

ANNUAL REPORT AND FINANCIAL STATEMENTS

HERMES FUND MANAGERS LIMITED

31 DECEMBER 2018



Registered No: 1661776

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HERMES FUND MANAGERS LIMITED

ABOUT US

We are an asset manager with a difference. We believe that, while our primary purpose is helping beneficiaries retire better by providing world-class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Key facts

We manage £33.5bn of assets on behalf of 637 institutional and wholesale investors in 28 countries around the world. Our investment capabilities span public and private equity and debt, infrastructure and real-estate strategies.

We help asset owners and asset managers fulfil their fiduciary duty by engaging and performing stewardship services in relation to £389.5bn of assets. These organisations collectively support more than 29 million current and future pensioners and savers.

We employ 388 talented people across the Hermes group, principally based in London, and in other locations including Dublin, Frankfurt, Singapore and New York.

Forward-looking statement

Certain statements in this report constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance or achievements of Hermes Fund Managers Limited and its subsidiaries (collectively, Hermes), or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are typically identified by words or phrases such as "trend," "potential," "opportunity," "believe," "expect," "anticipate," "current," "intention," "estimate," "position," "projection," "assume," "continue," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" and similar expressions.

Hermes' business, and financial results, are subject to business, operational and financial risks. Both risks and mitigants are discussed on pages 40 to 47. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither Hermes nor any other person assumes responsibility for the accuracy and completeness of such statements in the future.

HERMES FUND MANAGERS LIMITED
OUR YEAR IN BRIEF

2018 Financial and Business Highlights

Our mission is to help beneficiaries retire better. To achieve this, we aim to be the world's leading provider of long-term holistic returns for savers, thus creating value for all stakeholders in the financial system.

We understand that the way we achieve our investment objectives has an impact that is more than purely financial – it affects the world in which savers and beneficiaries live and the real value of their savings and incomes.

OBJECTIVES	MEASURE	2018	2017	VARIANCE
	Percentage of investment strategies with a five-year track record to beat their benchmark ¹	68.4%	73.0%	↓
	Assets under management and advice ²	£33.5bn	£33.0bn	↑
	Assets under stewardship ³	£389.5bn	£336.1bn	↑
	Number of companies engaged	746	659	↑
	Number of company and policy interactions	2,215	1,735	↑
	Employee turnover	11.0%	10.6%	↑
	Statutory revenue ⁴	£142.8m	£132.2m	↑
	Statutory (loss)/profit (pre-tax)	(£40.0m)	£13.2m	↓
	Underlying profit ⁵	£22.3m	£28.7m	↓
	Third-party revenue (as a % of total revenue)	77%	70%	↑

1 – Performance is calculated using published benchmarks for strategies. If a strategy does not have an official benchmark a performance target is used. A representative portfolio for each strategy has been used and not all portfolios are included in these calculations. It excludes private equity and infrastructure and strategies that do not have the required track record.

2 - The movement in assets under management and advice is explained in more detail on page 17.

3 - Assets under stewardship relate to Hermes Equity Ownership Services Limited (Hermes EOS).

4 - Statutory revenue represents the result as calculated in accordance with United Kingdom Generally Accepted Accounting Practice. Statutory revenue throughout the report relates to net group turnover as shown in the profit and loss account.

5 - Underlying profit represents the result regularly provided to the Board as this is considered the most useful basis on which to manage the activities of the Group. The reconciliation for this is provided on page 34.

HERMES FUND MANAGERS LIMITED

THE HERMES PLEDGE

The Hermes Pledge, which is voluntary, has been signed by 99% of employees.

OUR PLEDGE

I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity;
- I will put the interests of our clients and their beneficiaries first;
- I will encourage responsible behaviour in the firms in which we invest and on which we engage;
- I will act with consideration for society and the environment both now and in the future;
- I will encourage others to do the same;
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society;
- I will treat my clients, my colleagues and all other stakeholders with respect and as I would wish to be treated;
- I will deal with our regulators in an open, co-operative and timely way; and
- I will communicate clearly and honestly with all parties inside and outside our firm I will manage conflicts of interest fairly between all parties.

HERMES FUND MANAGERS LIMITED

CHAIRMAN'S STATEMENT

2018 was a pivotal year in the ongoing success and growth of Hermes. Our long-term investment performance continued to exceed that of our peers and we intensified our investee engagement activities, increased our assets under management and stewardship, and generated a greater proportion of third-party revenues – despite the significant market correction in the final quarter. We also began an exciting growth journey following the acquisition by Federated Investors, Inc. of a majority interest in our business.

In the past year, almost 70% of our strategies with a five-year track record outperformed their benchmarks and we increased the number of our engagement and policy interactions by 27.7% to 2,215 for the year. We grew our business, reaching £33.5bn in assets under management and £389.5bn in assets under stewardship, despite a down year for markets. This resulted in an 8% increase in statutory revenue to £143.0m, and £25.1m of new revenue was generated from third-party investors. We continued to diversify our range of investment capabilities, launching the first new product from our expanded fixed-income platform and establishing a sustainable equities franchise.

Our achievements to date and potential to grow further were recognised in Federated's purchase of a majority stake in the business from the BT Pension Scheme. The collaboration we are undertaking with our new parent is underpinned by our complementary investment capabilities and distribution networks and, most importantly, a shared focus on responsible investment and putting investors first. This is opening attractive growth opportunities for both businesses globally. To help ensure that we continue to build on our progress in Europe, one of our core markets, we have prepared for the UK's exit from the European Union (EU) by establishing a Dublin office that is regulated by the Irish authorities. Working in concert with additional offices in Frankfurt and Denmark, Hermes Fund Managers Ireland Limited is focused on servicing clients and attracting prospects in the region, irrespective of the form that Brexit takes.

Outlook

Global economic growth slowed in 2018 and became less synchronised as the US outpaced all other major economies for much of the year. Central banks, led by the Federal Reserve, continued to withdraw the extraordinary monetary stimulus implemented since the financial crisis. However, even the Federal Reserve's pause on interest-rate increases did not prevent a volatile end to the year: global equities fell 7.4% for the year, with emerging-market stocks declining 14.6% in dollar terms and 9.3% in sterling terms, amid intensifying trade tensions between the world's two largest economies and classic end-of-cycle market signs.

As 2019 progresses, we are prepared for further political instability and market drawdowns. Our investment strategies have long applied a diligent focus on fundamentals in rising markets while seeking to limit losses in down periods, and we will continue to invest with discipline. We have sought to diversify our business by developing a broad and deep fixed-income platform, providing specialist capabilities across the spectrum of the asset class – from corporate bonds and synthetic instruments to loans and asset-backed securities. This platform has been built to help investors respond dynamically to opportunities throughout market cycles.

HERMES FUND MANAGERS LIMITED
CHAIRMAN'S STATEMENT (continued)

Culture

Hermes seeks outcomes beyond performance: long-term returns that exceed prescribed benchmarks and targets, and which are generated through investments that benefit society and the environment. How employees of the firm contribute to this goal is by committing to fulfil the Hermes Pledge, which compels signatories to work ethically, responsibly and with integrity by putting the interests of clients and their beneficiaries first. At the end of 2018, 99% of our people had signed the pledge.

In 2018 we moved our headquarters from the eastern edge of the City of London to a more central location in St Paul's. The modern aesthetic and working environment of the premises promotes core elements of our workplace culture: transparency, collaboration, employee wellbeing and environmental awareness, with all waste from our office now being recycled or converted to energy. During the year, the Hermes Board and Executive Committee also endorsed an ambitious and comprehensive diversity and inclusion strategy. This has captured the views of our staff to ensure that the business celebrates all forms of diversity, enabling employees to maximise their potential and therefore succeed for clients.

The Board

After almost three years of service, Ian Kennedy stepped down from the Board in July 2018. On behalf of the board, I would like to express our sincere appreciation and gratitude for his contribution. Ian continues in his role as Chief Operating Officer at Hermes and a core member of the Executive Committee.

The composition of the Board changed substantially after Federated's acquisition of a majority stake in the business on 1 July 2018. It now comprises 13 directors, of whom a majority are now Federated appointees, reflecting its majority interest in the business. All of the directors that joined the Board in the past year are Federated employees. They are:

- Thomas Donahue – President, FII Holdings, Inc., Chief Financial Officer and Treasurer, Federated Investors, Inc. and Director, Federated Investors, Inc.
- John Fisher – President and Chief Executive Officer, Federated Advisory Companies
- Gordon Ceresino – Vice Chairman, Federated Investors, Inc. and President, Federated International Management Limited
- Deborah Cunningham, CFA – Chief Investment Officer, Global Liquidity Markets, Senior Portfolio Manager, Executive Vice President, Federated Investors, Inc.
- Theodore W Zierden III – President, Administration, Federated Services Company.
- Jane E. Lambesis – Senior Vice President, Regional Sales Consultant, Federated Investors, Inc.
- Denis McAuley III – Vice President and Director of Corporate Finance of Federated Investors, Inc.

HERMES FUND MANAGERS LIMITED
CHAIRMAN'S STATEMENT (continued)

I have valued their contributions so far and look forward to working together in the best interests of investors and the business. I am pleased to confirm that each new director has joined the vast majority of employees in our business by signing the Hermes Pledge.

Finally, and most importantly, the Board would like to thank everyone at Hermes for their hard work and commitment in 2018, which has furthered the success of the firm and positioned the business strongly for the future.

David Stewart
Chairman

27 March 2019

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT

OUR GROWTH STRATEGY

Our growth strategy is driven by an intense focus on delivering strong risk-adjusted performance for clients and positive outcomes for society and the environment.

We seek sustainable growth in the business, in its profitability and in its assets under management. This is an objective that is firmly aligned with the interests of our clients, the companies we invest in and engage with, and the world in which they operate.

Our growth framework is therefore focused on areas where:

- There is enduring appeal from long-term investors;
- We have a differentiated approach to the way we manage assets;
- We can offer access to co-investment, club and joint-venture opportunities in private markets alongside some of the world's leading institutional investors; and/or
- We can enhance performance by integrating ESG factors and active ownership.

Within this framework, we ensure our strategic decisions are aligned with at least one of our four growth pillars:

- Raising assets in our high-conviction, high-active-share public equity strategies;
- Broadening our range of benchmarked, unconstrained and multi-asset credit capabilities;
- Providing access to private market investment opportunities in infrastructure, private equity, private debt and real estate through a range of segregated, pooled and joint-venture structures; and
- Expanding our market-leading stewardship services and ESG-integrated investment propositions by offering clients a range of active ownership and impact strategies.

We believe that this provides us with an optimum client-centric strategy for sustainable growth, delivering the performance we aim to achieve and the outcomes we seek.

Factors influencing our strategy in 2018

Growth is energising. Inspired by purpose and focused on opportunity, it thrives on commitment and acumen. Seeking responsible growth, we have achieved milestones that not only confirmed we are on the right path but revealed a broader horizon ahead.

In 2018 we reached a significant landmark. The value of our past achievements and continuing purpose were recognised and a promising new growth path began to form. Our investment track record, leadership in stewardship and our potential to excel further were confirmed, leading us to a new majority owner in Federated Investors, Inc. ("Federated").

Federated completed its acquisition of a majority stake in our business from the BT Pension Scheme in July 2018. In contrast with recent consolidation activity in our industry, which has been defensive in nature, our combination is motivated by a vastly different ambition.

Together, we pursue growth. To expand into new markets with new capabilities, continuing to focus on generating strong performance for clients and positive outcomes for the wider world. Our complementary product and sales footprints enable us to support each other's strengths and learn from our respective fields of expertise.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

In Hermes, Federated has a business with an established and growing presence in the UK, Europe and Asia. Our business is founded on a rich, client-centric heritage and expertise in investment and stewardship services. In Federated, Hermes has a stable majority shareholder with strong cash reserves and consistent revenues. We have access to the firm's deep asset-management experience, sophisticated US distribution platform and insights gained from achieving long-term growth by serving investors' interests first. Most importantly, both firms share similar values and culture.

Federated rightly perceives sustainable investing as one of the greatest long-term opportunities in asset management – especially in the US, where ESG integration and stewardship are beginning to take root. By collaborating to strengthen our investment propositions and distribution reach, we both see attractive prospects for success. Most importantly, it is our shared purpose of putting investors first that unites us on this journey.

Good business is driven by good outcomes

In 2018, we continued to achieve strong growth in revenues, assets under management and stewardship assets under advice. Delivering positive outcomes is, increasingly, good for business.

We have:

- Outperformed benchmarks in 68.4% of our investment strategies over five years to the end of December 2018;
- Grown to serve more than 637 clients in 28 countries;
- Increased third-party assets by 282% and third-party revenues to 77% of the total over the last 5 years;
- Increased stewardship assets to £389.5bn – achieving more than 152% growth over the last three years;
- Engaged with companies that have a combined market capitalisation of more than \$23.5tn – half of the value of the MSCI All Countries World Index – on behalf of more than 29 million beneficiaries worldwide in 2018;
- Expanded our portfolio of major urban-regeneration projects to cover 6 developments in UK cities – revitalising communities, supporting local jobs growth and attracting global capital.

Global collaboration with Federated

Federated has a mature presence in its core markets – the US, Canada, the UK and Latin America – while Hermes is established in the UK and Europe and is expanding in Asia. Informed by the interests of our clients and prospects, we intend to leverage each other's product and distribution capabilities as we seek sustained growth.

Already, Federated is marketing or developing selected Hermes strategies as US-domiciled pooled funds. Hermes Sustainable Development Goals Engagement Equity is the first of our capabilities to be distributed by our parent's 200-strong sales team, having gone live in the US in November 2018. By 2020, Federated intends to distribute between eight and ten Hermes strategies in its home market. In Europe, Hermes is leading the distribution of Federated's flagship money-market and trade-finance strategies.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Ready for Brexit

Hermes is an international business, and much of our success to date and potential for future growth lies in Europe. We are committed to investors in this region and have meticulously planned to ensure that we continue to serve them at our full strength after the UK exits the European Union ("EU").

To best future-proof our business, our Brexit Mitigation Project has always assumed that a hard Brexit, without any transitional arrangements to soften the immediate impact of the UK's withdrawal, could be the result of more than two years of political negotiations between Westminster and Brussels. Therefore in 2018 we established a Dublin-based entity and offices in Frankfurt and Denmark to cement our presence in Europe and underpin further growth.

Our Dublin office, Hermes Fund Managers Ireland Limited (HFM Ireland), is our hub for managing and marketing our Europe-domiciled funds and segregated mandates with clients in the region. HFM Ireland is authorised by the Central Bank of Ireland ("CBI") as a UCITS management company, alternative-investment fund manager and provider of individual portfolio-management services.

Given these regulatory permissions, HFM Ireland can offer investment management services to Hermes' EU-domiciled co-mingled funds and direct investment services, in the form of segregated mandates, to European institutional investors. It follows that HFM Ireland is the main contracting party managing our EU-distributed funds and future mandates with investors in the region.

There are no major changes in the operating models of our investment products: HFM Ireland will delegate day-to-day portfolio management services to Hermes in the UK, which will be supervised from Dublin in accordance with the requirements of the CBI and relevant European authorities. The entity is led by our Head of Office in Ireland, and now includes a Head of Investment as part of a growing team focused on developing our European business.

We do not anticipate changes in how UK-based investors access our existing EU-domiciled strategies. In the event of a hard Brexit, we aim to make the appropriate notifications under the temporary permissions regime proposed by the Financial Conduct Authority, which will allow UK-based investors to continue investing in funds domiciled in the EU for a period of up to three years after 29 March 2019, when the UK is scheduled to leave the EU.

Strength in fixed-income, at all stages of the cycle

Developing a fixed-income capability that enables investors to preserve capital and capture yield throughout market cycles is a strategic growth initiative for our business.

In 2018 we continued to broaden our multi-asset credit platform and now provide coverage across global liquid credit, private debt, synthetic and specialist alternative-yield markets. Our strategies can be accessed on a standalone basis or through mandates offering dynamic allocations across the fixed-income spectrum in response to changing market conditions.

This capability is focused on meeting the long-term needs of investors: yield capture, access to a growth alternative to equities and, specifically for pension schemes, closing funding gaps and compensating for any absence of governance structures or internal skills required to allocate across the credit spectrum.

As the credit cycle matures, we are positioned to respond dynamically to fixed-income risks and opportunities across public and private debt markets.

**HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)****ESG to impact: sustainable investing**

Hermes is among the few asset managers that has thoroughly embedded Environmental, Social and Governance (ESG) and stewardship into the investment processes of all of its capabilities, and we have championed this approach for decades.

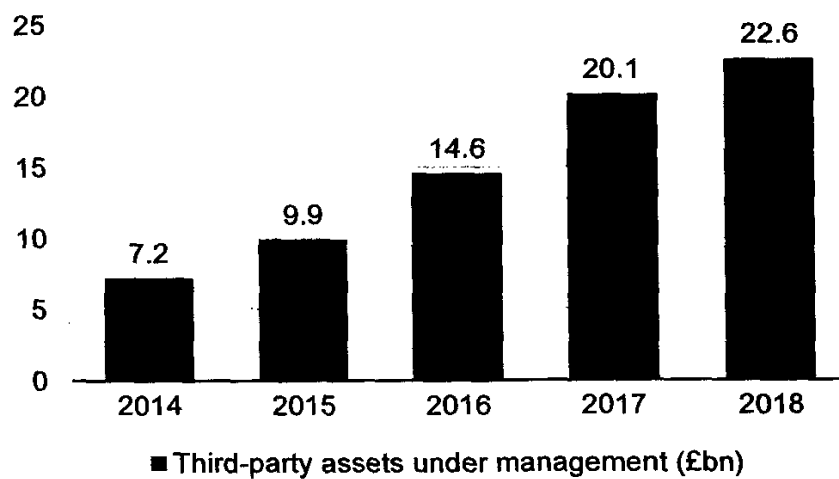
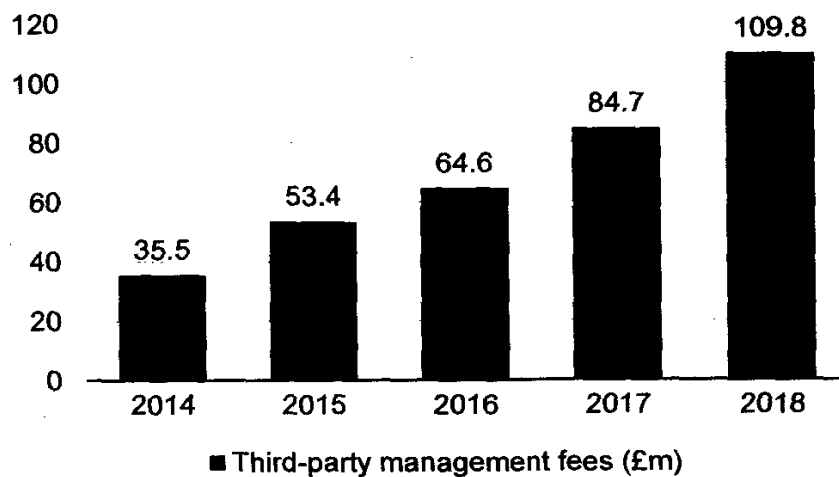
We contributed to the development of the Principles for Responsible Investment and are a founding signatory. In Hermes EOS, we established a pioneering model for working constructively with corporate boards and management teams in the long-term interests of investors, coining the term for this practice – engagement – along the way. Our Responsibility Office is accountable for ensuring that our ESG analysis continues to be best of breed, that our investments positively influence society and the environment, and that our contributions to public-policy development promote a financial system that works in the interests of all stakeholders.

Believing that good outcomes drive good business, we perceive sustainability and long-term profitability to be interconnected. In late 2017 and early 2018, we progressed beyond ESG integration by launching two public-equity impact strategies focused on investments connected to the *United Nations Sustainable Development Goals* (“SDGs”). The first, *Hermes Impact Opportunities*, is a high-conviction strategy aiming to invest globally in companies that are generating sustainable wealth through products and services that directly meet the underserved needs addressed by the SDGs. By focusing on companies exposed to these sources of enduring demand, the strategy seeks the growth leaders of tomorrow. The second, *Hermes SDG Engagement Equity*, targets smaller companies across the globe with potential – through engagement – to become financially stronger businesses which generate positive impacts that support the SDGs.

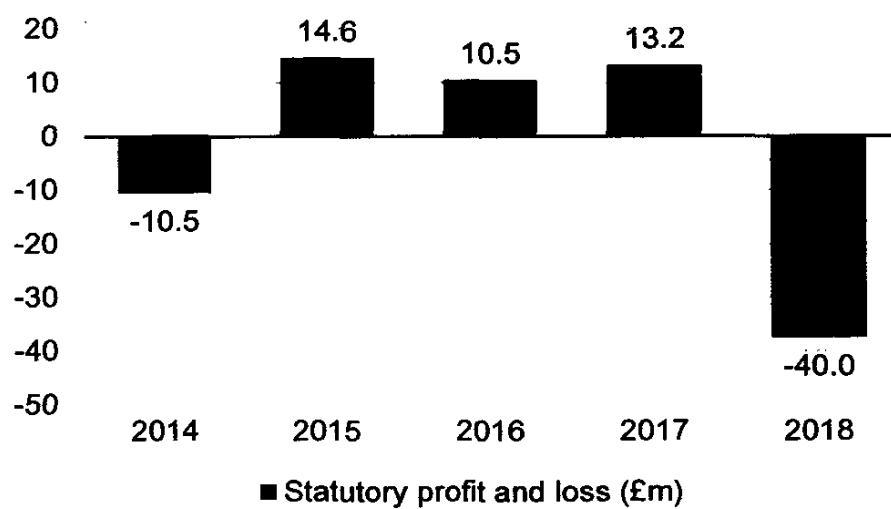
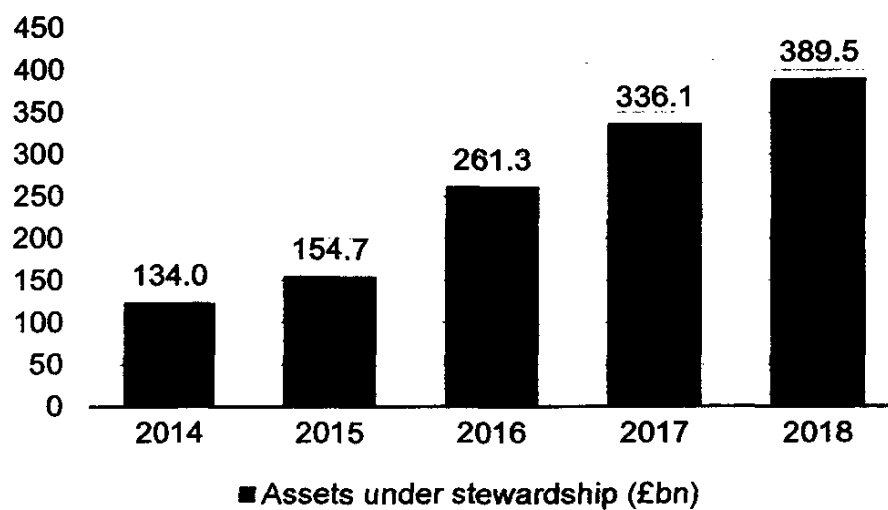
By respectively seeking present-day impact, and working with companies to deliver positive change tomorrow, these distinct strategies show that sustainable investing remains core to Hermes’ identity, purpose and growth strategy.

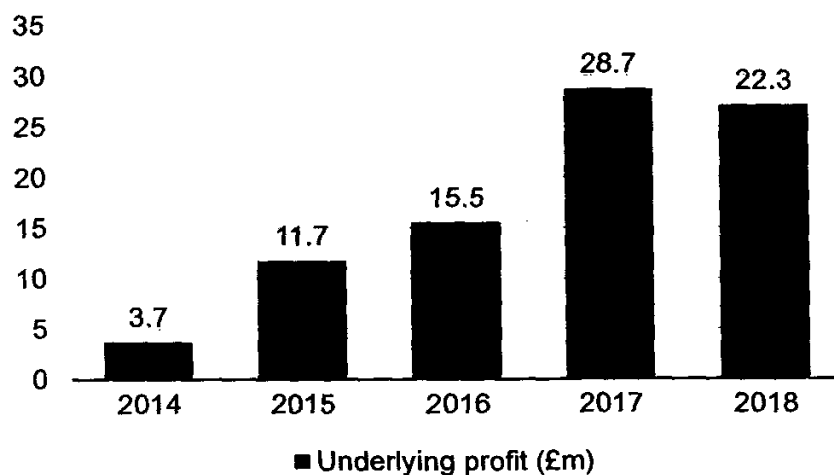
HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Five-year views: five charts illustrating our progress

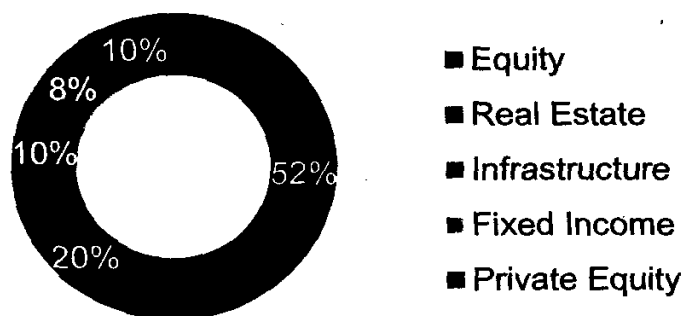


HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)



HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)**Assets under management and stewardship**

We invest across a broad range of asset classes – with equity and real estate forming the largest proportion of the Group's investments – and provide stewardship services to pension funds and asset managers. Across these capabilities, we currently have £33.5bn in AUM and £389.5bn in AUA.



HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Business Review

Financial highlights

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Add back goodwill amortisation	1.3	1.3	1.3	1.3	1.3
Transaction expenses associated with change of control	-	-	-	-	62.9
Restructuring	12.1	-	-	-	-
Bonus deferral / retention	0.5	(1.3)	(2.0)	(2.6)	(6.8)
Regulatory change costs	-	(3.0)	-	1.1	1.6
Non-recurring performance fee crystallisation	-	(3.6)	3.6	-	-
Long-term incentive plan	-	3.1	3.6	14.9	4.4
Other	0.3	0.6	(1.5)	0.8	(1.1)
Underlying pre-tax profit	2.2	1.7	1.8	2.5	2.3

Information provided to the Board is prepared on an underlying basis as this is the most useful basis on which to manage the activities of the Group. This result excludes a number of items that are not fully within the control of management. These items include the financial impact of change of control, goodwill amortisation, bonus deferral adjustments, long-term incentive plans, defined benefit pension charges and foreign exchange retranslation of non-sterling denominated subsidiaries.

Further information is included on page 34

Assets Under Management and Sub-Advice (in £bn)

At 1 January 2018	33.0
Inflows	8.4
Outflows	(7.0)
Net new flows	1.4
Market movement	(0.9)
At 31 December 2018	33.5

Please note the total assets under management figure above for Hermes includes assets under sub-advice of £1.7bn (2017: £1.6bn) and includes £6.5bn of assets that are managed by Hermes GPE LLP, which is a joint venture between Hermes and GPE Partner Limited (2017: £5.8bn).

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Business Review (continued)

By further strengthening our emerging-market equities and credit franchises, and attracting investors to our new sustainable equities products and market-leading stewardship services, we grew statutory revenues by 8% to £142.8m (2017: £132.2m) in 2018. More than 77% of our revenues were generated from third-party business (2017: 70%).

Equity-market falls in the final quarter and continued investment in our operating platform impacted our statutory profitability, as did the one-off yet significant costs incurred by our transaction with Federated. Whilst negatively impacting the current year profitability, these costs were highly beneficial to the shareholder given the acquisition price paid. Hermes recorded a pre-tax loss of £40.0m for the year (2017: £13.2m profit). Our underlying profit, which we regard as a more accurate indicator of business performance, declined by 22% to £22.3m (2017: £28.7m), resulting in a decrease in our underlying profit margin to 16% (2017: 22%).

The Federated acquisition triggered the crystallisation of two key staff-retention programmes at Hermes: the long-term incentive plan (LTIP) and co-investment deferral plan. When the deal completed, a total of £63m, calculated as a percentage of Federated's cost of investment in Hermes and excluding national insurance payments, was distributed among those holding LTIP awards. The awards were structured so that income tax was paid on the full amount, effectively resulting in offshore capital providing revenue to the UK tax authorities.

Investment performance

Delivering sustained, risk-adjusted outperformance is the lifeblood of our business. What we have known for many decades – and what many competitors are now realising – is that a deep and consistent integration of ESG analysis and stewardship intelligence in our investment decisions provides a fuller understanding of the risks and opportunities a company is exposed to, and the competence of management. This is essential in delivering the long-term performance and positive outcomes our clients seek.

At the end of 2018, 68.4% of our strategies had outperformed their benchmarks over five years and 93.8% had outperformed their peer-group medians on a net basis after fees. Over three years, 56.5% outperformed their benchmarks and 88.2% their peer-group medians. Across all strategies, our asset-weighted three-year information ratio was 0.25 and the median active share for our equity portfolios was 88.8%

In our private markets strategies, our commercial real-estate unit trust has outperformed its benchmark by 2.4% over 10 years, and 1.9% over five years, on a net annualised basis in sterling terms. Our private-equity fund programmes respectively generated an internal rate of return ("IRR") of 13% and a realised return of 1.6x, with the co-investment program delivering a 21.2% IRR and 1.8x realised return on 82 exited investments¹. During the year, the team made its 200th co-investment and distributed more than £500m in fund and co-investments to clients. In 2018, our primary infrastructure vehicle continued to expand its programme by adding Scandlines, an international transport firm operating the world's largest fleet of hybrid ferries, to a portfolio of assets that includes Eurostar, Associated British Ports, Thames Water and Anglian Water alongside UK solar- and wind-power generators.

¹ As at 30 September 2018.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Business Review (continued)

Business development

We secured 137 new clients in 2018, bringing our total to 637. This resulted in £3.3bn in net inflows from new clients throughout 2018. This helped to offset the £1.9bn that BTPS redeemed from our strategies as per our pre-agreed flight path plan and drove us further on our growth trajectory. Revenues from third-party clients have grown at an annualised compound rate of 33% over the past five years, inclusive of market movements.

From our £33.5bn in AUM:

- £23.0bn is managed for institutional investors;
- £10.5bn for wholesale clients;
- £19.5bn is sourced from the UK and Ireland markets, an 5.2% annual increase;
- £8.5bn managed by European investors, a rise of 11.8% since 2017;
- £3.6bn is managed for clients in North America, up 44% in the past year;
- £1.9bn is managed for Asian clients and £135m for MENA investors, marking decreases of 0.5% and 1.5% respectively.

Hermes EOS's AUA grew by £53.4bn (by 15.9%) in 2018 to reach £389.5bn. This not only demonstrates the increasing demand for engagement and intelligent voting services but also our expertise and experience in this field. Importantly, our stewardship client base diversified further as more asset managers sought engagement services. The team engages on behalf of more than 40 clients based in 10 countries in Europe, North America and the Asia Pacific.

Our established Global Emerging Markets strategy was the most successful in raising assets, attracting £1.7bn in net inflows, followed by our Global Equities business with more than £600m. Our Credit capabilities attracted inflows of £500m, which included the £100m seed investment in the Hermes Unconstrained Credit Fund. We made progress in developing our Private Debt capability, gaining £90m in third-party seed capital for our European Direct Lending Fund.

Hermes Asia Ex-Japan Equity and our flagship commercial real-estate product, Hermes Property Unit Trust, continued to attract strong interest from investors, with any new capacity that became available being fast absorbed. We continue to monitor capacity in these and all of our strategies carefully to ensure that clients' interests are protected.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement

Section 172 of the Companies Act 2006 requires directors to promote the success of the company for the benefit of all the members as a whole and in doing so have regard to the interests of stakeholders. We believe this to be consistent with our commitment to delivering holistic returns – outcomes that consider the impact our decisions have on society, the environment and the wider world and influences how we engage with all of our stakeholders. We aim to help people invest better and retire better, while at the same time creating a better society for all. In addition to the following summary table, information about how we do this is integrated throughout this annual report.

Stakeholders	Why they are important to us	How we have engaged
Clients and beneficiaries	Clients are the core of our business. We believe we have a responsibility to lead the field in demonstrating we provide value for money for them through acting with integrity as skilled investors as well as good stewards of capital. We focus on delivering holistic returns, outcomes beyond financial performance, which relies on understanding our client and beneficiary needs first. To do this we look to build and maintain close relationships with them so that we can better understand their financial needs and create wealth for them sustainably.	<p>Consideration of clients and beneficiaries is integrated throughout our business. This is encapsulated by the Hermes Pledge, signed by 99% staff, which states 'I will put the interests of our clients and their beneficiaries first'. Our operational activities reflect this, including:</p> <ul style="list-style-type: none"> - Stewardship, through engagement with our investee business and our public policy work, to deliver holistic returns (social and environmental outcomes in addition to financial performance). - Fair treatment of clients is central to Hermes' activities, and a key consideration for all governance bodies. Committees that oversee the creation and lifecycle of Hermes investment products explicitly consider customer outcomes, including our commitment to cost transparency in line with MiFID II. A robust policy framework supports this work, including a conflicts of interest policy, product development procedures, and product review processes. - Increased transparency on costs and charges to clients in 2018, such as quarterly reporting to public market clients on all explicit and implicit costs related to their portfolio/fund. - Beneficiary representation - Billy McClory is Trustee Director of BT Pension Scheme - on the Hermes Investment Management board.
Suppliers	Like many businesses, we use external service providers to supplement our own infrastructure to deliver our clients' needs. This enables us to provide a higher quality of service to our clients. The Group retains responsibility for the performance of our third party providers.	<p>Hermes is committed to strict observance of all laws and regulations, and to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. We aim to provide safe, reliable and efficient services whilst acting fairly and professionally. These values are contained within our Modern Slavery Statement and underpin our business and the way in which it operates. We consider that these values are wholly in line with our obligations under the Modern Slavery Act 2015. We have a Hermes Supplier Code of Conduct which we require all suppliers to adhere to in order to achieve our goal of living up to this commitment.</p> <p>Hermes reports its payment practices and performance on a half-yearly basis in line with section 3 of the Small Business, Enterprise and Employment Act 2015. Among other metrics, the average number of days taken to make payments to suppliers is published publicly. As at 31 December 2018, Hermes took an average of 26 days to pay suppliers. Whilst this compares favourably with many of our peers in the sector, the Group is taking steps to reduce this further.</p>

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Stakeholder Engagement (continued)

Stakeholders	Why they are important to us	How we have engaged
Staff	We want our people to be aligned with our mission so that we can achieve holistic returns for clients and beneficiaries. Their well-being and development are central to the ongoing success of our business. We recognise that diversity and inclusion are key to developing a wide-ranging outlook to meet client needs.	<p>Staff are aligned to deliver on our mission through:</p> <ul style="list-style-type: none"> - Being encouraged to sign the Hermes Pledge. - Receiving market-aligned remuneration and benefits. - Receiving ongoing development support, including management, soft skills and role-specific training. - Being encouraged to be collaborative and innovative through behavioural elements to the performance management framework. <p>Diversity and inclusion are promoted (though we recognise we have further to go as a firm) through:</p> <ul style="list-style-type: none"> - 'Unity', a staff diversity and inclusion network encouraging people to be themselves at work - Hiring a dedicated full-time Inclusion Partner, who is now implementing an improvement strategy.
Society	We believe we should lead by example as a firm, actively working to promote wider societal benefit as well as good investment outcomes for our clients. We therefore strive to make a difference, both through the way we invest, which is with a focus on holistic returns, and in how we contribute to wider society.	<p>In addition to the positive societal impact we seek to achieve through investing to deliver holistic returns for clients, which we set out above, we have an operational focus. This includes:</p> <ul style="list-style-type: none"> - Offsetting the carbon emissions from our travel through tree planting schemes. - Encouraging staff volunteering through our 'Active Community Engagement' group. - Supporting ongoing fundraising efforts: in 2018 staff raised £25k for 40tude, a charity tackling colon cancer.
Regulators and policy makers	Regulators have a legitimate interest in how we treat our clients and run our business. We believe that our clients' interests are best served when we engage constructively with our regulators. Proactive engagement on the future shape of regulation and policy is also key to delivering holistic return for clients.	<p>We are active in public policy debate and seek to mainstream responsible approaches to investment. To do this we have a full time Head of Policy, who works with staff across the firm to ensure our advocacy work is well informed, relevant and impactful – aiming to lead not follow the policy debate. In addition to this thought leadership, day-to-day regulatory and legal change is managed by our Compliance and Legal teams.</p>
Shareholders	We rely on the support and engagement of our shareholders in order to deliver the holistic outcomes we strive to achieve for clients and end beneficiaries as well as our strategic objectives and plans to grow the business.	Both our new majority shareholder and minority shareholder have representation on the company's board of directors as well as all of the governance committees which are described in more detail in the Committee Reports section of these financial statements. Both shareholders are actively involved in all strategic decision-making.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

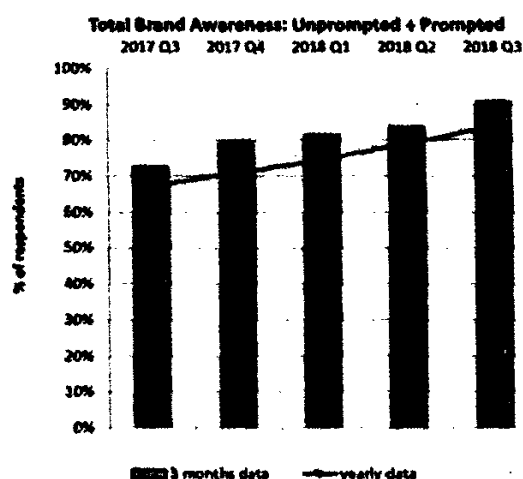
Stakeholder engagement (continued)

i) Brand recognition: Outcomes Beyond Performance

The Hermes brand expresses our core purpose: to deliver strong investment performance while positively contributing to people and the planet. We do this by integrating ESG and stewardship intelligence into the investment process for all strategies. We were among the first movers in what is now an accelerating global trend – and this message, reinforced by our investment and engagement track records, is resonating strongly in our core markets.

In 2018, Hermes was recognised as one of the top 50 asset management brands in Europe by the Mackay Williams Fund Buyer Focus survey. We ranked 46th – a significant improvement on our 71st position in 2017. This progress is driven by strategic and co-ordinated sales and marketing campaigns, which have aimed to engage effectively the market to promote our differentiated capabilities.

Our total brand awareness in Europe continued to strengthen, gaining almost 10% in the past year to a new high of 83.9%. The penetration of the Hermes brand increased in 90% of European markets. Across Europe, our overall brand preference strengthened to 37th from 55th place at the beginning of 2018.



Source: Fund Buyer Focus survey by Mackay Williams as at November 2018.

The Hirschel & Kramer Responsible Investment Brand Index, created by financial research group H-Ideas and specialist consultancy Brand Affairs, ranked Hermes as the number one asset manager headquartered in Europe whose ESG strategy genuinely connects to a greater societal impact. There were 239 asset managers included in the study, three quarters of whom are formally committed to responsible investment, yet only three were found to be creating tangible societal impact, of which Hermes was the top rated. This is a real testament to the fact that we are a genuine vanguard of change within the industry, and we are leading the charge on responsible investing that is virtually unparalleled.

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

We continue to increase the strength of our brand in the UK and mainland Europe, winning awards for the quality of our investment content and social-media influence. We are working with Federated to promote Hermes in the US and continue to extend our marketing and communications campaigns deeper into Europe and Asia, employing and experimenting with print, digital and audio media to tell the Outcomes Beyond Performance story.

Below is a selection of the awards we were honoured to receive in 2018.

Graphics removed

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

ii) Investee engagement, stewardship and sustainable investing

To further the momentum created by "The Why Question", a paper we published in 2017, Hermes produced "Delivering Holistic Returns" in January 2018. It explains our strategy and approach to acting as a responsible investor, stewardship practitioner and firm. We believe that holistic returns are underpinned by four mutually reinforcing strands of activity:

- ESG and engagement integration in investment decisions;
- Stewardship of assets;
- Advocating in beneficiaries' interests; and
- Behaving as a responsible business.

Our Responsibility Office oversees and supports the delivery of holistic returns from Hermes investment teams, and the positive change sought through our advocacy efforts and behaviour as a corporate citizen.

ESG and engagement integration

We dedicate resources to supporting the integration of ESG and engagement information in the investment decisions made by our public and private-markets teams. This includes using proprietary tools that combine our own analytical ESG data and engagement insights with research from external providers. The feedback loop from our engagements with corporate boards and management teams is a hallmark of our investment approach. It is enabled by regular interactions between our fund managers and engagers, and especially by the company meetings they jointly attend.

For our public-markets teams, ESG and engagement data is considered in the context of the investment philosophy of each strategy. Given the typically long holding periods and concentrated nature of private-market investments, both ESG data and engagement activities are strongly integrated throughout our Real Estate, Infrastructure and Direct Lending investment processes.

Building on its 2017 research on pricing ESG risk, our Credit team published further evidence in October 2018 that reinforced the strength of the relationship between ESG risk and credit spreads². In November, our Global Equities team released the third instalment of its biennial research on the influence of ESG risk on stock prices. "ESG investing: a social uprising" found that companies with good or improving social characteristics have tended to outperform their lower-ranked peers on average by 15bps per month.

Stewardship and engagement

Engagement is, we believe, core to the delivery of holistic returns. It can both mitigate risk and deliver positive impacts by improving companies' ESG profiles. In 2018, our extensive engagement programme generated 2,215 interactions with 746 companies on a range of ESG issues. During the year, we voted based on client instructions at 10,021 company meetings, with 59% having at least one recommendation against management (compared to 55% in 2017).

In private markets, we actively manage real-estate assets and engage to improve environmental performance and occupier wellbeing. As a private-equity investor, we engage at the fund level to monitor and engage on the ESG behaviours of companies. In each infrastructure asset we

² The team observed that as a business' ESG risks intensify, spreads on its credit instruments widen.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

manage, our interests are represented through board positions. This year, we have responded to a number of consultations advocating strong corporate governance and stewardship, seeking high standards in the consultation on the Wates Corporate Governance Principles for Large Private Companies and the upcoming revision of the UK Stewardship Code overseen by the Financial Reporting Council.

Advocacy

We engage with regulators and policymakers globally to address environmental, social and other market failures that may prevent the financial system from operating in the best holistic interests of its ultimate asset owners. We seek to go beyond minimum standards set by regulations and to demonstrate and share best practice. In 2018, our in-house expertise enabled us to write detailed responses to the European Commission's Sustainable Finance legislative proposals that explained how we consider the package might work in practice.

We contribute to policy discussions through a number of forums and initiatives, including the Principles for Responsible Investment, the UN Environment Programme – Finance Initiative (UNEP FI), the Institutional Investors' Group on Climate Change (IIGCC) and the International Corporate Governance Network.

Behaving as a responsible business

Climate risks and opportunities

The four strands driving holistic returns are particularly evident in our management of climate risks and opportunities. We have published our strategy for managing carbon risk on an annual basis since 2015, most recently in the 2018 Carbon Report. We take a four-pronged approach to confronting the risks and managing the opportunities presented by climate change, which applies across all asset classes and strategies: awareness, integration, engagement and advocacy.

1 Awareness	2 Integration	3 Engagement	4 Advocacy
Portfolio managers are aware of the climate risks in their portfolio, which investments are the biggest contributors and what are the associated risks and mitigation strategies	Portfolio managers integrate carbon risk considerations alongside other value and risk considerations, exploring green investment opportunities or divesting where carbon risk alongside other factors impacts value	Where a portfolio manager is the investment manager or represents portfolio of assets, where we hold assets with significant carbon risk exposure, we will leverage directly-owned assets, and engage with public and private companies, to mitigate the carbon risk	We will leverage our global network and relationships to encourage policy or best practice which facilitates the transition to a low-carbon economy

Over the past year, we have made good progress in the implementation of the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. We report on our decarbonisation activities for 90% of our AUM, and we measure the carbon footprint of 86% of our AUM as of August 2018. We aim to fully comply with the TCFD recommendations in the next two years.

Hermes' internal climate working group is working to strengthen our understanding and analysis of carbon risks beyond our current management practices. We are developing a comprehensive process for managing portfolio climate risk and opportunities that covers carbon modelling tools, climate-risk assessment, scenario analysis for a 2°C rise in global temperatures and impact to value.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

Our investments in and engagements with companies exposed to climate-change risk enables us to raise risks and controversies with their boards and encourage actions to address them. We can also capture intelligence on the dynamic processes at play in the development of corporate strategies and business plans regarding climate change. Moreover, we ensure that the process is clearly disaggregated so that investors, portfolio managers and engagers are able to understand the key drivers of the transition and challenge assumptions – either of companies or of third parties.

The Hermes Carbon Tool, launched in 2018, enables fund managers and engagers to identify carbon risks in listed investment portfolios and specific companies which are or might become more exposed to carbon risks in the future. Importantly, the tool incorporates our stewardship activity and intelligence and is able to identify companies which are priorities for engagement and their progress against objectives.

The role of policymakers is key in determining the investment risks and opportunities created by climate change. We engage with public policy makers and sector organisations, nationally or internationally, to promote policy or best practice. We are active members of, among others, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project. We have joined the UK Green Finance Initiative and become founding members of the Green Finance Institute steering committee – a public-private initiative aiming to promote the greening of the global financial system to manage climate-change risks in a precautionary fashion.

Hermes measures and offsets its own operational carbon emissions by working with Trees for Cities. For every tonne of greenhouse gas emissions that Hermes generated from its day-to-day operations and its business travel during 2017, verified carbon offsets for 1,102 tonnes of CO₂ have been generated in 2018 by planting 2,942 trees. We were proud to maintain the ISO 14001 standard when we moved offices in early 2018.

Corporate citizenship

As an active investor, we aim to play an important role in engaging companies on responsible business practices, including how they create shared value with communities. It follows that we are keenly aware of the need to build our own community programme to allow our people and our firm to make a difference locally where we operate.

Our employees participate in a wide range of ongoing initiatives with community organisations. In addition to helping create a better world in which our pension beneficiaries can retire into, this enhances their ability to collaborate and lead, and their awareness of social issues that can inform our investment strategies. This year, 50% of our people have participated in at least one community programme.

We believe that good human capital management, including the provision of fair living wages, robust health and safety practices, and investment in training and development programmes form the foundation of stable and productive workforces and are integral to businesses' social licences to operate. In 2016, we started including anti-slavery clauses in any new or renewed property-management service agreements.

Since 2012, Hermes has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff with compensation and benefits above the London Living Wage.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

Delivering outcomes

Capital is powerful. Beyond its essential role in financing economies, corporations and households, it can be invested to sustain growth and secure prosperous futures for many.

We understand this. It is why we invest in profitable companies that are revolutionising sectors across the global economy – from medicine and agriculture to manufacturing, logistics and education. It drives our current investment in a resources firm which, through our engagement, is connecting with a healthcare provider to combat prevalent diseases in its workforce and the communities it operates in, thereby unlocking further commercial success and societal wellbeing. It is why we regenerate inner-city areas, attracting businesses and enabling greater productivity, providing housing, local employment and a sense of place enjoyed by all. It is why we engage a major German bank on strategic concerns, promoting the long-term interests of asset owners and, ultimately, their beneficiaries.

In this way, we invest capital to generate strong financial returns for our clients and deliver beneficial outcomes to the world which they live in and future generations will inherit.

Capital, invested with purpose, is a force for positive change – it enables us to seek Outcomes Beyond Performance.

Case Studies

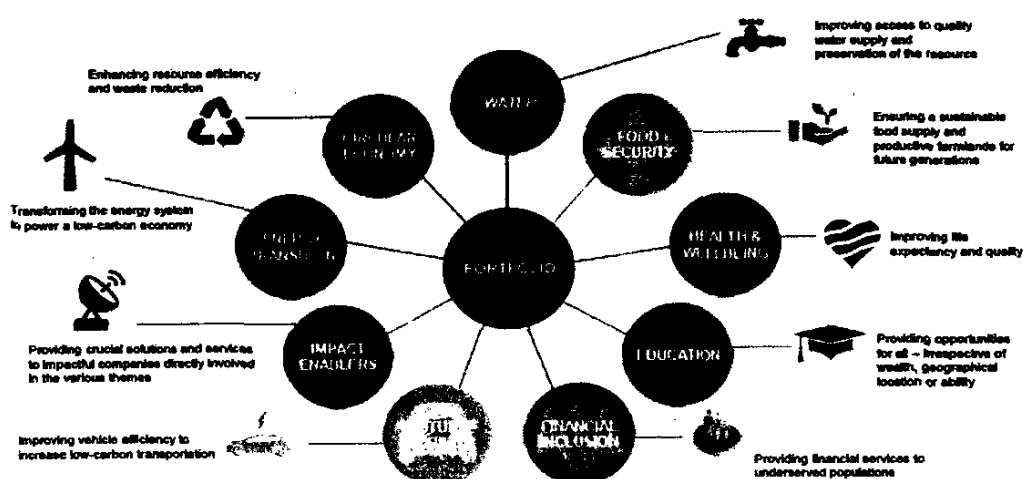
Sustainable equities: creating impact

Our two public-equity impact strategies have distinctive approaches to targeting sustainable wealth creation and positive outcomes for people and the planet. One seeks to capture impacts being made today, and the other aims to drive the change of tomorrow.

