deferral into the co-investment scheme remains central to fulfilling our medium-term strategy by creating a direct link between employee awards and business performance.

Hermes' ongoing strategy to build a first-class asset management business which attracts strong third-party assets-flows continues to deliver in line with the business plan and it is therefore imperative to make sure that the remuneration strategy evolves in tandem with the strategy. We will continue to review the remuneration policy in anticipation of this growth and with the changing shape of the company. The long-term growth and success of the Hermes Group will continue to be linked into key individuals' remuneration.

Kathryn Matthews

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

RESPONSIBILITIES

The Committee's primary responsibilities are to assist and advise the Board of Directors regarding, among others:

- determine the overarching principles and parameters of the remuneration policy on a Hermes group-wide basis, excluding Hermes GPE LLP which is a joint venture;
- establish and maintain a competitive remuneration package to attract, motivate and retain high calibre executive directors and senior management across the Group;
- align senior executives' remuneration with the interests of shareholders and relevant remuneration legislation;
- ensure compliance with the FCA and other regulator rules with regards to remuneration; and
- review and approve the annual objectives for Executive Directors of the Board against which their performance for remuneration purposes will be measured.

WORK OF THE COMMITTEE DURING 2014

During the year the Committee received and approved updates on the continued development of the Hermes remuneration policies and structure, including:

- European and UK FCA legislative changes impacting the remuneration strategies in operation across the business. As the legislation has become more clear, specifically applying the remuneration requirements contained in the Alternative Investment Fund Managers Directive ("AIFMD") and Capital Requirements Directive ("CRD"), in a proportionate manner;
- Preparing for the proposed changes in other regulations;
- Engaging external advisors to ensure a competitive and market-aligned future; and
- Refinements to the bonus deferral scheme to increase alignment with Hermes funds for all participants, including non-investment professionals.

In line with the internal changes, the Committee reviewed and approved the remuneration principles for the Group as we continue to evolve. The Committee also reviewed and endorsed salary and bonuses to be awarded during 2014 under the agreed terms of reference, and reward plans in accordance with parameters previously approved by the Committee.

The Committee believes that these plans provide an alignment of management with both our shareholder and clients, and are in accordance with the relevant legislative changes and best practice. In setting these parameters and approving the awards, the Committee was aware of the market environment, peer group practice and the financial and investment performance of Hermes.

DIRECTORS' EMOLUMENTS

Directors' emoluments, all of which have been approved by the Remuneration Committee, are disclosed in Note 5 to the financial statements.

HERMES FUND MANAGERS LIMITED**REPORT OF THE NOMINATION COMMITTEE****MEMBERSHIP**

The Nomination Committee currently comprises two Non-Executive Directors, Paul Spencer (Chairman) and William McClory.

RESPONSIBILITIES

The Committee's primary responsibilities are to assist and advise the Board. The scope includes, but is not limited to:

- evaluating the balance of skills, knowledge and experience of members;
- regularly reviewing of the structure, size and composition of the Board;
- identifying and nominating candidates for appointment to the Board
- considering the leadership needs of the Group and considering succession planning for Directors and other senior executives;
- assessing the contribution of Non-Executive Directors; and
- approving the appointment of any director to the Board of a subsidiary operating company of the Group.

WORK OF THE COMMITTEE IN 2014

Major topics considered by the Committee during the fiscal year were:

- recommendations made to the Board for the appointment of new directors;
- the re-appointment of two independent Non-Executive Directors;
- appointments to the Boards of the main subsidiary companies of the Group;
- Board evaluation; and
- noting the satisfactory operations of the committee and reviewed its terms of reference.

BOARD DIVERSITY

We are long-standing supporters of diversity in the boardroom and we are supportive of efforts to encourage diversity in all its aspects in the boardroom and, more generally, throughout the Group. Our current Board is made up of six directors of whom two (33%) are women. Appointments to the Board are made having considered a number of different criteria, including appropriate skill sets, experience and expertise as well as all measures of diversity. We will continue to expect that long lists and short lists of possible appointments to the Board reflect this position.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT

Secretary: M S Green

Registered Office: Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.

Registered Number: 1661776

The Directors submit their report and the audited financial statements for the year ended 31 December 2014.

The Directors who served during the year are listed on pages 22-23.

The Chairman's statement and the Audit, Risk and Compliance, Remuneration and Nomination Committee reports form part of this Directors' report.

RESULTS AND DIVIDEND

The results for the year are shown in the Consolidated Profit and Loss Account. A detailed business review is included in the strategic report. The Directors consider the results of the Group and the Company to be satisfactory in light of the current investment phase of the business and further consider that the Company is well placed to take advantage of future opportunities. The overall performance of the Group is explained in the Financial Review section of the Strategic report. Further, the Group's principal risks and uncertainties are disclosed in the Risk Management section and key performance indicators are provided in the Investment Performance section of the Strategic report.

The Directors do not recommend a dividend payment in respect of 2014 (2013: £nil). During 2014 dividends have been declared and paid by subsidiaries of the Company. Dividends paid to minority shareholders are shown on page 35.

GOING CONCERN

Having made all reasonable enquiries and having regard to the nature of the Group and its activities, the Directors are satisfied at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

As part of their enquiries, the Directors have reviewed the adequacy of the Group's regulatory capital position under a number of scenarios. They have also considered a deed executed by BTPS on 12 March 2015 to provide additional capital to the Hermes Group should the Hermes directors deem that its capital is insufficient to meet regulatory capital requirements and that the insufficiency arises from obligations in respect of the Hermes Group Pension Scheme. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2014.

FINANCIAL INSTRUMENTS

The Group has financial instruments including debtors, creditors, investments and cash. These mostly arise from the Group's operations. The Group has a policy of identifying and controlling the risks associated with such instruments. These risks include credit risk, liquidity risk and interest rate risk. Bearing in mind the nature of the exposure to financial instruments within the Group and the limited risks associated with them, the Directors are satisfied that there is adequate control of the risks. Note 22 presents further information on the Group's financial risk management objectives and strategy.

HERMES FUND MANAGERS LIMITED**DIRECTORS' REPORT (continued)****DIRECTORS' INDEMNITIES**

Qualifying third party indemnity provisions, which were made during the year for the benefit of directors, remain in force at the date of this report.

EMPLOYEE INVOLVEMENT

During the year meetings are held by executive management to discuss the performance of the Group with all employees. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

EQUAL OPPORTUNITIES POLICY

Hermes is committed to equality and diversity. Applications for employment are always fully considered, regardless of gender, marital status, sexual orientation, age, disability, ethnic or national origin, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is given or any other reasonable arrangements are made. The Group aims to ensure that employees are treated on the basis of their merits, abilities and potential regardless of gender, marital status, disability, ethnic or national origin.

AUDITOR

Deloitte LLP have indicated their willingness to continue in office as auditor and will be deemed to be reappointed at the end of the next period for appointing auditors as defined in section 485(2) of the Companies Act 2006.

