

Hermes Investment Funds Public Limited Company

(An umbrella investment company with variable capital and having segregated liability between its Sub-Funds incorporated with limited liability in Ireland)

Annual Report and Audited Financial Statements

For the year ended 31 December 2012

Hermes Investment Funds Public Limited Company

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Hermes Investment Funds Public Limited Company Management and Administration

Directors

Paul McNaughton (Chairman) (Irish)*
Justin Egan (Irish)*
Brian Collins (Irish)*
Patrick Galligan (Irish) (resigned 15 November 2012)
Michelle Green (British)** (appointed 6 February 2013)

Registered Office

Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Promoter, Investment Manager and Distributor

Hermes Investment Management Limited
Lloyds Chambers
1 Portsoken Street
London E1 8HZ
England

Advisor

Hermes Equity Ownership Services Limited
Lloyds Chambers
1 Portsoken Street
London E1 8HZ
England

Custodian

Northern Trust Fiduciary Services (Ireland) Limited
Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Administrator, Registrar and Transfer Agent

Northern Trust International Fund
Administration Services (Ireland) Limited
Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Independent Auditor

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

Legal Advisor to the Company

William Fry
Fitzwilton House
Wilton Place
Dublin 2
Ireland

*Non-executive Directors, independent of Investment Manager

** Non-executive Director

Hermes Investment Funds Public Limited Company Directors' Report

The Directors of Hermes Investment Funds Public Limited Company (the "Company") present their Annual Report and the Audited Financial Statements of the Company for the year ended 31 December 2012.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Financial Statements in accordance with applicable Irish law and International Financial Reporting Standards ("IFRS").

Irish Company Law requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of the affairs of the Company and of the profit or loss of the Company for that year. 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; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements are prepared in accordance with IFRS as adopted by the European Union and comply with the Irish Companies Acts, 1963 to 2012 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, (the "UCITS Regulations"). They are also responsible for safeguarding the assets of the Company and in fulfilment of this responsibility, they have entrusted the assets of the Company to a Custodian for safekeeping in accordance with the Memorandum and Articles of Association. The Directors are responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Review of business

The Company was incorporated on 23 October 2008 under the laws of the Republic of Ireland as an open ended umbrella type investment company with variable capital and limited liability in which different funds may be created from time to time. The Company is authorised by the Central Bank as an Investment Company pursuant to the UCITS Regulations.

Please refer to the Investment Manager Reports on pages 8 to 31 for a review of business.

The principal risks and uncertainties faced by the Company are the investment risks associated with the portfolio of investments held for the account of each sub-fund (the term "sub-fund" relates to the sub funds listed on pages 126 and 127) and the operational risks associated with their management and administration (see note 7 to the Financial Statements).

Directors' statement on proper books of account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The proper books of account of the Company are maintained by Northern Trust International Fund Administration Services (Ireland) Limited, at Georges Court, 54-62 Townsend Street, Dublin 2, Ireland.

Hermes Investment Funds Public Limited Company Directors' Report (continued)

Transactions involving Directors

There were no contracts or agreements of any significance in relation to the business of the Company in which the Directors had any interest, as defined in the Companies Act, 1990, at any time during the year, other than those set out in note 5 to the Financial Statements.

Revenue

The results of operations for the year are set out in the Income Statement on pages 104 to 111.

Directors' Interests in shares of the company

No Director, nor the Company Secretary, had any beneficial interest in the shares of the Company throughout the year.

Distributions

Details of distributions paid and proposed are set out in note 12 to the Financial Statements.

Independent auditor

The independent auditor, Deloitte & Touche, have indicated their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

Directors

Patrick Galligan resigned from the Board of Directors on 15 November 2012. Michelle Green was appointed to the Board of Directors on 6 February 2013. There were no other appointments or resignations during the year. The Directors of the Company at the date of approval of these Financial Statements are stated on page 3.

Significant events during the year

The following sub-funds launched during the year:

Fund Name	Authorised by the Central Bank	Date Seeded
Hermes US SMID Equity Fund	25 September 2012	26 September 2012
Hermes Active UK Inflation-Linked Bond Fund	25 September 2012	9 October 2012
Hermes Emerging Asia Equity Fund	25 September 2012	1 November 2012

The following sub-funds were fully redeemed during the year:

Fund Name	Date Terminated
Hermes Pan European Small Cap Companies Fund	12 March 2012
Hermes UK Smaller Companies Fund	14 June 2012
Hermes Commodities Index Fund II	15 November 2012

The Hermes Sterling Liquidity Fund was approved by the Central bank on 25 July 2012 as a sub-fund of the Company.

Subsequent events

Up to the date of approval of these Financial Statements there have been no events subsequent to the year end affecting the Company, which will impact on the Financial Statements for the year ended 31 December 2012.

Hermes Investment Funds Public Limited Company Directors' Report (continued)

Corporate Governance Statement

The Company is subject to corporate governance practices imposed by:

- (i) the Irish Companies Acts 1963-2012;
- (ii) the Articles of Association of the Company;
- (iii) the Central Bank of Ireland UCITS Notices and Guidance Notes which are available for inspection at the registered office of the Company.

The requirements stemming from these are set out in the Corporate Governance Code published by the Irish Funds Industry Association ("IFIA") for Irish domiciled Collective Investment Schemes (the "IFIA Code").

The Board have established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, to maintain the accounting records of the Company independently of the Investment Manager and the Custodian. The Administrator is contractually obliged to maintain proper books and records as required by the Administration agreement. To that end the Administrator performs regular reconciliations of its records to those of the Investment Manager and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the annual report (including Financial Statements intended to give a true and fair view) and the half-yearly Financial Statements.

The Board of Directors have procedures in place to ensure all relevant books of account are properly maintained and are readily available, including production of annual and half-yearly Financial Statements. The annual Financial Statements of the Company are required to be approved by the Board of Directors of the Company and the annual and half yearly Financial Statements of the Company are required to be filed with the Central Bank of Ireland. The annual Financial Statements are required to be audited by independent auditors who report annually to the Board on their findings.

The Board of Directors have set up an audit committee which liaises with the company's auditors and administrator at least twice a year. The Board evaluates and discusses significant accounting and reporting issues, as escalated to the Board by the Audit Committee. From time to time the Board also examines and evaluates the Administrator's financial accounting and reporting routines and monitors and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

The convening and conduct of shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts. Although the Directors may convene an Extraordinary General Meeting of the Company at any time, the Directors are required to convene an Annual General Meeting of the Company within fifteen months of the date of the previous Annual General Meeting thereafter. Not less than twenty one days' notice of every Annual General Meeting and any meeting convened for the passing of a special resolution must be given to shareholders. Fourteen days' notice must be given in the case of any other general meeting unless the auditors of the Company and all the shareholders of the Company entitled to attend and vote agree to shorter notice.

Two members present either in person or by proxy constitutes a quorum at a general meeting provided that the quorum for a general meeting convened to consider any alteration to the class rights of shares is two shareholders holding or representing by proxy at least three quarters of the issued shares of the relevant fund or class.

Hermes Investment Funds Public Limited Company Directors' Report (continued)

Corporate Governance Statement (continued)

Every holder of participating shares or non-participating shares present in person or by proxy who votes on a show of hands is entitled to one vote. On a poll, every holder of participating shares present in person or by proxy is entitled to one vote in respect of each share held by him and every holder of non-participating shares is entitled to one vote in respect of all non-participating shares held by him.

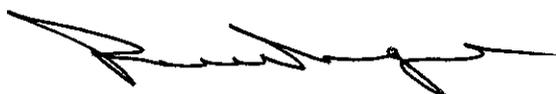
Shareholders may resolve to sanction an ordinary resolution or special resolution at a shareholders' meeting. An ordinary resolution of the Company or of the shareholders of a particular fund or class requires a simple majority of the votes cast by the shareholders voting in person or by proxy at the meeting at which the resolution is proposed. A special resolution of the Company or of the shareholders of a particular fund or class requires a majority of not less than 75% of the shareholders present in person or by proxy and voting in a general meeting in order to pass a special resolution including a resolution to amend the Articles of Association.

Unless otherwise determined by an ordinary resolution of the Company in a general meeting, the number of Directors may not be less than two. Currently the Board of Directors of the Company is composed of four Directors, being those listed in the directory in these Financial Statements.

The business of the Company is managed by the Directors, who exercise all such powers of the Company as are not by the Companies Acts or by the Articles of Association of the Company required to be exercised by the Company in general meeting.

A Director may, and the Company Secretary of the Company on the requisition of a Director will, at any time summon a meeting of the Directors. Questions arising at any meeting of the Directors are determined by a majority of votes. In the case of an equality of votes, the Chairman has a second or casting vote. The quorum necessary for the transaction of business at a meeting of the Directors is two.

With effect from 1 January 2013, the Board of Directors voluntarily adopted the Corporate Governance Code for Irish Domiciled Collective Investment Schemes as published by the IFIA, as the Company's corporate governance code. The Board of Directors have assessed the measures included in the IFIA Code as being consistent with its corporate governance practices and procedures for the financial year.



Paul McNaughton
Director



Brian Collins
Director

25 April 2013

Hermes Investment Funds Public Limited Company Investment Manager's Report

Performance Update

Returns to year ended 31 December 2012

Portfolio	One Year		Performance
	Return %	Benchmark %	
Hermes Global Emerging Markets Fund ¹	9.26	13.04	-3.35
Hermes Global Equity Select Fund ¹	11.31	11.03	0.25
Hermes Quant Global Equity Fund ¹	11.64	10.74	0.81
Hermes UK Small and Mid Cap Companies Fund	29.19	29.44	-0.19
Hermes Japan Equity Fund	-3.00	2.82	-5.66
Hermes Sourcecap European Alpha Fund	17.07	15.15	1.67
Hermes Global High Yield Bond Fund	14.95	13.40	1.37
Hermes Global Investment Grade Fund	7.35	6.22	1.06
Hermes Sourcecap Europe Ex-UK Fund	21.58	17.82	3.19
Hermes US SMID Equity Fund ^{1,2}	5.24	2.95	2.23
Hermes Active UK Inflation-Linked Bond Fund ²	4.55	3.81	0.71
Hermes Emerging Asia Equity Fund ^{1,2}	3.26	5.10	-1.75

Note:

Total Return in GBP, Net of Costs (this is the 'Z' Share Class, so no Annual Management Charges are included)

¹Benchmark is net of withholding tax

²Since Inception - Hermes US SMID Equity Fund launched 26 September 2012, Hermes Active UK Inflation-Linked Bond Fund launched 9 October 2012 and Hermes Emerging Asia Equity Fund launched 1 November 2012

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Emerging Markets Fund

Market Review

Last year was a strong one for Global Emerging Markets (GEMs), posting 13.0% returns, beating Developed Markets' return of 10.7% in US dollar terms. Further signs of stabilisation in Chinese economic data, a Eurozone compromise on Greece's financial position and hopes that US policymakers would resolve their economic issues, saw Emerging Market equities rebound.

Turkey was the strongest performing market, posting 60%. After a robust 2011, Turkish domestic demand expanded moderately, while exports continued to increase despite weak European demand, and the country was raised to investment grade. Egypt was the second strongest market over the year, returning nearly 45%. However, concerns over its inability to form a political consensus meant it was the worst performing index in the fourth quarter, dropping over 10%.

Asian economies showed further signs of recovery in a second half rebound, with the Asia ex-Japan Index returning 19%. After a near 15% collapse in May and a sideways summer, Chinese equities rocketed by almost 22% in the last four months of the year to end 2012 up 19%. Taiwan, at 13%, lagged relatively, weighed down by the deteriorating outlook for PCs and notebooks.

Chinese economic data bottomed out in the third quarter. The official manufacturing Purchasing Managers' Indices in November moved into expansionary territory. Exports, industrial production and housing also continued to show signs of gradual improvement. Consumer Discretionary, Financials and Industrials led over the quarter.

Latin America was a tale of two countries. It was an outstanding year for Mexico, which gained 27%. The country's fortunes rose due to the high proportion of defensive stocks in its index, its exposure to US growth and hopes that its new government will undertake major reforms to boost the economy. Mexican Industrials rose an impressive 90% over the period. The story has been a vastly different one for Brazil, the market fell 4% in 2012, even after a 7% gain in December. In the third quarter, Brazil's economy ground to a halt, rising only 1% from a year earlier, while Mexican growth was 3%. Stocks in Brazil suffered as the government increased regulation of key sectors of the economy.

Investment Strategy

During the year, the Beta of the portfolio was increased from 0.93 to 1.02, and the overweight in Financials was neutralised in favour of an overweight in Consumer Discretionary.

Brazil was taken to underweight in the first half, and was sold down further as the year progressed, exiting Bannisul, Vale and reducing Bradespar and PDG. Later in the year we added to Petrobras as we expect domestic pricing to improve soon. We also added a position in Sabesp, the water utility for the State of Sao Paulo, which we believe will receive a tariff increase this year.

In China, we initiated a position in Wuliangye in the third quarter, a maker of baijiu. Baijiu is the dominant Chinese spirit, accounting for over 90% of the market. In December, we switched from Wuliangye to its competitor, Kweichow Moutai, a higher quality company with a 2000 year old brand at only a slight premium. We took positions in gaming companies Galaxy in Macau and Nagacorp in Phnom Penh, and added to Genting, after it had corrected on market disappointment that its initial bid for a Florida gaming license was unsuccessful. We also added retailers Dongxiang and Ajisen, a Japanese-style noodle chain in China, to take our position in China overweight. We sold out of E-House, Netease, and reduced our holding in Shanda Games.

We took money out of Russia after the elections, but then in the fourth quarter took our position to overweight. We initiated a position in M Video, an electronics and appliance retailer. We added Transneft, a monopoly pipeline operator that is growing moderately, generating enough cash to pay down debt. We sold out of Gazprom, concerned about the deterioration of their bargaining position with the Europeans and the Chinese.

We reduced exposure to Thailand by selling out of our property developers, which reached our targets.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Emerging Markets Fund (continued)

Performance Review

The Fund underperformed the benchmark by 3.4% over the year. Stock selection detracted 186bps, country allocation 91bps and currency negatively affected returns by 43 bps. Stock selection in China was the biggest detractor. Exposure to frontier markets, mainly gold miners, also detracted from performance. However, stock selection in Brazil, Korea and Thailand helped pare losses.

Chinese stock selection was a major contributor to underperformance, led by off-benchmark positions in Wuliangye, a spirits maker. China's second-biggest maker of baijiu liquor fell in December after authorities announced measures to rein in luxury spending by officials, then fell further on news that excessive levels of toxins had been discovered in competitor products. Separately, US regulators accused auditors of refusing to cooperate on a probe of Chinese companies, prompting concerns that the SEC might force their ADRs to de-list, impacting the Fund's positions in internet and gaming stocks, Baidu, Netease and Shanda Games, and property services company, E-House.

The Materials sector was held back by stock selection. Frontier Miner Lamgold fell in the fourth quarter after it missed production numbers and Yamana, a more successful miner, also detracted, as part of the weak gold market. Since year end, both positions have been sold, as we judge the outlook for gold's safe-haven status to be deteriorating.

Real Estate stocks in China, contrary to the scary headlines, have been strong performers. CC Land Holdings benefited, as their Chungching and Chengdu launches went well. Developer Franshion Properties also performed strongly. Asian Property Development, a home builder in Thailand, enjoyed similar gains as investors flocked to safe-haven ASEAN markets. However, Real Estate performance was held back by PDG Realty in Brazil.

Conversely, as stated above, Brazil stock selection was strong. Cosan, sugar and ethanol rose as the market started to price in a potentially positive corporate restructuring plan. Previously undiscovered autoparts maker Mahle, part of a German group, rose over the period.

Outlook

We see a gradual reduction in the US budget deficit, towards a sustainable level of around 4% of GDP. If this can be achieved, investors can take a long-term view on the US economy, underwriting a resumption of corporate and portfolio investment. This could lead to a higher multiple for Emerging Markets.

The outlook for Chinese profitability remains depressed. With low earnings expectations, on top of a low market multiple, we see an opportunity, although a return to multiples in the 20s is unlikely. The bear story is now well rehearsed, leaving room for upside surprises.

Russia has traded as high as 19x trailing earnings over the past decade, averaging 8.3x, but currently trades at 4.6x. Profitability in Russia remains solid. Given these low expectations, we are also overweight in Russia.

Brazil and India have suffered negative operating leverage. In India, nods toward reform provided welcome relief in the fourth quarter. In Brazil however, "national service" is being demanded of the utilities, the banks, and the national oil company Petrobras, severely impinging on the market's profitability, now at a nine-year low.

Global growth will be slow in 2013, but long-term economic prospects should start to brighten as the year progresses. Most of the larger countries in GEMs remain attractively priced, notably in China and Russia, where we are overweight.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Equity Select Fund

Market Review

Global markets fluctuated throughout the course of 2012 but ultimately climbed higher as investor's perceived improvements in the European debt crisis, the US fiscal cliff and the economic slowdown in China. While Europe dominated the headlines for most of the year, the key turning point came in July after Mario Draghi pledged to do whatever it takes to preserve the Euro. His rhetoric was further bolstered by the establishment of the European Central Bank's Outright Monetary Transactions program. While many feared that the Chinese economy was headed for a hard landing, it proved no more than a slowdown as it showed signs of stabilisation in the back end of the year. As focus shifted toward the fiscal cliff discussions in the US late in the year, we saw headline volatility. However, on the last day of the year, the US government was able to strike an agreement that, although widely criticised, gave hope of more constructive future dialogues in the House and Senate.

With markets registering healthy gains in 2012, we saw the best performance coming from the Financials and Consumer Discretionary sectors while Utilities, Telecom and Materials stocks were among the weakest performers. The Yen was by far the weakest performing major currency as incoming Prime Minister Shinzo Abe's aggressive rhetoric on fiscal and monetary policies drove anticipation of aggressive easing. The US Dollar was also relatively weak as the Fed continued to "print" money through Quantitative Easing (QE). Among the strongest performing markets were Turkey, the Philippines, Belgium and Germany while Israel, Brazil and the "PIIGS" of Europe were among the weakest.

Investment Strategy

Over the course of the year we made a number of changes to the portfolio. Among our largest trades were the following:

We initiated a position in SAP, a leading global provider of enterprise software. We believe the company remains well positioned as database architecture continues to grow and enable faster and more robust analytics. SAP's HANA system continues to be seen as an early leader in a rapidly growing industry and we believe it is now transitioning from value to volume. The company should also benefit from its acquisitions that have helped the company position itself both within the mobile apps space, via Sybase, and cloud-based software as a service, via SuccessFactors.

We initiated a position in Capital One Financial Corp (COF), a financial services company involved in full-spectrum domestic and international credit card lending, auto lending, consumer instalment lending, small business lending and deposit-taking activities. COF is now the fourth largest US credit card provider and has built formidable competitive positions nationally in credit cards, internet deposit gathering and auto lending, aided in the first two categories by the acquisitions of the HSBC card business and the ING Direct deposit business. Unlike most banking peers, COF does not need to grow the Balance Sheet in order to offset net interest margin compression (from a low rate environment) and generate spread income growth. We expect the company to grow its Earnings Per Share through a favourable asset mix shift within its underlying businesses.

Performance Review

Our strategy modestly outperformed the Benchmark, 0.25%, during the year helped by strong relative performance from our selection within the Consumer, Utilities and Telecom sectors. Detracting from performance was our selection within the Health Care, Energy and Financials sectors. At the individual stock level, Aberdeen Asset Management was our largest contributor to performance as the company continued to benefit from good performance and strong inflows. We were also helped by our position in Crown Castle International, one of the largest cellular tower companies in the US. The proliferation of smartphones and tablets throughout 2012 fuelled the need for increased bandwidth and drove the value of the tower companies significantly higher.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Equity Select Fund (continued)

Performance Review (continued)

Our position in BG Group was the largest detractor from performance, at the stock level, as the company delivered very disappointing production guidance that had analysts slashing their earnings forecasts and investors punishing the stock. Also weighing on performance was our position in SanDisk as the company's second quarter guidance revealed that the extremely weak pricing environment for NAND flash may persist longer, prompting a sell-off of the shares. Within Consumer, the portfolio was helped by our position in CP ALL which rose over 90% as the leading operator of 7-Eleven in Thailand, which benefited from strong store expansion, rising consumer income and reduced corporate tax.

Outlook

We maintain a positive stance towards equities driven by reduced tail risk, healthy corporate Balance Sheets, supportive valuations, gradually improving economic growth and investor positioning. The world remains long credit and short equity. As central banks have ensured there is not much "income" left in fixed income or "yield" left in high yield, investors will need better sources of returns. Inflation expectations will also remain an important signal for the rotation back to equities.