1. Hermes Impact Opportunities

A high-conviction global equity strategy targeting long-term outperformance by investing in successful companies whose positive impacts address the underserved needs of society and the environment.

A thematic approach to idea generation



HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

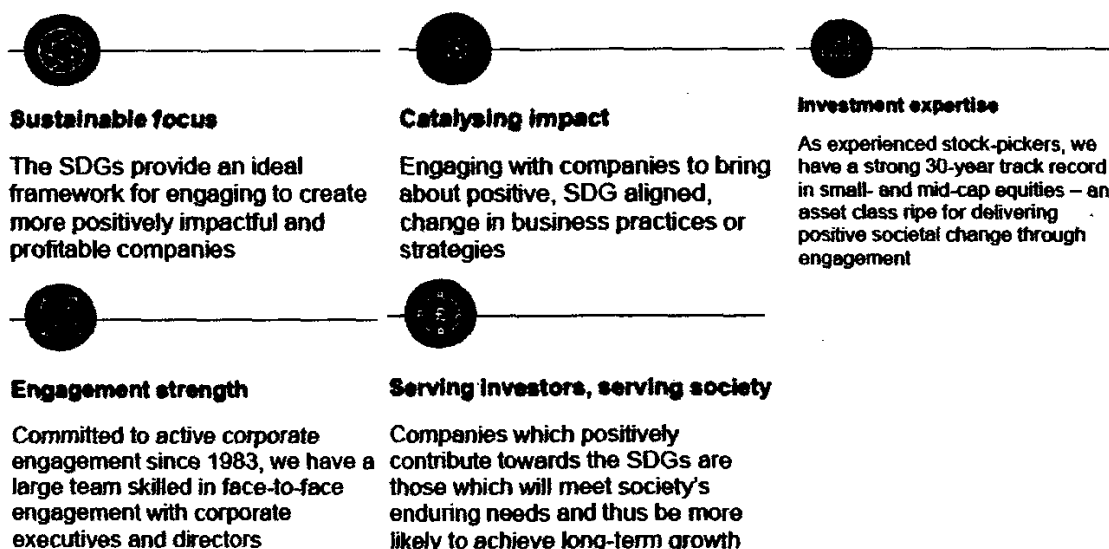
Stakeholder engagement (continued)

At its core, an impactful company has the purpose of creating positive change. It must be instrumental in delivering this impact and seek to improve it. We aim to identify these businesses and also seek evidence of the financial value they are likely to create through their vision, growth potential, earnings quality and real economic returns.

2. Hermes SDG Engagement Equity

A concentrated strategy investing in companies with clear potential to create impacts that support the United Nations SDGs, thereby becoming better and more profitable businesses in the process.

Seeking outperformance through positive impact



Real estate: urban regeneration and placemaking

NOMA's role in regenerating Manchester

Fragmentation, scarce public realm and with no sense of place – this area of inner-north Manchester was not a coherent neighbourhood. An ambitious regeneration and investment strategy now being fully implemented by Hermes is delivering a new, vibrant and productive mixed-use neighbourhood.

Purpose

- Seen as one of the major engines of the Northern Powerhouse, the 20-acre, £800m scheme in central Manchester is the largest development outside south-east England.
- The place-making project puts the interests of the community at its heart. Embracing the city's heritage by featuring a unique mix of historic and new buildings, NOMA aims to provide an attractive, well-connected and sustainable environment.

**HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)****Stakeholder engagement (continued)****Place**

- Adjacent to Victoria station and in close proximity to major retail and leisure facilities, NOMA is an attractive hub for employers seeking talented professionals.
- 20 acres of urban space is being regenerated as a natural extension of Manchester's central business district.

Productivity

- NOMA is attracting interest from small and large digital, technology and creative-industries businesses.
- The refurbished Federation building provides 71,000 sq ft of 'open-community' workspace for about 30 creative, technology and digital businesses, including small start-ups through to national and international businesses.
- The renovated Hannover building, a historic property, now provides 90,000 sq ft of office space. It is the confirmed headquarters of Amazon in Manchester.
- Angel Gardens, a 460-unit build-to-rent scheme, and the 146-room Hotel Indigo within the City Buildings adjacent to Victoria Station, are being constructed.
- Based upon the types of businesses currently occupying NOMA, we estimate that about 5,500 jobs are supported across the development – just over a third of the targeted 15,000 jobs. Achieving this will mark a significant milestone in the evolution of NOMA's economic role in central Manchester.

NOMA has also been an important catalyst for the wider Northern Gateway project, which seeks to improve accessibility, connections, housing and social infrastructure among seven neighbourhoods north of Manchester city centre.

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HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

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HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

iii) Employees – attracting and developing talent

Our growth will continue to be driven by the values and performance of our people. From recruitment to development, we focus on building a firm populated by excellent and collaborative people motivated by our purpose and opportunities to excel. This underpins positive relationships throughout the firm and our ability to embrace change in the pursuit of outcomes beyond performance.

	2018	2017
Number of employees	388	377
Employee turnover	11.0%	10.6%

Investment management is a people business. From investment to operations and business development, people make all the difference. Therefore, attracting talent and investing in the progression of our employees is crucial to our continued success. It is the responsibility of every leader and manager throughout Hermes to create an environment where all our people can improve their knowledge and skills, feel valued and perform at the highest level.

To develop future talent within the business, Hermes provides a suite of management programmes that span induction, skills and technical development, management development and professional studies. To support our employees outside work, the team also arranges frequent educational sessions about pensions and financial planning.

Diversity and inclusion

We recognise that a diverse and inclusive workplace provides real benefits to employees and supports stronger long-term business performance. Although Hermes has a long-standing commitment to these agendas, we acknowledge that we need to make further progress. In the past year, we have focused on evaluating our policies and actions to date and conducting an in-depth review and analysis in order to understand what more we can do. Following this, our Executive Committee (ExCo) and Board have endorsed a diversity and inclusion (D&I) strategy and a three-year implementation plan that will be reviewed on a regular basis. A dedicated full-time Inclusion Partner has been hired who is now implementing the strategy.

Our mission is clear. It is to foster and promote a culture of inclusion which celebrates all forms of diversity, enables our people to maximise their potential, and encourages innovation and creativity. This enables us to become an employer of choice, support our wider responsibility aims and deliver the best holistic returns for our clients.

In alignment with this mission, the objectives and actions of our D&I strategy are focused on three key themes: leadership, practices and people, and the environment. These themes encompass all areas of our business, enabling greater D&I integration throughout the firm.

Our D&I strategy will be managed from the top down but also driven from the bottom up. Through an employee-engagement survey and focus groups, we will seek their views of our current culture of inclusion and the gaps in our past efforts. The results should also help us to develop employee-focused initiatives that raise awareness of and promote engagement with D&I issues.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Stakeholder engagement (continued)

Looking beyond our own D&I practices, we will also advocate D&I throughout the asset-management industry and more broadly. We are already members of a number of networks and forums – including the Diversity Project, the 30% Club and the Employers Network for Equality & Inclusion – and will continue to look for more opportunities to collaborate and share best practices so that working in asset management is attractive and accessible for all.

This work will take time, but we are committed to ensuring it is seen as a priority – every step of the way.

Gender diversity

Our D&I objectives cover the broad scope of these agendas. Further actions regarding gender diversity that we take are supporting the Women in Finance Charter and Gender Pay Gap reporting regulations.

Women in Finance Charter

We are delighted to confirm that we are now within the ranges of each of the Women in Finance Charter targets we set in 2016. In light of this success, and given our aim of improving, our Board has established new targets which are the minimum we hope to achieve while ultimately working towards gender parity.

Gender diversity across our business

	New 2021 Target	2018 Target	Sept 2018	Sept 2017	Sept 2016
Firm-wide	45%	35-50%	40%	39%	34%
Board	35%	30-50%	31%	29%	37%
Senior management	35%	25-40%	28%	25%	24%

Gender pay gap

We welcome the attention that the gender pay gap reporting regulations have given to the gender and wider D&I agendas, and we will continue to report annually on our mean and median pay and bonus gaps. In doing so, we will keep interrogating the data to understand the what is causing our pay gap as well as what needs to be done to better it.

Board diversity

Fully aware that a wealth of deep and broad experience and perspectives at the highest level are instrumental in successfully guiding a business, we are committed to diversity in the boardroom. As at 31 December 2018, four of the 13 Directors (31%) on our board our Board are women. Specific criteria govern our appointments to the Board, including appropriate expertise and experience alongside all measures of diversity. We expect that long and short lists of candidates reflect these requirements.

Equal opportunities policy

We believe in equal opportunities for all and aim to ensure that no current or prospective employee is treated less favourably on the basis of their gender, race, ethnicity, religion or belief, gender identity or expression, marriage or civil partnership, pregnancy and maternity, age, sexual orientation, or disability.

**HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)****Stakeholder engagement (continued)****Re-location to 150 Cheapside**

In January 2018 we moved offices from the eastern edge of the City of London to a more central location at 150 Cheapside in St Paul's. Our new headquarters are refurbished with a modern aesthetic and layout that promotes transparency, collaboration and employee wellbeing. Environmental sustainability is also a hallmark of our new headquarters, with the following achievements made in our first year:

- No waste sent to landfill, with recycling maximised and all remaining matter converted to energy;
- 3,159 saplings planted in Greenford due to our partnership with Trees for Cities for offsetting our operational carbon emissions;
- A dramatic increase in our monthly recycling rate to 51.7% from 8.7%;
- Conversion of food waste into biogas; and
- A 2.7% fall in paper usage in the first six months of the year, saving 64 trees.

Our relocation to a contemporary and efficient premises, within sight of the famous cathedral, has helped to reinforce the core elements of our workplace culture: responsibility, accountability, professionalism, mutual respect, wellbeing and environmental awareness.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Financial Review

Statutory Accounts Pre-Tax (Loss)/Profit	2018	2017
	£'000	£'000
Turnover	142,783	132,213
Administrative expenses	(182,680)	(124,152)
Non-operating items	(139)	5,111
Transaction expenses associated with change of control	62,809	-
Goodwill amortisation	1,335	1,334
Regulatory change costs	1,572	1,114
Foreign exchange retranslation	(608)	800
Bonus deferral	(6,821)	(2,587)
Long-term incentive plan	4,431	14,880
Other	(410)	(10)

Underlying performance

Information provided to the Board is prepared on both a statutory and underlying basis. For management purposes the results are reviewed primarily on an underlying basis, as this is considered to be the way in which to best manage the activities of the Group and measure the performance of the executive leadership of the business. This result excludes a number of items that are not fully within the control of management. These include goodwill amortisation, bonus deferral adjustments, long-term incentive plans, foreign exchange retranslation of non-sterling-denominated subsidiaries and the financial impact of the change in control of the group.

Other reconciling items include regulatory change costs relating to the implementation of MiFID II, which were recognised in full in 2015 in the management accounts, although these costs were recognised in the statutory financial statements in 2017 and 2018.

As a consequence of the costs involved in the change of control, the Group has incurred a statutory loss of £40.0m in 2018 in comparison to a profit of £13.2m in 2017. On an underlying basis the Group achieved a profit to £22.3m with revenue increasing to £142.8m (2017: £132.2m). Revenues increased due to higher management fees as a result of net inflows despite equity market falling significantly in the second half of the year. Assets under management and advice have increased to £33.5bn from £33.0bn in 2017. The increase is driven by the increase in third-party AUM offset partially by planned outflows from BTPS. The growth in AUM demonstrates the ability of the Group to continue to deliver growth of the third-party business. This reconciliation is shown on page 17. The proportion of revenue from third parties has increased to 77% compared to 70% in the prior year.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Financial Review (continued)

Excluding transaction costs, operating costs increased by 6% in 2018 mainly as a result of the additional headcount required to support the growing business and increased property costs arising from the move to new office premises during the year.

The Group recognised a total tax credit of £1.7m in 2018 in comparison to a charge of £0.6m in 2017. The effective tax rate of 4.2% is lower than the UK corporation tax rate of 19% primarily due to the non-recognition of deferred tax in respect of current year losses. The Group has recognised a partial deferred tax asset of £14.5m on carried forward losses and other items. The deferred tax asset recognised reflects the amount of losses that management expects to be able to offset against taxable profits in the future.

Transaction expenses associated with change of control

The transaction expenses associated with the change of control are summarised as follows:

	£'000
Gross LTIP charges crystallising upon the change of control event	71,399
Deferred LTIP event awards	(9,993)
Reversal of LTIP accruals built up in prior periods	(15,016)
Net LTIP charge	46,390
Accelerated deferred bonus payments	10,533
Professional fees	5,886

Upon the acquisition of the Group by Federated Investors, Inc. effective 1 July 2018, change of control provisions in both the long-term incentive plan (LTIP) and the co-investment bonus deferral plan were triggered. Holders of LTIP awards became entitled to a payment that was calculated as a percentage of the consideration paid by Federated for its investment in the Group. In exchange the award holders forfeited the rights to any LTIP profit share arrangements that they would have been entitled to and were awarded restricted stock units in the Company as a retention mechanism. The net impact of the cash awards including employer's national insurance was £46.4m. Under the terms of the co-investment bonus deferral plan, all deferred bonuses were paid out upon the change of control of the Group. The impact on the profit and loss account of this accelerated payment was £10.5m. Professional fees relating to the acquisition included advisory and legal fees.

Financial position

Consolidated net assets as at 31 December 2018 were £98.4m (31 December 2017: £50.9m). The increase is due a capital injection of £83.0m on 2 July 2018 which largely offset the repayment of the subordinated loan to BTPS (£20.0m) and the net transaction expenses associated with the change in control (£62.8m).

Cash balances at 31 December 2018 increased to £81.1m (2017: £78.3m) mainly due to the items referred to above together with the underlying profit for the year.

In the prior year Hermes was the principal sponsor of the Hermes Group Pension Scheme (HGPS) up until 15 December 2017. On this date, all future obligations to HGPS were transferred to BTPS by way of a Flexible Apportionment Arrangement. HGPS is a defined

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

benefit pension scheme that was closed to new entrants in 2008 and was closed to future accrual in 2011. Hermes derecognised the defined benefit pension asset in 2017 following the conclusion of the Flexible Apportionment Arrangement.

The Group has both the financial strength and capital resources to support and execute its strategic plans. The Board and executive leadership remain focused on growing and developing our core business and continuing to increase third-party assets and revenues.

Regulatory capital

The Group has a regulatory capital surplus of £60.1m above the FCA's capital requirement of £31.1m. The injected share capital of £83.0m forms part of the year-end regulatory capital resources. Further details of the Group's approach to capital adequacy can be found on the Hermes website:

<https://www.hermes-investment.com/ukw/about-us/policies-and-disclosures/>

Tax governance

The Group strives to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, seeking to minimise the risk of uncertainty or disputes in tax matters. The Group seeks to comply with its tax filing, tax reporting and tax payment obligations in line with statutory timelines. Where appropriate, external advisers are engaged prior to the initiation of new activities or operations or in areas of complexity or uncertainty, to ensure that applicable tax rules are identified and followed. An important part of the governance process is the maintenance of a constructive and transparent relationship with HMRC.

The tax risk of the UK entities is managed by their executives and UK Boards. Review of the key tax risks are performed on an ongoing basis and where there is a material issue, matters are escalated to the respective Board and/or Risk and Compliance Committee.

The Group does not tolerate tax evasion, nor does the Group tolerate the facilitation of tax evasion by any person(s) acting on the Group's behalf.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Investment Review

Economic and market review

Global economic growth slowed throughout 2018, reversing the expansion that began in the late stages of 2016. It also became less synchronised as US growth accelerated, driven by fiscal stimulus and positive business sentiment, outpacing all other economies – notably China, the eurozone, Japan and the UK. But US growth also cooled as 2018 came to a close.

The overall slowdown in growth, combined with marginal wage gains and therefore little impact on consumer prices, helped contain inflationary pressures. Accordingly, central banks continued to gradually normalise monetary policies, with the Federal Reserve making the boldest efforts among major central banks to withdraw the extraordinary monetary stimulus deployed since the financial crisis. Even so, the Fed's policy rates are barely zero in real terms. Geopolitical risks – chiefly protectionism – also compelled central banks to act cautiously.

Financial markets generally performed strongly until the final quarter, when slowing growth and the risk of protectionism undermined sentiment. Global equities corrected sharply, declining 7.4% compared to where they started 2018³. Similarly, the yield on the US 10-year Treasury Bill increased throughout the year, breaking the 3% threshold at which time the market expected interest-rate increases in April and again in October. But it retreated to 2.7% by the end of the year, only 22bps above its level at the beginning of 2018.

2019 outlook

Slowing economic growth – particularly in the US and China – plus volatility in credit markets and the UK's likely exit from the EU are key risks that we aim to mitigate in the coming year.

Slowing growth

Should US economic growth continue to decline towards the slower pace of other major economies and protectionist trade policies persist, market sentiment will likely weaken and create a more challenging investment environment.

Our teams are experienced and invest with a through-the-cycle mentality to focus on long-term outperformance and downside-risk mitigation. Collectively, our strategies captured 100.6% of market upside and only 89.7% of the downside in the five-year period ending in December 2018. This demonstrates two common characteristics: a sober focus on fundamentals in bullish periods and an ability to limit losses in down markets. This discipline is applied by our teams, overseen by the Hermes Investment Office and is maintained with the interests of clients in mind. We hope it continues to serve clients well in future periods of volatility.

China

The growth of the world's second-largest economy is slowing but the authorities possess the policy tools to avoid a hard landing. Our view is that China is undertaking an important and well-telegraphed economic transition to a lower but more consistent growth rate driven mainly by consumption and services rather than fixed-asset investment. As such, our investment teams are aware of the top-down risks, including trade tensions with the US, as they focussed on equity and credit opportunities in the Hong Kong and mainland China markets.

Credit cycle

The strong growth in corporate debt markets since the financial crisis has been a persistent concern for investors in recent years. Issuance has surged, with investors broadly accepting a

³ Source: MSCI World Index as at January 2019

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

diminishing premium and deteriorating terms for holding corporate credit – from the high-yield to private debt markets. In our view, the late 2018 sell-off in credit markets was like a tremor, not a quake, emanating from a fault line. We will never attempt to predict when the main event will happen, as market-timing is not part of our investment approach. Instead, we have developed a flexible, multi-asset fixed-income platform with the goal of being able to preserve capital during a significant correction but also take advantage of the rare opportunities that typically emerge during bearish turns of the cycle.

Investment performance

Over longer time periods, Hermes continues to demonstrate its ability to deliver strong investment performance relative to both its benchmarks and peers.

For 2018, 28% of our strategies outperformed their benchmarks on a net basis after deducting fees. For those strategies that have a three-year track record, 55% outperformed their benchmarks and 68% did so on a five-year basis as at 31 December 2018. In turn, Hermes' three-year asset-weighted Information Ratio was 0.25.

Last year, 29% of our measurable strategies generated first-quartile returns and the performance of 62% were above median. For the three years ending 31 December 2018, 35% achieved first-quartile returns and 82% were above median. Over five years, 50% were positioned in the first quartile and 88% placed above the median.

Asia ex-Japan

In 2018, the strategy underperformed its benchmark by 0.5%. However, since inception it has outperformed the benchmark by 7.3%. The main contributor to underperformance came from stock selection in China, which outweighed the effect of the weak renminbi. Relative to peers, the strategy is ranked second quartile for the one-year and top quartile for three-year, five-year and since inception periods.

Global emerging markets

In 2018, the main strategy underperformed its benchmark by 1.4%. However, its annualised relative return since the team's inception outperforms the benchmark by 3.9%. The team's underperformance last year was primarily due to country allocation – notably the overweight China and depreciated renminbi. Stock selection in the EMEA region was also one of the main detractors to performance. Relative to peers, the strategy is ranked second quartile for the one-year and top quartile for three-year, five-year and since inception periods.

Global equities

In 2018, the core strategy underperformed its benchmark by 1.5%. Over three- and five-year periods and since its inception, however, it is outperforming on an annualised basis. Each of the team's other strategies also underperformed against their benchmarks for the year by approximately 1%. Relative to peers, the core strategy has outperformed the median manager over three- and five-year periods and since inception. The recent underperformance was largely driven by stock selection in the Information Technology, Financials and Consumer Discretionary sectors. This outweighed the positive contributions by stock picks in the Health Care, Consumer Staples and Industrials sectors.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

European equities

In 2018, our European equity strategies underperformed their respective benchmarks, with stock selection being the primary detractor from performance. However the European Alpha and Europe ex-UK strategies remain 1% and 2% above their benchmarks on an annualised basis since inception. Relative to peers, all of our European strategies have outperformed their respective median managers since inception.

US Small and Mid Cap, Global Small Cap and SDG Engagement Equity

In 2018, our US SMID, Global Small Cap and SDG Engagement Equity strategies outperformed their benchmarks by 0.6%, 2.1% 1.6% respectively. They have also outperformed their benchmarks since inception. For US SMID, stock selection in the Producer Durables and Health Care sectors were the main contributors to performance; these returns were slightly offset by negative contributions from the investments in the Technology and Consumer sectors. For the Global Small Cap strategy, stock selection in Consumer Staples and Healthcare sectors were the most positive drivers of performance, countered by investments in the Real Estate and Consumer Discretionary sectors. Relative to peers, returns from the US SMID and Global Small Cap strategies remain above the median manager over one-, three- and five-year periods and since inception.

Impact Opportunities

In 2018, the Impact Opportunities strategy outperformed its benchmark by 6.6%. This was achieved through successful stock selection and sector allocation, most notably involving the Health Care sector. Other notable contributions came from stock selection in the Materials, Utilities and Financial sectors, whereas stock selection in the Consumer Discretionary and Information Technology sectors were the main detractors from performance. Relative to peers, the strategy is ranked in the first quartile since its December 2017 inception.

Credit

In 2018, our credit strategies underperformed their respective benchmarks and targets, with the exception of our investment grade strategy, which outperformed marginally by 0.1%. Our High Yield strategy underperformed its benchmark by 1.4% for the year but its annualised return since inception is 0.1% ahead. The main detractors to relative performance were investments in the Energy, Healthcare and Financials sectors. Our bias towards higher-quality credit instruments and exposures to Latin America and Western Europe also adversely impacted returns. Relative to peers, all strategies have outperformed the median manager for the one-year, three-year, five-year and since inception periods apart from Global High Yield, which ranked third quartile for the year ending 31 December 2018.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Direct Lending

Since inception, on a net IRR basis, the strategy has generated 4.2% against its long-term net return target of three-month LIBOR plus 4.5%. Its yield has increased due to early redemptions from eight loans in the portfolio, which included the remaining interest and fees accrued for the life of the loans.

Real Estate

Real Estate UK Core, International and Hermes Property Unit Trust strategies' 2018 relative performance was -0.5%, -3.9% and +0.9% respectively. The Hermes Property Unit Trust continues to deliver top quartile performance over three, five and ten years. UK Core has also consistently outperformed its benchmark over three, five and ten years. The Real Estate Debt strategy has outperformed its target three-month Libor +2% by 0.2% for 2018 and also on a since inception annualised net internal rate of return basis by 0.6%. The strong performance of the strategy can be attributed to all loans achieving interest rates in excess of the target.

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.

Principal risks and uncertainties

The Group faces a number of risks in the normal course of business providing investment management and engagement services to institutional clients. These risks are managed by:

- adhering to our established business model and risk framework;
- implementing an integrated risk management approach based on the concept of "three lines of defence", which is outlined on page 42; and
- setting clearly defined risk appetites monitored with specific metrics within set limits.

The most significant risk facing the business is a downturn in economic conditions, which could impact the Group's performance through lower demand for its investment management products, and lower investor risk appetite as a result of financial markets instability. Both would result in a decline in the value of assets under management which will have a corresponding impact on revenues and, therefore, profitability. The majority of the Group's activities are in specialist areas where our people have significant experience and expertise. Our commitment to our proven business model and strengthening financial position allows us to support our clients in all economic conditions. This assists us in our aim of developing long-term relationships with our clients. The Group carries out regular stress testing on its performance and financial positions to test resilience in the event of adverse economic conditions.

A summary of the principal risks and uncertainties that may impact the Group's ability to deliver its strategy and how we seek to mitigate these risks is set out on pages 44 to 47. The risks identified remain broadly unchanged from the prior year, reflecting the Group's consistent strategy and adherence to its established business model. The summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the Group but rather those risks that the Group currently believes may have a significant impact on the Group's performance and future prospects.