HERMES FUND MANAGERS LIMITED**DIRECTORS' REPORT (continued)****STATEMENT ON DISCLOSURE OF INFORMATION TO THE AUDITOR**

The directors, having made enquiries to fellow directors and the Company's auditor, can state that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all reasonable steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by order of the Board of Directors and signed on behalf of the Board



S Nusseibeh
Chief Executive

31 March 2015

HERMES FUND MANAGERS LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED

We have audited the financial statements of Hermes Fund Managers Limited for the year ended 31 December 2014 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF HERMES FUND MANAGERS LIMITED (continued)


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Calum Thomson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

31 March 2015

HERMES FUND MANAGERS LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER**

	Notes	2014 £'000	2013 £'000
TURNOVER (including share of joint ventures)	1	104,682	99,699
Less: share of joint ventures' turnover	1	(14,236)	(12,233)
GROUP TURNOVER		90,446	87,466
Administrative expenses		(105,741)	(95,065)
GROUP OPERATING LOSS		(15,295)	(7,599)
Share of net operating profit of joint ventures	2	5,085	4,233
Realised currency gain / (loss)		1,185	(1,246)
Profit on disposal of investments		107	-
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		(8,918)	(4,612)
Interest receivable and similar income	3	84	106
Other finance income	14	1,100	1,000
Interest payable and similar (charges) / credits	3	(413)	108
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(8,147)	(3,398)
Tax on loss on ordinary activities			
- Group	6	(753)	(1,406)
- Joint ventures	6	-	(37)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(8,900)	(4,841)
Equity minority interests	24	595	(4,320)
Dividend paid to minority interest		(673)	(267)
RETAINED LOSS FOR THE FINANCIAL YEAR	17	(8,978)	(9,428)

All of the results are derived from continuing operations.

Equity minority interests' credit of £594,853 (2013: charge of £4,319,525) represent the non-controlling interests of minority shareholders over profits in group subsidiaries. The economic interest of the minority shareholders in these profits is comprised primarily of profits from third party business.

The notes to these financial statements on pages 40 to 70 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER

	Notes	2014 £'000	2013 £'000
Loss for the financial year		(8,978)	(9,428)
Defined benefit pension scheme – actuarial gain on assets	14	8,600	3,400
Defined benefit pension scheme – actuarial (loss) / gain on liability experience	14	(400)	200
Defined benefit pension scheme – actuarial loss on change in assumptions	14	(3,700)	(19,800)
Deferred tax (charge) / income – attributable to net actuarial gain	6	(1,738)	2,528
Gain on financial assets classified under the Alternative Valuation rules	10	30	354
Currency translation differences on foreign currency net investments	17	(935)	345
TOTAL RECOGNISED LOSSES RELATING TO THE YEAR		(7,121)	(22,401)

The notes to these financial statements on pages 40 to 70 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER

	Notes	2014 £'000	2013 £'000
FIXED ASSETS			
Intangible assets – goodwill	8	1,470	1,838
Tangible assets	9	3,175	6,042
Joint ventures – share of gross assets	10	14,992	14,063
– share of gross liabilities	10	(4,512)	(3,090)
Investments	10	3,254	3,101
		<u>18,379</u>	<u>21,954</u>
CURRENT ASSETS			
Debtors	11	35,693	32,602
Cash at bank	20	55,445	41,294
		<u>91,138</u>	<u>73,896</u>
CURRENT LIABILITIES			
Creditors - amounts falling due within one year	12	(44,107)	(36,470)
NET CURRENT ASSETS		<u>47,031</u>	<u>37,426</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		65,410	59,380
Creditors - amounts falling due after more than one year	12	(10,296)	(9,552)
Provisions for liabilities and charges	13	(4,008)	-
NET ASSETS EXCLUDING PENSION LIABILITIES		51,106	49,828
Net pension deficit	14	(6,899)	(17,865)
NET ASSETS INCLUDING PENSION LIABILITIES		44,207	31,963
CAPITAL AND RESERVES			
Called up share capital	15	58,558	38,558
Profit and loss account	17	(16,037)	(8,886)
Revaluation reserve	17	512	482
SHAREHOLDER'S FUNDS		43,033	30,154
Minority interests	24	1,174	1,809
TOTAL CAPITAL EMPLOYED		44,207	31,963

These financial statements were approved by the Board of Directors and authorised for issue on 31 March 2014. The notes to these financial statements on pages 40 to 70 are an integral part of these financial statements.

Signed on behalf of the Board of Directors


S Nusseibeh
Director

HERMES FUND MANAGERS LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER

	Notes	2014 £'000	2013 £'000
FIXED ASSETS			
Tangible assets	9	3,116	5,929
Investments	10	31,040	30,886
		<u>34,156</u>	<u>36,815</u>
CURRENT ASSETS			
Debtors	11	27,098	39,377
Cash at bank		26,928	6,994
		<u>54,026</u>	<u>46,371</u>
CURRENT LIABILITIES			
Creditors - amounts falling due within one year	12	(22,350)	(18,564)
NET CURRENT ASSETS		<u>31,676</u>	<u>27,807</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		65,832	64,622
Creditors - amounts falling due after more than one year	12	(6,547)	(5,982)
Provisions for liabilities and charges	13	(4,008)	-
NET ASSETS EXCLUDING PENSION LIABILITIES		<u>55,277</u>	<u>58,640</u>
Net pension deficit	14	(6,899)	(17,865)
NET ASSETS INCLUDING PENSION LIABILITIES		<u>48,378</u>	<u>40,775</u>
CAPITAL AND RESERVES			
Called up share capital	15	58,558	38,558
Profit and loss account	17	(10,692)	1,735
Revaluation reserve	17	512	482
SHAREHOLDER'S FUNDS		<u>48,378</u>	<u>40,775</u>

These financial statements were approved by the Board of Directors and authorised for issue on 31 March 2014. The notes to these financial statements on pages 40 to 70 are an integral part of these financial statements.