In 2012 investor behaviour was largely linked to the tail risks seen as a significant economic slowdown in China, the on-going European debt crisis and the looming fiscal cliff in the US. While we saw encouraging signs throughout the year that contributed to diminished tail risks, it would be naive to say that these risks have gone away. Europe and the US have managed to successfully kick the can down the road in the hope that growth will emerge and save the day. We will continue to see volatility in 2013 around these macro factors and there is increasing likelihood that Japan could join the party. However, lost in all the noise of the macro headlines, are the company-specific growth opportunities.

Growth is a function of change. Over the medium and long term we see four key trends, Demographics, Deleveraging, Digital Economy and Social and Environmental Concerns, continuing to reshape the global landscape and at the intersection of these broad trends is the opportunity for growth. Ultimately we believe the best defence (and offence for that matter) for a company resides in their underlying business model. We believe that businesses that can adapt to the changing landscape, maintain a flexible Balance Sheet and generate stable cash flow remain well positioned. Despite the difficult macro backdrop there are numerous companies with attractive assets, cost bases and valuations that are continuing to grow cash flow. History has shown that investing in these types of quality businesses during times of heightened economic uncertainty tends to pay off in the long run.

**Hermes Investment Management Limited
January 2013**

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Quant Global Equity Fund

Market Review

The first quarter of 2012 was the most profitable for equities. The year began optimistically with significant returns in both January and February and investors positioned for a risk-on environment. However this did not last long and as March commenced the tide turned and concerns grew over European growth which led to a temporary decline in global equities. Investor confidence was soon revived with news of positive US economic data and the acceptance of the debt-swap deal in Greece which led to markets rallying. This quarter characterised the rest of the year as risk-on / risk-off dominated and macro sentiment fluctuated.

The decline in the market at the start of the second quarter was driven once again by a re-emergence of the European debt crisis. The Fund employs a multi-factor approach and is exposed to a range of styles. It is no surprise that the performance of quality styles, as measured by our Corporate Behaviour and Capital Structure factor categories, was positive. These two factor categories, combined with the Sentiment category, were very effective during the falling market. Valuation factors which had performed strongly during January and February were less effective during April, May and early June but added value during the late rally in the second quarter.

July was characterised by investor nervousness and as such high quality stocks with positive Sentiment factors outperformed. A quiet August was followed by optimism in early September ahead of the Federal Reserve's announcement of the third round of Quantitative Easing and this was strengthened when Germany's Federal Constitutional Court ruled in favour of the European Stability Mechanism. Neither move was enough to sustain the positive momentum and global markets trended downwards throughout October before plummeting during the first two weeks of November as geopolitical risks resurfaced. A renewed focus on the Eurozone, increasing tension in the Middle East and the looming US fiscal cliff combined to depress markets.

By mid-November markets began to rebound and the rally continued throughout December, although some of the gains were given up during the final week of the year as it became clear that a solution to the US fiscal cliff was not forthcoming. Japan was the standout region for the fourth quarter as the Japanese elections led to a significant weakening of the Yen and a corresponding rally in Japanese exporters. Many of the Japanese companies that rallied were low quality companies which rank poorly on profitability metrics. Overall, high quality companies with high Sentiment factors lagged, with cheaper companies rebounding strongly during the final quarter of 2012.

Investment Strategy

The Fund uses systematic fundamental analysis to assess the attractiveness of over 4,000 stocks on a daily basis. This analysis involves a disciplined bottom-up stock selection process based on well documented anomalies and trends in investor behaviour. The strategy aims to take advantage of systematic behavioural biases of market participants while remaining cognisant of the risks associated with the modelling of such behaviour.

We determine fair value for a stock using metrics from the full range of a company's Financial Statements, and our modelling employs a wide variety of stock characteristics (often referred to as factors) designed to proxy expected investment returns and the behaviour of market participants. The Fund's multi-factor approach ensures we remain exposed to a range of styles and aims to generate consistent outperformance in all market environments. We closely monitor the performance of each factor with the aim of building stock selection models that deliver consistent and sustainable excess returns.

Portfolio modelling is utilised in the portfolio construction process to trade-off between expected return and portfolio risk, allowing for both portfolio constraints and transaction costs. Unlike traditional quantitatively-driven funds, the team uses its experience to enhance the output from the optimisation process.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Quant Global Equity Fund (continued)

Investment Strategy (continued)

The portfolio modelling process is supplemented by portfolio exposure analysis. In addition to the Northfield risk model used during the optimisation, we have designed Hermes' proprietary risk modelling system, MultiFRAME. The tool allows us to assess the Fund's exposure to any quantifiable risk factor and integrates with the Northfield model to neutralise any unintended portfolio risk.

Analysis is also completed on a subjective, stock level basis. The team uses their extensive experience to "sense check" the optimal portfolio and remove trades subject to significant non-quantifiable factors or unreliable inputs. The team draws on the broad resources of the wider Hermes group to assist in this analysis. While the quantitative model has been consistent in adding value in the longer term, the sense check has been proven to enhance performance whilst also reducing the level of downside risk in the Fund.

Performance Review

The Fund has had a positive year and outperformed on a relative basis by 0.8%. The greatest relative outperformance was derived from the Industrials and Energy sectors. In particular Marathon Petroleum performed ahead of market expectations and was one of the best performing stocks for the Fund.

Financials offered the greatest returns for the MSCI World Index, however this was the sector that was the least effective for the Fund despite a holding in Aberdeen Asset Management which was another of the Fund's greatest performers for the year. Aberdeen Asset Management, a UK based company, contributed to the UK being the best performing country for the Fund over the year.

The majority of the underperformance in Financials occurred in the final quarter of the year. Bank of America, a company not held by the Fund, was one of the largest contributors to underperformance as it experienced large positive returns due to investors moving into the risk-on trade.

February and July were the months that offered the largest relative returns for the Fund. In the final quarter of the year there was an investment style reversal as Sentiment, Quality and Growth factors underperformed and Valuation outperformed. The Fund has an exposure to a wide range of styles enabling positive performance in a range of market environments.

Outlook

With the US fiscal cliff and the European sovereign debt under control, at least temporarily, we expect that investors will begin 2013 in optimistic and risk-seeking mood. We anticipate that investors will reallocate assets to equities at the beginning of the year.

Stocks with high Sentiment factors and quality characteristics are currently overvalued relative to history. We believe the upside in these stocks is limited and we expect companies with low valuation relative to peers to outperform in the first quarter of 2013. The Financials sector is of particular interest, where recent returns have largely been driven by macro-economic events, leaving little opportunity for stock pickers to add value. Historically, sector recoveries begin with all stocks moving in sync before stock dispersion increases. We expect dispersion to increase rapidly in the Financials sector and see many opportunities to add value this year.

We remain conscious that factor effectiveness can change violently and that any geopolitical shock is likely to return investors to a state of risk aversion and will lead to a rally in high quality stocks. The strategy's multi-factor approach ensures the Fund remains exposed to a range of styles.

**Hermes Investment Management Limited
January 2013**

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes UK Small & Mid Cap Companies Fund

Market Review

Notwithstanding a period of risk aversion in the second quarter, 2012 was a strong year for many equity markets. Repeated actions by global central banks prompted the return of a 'risk on' trade that overwhelmed the effects of a slowdown in UK economic activity. Expectations for earnings growth were cut during the year, but the security of sound corporate balance sheets and several rounds of Quantitative Easing enabled PE ratings to expand instead, producing high stock returns.

In the UK, Mid Cap and Small Cap stocks rose by 29.2% and 36.6% respectively, far in excess of the 10.6% returned by Large Cap stocks.

Having lagged the market in 2011, consumer-orientated sectors outperformed in 2012. The slowdown in global economic activity adversely affected the Basic Material and Oil and Gas sectors. Overall, the Small and Mid Cap market did not see a continuation of the prior year's trend for higher quality stocks, as measured by Return on Equity (ROE), to outperform.

Since the stock market bottomed in early 2009, UK small and mid cap stocks have handsomely outperformed large caps. From the end of March 2009 to the end of December 2012, UK Small and Mid Cap stocks have produced a total return of 127% compared to the 75% from Large Caps.

Investment Strategy

Our core philosophy is that long term investment in high quality Small and Mid Cap companies, bought at a discount to intrinsic value, produces the best return for clients. We define 'quality companies' as those companies that operate in attractive niche markets with barriers to entry and pricing power that enables these businesses to generate durable and growing cash flows and attractive returns without being wholly dependent on the economic cycle. This style bias, as evidenced by independent Style Research analysis, has shown the Fund to be consistently overweight companies with high ROEs and growth rates, and underweight factors such as Price-to-Book that are associated with lower quality or 'value' stocks.

By being broadly sector neutral and controlling risk exposure we aim to structure the Fund so that the majority of risk is stock specific. This is verified by Barra risk analysis estimating that over 70% of the Fund's Tracking Error is from stock selection. The steady, long term performers that we seek out are by nature relatively low risk stocks. This results in the portfolio being relatively low Beta, i.e. having a small element of market risk in addition to stock risk.

Performance Review

The Fund returned 29.2% compared to the Benchmark return of 29.4%, a relative underperformance of -0.2%.

As is usual, the stock selection aided relative performance. However, it was offset by negative sector allocations. The Fund benefited from not holding several disappointing mining companies in the Basic Materials sector, but this was outweighed by the poor performance in the Technology and Consumer Goods sectors.

The notable negative stock performers were SDL, Fenner and Kier. SDL, a translation software and services company has seen a weakness in new license sales. However, a return by the company's founder to CEO should re-energise growth. Fenner, having been a strong performer in 2011, lagged the market in 2012 as it experienced slower orders from US coal miners. Kier, a UK construction and facilities management company, witnessed a tougher local authority outsourcing market.

The main positive stock contributors were Ashtead, Galiford Try and Hargreaves Lansdown. Ashtead, a plant hire company, has seen strong earnings upgrades as it benefits from the structural growth of renting equipment in the US. Galiford Try, historically primarily a UK construction company, has produced good returns from its move into house building. Hargreaves Lansdown continues to see strong growth in assets under management and financial planning services.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes UK Small & Mid Cap Companies Fund (continued)

Outlook

Investors face the opposing forces of structurally weak economies but negative real interest rates brought about by central bank financial repression. In this environment, asset classes that can provide positive real returns will be in demand. In particular, equity markets and stocks that deliver earnings growth will be scarce and increasingly rewarded with a higher valuation. Over the last year, UK Small and Mid Cap stocks have provided the former and duly received the latter. Consensus analyst forecasts are for them to continue to see modest earnings growth in 2013.

So, while Small and Mid Cap stocks continue to appear cheap relative to government bonds (as equity yields are significantly higher than gilt yields) they are also attractive in absolute terms as the forward Price to Earnings ratio is not high compared to its long-term average. However, in a low growth environment, minor fluctuations in forecasts can produce sizeable shifts in market sentiment. This was certainly the case in 2012 and will no doubt continue in the year ahead. The Fund endeavours not to be swayed by such short-term noise. Accordingly, the Fund will maintain a long-term bias towards high quality companies that can provide sustainable growth in free cash flow.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Japan Equity Fund

Market Review

The Japanese stock market rose 2.8% in Sterling terms over the calendar year, though as in 2011, the overall number belies a period of considerable volatility.

The often seasonal positive mood of the first quarter was quickly reversed in the second quarter on increased concern over the potential negative impact arising from increased financial stresses in the Eurozone, notably Greece. Also, a nod toward seeking a weaker Yen by the Bank of Japan was not followed through with tangible policy measures.

Late in the summer, increased regional geopolitical events also impacted the earnings environment for Japanese companies. Not least those companies with a large exposure to the Chinese market, where riots attacking Japanese-owned production facilities and a boycott of Japanese products took hold for several weeks.

However, a general election in November gave a significant majority to the Liberal Democratic Party led by Mr Abe. He had called, both before and during the campaign, for stronger measures to combat the strong Yen and help lift Japan out of the chronic deflation that has hurt the economy over the past several years.

A sharp depreciation of the Yen duly ensued, giving rise to a strong rally in the domestic stock market led by export and interest rate sensitive sectors.

Investment Strategy

The investment strategy is to position the Fund, based on a bottom-up basis, wherever the best mix of quality and value lies. From inception this strategy has given the Fund a domestic bias. Financials, Telecommunications and Land Transportation have thus been overweight as a residual of this process. Conversely, Electricals, Precision Equipment, Machinery and Autos have historically been underrepresented based on deteriorating fundamentals and relatively unattractive valuations.

During the year, the relative weighting of Banks, Insurers and Real Estate moved higher as their relative performances improved. The Fund also increased its exposure to auto parts related issues at the start of 2012 as NGK Insulator, a maker of auto diesel particulate filters, was added.

Towards the end of the year new positions were taken in Takeda Chemical, a pharmaceutical maker, and Hitachi, an industrial electronics conglomerate. The former is entering a phase of capitalising on its new drug pipeline. The latter is undergoing restructuring and refocusing of its core businesses to strengthen its balance sheet and improve shareholder returns.

Performance Review

Performance last year was weak in relative terms with the Fund declining 3.0%, underperforming the Benchmark by 5.7%. Since inception the Benchmark has risen by an annualised 0.5% in Sterling terms. The Fund has risen at a rate of 2.2% over the same period, again in Sterling.

The Fund's weaker returns came mainly from economically cyclical sectors such as Iron & Steel, Shipping and Broadcasting. The largest contributions to the underperformance came from Tokyo Steel Manufacturing, Tokyo Broadcasting and Mitsui OSK, a shipping company. Positive contributions were led by Insurance such as T&D Holdings, Mitsubishi Estate and Tokio Marine Holdings.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Japan Equity Fund (continued)

Outlook

Heading into 2013, the global outlook for Japanese companies appears more benign than at any other time since the onset of the financial crisis in 2008. Whilst the European sovereign debt crisis may not have been fully overcome, ECB action since last autumn would seem to have at least stabilised the situation.

Meanwhile, the US economy and financial markets continue to recover which follows through for major Japanese corporations exposed to them.

Chinese demand, whilst still fragile in terms of Japanese products following a recent and ongoing geopolitical stand-off in the South China Sea, is also generally recovering from softness seen in the second half of last year. Rising exports from and imports into China will boost global economic growth that will also have a positive impact in Japan.

Japanese market valuation entered 2013 still relatively undervalued compared to its global peers in terms of its Price-to-Book ratio (PBR). The TOPIX PBR of 1.1 compares with 2.2 for the S&P index and 1.7 for the MSCI Asia ex Japan index.

The weaker Yen, if sustained, will have a positive impact on corporate earnings during the next year. However, the main domestic risk (apart from a natural disaster as in 2011) remains political. The new Government has yet to formalise policies that it has proposed to support the current Yen weakness and instil inflationary expectations to meet its announced 2% inflation target. Failure to follow through on stated rhetoric could undermine the current market recovery.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Sourcecap European Alpha Fund

Market Review

Who would have expected that European equities would be one of the best performing asset categories globally in 2012 with a return in Euros of 18.6%. Perfect foresight on political and economic developments at the start of the year would have served only to hinder your abilities to get that forecast right! The European equity index has had more twists and turns than a good thriller over the last few years and 2012 was no exception. A strong start to the year (+12% to the high in March) was quickly reversed with a 14% plunge from the early high to a politics induced low in early June, when Mario Draghi pledged to do "whatever it takes" to save the Euro. A strong recovery then ensued, even with a nasty hiccup in mid November, which saw the index end the year 24% above its low point.

The variable over the year was confidence, as growth expectations – even for the previously impervious German economy – hit a low at the end of the period. Investors started the year dwelling excessively on the negatives and ended the year focusing on the positives even though from a big picture perspective little had changed. To take an old well-worn phrase, the market has gone from perceiving the European equity space as half empty to half full in the last few weeks.

Investment Strategy

The forthcoming reporting season will be the litmus test of the depth of confidence that the market participants have in the breadth and depth of the fundamental factors supporting the rally in equities globally, and especially in the more cyclical and higher risk areas. The size of the rally has raised implicit profit expectations in many stock prices, and as the valuation of a stock gets driven by its profitability in the long run, there has to be evidence of a better tomorrow to maintain the upward momentum seen in the cyclical names. There is only so far you can get on a re-rating story alone.

It is here that we have a problem, as there is simply not sufficient evidence of a tangible and sustainable improvement in corporate profits across the broad market for us to be willing to embrace the rush into banks, industrial and cyclical stocks. Typically, the structure and disposition of the portfolio evolves with the availability of attractive and compelling ideas where we see a long-term structural growth story emerging. These ideas do not stem from the shape of the yield, lower risk premia or changing liquidity conditions, but rather they emerge from bottom-up stock selection, and here we are seeing no evidence of a broad recovery in profits. According to Bank of America Merrill Lynch, earnings estimates were flat over the last quarter.

As a consequence, the broad disposition of the portfolio has remained unchanged with a range of structural growth stories and a rising number of restructuring and self-help ideas (for example, UBS and Porsche). Ultimately, once the short-term macro noise has abated, you are left holding companies which have to justify their position in the portfolio from their long-term stream of earnings and dividends, hence why stock picking will win out in the end.

Performance Review

The investment strategy proved to be successful in 2012, with the Fund outperforming the FTSE All-World Europe Index by 1.7% in Sterling terms. The healthy relative performance over the year has taken the excess return of the Fund since inception to 5.8% per annum, again in Sterling.

Stock selection (+211bps) was behind the positive relative return, while sector allocation (-7bps) marginally detracted over the year. Embedded in the relative return from stock selection was a currency effect of 72bps, the bulk of which was due to the overweight positions in the Norwegian and Swedish Krone that added 51bps and 14bps respectively.

Sector allocation added value in five of the ten sectors, with the most significant contributions coming from the underweight positions in Utilities and Oil and Gas and the overweight stance in Technology and Consumer Services. On the negative side, by far the most significant detraction came from the underweight position in Financials and there were other notable detractions from the underweight stance in Industrials and the overweight position in Telecoms.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Sourcecap European Alpha Fund (continued)

Performance Review (continued)

Value was added in six of the ten sectors due to stock selection, with Healthcare, Telecoms, Oil and Gas and Technology being the main contributors. The only significant detraction over the year came from stock selection in Consumer Services.

The biggest contributions at the individual stock level came from Swedbank, Petroleum Geo-Services, Bureau Veritas, Bayer and Porsche. On the negative side, the main detractors were BG Group, Vodafone, Randgold, Swedish Match and Statoil.

Outlook

Our style requires tangible evidence of positive change, rather than mere hope that it will appear, and we are willing to bide our time until there is evidence that the implied economic recovery is as broad and deep as the stock market believes; we remain sceptical that this will occur. In the meantime, the focus in portfolios continues to be on quality companies with high returns that are sustainable over time and where they possess a competitive advantage that delivers profitable sales growth that compound up steadily over the long-term and create substantial shareholder value.

Structural themes do not disappear overnight just because Spanish bond yields have dropped from panic induced levels. Indeed, the heat-wave in Australia at the moment, demonstrates that climate change and its impact on food is very real.

The low growth environment is also fostering an increasing number of self-help and restructuring opportunities as managements recognise the imperative to adapt and change direction to meet the new economic reality. The appeal of such situations is that the benefits, when the strategy is executed well, can be dramatic and persist for many years.

There are always plenty of stock specific opportunities to analyse that are not predicated on getting a forecast on economic recovery right, and that continues to be the thrust of the strategy.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global High Yield Bond Fund

Market Review

Generally, 2012 was positive for risk assets. Corporate credit continued to benefit from a powerful combination of strong demand, moderate net supply, impressive year to date returns and low volatility in the wider market. Within High Yield, Europe outperformed US, which continued to rally since Draghi's comments and with it hope for the beginning of the end of the crisis.

Weak global growth continues to be evident, though US consumer and housing demand are showing signs of progress, while uncertainty surrounding the year end US fiscal cliff curtailed business investment and hiring. Policymakers in virtually every region of the world are putting monetary and/or fiscal stimulus into action, which should keep both short and long-term borrowing costs at low levels in the hope this will revive the global economy. Corporate quarterly results so far point to pockets of weakness, particularly in Autos and Technology. Earnings in general are meeting expectations with some disappointment coming at the Revenue level. Technicals have remained very robust. Low dealer inventory and investors being underinvested brought a strong support to the market.