HERMES FUND MANAGERS LIMITED STRATEGIC REPORT (continued)

Business Activity	Financial Statement Caption	Principal Risk Arising from Activity
Management fees are charged based on assets under management multiplied by the fee rate. Our management fees for the year increased as a result of asset inflows. Asset inflows from third-party investors remain in line with targets.	Management fees	
Performance fees are received in respect of a number of mandates under certain conditions when outperformance is delivered.	Performance fees	
Hermes Investment Management provides sophisticated stewardship services through its specialist team, Hermes EOS, to some of the world's leading asset owners on over £389.5bn of assets.	Stewardship revenue	
Hermes GPE LLP has been a successful joint venture since its inception in 2010, currently managing £8.5bn of AUM.	Share of profits resulting from Infrastructure & PE asset management	
We aim to recruit, train and retain talent in-house, as we believe in the importance of people contributing to the success of all aspects of the business. We provide a competitive remuneration package to attract and retain the best people.	Staff investment	
Our wide range of operational functions provides support to all areas of our business and are essential to our success. We have invested in what we consider best practice systems and people, while ensuring costs are tightly monitored and controlled.	Other operating expenses	
<div> <div>Profits</div> <div>Dividends paid out</div> <div>Taxes to government</div> <div>Retained equity re-invested in line with strategic and business objectives of Hermes</div> </div>		

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Risk management framework

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

- Risk appetite - key parameters that 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 affect the Group. Each business area is also required to perform a risk and control self-assessment specific to its own function. Business areas are required to confirm that all controls have been operated effectively during each review period and to review their risk assessments semi-annually for any changes in the business, systems and processes. Risk owners assess each risk in terms of impact and likelihood on both an inherent and residual (post the effect of controls) basis. 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 risk indicators is in place to measure key risks against the risk appetite statement and the risk register.

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 consisting of the following committees, at which the members are the Non-Executive Directors:

- Risk and Compliance Committee;
- Audit Committee;
- Remuneration Committee;
- Nomination Committee.

Day-to-day management of the business has been delegated to the CEO, who has established an Executive Committee (ExCo), as well as a number of oversight committees and groups to support the governance framework, namely:

- Risk and Compliance Executive;
- Business Development Forum;
- Hermes Responsibility Group;
- IT Steering Group;
- Portfolio Review Committee;
- Disclosure Group.

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)**Capital adequacy**

The Internal Capital Adequacy Assessment Process (ICAAP) brings together risk management and monitoring of the ongoing capital requirements. The risk management process plays an essential role in the firm with the aim of providing adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate risk to which Hermes is exposed. Hermes is subject to the requirement to have adequate governance frameworks in order to monitor those risks. Specifically, the ICAAP informs the Board of the ongoing assessment of the Group's risks, considers the management actions it can take, and ascertains the amount of current and future capital that is required. The ICAAP is embedded within the culture, systems, controls and governance of Hermes and a review as to its adequacy is formally undertaken at least annually, with more frequent updates made as necessary if 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>

Hermes' key risk exposures are grouped according to:

- Business risk;
- Operational risk;
- Financial risk (includes capital, credit risk, liquidity risk).

The following table summarises the key risks and mitigating actions. The listing is for illustrative purposes only and is not a ranking of materiality.

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Risk	Mitigants
<p>Business Risks</p> <p>Strategy The risk that Hermes does not meet its long-term strategic objectives. The risk includes external threats such as technological innovation and/or new market entrants within the industry reducing profitability and requiring fundamental change to the business model.</p>	<p>Hermes has outlined its strategic aims, which are supported by the business operating model. 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.</p> <p>A diversified range of products is offered, with regular new product launches to ensure that the offering remains in keeping with changing client requirements. Investment in tools and techniques is made to remain at the forefront of ESG thought leadership.</p> <p>A range of distribution channels mitigates against an excessive dependency on any single sales channel.</p>
<p>Investments The risk that portfolios will not meet their investment objectives adversely affecting levels of new business or fee income. This risk includes poor performance, liquidity, capacity and/or counterparty management subsequently impacting revenues and leading to reputational damage. The risk also includes failure to apply acceptable standards of stewardship and responsible investing.</p>	<p>The Hermes Investment Risk Framework provides monitoring and challenge of investment risks and performance across teams.</p> <p>The Hermes Investment Office independently monitors risk and ensures the rigour of team strategies. Investment teams adhere to clearly-defined investment processes. Various management committees such as the Valuations, Liquidity Capacity and Pricing and Portfolio Review are in place, providing an extra layer of mitigation.</p>
<p>Loss of Key Client This risk relates to the loss of a key client or group of clients resulting in a detrimental impact on Hermes.</p>	<p>This risk is mitigated by the Firm's client engagement activity and investment philosophy which supports growing its third party offering, diversifying its client base, whilst continuing to meet the requirements of its clients and stakeholders.</p>
<p>Sales Failure to meet sales targets, resulting in impacts to achieving strategic objectives. Sales risk includes selling products that are not appropriate in order to meet a sales target.</p>	<p>Sales teams develop comprehensive sales strategies by region and channel in conjunction with the Head of Business Development. Delivery of sales strategies and performance against targets is regularly monitored.</p> <p>Distribution and investment teams work closely with to ensure sales staff are well briefed on product characteristics.</p> <p>A number of training sessions are run by Compliance. Financial promotions are subject to regular Compliance approval and monitoring.</p>

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Risk	Mitigants
<p>Operational Risks</p> <p>Operating Model The risk that the operating infrastructure is not fit for purpose, is inefficient or not scalable, failing to support strategic plans. The risk that process failure results in heightened operational risks, errors and breaches. This risk includes the impact on business continuity.</p>	<p>Operational policies and procedures are reviewed and updated periodically and available to all staff. A robust governance structure exists with Board-level committees, e.g. Risk & Compliance Committee, Audit Committee, to review priorities, operational progress against plans, risks/issues etc.</p> <p>Operational support to the business is based on middle office processes and controls that are performed in-house and back office processes undertaken by third-party service providers. The Operations oversight function reviews and challenges the output providing segregation of duties.</p> <p>A business continuity programme is in place, all teams have a Business Continuity Plan and an Incident Management Team (IMT) has been established with regular testing. Regular tests are planned in conjunction with IMT and in accordance with the policy timeframe. A register of issues is kept and appropriate actions are taken to address matters in a timely fashion.</p>
<p>Change The risk that Hermes fails to deliver a major change initiative in a controlled and timely manner, or the risk that the initiative does not deliver expected benefits. This risk includes the failure for new ventures to align with the culture and vision of Hermes and the organisation stress or process failures through potential demands on staff and resources. Change risk includes the governance for products and sales (distribution / channels).</p>	<p>There is in place a comprehensive Change Governance process including Senior Management oversight directly and/or via applicable Board/Management committees. Furthermore, an I.T. Steering Committee which reports to the Executive Committee is in place to oversee any change initiative involving I.T.</p>
<p>Employee The risk that key staff across the business leave without an identified successor (key person risk) or that significant numbers of staff resign due to other factors within our 'control' such as (competitive) remuneration, culture or training.</p>	<p>To mitigate people risks, the Firm has competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. In line with its Principles, the Firm puts in place sustainable succession and development plans. Clear objectives are set and success is measured in the annual review process, allowing the Firm to identify motivational development initiatives for its staff including regular and sufficient training. The Firm has a Diversity and Inclusion strategy and has a dedicated full-time Inclusion Partner who is implementing the strategy.</p>
<p>Regulatory / Legislative The risk of regulatory or legal action resulting in fines, penalties, censure and/or legal action arising from failure to identify or meet regulatory and/or legislative requirements in those jurisdictions in which Hermes operates. This includes the risk of financial crime and that new regulations, or changes to the interpretation or implementation of existing regulations affect the Firm. This risk includes the risk that tax regulations are not understood, implemented and complied with.</p>	<p>Hermes maintains compliance procedures across the Firm 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>

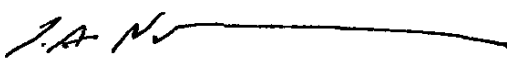
HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Risk	Mitigants
Outsourcing The risk that outsourcing plans are not aligned to the wider strategy or that outsourcers fail to deliver the expected benefits. The risk includes the failure of Hermes to oversee the outsourced relationship.	Before entering into outsourcing arrangements, the Firm 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, which is a sub-group of the Risk and Compliance Executive. The Group's largest third-party provider in 2018 was Northern Trust.
Fraud The risk of internal and external fraud resulting in such impacts as payments to unauthorised / fraudulent accounts, management accounting irregularities or theft of intellectual property.	An extensive system of internal controls is in place including: segregation between front & back offices, payment controls (e.g. authorised signatories & limits, independent approval by Middle Office cash management), oversight by senior management and pre & post trade checks carried out (some automated and some manual).
Technology & Information Security The risk that technology systems and support are inadequate or fail to adapt to changing requirements. The risk that systems are vulnerable to third party penetration, insider risk, or that technology cannot continue to operate to an acceptable standard in the event of adversity/disaster. The risk includes the threat of cyber risk and a breach of data protection.	Hermes relies on technology and qualified professionals to maintain its infrastructure and invests in IT accordingly. An I.T. Steering Committee which reports to the Executive Committee is in place to oversee any change initiative involving I.T. Hermes is subject to an external audit of its Internal Controls Report (prepared in accordance with AAF 01/06).
Reputation / Brand Reputational risk relates to the Hermes brand, press and marketing activity as well as ethics, trust, relationships with stakeholders, partners and clients, conduct and the overall culture and values of the firm. Reputational risk can arise from any of the key risks outlined.	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.
Products Product risk arises when products either do not meet their performance objectives or are inappropriate for certain clients. 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 honour liquidity expectations of clients. Product risk includes the pressure on revenue streams from not having the right mix of products or high concentration of AUM in products.	<p>Hermes has a dedicated Product Development team and a product approval and review procedure. The suitability of products for clients is carefully considered. Hermes monitors potential capacity constraints and mitigates them by restricting or preventing inflows into products where necessary.</p> <p>Specialist resources are used if Hermes cannot fully support products / instruments. Appropriate legal agreements are in place for all new products / instruments.</p> <p>Product risk is mitigated through product diversification. All new products are subject to the Product Development Policy, New Instrument Approval Policy and New Market Approval Policy.</p>
Conduct & Culture Misconduct / market abuse potentially causing loss to the company and/or compromising Hermes' reputation. E.g.: unauthorised / excessive activity, abuse of authority, trader operating in an inappropriate manner, failing to uphold the integrity of the markets, personal account dealing, and the risk of mis-selling / misrepresentation of products to clients and prospects. This risk includes the risk of employee grievance and litigation. This risk includes the risk that Tax regulation are not understood, implemented and complied with.	Responsibility, appropriate conduct and a principled approach to treating investors fairly, are integral to Hermes' culture. This culture is set via 'tone from the top' and is underpinned by 'Responsibility', which is explicitly stated as one of Hermes' core values and is included in the Hermes Pledge (The Pledge, issued in 2015, is the foundation of Hermes' commitment to always put its clients first, and to act responsibly and transparently).

HERMES FUND MANAGERS LIMITED
STRATEGIC REPORT (continued)

Risk	Mitigants
<p>Financial Risks</p> <p>Geo-Political / Market / Brexit Risks associated with political matters which could impact the governmental system and damage the economy and, therefore, impact Hermes negatively (e.g., reduced earnings). 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.</p>	<p>FX exposures: To the extent that holdings in any currency are greater than the working capital requirements, these amounts are converted into Sterling to minimise the FX exposure. FX forward contracts are in place to reduce future earnings exposure from FX movements in foreign currencies.</p> <p>Balance sheet investments: The Board has a limited appetite for market risk; therefore Hermes only holds proprietary investments for hedging purposes with the exception of nominal seed capital. These investments are only used to hedge the valuation movements on bonuses (Co-invest) that are linked to the value of Hermes' funds.</p> <p>Investment products: 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. Scenario analysis and impact is undertaken independently by the investment office to assess the performance of portfolios under a stressed environment.</p> <p>Brexit: Hermes Fund Managers Ireland Limited has been created and authorised to ensure that we continue to serve our clients after the UK withdraws from the EU.</p>
<p>Financial Soundness Risk of financial failure arising from lack of capital, liquidity or counterparty (credit) failure for the firm. This risk relates to the firm's own balance sheet and not the investment products.</p>	<p>Counterparty (credit) risk: Hermes has credit risk in relation to its own balance sheet, specifically: exposures to market counterparties (e.g. banks) where Hermes cash is held; and fees receivable from clients. Finance oversee regular monitoring of market counterparties and outstanding fees receivable.</p> <p>Liquidity risk: Monthly cash forecasts are prepared based on projected revenues and approved cost budgets to ensure sufficient liquidity is available at all times. Cash held on deposit is used as a liquidity source. Current assets significantly exceed current liabilities, with liquid cash reserves comprising approximately 67% of total current assets, demonstrating the ability of Hermes to meet current liabilities as they fall due in the ordinary course of business. Hermes maintains a high level of liquidity to ensure that the regulatory solvency requirements are continuously met. Hermes believes that a tolerance level of 1.25 x current liabilities should be maintained in each entity. i.e. liquid resources are maintained at that minimum level</p> <p>Capital risk: Senior management, with support from Finance, monitor the current and projected capital resources and changing requirements. The Board maintains a level of solvency capital that meets the requirements of local regulators, including an acceptable margin of comfort above the local statutory requirements.</p>

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


S A Nusseibeh
Chief Executive Officer
27 March 2019

HERMES FUND MANAGERS LIMITED**DIRECTORS**

The Board comprises the following Directors:

Name	Biography
D Stewart* (Chairman)	David is currently a Director of IMM Associates, Chairman of Caledonia Investment Trust, and a Non-Executive representative on the MacMillan Cancer Care Investment Committee. His prior experience includes nine years at Odey Asset Management, initially as CEO and latterly as a Non-Executive Director until standing down in December 2014. Before that, David's career encompassed Fidelity Investments (1994-2005), James Capel (1986-1994) and Swire Pacific Ltd, Hong Kong (1981-1986).
S A Nusseibeh	<p>Saker is Chief Executive of Hermes. He was appointed CEO in November 2011 having joined the firm in June 2009 as CIO. Prior to joining Hermes, Saker was Global Head of Equities at Fortis Investments, having initially been appointed to the firm as CIO Global Equities in 2005. Before this he was CIO of Global Equities and Head of Marketing for SGAM UK. This role followed SGAM's acquisition of Trust Company of the West (TCW), where Saker was a Managing Director, running global and international strategies, as well as managing TCW's London office. He started his career at Mercury Asset Management in 1987.</p> <p>Saker is the founder of the 300 Club, a group of leading CIOs and investment professionals who seek to challenge investment orthodoxy. He is a member of the CFA Institute's Future of Finance Advisory Council, a member of the IIRC Council, and the FCA-PRA Climate Financial Risk Forum, as well as the United Nations Environmental Programme Financial Initiative Steering Committee. He is Non-Executive Chairman of Carbon Tracker, an independent think tank that provides analyses of the impact of climate change on capital markets. He sits on the Banking Standards Board, which was created as a result of a Parliamentary enquiry to restore trust in the UK banking industry. Saker also sits on UK National Advisory Board on Impact Investing.</p> <p>In 2015, Saker was named CEO of the Year at the Global Investor Investment Excellence Awards and in 2018, he was named CEO of the Year at the Financial News Asset Management Europe Awards. Saker has a BA and PhD in Medieval History from King's College, University of London.</p>
S James*	Sally was appointed Non-Executive Director of Hermes in April 2017. Sally served as Managing Director and General Counsel of UBS Investment Bank EMEA from 2001 to 2008. Previously she held a number of senior legal roles in investment banks in London and Chicago. She has been a Non-Executive Director of Moneysupermarket.com Group plc since April 2013 and now Senior Independent Director; a Non-Executive Director of Rotork plc since May 2012 and now Senior Independent Director; and a Non-Executive Director of Bank of America Merrill Lynch International Limited since February 2016 (now merged into Bank of America Merrill Lynch International DAC). Sally is also a Trustee of the Legal Education Foundation.

HERMES FUND MANAGERS LIMITED**DIRECTORS (continued)**

W McClory***	<p>Billy was appointed Non-Executive Director of Hermes in August 2010. He was employed by Post Office Telecommunications from 1968-78 and became a National Officer of CPSA and then NCU in 1984, and CWU in 1995. At NCU he was responsible for pension matters in the Post Office and BT, and he was the lead officer on pension matters for the BT Unions from 1990-97. He is a Trustee Director of the BT Pension Scheme and a member of the National Federation of Occupational Pensioners (formerly UNITE, and before that the National Federation of Post Office & BT Pensioners). He is a Trustee of the National Communications Union Staff Superannuation Scheme.</p>
H Steel	<p>Harriet is Head of Business Development, a member of the Executive Committee and an Executive Board Director. She joined the firm in 2011 with responsibility for Sales, Client Service, Marketing, Communications and Product Strategy. Harriet was appointed to the Board of Hermes in 2013, becoming the company's first female executive director.</p> <p>Prior to joining Hermes, Harriet led Portico Advisors, an asset raising and marketing advisory firm for alternative investment managers, including hedge funds, private equity and real estate strategies, which she founded in 2003. Her earlier career included roles in capital markets at Morgan Stanley and at Bankers Trust, where she started her career in 1990.</p>
D Watson*	<p>David is an Associate of the Institute of Chartered Accountants in England and Wales and was appointed Non-Executive Director of Hermes in July 2011. Currently, David is Senior Independent Director of Countrywide plc, Senior Independent Director at TR Property Investment Trust plc, and Non-Executive Director and Chairman of the Audit and Risk Committee of Kames Capital 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.</p>
G Ceresino**	<p>Gordy is Vice Chairman of Federated Investors, Inc., President of Federated International Management Limited and Executive Director for international distribution. He is responsible for leading, developing and executing the firm's global business and distribution plan. Gordy joined Federated in 2006 when the firm acquired MDT Advisers of Boston, where he served as Chief Executive Officer. Prior to his work at MDT, he held various senior positions at Dean Witter Reynolds Inc.</p>

HERMES FUND MANAGERS LIMITED**DIRECTORS (continued)**

D Cunningham**	<p>Deborah Cunningham, CFA – Chief Investment Officer, Global Liquidity Markets, Senior Portfolio Manager, Executive Vice President, Federated Investors, Inc.</p> <p>Debbie is Chief Investment Officer of Global Liquidity Markets. She joined Federated in 1981 as a performance analyst and has more than 30 years of investment experience. Since 1990 she has been a portfolio manager for all government and prime liquidity products. In 1994 she took over the management of the taxable liquidity group. In addition to the domestic taxable liquidity portfolios, Debbie also oversees the management of the domestic tax-exempt liquidity portfolios, as well as the offshore liquidity products. She is a current member of the CFA Society of Pittsburgh and previously held the title of Director and President.</p>
T Donahue**	<p>Thomas Donahue – President, FII Holdings, Inc., Chief Financial Officer and Treasurer, Federated Investors, Inc. and Director, Federated Investors, Inc.</p> <p>Tom joined Federated in 1993 as a Vice President and currently serves as the company's Director and Chief Financial Officer. Prior to joining Federated, Tom was in the venture capital business, and from 1983 to 1987 was employed by PNC Bank in its Investment Banking division.</p>
J Fisher**	<p>John is President and Chief Executive Officer of Federated Advisory Companies. In this role since 2006, John provides overall leadership to Federated's investment management organisation, which employs more than 225 investment professionals. Joining the firm as a regional marketing representative in 1979, John rose through the distribution channel, serving in a variety of positions, culminating with him being named president of Federated Securities Corp., Institutional Division. John is a member of the firm's seven-person executive committee, vice president and director of Federated Investors, Inc., and either principal executive officer or a board member of a number of Federated mutual funds.</p>
J E. Lambesis**	<p>Jane E. Lambesis – Senior Vice President, Regional Sales Consultant, Federated Investors, Inc. Jane joined Federated in 1987 and is Senior Vice President of Sales. She specialises in consulting to individual financial advisors and their teams regarding income planning, manager search and selection, investment portfolio design and monitoring.</p>
D McAuley III**	<p>Denis McAuley III – Vice President and Director of Corporate Finance of Federated Investors, Inc. Denis joined Federated in 1978 as an internal auditor and moved on to become Vice President, Manager of Corporate Accounting. In 1985, Denis assumed the position of Vice President and Manager, Fund Accounting. In 1989, he assumed the position of Senior Vice President and Chief Financial Officer of The National Funds in Greenwich, CT. Denis returned to Federated in 1993 as Senior Vice President of Corporate Finance and became Principal Accounting Officer in 2001, a position he held until 31 March 2013.</p>

HERMES FUND MANAGERS LIMITED**DIRECTORS (continued)**

T W Zierden III**	Theodore W Zierden III – President, Administration, Federated Services Company. Ted manages the Business Information Services Division. He also oversees the Investor Services Division, a group providing client and fund shareholder servicing, key fund vendor management, literature publishing and fulfilment services, and data stewardship of the CRM system. Ted also manages the Alliances Department, which is responsible for the company's merger and acquisition process. Ted began his career at Federated in 1994.
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*Independent non-executive directors

** Federated nominated directors

*** BTPS non-executive director

The following Directors were appointed to the Board during the year	Gordon Ceresino (2 July 2018) Deborah Cunningham (2 July 2018) Thomas Donahue (2 July 2018) John Fisher (2 July 2018) Jane E Lambesis (2 July 2018) Denis McAuley III (2 July 2018) Theodore W Zierden III (2 July 2018)
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The following Directors resigned from the Board during the year	I Kennedy (2 July 2018)
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HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE

STATEMENT FROM THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee report for the year ended 31 December 2018.

The audit committee continued its integral role in the Hermes' governance framework. In 2018, KPMG completed their first external audit of the Group in a timely and efficient manner and the Committee was pleased with the smooth transition they delivered. Later in the year, the Committee carefully considered the accounting implications of the change of control of the Group from BTPS to Federated Investors, Inc. The Committee also, on request from the new majority shareholder, considered and recommended a further change of external auditors to Ernst & Young LLP ("EY LLP") to carry out the audit for the current period.

David Watson
Audit Committee Chairman

MEMBERSHIP

All members of the Audit Committee ("the Committee") are non-executive directors with the exception of Denis McAuley who is employed by our parent company Federated Investors, Inc. Members of the committee have been appointed by the board by virtue of their previous financial services, senior executive experience and relevant accounting knowledge. The Committee oversees risk management, governance and compliance on their behalf. The Committee currently comprises four members, David Watson (Chair), Billy McClory, Sally James and Denis McAuley. Denis McAuley was appointed to the Committee on 2 July 2018.

Biographical details and experience of all members are detailed on pages 48 to 51.

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;
- reviewing the adequacy and security of arrangements for the Group's employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, and reviewing procedures for detecting fraud and preventing bribery;
- monitoring and reviewing the activities, processes and performance of both internal and external audit, including the external auditor's independence;
- monitoring compliance with internal codes of conduct and other policies;
- 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;
- Approving non-audit services provided by the external auditor; and
- An annual review of the Committee's Terms of Reference to ensure that they are relevant and correct.

HERMES FUND MANAGERS LIMITED
REPORT OF THE AUDIT COMMITTEE (continued)

Committee attendance in 2018

Member	Attendance
David Watson (Chair)	7/7
Billy McClory	7/7
Sally James	7/7
Denis McAuley	3/3

THE COMMITTEE'S WORK IN 2018

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

- review of the Group's financial 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, monitoring and resourcing of the Internal Audit Plan;
- review and debate of issues raised in Internal Audit reports, including management responses;
- active monitoring of the timely completion of agreed action points from past reports and escalation in the event of any material overruns, including consideration of, and if appropriate, approval of any deferral requests and related risk acceptance;
- the appointment, scope of work and findings of the external auditor and consideration of any conflicts of interest;
- consideration of the audit matters for the year and approval of actions required in respect of disclosures and statutory guarantees;
- consideration of the remuneration report disclosures;
- active monitoring of the regulatory capital and capital funding requirements;
- adoption of a new policy on the use of EY LLP for non-audit services;
- establishment of a risk assessment group to discuss any non-standard agreement terms; and
- consideration of the appointment of new external auditors EY LLP.

HERMES FUND MANAGERS LIMITED
REPORT OF THE AUDIT COMMITTEE (continued)

SIGNIFICANT ACCOUNTING ISSUES

During the year the Audit Committee considered key accounting issues in relation to:

Deferred tax asset

In 2017, a deferred tax asset in respect of losses arising in prior years, was recognised in the financial statements, having previously been unrecognised due to the uncertainty and timing of future profits in earlier years. As Hermes is now profitable on an underlying basis and is expected to be sustainably profitable on a taxable profits basis from 2019, the Committee concurred that it was appropriate to recognise a deferred tax asset at 31 December 2018 and in future periods.