Signed on behalf of the Board of Directors



S Nusseibeh
Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	Notes	2014 £'000	2013 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19	(6,914)	(15,156)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		84	98
Interest paid		-	(25)
Dividends received from associates/joint ventures		4,610	5,877
Drawings by minority interests		-	(1,967)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		4,694	3,983
TAXATION			
Corporation tax paid		(2,087)	(710)
TAX PAID		(2,087)	(710)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	9	(812)	(1,591)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(812)	(1,591)
ACQUISITIONS AND DISPOSALS			
Purchase of fixed asset investments	10	(1,347)	(1,622)
Receipts from sale of fixed asset investments		1,330	-
Purchase of minority interest	10	(40)	(695)
NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS		(57)	(2,317)
FINANCING			
Issue of share capital		20,000	-
Dividends paid		(673)	(267)
Drawdown of subordinated loan		-	5,000
NET CASH INFLOW FROM FINANCING		19,327	4,733
INCREASE / (DECREASE) IN CASH	20	14,151	(11,058)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014

ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Accounting convention

The financial statements are prepared under the historical cost convention and on the going concern basis as described in the Directors' Report.

b) Turnover

Turnover is recognised on an accruals basis. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense. Turnover for investment management services includes performance fees based upon rolling performance periods of up to three years. These are recognised in the year the performance period ends.

c) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. Acquisitions are accounted for under the acquisition method. The results of subsidiaries acquired or sold are consolidated for the period from or to the date on which control passed. The Group has taken exemption from preparing a Company-only profit and loss account in line with Companies Act 2006.

d) Goodwill

Goodwill represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill arising in respect of acquisitions is capitalised in the year in which it arises within intangible fixed assets and amortised over its estimated useful life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition. The directors consider this to be a reasonable period over which to amortise goodwill. Provision is made for any permanent diminution in the value of goodwill.

e) Investments

Fixed asset investments are shown at cost less provision for impairment. Investments held for the purposes of hedging liabilities on co-invest bonus arrangements are classified as financial assets under the Alternative Valuation ("AV") rules. AV financial assets are non-derivative assets. Subsequent to initial recognition, AV financial assets are measured at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and foreign exchange gains and losses. When an investment is derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

f) Associates

In the Group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses while the Group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014 (continued)

ACCOUNTING POLICIES (continued)

f) Associates (continued)

Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

g) Joint Ventures

In the Group financial statements investments in joint ventures are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of joint venture profits, less losses, clearly indicated while the Group's share of the gross assets and gross liabilities of the joint ventures is shown separately in the consolidated balance sheet. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy for associates above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

h) Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account. Foreign subsidiaries are retranslated using the net investment method.

i) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful economic lives of the assets. The estimated useful economic lives are as follows:

Fixtures, fittings and equipment	- One to five years
Leasehold improvements	- Period of the lease

All tangible assets are depreciated from the point of acquisition to the point of disposal.

j) Operating leases

Rentals in respect of operating leases are charged to the profit and loss account on a straight line basis over the period of the lease. Rental income in respect of operating leases is recognised in the profit and loss account on a straight line basis over the period of the lease.

k) Pension benefits

For the Group's defined benefit scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs.

The interest cost and expected return on assets are shown as a net amount of other finance charges or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014 (continued)

ACCOUNTING POLICIES (continued)

k) Pension benefits (continued)

The Group's defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

l) Investment income

Income from investments is accounted for on an accruals basis.

m) Current taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Income tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in equity. In such cases the gain or loss shown in equity is stated separately from the attributable income tax, which is also recognised directly in equity.

n) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

o) Bonus costs

Provision is made for bonuses attributable to performance prior to the year end. Deferred bonuses subject to co-invest arrangements are accrued evenly over the period to vesting.

p) Share-based payments

The Group has applied the requirements of FRS 20 'Share-based Payments'. The Group issues equity-settled share-based awards to certain employees as part of a Group-wide incentive scheme in the form of Growth ordinary shares in the capital of the Company.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

ACCOUNTING POLICIES (continued)

p) Share-based payments (continued)

A liability equal to the nominal value of the shares issued is recognised upon issuance. The shares are held on behalf of the employee by an employee benefit trust until the shares vest - 50% after four years and 50% after five years. Growth share awards are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period. A valuation model is used to measure the fair value of awards. Valuation methodology incorporates management run rate projections, the application of multiples having regard to factors including comparable quoted company prices as adjusted for qualitative business unit variables and the application of discounted cash flow methodology. Where fair value is calculated to be in excess of nominal value and employee services are provided to a subsidiary company, the fair value expense is recognised directly in the subsidiary's profit and loss account and accounted for as a capital contribution to the subsidiary.

q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Restructurings – This provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of this provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

Onerous contracts – Present obligations arising under such contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

1. TURNOVER

Turnover comprises the value of services provided in the United Kingdom and the United States of America by the Group exclusive of VAT and is analysed as follows:

	United Kingdom		United States		Group	
	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management services (including share of joint ventures' turnover)	101,421	93,486	1,817	4,061	103,238	97,547
Other fee income	1,444	2,152	-	-	1,444	2,152
Less: share of joint ventures' Turnover	(14,236)	(12,233)	-	-	(14,236)	(12,233)
TOTAL GROUP TURNOVER	88,629	83,405	1,817	4,061	90,446	87,466

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

1. TURNOVER (continued)

Turnover for investment management services includes performance fees based upon rolling performance periods of up to three years. These are recognised in the year the performance period ends.

2. JOINT VENTURES AND ASSOCIATES

Share of net operating profit of joint ventures and associates:

	2014 £'000	2013 £'000
Joint ventures:		
Logistics Management Limited	-	166
Hermes GPE LLP	5,085	4,067
	<u>5,085</u>	<u>4,233</u>

Logistics Management Limited had ceased operations in 2012 and was dissolved on 20 January 2015. Note 21 discloses additional information on principal subsidiaries and joint ventures.

3. INTEREST RECEIVABLE AND SIMILAR INCOME AND INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Interest receivable and similar income in respect of:		
Bank deposit balances	84	106
	<u>84</u>	<u>106</u>
Interest payable and similar charges in respect of:		
Financing charge / (credit) on options	163	(203)
Loan from ultimate parent	250	72
Other interest	-	23
	<u>413</u>	<u>(108)</u>

The financing credit on options in the previous year related to the unwind of the discount and adjustments applied to the valuation of the obligation to purchase own shares in Hermes Sourcecap Limited. This share repurchase agreement was cancelled in the prior year and in its place, on 24 December 2013 HFML agreed to acquire a further 999 ordinary shares in Sourcecap, payable to a minority shareholder, for consideration totalling £780,036 plus contingent consideration linked to the annualised revenue of Sourcecap. The amount in the current year reflects adjustments to the contingent consideration.

Interest payable to the ultimate parent relates to a loan from BTPS, as shown in Note 12.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014 £'000	2013 £'000
The loss on ordinary activities before taxation is stated after charging / crediting:		
Depreciation	1,631	2,752
Amortisation	1,335	1,335
Loss on disposal of fixed assets	2,047	-
Rental charges under operating leases	1,964	1,948
Rental income from operating leases	118	-
Auditor's remuneration:		
Audit fees - Subsidiaries	138	162
- Company	79	78
	217	240
Non-audit fees:		
Other services	103	103
Total fees payable to Group auditor	320	343

Fees payable to the Company's auditor and its associates in respect of associated pension schemes during the year were £17,250 (2013: £15,450). These fees were charged to and paid directly by the pension scheme.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The total remuneration of the directors in respect of the year was £5,550,169 (2013: £2,362,301). The Group operates co-investment/bonus deferral schemes whereby a portion of bonuses awarded in respect of the year is deferred. The full value of the deferred awards granted to executive directors in respect of the year is £2,562,500 (2013: £345,000), although they will only become payable after the directors satisfy future service conditions. Deferred awards are included in total remuneration disclosed above.