Investment Strategy

The past year has seen unprecedented levels in High Yield, in terms of cash price and yield, whilst spread has remained in historic range. As a result, it has been vital to continuously reappraise where the correct place to be is in terms of valuation, particularly with regard to within single names. We have been very active moving between different parts of the capital structure, different bond currencies and from cash bonds to credit default swaps in an effort to maximise our risk adjusted return at all times.

We continue to favour Media Cable and selective Financials over Energy and Utilities, and remain very cautious in the US single B ratings bucket, where we see the most extreme examples of poor convex risk / return profiles. Furthermore, where valuations in single name bonds are not compelling, we continue to actively utilise credit default swaps as a means to gain exposure to single name credits.

Performance Review

The Fund returned 15.0% in 2012, outperforming the benchmark by 1.4%. The strong outperformance was driven by the Fund's positioning in higher Beta credits, in particular, those with exposure in peripheral Europe. Furthermore, our positioning focus away from constrained situations, thus maximising convexity, allowed the Fund to benefit from the rally in markets, despite the overall conservative positioning.

Within the Fund, idiosyncratic name selection in Tui Travel, Cemex and Ardagh aided performance, whilst underweight positioning in Petroleos DeVenezuela and Continental AG detracted. Basic Industry and Banking were the notable performing sectors, whilst Energy lagged.

Outlook

The outlook for the market will be driven by the extent to which an extremely favourable technical environment for credit is offset by the several macro risks threatening to derail the economic recovery. Namely, Spain's reluctance to officially ask for a bailout, and the related risks of a Catalan secession, and see the constitutional crisis as the primary risk. Further risks include: China's disappointing data, the US fiscal cliff and debt ceiling uncertainties that have spilled into this year. Bubbling tensions in the Middle East and renewed threat from currency wars between developed and developing countries are risking international trade and equity multiples in the latter markets.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global High Yield Bond Fund (continued)

Outlook (continued)

Our view is that in some areas of High Yield, historically high cash prices and call constrained situations are not adequately allowing compensation from the risks taken despite spreads in themselves offering value. Our constructive view is concentrated on avoiding such areas of the market, leading us to prefer BB to single B ratings, Euro to USD High Yield, and credit default swaps to cash. We are also finding value in shorter parts of the credit spectrum. This approach allows the Fund to maximise its convexity whilst minimising the jump to default risk.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Investment Grade Fund

Market Review

The first quarter of 2012 was a strong quarter for credit markets across the whole spectrum, however the quarter started better than it ended. March was a softer month for risk assets with companies' reported outlooks and mixed economic data somewhat sobering after such an optimistic start to the year. Positive developments came from the European sovereign space as well as the fact that the second half of 2011 proved challenging for credit and risk assets in general.

In the second quarter, global risk markets stumbled primarily due to Sovereign debt concerns in Europe, signs of slowing economic growth in the U.S. and major Emerging Markets. The damage to asset prices was done in April and May, whilst the scope for Quantitative Easing (QE) provided some relief in June.

The third quarter was a positive quarter for risk assets generally. While the quarter began with a weak earnings season, politics and technicals dominated the pricing of assets. As volumes picked up in September, following a relatively dull summer, sentiment was boosted by the introduction of a new ECB bond purchasing program and the US Fed starting a third round of QE.

The last quarter of 2012 was slightly positive for risk assets. Corporate credit continued to benefit from a powerful combination of strong demand, moderate net supply, impressive year to date returns and low volatility in the wider market. While performance in non-peripheral countries was moderate, Peripheral and Financials risks performed strongly.

While Draghi's comments triggered and set the momentum for the rally in the riskier assets, weak global growth continues to be evident. US consumer and housing demand are showing signs of progress, while uncertainty surrounding the year end US fiscal cliff curtailed business investment and hiring. Policymakers in virtually every region of the world are putting monetary and/or fiscal stimulus into action, which should keep both short and long-term borrowing costs at low levels in the hope this will revive the global economy. Corporate quarterly results so far point to pockets of weakness, particularly in Autos and Technology. Earnings in general are meeting expectations with some disappointment coming at the Revenue level. Technicals have remained very robust. Low dealer inventory and investors being underinvested brought a strong support to the market.

Investment Strategy

We gradually reduced our Beta during the rally from January to mid-March to a more neutral outright stance over the market weakness in spring. In Q2, we continued to reduce our Beta to take a slightly short bias over most of the quarter, especially in Europe. We covered the majority of our shorts over June, taking advantage of primary market re-opening in Europe with attractive premiums. We maintained a constructive view on the US market, especially on US banks as their Beta significantly decreased while their capitalisation significantly improved over time.

We maintained a conservative positioning in the third quarter in terms of Beta and exposure to Peripheral, keeping long positions in high Beta securities and a bias overweight Financial versus underweight Corporate. Over the quarter, we moved to a more constructive view on Financials in general. As the primary market has been extremely active and came to a significant discount to the existing curves, it gave us the opportunity to cover some of our underweight positions, especially in the European periphery.

In Q4, we reallocated some risk from Banks into Financials, especially Insurance, as the relative value and the potential of performance was greater. In Corporate we kept most of our underweight in very tight and highly rated Utilities and Energy companies where we see limited upside. We increased our exposure to Basic Materials on the back of an appreciation of our results expectations, and we took advantage of the compression of valuation (high Beta versus low Beta) in certain sectors such as Chemicals.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Global Investment Grade Fund (continued)

Investment Strategy (continued)

With Sovereign peripherals normalising, companies within those countries traded more on an idiosyncratic basis, which give us more comfort to take credit views in this region. From a relative value perspective, while we preferred the last quarter's High Yield Issuers (especially the front end of the curve), Peripheral Investment Grade investment opportunities are now more interesting. As such we reduced our High Yield exposure and increased our Peripheral exposure. In terms of currency, we increased our allocation to GBP as spread performance has been lagging versus EUR and USD issuance. We also tried to avoid very high cash prices, especially in USD where more than 50% of the benchmark is trading above 120 in cash price.

Performance Review

The Fund returned 7.4% over the year, outperforming the Benchmark by 1.1%. The performance has been very consistent, with the whole quarter contributing positively. The performance was driven by appropriate Beta management, very strong performance of our Financials positioning and sound contribution of our sector and stock selection. On a credit spread basis, performance from Financials has been extremely robust, while the Fund lost relatively in Utilities and Consumer Cyclical which were the two main underweight sectors.

High Beta and stock selection also had a strong contribution. The best single name performers were: Standard Chartered, Marathon, International Power, Deutsche Post Bank and Citi. Worst performers were essentially credits, where the Fund was not invested, as we favoured names trading with a higher idiosyncratic component and more fundamental credit stories, these included Telefonica and Rabobank. Areva and Gannett were the major detractors where we had an active position. Gannett was part of a pair trade which had a minor impact. Areva had unexpected massive asset depreciation and was affected by unfavourable political developments due to French elections.

Outlook

The outlook for the market will be driven by the extent to which an extremely favourable technical environment for credit is offset by the several macro risks threatening to derail the economic recovery. Specifically, Spain's reluctance to officially ask for a bailout, and the related risks of a Catalan secession, and we see a constitutional crisis as the primary risk. Italian elections would be another potential source of volatility. Further risks include China's disappointing data, the US fiscal cliff and debt ceiling uncertainties that have spilled into this year. Bubbling tensions in the Middle East and renewed threat from currency wars between developed and developing countries are risking international trade and equity multiples in the latter markets.

Support from the Central Banks on both sides of the pond by injecting liquidity into the market and taking innovative actions such as the Outright Monetary Transactions, coupled with a low rate environment, created a very credit friendly environment. We do not expect this stance to change in the short to medium term. The Central Banks will be keen to offset volatility led by macroeconomic developments. However, credit valuations are now higher and sentiment is more positive than it used to be, making the potential of performance inferior than the 2012 returns. We still think that some parts of the market are still lagging, which continues to offer arbitrage opportunities, BBB in Europe, further normalisation of Bank/Corporate risk premium differential, GBP Investment Grade. Those assets will still benefit from the global search for yield.

We believe that Corporate credit quality has picked up and equity friendly activity and M&A are back on track as companies will take advantage of low yields. Correlation between credit will also reduce in our opinion. As such, the market will become more idiosyncratic and will offer more stock picking opportunities as valuation will get more discriminative.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Sourcecap Europe Ex-UK Fund

Market Review

Who would have expected that European equities would be one of the best performing asset categories globally in 2012 with a return in Euros of 18.6%. Perfect foresight on political and economic developments at the start of the year would have served only to hinder your abilities to get that forecast right! The European equity index has had more twists and turns than a good thriller over the last few years and 2012 was no exception. A strong start to the year (+12% to the high in March) was quickly reversed with a 14% plunge from the early high to a politics induced low in early June, when Mario Draghi pledged to do "whatever it takes" to save the Euro. A strong recovery then ensued, even with a nasty hiccup in mid November, that saw the index end the year 24% above its low point.

The variable over the year was confidence, as growth expectations – even for the previously impervious German economy – hit a low at the end of the period. Investors started the year dwelling excessively on the negatives and ended the year focusing on the positives even though from a big picture perspective little had changed. To take an old well-worn phrase, the market has gone from perceiving the European equity space as half empty to half full in the last few weeks.

Investment Strategy

The forthcoming reporting season will be the litmus test of the depth of confidence that the market participants have in the breadth and depth of the fundamental factors supporting the rally in equities globally, and especially in the more cyclical and higher risk areas. The size of the rally has raised implicit profit expectations in many stock prices, and as the valuation of a stock gets driven by its profitability in the long run, there has to be evidence of a better tomorrow to maintain the upward momentum seen in the cyclical names. There is only so far you can get on a re-rating story alone.

It is here that we have a problem as there is simply not sufficient evidence of a tangible and sustainable improvement in corporate profits across the broad market for us to be willing to embrace the rush into banks, industrial and cyclical stocks. Typically, the structure and disposition of the portfolio evolves with the availability of attractive and compelling ideas where we see a long-term structural growth story emerging. These ideas do not stem from the shape of the yield, lower risk premia or changing liquidity conditions, but rather they emerge from bottom-up stock selection, and here we are seeing no evidence of a broad recovery in profits. According to Bank of America Merrill Lynch, earnings estimates were flat over the last quarter.

As a consequence, the broad disposition of the portfolio has remained unchanged with a range of structural growth stories and a rising number of restructuring and self-help ideas (for example, UBS and Porsche). Ultimately, once the short-term macro noise has abated, you are left holding companies which have to justify their position in the portfolio from their long-term stream of earnings and dividends, hence why stock picking will win out in the end.

Performance Review

The investment strategy proved to be successful in 2012, with the Fund outperforming the FTSE World Europe (ex UK) Index by 3.2% in Sterling terms. The healthy relative performance over the year has taken the excess return of the Fund since inception to 2.9% per annum, again in Sterling.

Stock selection (+287bps) was the dominant factor behind the positive relative return, while sector allocation (+49bps) also produced a healthy contribution over the year. Embedded in the relative return from stock selection was a currency effect of 94bps, the bulk of which was due to the overweight positions in the Norwegian Krone (+52bps), Sterling (+27bps) and the Swedish Krone (+17bps).

Sector allocation added value in six of the ten sectors, with the most significant contributions coming from the underweight position in Utilities and the overweight stance in Basic Materials. On the negative side, the largest detractions came from the overweight stance in Telecoms and the underweight positions in Consumer Goods and Industrials.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Sourcecap Europe Ex-UK Fund (continued)

Performance Review (continued)

Value was added in all but one of the ten sectors due to stock selection, with Telecoms, Financials and Consumer Services providing the biggest contributions to relative returns. The only detraction over the year came from stock selection in Consumer Goods.

The biggest contributions at the individual stock level came from Swedbank, Bureau Veritas, Inditex, Porsche and SAP. On the negative side, the main detractors were Swedish Match, Tele2, Vodafone, Statoil and Novozymes.

Outlook

Our style requires tangible evidence of positive change, rather than mere hope that it will appear, and we are willing to bide our time until there is evidence that the implied economic recovery is as broad and deep as the stock market believes; we remain sceptical that this will occur. In the meantime, the focus in portfolios continues to be on quality companies with high returns that are sustainable over time and where they possess a competitive advantage that delivers profitable sales growth that compound up steadily over the long-term and create substantial shareholder value.

Structural themes do not disappear overnight just because Spanish bond yields have dropped from panic induced levels. Indeed, the heat-wave in Australia at the moment, demonstrates that climate change and its impact on food is very real.

The low growth environment is also fostering an increasing number of self-help and restructuring opportunities as managements recognise the imperative to adapt and change direction to meet the new economic reality. The appeal of such situations is that the benefits, when the strategy is executed well, can be dramatic and persist for many years.

There are always plenty of stock specific opportunities to analyse that are not predicated on getting a forecast on economic recovery right, and that continues to be the thrust of the strategy.

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Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes US SMID Equity Fund

Market Review

Since Fund inception to the end of the period the Russell 2500 is up 3.0%. The market initially declined ahead of the presidential election, driven by another set of relatively weak earnings reports and corporate outlooks. However, post the election, the market rebounded significantly as investors looked forward to 2013 and began to anticipate a resolution to the political wrangling over how to address the deficit. A partial resolution was announced over the New Year holiday.

The rally since mid-November was led by lower quality stocks. The best performing sectors were Producer Durables and Basic Materials, while Healthcare and Utility stocks underperformed. Since the middle of November there was also a rotation back into companies that have more international exposure, as investors anticipated a more favourable outlook for Asian economies.

As well as the election, the fourth quarter was impacted by Hurricane Sandy which, by some estimates, may cost the state of New York \$42bn and New Jersey \$29bn in economic damages. The ramifications are almost certain to lead to volatility in the economic data near-term.

Within the US economy, consumers appear to be growing more comfortable with purchases of durable goods: housing starts are recovering and prices are improving; purchases of vehicles are running at over fifteen million on an annualised basis; even boat sales are beginning to recover. Companies, however, have been reluctant to spend their cash and this has been blamed on general economic uncertainty regarding future tax rates and the deficit. Merger and acquisition levels have also remained relatively low during 2012. Many companies reacted to anticipated higher tax rates in 2013 by accelerating dividend payments or paying special dividends.

Investment Strategy

The investment strategy is to buy high quality companies at a discount to their intrinsic value and to own these companies for the long-term. The team believes that this approach offers the best risk-adjusted returns for clients.

The average holding period for investments is three to five years. Quality is defined with reference to finding companies that are believed to possess a durable competitive advantage, that exhibit consistent cash generation, that have management teams who show talent and integrity and that have strong Balance Sheets.

The strategy is implemented through deep fundamental research, with the team conducting extensive travel around the US and meeting around 250 companies every year.

We initiated a position in United Stationers, a distributor of office, janitorial and industrial supplies. The company's business model revolves around the efficient delivery of low cost, everyday consumable items. Its customers include many of the largest e-tailers in the country including Amazon and Costco. The business has grown consistently for many years and with its cash flow the company has repurchased 30% of its outstanding shares during the last five years. Ingredion is a former strategy holding that we have re-invested in. The company is a global manufacturer of sweeteners and starches used in food and beverage processing and operates within an oligopolistic industry. With a significant presence in Latin America and Asia, the business should experience higher growth and higher margins. We also invested in Superior Energy Services, a diversified, global oilfield service business which should benefit over time from rising well complexity and service intensity.

We sold our holding in Trex, composite decking, as the stock reached our price target. The company's shares performed strongly in 2012, benefiting from the housing recovery. We have taken profits in some of our housing-related businesses, but still believe that the recovery is in its early stages. We also sold some underperforming investments; Progressive Waste, a Canadian solid waste business, was replaced by more attractive investments within the Producer Durables sector and Schnitzer Steel, due to a change in investment thesis. Our original investment was based upon the company being in a strong position to supply scrap steel, which is plentiful in the US, to China where there is strong demand, but we have become concerned that China may soon become more self-sufficient in scrap steel supply.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes US SMID Equity Fund (continued)

Performance Review

The Fund outperformed the market by 2.2% during the period.

Carmax, an auto retailer, was the largest contributor to performance following strong sales numbers and the announcement of a share buyback. Eagle Materials, cement and wallboard, continued to benefit from the nascent recovery occurring in the US housing market. Brunswick, a boat manufacturer, benefited from accelerating new boat sales and improving economic sentiment.

MDU Resources, utility and energy, was the largest contributor to underperformance, despite improving margins in its construction business, as weak energy prices proved a strong headwind. Wolverine Worldwide, a footwear manufacturer, was affected by limited visibility in its European markets. Brown & Brown, insurance broker, underperformed on news of weaker than expected, although still positive, organic growth.

Outlook

The current bull market began four years ago and is maturing by historic standards, but to most ordinary Americans, this has certainly not felt like a bull market. They have been struggling with slow economic growth, high unemployment and too much debt. They have also been, for the most part, absent from the equity market over these last few years.

Companies, on the other hand have been flush with cash. Margins are near peak levels and cash on corporate Balance Sheets is the highest it has been since the 1950s. Yet again, the corporate mood, like that of consumers, is cautious and uncertain. Merger and acquisition activity remained stuck at relatively low levels in 2012. The malaise is generally blamed on the political situation in Washington. What seems to be missing is a dose of Keynesian "animal spirits". It is not clear what might trigger a release of this, but within the US economy those parts that are recovering are the traditionally "early cycle" elements such as housing, autos and consumer durables. There are also powerful secular forces at work in the shape of the US energy revolution, that have the power to create jobs and economic activity.

One certainty in 2013 is that taxes are going up and government spending will be reduced. The question is whether these headwinds for the economy will be sufficient to overwhelm the early cycle elements already mentioned. Our own inclination, is that the recovery will win out over the course of the year, but we are not counting on this in our investments. Many of our companies have repurchased significant amounts of their own shares during the last few years, as they believed this was their best use of cash. Even in a low growth economy, with modest revenue growth, this has enabled them to generate good growth in earnings per share. Those companies who have been prepared to take a risk and invest sensibly and strategically have also been rewarded by the market.

This focus on cash generation, and its uses, is what we care about most in our investments. Valuations still seem reasonably attractive and we are able to find businesses with a free cash flow yield of 8% or more with relatively predictable and consistently growing cash streams. In 2013, we hope that some of this cash is able to trigger a release of those animal spirits.

**Hermes Investment Management Limited
January 2013**

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Active UK Inflation-Linked Bond Fund

Market Review

The index-linked bond market performed extremely well from the launch of the Fund on 9 October 2012 to the end of the year. The market rallied across the yield curve, with yields falling by 10 to 15 bps, and the 15 year sector of the curve performed particularly well. Furthermore, index-linked Gilts outperformed equivalent maturity conventional Gilts, as indicated by a rise in the breakeven inflation rate (the difference between the yield on a conventional Gilt versus an index-linked Gilt) due to the global recovery in risk appetite.

In October the market was little changed, but in November the index-linked market rallied strongly across the curve ahead of the index extensions on 22 November 2012, whereby some bonds were dropping out of indices as their maturities shortened, with the Fund's Benchmark duration rising by 0.9 years. In early November the market also benefited from the decision that coupon income from Gilts held by the Bank of England would be transferred to the Exchequer, thus potentially reducing Gilt issuance. There was then some weakness into the index extension and the syndication of the Index-linked 0.125% 2044 which saw the market sell off, and the syndication of £3.25bn was smaller than expected. However, the market then rallied sharply after the syndication priced as demand for index extensions proved to be stronger than expected.

The market continued to perform well in December, though this was led by the longer end, and at the short end yields rose slightly. Early in the month the Autumn Statement was largely as expected, with forecasts for lower growth and the Chancellor broadly sticking to his deficit cutting plans. It was also announced that a consultation would be launched on using a "smoother" discount rate to calculate pension fund liabilities. This was a negative factor for the longer end of the index-linked market as it was likely that a higher yield would be used to discount liabilities, thus easing pension fund deficits, that could then lessen the demand for index-linked. However, the market then recovered ground at the long end, being supported by follow-through from the index extensions.

Investment Strategy

At the inception of the Fund on 9 October 2012 a long duration position was adopted, as we believed that the market would perform well ahead of the index extensions on 22 November 2012, with bonds dropping out of various indices as they shortened in maturity, which then lengthened benchmarks with fund managers then needing to lengthen maturities as a result of this. The Fund therefore started with a 0.55 year long duration position, and as the market rallied over November and December, the strategy of the Fund was to take profits and shorten duration towards Benchmark at the lower yield levels. The Fund also adopted a strategy of being underweight the 5-15 year sector and overweight the over 15 year area of the curve, with a small allocation to the 0-5 year sector as an off-benchmark position. The Fund also took some small exposure to AAA rated Network Rail bonds, for incremental yield.