The methodology applied in 2017 to determine the recoverability of the deferred tax asset, which used a three-year period to forecast profits, was applied again at 31 December 2018. This was presented to the Committee and they challenged whether a three-year period continued to be an appropriate term, and whether the current forecast remained the best and most appropriate estimate of probable future taxable profits.

The Committee was satisfied that this was an appropriate basis and, as a result, an increase in the deferred tax asset of £1.7m was recognised in the financial statements.

Staff incentive schemes

As discussed more fully in the Remuneration Committee report, the acquisition of the Company by Federated Investors, Inc. effective 1 July 2018, triggered change of control provisions in the both the long-term incentive plan and the co-investment bonus deferral plan. New long-term incentive arrangements were also put in place which are accounted for as 'equity-settled' transactions under FRS 102 accounting rules.

The Committee challenged the accounting treatment of these awards and satisfied itself that the accounting treatment was appropriate.

EXTERNAL AUDITOR

Following the Group's acquisition by Federated Investors, Inc. the Committee considered the appointment of EY LLP for the year ending 31 December 2018. On 20 September 2018 following a review of the proposal, strategy and approach, EY LLP was appointed as auditor, with Matthew Price as the audit partner, replacing KPMG LLP.

The Committee monitors the performance, objectivity and independence of the external auditor. Being the first year of the new auditor relationship, the Committee discussed and agreed the scope of the audit plan for the full year, paying close attention to their approach to areas of judgement, significant accounting issues and to the methodology for calculating and the quantum of materiality.

The Committee carried out a further consideration of the effectiveness of the external audit process performed by EY LLP on completion of the audit.

The external auditor – KPMG LLP for the period to 1 July 2018 and EY LLP for the period from 1 July 2018 - attended all Committee meetings during 2018 and up to the date the annual report was signed on 27 March 2019. At each meeting, they provided reports on topics such as the control environment, key accounting matters and mandatory communications.

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE (continued)

The Committee adopted a new policy on the use of EY LLP (since appointment) for non-audit services to ensure independence. EY LLP will only be appointed to perform non-audit work when they are deemed suitable to do the work and where there is not a conflict of interest. Any non-audit work performed by EY LLP requires approval by the Committee.

Hermes does not fall within the definition of a public interest entity ('PIE') and therefore does not need to comply with EU-related legislation relating to caps on non-audit fees or auditor rotation. However the Committee carefully monitors the extent of such fees and the resulting ratio of non-audit to audit services and aims for these to remain within the guidelines of this legislation.

INTERNAL AUDIT

Internal Audit is independent of management and reports directly to the Committee. The team has unrestricted access to all functions, property, systems, records and staff as required to accomplish its audit objectives, including the permission to co-source with external advisers.

Internal Audit operates a risk-based audit cycle based on an assessment of risks within the Hermes Group. The annual audit plan is presented to the Committee for approval, and for amendments where necessary.

The Head of Internal Audit has regular meetings with the Chairman of the Committee and attends all meetings of the Committee to present reports on the Internal Audit findings and on the proposed future audits. The Committee continues to monitor the internal audit plan on an ongoing basis to ensure that it remains relevant to the needs of the business and to ensure that it can be adapted or changed as required.

The Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the business, and it periodically commissions external effectiveness reviews of Internal Audit in line with best practice.

EVALUATING PERFORMANCE OF THE COMMITTEE

Historically the Committee's performance is reviewed triennially. However, 2019 will see the implementation of an evaluation tool that will allow for annual performance assessments of the Committee. Overall the Committee is considered to be performing well, is proactive and effective in carrying out its responsibilities and the Board is content with the Committee's performance.

HERMES FUND MANAGERS LIMITED

REPORT TO THE RISK AND COMPLIANCE COMMITTEE

STATEMENT FROM THE CHAIR OF THE COMMITTEE

I am pleased to present the Risk & Compliance Committee report for the year ended 31 December 2018. The Risk & Compliance Committee is integral to Hermes' governance and risk management frameworks. The Strategic Compliance Director, who is responsible for compliance and risk at Hermes, reports directly to the Committee.

During the year the Committee has focussed on assessing risks associated with the change in ownership: the identification, assessment and management of such risks; reviewing and challenging the ICAAP, in particular the stress testing methodology and analysis; overseen progress and implementation of the General Data Protection Regulation; and overseen work to assess potential risks that may arise from Brexit and steps taken to mitigate these risks.

Sally James
Risk and Compliance Committee Chair

MEMBERSHIP

All members of the Risk and Compliance Committee (the "Committee") are non-executive Directors with the exception of Denis McAuley who is employed by our parent company Federated Investors, Inc. Members of the Committee have been appointed by the Board by virtue of their previous financial services and senior executive experience. The Committee oversees risk management, governance and compliance on their behalf.

The Committee currently comprises five members, Sally James (Chair), David Stewart, David Watson, Billy McClory and Denis McAuley. Sally James was appointed by the Board as Chair in 2017 and is considered an appropriate candidate taking in to account her recent and relevant financial services experience. Denis McAuley was appointed to the Committee on 2 July 2018. Biographical details and experience of all members are detailed on pages 48 to 51.

The table below reflects the Committee attendance during 2018.

Member	Attendance
Sally James (Chair)	5/5
Billy McClory	5/5
David Stewart	5/5
David Watson	5/5
Denis McAuley	2/2

RESPONSIBILITIES

The principal role of the Committee is to provide oversight and challenge on risk exposures taking into account risk appetite and advise the Board on future risk strategy including capital and liquidity management. This includes but is not limited to:

- Overseeing Hermes' risk management framework and the integrity and effectiveness of risk management, governance and compliance activity within the group;

HERMES FUND MANAGERS LIMITED

REPORT TO THE RISK AND COMPLIANCE COMMITTEE (continued)

- Reviewing the methodology and assumptions used in Hermes' models for determining its regulatory capital, and satisfying itself that the models are fit for purpose;
- Overseeing the management of relationships and registrations with regulatory authorities and to review developments and prospective changes in the regulatory environment;
- The alignment of strategy with the Board's risk appetite; and
- To review the adequacy and resources of the Group's Risk and Compliance function.

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. The Strategic Risk and Compliance Director (assisted by the Head of Risk) reports directly to the Committee. In addition, the committee regularly receives updates from other individuals across the business including the Chief Operating Officer and the Head of Investment.

The Committee is also authorised to seek appropriate external professional advice whenever it considers this necessary.

THE COMMITTEE'S WORK IN 2018

The prominent focus of the Committee's work in the first half of 2018 has been the change of ownership. Federated Investors Inc. replaced the BT Pension Scheme as the ultimate parent controlling party in July 2018.

Key areas that required review and challenge included:

- Risk of incompleteness;
- Assessment of the risks posed including client disruption and staff retention;
- Plans for managing the functionality of the risk and compliance processes from day one;
- Plans for managing the collaboration with Federated Investors, Inc. following day one.

The committee operates a rolling agenda which comprises both recurring and time specific items. Recurring items that are regularly reviewed by the Committee include Compliance and Risk Management Information, progress of major regulatory projects, conflicts of interest and conduct risk.

Work of the Committee during 2018 outside of the regular agenda items comprised of:

January	<ul style="list-style-type: none"> • Consideration of any issues to highlight to Remuneration Committee
February	<ul style="list-style-type: none"> • Approval of Risk and Compliance Plan 2018 and Compliance Monitoring Plan 2018 • ICAAP stress testing and risk scenario update • Modern Slavery Act progress update
May	<ul style="list-style-type: none"> • Approval of ICAAP 2018 • GDPR update • Establishment of the Irish subsidiary • Money Laundering Reporting Officer's Report • Conflict of interest register and Deep Dive

HERMES FUND MANAGERS LIMITED

REPORT TO THE RISK AND COMPLIANCE COMMITTEE (continued)

July	<ul style="list-style-type: none"> • Review of Prudential Returns • New Compliance policies following the Federated transaction • Review committee Terms of Reference
November	<ul style="list-style-type: none"> • Deep Dive into recent errors and the error investigation process • Update on SMCR project • Consideration of Risk Appetite statements

The group policies issued by Risk and Compliance form part of the agenda covered by the Committee. Policies are updated on a rolling basis throughout the year. Several updates have been made as a result of the change of ownership.

KEY AREAS OF WORK COVERED IN 2018

Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP brings together risk management and monitoring of the ongoing capital requirements. The risk management process plays an essential role in the firm with the aim of providing adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate risk to which Hermes is exposed. The Risk & Compliance Committee's role includes both reviewing and challenging the ICAAP. Recommendations are then passed on to the board.

The General Data Protection Regulation ("GDPR")

GDPR makes a fundamental change to the current data protection law, and came into effect in May 2018. The main focus of this regulation is the protection of personal data relating to individuals; controls on when and how this data can be stored as well as for how long. This was fully implemented in 2018.

BREXIT

The political uncertainty that remains as a result of the UK's decision to leave the European Union has been a key agenda point for the Committee, especially in the second half of the year. Hermes took the steps of setting up a Brexit Steering Group whose Chair, Gill Clarke, Strategic Risk & Compliance Director, reports to the Committee. The Brexit Steering Group meets monthly to ensure that the Hermes Group identifies potential risks that may arise; its remit covers all facets of the business including employment rights of employees who are EU citizens.

To mitigate the risks related to the potential loss of 'passporting' rights, the Board made the decision to set up a "super" management company in Ireland (incorporated on 3 July 2018). The Committee has reviewed the additional risks associated with a foreign subsidiary and the additional regulatory requirements required by the Irish regulator, the Central Bank of Ireland. The subsidiary's regulatory permissions were approved on 11 December 2018.

PRIORITIES FOR 2019

As well as considering the rolling agenda and ad hoc items, the Committee focuses on upcoming risks that are likely to be faced by the business. The following areas are considered to be key for 2019.

- Collaboration with Federated Investors Inc.;
- Managing growth;
- Implementation of Senior Managers and Certification Regime; and
- Improvements to monitoring systems and reporting to the committee.

HERMES FUND MANAGERS LIMITED**REPORT TO THE RISK AND COMPLIANCE COMMITTEE (continued)****EVALUATING THE PERFORMANCE OF THE COMMITTEE**

Historically the Committee's performance is reviewed triennially. However, 2019 will see the implementation of an evaluation tool that will allow for annual performance assessments of the Committee.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE

STATEMENT FROM THE CHAIR OF THE COMMITTEE

2018 has been another successful year for Hermes, with long-term investment performance maintained, increasing sales and growth in both assets under management and assets for which we provide stewardship services. At the same time, the business has continued to invest to strengthen its operational and cost footing resulting in reduced underlying profits in the year.

The Group believes that remuneration must be aligned with long-term performance, reflect strong risk management and encourage a responsible culture with regard to both investments and relationships with key stakeholders.

The Group believes that this a key driver for success over the long term. On an underlying basis, i.e. excluding the impacts of the change of control crystallisation, the total compensation ratio is largely unchanged year on year. There is a reduction of around four percentage points due to termination of the Interim Profit Participation Plan in 2017 which is discussed in detail in the report.

Following the acquisition of the Group by Federated effective 1 July 2018, Change of Control provisions in both the Hermes Long Term Incentive Plan (LTIP) and the Co-investment Scheme were triggered. Holders of LTIP awards became entitled to a payment calculated based on the price per share implied by the consideration paid by Federated for its 60% investment in the Group. In exchange, award holders forfeited the rights to any LTIP profit share arrangements that they would have been entitled to otherwise. Under the terms of the Co-investment Scheme, all deferred bonuses were paid out upon the Change of Control of the Group.

A new Long-Term Incentive Plan has been put in place following the Change in Control. This has been reviewed by the Committee. The Committee continues to remain mindful of ensuring that remuneration is appropriate in light of industry challenges.

David Stewart
Remuneration Committee Chairman

MEMBERSHIP

The Remuneration Committee is constituted as a Committee of the Board of Hermes Fund Managers Limited. Membership of the Remuneration Committee is formed by the Chairman of Hermes and other Directors who are appointed in line with the business needs of the Group.

The Remuneration Committee currently comprises David Stewart (Chair), Billy McClory, Dávid Watson, Sally James, Thomas Donahue, John Fisher and Gordon Ceresino.

The primary focus continues to be centred on advising the Board of Directors on remuneration matters. This advice takes shape through policies and plans that are designed to motivate and retain high-calibre executive directors, senior management and staff.

This report continues to place an increased emphasis on remuneration disclosure in 2018,

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

ensuring continuous improvement in both the transparency and detail of the Group's remuneration reporting.

Transparency

The transparency of the disclosures included in this report is intended to mirror that of public companies. Disclosures include remuneration of executive directors and setting remuneration decisions in the context of the Group's performance. This aligns the disclosures with Hermes' recommendations for public listed companies, and this is discussed in detail in the report.

Stakeholder alignment

The Group believes that remuneration must be aligned with long-term performance and reflect strong risk management. The Group believes that this will encourage a responsible culture with regard to both investments and relationships with key stakeholders. It is important that the remuneration framework is clear, understandable and achievable in order to motivate and retain employees and ensure alignment with the strategic business targets agreed with the Shareholders. This is achieved by using a combination of fixed and variable compensation tools enabling management to encourage the right behaviours and strong performance over the short, medium and long term.

Management is charged with applying their discretion as they steer the Company within a clear risk management framework. Management is supported in these responsibilities by the consistent application of the Company's performance and behaviour metrics used as part of the annual appraisal discussion. These have been reinforced by the Hermes Pledge which underpins the importance of putting the client first and acting responsibly and transparently. An overview of how Hermes' remuneration policies align the interests of employees with the Company's objectives is set out on the following pages.

Strategy

Hermes' ongoing strategy is to build a world-class investment management business that delivers outstanding holistic return outcomes for clients and their beneficiaries, attracts strong inflows of third-party assets, and continues to meet and exceed financial objectives. Hermes will continue to review remuneration policy in anticipation of this growth and with the changing shape of the Company. Individuals' remuneration will continue to be linked with the success and long-term growth of the Hermes Group.

Reward strategy principles

As a private firm with two principal shareholders, the principal-agent issues present in the public listed company sector are less prominent for Hermes. Indeed, representatives from the owners sit on the Board and the Remuneration Committee and are directly involved in developing and approving executive remuneration policy and outcomes.

Notwithstanding being a majority-owned subsidiary of a publicly listed company in the United States of America, Hermes is aligned to those principles we have communicated to listed companies in the United Kingdom. There is a real focus on strategic delivery and rewarding both "the how" as well as "the what" in terms of operational and financial performance, and through representation on the Board there are clear lines of accountability to the owners.

HERMES FUND MANAGERS LIMITED**REPORT OF THE REMUNERATION COMMITTEE (continued)****Diversity and gender pay gap**

We are committed to employee diversity. This year we have continued working to increase the representation of women firm wide including on the Board and at senior management level. We have achieved our 2018 targets as outlined in the Strategic Report.

In 2018 we published our Gender Pay Report in accordance with the UK Government Equalities Office reporting regulation. Hermes has a strong culture of responsibility, ingrained in our DNA, and firmly believe that we should lead by example. We remain committed to treating everyone fairly, with dignity and respect, and believe that diversity and an inclusive culture allows us to continue to grow as a strong and innovative organisation.

As a signatory of the Women in Finance Charter, we have set firm wide targets for the business and achieved an increase in female employees to 40% in September 2018. This demonstrates that efforts to date are having a positive impact on gender diversity across the business. Despite being on a par with the rest of the asset management industry, this progress is simply not good enough. We need to change this imbalance across Hermes and lead the rest of the industry. As disclosed in the strategic report, Hermes have set new targets for board, senior management and firm wide gender diversity.

Hermes remuneration philosophy and principles

The Group's philosophy is to reward individual contribution, as demonstrated by the delivery of long-term sustainable results that are aligned with the business strategy, values and behaviours of the Group and that serve the best interests of clients, their beneficiaries and our owners, while enabling the business to maximize its potential.

Through focusing on long-term awards, the incentive pay strategies encourage employees to act like long-term shareholders and support the performance of the firm and its culture in order to create a sustainable business, while discouraging excessive risk taking. The risk appetite of the Group is closely monitored, and further discussed in the Risk Management section of the Strategic Report. Individual and organisational performance is transparently and rigorously assessed against a combination of financial (multi-year) and non-financial (multi-year) KPIs in order to determine the appropriate total remuneration that will attract and retain key talent.

The following page demonstrates how Hermes embodies these key principles.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Reward Strategy Principles (continued)

Remuneration Principles promoted by Hermes	Specifics	How are they implemented at Hermes?
Shareholding Executives should make a material long-term investment in the company's shares	Long-term awards for senior management that encourage long-term success	<p>Our long-term incentive plan (LTIP) awards restricted stock units (RSU) up to 10.5% of the equity of the Group to senior management and is designed to encourage profitable growth over a five-year profile. The details are discussed further on in this report.</p> <p>The Chief Executive Officer (CEO) is eligible to participate in a UK sub-plan of the Federated stock plan. Under the terms of the sub-plan, the CEO is invited annually to purchase a set number of shares in the Group's parent company, Federated Investors, Inc. at a discounted price. These shares vest 5 years after the date of purchase.</p>
Alignment Pay should be aligned to the long-term success and the desired corporate culture	<p>Strategic performance metrics (rather than total shareholder return) to dominate incentive schemes</p> <p>Assessment of performance with use of relevant metrics focused towards impact on stakeholders</p> <p>To promote a sound and aware approach to risk management that is aligned with the firm's risk appetite, client needs and corporate objectives</p> <p>Tail risk built into pay structures</p> <p>An approved ex-ante total cap on overall pay</p> <p>Commitment to not pay more than is necessary</p>	<p>A proportion of key employees' deferred remuneration is delivered as fund awards, which are notional investments in funds managed by the Group, thereby aligning the short and long-term interests of employees with our clients and stakeholders.</p> <p>Individuals are assessed on a combination of financial, technical and behavioural key performance indicators. Non-financial metrics include demonstration of Hermes' corporate behaviours as outlined in the Hermes Pledge. Individuals will be highly rated if they perform successfully while embodying the Hermes behaviours as conveyed in the Hermes Pledge. Further detail is discussed later in the report.</p> <p>The Remuneration Committee works closely with the Risk and Compliance Committee to ensure that remuneration principles are governed by a sound and risk-aware management system.</p> <p>We do not operate a cap for individual pay, however the bonus pool was fixed at £42m inclusive of national insurance for 2018. Relative spend on pay is also monitored.</p> <p>Remuneration is reviewed annually and benchmarked to the external market. The Group will pay competitive and attractive, but not excessive, total remuneration in order to achieve outstanding performance. During the vesting period for deferred compensation, awards are subject to the malus clause in the plan rules. After vesting, awards remain subject to clawback.</p>
Simplicity Pay schemes should be clear and understandable for both investors and executives	To deliver reward programs that are transparent, simple to administer and affordable to the Group	<p>We have taken steps in 2018 to further simplify pay arrangements, with a single incentive scheme for the Group's senior management which replaces the two previous schemes in place (the LTIP and the IPPP). Additionally, the UK sub-plan of the Federated stock plan referred to above has been introduced solely for the CEO. The discretionary bonus rewards past performance and includes a deferred portion for ongoing alignment, while the RSU's provide a forward-looking motivational tool to deliver a sustainable business.</p>
Accountability Remuneration committees should use discretion to ensure that awards properly reflect business performance	<p>Ownership and accountability for pay outcomes, including greater use of discretion</p> <p>Publication of pay ratio</p>	<p>Our Remuneration Committee is consistently enhancing the disclosures we provide within the annual remuneration report.</p> <p>Total variable compensation is determined by the Remuneration Committee and recommended to the Board. Revenue and profit margins are used for bonus pool funding. Profit acts as a hurdle that, unless cleared, will require the Remuneration Committee to review the bonus pool size – in light of its duties to the shareholders and the Board. The Remuneration Committee has overall discretion to adjust 100% of discretionary awards and has adjusted awards both up and down over recent years.</p> <p>We have disclosed our relative spend on pay and the ratio of total CEO pay as compared to median employee pay. Our CEO and fellow Executive Committee members hold regular events in which they make themselves available to answer any questions from staff.</p>

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Stewardship Companies and investors should regularly discuss strategy, long-term performance and the link to remuneration	Greater quality of engagement along the ownership chain	Our owners are represented on our Board and the Remuneration Committee, ensuring there is clear connection between us as a firm, our owners and our owners' underlying beneficiaries.
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Outline of individual pay elements of the Group

Individual pay elements support our purpose and align interests with clients and stakeholders

Fixed pay elements – base salary, retirement and other benefits

Provides competitive fixed pay at a level that reflects market compensation for the role. This applies to all employees.

- Assists employees with retirement and provides insurance coverage and other corporate benefits.
- Determined by experience, duties and scope of responsibility, as well as internal and external market factors.
- Reviewed annually, the Remuneration Committee considers, challenges and approves the budget requested by the Executive Committee.
- Proposals are approved in accordance with the Remuneration Committee Terms of Reference.

Bonus

Encourages all employees to deliver high levels of performance and demonstrate behaviours that are in line with the corporate values, thus aligning the interest of shareholders, investors and stakeholders.

Structure:

- The discretionary bonus scheme is for all eligible employees. Eligibility is based on service conditions.
- Individual awards are based on an assessment of an individual's performance and behaviours with reference to firm performance, team performance and market intelligence.
- All bonus allocations are reviewed by the Executive Committee and the top 50 (and all current employees identified as Code Staff) reviewed by the Remuneration Committee.
- Based on the size of the bonus, an element is deferred and notionally co-invested. Both the upfront and deferred elements of the bonus are ultimately delivered in cash, with the deferred portion co-invested in investment strategies to ensure alignment of interests (see next section for more detail).
- Leaver provisions: Good and Bad leaver provisions apply to the awards.

Performance & Adjustment:

- The company-wide bonus pool is based purely on company performance.
- Performance measures are based on revenue, profitability and profit margins and the pool size is then determined by the Remuneration Committee's approval. Furthermore, the Remuneration Committee and Executive Committee are not obligated to fully distribute the bonus pool and should adjustments be required (risk or otherwise), they have the discretion to impose any relevant adjustments. 100% of the award is subject to adjustments.
- The Risk and Compliance Committee advises the Remuneration Committee about any considerations the Remuneration Committee should take into account.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Co-investment / bonus deferral

Aligns short and long-term interests of employees with our clients and stakeholders. In particular, co-investment aligns the interests of investment professionals with those of the shareholders and investors.

Structure:

- The deferral scheme applies to all eligible employees whose bonus is £75,000 or greater.
- Awards vest over three years in equal tranches (except in special circumstances) and the performance period does not restart each year.
- Over the performance period, the underlying award notionally tracks fund(s) performance, and is adjusted in line with the performance of the fund(s). For the sake of clarity, it can be adjusted upward or downward.
- For investment professionals at least 50% of their deferred award is notionally co-invested into the fund(s) they manage. The remaining 50% can also be notionally co-invested into the funds they manage, or the employee can choose to notionally co-invest in a basket of funds from across the Company. There is no retention period.
- Non-investment professionals must notionally co-invest 100% of their deferred bonus award into a basket of funds.
- During the vesting period for deferred compensation, awards are subject to malus. After the vesting, awards remain subject to clawback.
- Upon vesting, the change in performance during the performance period is applied to the vesting tranche. This mechanism is applied when performance increases, as well as decreases.

Interim Profit Participation Plan (IPPP)

The Interim Profit Participation Plan terminated in 2017 and is therefore included in comparative figures shown further on in this report. The IPPP transitioned participants in the previous Equity Participation Plan to the LTIP and aligned the mid-term interests of employees with clients and stakeholders. This strategy gave the recipients the right to share in the growth of the Company in each year following the award grant until the LTIP plan vests. This plan was closed to new participants from the 2015 performance year.

Structure:

- Participants could work in any part of the Company.
- Profitability figures were measured following the close of each performance year; the award was then calculated on a proportional basis for all participants in that year's allocation.
- The awards vested annually over 3 years and were subject to plan rules being fulfilled.
- Upon vesting, participants have no further right to the awards. There was only one allocation.
- Good and bad leaver provisions applied to the award.
- The vested award was delivered to the recipient as a cash payment.

Performance & Adjustment:

- If a decision was taken by the Committee to restrict an award (to any degree), it would have prevented an award from being paid to the employee.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Long-term incentive plan (LTIP) Long-term incentive plan (LTIP)

Aligns the interests of employees to those of the shareholders by encouraging employees to grow profits over the long term through sustained performance. The LTIP awards restricted stock units (RSU's) of up to 10.5% of the equity of the Group to senior management and is designed to encourage profitable growth. The RSU's have been split into two pools – Pool A and Pool B. The two pools have different vesting periods and this additional layer of complexity was put in place to reflect the needs of both principal shareholders. The Pool A awards vest in three parts whereby 20% of the number of award shares vest on the third, 30% vest on the fourth and 50% vest on the fifth anniversaries of the date specified in the Award Agreement. The Pool B awards vest over a shorter time period, with 50% of the number of award shares vesting after 39 months and 50% after 51 months of the date specified in the Award Agreement.