Three directors (2013: three) were directors of other entities in the Group. Their total emoluments during the year were £5,287,669 (2013: £2,112,301) but it is not practicable to allocate these between services to the Group and the Company.

The highest paid director received total emoluments in the year in respect of services to the Group and the Company was £3,635,180 (2013: £851,313). Of this amount £2,272,500 is deferred for a period up to three years.

Contributions paid by the Group during the year in respect of the highest paid director's defined contribution pension scheme membership totalled £20,000 (2013: £20,000).

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014**
(continued)**5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

Three executive directors (2013: three) accrued benefits under a defined contribution scheme. Contributions paid by the Group during the year in respect of executive directors' defined contribution pension schemes totalled £64,000 (2013: £72,000).

Average number of persons employed by the Group and Company in the year:	2014 No.	2013 No.
Investment management	163	186
Administration	220	231
	<u>383</u>	<u>417</u>
Staff costs during the year in respect of these directors and employees were:	2014 £'000	2013 £'000
Wages and salaries	55,441	52,436
Social security costs	6,629	6,176
Pension cost related to Group scheme	4,375	4,098
	<u>66,445</u>	<u>62,710</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

6. TAX ON LOSS ON ORDINARY ACTIVITIES

a)	Analysis of tax charge/(credit) for the year	2014 £'000	2013 £'000
	Profit and loss account:		
	<i>Current tax:</i>		
	UK corporation tax at 21.49% (2013: 23.25%)	2,035	1,834
	Overseas tax	107	51
	Share of tax charge in joint ventures and associates	-	37
	Adjustment in respect of prior periods	(3)	(174)
	Total current tax charge	<u>2,139</u>	<u>1,748</u>
	<i>Deferred tax:</i>		
	Timing differences, origination and reversal	(382)	(250)
	Adjustment in respect of prior periods	(1,004)	(292)
	Effect of tax rate change on opening balances	-	237
	Total deferred tax credit	<u>(1,386)</u>	<u>(305)</u>
	Tax charge on profit on ordinary activities	<u>753</u>	<u>1,443</u>
	Statement of total recognised gains and losses:		
	<i>Deferred tax:</i>		
	Timing differences, origination and reversal	<u>1,738</u>	<u>(2,528)</u>
	Total tax on items in statement of total recognised gains and losses	<u>1,738</u>	<u>(2,528)</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

6. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

b) Reconciliation of current tax charge

The tax charged in the year differs from that resulting from applying the average rate of corporation tax in the UK of 21.49% (2013: 23.25%). The differences are explained below:

	2014 £'000	2013 £'000
Loss on ordinary activities multiplied by the average rate of corporation tax in the UK of 21.49% (2013: 23.25%)	(1,747)	(794)
<i>Effects of:</i>		
Non-taxable income	(981)	(865)
Non-deductible expenses	807	410
Depreciation in excess of capital allowances	391	659
Amounts transferred to the Consolidated Statement of Total Recognised Gains and Losses	1,016	(4,188)
Unrelieved tax losses arising in the period	2,942	3,291
Foreign tax charge	42	-
Short-term timing differences	1,150	(85)
Chargeable gains	269	322
Adjustments in respect of prior periods	(3)	(174)
Defined benefit scheme timing differences	(1,744)	3,185
Effect of overseas tax rate differences	(3)	(15)
Group relief not paid for	-	2
Current tax charge for the period	2,139	1,748

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

6. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

c) Deferred tax position

On 23 December 2011 the Company was assigned beneficial interests in BBTPS Limited Partnership and HPE II Limited Partnership from Hermes Asset Management Limited and MEPC HPE Limited. As part of this assignment Hermes Fund Managers Limited recognised a deferred tax liability of £2,561,664 in respect of estimated future taxable profit allocations from the partnerships for periods subsequent to the assignment. The closing deferred tax liability in respect of these estimated future taxable profit allocations from the partnerships is now £Nil (2013: £147,404).

	2014 Provided £'000	2014 Unprovided £'000	2013 Provided £'000	2013 Unprovided £'000
The Group				
Deferred tax asset / (liability):				
Fixed asset timing difference	22	3,790	-	3,476
Tax losses	23	12,913	-	11,055
Short-term timing differences	1,101	583	(147)	524
	<u>1,146</u>	<u>17,286</u>	<u>(147)</u>	<u>15,055</u>

The Company

Deferred tax asset / (liability):				
Fixed asset timing differences	-	3,785	-	3,451
Tax losses	-	12,820	-	10,007
Short-term timing differences	-	560	(147)	531
	<u>-</u>	<u>17,165</u>	<u>(147)</u>	<u>13,989</u>

Deferred tax assets totalling £17,286,000 (2013: £15,055,000) have not been recognised in respect of losses, accelerated capital allowances and short-term timing differences as the Group is not sufficiently certain that it will be able to recover those assets within a relatively short period of time.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014**
(continued)**7. PROFIT OF THE PARENT COMPANY**

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss after tax for the year amounted to £15,188,811 (2013: profit of £2,571,959).

8. INTANGIBLE FIXED ASSETS

	Goodwill £'000
The Group	
Cost:	
At 1 January 2014	11,936
Additions	-
At 31 December 2014	<u>11,936</u>
Accumulated amortisation:	
At 1 January 2014	(10,098)
Amortisation	(368)
At 31 December 2014	<u>(10,466)</u>
Net book value:	
At 31 December 2014	<u>1,470</u>
At 31 December 2013	<u>1,838</u>

The remaining unamortised goodwill above relates to Hermes Sourcecap Limited.

Unamortised goodwill of £5,804,426 (2013: £6,771,830) arising on the part-acquisition of Hermes GPE LLP in 2011 is included in the carrying value of the investment in joint ventures in accordance with the policy set out in the Accounting Policies. A total of £967,000 (2013: £967,000) was amortised during the year relating to the Hermes GPE LLP joint venture, in addition to the amortisation charge above.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

9. TANGIBLE FIXED ASSETS

The Group	Leasehold Improvements £'000	Fixtures, Fittings and Equipment £'000	Total £'000
Cost:			
At 1 January 2014	5,915	12,940	18,855
Additions	-	812	812
Disposals	-	(2,245)	(2,245)
At 31 December 2014	5,915	11,507	17,422
Accumulated depreciation:			
At 1 January 2014	4,611	8,202	12,813
Charge for the year	264	1,367	1,631
Disposals	-	(197)	(197)
At 31 December 2014	4,875	9,372	14,247
Net book value:			
At 31 December 2014	1,040	2,135	3,175
At 31 December 2013	1,304	4,738	6,042
The Company	Leasehold Improvements £'000	Fixtures, Fittings and Equipment £'000	Total £'000
Cost:			
At 1 January 2014	5,915	12,696	18,611
Additions	-	812	812
Disposals	-	(2,245)	(2,245)
At 31 December 2014	5,915	11,263	17,178
Accumulated depreciation:			
At 1 January 2014	4,611	8,071	12,682
Charge for the year	264	1,313	1,577
Disposals	-	(197)	(197)
At 31 December 2014	4,875	9,187	14,062
Net book value:			
At 31 December 2014	1,040	2,076	3,116
At 31 December 2013	1,304	4,625	5,929