Performance Review

Over the period, the primary reason for the outperformance, 0.71%, was the active management of the long duration position which benefited from the strong rally. The Fund also benefited from the overweight to the 15-30 year sector which performed well, more than offsetting the small exposure to the 0-5 year sector that underperformed. The Fund also participated in a number of auctions and syndications over the period which contributed to performance. For example, in October the Fund purchased a new stock, the Index-linked 0.125% 2024 which performed well, while in November the Fund participated heavily in the syndication of the Index-linked 0.125% 2044 which priced at the low of the day on the 22 November 2012 and then rallied strongly.

The Fund used the index extension as an opportunity to reduce duration towards the now extended index, and duration was further reduced and profit taken towards the end of November. In December a small long duration position was maintained as the market continued to rally which contributed to performance, with the overweight of the over 15 year sector also benefiting. Over December the main activity in the Fund was to further reduce duration, taking profit at the lower yield levels, in particular reducing the overweight to the Index-linked 0.375% 2062, leaving the Fund's duration neutral to Benchmark at year end.

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Active UK Inflation-Linked Bond Fund (continued)

Outlook

On 10th January 2013 it was announced by the Office for National Statistics that there would be no change in the calculation of RPI, whereas the market had been anticipating the possibility of a change in methodology. This proved to be a major positive for the index-linked market which rallied strongly, as changing the measurement would have reduced RPI and hence future returns of index-linked Gilts. It also removed a big uncertainty for the market and should see many investors, who had remained on the sidelines ahead of this decision, returning to the market. We therefore maintain a positive outlook for the market and have a small long duration position in the Fund, this having been increased in early January. In addition, with the real yield curve remaining historically steep, we believe the yield curve is set to flatten and hence the Fund has an overweight to the over 15 year sector of the curve.

We also have a positive view on breakevens, and believe that index-linked Gilts will outperform equivalent maturity conventional Gilts. We believe that breakevens will be supported by the high level of Quantitative Easing which will eventually generate inflation in the UK, while it was also interesting to note a recent speech from the incoming Bank of England Governor, Mark Carney, hinting at the merits of nominal GDP targeting, a more pro-growth approach. Although we do not believe that there will be a change to inflation-targeting in the UK, and in any case such a decision would be taken by the Chancellor, it is noteworthy that the debate is at least taking place. With no change having been made to the calculation of RPI, it is likely that the possibility of issuance of CPI-based index-linked Gilts has increased.

**Hermes Investment Management Limited
January 2013**

Hermes Investment Funds Public Limited Company Investment Manager's Report (continued)

Hermes Emerging Asia Equity Fund

Market Review

The Fund launched on 1 November 2012 and has since seen the Benchmark rise by 5.1%, led by the China 'H' share index which was exceptionally strong. Standout performers in the smaller Asean region were the Philippines and Thailand.

Investment Strategy

The Fund seeks to buy good quality companies at a reasonable price or reasonable quality companies at an exceptional price. The Fund has a contrarian and value bias and runs a bottom up strategy which results in the construction of a portfolio that can be heavily over and underweight specific countries and sectors. The Fund is concentrated with the top ten positions comprising around 40% of the portfolio. Tracking Error is expected to be between 5% and 10% but overall portfolio volatility in any year is expected to be below that of the Benchmark. New additions and eliminations are relatively infrequent in the portfolio because it is concentrated with only approximately 50 stocks and because the average holding period is fairly long.

Performance Review

Since inception in November the Fund has risen by 3.3%, lagging behind the Benchmark which has risen by 5.1%. Among the weakest performers in the period was Wuliangye, a Chinese spirits maker, which continued to fall due to persistent market concerns about cuts in government and military related 'banqueting' expenditure and additional news flow about above-regulation levels of toxins found in competitor products. Among the strongest performers was Ajisen, a Japanese-style noodle restaurant chain located in China, as the market started to look past the company's recent sales-depressing headwinds caused by anti-Japanese sentiment and accusations that the company misrepresented cooking ingredients.

Even when we have identified and researched a mispriced security, it can be challenging to time our purchase exactly right. Buying an out-of-favour stock is never easy, but bitter experience has taught us that waiting can mean missing out on most of the re-pricing opportunity or, as Warren Buffett more poetically put it, 'if you wait for robins spring will be over'. So often we will buy a stock at what we consider to be a cheap price only to watch in frustration as it immediately gets cheaper as sentiment remains poor and robins refuse to appear, as in the case of Wuliangye. In such instances we will sometimes add to our stake on the way down, which is a small consolation for getting our timing wrong. On other occasions we are luckier and the stocks we buy re-rate soon after purchase, as with Ajisen.

Outlook

Despite the Benchmark's strong 2012 performance, we continue to consider our region as a whole to be attractively priced. We consider stocks in China and South Korea to continue to be cheap, while stocks in South East Asia remain expensive. In terms of sector attractiveness, we believe that 'quality' and defensive stocks continue to be expensive while cyclicals are cheaper.

The fourth quarter marked a rotation away from expensive 'quality', defensive names towards cheaper cyclical stocks. However, we consider much of the buying of cyclicals over the quarter to have been indiscriminate, with low quality, indebted cyclicals attracting as much investor interest as more resilient cyclicals. In the first quarter of 2013 we continue to seek to identify cheap but resilient cyclical stocks to try to take advantage of the valuation gap between expensive defensives and cheap cyclicals but, increasingly, also between what we consider to be less attractive lower quality cyclicals and relatively under priced more resilient cyclical stocks.

**Hermes Investment Management Limited
January 2013**

**Hermes Investment Funds Public Limited Company
Custodian's Report to the Shareholders
For the year ended 31 December 2012**

We have enquired into the conduct of Hermes Investment Funds Public Limited Company (the 'Company') for the year ended 31 December 2012, in our capacity as Custodian to the Company.

This report including the opinion, has been prepared for and solely for the shareholders in the Company as a body, in accordance with the Central Bank of Ireland's UCITS Notice 4, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Responsibilities of the Custodian

Our duties and responsibilities are outlined in the Central Bank of Ireland's UCITS Notice 4. One of those duties is to enquire into the conduct of the Company in each annual accounting period and report thereon to the shareholders.

Our report shall state whether, in our opinion, the Company has been managed in that period in accordance with the provisions of the Company's Memorandum and Articles of Association and the UCITS Regulations. It is the overall responsibility of the Company to comply with these provisions. If the Company has not so complied, we as Custodian must state why this is the case and outline the steps which we have taken to rectify the situation.

Basis of Custodian Opinion

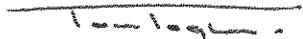
The Custodian conducts such reviews as it, in its reasonable opinion, considers necessary in order to comply with its duties as outlined in UCITS Notice 4 and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the Company's constitutional documentation and the appropriate regulations.

Opinion

In our opinion, the Company has been managed during the year, in all material respects:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum & Articles of Association and by the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, ('the Regulations'); and

(ii) otherwise in accordance with the provisions of the Memorandum & Articles of Association and the Regulations.


**Northern Trust Fiduciary Services (Ireland) Limited
25 April 2013**

Independent Auditor's Report to the Shareholders of Hermes Investment Funds Public Limited Company

We have audited the Financial Statements of Hermes Investment Funds Public Limited Company (the "Company") for the year ended 31 December 2012, which comprise the Balance Sheet, the Income Statement, the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares, the Cash Flow Statement, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable Irish law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Audited Financial Statements for the Year Ended 31 December 2012 to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the Financial Statements:

- give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the affairs of the Company as at 31 December 2012 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2012 and the European Communities (Undertakings for Collective Investment in Transferrable Securities) Regulations, 2011.

Matters on which we are required to report by the Companies Acts, 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The company's balance sheet and income statement are in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the Financial Statements.

Independent Auditor's Report to the Shareholders of Hermes Investment Funds Public Limited Company (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts, 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.



Michael Hartwell
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

Date: 25 April 2013

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012

Hermes Global Emerging Markets Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities: 93.12% (2011: 92.57%)			
Brazil: 10.72% (2011: 16.33%)			
160,600	Banco Bradesco	1,706,389	0.89
382,708	Banco do Brasil	2,959,836	1.54
189,091	Bradespar	1,873,720	0.97
83,900	Saneamento Basico	2,192,493	1.14
269,590	Cosan Class A	2,886,588	1.50
161,783	Gerdau	898,655	0.47
88,200	M Dias Branco	2,080,770	1.08
1,273,247	PDG Realty Empreendimentos e Participacoes	1,269,366	0.66
397,897	Petroleo Brasileiro Preference	4,752,662	2.47
Total Brazil		20,620,479	10.72
Canada: 3.25% (2011: 3.13%)			
222,915	IAMGOLD	1,574,584	0.82
200,904	Pacific Rubiales Energy	2,886,933	1.50
169,002	Yamana Gold	1,797,015	0.93
Total Canada		6,258,532	3.25
Cayman Islands: 0.00% (2011: 1.34%)			
Chile: 0.00% (2011: 1.00%)			
Cyprus: 0.95% (2011: 0.77%)			
180,845	Globaltrans Investment GDR	1,828,977	0.95
Total Cyprus		1,828,977	0.95
Czech Republic: 0.00% (2011: 1.22%)			
Hong Kong: 8.38% (2011: 11.12%)			
3,723,000	Ajisen Holdings	2,192,767	1.14
6,580,000	AMVIG	1,459,869	0.76
12,220,578	C C Land	2,643,042	1.37
2,101,000	China Mengniu Dairy	3,680,473	1.91
1,496,000	Galaxy Entertainment Group	3,617,573	1.88
6,772,000	NagaCorp	2,534,737	1.32
Total Hong Kong		16,128,461	8.38

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Emerging Markets Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities (continued)			
India: 4.28% (2011: 3.59%)			
156,002	CMC	2,113,460	1.10
245,848	Housing Development Finance	2,297,880	1.19
82,988	Mahindra & Mahindra	873,481	0.45
540,151	Motherson Sumi Systems	1,198,591	0.62
367,286	Sun TV Network	1,772,858	0.92
Total India		8,256,270	4.28
Indonesia: 0.93% (2011: 1.21%)			
4,039,000	Bank Rakyat Indonesia Persero	1,788,721	0.93
Total Indonesia		1,788,721	0.93
Ireland: 0.97% (2011: 1.15%)			
5,971,644	Kenmare Resources	1,857,181	0.97
Total Ireland		1,857,181	0.97
Malaysia: 1.93% (2011: 2.57%)			
5,194,754	Genting Malaysia	3,709,251	1.93
Total Malaysia		3,709,251	1.93
Mexico: 3.45% (2011: 2.97%)			
241,434	America Movil	3,455,778	1.80
212,600	El Puerto de Liverpool SAB De	1,378,751	0.72
1,134,921	Kimberly-Clark de Mexico	1,781,251	0.93
Total Mexico		6,615,780	3.45

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Emerging Markets Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Nigeria: 1.02% (2011: 0.83%)			
26,180,976	Zenith Bank	1,955,377	1.02
Total Nigeria		1,955,377	1.02
People's Republic of China: 13.38% (2011: 5.96%)			
102,462	Changyou.com	1,664,338	0.87
10,846,000	China Construction Bank	5,383,975	2.80
32,342,000	China Dongxiang	2,632,753	1.37
14,659	CNOOC	1,992,859	1.04
3,972,713	COSCO Pacific	3,487,570	1.81
12,584,000	Franshion Properties China	2,801,986	1.46
133,528	Perfect World	875,512	0.46
296,500	Ping An Insurance Group	1,534,538	0.80
448,604	Shanda Games	838,020	0.44
429,098	Shengli Oil & Gas Pipe	27,396	0.01
8,268,000	Travelsky Technology	2,731,769	1.42
177,980	WuXi PharmaTech	1,732,846	0.90
Total People's Republic of China		25,703,562	13.38
Philippines: 0.00% (2011: 0.00%)			
106,486	Ayala-Preferred	1,604	-
Total Philippines		1,604	-
Republic of South Korea: 17.27% (2011: 11.90%)			
210,220	Hana Financial Group	4,208,663	2.19
77,673	Hyundai Motor Preferred	3,105,583	1.61
112,736	Korea Investment	2,758,563	1.43
9,301	Samsung Electronics	8,173,833	4.25
11,966	Samsung Electronics Preferred	5,883,631	3.06
34,397	Samsung Fire & Marine Insurance	4,322,617	2.25
142,485	Youngone	4,774,897	2.48
Total Republic of South Korea		33,227,787	17.27

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Emerging Markets Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Russian Federation: 8.01% (2011: 5.86%)			
1,500	Transneft	2,079,404	1.08
409,780	M Video	1,984,048	1.03
214,691	Polymetal	2,518,325	1.31
520,779	Rosneft Oil	2,870,220	1.49
3,169,444	Sberbank of Russia	5,952,611	3.10
Total Russian Federation		15,404,608	8.01
South Africa: 5.69% (2011: 6.05%)			
429,515	Clicks	2,032,221	1.06
826,574	Datatec	2,955,301	1.54
177,872	MTN Group	2,302,669	1.20
137,568	Sasol	3,638,025	1.89
Total South Africa		10,928,216	5.69
Taiwan: 5.42% (2011: 7.50%)			
6,871,872	China Life Insurance	3,827,799	1.99
1,553,777	Greatek Electronics	802,607	0.42
2,005,560	Hon Hai Precision Industry	3,793,595	1.97
3,625,808	Tong Yang Industry	2,008,078	1.04
Total Taiwan		10,432,079	5.42
Thailand: 2.67% (2011: 3.89%)			
6	Asian Property Development Receipt	1	-
758,132	Bangkok Bank Receipt	2,997,065	1.56
645,800	PTT Exploration & Production	2,135,110	1.11
Total Thailand		5,132,176	2.67
Turkey: 1.57% (2011: 1.27%)			
924,806	Aygaz	3,022,083	1.57
Total Turkey		3,022,083	1.57

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Emerging Markets Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United Kingdom: 0.65% (2011: 1.47%)			
1,120,168	Petra Diamonds	1,254,588	0.65
Total United Kingdom		1,254,588	0.65
United States: 2.58% (2011: 1.44%)			
335,573	Corning	2,617,496	1.36
597,038	Micron Technology	2,337,705	1.22
Total United States		4,955,201	2.58
Total Equities		179,080,933	93.12
Corporate Bonds: 2.66% (2011: 0.00%)			
United States: 2.66% (2011: 0.00%)			
295,936	Morgan Stanley 0.00% 30/08/2013	3,690,921	1.92
142,494	Morgan Stanley Class B	1,709,487	0.89
Total United States		5,400,408	2.81
Total Corporate Bonds		5,400,408	2.81
Collective Investment Schemes: 0.00% (2011: 1.42%)		-	-
Financial Derivative Instruments: 3.42% (2011: 2.55%)			
Warrants: 3.42% (2011: 2.55%)			
China: 1.52% (2011: 1.31%)			
661,000	Ping An Insurance Group	2,924,035	1.52
Total China		2,924,035	1.52
Curacao: 1.90% (2011: 0.00%)			
176,145	Kweichow Moutai	3,655,391	1.90
Total Curacao		3,655,391	1.90

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Emerging Markets Fund (continued)		
Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Financial Derivative Instruments (continued)		
Qatar: 0.00% (2011: 0.64%)	-	-
United Kingdom: 0.00% (2011: 0.60%)	-	-
Total Warrants	6,579,426	3.42
Total Financial Derivative Instruments	6,579,426	3.42
Total financial assets at fair value through profit or loss (2011: 96.54%) (Cost: £179,289,207)	191,060,767	99.35
Cash at bank (2011: 3.42%)	1,381,025	0.72
Other Net Liabilities (2011: 0.04%)	(141,240)	(0.07)
Net Assets Attributable to Holders of Redeemable Participating Shares	192,300,552	100.00
Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		95.70
Financial derivative instruments dealt on a regulated market		3.41
Cash		0.72
Other assets		0.17
Total		100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Equity Select Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
	Equities: 97.66% (2011: 97.18%)		
	Belgium: 2.28% (2011: 1.78%)		
56,057	Umicore	1,906,013	2.28
	Total Belgium	1,906,013	2.28
	Brazil: 0.00% (2011: 1.46%)	-	-
	Canada: 5.57% (2011: 3.75%)		
18,538	Agrium	1,142,773	1.37
39,571	Telus	1,589,244	1.90
36,931	Toronto-Dominion Bank	1,920,902	2.30
	Total Canada	4,652,919	5.57
	France: 4.42% (2011: 2.20%)		
43,552	Schneider Electric	1,945,782	2.33
24,694	Technip	1,746,928	2.09
	Total France	3,692,710	4.42
	Germany: 2.65% (2011: 0.00%)		
44,622	SAP	2,211,579	2.65
	Total Germany	2,211,579	2.65
	Hong Kong: 2.76% (2011: 2.28%)		
954,800	AIA	2,305,053	2.76
	Total Hong Kong	2,305,053	2.76
	Ireland: 2.65% (2011: 2.20%)		
27,686	Kerry Group	895,975	1.07
70,170	Shire	1,322,003	1.58
	Total Ireland	2,217,978	2.65

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Equity Select Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Japan: 2.06% (2011: 4.73%)			
53,300	Unicharm	1,717,814	2.06
Total Japan		1,717,814	2.06
Mexico: 2.37% (2011: 0.00%)			
31,792	Fomento Economico Mexicano	1,980,105	2.37
Total Mexico		1,980,105	2.37
Netherlands: 4.84% (2011: 1.87%)			
277,528	ING Groep	1,596,185	1.91
115,681	Royal Dutch Shell	2,450,652	2.93
Total Netherlands		4,046,837	4.84
Norway: 0.00% (2011: 1.62%)			
People's Republic of China: 0.00% (2011: 1.54%)			
Portugal: 0.00% (2011: 1.69%)			
Sweden: 0.00% (2011: 2.03%)			
Switzerland: 1.79% (2011: 4.36%)			
4,815	Swatch Group	1,499,761	1.79
Total Switzerland		1,499,761	1.79
Taiwan: 2.11% (2011: 1.66%)			
166,080	Taiwan Semiconductor Manufacturing	1,762,863	2.11
Total Taiwan		1,762,863	2.11
Thailand: 2.01% (2011: 0.90%)			
1,812,200	CP ALL	1,676,493	2.01
Total Thailand		1,676,493	2.01

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Equity Select Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United Kingdom: 8.73% (2011: 11.80%)			
524,021	Aberdeen Asset Management	1,921,061	2.30
103,034	BG	1,042,189	1.25
53,904	British American Tobacco	1,681,535	2.01
253,021	Rexam	1,103,172	1.32
98,486	Standard Chartered	1,548,200	1.85
Total United Kingdom		7,296,157	8.73
United States: 53.42% (2011: 51.31%)			
37,434	ACE	1,847,561	2.21
40,300	Allergan	2,285,657	2.74
11,359	Amazon.com	1,765,488	2.11
41,994	Amphenol	1,680,643	2.01
23,471	BioMarine Pharmaceutical	714,881	0.86
108,978	Calpine	1,221,465	1.46
57,892	Capital One Financial	2,074,823	2.48
24,531	Chart Industries	1,011,497	1.21
29,514	Cooper Cos	1,688,340	2.02
33,733	Covidien	1,204,593	1.44
41,465	Crown Castle International	1,850,555	2.21
66,769	CVS Caremark	1,997,722	2.39
49,856	Dick's Sporting Goods	1,403,178	1.68
36,575	Digital Realty Trust Reits	1,534,582	1.84
126,882	EMC	1,986,443	2.38
78,182	First Republic Bank San Fransisco	1,585,741	1.90
6,232	Google	2,734,116	3.27
42,096	Oceaneering International	1,400,639	1.68
22,080	O'Reilly Automotive	1,221,560	1.46
17,686	Precision Castparts	2,071,471	2.48
41,268	Prudential Financial	1,361,092	1.63
20,458	Sherwin-Williams	1,946,525	2.33
39,556	TJX Cos	1,038,662	1.24
29,039	Union Pacific	2,258,240	2.70
29,500	United Technologies	1,496,487	1.79
16,059	VF	1,499,661	1.79
18,792	Visa	1,760,693	2.11
Total United States		44,642,315	53.42
Total Equities		81,608,597	97.66