Structure:

- Participants are selected at the discretion of the Executive Committee and approved by the Remuneration Committee on the basis of an employee's projected ability to influence the company over the performance period, and can be in any part of the Company. Eligibility is reviewed on an annual basis.
- The RSU's are valued by an independent valuation firm.
- The vested award is available for sale from the two pools as follows:
 Pool A: Year 6 (33.3%), Year 7 (33.3%), Year 8 (33.3%)
 Pool B: Year 4 (50%), Year 5 (50%)
- Good and bad leaver provisions apply to the award.
- Participants are not required to sell their vested RSU's and may hold them as long as they wish, beyond the restricted period, subject to Federated not exercising its call option.
- Participants are entitled to receive any dividends declared at any time the participants hold RSU's.

UK sub-plan of the Federated Investors, Inc. share plan

During the year the Group's ultimate parent company Federated Investors, Inc. created a UK sub-plan to its existing share plan.

Structure:

- The UK sub-plan allows awards of shares of restricted Federated Class B common stock to be granted to employees in the United Kingdom including the Hermes Chief Executive Officer.
- In connection with any award, payment representing dividends may be made to participants.
- The Federated compensation committee has full authority to make awards under the UK sub-plan, to determine the terms and conditions of such awards, and to interpret and make all other determinations affecting the UK sub-plan, subject to the provisions of the UK sub-plan and the existing Federated share plan, and direction by Federated's board of directors.
- Awards under the UK sub-plan may have a discounted purchase price per share.

Performance & Adjustment:

- All awards have a five-year cliff vesting schedule and are subject to certain vesting acceleration, forfeiture or malus and clawback provisions that may apply depending upon the circumstances surrounding a participant's termination of employment or the occurrence of certain other events.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Below is a description of the approach to measuring the performance of individuals, including both financial and non-financial metrics, and explains how this assessment influences an individual's remuneration.

- The Company's performance management process requires all managers to review the performance and behaviours of their employees and to assign a rating to reflect their contribution throughout the year.
- All roles are benchmarked against the market to ensure that their remuneration is competitive without being excessive.
- A rigorous review is undertaken to ensure a strong correlation between positive assessments and positive awards, and negative assessments and negative awards.
- Non-financial metrics include demonstration of corporate behaviours, and successfully delivering agreed objectives.

Remuneration ratios

The compensation to revenue ratio, bonus to revenue ratio and CEO to median employee ratio form part of the key remuneration measures. These measures allow us to benchmark performance against industry peers and align compensation with the Company's financial performance. In January 2019, the Board and the Shareholder's approved a bonus of £42m inclusive of National Insurance for the 2018 performance year, equating to a bonus to revenue ratio of 27%.

The table below shows the comparable relative spend on pay, excluding the impact of the change of control one off event.

Relative Spend on Pay on an underlying basis (excluding the impact of the Change of Control)

Ratio	2018	2017
Compensation ratio	55%	55%
Total compensation for employees /underlying revenues		
Bonus to revenue ratio	27%	27%
Bonus/underlying revenues		
CEO to median employee pay	22x	23x
Total pay for CEO/Median annual compensation for UK employees (excl. executives)		

HERMES FUND MANAGERS LIMITED**REPORT OF THE REMUNERATION COMMITTEE (continued)****Awards arising from the Change of Control event**

Upon the acquisition of the group by Federated Investors, Inc. effective 1 July 2018, Change of Control provisions in both the long-term incentive plan (LTIP) and the co-investment bonus deferral plan were triggered.

The LTIP scheme was established at the end of the first part of the recovery journey when management had stabilised the company following losses of £19.5m in 2010. Since that time, the Company has built a differentiated offering and the beginning of a healthy third-party business, generated a large event award pool that was a function of the acquisition price and the value that was created from when the LTIP was launched.

The Change of Control provisions within the LTIP rules stipulated that 30% of any consideration received, above a hurdle of £50.0m, from the sale or part sale of Hermes shares would be payable to LTIP holders upon completion of the disposal by BT Pension Scheme (BTPS). Federated acquired 60% of the long-term voting rights of the Group which crystallised an event award pool of £63.0m excluding employer's national insurance contributions. The event award pool comprised a non-discretionary and a discretionary component. The non-discretionary component was allocated to LTIP holders to satisfy contractual commitments made in previous awards. In line with the Hermes Pledge, the LTIP was structured to make the full amount of the awards subject to income tax generating significant tax paid to HMRC. Equally, acting within the spirit of the Hermes Pledge, LTIP holders had agreed with the shareholder at the outset of the plan to allocate 10% of their LTIP value to other staff in the case of an event, to which they added a further 2% making an allocation to a wider population of the business of 12% of the total LTIP event pool. These awards were made in the form of cash and deferred cash awards to encourage retention of key staff through the next chapter of the Group's development. The total event award pool generated awards to 306 staff members and resulted in tax paid to HMRC of £22.9m.

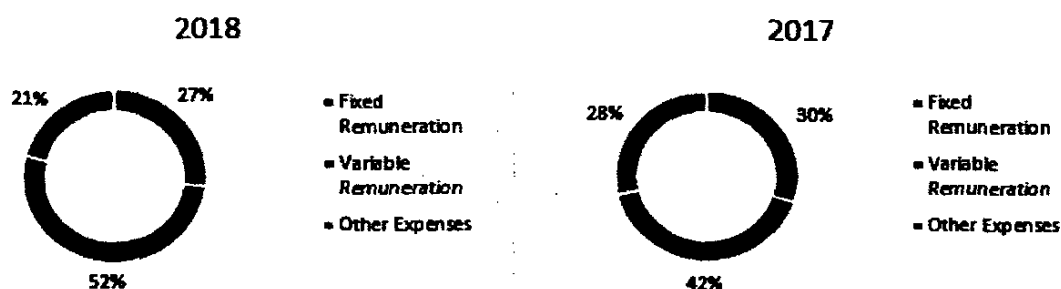
Under the terms of the Co-investment Scheme, all deferred bonuses, totalling £10.5m, were paid out upon the Change of Control of the group.

The Change of Control of the Group was a one-off event that enabled staff to share in the increase in value that had been created for BTPS over the past 5 years. It is not a repeatable occurrence and the Remuneration Committee take the view that these payments do not reflect an ongoing increase in compensation awards to staff.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

The charts below show the relative spend on remuneration (both fixed and variable) as a percentage of total costs of the business. The figures presented include the impact of the change of control awards.



Treatment of executive incentive schemes, deferred compensation awards and LTIPs

The main sources of variable remuneration are the discretionary annual cash bonus, the Co-investment Scheme and the Long-Term Incentive Plan. The proposed awards are presented to the Remuneration Committee by the Executive Committee, which reviews all the proposals prior to the submission to the Remuneration Committee. All the schemes are approved by the HFML Board and the Remuneration Committee, and are regularly reviewed.

Any bonus pool is set as part of the strategic plan agreed between the Board and the controlling shareholder. The Remuneration Committee and Executive Committee are charged with effectively distributing any awards across the Company on a discretionary basis. Participation in any bonus pool is limited to eligible employees only.

With regard to employees engaged in control functions, we ensure that their remuneration does not compromise their ability to objectively review the business areas they control and monitor.

Guaranteed variable remuneration

In limited and exceptional circumstances, the Company may agree to make an award of guaranteed variable remuneration in line with the Company's policies. Replacement/sign on awards are not the Company's standard compensation practice; however, on the occasions where a replacement award is considered, the Company will take steps to determine an appropriate amount and at all times be committed to paying no more than is necessary. Retention awards are considered guaranteed variable remuneration.

Remuneration Policy Coverage

This policy covers all permanent employees of the Company, wherever based, and across all subsidiaries. We believe the current policy to be fully compliant with the requirements of both BIPRU Investment Firms (Prudential sourcebook for Banks, Building Societies and Investment firms) and Alternative Investment Fund Managers (AIFMD).

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Performance and KPIs

2018 Performance and Remuneration outcomes

The Committee considered the Company's results relative to key performance indicators below and progress against its strategic objectives, as well as the personal performance of each Executive Committee member (further information on remuneration amounts can be found in note 8 to the financial statements). This includes taking a balanced approach to growing the business profitably and in a sustainable way that encourages the longevity of client relationships, while retaining and developing the key talent critical to the long-term success of Hermes.

The total discretionary bonus pool for the year was £40.4m, a rise of 9% over the 2017 discretionary bonus pool. The Committee acknowledges the statutory loss made during the year and that this is a one-off occurrence driven by the change in control event. Underlying profits, although lower than in the previous year, remain in line with expectation. The Committee supported the short and long-term investment reflected in the business enabling it to develop future growth capabilities and create a stronger foothold in new products and markets; whilst also recognising the continued success of our asset raising activities year over year. Headcount as at year-end 31 December 2018 had risen 9% (390 vs 358 at 31 December 2017) resulting in a lower bonus cost per employee than in 2017.

Value created from the Change of Control

Hermes' approach to investment management has been transformed over the last five years by focusing Hermes' activities on delivering holistic returns for savers rather than simply investment returns. Adopting this new approach required a significant cultural change and this was achieved whilst maintaining strong investment performance and delivery of improved financial stability.

Through the sale of a 60% shareholding in Hermes, BTPS crystallised an increase in the external valuation of the Company. The Company incurred a statutory loss of £19.5m in 2010 at the inception of the Long-Term Incentive Plan and the business has grown significantly over the past five years culminating in an enterprising value of £410m being used to value interests in the Company in the 2018 transaction. The LTIP shared a proportion of this increase in value with the LTIP holders subject to the value exceeding an agreed hurdle of £50m. There is clear and straightforward alignment of the LTIP pay-outs triggered by the Change of Control event with the value creation.

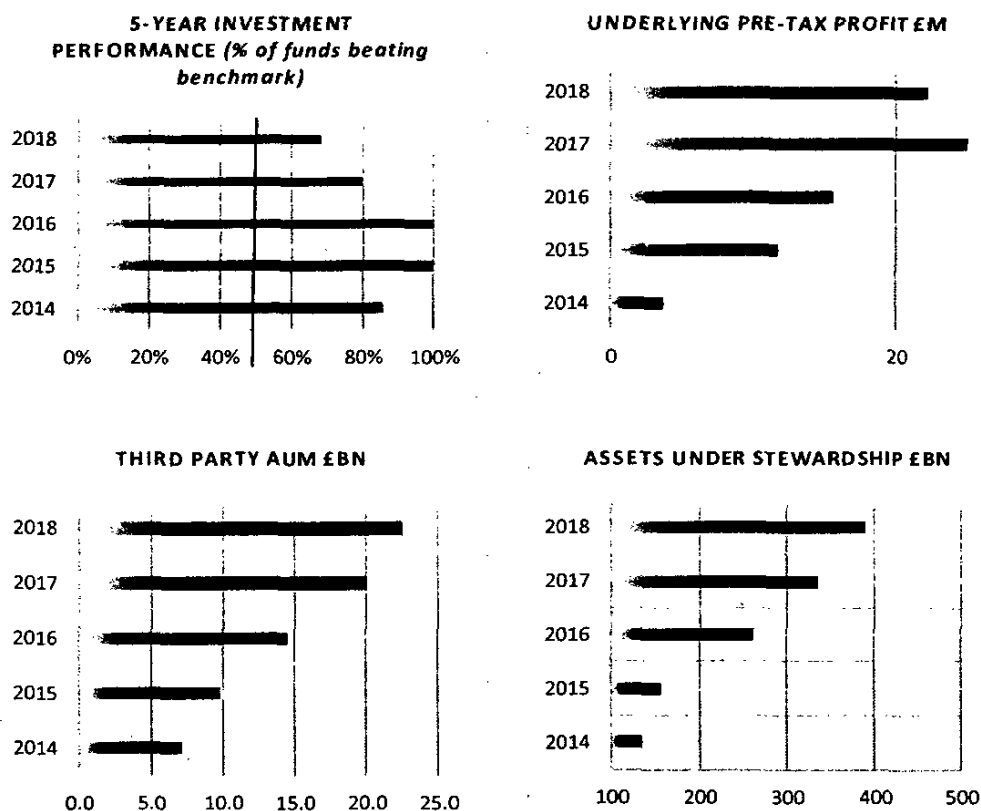
Hermes differentiated positioning in responsibility and business performance turnaround provides Hermes' future owners and other key stakeholders with a sustainable and growing business built on strong foundations.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

KPIs at a glance (continued)

The charts below provide an overview of the Group's performance over the last five years.



Executive Board Directors' Remuneration vs. Key Performance Indicators

The Executive Board of Directors for this purpose are comprised of the key management personnel, four of whom are not Directors of the company – the Chief Operating Officer, the Strategic Compliance Director, the Head of Private Markets and the Head of Investment. Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise).

The total spend on remuneration is derived from a composite of the revenue and profit metrics discussed in more detail on the previous pages. Further information on the total spend for key management personnel is detailed below.

	2018	2017
	£'000	£'000
Ongoing remuneration	7,643	8,022
Cash awards arising through the change of control	24,155	-
Federated UK sub-plan	76	-
Deferred awards arising through the change of control	3,631	-
	<u>35,505</u>	<u>8,022</u>

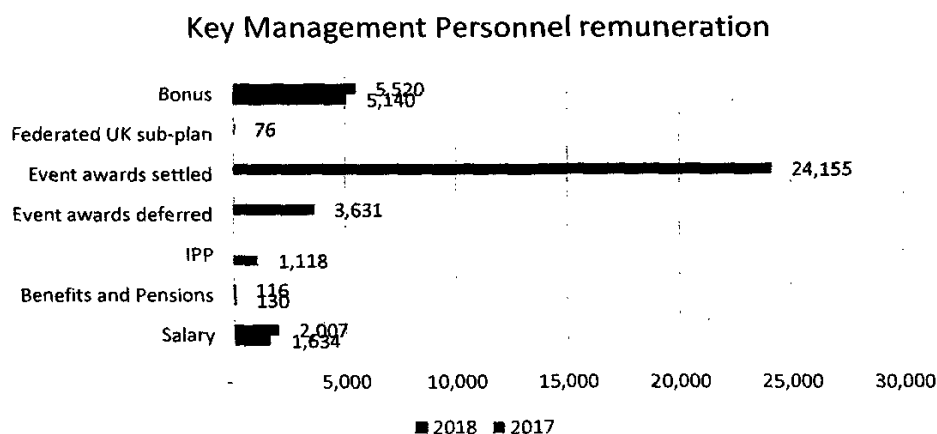
HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Total ongoing key management personnel remuneration includes emoluments, company contributions to money purchase pension schemes, the Federated UK sub-plan in the case of the Chief Executive and, in 2017 only, amounts receivable under Interim Profit Participation Plans ("IPPP").

Total ongoing key management personnel remuneration has decreased by £1,118k from 2017 to 2018 due to the IPPP payments terminating in 2017. In all other respects, the total ongoing key management personnel remuneration is broadly consistent with 2017. When determining key management personnel compensation for 2018, performance against agreed strategic objectives was considered.

The chart below shows the composition of remuneration for 2017 and 2018.



Chief Executive's remuneration

The Chief Executive's performance is formally assessed twice each year by both the Chairman of the Hermes Board and the Federated Chief Executive Officer. The Federated Compensation Committee also annually assesses performance and approves compensation against the CEO's annual objectives and progress toward the achievement of the long-term objectives of the business.

The formal appraisal supports further discussion and deliberation by the Remuneration Committee regarding the CEO's annual cash bonus, deferred co-investment and long-term incentive pay award. This process is formally documented as part of the Committee's Terms of Reference. Hermes performance and behaviour framework applies to all staff regardless of seniority; however, specific additional competencies are assigned to those in leadership and management positions.

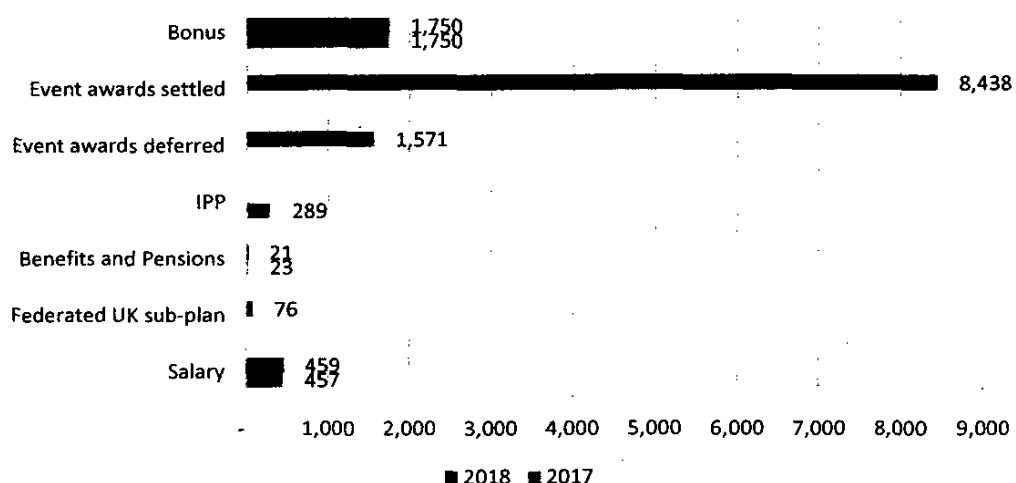
	2018	2017
	£'000	£'000
Ongoing remuneration	2,230	2,519
Cash awards arising through the change of control	8,438	-
Federated UK sub-plan	76	-
Deferred awards arising through the change of control	1,571	-
	<u>12,315</u>	<u>2,519</u>

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

The total Chief Executive's remuneration includes salary, bonus, company contributions to money purchase pension schemes, the long-term incentive pay award, the Federated UK sub-plan and, in 2017 only, amounts receivable under interim profit participation plans (IPPP).

Chief Executive's remuneration



HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

The remuneration of the Chief Executive is determined by the Compensation Committee of the board of Federated Investors, Inc., the ultimate parent of Hermes Fund Managers Ltd.

Key performance indicators	Key points in 2018 financial year – relevant to bonus award	Assessment
Strategic Delivery	Lead the execution of the firm's corporate strategy and lead the process through the transition ensuring seamless delivery of products and services to clients	✓✓✓
Management Account Profit	Although underlying profitability was lower than previous year, the profits achieved were above target and in line with the strategic plan	✓✓✓
Third party growth	Continue to drive third party growth and ensure the firm is well positioned to achieve a more sustainable firm for its stakeholders	✓✓
Cost control	Effective cost controls in place and initiatives sensitively and successfully applied across the business	✓✓✓
Investment performance	Maintain investment performance, rebalancing and leading to market selection, maximise investment performance, growth and resilience across the portfolio	✓✓
Qualitative		
Original contribution	Continue to drive innovation and ensure the firm is well positioned to achieve a more sustainable firm for its stakeholders	✓✓✓
Ambassador for asset management industry through initiatives	Founder Chair and now member of the 300 Club. Successful fulfilment of all commitment and engagements including The 300 Club, CFA Future of Finance Advisory Council, IA, Mosaic, Banking Standards Board and lending support to CSR initiatives	✓✓✓
Teamwork and collaboration	Performance and reputation related to the firm's business plan	✓✓✓

Key	
Above target	✓✓✓
Around target	✓✓
Between threshold and target	✓
Below threshold	↓

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

POTENTIAL REGULATORY CHANGE UPDATE

On 21 December 2015, the European Banking Authority ("EBA") published its final guidelines on sound remuneration policies, which came into effect on 1 January 2017. Hermes currently applies 'Proportionality' as a Level 3 firm under the PRA's and FCA's regulations on remuneration, but in the future we may be required to make changes to the remuneration policy to remain compliant with these rules.

The Committee believes that the approach of not capping variable remuneration at an individual level is in the best interests of shareholders and clients. It allows the Group to attract, retain and motivate the best talent, who know that good performance and behaviour in line with the values will be rewarded. It also allows the base salaries to remain relatively low, controlling the fixed cost base when times are challenging. This will continue to be monitored closely and the Committee will consult with the Shareholders if a new policy is required.

Whilst the above remains today's approach, in September 2017, the EBA published an Opinion on the design of a new prudential regime for investment firms which set out a number of thresholds for grouping of investment firms into three classes. Recommendations were also provided on how the remuneration and governance provisions of the CRD and MiFID should apply to each class of investment firms.

In December the same year, the European Commission published its own draft proposal following the same approach with three categories of investment firm. The process for finalising and implementing this new framework will likely take a considerable length of time and it is anticipated that Hermes would fall in to the definition of a "class 2" firm being "other 'non-systemic' investment firms" to which a more limited set of prudential requirements will apply under this new Directive and new Regulation.

The Board and Committee continue to monitor any regulatory developments and will consult with the Shareholders if a new policy is required.

RESPONSIBILITIES

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

- agreeing the broad policy and framework for the remuneration of the Chief Executive Officer, other executive directors of the Company, and senior managers whose compensation is over a certain threshold;
- determining the overarching principles and parameters of the remuneration policy on a Hermes Group-wide basis, excluding Hermes GPE LLP, which is a joint venture;
- establishing and maintaining a competitive remuneration package to attract, motivate and retain high-calibre executive directors and senior management across the Group;
- aligning senior executives' remuneration with the interests of shareholders and relevant remuneration legislation;
- ensuring compliance with the FCA and other regulators' rules with regards to remuneration; and
- reviewing and approving the annual objectives for executive directors of the Board, in accordance with its Terms of Reference, against which their performance for remuneration purposes will be measured.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Committee attendance in 2018

Member	Attendance
David Stewart (Chair)	7/7
Sally James	7/7
Billy McClory	6/7
David Watson	7/7
Gordon Ceresino	3/3
Tom Donahue	2/3
John Fisher	0/3*

Thomas Donahue, John Fisher and Gordon Ceresino were appointed to the Committee on 2 July 2018.

*John Fisher did not attend two meetings due to connectivity issues and a previously scheduled event.

WORK OF THE COMMITTEE DURING 2018

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

- recommending a remuneration policy and remuneration policy statement to the Board;
- continuing to apply regulations to compensation matters, and monitor developments of new regulations and government policies; and
- approving remuneration proposals across salary, bonus, transitional and new LTIP arrangements as well as transaction related contractual and discretionary based awards.

In line with the internal changes, the Committee receives and reviews the remuneration principles for the Group as we continue to evolve. The Committee also reviewed and endorsed salary and bonuses to be awarded during 2018 under the agreed terms of reference, and reward plans in accordance with parameters previously approved by the Committee. The Committee believes that these plans, operated within the positive culture of strong performance and behaviour that exists in the business, supported by the Hermes Pledge, provide alignment between management and both the 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.

The members who make up the Remuneration Committee at Hermes do not have a vested interest in the amounts being paid to any employees and do not participate in any Company-based incentive schemes.

Director remuneration is reviewed by the Chairman and the Chief Executive and implemented, where appropriate, following approval of the ultimate parent undertaking. The fees for Committee members are reviewed at regular intervals.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Independency and Objectivity of the Remuneration Committee

The Strategic Risk & Compliance Director and Head of Internal Audit have reporting lines into the Chairman of the Audit Committee in the case of Internal Audit, and into the Risk and Compliance Committee in the case of Risk and Compliance. The Head of Human Resources, although reporting internally, interfaces directly with the Chair of the Remuneration Committee. The chair of each of the committees is an independent Non-Executive Director.

Remuneration for the Strategic Risk & Compliance Director, Head of Internal Audit, and Head of Human Resources is proposed by executive management but independently approved by the Remuneration Committee. It is based on a combination of individual performance and market comparison. Objectives for control functions are set and measured independent of the business areas they support. The independence ensures the discretionary award granted is reflective of the achievement of objectives, rather than business performance.

Personal Shareholding Policy

When applicable, Hermes staff undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk-alignment effects embedded in their remuneration arrangements, and the Executive Committee maintains effective arrangements designed to ensure that staff comply with their undertaking.

Avoiding Conflicts of Interest

To ensure remuneration policies avoid conflicts of interests, the Company developed a Conflicts of Interest Policy in accordance with the Markets in Financial Instruments Directive (MiFID), which outlines the steps the Company has taken to identify and mitigate the types of conflict of interests that exist, or may exist.

Effective Risk Management

To ensure that remuneration decisions take into account the implications for risk and risk management of the firm, the heads of Legal, Risk, Compliance and Internal Audit provide the Remuneration Committee with regular updates on any errors or breaches that may have occurred throughout the performance period. At the end of the period, the control functions are re-engaged to ensure that any errors or breaches are taken in account in making remuneration decisions.