Included within disposals is a write off of assets capitalised in the prior year that no longer meet the definition of an asset. The remaining disposals were assets with a carrying value of zero which had become obsolete.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

10. INVESTMENTS HELD AS FIXED ASSETS

	Investment in Joint Ventures £'000	Unlisted Investments £'000	Total £'000
The Group			
At 1 January 2014	10,973	3,101	14,074
Share of retained profit	5,085	-	5,085
Additions	-	1,347	1,347
Taxation	-	-	-
Movement in fair value	-	30	30
Goodwill amortisation	(967)	-	(967)
Disposals	-	(1,224)	(1,224)
Dividends received from joint ventures/associates	(4,611)	-	(4,611)
At 31 December 2014	<u>10,480</u>	<u>3,254</u>	<u>13,734</u>

Included within unlisted investments are investments held for the purposes of hedging liabilities on co-invest bonus arrangements which are classified as financial assets under the Alternative Valuation rules. During the year, there were additions and disposals of £1,347,014 and £1,224,532 respectively. These investments are measured at fair value. A fair value gain of £220,302 was recognised in reserves during the year (2013: £353,636) while realised losses of £190,469 were incurred on disposals, resulting in a net gain of £29,833.

Also included in unlisted investments is an investment totalling £333,858 in HGPE Capital Limited (HCL), acquired in the prior year. This investment represents a 13.5% economic share in the entity, but no voting rights are attached. HCL fully owns HGPE Partner Limited which is a partner in the joint venture of Hermes GPE LLP.

Investments in joint ventures comprise the following share of net assets:

	2014 £'000	2013 £'000
Logistics Management Limited	-	15
Hermes GPE LLP	<u>10,480</u>	<u>10,958</u>
TOTAL	<u>10,480</u>	<u>10,973</u>

The Group had no interests in associate undertakings at the balance sheet date.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

	Investment in Subsidiaries £'000	Investment In Joint Ventures £'000	Unlisted Investment £'000	Total £'000
The Company				
Cost:				
At 1 January 2014	15,515	12,674	3,325	31,514
Additions	-	-	1,347	1,347
Movement in fair value	-	-	30	30
Disposal	-	-	(1,495)	(1,495)
At 31 December 2014	15,515	12,674	3,207	31,396
Provision for impairment:				
At 1 January 2014	356	-	272	628
Movement in provision	-	-	(272)	(272)
At 31 December 2014	356	-	-	356
Net book value:				
At 31 December 2014	15,159	12,674	3,207	31,040
At 31 December 2013	15,159	12,674	3,053	30,886

The Company recognises a provision for impairment against the investment in Hermes Investments (North America) Limited, due to the uncertain timing as to when the Company will earn a return from this investment.

The Company also recognises a provision for impairment of £250,000 against the investment in Hermes Equity Ownership Services Limited, due to its current and prior year losses and net liability position (2013: £250,000).

The provision of the unlisted investments in the prior year related to the impairment of Hermes GPE Capital Limited ("HCL"). In 2014, the Group partially disposed of its investment in HCL for less than its net realisable value and hence the provision was utilised.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

11. DEBTORS

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Due within one year:				
Owed by subsidiaries	-	20,706	-	31,977
Owed by associates	32	31	40	20
Owed by parent	11,534	69	9,500	61
Trade debtors	1,748	24	1,577	2
Taxation	-	2,618	-	2,400
Deferred taxation	1,146	-	-	-
Other debtors	1,247	1,242	1,832	1,621
Prepaid and accrued income	19,912	2,408	18,890	2,624
	35,619	27,098	31,839	38,705
Due after one year:				
Other debtors	74	-	763	672
	35,693	27,098	32,602	39,377

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

12. CREDITORS

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Amounts falling due within one year:				
Owed to parent	4,041	-	-	-
Other creditors	1,543	1,518	1,427	1,357
Taxation	1,552	-	1,518	-
Deferred taxes	-	-	147	147
Accruals and prepaid income	36,971	20,832	33,378	17,060
	<u>44,107</u>	<u>22,350</u>	<u>36,470</u>	<u>18,564</u>
Amounts falling due after more than one year:				
Owed to parent	5,322	5,322	5,072	5,072
Other creditors	4,974	1,225	4,480	910
	<u>10,296</u>	<u>6,547</u>	<u>9,552</u>	<u>5,982</u>

The amount owed to parent relates to a subordinated loan with an original term of five years. The loan accrues interest at 5% per annum and expires in September 2018.

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous lease provision 2014 £'000	Restructuring Provision 2014 £'000	Total 2014 £'000
The Group and Company			
At 1 January	-	-	-
Utilisation of provision	-	-	-
Charge for the year	1,478	2,530	4,008
At 31 December	<u>1,478</u>	<u>2,530</u>	<u>4,008</u>

The provision above relates to an onerous lease provision arising from vacant space on a portion of the office property. This cost includes rent, service charges and business rates apportioned to the vacant area. The principal assumptions include an aggregation of future costs discounted using a pre-tax risk-free rate based on a government bond rate of similar duration.

The restructuring provision relates to obligations arising from the strategic decision to restructure the business including the closure of the commodities and fund of hedge fund businesses. This provision is expected to be fully utilised in 2015.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

14. PENSION COMMITMENTS

The Group operates a defined benefit scheme, Hermes Group Pension Scheme (the "Scheme"), funded by the payment of contributions to a separately administered trust fund. The scheme was closed to new members on 1 July 2008. The Group closed its final salary pension scheme to future accrual with effect from 31 October 2011. Thereafter, the Company made contributions to a defined contribution scheme for all employees. Contributions to the defined contribution scheme amounted to £3,774,574 during the year (2013: £3,399,000). The contributions outstanding as at the year-end amounted to £427,032 (2013: £379,935).

Defined Benefit Pension Scheme

The financial statements provide for full adoption of FRS 17 – Retirement Benefits. Contributions to the Scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the Projected Unit method. The actuarial valuation was updated at 31 December 2014 by a qualified actuary using assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. Contributions of £8.4m were made during the year into the scheme (2013: £2.2m).