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Equity Select Fund (continued)		
	Fair Value	% of
Financial assets at fair value through profit or loss	£	Net Assets
Total financial assets at fair value through profit or loss (2011: 97.18%) (Cost: £71,569,916)	81,608,597	97.66
Cash at bank (2011: 2.60%)	1,904,863	2.28
Other Net Assets (2011: 0.22%)	52,453	0.06
Net Assets Attributable to Holders of Redeemable Participating Shares	83,565,913	100.00
Portfolio Classification		
Transferable securities admitted to official stock exchange listing or traded on a regulated market		97.61
Cash		2.28
Other net assets		0.11
Total		100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities: 99.73% (2011: 99.25%)			
Australia: 3.97% (2011: 3.38%)			
71,780	ALS	492,179	0.46
163,454	APA	574,537	0.54
200,000	Aurizon holding	464,387	0.43
27,525	BHP Billiton	655,003	0.61
33,131	Commonwealth Bank of Australia	1,321,165	1.23
148,000	Echo Entertainment	323,711	0.30
54,545	GrainCorp	431,730	0.40
Total Australia		4,262,712	3.97
Austria: 0.75% (2011: 0.60%)			
15,950	OMV	355,846	0.33
20,000	Voestalpine	450,687	0.42
Total Austria		806,533	0.75
Bermuda: 0.00% (2011: 2.89%)			
Canada: 2.51% (2011: 2.85%)			
90,000	Precision Drilling	458,886	0.43
24,611	Rogers Communications	690,778	0.64
29,742	Toronto-Dominion Bank	1,546,979	1.44
Total Canada		2,696,643	2.51
Cayman Islands: 0.00% (2011: 0.62%)			
Denmark: 2.55% (2011: 2.17%)			
10,709	Carlsberg	647,990	0.60
83,000	Danske Bank	867,437	0.81
12,208	Novo Nordisk	1,221,813	1.14
Total Denmark		2,737,240	2.55
Finland: 0.50% (2011: 0.55%)			
20,000	Wartsila	532,245	0.50
Total Finland		532,245	0.50

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
France: 1.27% (2011: 1.66%)			
42,212	GDF Suez	535,685	0.50
4,058	PPR	464,669	0.43
12,000	Valeo	368,134	0.34
Total France		1,368,488	1.27
Germany: 4.37% (2011: 3.50%)			
9,633	Adidas	528,502	0.49
15,214	BASF	884,454	0.83
12,242	Bayer	717,869	0.67
26,949	Henkel	1,134,773	1.06
21,545	ProSiebenSat.1 Media	373,396	0.35
7,795	Volkswagen	1,036,576	0.97
Total Germany		4,675,570	4.37
Hong Kong: 1.57% (2011: 1.17%)			
29,000	Cheung Kong	274,258	0.26
169,000	Cheung Kong Infrastructure	639,305	0.60
10,400	Jardine Matheson	398,850	0.37
70,000	Power Assets	368,710	0.34
Total Hong Kong		1,681,123	1.57
Ireland: 0.42% (2011: 1.42%)			
23,768	Shire	447,789	0.42
Total Ireland		447,789	0.42
Israel: 0.44% (2011: 1.10%)			
15,849	Check Point Software Technologies	467,044	0.44
Total Israel		467,044	0.44

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Japan: 8.41% (2011: 9.16%)			
40,000	Asahi Diamond Industrial	243,764	0.23
24,900	Canon	596,965	0.56
70,000	Daicel	283,387	0.26
245,000	Hitachi	886,338	0.83
19,300	Honda Motor	435,693	0.41
10,000	Honda Motor ADR	228,435	0.21
53,000	ITOCHU	344,673	0.32
34,000	Kao	548,872	0.51
24,200	Mitsubishi	285,749	0.27
142,500	Mitsubishi Chemical	434,717	0.41
20,200	Nippon Telegraph & Telephone	525,608	0.49
13,500	Nitto Denko	407,961	0.38
45,900	Sumitomo Mitsui Financial Group	1,023,003	0.96
16,100	Sundrug	340,687	0.32
182,000	Toagosei	438,948	0.41
43,900	Toyota Motor	1,260,455	1.18
160,000	Yokohama Rubber	710,908	0.66
Total Japan		8,996,163	8.41
Jersey: 0.34% (2011: 0.00%)			
6,200	Randgold Resources	368,280	0.34
Total Jersey		368,280	0.34
Netherlands: 2.12% (2011: 0.56%)			
15,023	ASML Holding	587,257	0.55
6,300	Gemalto	348,570	0.33
230,371	ING Groep	1,324,965	1.24
Total Netherlands		2,260,792	2.12
Norway: 2.70% (2011: 2.33%)			
27,692	Aker Solutions	346,120	0.32
21,000	Det Norske Oljeselskap	191,971	0.18
117,500	DNB	915,285	0.85
57,551	Statoil	886,402	0.83
23,500	Telenor	291,641	0.27
8,922	Yara International	270,187	0.25
Total Norway		2,901,606	2.70

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Singapore: 0.39% (2011: 0.61%)			
17,000	Jardine Cycle & Carriage	413,962	0.39
Total Singapore		413,962	0.39
Spain: 0.47% (2011: 0.87%)			
14,927	Viscofan	501,816	0.47
Total Spain		501,816	0.47
Sweden: 2.07% (2011: 2.07%)			
57,956	Kinnevik Investment	744,988	0.70
18,000	Lundin Petroleum	255,491	0.24
15,518	Swedish Match	321,695	0.30
105,214	Volvo	887,645	0.83
Total Sweden		2,209,819	2.07
Switzerland: 3.97% (2011: 5.08%)			
76,539	ABB	969,426	0.90
33,166	Nestle	1,335,273	1.25
18,669	TE Connectivity	428,660	0.40
9,242	Zurich Financial Services	1,518,934	1.42
Total Switzerland		4,252,293	3.97
United Kingdom: 10.59% (2011: 9.52%)			
206,065	Aberdeen Asset Management	755,434	0.71
79,057	ARM	605,972	0.57
33,284	AstraZeneca	968,065	0.90
46,042	BHP Billiton	980,464	0.92
100,492	Bodycote	453,319	0.42
168,245	GKN	384,945	0.36
197,416	HSBC	1,276,887	1.19
65,627	Imperial Tobacco	1,556,016	1.45
39,879	Kazakhmys	309,660	0.29
65,343	Lancashire	504,121	0.47
75,000	National Grid	526,875	0.49
71,437	Prudential	617,216	0.58

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United Kingdom: 10.59% (2011: 9.52%) (continued)			
101,974	Rolls-Royce	889,723	0.83
7,750,024	Rolls-Royce Preference Class C	7,750	0.01
83,792	Smith & Nephew	568,948	0.53
606,093	Vodafone	935,808	0.87
Total United Kingdom		11,341,203	10.59
United States: 50.32% (2011: 47.14%)			
5,000	Abbott Laboratories	202,610	0.19
20,271	ACE	1,000,478	0.93
18,725	Ameriprise Financial	725,418	0.68
15,043	Amgen	803,491	0.75
26,668	Analog Devices	693,650	0.65
24,563	ANN	513,853	0.48
17,180	Apache	834,000	0.78
6,469	Apple	2,132,871	1.99
33,710	Axis Capital	721,888	0.67
9,865	Biogen Idec	894,572	0.84
10,667	BorgWarner	472,564	0.44
26,339	Bunge	1,183,149	1.10
25,808	Capital One Financial	924,947	0.86
50,702	Chevron	3,394,037	3.17
47,000	Cisco Systems	571,274	0.53
20,500	CVS Caremark	613,358	0.57
27,000	Dick's Sporting Goods	759,905	0.71
23,836	Dollar Tree	598,020	0.56
21,357	Dr Pepper Snapple Group	583,515	0.54
15,691	Dresser-Rand Group	544,888	0.51
18,333	Duke Energy	723,386	0.68
27,006	Eaton	905,406	0.85
32,795	EMC	513,433	0.48
58,611	Ford Motor	469,497	0.44
56,185	Freeport-McMoRan Copper & Gold	1,188,586	1.11
72,826	General Electric	945,096	0.88
3,391	Google	1,487,707	1.39
10,143	Herbalife	206,794	0.19
31,684	Hess	1,037,547	0.97
15,032	Humana	638,138	0.60
21,557	Ingersoll-Rand	639,516	0.60
7,716	Intercontinental Exchange	590,734	0.55

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United States: 50.32% (2011: 47.14%) (continued)			
12,108	International Business Machines	1,434,775	1.34
14,000	Jazz Pharmaceuticals	460,619	0.43
71,270	JPMorgan Chase	1,939,299	1.81
29,666	KBR	549,041	0.51
22,793	Lam Research	509,253	0.48
11,237	Lockheed Martin	641,697	0.60
23,454	Marathon Oil	444,663	0.42
20,605	Marathon Petroleum	802,839	0.75
31,567	Marvell Technology	141,760	0.13
13,427	McKesson	805,379	0.75
31,000	Merck & Co	785,235	0.73
29,821	MetLife	607,432	0.57
47,299	Microsoft	781,758	0.73
16,145	Noble Energy	1,016,047	0.95
16,030	Northrop Grumman	670,094	0.63
14,814	Nu Skin Enterprises	339,412	0.32
10,854	Occidental Petroleum	514,351	0.48
67,970	Pfizer	1,054,877	0.98
22,434	Philip Morris International	1,160,798	1.08
2,500	PPG Industries	209,291	0.20
17,178	SanDisk	462,642	0.43
18,528	Thermo Fisher Scientific	731,195	0.68
28,734	TJX	754,497	0.70
20,239	Travelers	899,122	0.84
20,801	Union Pacific	1,617,605	1.51
68,424	Verizon Communications	1,830,960	1.71
51,316	Viacom	1,674,400	1.56
13,083	Visa	1,225,795	1.14
82,770	Wells Fargo	1,751,500	1.64
21,489	Western Digital	564,790	0.53
	Total United States	53,895,454	50.32
	Total Equities	106,816,775	99.73

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Quant Global Equity Fund (continued)		
Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Total financial assets at fair value through profit or loss (2011: 99.25%) (Cost: £93,978,071)	106,816,775	99.73
Cash at bank (2011: 0.64%)	176,239	0.16
Other Net Assets (2011: 0.11%)	117,790	0.11
Net Assets Attributable to Holders of Redeemable Participating Shares	107,110,804	100.00
Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		99.70
Cash		0.16
Other net assets		0.14
Total		100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes UK Small and Mid Cap Companies Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities: 96.46% (2011: 95.43%)			
Basic Materials: 4.84% (2011: 5.75%)			
1,083,960	Anglo Pacific	2,888,753	1.45
93,910	Croda International	2,231,302	1.12
1,451,975	Petra Diamonds	1,626,212	0.81
181,403	Victrex	2,916,960	1.46
Total Basic Materials		9,663,227	4.84
Communications: 6.21% (2011: 6.28%)			
895,886	Informa	4,022,528	2.01
5,440,927	KCOM	3,873,940	1.94
629,670	United Business Media	4,514,734	2.26
Total Communications		12,411,202	6.21
Consumer, Cyclical: 20.59% (2011: 13.30%)			
443,964	Bellway	4,572,829	2.29
99,808	Berkeley	1,749,634	0.88
451,805	Brammer	1,409,632	0.71
204,427	Burberry	2,506,275	1.25
777,312	Domino's Pizza	3,852,358	1.93
4,550,000	DP Poland	1,001,000	0.50
744,071	Galliford Try	5,528,448	2.77
3,903,052	Goals Soccer Centres	4,800,754	2.40
1,171,699	Inchcape	5,048,851	2.53
84,060	Paddy Power	4,260,834	2.13
547,503	Restaurant	2,111,172	1.06
6,690,261	Spirit Pub	4,265,041	2.14
Total Consumer, Cyclical		41,106,828	20.59
Consumer, Non-cyclical: 14.80% (2011: 12.49%)			
1,550,330	Ashtead	6,571,849	3.29
555,814	Babcock International	5,363,605	2.69
343,220	Cranswick	2,896,777	1.45
696,464	Dechra Pharmaceuticals	4,189,231	2.10
874,945	Hyder Consulting	3,499,780	1.75
3,033,245	Lavendon	4,117,630	2.06
180,997	RPS	378,646	0.19
232,222	Synergy Health	2,533,542	1.27
Total Consumer, Non-cyclical		29,551,060	14.80

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes UK Small and Mid Cap Companies Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Energy: 4.73% (2011: 4.86%)			
172,740	Coastal Energy	2,072,880	1.04
1,250,000	Enteq Upstream	1,162,500	0.58
1,271,328	Faroe Petroleum	1,719,471	0.86
282,310	GeoPark	1,806,784	0.90
483,248	Ophir Energy	2,425,905	1.22
1,575,000	Trap Oil	255,938	0.13
Total Energy		9,443,478	4.73
Financial: 22.03% (2011: 22.78%)			
1,210,924	Amlin	4,584,558	2.30
3,428,266	Beazley	6,020,035	3.01
396,688	Close Brothers	3,419,451	1.71
507,979	CLS	3,835,242	1.92
3,993,755	Hansteen	3,195,004	1.60
726,353	Hargreaves Lansdown	4,939,200	2.47
1,031,428	Helical Bar	2,372,284	1.19
2,217,438	Paragon	5,661,119	2.83
101,336	Provident Financial	1,376,143	0.69
603,149	Shaftesbury	3,389,697	1.70
2,301,451	St. Modwen Properties	5,203,581	2.61
Total Financial		43,996,314	22.03
Industrial: 18.15% (2011: 23.13%)			
1,254,480	Fenner	4,935,124	2.47
285,830	IMI	3,124,122	1.56
680,000	Invensys	2,210,000	1.11
403,556	James Fisher & Sons	3,248,626	1.63
274,843	Kier	3,636,173	1.82
338,591	Latchways	3,335,121	1.67
803,020	Meggitt	3,067,536	1.53
786,562	Ricardo	2,949,608	1.48
1,250,846	RPC	4,965,859	2.49
2,392,280	Senior	4,765,422	2.39
Total Industrial		36,237,591	18.15

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes UK Small and Mid Cap Companies Fund (continued)		Fair Value	% of	
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets	
Equities (continued)				
Technology: 5.11% (2011: 6.84%)				
352,357	CSR	1,176,168	0.59	
756,183	Domino Printing Sciences	4,385,861	2.20	
919,157	SDL	4,637,147	2.32	
Total Technology		10,199,176	5.11	
Total Equities		192,608,876	96.46	
Financial Derivative Instruments: 0.03% (2011: 0.03%)				
Open Futures Contracts: 0.03% (2011: 0.03%)				
Description	Currency	No. of Contracts	Unrealised Gain	% of Net Assets
United Kingdom				
FTSE 250 Mid LIFFE March 2013	GBP	42	63,840	0.03
Total Fair Value Gains on Open Futures Contracts			63,840	0.03
Total Financial Derivative Instruments			63,840	0.03
Total financial assets at fair value through profit or loss (2011: 95.46%) (Cost: £138,159,388)			192,672,716	96.49
Cash at bank and clearing broker (2011: 4.35%)			7,579,325	3.80
Other Net Liabilities (2011: 0.19%)			(574,276)	(0.29)
Net Assets Attributable to Holders of Redeemable Participating Shares			199,677,765	100.00
Portfolio Classifications				% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regular market				96.05
Financial derivative instruments dealt on a regulated market				0.03
Cash				3.78
Other net assets				0.14
Total				100.00

The clearing broker for the futures contract is Goldman Sachs.

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Japan Equity Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities: 96.95% (2011: 99.75%)			
Basic Materials: 3.06% (2011: 6.20%)			
120,000	Shin-Etsu Chemical	4,504,905	3.06
Total Basic Materials		4,504,905	3.06
Communications: 13.42% (2011: 15.32%)			
5,750	Fuji Media	5,365,545	3.65
105,000	Hakuhodo DY Holdings	4,190,509	2.85
180,000	Nippon Telegraph & Telephone	4,683,637	3.19
846,700	Tokyo Broadcasting System	5,488,075	3.73
Total Communications		19,727,766	13.42
Consumer, Cyclical: 21.95% (2011: 17.51%)			
245,000	Honda Motor	5,530,819	3.76
560,000	Marui	2,757,496	1.87
710,000	NGK Insulators	5,172,817	3.52
369,100	Shimachu	4,787,457	3.26
44,000	Shimamura	2,643,509	1.80
755,000	Sumitomo Electric Industries	5,348,929	3.64
210,000	Toyota Motor	6,029,509	4.10
Total Consumer, Cyclical		32,270,536	21.95
Consumer, Non-cyclical: 10.15% (2011: 13.20%)			
176,000	Takeda Pharmaceutical	4,870,121	3.31
1,470,000	Toppan Printing	5,602,922	3.81
270,000	Toyo Suisan Kaisha	4,453,654	3.03
Total Consumer, Non-cyclical		14,926,697	10.15
Energy: 3.19% (2011: 0.00%)			
1,430	Inpex	4,690,887	3.19
Total Energy		4,690,887	3.19

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Japan Equity Fund (continued)		Fair Value	% of			
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets			
Equities (continued)						
Financial: 23.78% (2011: 20.03%)						
1,445,000	Mitsubishi UFJ Financial	4,771,208	3.24			
78,000	Orix	5,419,668	3.69			
290,600	Sumitomo Mitsui Financial Group	6,476,791	4.41			
2,945,350	Sumitomo Mitsui Trust	6,342,506	4.31			
820,000	T&D	6,115,502	4.16			
342,000	Tokio Marine	5,837,685	3.97			
Total Financial		34,963,360	23.78			
Industrial: 17.77% (2011: 19.61%)						
130,000	East Japan Railway	5,197,581	3.54			
470,000	FUJIFILM	5,809,433	3.95			
1,450,000	Hitachi	5,245,673	3.57			
1,050,000	Kamigumi	5,170,304	3.52			
500,000	Yamato Holdings	4,690,815	3.19			
Total Industrial		26,113,806	17.77			
Technology: 3.63% (2011: 7.88%)						
415,000	Nomura Research Institute	5,335,147	3.63			
Total Technology		5,335,147	3.63			
Total Equities		142,533,104	96.95			
Financial Derivative Instruments: 0.00% (2011: 0.00%)						
Forward Currency Contracts: 0.00% (2011: 0.00%)						
	Currency Buys	Currency Sells	Currency Rate	Maturity Date	Unrealised Gain	% of Net Assets
GBP	6,000 JPY	832,140	0.0072	04/01/2013	27	0.00
Total Fair Value Gains on Forward Currency Contracts					27	0.00
Total Financial Derivative Instruments					27	0.00
Total Financial assets at fair value through profit or loss					142,533,131	96.95

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Japan Equity Fund (continued)

						Fair Value	% of
Financial assets at fair value through profit or loss						£	Net Assets
Financial liabilities at fair value through profit or loss							
Financial Derivative Instruments: 0.00% (2011: 0.00%)							
Forward Currency Contracts: 0.00% (2011: 0.00%)							
	Currency	Currency	Currency	Maturity	Unrealised		% of
	Buys	Sells	Rate	Date	Loss		Net Assets
GBP	6,000	JPY 838,140	0.0072	04/01/2013	(16)		0.00
Total Fair Value Losses on Forward Currency Contracts						(16)	0.00
Total Financial Derivative Instruments						(16)	0.00
Total Financial liabilities at fair value through profit or loss						(16)	0.00
Net financial assets at fair value through profit or loss (2011: 99.75%) (Cost: £141,198,678)						142,533,115	96.95
Cash at bank (2011: 0.28%)						4,291,293	2.92
Other Net Assets (2011: (0.03%))						196,793	0.13
Net Assets Attributable to Holders of Redeemable Participating Shares						147,021,201	100.00
Portfolio Classification							% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market							96.86
Cash							2.92
Other net assets							0.22
							100.00

The counterparty for the forward currency contract is Northern Trust.