Directors' Emoluments

Directors' emoluments, all of which have been approved by the Remuneration Committee, are disclosed in Note 8 to the financial statements.

HERMES FUND MANAGERS LIMITED

REPORT OF THE NOMINATION COMMITTEE

MEMBERSHIP

The Nomination Committee is chaired by David Stewart and its members are Gordon Ceresino (appointed 2 July 2018), Sally James, Billy McClory and David Watson.

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 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.

Committee attendance in 2018

Member	Attendance
David Stewart (Chair)	3/3
Sally James	3/3
Billy McClory	3/3
David Watson	2/3
Gordon Ceresino	3/3

WORK OF THE COMMITTEE IN 2018

Major topics considered by the Committee during the year were:

- The appointment of seven Directors to the board of Hermes Fund Managers Limited;
- The appointment of four Non-Executive Directors to the newly incorporated Hermes Fund Managers Ireland Limited;
- The appointment of Executive Directors to Hermes Fund Managers Ireland Limited;
- The appointments to the Boards of the main subsidiary companies of the Group; and
- The appointment of a member of the Hermes Property Unit Trust Committee.

The expansion of the Board's membership and appointment of seven new Directors was authorised by the adoption of new Articles of Association and by documentation related to the change of ownership.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT

Secretary: Sue Cane
 Registered Office: Sixth Floor, 150 Cheapside, London, England, EC2V 6ET
 Registered Number: 1661776

The Directors present their report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2018. The Directors who served during the year are listed on pages 48 to 51.

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 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 on page 34. 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 2018 (2017: £nil).

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. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

As part of their enquiries, the Directors have reviewed the adequacy of the Group's regulatory capital position under a number of scenarios. The Directors noted the exceptional circumstances giving rise to the current year loss that are not expected to recur and also noted the significant capital injection received in the year. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2018.

ASSESSMENT OF VIABILITY

An assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group. The Directors, with the assistance of the Risk and Compliance Committee, review the key risks regularly and consider the options available to the Group to mitigate these risks to ensure that the ongoing viability of the Group is sustained. Both risks and mitigants are disclosed on pages 44 to 47.

Stress testing is performed on the Group's business plan, based upon a number of the Group's key risks crystallising over the assessment period. The stress scenarios are consistent with those used in the Group's consolidated Internal Capital Adequacy Assessment Process.

Having reviewed the results of the stress scenarios, the Directors have concluded that the Group would have sufficient capital and liquid resources and that the Group's ongoing viability would be sustained. In drawing this conclusion, the business model was able to adapt to the changes in capital and liquid resources. The Board's three-year viability assessment is based upon information known today.

HERMES FUND MANAGERS LIMITED**DIRECTORS' REPORT (continued)****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 financial risks associated with such instruments. These risks include credit risk, liquidity risk, interest rate risk and market 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 25 presents further information on the Group's financial risk management objectives and strategy.

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 CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company.

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, sexual orientation, ethnic or national origin.

SUBSEQUENT EVENTS

There were no subsequent events material to the financial statements from the balance sheet date, 31 December 2018, to the date of approval of the financial statements on 15 March 2019.

AUDITOR

EY LLP was appointed as auditor on 20th September 2018 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 A Nusseibeh
Chief Executive Officer

27 March 2019

HERMES FUND MANAGERS LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 Group and the Company and of the profit or loss of the Group 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 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;
- assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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.

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

Opinion

We have audited the financial statements of Hermes Fund Managers Limited ('the Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2018 which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Group's and of the Company's affairs as at 31 December 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report below. We are independent of the Group and the Company in accordance with the ethical requirements in the UK that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

HERMES FUND MANAGERS LIMITED

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial 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.

HERMES FUND MANAGERS LIMITED**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED (continued)****Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities in respect to the annual report and the financial statements set out on page 86, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Matthew Price (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 March 2019

HERMES FUND MANAGERS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Notes	£'000	£'000
Group turnover	3	151,718	139,513
Fee and commission expenses		(8,935)	(7,300)
Net group turnover		<u>142,783</u>	<u>132,213</u>
Administrative expenses		(182,680)	(124,152)
Group operating (loss)/profit		<u>(39,897)</u>	<u>8,061</u>
Share of profit of joint venture	4	2,397	3,810
Net loss on foreign exchange		<u>(2,743)</u>	<u>(820)</u>
(Loss)/profit on ordinary activities before interest and taxation		(40,243)	11,051
Interest payable and similar charges	5	(558)	(217)
Interest receivable and similar income	5	765	2,038
Other finance income	5	-	300
(Loss)/profit on ordinary activities before taxation	6	(40,036)	13,172
Tax credit/(charge)	9	<u>1,668</u>	<u>(569)</u>
(Loss)/profit on ordinary activities after taxation		<u>(38,368)</u>	<u>12,603</u>

All of the results are derived from continuing operations.

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018	2017
	Notes	£'000	£'000
(Loss)/profit for the financial year		(38,368)	12,603
Other comprehensive income/(expense)			
Remeasurement of net defined benefit liability	17	-	7,600
Tax credit/(charge) – attributable to net actuarial gain/(loss)	9	-	(475)
Currency translation differences on foreign currency net investments in subsidiaries		(984)	778
Other comprehensive (expense)/income		(984)	7,903
Total comprehensive (expense)/income		(39,352)	20,506
Profit for the year attributable to:			
Non-controlling interest		-	42
Equity shareholders of the Company		(38,368)	12,561
		(38,368)	12,603
Total comprehensive income/(expense) for the year attributable to:			
Non-controlling interest		-	42
Equity shareholders of the Company		(39,352)	20,464
		(39,352)	20,506

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

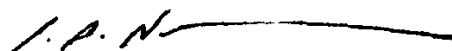
HERMES FUND MANAGERS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

		2018	2017
	Notes	£'000	£'000
Fixed assets			
Intangible assets – goodwill	11	-	368
Tangible assets	12	8,145	4,762
Joint ventures	13	8,868	10,542
Investments	13	249	12,540
		<u>17,262</u>	<u>28,212</u>
Current assets			
Debtors	14	60,630	47,513
Cash at bank	23	81,149	78,347
		<u>141,779</u>	<u>125,860</u>
Current liabilities			
Creditors – amounts falling due within one year	15	(46,853)	(48,442)
Net current assets		<u>94,926</u>	<u>77,418</u>
Total assets less current liabilities		112,188	105,630
Creditors – amounts falling due after more than one year	15	(12,120)	(49,208)
Provisions for liabilities	16	(1,659)	(5,558)
Net assets		<u>98,409</u>	<u>50,864</u>
Capital and reserves			
Called up share capital	19	83,592	72,458
Share premium		71,866	-
Other reserves		3,897	-
Profit and loss account		(60,946)	(21,594)
Shareholders' funds		<u>98,409</u>	<u>50,864</u>

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2019. The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

Signed on behalf of the Board of Directors



S A Nusseibeh – Director

Registered company number: 1661776


HERMES FUND MANAGERS LIMITED**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2018**

		2018	2017
	Notes	£'000	£'000
Fixed assets			
Tangible assets	12	8,145	4,762
Investments	13	38,042	47,476
		<u>46,187</u>	<u>52,238</u>
Current assets			
Debtors	14	32,903	33,102
Cash at bank	23	73,720	71,948
		<u>106,623</u>	<u>105,050</u>
Current liabilities			
Creditors – amounts falling due within one year	15	(106,807)	(66,936)
Net current (liabilities)/assets		<u>(184)</u>	<u>38,114</u>
Total assets less current liabilities		<u>46,003</u>	<u>90,352</u>
Creditors – amounts falling due after more than one year	15	(9,862)	(44,024)
Provisions for liabilities	16	(1,659)	(5,558)
Net assets		<u>34,482</u>	<u>40,770</u>
Capital and reserves			
Called up share capital	19	83,592	72,458
Share premium		71,866	-
Other reserves		3,897	-
Profit and loss account		<u>(124,873)</u>	<u>(31,688)</u>
Shareholders' funds		<u>34,482</u>	<u>40,770</u>

The Company's loss after tax for the year amounted to £93,185,842 (2017: a profit of £12,459,993).

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2019. The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

Signed on behalf of the Board of Directors


S A Nusseibeh - Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2017		72,458	-	-	(21,594)	50,864
Loss for the year		-	-	-	(38,368)	(38,368)
Currency translation differences on foreign currency net investments		-	-	-	(984)	(984)
Total comprehensive loss		-	-	-	(39,352)	(39,352)
Issue of shares	19	11,134	71,866	-	-	83,000
Share based payments		-	-	3,897	-	3,897
At 31 December 2018		83,592	71,866	3,897	(60,946)	98,409

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Called up share capital £'000	Profit and loss account £'000	Non- controlling interest £'000	Total £'000
At 1 January 2017		62,458	(7,886)	239	54,811
Profit for the year		-	12,561	42	12,603
Re-measurement of net defined benefit liability	17	-	7,600	-	7,600
Deferred tax charge on pension assets	9	-	(475)	-	(475)
Currency translation differences on foreign currency net investments		-	778	-	778
Total comprehensive income		-	20,464	42	20,506
Issue of shares	19	10,000	-	-	10,000
Dividend		-	-	(281)	(281)
Derecognition of pension scheme asset	17	-	(39,432)	-	(39,432)
Tax credit on derecognition of pension	9	-	6,835	-	6,835
Increase in subsidiary		-	(1,575)	-	(1,575)
At 31 December 2017		72,458	(21,594)	-	50,864

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2018		72,458	-	-	(31,688)	40,770
Loss for the year		-	-	-	(93,185)	(93,185)
Total comprehensive loss		-	-	-	(93,185)	(93,185)
Issue of shares	19	11,134	71,866	-	-	83,000
Share based payments		-	-	3,897	-	3,897
At 31 December 2018		83,592	71,866	3,897	(124,873)	34,482

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 31 December 2016		62,458	(18,676)	43,782
Profit for the year	10	-	12,460	12,460
Re-measurement of net defined benefit liability	17	-	7,600	7,600
Deferred tax charge on pension liabilities	9	-	(475)	(475)
Total comprehensive income		-	19,585	19,585
Issue of shares	19	10,000	-	10,000
Derecognition of pension scheme asset	17	-	(39,432)	(39,432)
Tax credit on derecognition of pension	9	-	6,835	6,835
At 31 December 2017		72,458	(31,688)	40,770

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Net cash used in operating activities	22	<u>(67,788)</u>	<u>(11,047)</u>
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		12,315	1,269
Purchase of fixed asset investments		(40)	(2,972)
Investment in joint venture		(371)	
Interest received		781	250
Dividends received from joint venture		3,475	1,233
Purchase of minority interests		-	(632)
Purchase of tangible fixed assets		<u>(4,791)</u>	<u>(4,280)</u>
Net cash flows from investing activities		<u>11,369</u>	<u>(5,132)</u>
Cash flows from financing activities			
Proceeds on issue of share capital		83,000	10,000
Proceeds from issue of long-term borrowings		-	20,000
Repayment of long-term borrowings		(20,000)	(5,000)
Dividends paid		-	(281)
Net cash flows from financing activities		<u>63,000</u>	<u>24,719</u>
Net increase in cash and cash equivalents	23	<u>6,581</u>	<u>8,540</u>
Cash and cash equivalents at beginning of year	23	78,347	69,851
Effect of foreign exchange rate changes		(3,779)	(44)
Cash and cash equivalents at end of year	23	81,149	78,347

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £'000	2017 £'000
Net cash used in operating activities	22	(66,756)	(49,949)
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		12,315	1,269
Purchase of fixed asset investments		(40)	(1,972)
Investment in joint venture		(371)	(1,000)
Investment in subsidiaries		(5,445)	(641)
Proceeds from liquidation of subsidiary		2,961	-
Interest received		781	250
Dividends received from joint ventures		3,475	-
Dividends received from subsidiaries		-	35,693
Purchase of tangible fixed assets		(4,791)	(4,280)
Net cash flows from investing activities		8,885	29,319
Cash flows from financing activities			
Proceeds on issue of share capital		83,000	10,000
Proceeds from issue of long-term borrowings		-	20,000
Repayment of long-term borrowings		(20,000)	(5,000)
Net cash flows from financing activities		63,000	25,000
Net increase in cash and cash equivalents	23	5,129	4,370
Cash and cash equivalents at beginning of year		71,948	67,556
Effect of foreign exchange rate changes		(3,357)	22
Cash and cash equivalents at end of year		73,720	71,948

The notes to these financial statements on pages 96 to 129 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018

1. 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) General information and basis of accounting

The financial statements are prepared on the going concern basis as described in the Directors' Report.

Hermes Fund Managers Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 79. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 10 to 47.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated and Company financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

b) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. Business combinations are accounted for under the purchase method. The results of subsidiaries acquired or sold are consolidated for the period from or to the date on which control passed.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The Group has taken exemption from preparing a Company-only profit and loss account in line with the Companies Act 2006.

Hermes Assured Limited and Hermes Investments (North America) Limited, two wholly-owned subsidiaries, are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2018 by virtue of Section 479A of the Companies Act 2006.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018 (continued)

1. ACCOUNTING POLICIES (continued)

c) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report. The Directors' report further describes the financial position of the Group: its cash flows, liquidity position and borrowing facilities; the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d) Turnover

Turnover is recognised on an accruals basis. Turnover from the supply of services represents the value of services provided under contracts and is recorded at the fair value of the consideration received or receivable net of VAT and rebates. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. To the extent that fees are recognised in advance of billing they are included as accrued income.

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

Commissions and related fees are payable to third parties for ongoing services under distribution agreements and are charged to the profit and loss account over the period in which the services are expected to be provided. To the extent that fees and commissions are recognised in advance of billing from third parties, they are included as accrued expense.

e) Goodwill

Goodwill represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired in a business combination. Goodwill arising in respect of acquisitions is capitalised in the year in which it arises within intangible fixed assets and amortised over its useful life with a full year's charge for amortisation in the year of acquisition.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units (CGU) of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis. An impairment loss recognised for goodwill however, shall not be reversed in a subsequent period.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)****1. ACCOUNTING POLICIES (continued)****f) Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

All financial assets and liabilities are initially measured at fair value adjusted for transaction costs, except for those financial assets classified as at fair value through profit or loss, for which transaction costs are immediately charged to profit or loss.

Debt instruments that are classified as payable or receivable within one year on initial recognition are measured at the undiscounted amount of the cash or other consideration expected to be paid or received and, in the case of receivables, net of impairment.

Derivatives are classified as financial assets at fair value through profit or loss and are re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

Financial assets and liabilities are only offset in the statement of financial position when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

g) Investments

Investments in subsidiaries and joint ventures are measured at cost less impairment. The impairment policy is shown below in (i). The Group does not have regulatory permissions to trade on its own account however the Group can hold investments in its own funds for seed and hedging of deferred bonuses. These investments are measured at fair value through profit or loss.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market (Level 1). When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place (Level 2). If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique (Level 3).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018 (continued)

1. ACCOUNTING POLICIES (continued)

h) 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, while the Group's investment in joint ventures is shown separately in the consolidated balance sheet and represents the Group's share of the net assets of the joint venture. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy for goodwill above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

i) Impairment

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is assessed for indications of reversal. For all assets other than goodwill, if and only if the reasons for the impairment loss have ceased to apply, an impairment loss shall be reversed in a subsequent period. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is assessed to determine whether a reversal can be objectively related to an event occurring after the impairment was recognised. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

HERMES FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)
1. ACCOUNTING POLICIES (continued)
j) 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.

In the case of the consolidated financial statements, foreign operations are retranslated using the net investment method. The results of these foreign operations that have a functional currency that is different to the Group are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

k) Tangible fixed assets

Tangible fixed assets are stated at cost, 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:

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

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

l) Operating leases

Rental expenses in respect of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Rental income of the Group in respect of sub-leases that are classified as operating leases is recognised in the profit and loss account on a straight-line basis over the period of the lease.

HERMES FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)
1. ACCOUNTING POLICIES (continued)
m) Pension benefits

From 15 December 2017, the Group no longer operates a defined benefit scheme. Prior to this date, amounts charged to operating profit were the current service costs and gains and losses on settlements and curtailments. They were included as part of staff costs. Past service costs were recognised immediately in the profit and loss account. The net interest cost on the net defined benefit liability was shown within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) were recognised immediately in other comprehensive income.

The Group's defined benefit scheme was funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. Pension scheme assets were measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations were obtained at least triennially and were updated at each balance sheet date.

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.

n) 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.

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. 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 is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax balances are not discounted on the basis of materiality.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018 (continued)

1. ACCOUNTING POLICIES (continued)

n) Taxation (continued)

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future. Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

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 LTIP awards restricted stock units of up to 10.5% of the shares of the Company to senior management and is designed to encourage profitable growth. The new LTIP is an equity settled share based payment scheme. The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

For the current year, fair value was determined by the price of acquisition of the Company's shares by Federated. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of the company (market conditions) and non-vesting conditions. No expense is recognised for awards that are not expected to vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

q) Provisions

Provisions are recognised when, the Group has a contingent or 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.

Onerous lease provisions are obligations arising under onerous contracts and 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

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**q) Provisions (continued)**

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 of obligations can be reliably measured.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018 (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law requires the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated.

Fee and commission income is recognised depending on the nature of the service provided:

- income earned from provision of services is recognised as the services are provided for example management fees; and
- income earned on the execution of a significant act is recognised when the act is completed, for example, performance fees are recognised only once they have crystallised.

The key sources of estimation uncertainty at the year-end that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(i) Goodwill impairment

The Directors review goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. The recoverable amounts are based on value in use calculations using management's best estimate of future cash flows and performance, discounted at a rate which the Directors estimate to be the return appropriate to the business.

(ii) Deferred tax asset

The Directors have evaluated the likelihood of future taxable profits and determined that it is probable that there will be future taxable profits. On this basis, the Group has recognised a partial deferred tax asset in respect of the trading losses that are expected to reverse in line with the forecast profits. The Directors will monitor the trading performance of the Group and determine whether any further deferred tax assets should be recognised or derecognised.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**3. TURNOVER**

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

	Group	
	2018	2017
	£'000	£'000
Management fees	141,986	122,050
Performance fees	6,445	5,677
Carried interest	1,970	10,545
Other fee income	1,317	1,241
Total group turnover	<u>151,718</u>	<u>139,513</u>

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.

4. SHARE OF PROFIT OF THE JOINT VENTURE

Share of results of joint venture:

	2018	2017
	£'000	£'000
Joint venture:		
Hermes GPE LLP	<u>2,397</u>	<u>3,810</u>
	<u>2,397</u>	<u>3,810</u>

Note 13 discloses additional information on the joint venture.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**5. FINANCE INCOME/(COSTS) (NET)**

	2018	2017
	£'000	£'000
Interest payable and similar charges in respect of:		
Loan from prior year ultimate parent	558	217
	<u>558</u>	<u>217</u>

Interest payable relates to a loan from BTPS, as shown in Note 26. The loan was repaid on the 2 July 2018.

Interest receivable and similar income in respect of:		
Unrealised (loss)/gain on unlisted investments (note 13)	(16)	1,788
Bank deposit balances	781	250
	<u>765</u>	<u>2,038</u>

	2018	2017
	£'000	£'000
Other finance income:		
Net interest expense on defined benefit liability	-	5,000
Net interest income on defined benefit assets	-	(5,300)
	<u>-</u>	<u>(300)</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

6. (LOSS)/PROFIT ON OPERATING ACTIVITIES BEFORE

	2018 £'000	2017 £'000
The (loss)/profit on operating activities stated after charging/(crediting):		
Depreciation on tangible fixed assets (note 12)	1,408	1,182
Amortisation of goodwill (note 11 and note 13)	1,335	1,334
Net loss/(gain) on financial liabilities at fair value through profit and loss (note 18)	3,005	(83)
Foreign exchange gain	(272)	903
Rental charges under operating leases	3,204	2,721
Auditor's remuneration:		
Audit fees - Subsidiaries	103	84
- Company	77	64
	180	148
Non-audit fees:		
Other assurance services	86	94
Total fees payable to Group auditor	266	242

7. STAFF NUMBERS AND COSTS

Average number of persons employed by the Group in the year:	2018	2017
	No.	No.
Investment management	129	134
Business development	68	66
Administration	175	177
	372	377

At the year ended 31 December 2018 the Group employed 388 individuals.

Staff costs during the year in respect of these directors and employees were:	2018 £'000	2017 £'000
Wages and salaries	118,121	75,829
Social security costs	14,151	9,963
Pension costs	4,134	4,529
Redundancy payments	353	726
	136,759	91,047

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**8. DIRECTORS' REMUNERATION AND TRANSACTIONS**

Directors' remuneration (including Non-Executive Directors)	2018 £'000	2017 £'000
Emoluments	4,500	4,627
Amounts receivable under long-term incentive schemes	17,705	544
Company contributions to money purchase pension schemes	46	55
	<u>22,251</u>	<u>5,226</u>

Group operates co-investment/bonus deferral schemes whereby a portion of bonuses awarded in respect of the year are deferred. The full value of deferred awards granted to Executive Directors in respect of the year was £2,935,068 (2017: £1,430,000), although they will only become payable after the Directors satisfy future service conditions. Deferred awards are included in total remuneration disclosed above.

The seven newly appointed directors are not remunerated by the Group but by Federated Investors, Inc.

The number of Directors who:	2018 No	2017 No
Are members of a money purchase pension scheme	3	3
Had awards receivable in the form of units under a long-term incentive scheme	3	3

Remuneration of the highest paid director:	2018 £'000	2017 £'000
Emoluments	2,211	2,211
Company contributions to money purchase schemes	19	19
Amounts receivable (other than shares and share options) under long-term incentive schemes	10,085	289
	<u>12,315</u>	<u>2,519</u>

Of this amount £2,235,068 (2017: £785,000) is deferred over a period of up to seven years.

Details of transactions with Directors and key management personnel during the year are disclosed in note 26.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

a)	Analysis of tax charge/(credit) for the year	2018 £'000	2017 £'000
	Amounts recognised in profit or loss		
	<i>Current tax:</i>		
	UK corporation tax at 19% (2017: 19.25%)	-	8,353
	Overseas tax	-	-
	Adjustment in respect of prior periods	(222)	-
	Total current tax credit	(222)	8,353
	<i>Deferred tax:</i>		
	Timing differences, origination and reversal	(1,198)	(7,770)
	Adjustment in respect of prior periods	(248)	(14)
	Effect of tax rate change on opening balances	-	-
	Total deferred tax credit	(1,446)	(7,784)
	Tax (credit)/charge on profit on ordinary activities	(1,668)	569
	Amounts recognised in other comprehensive income		
	<i>Current tax:</i>		
	UK corporation tax at 19% (2017: 19.25%)	-	(546)
	<i>Deferred tax:</i>		
	Actuarial (gain)/loss on defined benefit pension scheme	-	1,021
	Total tax on items in the statement of other comprehensive income	-	475
	Amounts recognised directly in equity		
	<i>Current tax:</i>		
	UK corporation tax at 19% (2017: 19.25%)	-	(7,583)
	<i>Deferred tax:</i>		
	Tax on derecognition of defined benefit pension scheme	-	748
	Total tax credit	-	(6,835)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b) Reconciliation of tax charge

The tax credit for the year differs from that resulting from applying the average rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
(Loss)/profit on ordinary activities multiplied by the average rate of corporation tax in the UK of 19% (2017: 19.25%)	(7,607)	2,536
<i>Effects of:</i>		
Non-taxable income	(634)	(80)
Non-deductible expenses	1,424	608
Amounts transferred to the Statement of Comprehensive Income	-	234
Adjustments in respect of prior periods	(314)	(14)
Effect of differences to deferred tax rates	(367)	374
Deferred tax recognised		(3,595)
Deferred tax not recognised	5,718	-
Transfer pricing adjustment	110	-
Group relief not charged for	-	560
Other	2	-
Chargeable gains	-	(54)
Current tax (credit)/charge for the year	(1,668)	569

The effective tax rate of 4.2% is lower than the UK corporation tax rate of 19% for the year primarily due to the non-recognition of deferred tax in respect of current year losses.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

c) Deferred tax position

	2018 Provided £'000	2018 Unprovided £'000	2017 Provided £'000	2017 Unprovided £'000
The Group				
Deferred tax (asset)/liability:				
Fixed asset timing difference	(2,103)	-	(2,294)	-
Tax losses	(7,587)	(10,090)	(1,771)	(4,907)
Capital gains	-	-	493	-
Share based timing differences	(753)	-	-	-
Short-term timing differences	(4,081)	-	(9,506)	-
	<u>(14,524)</u>	<u>(10,090)</u>	<u>(13,078)</u>	<u>(4,907)</u>
The Company				
Deferred tax (asset)/liability:				
Fixed asset timing differences	(2,092)	-	(2,280)	-
Tax losses	(4,173)	(9,632)	-	(4,715)
Capital gains	-	-	493	-
Share based timing differences	(753)	-	-	-
Short-term timing differences	(3,709)	(400)	(8,510)	-
	<u>(10,727)</u>	<u>(10,032)</u>	<u>(10,297)</u>	<u>(4,715)</u>

Deferred tax assets totalling £10,090,351 (2017: £4,907,490) have not been recognised in respect of certain trading losses as it is not probable that the Group will be able to recover those assets within the foreseeable future.