	2014 £m	2013 £m
Present value of funded Scheme obligation	(148.5)	(140.7)
Fair value of Scheme assets	138.8	118.4
Deficit	(9.7)	(22.3)
Related deferred tax asset	2.8	4.5
Net liability	(6.9)	(17.8)

The amounts recognised in the profit and loss account are as follows:

	2014 £m	2013 £m
Current service cost (charged to operating profit)	0.6	0.7
Interest on Scheme obligation (included in Other finance income)	6.1	5.4
Past service cost	0.8	-
Expected return on Scheme assets (included in Other finance income)	(7.2)	(6.4)
Total	0.3	(0.3)
Actual return on Scheme assets	13.3%	9.0%

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

14. PENSION COMMITMENTS (continued)

'Interest on Scheme obligation' and 'Expected return on Scheme assets' are disclosed net as £1.1m 'Other finance income' in the Consolidated Profit and Loss Account (2013: £1.0m).

Analysis of the actuarial gain recognised in the statement of total recognised gains and losses:

	2014 £m	2013 £m
Actual return less expected return on Scheme assets, i.e. gain	8.6	3.4
Experience gains and losses arising on Scheme liabilities, i.e. (loss) / gain	(0.4)	0.2
Changes in assumptions underlying the present value of Scheme liabilities, i.e. loss	(3.7)	(19.8)
Actuarial gain / (loss)	<u>4.5</u>	<u>(16.2)</u>

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £19.4m (2013: loss of £23.9m).

Changes in the present value of the Scheme obligation are as follows:

	2014 £m	2013 £m
Opening Scheme obligation	140.7	118.4
Current service cost	0.6	0.7
Interest cost	6.1	5.4
Actuarial losses	4.1	19.6
Past service cost	0.8	-
Benefits paid	(2.9)	(2.9)
Administrative expenses paid	(0.9)	(0.5)
Closing Scheme obligation	<u>148.5</u>	<u>140.7</u>

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014**
(continued)**14. PENSION COMMITMENTS (continued)**

Changes in the fair value of Scheme assets are as follows:

	2014	2013
	£m	£m
Opening fair value of Scheme assets	118.4	109.8
Expected return	7.2	6.4
Actuarial gains	8.6	3.4
Contributions by employer	8.4	2.2
Benefits paid	(2.9)	(2.9)
Administrative expenses paid	(0.9)	(0.5)
Closing fair value of Scheme assets	<u>138.8</u>	<u>118.4</u>

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2014	2013
	%	%
Equities	51	48
Bonds / Gilts	17	24
Real estate / Other	<u>32</u>	<u>28</u>

Principal actuarial assumptions at the balance sheet date:

	2014	2013
	%	%
Discount rate at 31 December	3.7	4.4
Expected return on plan assets at 31 December	6.0	6.0
Future pensionable salary increases	1.9	2.5
Future increases to pensions in payment (HGPS members)	2.9	3.2
Future increases to pensions in payment (HPS members)	1.9	2.5
Deferred pensioner revaluation pre April 2009 benefits (HGPS members)	1.9	2.5
Deferred pensioner revaluation post April 2009 benefits (HGPS members)	1.9	2.5
Deferred pensioner revaluation (HPS members)	<u>1.9</u>	<u>2.5</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

14. PENSION COMMITMENTS (continued)

Pension increases in deferment are linked to Consumer Price Inflation (CPI) for both Hermes Pension Scheme (HPS) and Hermes Group Pension Scheme (HGPS) members. Pension increases in payment for HPS members are in line with CPI and pension increases in payment for HGPS members are in line with Retail Price Inflation (RPI).

On 17 May 1999 all assets and liabilities of the HPS were transferred to the HGPS. The rate of return has been determined on an asset class basis reflecting factors including equity market movements, future expectations, bond yields and inflation.

Amounts for the current and previous four periods are as follows:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of Scheme obligation	(148.5)	(140.7)	(118.4)	(107.7)	(119.6)
Fair value of Scheme assets	138.8	118.4	109.8	92.0	87.8
Deficit	(9.7)	(22.3)	(8.6)	(15.7)	(31.8)
Experience adjustments on Scheme assets – gain / (loss)	8.6	3.4	1.7	(7.0)	3.8
Experience adjustments on Scheme liabilities –(loss) / gain	(0.4)	0.2	0.1	(0.1)	0.2

15. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Called up, allotted and fully paid:		
58,558,000 (2013: 38,558,000) Ordinary shares of £1 each	58,558,000	38,558,000
	<u>58,558,000</u>	<u>38,558,000</u>

On 22 September 2014 the company issued 20,000,000 shares at a par value of £1 each to its owner BTPS.

On 19 March 2015, the company undertook a share capital reduction for £6,100,000, which increased retained earnings by the same amount.

HERMES FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)
16. SHARE-BASED PAYMENTS

Under a Group equity reward scheme, Group employees are invited to subscribe for 'Growth' ordinary shares in the capital of the Company. Each share provides employees with (i) a right to share in the growth in the value of third party business of the business unit in which the employee works and (ii) a right to receive dividends in respect of the growth in post-tax profits generated by third party business, but only after employees have held the shares for the vesting period. The shares vest 50% after four years and 50% after five years. Shares are held by an employee benefit trust until they vest. If an employee ceases employment before the vesting period ends, the Company will redeem the shares at par value. No exercise price is attributed to the shares issued. Details of shares issued to Group employees who provide employment services to the Group are as follows:

	2014	2014	2013	2013
	No. of	Subscription	No. of	Subscription
	shares	price (£)	shares	price (£)
At 1 January	5,685	5,685	5,985	5,985
Issued during year	325	325	-	-
Forfeited during year	(2,293)	(2,293)	(300)	(300)
At 31 December	3,717	3,717	5,685	5,685

325 share awards were issued during the year (2013: 0) to employees who provided services to the Company and its subsidiaries. Equity-settled awards are valued at grant date. The fair value of the awards at grant date is recognised in the profit and loss account over the period to vesting. The fair value of the awards issued since inception of this reward scheme is not material to the financial statements of the Group or Company and therefore no more disclosure is included in these financial statements.