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap European Alpha Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities: 99.61% (2011: 98.86%)			
Denmark: 3.22% (2011: 4.69%)			
59,300	Novo Nordisk	5,934,920	3.22
Total Denmark		5,934,920	3.22
France: 10.03% (2011: 4.13%)			
70,007	Bureau Veritas	4,816,618	2.62
47,902	LVMH Moet Hennessy Louis Vuitton	5,420,643	2.94
98,718	Sodexo	5,126,197	2.78
101,459	Valeo	3,112,546	1.69
Total France		18,476,004	10.03
Germany: 21.14% (2011: 19.51%)			
82,353	Adidas	4,518,195	2.45
112,967	Bayer	6,624,370	3.60
101,039	Deutsche Boerse	3,795,983	2.06
61,262	Fresenius	4,359,340	2.37
87,922	Kabel Deutschland	4,044,993	2.20
41,489	Linde	4,463,154	2.42
102,610	Porsche Automobil	5,148,375	2.80
120,309	SAP	5,962,817	3.24
Total Germany		38,917,227	21.14
Jersey: 2.46% (2011: 2.68%)			
76,305	Randgold Resources	4,532,517	2.46
Total Jersey		4,532,517	2.46
Luxembourg: 2.09% (2011: 2.15%)			
218,136	SES	3,850,783	2.09
Total Luxembourg		3,850,783	2.09

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap European Alpha Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities (continued)			
Netherlands: 6.71% (2011: 4.31%)			
83,004	ASML Holding	3,244,671	1.76
65,325	Gemalto	3,614,343	1.96
955,720	ING Groep	5,496,764	2.99
Total Netherlands		12,355,778	6.71
Norway: 12.04% (2011: 13.53%)			
554,734	DnB	4,321,188	2.35
413,128	Petroleum Geo-Services	4,357,974	2.37
197,691	Seadrill	4,453,355	2.42
275,750	Statoil	4,247,109	2.31
383,925	Telenor	4,764,611	2.59
Total Norway		22,144,237	12.04
Sweden: 8.20% (2011: 9.92%)			
236,672	Elekta	2,275,519	1.24
184,992	Hennes & Mauritz	3,943,926	2.14
445,068	Swedbank	5,365,880	2.92
168,616	Swedish Match	3,495,477	1.90
Total Sweden		15,080,802	8.20
Switzerland: 9.89% (2011: 10.42%)			
55,898	Roche	6,947,761	3.77
23,126	Syngenta	5,726,955	3.11
574,224	UBS	5,535,235	3.01
Total Switzerland		18,209,951	9.89

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap European Alpha Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	£	Net Assets
Equities (continued)			
United Kingdom: 23.83% (2011: 27.52%)			
603,139	ARM	4,623,060	2.51
465,131	BG	4,704,800	2.56
147,729	British American Tobacco	4,608,406	2.50
1,370,137	Kingfisher	3,887,079	2.11
421,760	Pearson	5,010,509	2.72
203,096	SABMiller	5,730,354	3.11
4,091,119	Vodafone	6,316,688	3.43
237,672	Weir	4,453,973	2.42
429,157	Xstrata	4,536,189	2.47
Total United Kingdom		43,871,058	23.83
Total Equities		183,373,277	99.61
Total financial assets at fair value through profit or loss (2011: 98.86) (Cost: £157,918,141)		183,373,277	99.61
Cash at bank (2011: 1.00%)		632,342	0.35
Other Net Assets (2011: 0.14%)		68,936	0.04
Net Assets Attributable to Holders of Redeemable Participating Shares		184,074,555	100.00
Portfolio Classification			% of Net Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market			99.58
Cash			0.34
Other net assets			0.08
			100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
	Corporate Bonds: 86.86% (2011: 82.70%)		
	Australia: 1.45% (2011: 2.04%)		
2,883,000	FMG Resources 6% 01/04/2017	2,230,476	1.45
	Total Australia	2,230,476	1.45
	Austria: 0.00% (2011: 1.56%)		
	Canada: 1.25% (2011: 1.45%)		
2,400,000	MEG Energy 6.5% 15/03/2021	1,925,061	1.25
	Total Canada	1,925,061	1.25
	Cayman Islands: 0.00% (2011: 0.90%)		
	Denmark: 2.61% (2011: 1.54%)		
3,877,000	ISS 8.875% 15/05/2016	4,022,388	2.61
	Total Denmark	4,022,388	2.61
	Finland: 1.86% (2011: 0.88%)		
1,275,000	Stora Enso 6.404% 15/04/2016	1,029,942	0.67
1,450,000	Stora Enso 7.25% 15/04/2036	1,028,330	0.67
1,000,000	UPM-Kymmene 5.625% 01/12/2014	807,797	0.52
	Total Finland	2,866,069	1.86
	France: 4.81% (2011: 2.78%)		
1,900,000	Albea Beauty 8.375% 01/11/2019	1,527,609	0.99
3,000,000	France Telecom 7.25% 28/01/2013	3,013,359	1.95
1,150,000	Lafarge 6.5% 15/07/2016	979,123	0.63
500,000	Nexans 4.25% 19/03/2018	503,750	0.33
1,645,000	Rhodia 6.875% 15/09/2020	1,407,219	0.91
	Total France	7,431,060	4.81

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Corporate Bonds (continued)			
Germany: 4.56% (2011: 3.05%)			
1,610,000	Fresenius Finance 5% 31/01/2013	1,618,050	1.05
2,529,000	Fresenius Medical Care US Finance 5.75% 15/02/2021	2,062,102	1.34
1,500,000	ProSecure Funding 4.668% 30/06/2016	1,474,425	0.95
470,000	Unitymedia Hessen 5.5% 15/01/2023	369,861	0.24
1,450,000	Unitymedia Hessen 5.75% 15/01/2023	1,505,245	0.98
Total Germany		7,029,683	4.56
Ireland: 0.00% (2011: 1.46%)			
Italy: 2.87% (2011: 1.85%)			
1,691,000	UniCredit 5% 01/02/2016	2,001,564	1.30
3,114,248	Wind Acquisition Finance PIK 12.25% 15/07/2017	2,421,196	1.57
Total Italy		4,422,760	2.87
Jersey: 0.00% (2011: 1.84%)			
Liberia: 0.00% (2011: 1.29%)			
Luxembourg: 5.10% (2011: 8.90%)			
2,875,000	ArcelorMittal 10.35% 01/06/2019	2,618,603	1.70
950,000	ArcelorMittal 8.25% 03/06/2013	975,357	0.63
166,635	ARD Finance PIK 11.125% 01/06/2018	133,975	0.09
1,771,207	ARD Finance 11.125% 01/06/2018	1,868,623	1.21
2,750,000	Intelsat Jackson 7.25% 15/10/2020	2,263,160	1.47
Total Luxembourg		7,859,718	5.10
Mexico: 2.52% (2011: 0.88%)			
2,114,000	Cemex Espana 9.875% 30/04/2019	2,293,669	1.49
1,933,000	Cemex Finance 9.5% 14/12/2016	1,594,461	1.03
Total Mexico		3,888,130	2.52

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Corporate Bonds (continued)			
Netherlands: 5.77% (2011: 9.58%)			
700,000	Carlson Wagonlit 6.875% 15/06/2019	562,803	0.36
960,000	Intergen 9.5% 30/06/2017	1,041,583	0.67
1,500,000	UPCB Finance V 7.25% 15/11/2021	1,257,206	0.82
450,000	UPCB Finance VI 6.875% 15/01/2022	371,188	0.24
5,170,000	Ziggo Bond 8% 15/05/2018	5,687,000	3.68
Total Netherlands		8,919,780	5.77
Norway: 0.80% (2011: 0.91%)			
1,500,000	Petroleum Geo-Services 7.375% 15/12/2018	1,234,451	0.80
Total Norway		1,234,451	0.80
Portugal: 1.98% (2011: 0.00%)			
1,450,000	EDP Finance 5.75% 21/09/2017	1,556,906	1.01
1,450,000	Portugal Telecom International Finance 4.125% 28/08/2014	1,489,875	0.97
Total Portugal		3,046,781	1.98
South Africa: 1.10% (2011: 0.86%)			
2,250,000	Sappi Papier 6.625% 15/04/2021	1,693,815	1.10
Total South Africa		1,693,815	1.10
Spain: 4.00% (2011: 0.93%)			
700,000	Banco Santander 3.625% 06/04/2017	719,160	0.47
1,050,000	Codere Finance Luxembourg 8.25% 15/06/2015	836,115	0.54
3,214,000	Ono Finance II 10.875% 15/07/2019	2,328,103	1.51
2,900,000	Telefonica Emisiones 3.992% 16/02/2016	2,288,721	1.48
Total Spain		6,172,099	4.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Corporate Bonds (continued)			
Switzerland: 0.99% (2011: 0.00%)			
1,450,000	Dufry Finance SCA 5.5% 15/10/2020	1,138,312	0.74
480,000	Dufry Finance 5.5% 15/10/2020	379,551	0.25
Total Switzerland		1,517,863	0.99
United Kingdom: 10.56% (2011: 8.07%)			
2,400,000	Daily Mail & General Trust 7.5% 29/03/2013	2,996,370	1.94
1,000,000	Dixons Retail 8.75% 03/08/2015	1,339,583	0.87
950,000	Dixons Retail 8.75% 15/09/2017	1,268,855	0.82
4,750,000	FCE Bank 7.125% 15/01/2013	4,761,409	3.08
1,328,000	Hanson 6.125% 15/08/2016	1,110,528	0.72
2,200,000	TUI Travel 4.9% 27/04/2017	2,933,520	1.90
900,000	TUI Travel 6% 05/10/2014	1,189,535	0.77
500,000	Virgin Media Finance 8.875% 15/10/2019	704,196	0.46
Total United Kingdom		16,303,996	10.56
United States: 34.63% (2011: 31.93%)			
1,425,000	Advanced Micro Devices 7.5% 15/08/2022	889,004	0.58
950,000	Air Lease 4.5% 15/01/2016	727,776	0.47
1,000,000	Air Lease 5.625% 01/04/2017	807,797	0.52
725,000	Aircastle 6.25% 01/12/2019	573,280	0.37
470,000	Ally Financial 3.125% 15/01/2016	357,133	0.23
3,850,000	Beverage Packaging Holding II 9.5% 15/06/2017	4,010,160	2.60
1,450,000	Cablevision Systems 5.875% 15/09/2022	1,101,193	0.71
1,400,000	CCO Holding Capital Corp 5.25% 30/09/2022	1,075,167	0.70
1,400,000	Celanese US 6.625% 15/10/2018	1,173,392	0.76
480,000	Cequel Communications I 6.375% 15/09/2020	380,916	0.25
1,700,000	Chrysler 8% 15/06/2019	1,405,492	0.91
300,000	CIT Group 5% 15/05/2017	241,201	0.16
475,000	CIT Group 5.25% 15/03/2018	385,505	0.25
975,000	CIT Group 5.5% 15/02/2019	806,091	0.52
41	CityCenter PIK 10.75% 15/01/2017	34	-
1,500,000	Clear Channel Communications 6.875% 15/06/2018	676,957	0.44
2,400,000	Clear Channel Communications 7.25% 15/10/2027	919,296	0.60
2,135,000	CNH Capital 3.875% 01/11/2015	1,669,993	1.08
950,000	Crown Castle International 5.25% 15/01/2023	771,010	0.50

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Corporate Bonds (continued)			
United States (continued)			
240,000	Dish DBS 5% 15/03/2023	182,039	0.12
3,390,000	First Data 11.25% 31/03/2016	2,519,873	1.63
1,950,000	General Motors Financial 4.75% 15/08/2017	1,556,833	1.01
475,000	HCA 6.25% 15/02/2021	369,292	0.24
470,000	Hertz Global 5.875% 15/10/2020	372,535	0.24
737,000	Hertz Corp 6.75% 15/04/2019	612,816	0.40
650,000	Hertz Netherlands 8.5% 31/07/2015	702,000	0.45
5,650,000	HJ Heinz 5.35% 15/07/2013	4,395,301	2.85
1,780,000	Huntsman International 4.875% 15/11/2020	1,365,310	0.88
975,000	International Lease Finance 5.875% 15/08/2022	783,322	0.51
1,950,000	Linn Energy 6.25% 01/11/2019	1,486,461	0.96
400,000	MarkWest Energy Finance 5.5% 15/02/2023	329,187	0.21
500,000	MarkWest Energy Finance 6.25% 15/06/2022	413,380	0.27
700,000	MGM Resorts International 6.625% 15/12/2021	530,947	0.34
6,000,000	Kraft Foods 6% 11/02/2013	4,576,006	2.96
2,200,000	Peabody Energy 6% 15/11/2018	1,781,326	1.15
535,000	Prologis International 5.875% 23/10/2014	574,001	0.37
500,000	Range Resources 5% 15/08/2022	396,314	0.26
500,000	Range Resources 5.75% 01/06/2021	407,691	0.26
1,450,000	Range Resources 6.75% 01/08/2020	1,198,802	0.78
3,145,000	Royal Caribbean Cruises 5.625% 27/01/2014	3,293,130	2.13
1,875,000	Sawgrass Merger Sub 8.75% 15/12/2020	1,439,956	0.93
1,900,000	Sprint Nextel 6% 15/11/2022	1,480,772	0.96
1,530,000	TRW Automotive 6.375% 15/03/2014	1,606,500	1.04
1,754,000	Visteon 6.75% 15/04/2019	1,423,529	0.92
2,150,000	Windstream 7.5% 01/04/2023	1,716,380	1.11
Total United States		53,485,100	34.63
Total Corporate Bonds		134,049,230	86.86
Floating Rate Notes: 6.41% (2011: 0.00%)			
France: 2.06% (2011: 0.00%)			
1,225,000	BNP Paribas Capital 5.87% 16/01/2013	1,225,368	0.79
1,200,000	Groupama 7.87% 27/10/2039	1,008,480	0.65
1,000,000	Societe Generale 7.76% 22/05/2013	955,400	0.62
Total France		3,189,248	2.06

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Floating Rate Notes (continued)			
Ireland: 1.39% (2011: 0.00%)			
1,934,000	UT2 Funding 5.32% 30/06/2016	2,150,608	1.39
Total Ireland		2,150,608	1.39
Luxembourg: 1.02% (2011: 0.00%)			
700,000	Ageas Hybrid Financing 5.125% 29/06/2049	546,105	0.35
1,040,000	Calcipar FRN 22/06/2014	1,029,600	0.67
Total Luxembourg		1,575,705	1.02
Netherlands: 0.89% (2011: 0.00%)			
1,450,000	Clondalkin Acquisition 6.96% 15/12/2013	1,380,690	0.89
Total Netherlands		1,380,690	0.89
South Africa: 0.59% (2011: 0.00%)			
969,000	Edcon Pty 5.68% 15/06/2015	903,108	0.59
Total South Africa		903,108	0.59
United States: 0.46% (2011: 0.00%)			
1,000,000	RBS Capital Trust C Class C	703,500	0.46
Total United States		703,500	0.46
Total Floating Rate Notes		9,902,859	6.41

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Financial Derivative Instruments: 1.72% (2011: 2.12%)			
Credit Default Swaps: 1.66% (2011: 2.12%)			
Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Gains: 0.47%			
European Union: 0.40%			
700,000	Banca Monte Siena 5% 20/12/2017	95,540	0.06
500,000	Banco De Sabadell 5% 20/12/2016	53,725	0.03
500,000	Bankinter 5% 20/12/2016	15,029	0.01
750,000	Bankinter 5% 20/12/2016	22,543	0.01
1,000,000	Codere Finance 5% 20/06/2014	87,625	0.06
2,400,000	Renault 1% 20/12/2017	173,952	0.11
2,400,000	Thyssenkrupp1% 20/12/2017	177,487	0.12
Total European Union		625,901	0.40
United States: 0.07%			
1,425,000	Advanced Micro Devices 5% 20/03/2015	42,915	0.03
2,900,000	The Gap 1% 20/09/2017	44,788	0.03
2,400,000	The New York Times 1% 20/12/2015	20,103	0.01
Total United States		107,806	0.07
Total Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Gains		733,707	0.47
Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Gains: 1.19%			
European Union: 0.38%			
(500,000)	Bankinter 5% 20/12/2016	35,114	0.02
(750,000)	Bankinter 5% 20/12/2016	52,670	0.03
(2,400,000)	Intesa Sanpaolo 3% 20/09/2017	33,792	0.02
(1,550,000)	Sunrise Comms 5% 20/03/2018	56,279	0.04
(1,250,000)	UPC Holding 5% 20/03/2018	28,510	0.02
(2,000,000)	Virgin Media 5% 20/03/2021	262,544	0.17
(500,000)	Virgin Media Finance 5% 20/03/2017	64,906	0.04
(1,500,000)	CDX Itraxx Crossover Series 16 5% 20/12/2016	67,050	0.04
Total European Union		600,865	0.38

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)				Fair Value	% of	
Nominal Holding	Financial assets at fair value through profit or loss			€	Net Assets	
Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Gains (continued)						
United States: 0.81%						
(1,450,000)	Avis Budget Car Rental 5%	06/20/2017		65,907	0.04	
(770,000)	Avis Budget Group, Inc	20/09/2017		31,726	0.02	
(475,000)	Bombardier 5%	20/12/2017		18,178	0.01	
(2,800,000)	Calpine 5%	20/12/2017		162,912	0.10	
(400,000)	Chesapeake Energy 5%	20/09/2014		10,369	0.01	
(500,000)	Frontier Communication 5%	20/12/2017		7,167	-	
(1,900,000)	General Motors 5%	20/09/2017		123,731	0.08	
(3,250,000)	Hca 5%	20/03/2018		123,534	0.08	
(1,900,000)	Huntsman International 5%	20/09/2017		117,529	0.08	
(3,275,000)	Owens-Illinois 5%	20/03/2018		263,670	0.17	
(480,000)	Sprint Nextel 5%	20/12/2017		30,784	0.02	
(950,000)	Sprint Nextel Corp 5%	20/12/2017		60,927	0.04	
(1,000,000)	The Aes 5%	20/12/2017		55,911	0.04	
(1,050,000)	The Aes 5%	20/12/2017		58,706	0.04	
(2,400,000)	CDX NA HY 16.5%	20/06/2016		78,622	0.05	
(1,200,000)	CDX NA HY 16.5%	20/06/2016		39,311	0.03	
Total United States				1,248,984	0.81	
Total Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Gains				1,849,849	1.19	
Total Credit Default Swaps				2,583,556	1.66	
Open Forward Currency Contracts: 0.06% (2011: 0.00%)						
	Currency Buys	Currency Sells	Currency Rate	Maturity Date	Unrealised Gain	% of Net Assets
	EUR 78,924,801	USD 104,000,000	0.7589	20/03/2013	93,242	0.06
Total Fair Value Gains on Forward Currency Contracts				93,242	0.06	
Total Forward Currency Contracts				93,242	0.06	
Total Financial Derivative Instruments				2,676,798	1.72	
Total Financial assets at fair value through profit or loss				146,628,887	94.99	