The Group forecasts that the amount of deferred tax that will unwind in the next twelve months is £1.2m.

10. PROFIT ATTRIBUTABLE TO THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income for the Company is presented as part of these financial statements. The Company's loss after tax for the year amounted to £93,185,842 (2017: profit of £12,459,993).

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**11. INTANGIBLE FIXED ASSETS**

	Goodwill £'000
The Group	
Cost:	
At 1 January 2018	3,322
At 31 December 2018	<u>3,322</u>
Accumulated amortisation:	
At 1 January 2018	(2,954)
Amortisation	(368)
At 31 December 2018	<u>(3,322)</u>
Net book value:	
At 31 December 2018	<u>-</u>
At 31 December 2017	<u>368</u>

The above goodwill relates to the acquisition of Hermes European Equities Limited.

Unamortised goodwill of £1,936,022 (2017: £2,903,022) 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 (refer to Note 13 for details). A total of £967,000 (2017: £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 2018
(continued)

12. TANGIBLE FIXED ASSETS

The Group and the Company	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
Cost:			
At 1 January 2018	13,636	8,840	22,476
Additions	4,451	340	4,791
Disposals	(9,658)	(17)	(9,675)
At 31 December 2018	8,429	9,163	17,592
Accumulated depreciation:			
At 1 January 2018	9,715	7,999	17,714
Charge for the year	1,006	402	1,408
Disposals	(9,658)	(17)	(9,675)
At 31 December 2018	1,063	8,384	9,447
Net book value:			
At 31 December 2018	7,366	779	8,145
At 31 December 2017	3,921	841	4,762

Included within the cost of leasehold improvements is an amount of £1,658,926 (2017: £1,475,076) relating to the Company's estimate of the costs of restoring the new office, 150 Cheapside to its original state at the end of the lease.

13. FIXED ASSET INVESTMENTS

The Group	Investment in Joint Ventures £'000	Unlisted Investments £'000	Total £'000
At 1 January 2018	10,542	12,540	23,082
Share of retained profit	2,397	-	2,397
Additions	371	40	411
Movement in fair value	-	(16)	(16)
Goodwill amortisation	(967)	-	(967)
Disposals	-	(12,315)	(12,315)
Dividends received from joint ventures	(3,475)	-	(3,475)
At 31 December 2018	8,868	249	9,117

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**13. FIXED ASSET INVESTMENTS (continued)**

In the prior year, included within unlisted investments were investments held for the purposes of hedging liabilities on co-invest bonus arrangements that were classified as financial assets. These investments were measured at fair value through profit and loss. During the year all co-invest deferred bonus arrangements vested as change of control provisions were triggered following the majority acquisition by Federated Investors, Inc. Accordingly, the unlisted investments held for the purpose of hedging those liabilities were disposed. A loss on disposal of £16,000 was recognised in the profit and loss during the year (2017: £1,787,800 gain).

The Group had no interests in associate undertakings at the balance sheet date. The companies that make up the Group are analysed in note 24.

	Investment in Subsidiaries £'000	Investment in Joint Ventures £'000	Unlisted Investment £'000	Total £'000
The Company				
Cost:				
At 1 January 2018	21,370	13,674	12,538	47,582
Additions	5,445	371	42	5,858
Movement in fair value	-	-	(16)	(16)
Disposals	(2,961)	-	(12,315)	(15,276)
At 31 December 2018	23,854	14,045	249	38,148
Provision for impairment:				
At 1 January 2018	106	-	-	106
At 31 December 2018	106	-	-	106
Net book value:				
At 31 December 2018	23,748	14,045	249	38,042
At 31 December 2017	21,264	13,674	12,538	47,476

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.

Unlisted investments are measured at fair value through profit and loss.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

14. DEBTORS

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Due within one year:				
Owed by subsidiaries	-	15,795	-	16,411
Owed by the joint venture	184	-	13	13
Owed by shareholders	9,391	-	8,694	-
Trade debtors	4,047	1,710	3,148	48
Deferred tax	14,524	10,727	13,078	10,297
Other debtors	1,256	874	2,091	1,724
Corporation Tax	193	191	-	-
Forward foreign exchange contracts	-	-	83	83
Prepayments and accrued income	31,035	3,606	20,406	4,526
	<u>60,630</u>	<u>32,903</u>	<u>47,513</u>	<u>33,102</u>

15. CREDITORS

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Amounts falling due within one year:				
Owed to parent	-	-	228	-
Owed to the joint venture	206	59	-	-
Owed to subsidiaries	-	83,535	-	39,305
Other creditors	1,643	1,526	4,455	4,410
Forward foreign exchange contracts	3,005	3,005	-	-
Corporation tax	-	-	159	223
Deferred income	773	773	777	773
Accruals	41,226	17,909	42,823	22,225
	<u>46,853</u>	<u>106,807</u>	<u>48,442</u>	<u>66,936</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

15. CREDITORS (continued)

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Amounts falling due after more than one year:				
Owed to parent	-	-	20,048	20,048
Other creditors	1,115	5,481	481	18,821
Accruals	6,624	-	23,524	-
Deferred income	4,381	4,381	5,155	5,155
	<u>12,120</u>	<u>9,862</u>	<u>49,208</u>	<u>44,024</u>

On 2 July 2018 the unsecured subordinated loan of £20,000,000 plus interest at a rate of LIBOR +5% was repaid to BTPS.

Current and non-current deferred income includes a lease incentive of £5,154,639 (2017: £5,927,835). An original lease incentive amount of £6,250,000 was received in respect of the new office premises, 150 Cheapside, and is unwound on a straight-line basis over the term of the lease.

Other creditors includes deferred consideration of £400,000 (2017: £600,000) in respect of the Company's repurchase of the remaining 9.51% shares in HEEL in 2017.

16. PROVISIONS FOR LIABILITIES

	Onerous lease provision 2018 £'000	Dilapidation provision 2018 £'000	Total 2018 £'000
The Group and Company			
At 1 January	1,553	4,005	5,558
Released to the profit and loss – Portsoken Street	-	(1,650)	(1,650)
Charged to the profit and loss – 150 Cheapside	-	104	104
Utilisation of provision	(1,553)	(800)	(2,353)
At 31 December	<u>-</u>	<u>1,659</u>	<u>1,659</u>

The onerous lease provision above relating to the vacant space on a portion of the office property at Lloyds Chambers, 1 Portsoken Street, London was unwound in 2018 as the rent, rates and service were settled.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**16. PROVISIONS FOR LIABILITIES (continued)**

The dilapidation provision for the Lloyds Chambers building was settled for £800,000 in 2018 resulting in a provision release of £1,650,376. In 2017, a dilapidation provision was recognised in respect of works to be carried out in the new office at 150 Cheapside, London. This was reviewed at year end by a third-party specialist and was revised upwards by £103,683 to reflect market rate increases in the work to be undertaken.

17. PENSION COMMITMENTS**Defined Contribution Scheme**

Contributions to the defined contribution scheme amounted to £4,134,164 during the year (2017: £3,829,312).

Defined Benefit Pension Scheme

The Group no longer operates a defined benefit pension scheme. On 15 December 2017, HFML entered into a Flexible Apportionment Arrangement (FAA) with BT Pension Scheme Trustee Limited (BTPSTL), following which it was agreed that the Company would have no further funding obligations and BTPSTL would take over responsibility for all the liabilities in relation to the scheme. This agreement was subject to the Company making an additional one-off contribution to the scheme of £35m. As the Company became discharged of any further liability in relation to the Scheme, the liability was derecognised on 15 December 2017 with a final contribution of £42.6m

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

	2018 £m	2017 £m
Administration costs	-	0.7
Interest on scheme obligation	-	5.0
Expected return on scheme assets	-	(5.3)
Total	-	0.4

Analysis of the actuarial gain recognised in the consolidated statement of comprehensive income:

	2018 £m	2017 £m
Actual return less expected return on scheme assets, i.e. gain/(loss)	-	14.5
Changes in assumptions underlying the present value of scheme liabilities, i.e. gain/(loss)	-	(6.9)
Actuarial gain	-	7.6

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**17. PENSION COMMITMENTS (continued)**

Changes in the present value of the defined benefit obligation are as follows:

	2018 £m	2017 £m
Opening defined benefit obligation	-	190.7
Interest cost	-	5.0
Benefits paid	-	(7.8)
Changes to assumptions	-	6.9
Derecognition of defined benefit obligation	-	(194.8)
Closing defined benefit obligation	-	-

Changes in the fair value of the assets over the period are as follows:

	2018 £m	2017 £m
Opening fair value of assets	-	180.3
Interest on assets	-	5.3
Company contribution	-	42.6
Benefits paid	-	(7.8)
Administrative costs	-	(0.7)
Return on assets less interest	-	14.5
Derecognition of fair value of assets	-	(234.2)
Closing fair value of assets	-	-

Amounts for the current and prior year are as follows:

	2018 £m	2017 £m
Experience adjustments on scheme assets – gain/(loss)	-	14.5
Experience adjustments on scheme liabilities – gain/(loss)	-	(6.9)
Derecognition of pension scheme	-	(39.4)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

18. FINANCIAL INSTRUMENTS

The carrying value of the Group's financial assets and liabilities are summarised below:

	Notes	2018 £'000	2017 £'000
Financial assets			
Measured at fair value through profit or loss			
Fixed asset unlisted investments	13	249	12,540
Foreign exchange forward derivative contracts	14	-	83
Measured at amortised cost			
Cash and cash equivalents		81,149	78,347
Trade and other debtors excluding deferred tax	14	42,020	34,435
		<u>123,418</u>	<u>125,405</u>
Financial liabilities			
Measured at fair value through profit and loss			
Foreign exchange forward derivative contracts	15	3,005	-
Measured at amortised cost:			
Loans payable	15	-	20,048
Measured at undiscounted amount payable:			
Trade and other creditors	15,16	50,814	71,670
		<u>53,819</u>	<u>91,718</u>

The Group enters into forward foreign exchange contracts to hedge exposure to net revenues received in foreign currency. The liability above reflects the fair value of those derivative contracts at the balance sheet date. The below shows the contracts open as of the year end:

Liabilities as at 31 December 2018

Sell		Buy		Settlement date	Fair value in £'000
USD '000	21,590	GBP '000	15,000	19 April 2019	16,839
USD '000	21,365	GBP '000	16,000	31 July 2019	16,593
USD '000	20,135	GBP '000	15,000	17 October 2019	15,573
			<u>46,000</u>		<u>49,005</u>
				Net change in fair value	3,005

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

18. FINANCIAL INSTRUMENTS (continued)

Liabilities as at 31 December 2017

Sell		Buy		Settlement date	Fair value in £'000
USD '000	24,418	GBP '000	18,000	2 July 2018	17,958
USD '000	24,478	GBP '000	18,000	28 Sept 2018	17,959
			<u>36,000</u>		<u>35,917</u>
Net change in fair value					(83)

Fair value of derivatives and unlisted investments were determined using the Level 2 measurement basis.

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2018 £'000	2017 £'000
Interest income and (expense)		
Total interest expense for financial liabilities at amortised cost	(558)	(217)
Fair value gains and (losses)		
On financial assets measured at fair value through profit and loss	(16)	(1,788)
On financial liabilities measured at fair value through profit and loss	(3,005)	83

19. CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	2018 £'000	2017 £'000
Issued and fully paid ordinary shares of £1 each	83,592	72,458
Share premium	<u>71,866</u>	<u>-</u>
	<u>155,458</u>	<u>72,458</u>

Share premium represents the aggregate of all amounts that have ever been paid above nominal value of £1. On 2 July 2018, 11,133,792 shares were issued for consideration of £83,000,000. At 31 December 2018 the Group had 83,591,792 issued and fully paid up ordinary shares of £1 each.

20. LONG-TERM INCENTIVE PLAN

Upon the acquisition of the group by Federated Investors, Inc. effective 1 July 2018, Change of Control provisions in the existing long-term incentive plan (LTIP) were triggered. The Change of Control provisions within the LTIP rules stipulate that 30% of any consideration received from the sale or part sale of Hermes shares would be payable to

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**20. LONG-TERM INCENTIVE PLAN (continued)**

LTIP holders upon completion of the disposal by BT Pension Scheme (BTPS).

Federated acquired 60% of the long-term voting rights of the Group which crystallised an event award pool of £63m. The event award pool comprised a non-discretionary and a discretionary component. The non-discretionary component was allocated to LTIP holders to satisfy the contractual commitments made in previous awards.

	No. of units awarded 2018	No. of units awarded 2017
At 1 January	322.0	174.5
Issued during year	-	150.5
Surrendered during year	(322.0)	(3.0)
At 31 December	<u>-</u>	<u>322.0</u>

Following the acquisition by Federated Investors, Inc. a new long-term incentive plan (New LTIP) was established that aligns the interests of employees to those of the shareholders by encouraging employees to grow profits over the long term through sustained performance. The New LTIP awards restricted stock units (RSU's) of up to 10.5% of the equity of the Group to senior management and is designed to encourage profitable growth. The RSU's have been split into two pools – Pool A and Pool B. The two pools have different vesting periods which were put in place to reflect the needs of both shareholders.

The vested award is available for sale from the two pools as follows:

- Pool A: Year 6 (33.3%), Year 7 (33.3%), Year 8 (33.3%)
- Pool B: Year 4 (50%), Year 5 (50%)

	Pool A	Pool B
At 1 January 2018	-	-
Granted during the year	5,156,568	1,755,429
Forfeited during the year	(147,331)	(50,155)
At 31 December 2018	<u>5,009,237</u>	<u>1,705,274</u>

None of the outstanding awards were exercisable as of 31 December 2018. The fair value of the share awards granted was determined using the enterprise value derived from the price paid by Federated at the time of acquisition, which coincided with the date of grant of the awards. The total amount recognised as at 31 December 2018 in relation to these awards was £3,896,915 (2017: £nil). An additional 1,865,141 shares remained unallocated at 31 December 2018.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)

21. FINANCIAL COMMITMENTS

Operating Lease Commitments

The Group and Company's total future minimum lease payments operating leases are as follows:

	Land and Buildings 2018 £'000	Other 2018 £'000	Land and Buildings 2017 £'000	Other 2017 £'000
Within one year	3,017	10,082	3,944	59
Between one– five years	10,881	1,643	11,028	-
After five years	4,430	-	7,130	-
	<u>18,328</u>	<u>11,725</u>	<u>22,102</u>	<u>59</u>

The UK operating lease relating to the new office, 150 Cheapside, is subject to an upwards only rent review on 21 August 2020. The Company also has an option to exit the lease on 21 October 2020 by giving 9 months' notice.

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 2018 by virtue of Section 479A of the Companies Act 2006.

Hermes Investment Fund plc ("HIF"), a Hermes-sponsored fund, may have incorrectly been claiming a reduced rate of withholding tax on US dividends from 1 January 2013 up to 1 March 2018. External Counsel has been corresponding with the United States' Inland Revenue Service ("IRS") in respect of the issue on behalf of Hermes/HIF. In the event that the IRS deems that HIF is required to make any payment relating to retrospective taxes, Hermes has provided a guarantee to HIF to compensate investors who may have suffered any detriment to the carrying value of their investment.

The Company has been advised by external counsel that HIF had good grounds for claiming the reduced rate of withholding tax and has received an initial positive response from the IRS. Accordingly, the existence of any obligations at 31 December 2018 is considered to be immaterial and no provision for any potential liability has been made in these financial statements. Notwithstanding this, the Company has professional indemnity insurance which should cover the material amount of any potential claim.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)22. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH OUTFLOW
FROM OPERATING ACTIVITIES

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Operating (loss)/profit	(39,897)	(98,414)	8,061	(31,612)
Adjustment for pension funding	-	-	(41,937)	(41,937)
Depreciation	1,408	1,408	1,182	1,182
Amortisation	1,335	-	1,335	-
Share based payments	3,897	3,897	-	-
(Decrease)/increase in provisions	(3,899)	(3,899)	4,387	4,387
Decrease/(increase) in debtors	(13,117)	199	(7,911)	848
Increase/(decrease) in creditors	(18,581)	25,805	24,827	12,469
Taxation	1,672	4,892	-	-
Cash generated from operations	(67,182)	(66,112)	(10,056)	(54,663)
Interest paid	(580)	(622)	(991)	(991)
Bank charges	(26)	(22)	-	-
Tax received/(paid)	-	-	-	5,705
Net cash used in operating activities	(67,788)	(66,756)	(11,047)	(49,949)

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

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Net funds at beginning of year	78,347	71,948	69,851	67,556
Increase in cash in year	2,844	1,750	8,540	4,370
Effect of foreign exchange rate changes	(42)	22	(44)	22
Net funds at end of year	81,149	73,720	78,347	71,948

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018 (continued)

24. ADDITIONAL INFORMATION ON PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The Company and the Group have investments in the following subsidiary undertakings and joint ventures that principally affect the results and net assets of the Group.

SUBSIDIARY UNDERTAKINGS	ACTIVITY	REGISTERED OFFICE
Hermes Investment Management Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET (Cheapside)
Hermes Real Estate Investment Management Limited	Investment management	Cheapside
Hermes European Equities Limited	Investment management	Cheapside
Hermes Private Equity Limited	Investment management	Cheapside
Hermes Alternative Investment Management Limited	Investment management	Cheapside
Hermes Equity Ownership Services Limited	Stewardship and corporate governance	Cheapside
Hermes Administration Services Limited (Dissolved 20.2.18)	Investment management	Cheapside
Hermes Assured Limited	Investment management	Cheapside
Hermes Investments (North America) Limited	Investment management	Cheapside
Hermes Fund Managers (North America) GP, Inc.	Inactive	200 State Street, 7 th floor, Boston MA 02109-2696, USA
Hermes Real Estate Debt GP Limited	Investment management	Cheapside
Hermes Private Debt I GP Limited	Investment management	Cheapside
Hermes Global Funds GP Limited	Inactive	c/o Walkers Corporate Services Limited, 87 Rory Street, George Town, Grand Cayman, KY1-9005, Cayman Islands
Hermes Pension Fund Management Limited	Inactive	Cheapside
Hermes Secretariat Limited	Inactive	Cheapside
Hermes Sourcecap Limited	Inactive	Cheapside
Hermes Private Debt (Lux) I GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Private Debt (Lux) II GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Fund Managers Ireland Limited	Investment management	70 Sir John Rogerson's Quay, Dublin, D02 R296, Ireland
Hermes Direct Lending Limited Partnership	Investment management	Cheapside
JOINT VENTURES		
Hermes GPE LLP	Investment management	Cheapside
Vista UK Residential 1 (GP) LLP	Investment management	Cheapside
Vista UK Residential Real Estate (GP) LLP	Investment management	Brodies LLP, 15 Atholl Crescent, Edinburgh, EH3 8HA

Subsidiary undertakings disclosed above are wholly-owned subsidiaries. All subsidiaries disclosed above have been consolidated in these financial statements.

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.

Hermes BPK Partners Inc. was dissolved on 30 January 2018. While Hermes BPK Limited was dissolved on 19 June 2018.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018**
(continued)**25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY**

The Group's activities expose it to a number of financial risks. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

The principal financial risk exposures of the Company and the Group at the balance sheet date relate to credit, liquidity, interest rate and market 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. A 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.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. At 31 December 2018, the Group and the Company's financial assets exposed to credit risk amounted to the following:

Financial assets

	2018	2018	2017	2017
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Cash at bank	81,149	73,720	78,347	71,948
Owed by joint venture	184	-	13	13
Owed by subsidiaries	-	15,795	-	16,411
Trade debtors and accrued income	40,580	1,710	23,541	4,561
Owed by parent	-	-	8,694	-
Other debtors	1,256	874	2,187	1,820
	123,169	92,099	112,782	94,753

HERMES FUND MANAGERS LIMITED
**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)**
25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Cash at bank is held in current accounts or placed on deposit in highly-rated liquid money-market funds or 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 cause delays in obtaining the amounts owed, or the Company may have limited rights in respect of the amounts owed. 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 receivables was substantially past due and the majority of receivables outstanding at the balance sheet date has been received post year-end. There were no trade debtors of the Group that were more than 90 days past due at 31 December 2018 (2017: £Nil).

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.

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

Financial liabilities	Maturity	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Owed to parent	On demand	-	-	228	-
Owed to joint venture	On demand	206	59	-	-
Owed to subsidiaries	On demand	-	83,535	-	39,305
Other creditors	On demand	4,648	4,531	4,614	4,633
Accruals	On demand	41,226	17,909	42,823	22,225
Owed to parent	>12 months	-	-	20,048	20,048
Accruals	>12 months	6,624	-	-	-
Other creditors	>12 months	1,115	5,481	24,005	18,821
		<u>53,819</u>	<u>111,515</u>	<u>91,718</u>	<u>105,032</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.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)****25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)****Interest Rate Risk**

While 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.

If the average rate of interest was 2% higher during the year based upon the average cash position, an additional £1.4m interest would have been earned. A decrease in the average rate of interest would have an equal opposite impact.

Market Risk – Foreign Exchange

Market risk is the possibility for the Group to experience losses due to factors that affect the overall performance of the financial markets in which the Group is involved. One key factor is foreign currency exchange risk as the Group receives income and incurs expenses in foreign currencies.

Due to a net exposure to foreign currency movements, the Group partially hedges this exposure through the use of foreign currency forward contracts (see note 18 for further disclosures). The Group has £77.2m of foreign currency exposure on the balance sheet at 31 December 2018 of which £77.1m is US dollar denominated.

If the US dollar strengthened against sterling by 2%, this would result in a gain of £1.5m, while a weakening would have an equal opposite impact.

26. RELATED PARTY TRANSACTIONS**(a) General information and disclosure exemptions****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 102.

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)****26. RELATED PARTY TRANSACTIONS (continued)****(b) Related-party transactions**

The following transactions occurred during the year with related parties:

BTPS

Management fees of £31,780,482 (2017: £36,909,380) were recognised in relation to investment management services of which £9,390,618 remained due to the Company at 31 December 2018 (31 December 2017: £8,673).

On 2 July 2018 the Company repaid a subordinated loan to BTPS of £20,000,000.

BT Pension Scheme Management Limited ("BTPSM")

Central allocated costs from the Company to BTPSM totalled £1,156,665 during the year (2017: £2,452,604). An amount was due to the Company from BTPSM totalling £426,868 at year-end (2017: £507,132).

Hermes GPE LLP ("HGPE")

Profit distributions of £3,475,525 (2017: £1,231,797) were received by the Company during the year.

Central allocated costs from the Company to HGPE totalled £1,800,000 during the year (2017: £1,750,000). A net amount was due to the HGPE from the Company totalling £21,805 at year-end (2017: receivable from HGPE £13,345).

Carried Interest of £1,970,087 (2017: £10,544,600) was received by the Company during the year from the fund vehicles managed by HGPE.

The amounts outstanding above for BTPSM and HGPE are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

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

Directors' transactions

There were no new loans to Directors in the year ended 31 December 2018. For the year ended 31 December 2017 the company had advanced one of the directors an unsecured loan totalling £300,000. Interest was charged at the HMRC beneficial loan rate. This was repaid in full in 2018.

Other related-party transactions

The key management personnel are the Executive Directors and the Executive Committee.

The total remuneration for key management personnel for the period totalled £35,505,136 (2017: £8,022,612), being remuneration disclosed in note 8 of £22,251,532

HERMES FUND MANAGERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2018
(continued)****26. RELATED PARTY TRANSACTIONS (continued)**

(2017: £5,225,871) and remuneration provided to other key management personnel of £13,253,604 (2017: £3,057,991).

27. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Until 30 June 2018 the directors regarded the BT Pension Scheme as the company's ultimate parent controlling party. On 2 July 2018 (but effective 1 July 2018) Federated Holdings (UK) II Limited acquired 60% of the share capital of HFML. From this date Federated Investors' Inc. replaced the BT Pension Scheme as the ultimate parent controlling entity. Federated Investors, Inc. is the parent of the largest group which includes the company and for which group financial statements are prepared.

The accounts of Hermes Fund Managers Limited can be obtained at the Registered Office of those entities, Sixth Floor, 150 Cheapside, London, England, EC2V 6ET.

28. SUBSEQUENT EVENTS

There were no subsequent events material to the financial statements from the balance sheet date, 31 December 2018, to the date of approval of the financial statements, 27 March 2019.