On 20 March 2015, the Group purchased all growth shares outstanding for cash consideration equal to the fair value of the shares totalling £6,073,867. The shares were subsequently cancelled.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)17. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS AND
STATEMENT OF MOVEMENTS ON RESERVES

	2014 Called up share capital	2014 Profit And Loss account	2014 Revaluation reserve	2014 Total	2013 Total
	£'000	£'000	£'000	£'000	£'000
The Group					
At 1 January	38,558	(8,886)	482	30,154	52,354
Movement in fair value of AV financial assets	-	-	30	30	354
Loss for the financial year	-	(8,305)	-	(8,305)	(8,971)
Dividend	-	(673)	-	(673)	(267)
Share issue	20,000	-	-	20,000	-
Share-based payments	-	-	-	-	11
Defined Benefit Pension Scheme - Actuarial (loss) / gain on liability experience	-	(400)	-	(400)	200
Defined Benefit Pension Scheme - Actuarial gain on assets	-	8,600	-	8,600	3,400
Defined Benefit Pension Scheme - Actuarial loss on change in assumptions	-	(3,700)	-	(3,700)	(19,800)
Deferred tax (loss) / gain on pension liabilities	-	(1,738)	-	(1,738)	2,528
Currency translation differences on foreign currency net investments	-	(935)	-	(935)	345
At 31 December	58,558	(16,037)	512	43,033	30,154

During the year, Hermes Sourcecap Limited and Hermes BPK Limited paid dividends to minority shareholders of £523,145 and £149,529 respectively.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)17. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS AND
STATEMENT OF MOVEMENTS ON RESERVES (continued)

	2014 Called up Share capital £'000	2014 Profit and loss Account £'000	2014 Revaluation reserve £'000	2014 Total £'000	2013 Total £'000
The Company					
At 1 January	38,558	1,735	482	40,775	51,510
(Loss) / Profit for the financial year	-	(15,189)	-	(15,189)	2,572
Share issue	20,000	-	-	20,000	-
Share-based payments	-	-	-	-	11
Movement in fair value of AV financial assets	-	-	30	30	354
Defined Benefit Pension Scheme					
- Actuarial (loss) / gain on liability experience	-	(400)	-	(400)	200
Defined Benefit Pension Scheme					
- Actuarial gain on assets	-	8,600	-	8,600	3,400
Defined Benefit Pension Scheme					
- Actuarial loss on change in assumptions	-	(3,700)	-	(3,700)	(19,800)
Deferred tax (loss) / gain on pension liabilities	-	(1,738)	-	(1,738)	2,528
At 31 December	58,558	(10,692)	512	48,378	40,775

HERMES FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)
18. FINANCIAL COMMITMENTS
Operating Lease Commitments

The Group and Company annual commitments for the year to 31 December 2014 under operating leases are as follows:

	2014 Land and Buildings £'000	2014 Other £'000	2013 Land and Buildings £'000	2013 Other £'000
Operating leases which expire within:				
One year	117	-	36	-
Two - five years	2,131	300	1,611	300
Over five years	-	-	260	-
	<u>2,248</u>	<u>300</u>	<u>1,907</u>	<u>300</u>

All UK operating leases relating to land and buildings are subject to five-yearly, upward-only, rent reviews.

Other Financial Commitments

A subsidiary of the Company, Hermes Sourcecap Limited (HSL), was party to a contractual option arrangement entered into under the terms of the shareholders' agreement when the Company purchased HSL on 3 December 2009. Under the agreement, a put option requires HSL to purchase the shareholding of a minority shareholder between 2013 and 2018, should the minority choose to exercise the option. This contract was cancelled in 2013 and in its place, HFML acquired the further shares in HSL with consideration comprising cash and contingent amounts based upon the valuation of the 999 shares purchased in future year. The estimated value of the contingent consideration, as estimated as at the balance sheet date, is £109,824.

Contingent Liabilities

During the year the Company gave guarantees under section 479C of the Companies Act 2006 to two wholly-owned subsidiary undertakings: Hermes Assured Limited and Hermes Investments (North America) Limited. As such, both subsidiaries are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2014 by virtue of section 479A of the Companies Act 2006.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

19. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2014	2013
	£'000	£'000
Operating loss	(15,295)	(7,599)
Realised currency gain / (loss)	251	(902)
Loss on disposal of fixed assets	2,047	-
Difference between pension contributions and charge against operating profit	(7,103)	(1,454)
Growth share charge	-	10
Negative goodwill adjustment	-	(98)
Depreciation	1,631	2,752
Amortisation	1,335	1,335
Investment impairment	-	272
Decrease in debtors	2,097	990
Increase / (decrease) in creditors	8,123	(10,462)
Net cash outflow from operating activities	(6,914)	(15,156)

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2014	2013
	£'000	£'000
Increase / (decrease) in cash in year	14,151	(11,058)
Net funds at beginning of year	41,294	52,352
Net funds at end of year	55,445	41,294

21. ADDITIONAL INFORMATION ON PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The Company and the Group have investments in the following subsidiary undertakings and joint ventures which principally affect the results and net assets of the Group. All significant subsidiaries are held by the Company directly. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

SUBSIDIARY UNDERTAKINGS	ACTIVITY
Hermes Investment Management Limited	Investment management
Hermes Real Estate Investment Management Limited	Investment management
Hermes Sourcecap Limited	Investment management
Hermes BPK Limited	Investment management
Hermes Private Equity Limited	Investment management
Hermes Alternative Investment Management Limited	Investment management
Hermes Equity Ownership Services Limited	Stewardship and corporate governance
HIML (Singapore) Pte. Limited	Investment management

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014 (continued)

21. ADDITIONAL INFORMATION ON PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (continued)

JOINT VENTURES	ACTIVITY
Hermes GPE LLP	Investment management

Subsidiary undertakings disclosed above are wholly-owned subsidiaries except for Hermes Sourcecap Limited (65% of ordinary share capital owned). All subsidiaries disclosed above have been consolidated in these financial statements. All are incorporated in Great Britain and registered and operate in England and Wales, with the exception of HIML (Singapore) Pte. Limited which is incorporated in Singapore.

Hermes GPE LLP ("HGPE") is a joint venture between Hermes Fund Managers Limited and the HGPE management team through GPE Partner Limited. It is incorporated in the United Kingdom and is registered and operates in England and Wales.

There are plans to liquidate Hermes BPK Limited during 2015 due to the closure of the business.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY

The principal financial risk exposures of the Company and the Group at the balance sheet date relate to credit, liquidity and interest rate risks. The Group has in place a system of controls and processes to mitigate the risks identified.

Credit Risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the entity. The following are credit risks relevant to the Company and the Group at the balance sheet date.

i) Fund-specific – Within a number of the funds operated by entities within the Group, investment positions are taken gaining exposure to other parties. Applicable limits are stated within the objectives and constraints of each fund. The risk is assessed by qualified and trained professionals using a range of information and tools.

ii) Transaction-related – An inevitable consequence of both investment transactions within the funds and transactions within Group entities is the involvement of counterparties, particularly brokers. A process is in place to assess the suitability of counterparties.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. At 31 December 2014, the Group and the Company's financial assets exposed to credit risk amounted to the following:

Financial assets

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Cash at bank	55,445	26,928	41,294	6,994
Owed by subsidiaries	-	20,706	-	31,977
Trade debtors and accrued income	21,660	2,432	20,467	2,626
Deferred taxation	1,146	-	-	-
Taxation debtor	-	2,618	-	2,400
Owed by parent	11,534	69	9,500	61
Other debtors	1,353	1,273	2,635	2,313
	<u>91,138</u>	<u>54,026</u>	<u>73,896</u>	<u>46,371</u>

Cash at bank is held in current accounts or put on deposit with highly-rated counterparties. Bankruptcy or insolvency of bank counterparties may cause the Company's rights with respect to the cash held by the banks to be delayed or limited. Bank credit ratings are high and are monitored by management with reference to reputable rating agencies such as Standard & Poor's, Moody's or Fitch. If the banks' financial positions were to materially deteriorate then cash holdings would be moved to other banks.