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial liabilities at fair value through profit or loss	€	Net Assets
Financial Derivative Instruments: (2.25%) (2011: (4.60%))			
Credit Default Swaps: (2.18%) (2011: (4.37%))			
Credit Default Swaps: Pay Fixed (Buy Protection) : Unrealised Losses: (1.19%)			
European Union: (0.93%)			
1,450,000	Ardagh Packaging 5% 20/12/2014	(74,761)	(0.05)
475,000	Banco Santander 5% 20/06/2017	(30,969)	(0.02)
300,000	Commerzbank Aktiengesellschaft 5% 20/09/2017	(16,916)	(0.01)
1,050,000	Commerzbank Aktiengesellschaft 5% 20/9/2017	(59,205)	(0.04)
2,400,000	Continental Aktiengesellschaft 5% 20/09/2017	(333,454)	(0.22)
1,000,000	Heidelber 5% 20/12/2016	(120,810)	(0.08)
2,400,000	Intesa Sanpaolo 5% 20/09/2017	(118,615)	(0.08)
750,000	Unicredit 5% 20/12/2016	(13,495)	(0.01)
1,200,000	Unicredit Societa Per Azioni 5% 20/12/2015	(30,990)	(0.02)
1,500,000	Wendel 5% 20/12/2016	(152,396)	(0.10)
950,000	Wind Acquisition Finance 5% 20/09/2014	(10,908)	(0.01)
450,000	Wind Acquisition Finance 5% 20/12/2014	(3,064)	-
1,050,000	Wind Acquisition Finance 5% 20/09/2014	(12,056)	(0.01)
2,000,000	CDX Itraxx Crossover Series 17 5% 20/06/2017	(65,430)	(0.04)
5,000,000	CDX Itraxx Crossover Series 16 5% 20/12/2016	(223,500)	(0.14)
2,400,000	CDX Itraxx Crossover Series 17 5% 20/6/2017	(78,516)	(0.05)
2,500,000	CDX Itraxx Europe Crossover Series 17 5% 20/06/2017	(81,787)	(0.05)
Total European Union		(1,426,872)	(0.93)
United States: (0.26%)			
950,000	Cooper Tire & Rubber 5% 20/06/2017	(82,429)	(0.05)
1,050,000	Cooper Tire & Rubber 5% 20/12/2017	(89,897)	(0.06)
1,440,000	Freescale Semiconductor 5% 20/12/2014	(55,501)	(0.04)
960,000	Freescale Semiconductor 5% 20/12/2014	(37,000)	(0.02)
2,400,000	The Hertz Corporation 5% 20/12/2014	(143,988)	(0.09)
Total United States		(408,815)	(0.26)
Total Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Losses		(1,835,687)	(1.19)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of
Nominal Holding	Financial liabilities at fair value through profit or loss	€	Net Assets
Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Losses: (0.99%)			
European Union: (0.09%)			
(500,000)	Banco De Sabadell 3% 20/12/2016	(20,588)	(0.01)
(500,000)	Codere Finance 5% 20/09/2015	(97,214)	(0.06)
(750,000)	Fiat 5% 20/06/2017	(23,565)	(0.02)
Total European Union		(141,367)	(0.09)
United States: (0.90%)			
(725,000)	American Axle 5% 20/06/2017	(5,818)	-
(500,000)	Bombardier 1% 20/12/2016	(30,618)	(0.02)
(500,000)	Bombardier Income 1% 20/12/2016	(30,618)	(0.02)
(1,500,000)	Bombardier1% 20/12/2016	(91,853)	(0.06)
(1,500,000)	Caesars Entertainment Operating 5% 20/12/2014	(165,052)	(0.11)
(750,000)	Caesars Entertainment Operating 5% 20/3/2014	(21,754)	(0.01)
(500,000)	Caesars Entertainment Operating 5% 20/6/2014	(27,039)	(0.02)
(500,000)	Caesars Entertainment Operating 5% 20/6/2014	(28,988)	(0.02)
(850,000)	Caesars Entertainment Operating 5% 20/09/2014	(72,277)	(0.05)
(2,450,000)	Chesapeake Energy Corporation 5% 20/03/2018	(57,615)	(0.04)
(900,000)	Clear Channel Communication 5% 20/12/2014	(61,320)	(0.04)
(3,400,000)	Dell 1% 20/03/2018	(165,809)	(0.11)
(3,350,000)	El Paso 1% 20/12/2017	(122,328)	(0.08)
(2,500,000)	Frontier 1% 20/12/2016	(191,926)	(0.12)
(450,000)	Kinder 1% 20/12/2016	(1,154)	-
(2,000,000)	Kinder 1% 20/12/2016	(5,130)	-
(1,400,000)	MGM Resorts International 5% 20/12/2017	(21,958)	(0.01)
(2,400,000)	Rite Aid Corporation 5% 20/3/2018	(171,120)	(0.11)
(450,000)	The Goodyear Tire & Rubber 5% 20/06/2017	(283)	-
(2,400,000)	The Goodyear Tire & Rubber 5% 20/12/2017	(31,410)	(0.02)
(1,900,000)	Trw Automotive 1% 20/06/2017	(58,094)	(0.04)
(900,000)	Trw Automotive 1% 20/09/2017	(32,563)	(0.02)
Total United States		(1,394,727)	(0.90)
Total Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Losses		(1,536,094)	(0.99)
Total Credit Default Swaps		(3,371,781)	(2.18)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global High Yield Bond Fund (continued)							Fair Value	% of
Nominal Holding	Financial liabilities at fair value through profit or loss					€	Net Assets	
Interest Rate Swaps: Pay Fixed : (0.06%) (2011: 0.00%)								
European Union: (0.06%)								
1,500,000	Deutsche Bank 3% 20/06/2016					(99,585)	(0.06)	
Total European Union						(99,585)	(0.06)	
Total Interest Rate Swaps: Pay Fixed						(99,585)	(0.06)	
Forward Currency Contracts: (0.01%) (2011: (0.19%))								
	Currency Buys	Currency Sells	Currency Rate	Maturity Date	Unrealised Loss	% of Net Assets		
EUR	1,508,274 USD	2,000,000	0.7541	20/03/2013	(7,717)	-		
EUR	14,766,596 GBP	12,000,000	1.2305	20/03/2013	(15,350)	(0.01)		
Total Unrealised Losses on Forward Currency Contracts						(23,067)	(0.01)	
Total Forward Currency Contracts						(23,067)	(0.01)	
Total Financial liabilities at fair value through profit or loss						(3,494,433)	(2.25)	
Total financial assets and financial liabilities at fair value through profit or loss (2011: 83.76%) (Cost: €139,423,330)						143,134,454	92.74	
Cash at bank (2011: 14.61%)						8,252,928	5.35	
Other Net Assets (2011: 1.63%)						2,958,345	1.91	
Net Assets Attributable to Holders of Redeemable Participating Shares						154,345,727	100.00	
Portfolio Classification							% of Total Assets	
Transferable securities admitted to official stock exchange listing or traded on a regular market							91.16	
OTC financial derivative instruments							1.70	
Cash							5.23	
Other net assets							1.91	
Total							100.00	

The counterparties for the forward currency contracts are HSBC and Morgan Stanley.

The counterparties for the Credit Default Swaps are: Barclays (S&P: A+, Moody's: A2), BNP Paribas (S&P: A+, Moody's A2), Credit Suisse (S&P: A+, Moody's: A1), Deutsche Bank (S&P: A+, Moody's: A2), Goldman Sachs (S&P: A-, Moody's: A3), HSBC (S&P: A+, Moody's Aa3), JP Morgan (S&P: A-, Moody's: A3), Merrill Lynch (S&P: A-, Moody's: Baa2), Morgan Stanley (S&P: A-, Moody's Baa1), RBS (S&P: A-, Moody's Baa1), Societe Generale (S&P: A, Moody's: A2) and UBS (S&P: A, Moody's: A2)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€ Net Assets	€ Net Assets
Corporate Bonds: 82.58% (2011: 79.12%)			
Australia: 1.44% (2011: 3.72%)			
1,080,000	BHP Billiton 3.25% 24/09/2027	1,142,436	0.79
1,000,000	WEA Finance/ WT Finance Aust Pty 6.75% 02/09/2019	939,648	0.65
Total Australia		2,082,084	1.44
Belgium: 0.42% (2011: 0.00%)			
750,000	Anheuser-Busch InBev Worldwide 2.875% 15/02/2016	602,942	0.42
Total Belgium		602,942	0.42
Brazil: 1.46% (2011: 0.00%)			
600,000	Braskem Finance 5.75% 15/04/2021	481,265	0.33
1,500,000	Vale Overseas 4.375% 11/01/2022	1,220,237	0.85
500,000	Vale Overseas 4.375% 11/01/2022	404,849	0.28
Total Brazil		2,106,351	1.46
Canada: 0.69% (2011: 1.02%)			
1,200,000	Encana 3.9% 15/11/2021	990,465	0.69
Total Canada		990,465	0.69
Cayman Islands: 0.00% (2011: 3.24%)			
France: 4.47% (2011: 4.27%)			
1,000,000	Groupe Caisse d'epargne 4.5% 10/02/2022	1,170,134	0.81
250,000	France Telecom 2.125% 16/09/2015	195,035	0.14
1,900,000	Groupe Aucha 2.375% 12/12/2022	1,914,341	1.33
2,100,000	Klepierre 2.75% 17/09/2019	2,139,060	1.48
1,200,000	Rhodia 6.875% 15/09/2020	1,026,542	0.71
Total France		6,445,112	4.47
Germany: 0.68% (2011: 0.78%)			
1,000,000	ProSecure Funding 4.668% 30/06/2016	982,950	0.68
Total Germany		982,950	0.68

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€ Net Assets	€ Net Assets
Corporate Bonds (continued)			
Italy: 2.97% (2011: 3.52%)			
750,000	Banca Monte dei Paschi di Siena 4.5% 07/03/2014	749,270	0.52
400,000	Edison 3.875% 10/11/2017	436,194	0.30
1,400,000	Edison 4.25% 22/07/2014	1,466,653	1.02
700,000	Intesa Sanpaolo 4.375% 15/10/2019	719,662	0.50
900,000	Telecom Italia 4% 21/01/2020	912,510	0.63
Total Italy		4,284,289	2.97
Jersey: 0.00% (2011: 1.33%)			
		-	-
Luxembourg: 0.69% (2011: 0.64%)			
1,300,000	Arcelormittal 5% 25/02/2017	996,231	0.69
Total Luxembourg		996,231	0.69
Netherlands: 2.05% (2011: 5.79%)			
1,200,000	ABN Amro Bank 4.875% 16/01/2019	1,656,368	1.15
600,000	Koninklijke 3.25% 01/02/2021	601,801	0.42
650,000	Shell International Finance 6.375% 15/12/2038	695,233	0.48
Total Netherlands		2,953,402	2.05
Russian Federation: 0.29% (2011: 0.00%)			
500,000	GazpromVia Gaz Capital 8.125% 31/07/2014	413,721	0.29
Total Russian Federation		413,721	0.29
Spain: 2.26% (2011: 0.00%)			
1,100,000	Gas Natural Capital Markets 5.25% 09/07/2014	1,162,650	0.81
2,000,000	Mapfre 5.125% 16/11/2015	2,094,600	1.45
Total Spain		3,257,250	2.26
Sweden: 0.56% (2011: 0.97%)			
1,050,000	Swedbank 2.125% 29/09/2017	814,650	0.56
Total Sweden		814,650	0.56

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value	% of € Net Assets
Corporate Bonds (continued)			
Switzerland: 2.04% (2011: 0.00%)			
1,200,000	Glencore Finance 5.5% 03/04/2022	1,604,246	1.11
900,000	UBS 6.625% 11/04/2018	1,346,940	0.93
Total Switzerland		2,951,186	2.04
United Kingdom: 11.81% (2011: 8.09%)			
500,000	Anglo American Capital 4.45% 27/09/2020	402,373	0.28
1,800,000	BP Capital Markets 2.248% 01/11/2016	1,421,731	0.99
1,500,000	Compass 3.125% 13/02/2019	1,628,149	1.13
1,200,000	Co-Operative Bank 2.375% 23/10/2015	1,201,633	0.83
1,100,000	Experian Finance 2.375% 15/06/2017	849,707	0.59
1,300,000	Experian Finance 2.375% 15/06/2017	1,006,859	0.70
1,000,000	FirstGroup 5.25% 29/11/2022	1,240,578	0.86
750,000	Global Switch 5% 18/04/2018	854,696	0.59
1,100,000	BAA Funding 3% 08/06/2015	1,403,960	0.97
1,000,000	HSBC 5.10% 05/04/2021	895,693	0.62
1,052,000	LBG Capital 11.04% 19/03/2020	1,520,270	1.05
700,000	Rentokil Initial 3.375% 24/09/2019	724,471	0.50
1,000,000	Royal Bank of Scotland 5.25% 15/05/2013	1,017,370	0.71
1,200,000	SABMiller 1.875% 20/01/2020	1,203,004	0.83
1,000,000	SABMiller 2.45% 15/01/2017	791,412	0.55
700,000	Virgin Media 5.125% 15/02/2022	879,970	0.61
Total United Kingdom		17,041,876	11.81
United States: 50.75% (2011: 45.75%)			
1,200,000	Altria 2.85% 09/08/2022	900,664	0.62
1,300,000	American Tower 4.70% 15/03/2022	1,093,033	0.76
1,200,000	Amgen 4% 13/09/2029	1,495,939	1.04
1,400,000	AT&T 1.875% 04/12/2020	1,407,036	0.98
1,000,000	Autozone 2.875% 15/01/2023	745,042	0.52
1,000,000	Autozone 3.7% 15/04/2022	798,940	0.55
500,000	Bank of America 3.875% 22/03/2017	411,704	0.29
750,000	Bank of America 5% 13/05/2021	650,581	0.45
1,000,000	Bank of America 5.7% 24/01/2022	912,128	0.63
1,200,000	Boston Properties 3.7% 15/11/2018	989,992	0.69
400,000	Boston Properties 3.85% 01/02/2023	319,368	0.22
400,000	Bristol-Myers Squibb 3.25% 01/08/2042	279,020	0.19
2,000,000	Broadcom 2.7% 01/11/2018	1,627,763	1.13

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value	% of € Net Assets
Corporate Bonds (continued)			
United States (continued)			
1,700,000	Capital One Financial 2.15% 23/03/2015	1,316,186	0.91
750,000	Case New Holland 7.75% 01/09/2013	591,626	0.41
1,200,000	Celanese US Holdings 5.875% 15/06/2021	1,020,555	0.71
1,300,000	CenturyLink 6.45% 15/06/2021	1,091,373	0.76
900,000	Citigroup 4.5% 14/01/2022	761,631	0.53
2,600,000	Citigroup 6.125% 21/11/2017	2,347,094	1.63
800,000	Comcast 4.65% 15/07/2042	642,222	0.44
1,300,000	Comcast 5.85% 15/11/2015	1,123,071	0.78
2,100,000	ConocoPhillips 5.75% 01/02/2019	1,961,649	1.36
1,100,000	Deere 5.375% 16/10/2029	1,071,218	0.74
1,000,000	DIRECTV Financing 4.60% 15/02/2021	822,501	0.57
2,000,000	eBay 2.60% 15/07/2022	1,535,674	1.06
500,000	El Paso Pipeline Partners 4.7% 01/11/2042	373,729	0.26
750,000	Energy Transfer Partners 5.2% 01/02/2022	648,918	0.45
2,000,000	Enterprise Products Operating 5.2% 01/09/2020	1,810,699	1.26
1,200,000	ERP Operating 4.625% 15/12/2021	1,027,115	0.71
2,700,000	Exelon GenerationLLC 4% 01/10/2020	2,156,433	1.49
2,000,000	FirstEnergy Solutions 6.05% 15/08/2021	1,739,195	1.21
900,000	Ford Motor CreditLLC 3% 12/06/2017	702,095	0.49
1,500,000	Ford Motor CreditLLC 4.25% 03/02/2017	1,218,854	0.85
1,400,000	General Electric Capital 5.625% 15/09/2017	1,254,059	0.87
500,000	Goldman Sachs Group 3.625% 07/02/2016	401,737	0.28
1,500,000	Goldman Sachs Group 5.75% 24/01/2022	1,345,053	0.93
1,100,000	The Hartford 5.125% 15/04/2022	964,523	0.67
1,500,000	Honeywell International 4.25% 01/03/2021	1,332,302	0.92
1,490,000	International Lease Finance 4.875% 01/04/2015	1,174,042	0.81
950,000	JPMorgan Chase 3.25% 23/09/2022	742,030	0.51
1,000,000	JPMorgan Chase 4.5% 24/01/2022	858,038	0.59
1,000,000	Kinder Morgan Energy Partners 5.30% 15/09/2020	885,499	0.61
785,000	Kraft Foods 5.375% 10/02/2020	716,006	0.50
900,000	Liberty Mutual Group 4.95% 01/05/2022	745,409	0.52
1,500,000	Lorillard Tobacco 3.5% 04/08/2016	1,203,958	0.83
1,600,000	Lyondellbasell 5% 15/04/2019	1,341,019	0.93
1,800,000	Macy's, Inc 2.875% 15/02/2023	1,339,848	0.93
1,000,000	Marathon Petroleum 5.125% 01/03/2021	894,148	0.62
1,500,000	McDonald's 3.7% 15/02/2042	1,133,884	0.79
2,500,000	Millipore 5.875% 30/06/2016	2,898,162	2.01
715,000	Mondelez International 5.375% 10/02/2020	655,718	0.45
1,500,000	Morgan Stanley 3.8% 29/04/2016	1,195,318	0.83
1,300,000	Morgan Stanley 5.5% 28/07/2021	1,119,528	0.78
2,250,000	Noble International 4.625% 01/03/2021	1,880,522	1.30
2,000,000	Oracle 3.875% 15/07/2020	1,713,733	1.19
832,000	PPL Capital Funding 4.2% 15/06/2022	679,983	0.47

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€ Net Assets	€ Net Assets
Corporate Bonds (continued)			
United States (continued)			
900,000	Royal Caribbean Cruises 5.625% 27/01/2014	942,390	0.65
1,500,000	Simon Property 4.125% 01/12/2021	1,265,910	0.88
500,000	SLM 6% 25/01/2017	410,536	0.28
500,000	SLM 6.25% 25/01/2016	412,432	0.29
1,000,000	Time Warner 4.875% 15/03/2020	887,333	0.61
400,000	Time Warner 4.5% 15/09/2042	295,888	0.21
650,000	Time Warner Cable 5% 01/02/2020	574,043	0.40
400,000	Time Warner Cable 5.25% 15/07/2042	527,301	0.37
1,300,000	UnitedHealth Group 4.7% 15/02/2021	1,150,713	0.80
2,400,000	Verizon Communications 2.45% 01/11/2022	1,824,956	1.27
1,250,000	Waste Management 4.6% 01/03/2021	1,076,196	0.75
600,000	Wells Fargo 2.1% 08/05/2017	471,001	0.33
1,400,000	Wells Fargo 5.625% 11/12/2017	1,267,919	0.88
Total United States		73,174,185	50.75
Total Corporate Bonds		119,096,694	82.58
Floating Rate Notes: 3.60% (2011: 0.00%)			
Austria: 0.50% (2011: 0.00%)			
920,000	Erster Group Bank 6.38% 28/03/2023	722,653	0.50
Total Austria		722,653	0.50
France: 1.16% (2011: 0.00%)			
950,000	BNP Paribas Capital 5.87% 29/01/2049	950,285	0.66
750,000	Societe Generale 7.76% 22/05/2013	716,550	0.50
Total France		1,666,835	1.16
Ireland: 0.95% (2011: 0.00%)			
1,233,000	UT2 Funding 5.32% 30/06/2016	1,371,096	0.95
Total Ireland		1,371,096	0.95
Spain: 0.33% (2011: 0.00%)			
500,000	Bankia 5.63% 23/04/2014	469,739	0.33
Total Spain		469,739	0.33

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€ Net Assets	€ Net Assets
Floating Rate Notes (continued)			
United States: 0.66% (2011: 0.00%)			
1,250,000	Bank of New York Mellon 2.85% 09/11/2022	955,678	0.66
Total United States		955,678	0.66
Total Floating Rate Notes		5,186,001	3.60
Government Bonds: 3.69% (2011: 5.93%)			
United States: 3.69% (2011: 5.93%)			
7,000,000	United States Treasury Note/Bond 0.625% 28/02/2013	5,314,027	3.69
Total United States		5,314,027	3.69
Total Government Bonds		5,314,027	3.69
Financial Derivative Instruments: 0.72% (2011: 1.55%)			
Credit Default Swaps: 0.51% (2011: 1.29%)			
Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Gains: 0.20%			
European Union: 0.12%			
1,400,000	Bae Systems 1% 20/12/2017	2,786	-
800,000	Banco De Sabadell 5% 20/12/2016	85,959	0.06
400,000	Banco De Sabadell 5% 20/12/2016	42,980	0.03
500,000	Bankinter 5% 20/12/2016	15,028	0.01
1,000,000	Deutsche Bank Aktiengesellschaft 1% 20/06/2017	19,499	0.01
1,000,000	Telecom Austria Aktien 1% 20/12/2016	12,841	0.01
Total European Union		179,093	0.12
United States: 0.08%			
1,700,000	Bank Of America Corporation 1% 20/12/2017	17,216	0.01
1,200,000	Expedia 1% 06/20/2017	19,898	0.01
1,500,000	Xerox Corporation 1% 20/03/2018	80,742	0.06
Total United States		117,856	0.08
Total Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Gains		296,949	0.20

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)					Fair Value	% of	
Nominal Holding	Financial assets at fair value through profit or loss				€ Net Assets		
Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Gains: 0.31%							
European Union: 0.08%							
(400,000)	Banco De Sabadell	5%	20/12/2016		11,732	0.01	
(500,000)	Bankinter	5%	20/12/2016		35,114	0.02	
(1,500,000)	Bayerische Mwa	1%	20/06/2017		14,937	0.01	
(1,000,000)	Glaxosmith Klien	1%	20/12/2016		24,710	0.02	
(1,100,000)	HSBC Bank	1%	20/06/2017		19,778	0.01	
(800,000)	Total	1%	20/06/2017		21,430	0.01	
Total European Union					127,701	0.08	
United States: 0.23%							
(2,500,000)	Altaria	1%	20/12/2016		38,345	0.03	
(1,500,000)	Caterpillar Financial	1%	20/12/2016		14,947	0.01	
(1,500,000)	Cbs	1%	20/12/2016		14,663	0.01	
(1,500,000)	Eli Lilly And	1%	20/12/2016		29,250	0.02	
(1,250,000)	General Electric Capital Corporation	1%	20/12/2016		11	-	
(1,000,000)	Genworth Financial	5%	20/12/2017		38,625	0.03	
(2,000,000)	International Business	1%	20/12/2016		40,911	0.03	
(1,200,000)	Marathon Oil Corporation	1%	20/03/2017		8,249	0.01	
(2,600,000)	National Rural Utilities	1%	20/12/2016		32,238	0.02	
(2,500,000)	Wal Mart Stores	1%	20/12/2016		51,604	0.04	
(1,000,000)	CDX.NA.IG.16	10%	20/06/2016		8,362	0.01	
(1,000,000)	CDX.NA.IG.16	10%	20/06/2016		8,362	0.01	
(1,250,000)	CDX.NA.IG.15	1%	20/12/2015		12,027	0.01	
(1,200,000)	CDX.NA.IG.18	1%	20/06/2017		6,121	-	
Total United States					303,715	0.23	
Total Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Gains					431,416	0.31	
Total Credit Default Swaps					728,365	0.51	
Forward Currency Contracts: 0.08% (2011: 0.00%)							
	Currency Buys		Currency Sells	Currency Rate	Maturity Date	Unrealised Gain	% of Net Assets
	EUR 94,102,648	USD	124,000,000	0.7589	20/03/2013	111,173	0.08
Total Fair Value Gains on Forward Currency Contracts					111,173	0.08	