Bankruptcy or insolvency of the counterparty may also cause the Company's rights with respect to the amounts owed being delayed or limited. The Company manages its risk by dealing with reputable counterparties offering a low risk of default. The financial position of the counterparties is regularly reviewed.

At year-end, within the Company and the Group, an insignificant level of debt was substantially past due and the majority of debt outstanding at the balance sheet date has been received post year-end. Trade debtors of the Group amounting to £424,973 were more than 90 days past due at 31 December 2014.

Liquidity Risk

Liquidity risk arises as a result of the possibility that the Company may not have sufficient cash funds to meet its liabilities as they fall due.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014
(continued)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Below is a maturity analysis of the Group's and the Company's undiscounted liabilities at the balance sheet date:

Financial liabilities	Maturity	2014	2014	2013	2013
		Group £'000	Company £'000	Group £'000	Company £'000
Owed to parent	< 12 mths	4,041	-	-	-
Other creditors < 12 mths	< 12 mths	2,278	701	2,275	687
Unfunded pension liability	< 12 mths	817	817	817	817
Accruals and prepaid income	< 6 mths	36,972	20,832	33,378	17,060
Owed to parent	> 12 mths	5,322	5,322	5,072	5,072
Other creditors > 12 mths	> 12 mths	4,974	1,225	4,480	910
		<u>54,404</u>	<u>28,897</u>	<u>46,022</u>	<u>24,546</u>

The Company's liquidity risk relates to its cash dealings with clients, day-to-day trading activity, the funding of operational expenses and meeting solvency requirements as determined by the regulator (Financial Conduct Authority).

The maintenance of liquidity is reported and monitored by senior management on a regular basis.

Interest Rate Risk

Whilst not the primary focus of the Group the nature of the business gives rise to large cash balances being held and consequently potentially significant interest receipts. The Group's Finance department aims to mitigate the interest rate risk by continually monitoring the cash position of the Group and seeks the optimal level of cash to place on deposit given the Group's liquidity requirements. The Group's Treasury department seeks to obtain the optimum return on cash deposited.

If the average rate of interest was 2% higher during the year based upon the year-end cash position, an additional £1.1m interest would have been earned.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014 (continued)

23. RELATED PARTY TRANSACTIONS

(a) General information and disclosure exemptions

Parent Undertaking

The Company is a wholly-owned subsidiary and is consolidated into the financial statements of the BT Pension Scheme, which are available to the public. As such, the Company has not disclosed related party transactions with the BT Pension Scheme, as it is taking advantage of the exemption in FRS 8 available to wholly-owned subsidiaries.

Subsidiaries

The Company prepares Group accounts into which its subsidiaries are consolidated. The Company has not disclosed related party transactions with wholly-owned subsidiaries as it is taking advantage of the exemption in FRS 8.

Hermes Group Pension Scheme

Certain activities of the Scheme are carried out by the Hermes Group, all of the costs of which are borne by the Company. These costs have not been apportioned for accounting purposes between those attributable to the Scheme and those attributable to the Hermes Group as functions maintained for both entities cannot be divided meaningfully between them.

(b) Related party transactions

During the year there were transactions with the following related parties

The following fees were paid by BT Pension Scheme Management Limited on behalf of the Hermes Group and recharged to HFML, in respect of services provided to the Hermes Group.

	2014 £'000	2013 £'000
P Spencer (Chairman & Non-Executive Director Fee)	88	88
W McClory (Non-Executive Director Fee)	25	12
TOTAL	113	100

The following transactions occurred during the year with subsidiaries that are / were part-owned:

- Hermes Sourcecap Limited (HSL)

Central allocated costs from the Company to HSL totalled £1,585,658 during the year (2013: £1,439,484). There is an amount due to HSL totalling £33,734 at year-end (2013: £321,895 amount due from HSL), representing the net year-end debt due to HSL for recharged and central allocated costs.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014 (continued)

23. RELATED PARTY TRANSACTIONS (continued)

(b) Related parties (continued)

- Hermes BPK Partners LLP (HBPK LLP)

HFML provided accounting, secretarial, and administrative services to the partnership. Central allocated costs from the Company to HBPK LLP totalled £Nil during the year (2013: £1,221,569). There is an amount due to HBPK LLP totalling £97,061 at year-end (2013: £Nil).

- Hermes BPK Limited (HBPK Ltd)

On 29 November 2013 the business of HBPK LLP transferred to HBPK Ltd. HFML provided accounting, secretarial, and administrative services to the Company from 1 December 2013 onwards. Central allocated costs from the Company to HBPK Ltd totalled £1,127,395 during the period (2013: £141,477). There was an amount due to HBPK Ltd totalling £575,389 at year-end (2013: amount due from HBPK Ltd of £7,707,746).

The following transactions occurred during the year with joint ventures:

- Hermes GPE LLP (HGPE)

Central allocated costs from the Company to HGPE totalled £1,176,054 during the year (2013: £1,302,563). An amount was due to the Company from HGPE totalling £31,210 at year-end (2013: £31,635).

- Logistics Management Limited (LML)

Dividends were declared during the year totalling £29,300. HFML Group, as 50% owner of LML, received £14,650. On 20 January 2015 LML was dissolved.

The following transactions occurred during the year with other related parties:

- Hermes GPE Capital Limited (HCL)

HFML provided a loan of £400,000 to HCL in 2013 which accrued interest at the HMRC beneficial loan rate. During 2014 the loan was fully repaid.

Directors' Loan Account

During the year ended 31 December 2014 the company advanced one of the directors a loan totalling £120,000. The interest is charged at the HMRC beneficial loan rate. This loan is repayable in 2015 over three instalments.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2014**
(continued)**24. MINORITY INTEREST - EQUITY**

The minority interest liability of £1,173,924 (2013: £1,808,892) included within the consolidated balance sheet and a credit of £594,853 (2013: charge of £4,319,525) included within the consolidated profit and loss account relate to the following interests:

- (a) 40% shareholding in Hermes BPK Limited owned by a combination of individual directors and employees. During the year the minority interest of 40% was purchased by Hermes Investment Management Limited, a wholly owned subsidiary of the company. As at the year end the Group wholly owned the shares in Hermes BPK Limited.
- (b) 35% shareholding in Hermes Sourcecap Limited which is owned by a combination of individual directors and employees (2013: 35% shareholding owned by individual directors and employees).

25. ULTIMATE PARENT UNDERTAKING

The directors regard the BT Pension Scheme as the Company's immediate and ultimate parent and controlling entity. It is also the parent of the largest and smallest Group to prepare Group accounts into which the results of the Company are consolidated. The accounts of the BT Pension Scheme can be obtained at Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.