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value	% of € Net Assets
Futures Contracts - Unrealised Gains: 0.13% (2011: 0.26%)				
Description	Currency	No. of Contracts	Unrealised Gain	% of Net Assets
Germany: 0.03% (2011: 0.03%)				
Euro-Bobl Eux March 2013	EUR	59	49,560	0.03
Euro-Schatz Eux March 2013	EUR	54	6,210	-
Total Germany			55,770	0.03
United States: 0.10% (2011: 0.08%)				
10 Year Treasury Notes Mar 2013	USD	(294)	142,874	0.10
2 Year Treasury Notes Mar 2013	USD	21	763	-
Total United States			143,637	0.10
Total Futures Contracts - Unrealised Gains			199,407	0.13
Total Financial Derivative Instruments			1,038,945	0.72
Total Financial assets at fair value through profit or loss			130,635,667	90.59
Financial liabilities at fair value through profit or loss				
Financial Derivative Instruments: (0.68%) (2011: (1.77%))				
Credit Default Swaps: (0.49%) (2011: (1.30%))				
Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Losses : (0.27%)				
European Union: (0.23%)				
900,000	Axa 3% 20/09/2017		(26,604)	(0.02)
250,000	Banco Popular Espanol 5% 20/06/2016		(5,111)	-
500,000	Banco Santander, S.A. 3% 20/12/2016		(10,660)	(0.01)
750,000	Basf 1% 20/12/2017		(17,408)	(0.01)
375,000	Commerzbank Aktiengesellschaft 5% 20/09/2017		(21,145)	(0.01)
1,050,000	Commerzbank Aktiengesellschaft 5% 20/09/2017		(59,205)	(0.04)
2,000,000	Deutsche Telekom1% 20/12/2017		(11,924)	(0.01)
1,000,000	Enbw Energie Baden 1% 20/12/2016		(12,688)	(0.01)
1,000,000	Fortum 1% 20/12/2016		(18,141)	(0.01)
1,500,000	Lloyds TSB Bank 5% 20/12/2017		(162,697)	(0.11)
Total European Union			(345,583)	(0.23)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)		Fair Value	% of
Nominal Holding	Financial liabilities at fair value through profit or loss	€ Net Assets	€ Net Assets
Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Losses (continued)			
United States: (0.04%)			
900,000	Carnival Corporation 1% 20/06/2017	(7,401)	(0.01)
750,000	Eastman Chemical 1% 20/03/2017	(7,958)	(0.01)
750,000	Eastman Chemical 1% 20/12/2016	(8,268)	(0.01)
750,000	Ei Du Pont De Numours 1% 20/12/2016	(15,287)	(0.01)
Total United States		(38,914)	(0.04)
Total Credit Default Swaps: Pay Fixed (Buy Protection) - Unrealised Losses		(384,497)	(0.27)
Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Losses: (0.22%)			
European Union: (0.13%)			
(900,000)	Axa 1% 20/09/2017	(25,402)	(0.02)
(800,000)	Banco De Sabadell 3% 20/12/2016	(32,940)	(0.02)
(2,000,000)	France Telecom 1% 20/12/2017	(13,394)	(0.01)
(1,500,000)	Koninklijke Kpn 1% 20/03/2018	(60,853)	(0.04)
(1,000,000)	The Royal Bank Of Scotland 1% 20/12/2017	(23,955)	(0.02)
(1,500,000)	Veolia Environnement 1% 20/12/2017	(33,896)	(0.02)
Total European Union		(190,440)	(0.13)
United States: (0.09%)			
(1,700,000)	Citigroup 1% 20/12/2017	(15,764)	(0.01)
(1,500,000)	Dell 1% 20/03/2018	(73,151)	(0.05)
(1,000,000)	Metlife 1% 20/12/2016	(10,697)	(0.01)
(900,000)	Trw Automotive 1% 20/09/2017	(32,563)	(0.02)
Total United States		(132,175)	(0.09)
Total Credit Default Swaps: Receive Fixed (Sell Protection) - Unrealised Losses		(322,615)	(0.22)
Total Credit Default Swaps		(707,112)	(0.49)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)							Fair Value	% of
Financial liabilities at fair value through profit or loss							€ Net Assets	
Forward Currency Contracts: (0.01%) (2011: (0.22%))								
	Currency Buys		Currency Sells	Currency Rate	Maturity Date	Unrealised Loss	% of Net Assets	
	EUR 14,766,596	GBP	12,000,000	1.2305	20/03/2013	(15,351)	(0.01)	
Total Fair Value Losses on Forward Currency Contracts						(15,351)	(0.01)	
Futures Contracts - Unrealised Losses: (0.18%) (2011: (0.25%))								
Description		Currency		No. of Contracts		Unrealised Loss	% of Net Assets	
Canada: (0.01%) (2011: 0.00%)								
10 year CDN Bonds March 2013		CAD		40		(11,156)	(0.01)	
Total Canada						(11,156)	(0.01)	
Germany: (0.01%) (2011: 0.00%)								
Euro-Bund Eux March 2013		EUR		(16)		(11,190)	(0.01)	
Total Germany						(11,190)	(0.01)	
Japan: (0.01%) (2011: 0.00%)								
Tokyo Stock Exchange 10 year JGB March 2013		JPY		2		(18,301)	(0.01)	
Total Japan						(18,301)	(0.01)	
United Kingdom: 0.00% (2011: 0.00%)								
LIF Long Gilt March 2013		GBP		(11)		(4,422)	-	
Total United Kingdom						(4,422)	-	
United States: (0.15%) (2011: 0.00%)								
5 Year Treasury Notes March 2013		USD		26		(3,443)	-	
US Treasury Bond March 2013		USD		28		(49,760)	(0.03)	
CBT Treasury Bond March 2013		USD		72		(165,878)	(0.12)	
Total United States						(219,081)	(0.15)	

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Global Investment Grade Fund (continued)		
	Fair Value	% of
Financial liabilities at fair value through profit or loss	€ Net Assets	
Total Futures Contracts - Unrealised Losses	<u>(264,150)</u>	<u>(0.18)</u>
Total Financial Derivative Instruments	<u>(986,613)</u>	<u>(0.68)</u>
Total financial liabilities at fair value through profit or loss	<u>(986,613)</u>	<u>(0.68)</u>
Total financial assets and financial liabilities at fair value through profit or loss (Cost: €123,213,623)	129,649,054	89.91
Cash at bank (2011: 13.48%)	13,048,272	9.05
Other Net Assets (2011: 1.12%)	1,501,203	1.04
Net Assets Attributable to Holders of Redeemable Participating Shares	<u>144,198,529</u>	<u>100.00</u>
Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regular market		89.16
Financial derivative instruments dealt on a regulated market		0.64
OTC financial derivative instruments		0.08
Cash		8.98
Other net assets		1.14
Total		<u>100.00</u>

The counterparty for the forward currency contracts is Northern Trust.

The clearing broker for the futures contracts is Goldman Sachs.

The counterparties for the Credit Default Swaps are: Barclays (S&P: A+, Moody's: A2), BNP Paribas (S&P: A+, Moody's A2), Credit Suisse (S&P: A+, Moody's: A1), Deutsche Bank (S&P: A+, Moody's: A2), Goldman Sachs (S&P: A-, Moody's: A3), HSBC (S&P: A+, Moody's Aa3), JP Morgan (S&P: A-, Moody's: A3), Merrill Lynch (S&P: A-, Moody's: Baa2), Morgan Stanley (S&P: A-, Moody's Baa1), RBS (S&P: A-, Moody's Baa1), Societe Generale (S&P: A, Moody's: A2) and UBS (S&P: A, Moody's: A2)

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap Europe Ex-UK Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Equities: 98.81% (2011: 99.43%)			
Bermuda: 0.00% (2011: 2.93%)			
Denmark: 5.96% (2011: 7.99%)			
48,075	Novo Nordisk	5,899,503	3.62
23,531	Topdanmark	3,810,176	2.34
Total Denmark		9,709,679	5.96
France: 10.77% (2011: 7.13%)			
56,733	Bureau Veritas	4,785,996	2.94
34,069	LVMH Moet Hennessy Louis Vuitton	4,727,074	2.90
66,540	Sodexo	4,236,602	2.60
101,035	Valeo	3,800,431	2.33
Total France		17,550,103	10.77
Germany: 31.03% (2011: 27.48%)			
60,734	Adidas	4,085,576	2.51
84,669	Bayer	6,087,701	3.74
39,819	BMW	2,909,973	1.79
41,182	Bilfinger Berger	3,000,109	1.84
65,617	Deutsche Boerse	3,022,647	1.86
48,875	Fresenius	4,264,344	2.62
74,811	Kabel Deutschland	4,220,088	2.59
32,757	Linde	4,320,648	2.65
42,454	Merck	4,229,268	2.60
24,597	Muenchener Rueckversicherungs	3,346,422	2.05
89,912	Porsche Automobil	5,531,386	3.40
90,649	SAP	5,508,740	3.38
Total Germany		50,526,902	31.03
Jersey: 1.34% (2011: 1.70%)			
30,074	Randgold Resources	2,190,350	1.34
Total Jersey		2,190,350	1.34

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap Europe Ex-UK Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Equities (continued)			
Luxembourg: 2.17% (2011: 2.34%)			
163,402	SES	3,536,836	2.17
Total Luxembourg		3,536,836	2.17
Netherlands: 7.28% (2011: 5.66%)			
67,002	ASML Holding	3,211,406	1.97
44,078	Gemalto	2,990,251	1.84
802,289	ING Groep	5,657,742	3.47
Total Netherlands		11,859,399	7.28
Norway: 12.04% (2011: 10.16%)			
503,875	DNB	4,812,570	2.95
164,724	Petroleum Geo Services	2,130,555	1.31
148,367	Seadrill	4,098,015	2.52
232,296	Statoil	4,386,877	2.69
275,491	Telenor	4,192,030	2.57
Total Norway		19,620,047	12.04
Spain: 2.68% (2011: 2.03%)			
41,608	Inditex	4,368,840	2.68
Total Spain		4,368,840	2.68
Sweden: 11.51% (2011: 14.82%)			
185,007	Elekta	2,181,009	1.34
158,885	Hennes & Mauritz	4,153,312	2.55
216,758	Kinnevik AB Investment	3,416,346	2.10
349,046	Swedbank	5,159,803	3.17
150,764	Swedish Match	3,832,139	2.35
Total Sweden		18,742,609	11.51

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Sourcecap Europe Ex-UK Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	€	Net Assets
Equities (continued)			
Switzerland: 11.16% (2011: 8.95%)			
49,998	Roche	7,619,686	4.68
16,360	Syngenta	4,967,552	3.05
473,108	UBS	5,591,791	3.43
Total Switzerland		18,179,029	11.16
United Kingdom: 2.87% (2011: 8.24%)			
141,853	Pearson	2,066,288	1.27
1,373,766	Vodafone	2,600,734	1.60
Total United Kingdom		4,667,022	2.87
Total Equities		160,950,816	98.81
Total financial assets at fair value through profit or loss (2011: 99.43%) (Cost: €138,822,287)		160,950,816	98.81
Cash at bank (2011: 0.58%)		1,862,382	1.14
Other Net Assets (2011: (0.01%))		84,288	0.05
Net Assets Attributable to Holders of Redeemable Participating Shares		162,897,486	100.00
Portfolio Classification			% of Total assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market			98.74
Cash			1.14
Other net assets			0.12
Total			100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes US SMID Equity Fund		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	\$	Net Assets
Collective Investment Schemes: 1.20%			
50,000	Corporate Office Properties Trust Reits	1,248,000	1.20
Total Collective Investment Schemes		1,248,000	1.20
Equities: 97.31%			
Canada: 5.92%			
Consumer, Cyclical: 3.89%			
34,227	Alimentation Couche-Tard	1,677,288	1.61
65,000	Gildan Activewear	2,377,700	2.28
Industrial: 2.03%			
209,037	CAE	2,116,006	2.03
Total Canada		6,170,994	5.92
United States: 91.39%			
Basic Materials: 3.76%			
20,000	Compass Minerals International	1,495,400	1.44
50,000	Horsehead	510,500	0.49
65,000	RPM International	1,909,050	1.83
Communications: 1.33%			
85,000	NIC	1,388,900	1.33
Consumer, Cyclical: 15.66%			
65,000	Brunswick	1,890,850	1.82
65,000	CarMax	2,440,100	2.34
35,000	Hasbro	1,255,800	1.21
65,000	Herman Miller	1,392,950	1.34
70,976	LKQ	1,498,303	1.44
20,000	MSC Industrial Direct	1,508,000	1.45
65,000	Rush Enterprises	1,342,250	1.29
71,396	United Stationers	2,212,562	2.12
99,825	Wesco Aircraft	1,317,690	1.27
35,000	Wolverine World Wide	1,434,300	1.38
Consumer, Non-cyclical: 17.36%			
130,000	AMN Healthcare Services	1,498,900	1.44
35,000	DENTSPLY International	1,386,000	1.33
35,000	Equifax	1,894,200	1.82
25,000	FleetCor Technologies	1,340,000	1.29
17,691	Ingredion	1,139,831	1.09
35,000	Jarden	1,810,200	1.74

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes US SMID Equity Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	\$	Net Assets
Equities (continued)			
Consumer, Non-cyclical: 17.36% (continued)			
45,000	Matthews International	1,443,600	1.39
20,000	MEDNAX	1,590,400	1.53
45,000	Omnicare	1,624,500	1.56
40,000	Patterson Cos	1,368,800	1.31
30,000	Steiner Leisure	1,444,800	1.39
28,067	West Pharmaceutical Services	1,535,826	1.47
Energy: 4.40%			
35,000	Dresser-Rand	1,964,900	1.89
20,000	Oceaneering International	1,075,800	1.03
74,321	Superior Energy Services	1,540,674	1.48
Financial: 21.76%			
35,000	Alexander & Baldwin	1,026,900	0.99
6,500	Alleghany	2,180,165	2.09
115,000	Brown & Brown	2,926,750	2.81
30,000	City National	1,484,400	1.43
25,000	Cohen & Steers	761,250	0.73
98,007	East West Bancorp	2,106,171	2.02
3,500	Markel	1,517,005	1.46
110,000	St Joe	2,536,600	2.44
50,000	Waddell & Reed Financial	1,741,000	1.67
105,453	Washington Federal	1,778,992	1.71
5,000	White Mountains Insurance	2,575,000	2.47
55,000	Wintrust Financial	2,017,400	1.94
Industrial: 19.49%			
25,000	Aptargroup	1,193,000	1.15
32,319	Clean Harbors	1,776,899	1.71
25,000	Cognex	919,750	0.88
60,000	Covanta	1,105,200	1.06
23,722	Eagle Materials	1,387,263	1.33
129,784	FLIR Systems	2,895,481	2.78
31,385	Kirby	1,939,279	1.86
17,875	Martin Marietta Materials	1,685,255	1.62
35,000	Matson	863,800	0.83
70,000	National Instruments	1,806,000	1.73
65,000	Rofin-Sinar Technologies	1,409,200	1.35
55,000	Simpson Manufacturing	1,803,450	1.73
40,000	Woodward	1,524,800	1.46

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes US SMID Equity Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	\$	Net Assets
Equities (continued)			
Technology: 3.73%			
20,000	ANSYS	1,346,800	1.28
25,000	Hittite Microwave	1,551,250	1.47
35,000	Veeco Instruments	1,032,150	0.98
Utilities: 3.81%			
50,000	Hawaiian Electric Industries	1,256,500	1.19
130,000	MDU Resources	2,757,300	2.62
Total United States		95,160,096	90.29
Total Equities		101,331,090	96.15
Total financial assets at fair value through profit or loss		102,579,090	97.33
(Cost: \$97,453,369)			
Cash at bank		2,782,149	2.64
Other Net Assets		35,561	0.03
Net Assets Attributable to Holders of Redeemable Participating Shares		105,396,800	100.00
Portfolio Classification			% of Total Assets
Transferable securities admitted to an official stock exchange listing or traded on a regular market			97.27
Cash			2.67
Other net assets			0.06
Total			100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Active UK Inflation-Linked Bond Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Corporate Bonds: 0.97%			
United Kingdom: 0.97%			
703,000	Network Rail Infrastructure Finance 1.125% 22/11/2047	1,006,878	0.97
Total United Kingdom		1,006,878	0.97
Total Corporate Bonds		1,006,878	0.97
Government Bonds: 97.88%			
United Kingdom: 97.88%			
50,000	UK Treasury Inflation Linked Bond 0.125% 22/03/2024	54,688	0.05
921,000	UK Treasury Inflation Linked Bond 0.125% 22/03/2029	998,840	0.96
4,437,000	UK Treasury Inflation Linked Bond 0.125% 22/03/2044	4,452,463	4.28
709,000	UK Treasury Inflation Linked Bond 0.25% 22/03/2052	740,551	0.71
5,163,000	UK Treasury Inflation Linked Bond 0.375% 22/03/2062	6,004,388	5.78
3,298,000	UK Treasury Inflation Linked Bond 0.5% 22/03/2050	4,278,439	4.12
5,495,000	UK Treasury Inflation Linked Bond 0.625% 22/03/2040	7,131,713	6.86
2,030,000	UK Treasury Inflation Linked Bond 0.625% 22/11/2042	2,720,882	2.62
7,728,000	UK Treasury Inflation Linked Bond 0.75% 22/03/2034	9,488,013	9.13
1,217,000	UK Treasury Inflation Linked Bond 0.75% 22/11/2047	1,740,869	1.68
4,768,000	UK Treasury Inflation Linked Bond 1.125% 22/11/2037	7,358,140	7.08
298,000	UK Treasury Inflation Linked Bond 1.25% 22/11/2017	431,786	0.42
4,841,000	UK Treasury Inflation Linked Bond 1.25% 22/11/2027	7,611,538	7.32
4,641,000	UK Treasury Inflation Linked Bond 1.25% 22/11/2032	6,684,688	6.43
2,995,000	UK Treasury Inflation Linked Bond 1.25% 22/11/2055	5,603,304	5.39
2,116,000	UK Treasury Inflation Linked Bond 1.875% 22/11/2022	3,239,575	3.12
4,886,000	UK Treasury Inflation Linked Bond 2% 26/01/2035	9,866,788	9.50
3,153,000	UK Treasury Inflation Linked Bond 2.5% 17/07/2024	10,706,958	10.30
2,021,000	UK Treasury Inflation Linked Bond 2.5% 26/07/2016	6,940,518	6.68
1,779,000	UK Treasury Inflation Linked Bond 4.125% 22/07/2030	5,663,447	5.45
Total United Kingdom		101,717,588	97.88
Total Government Bonds		101,717,588	97.88
Total financial assets at fair value through profit or loss (Cost: £98,590,051)		102,724,466	98.85
Cash at bank		847,257	0.82
Other Net Assets		341,990	0.33
Net Assets Attributable to Holders of Redeemable Participating Shares		103,913,713	100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Active UK Inflation-Linked Bond Fund (continued)

Portfolio Classification	% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regular market	98.84
Cash	0.81
Other net assets	0.35
Total	100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value \$	% of Net Assets
	Equities: 94.85%		
	Hong Kong: 11.79%		
	Consumer, Cyclical: 3.00%		
1,995,000	Ajisen China Holdings	1,899,583	1.25
9,129,000	Glorious Sun Enterprises	2,661,894	1.75
	Consumer, Non-cyclical: 4.97%		
7,866,000	AMVIG	2,821,355	1.85
1,679,000	China Mengniu Dairy	4,754,932	3.12
	Industrial: 2.60%		
8,643,000	Kingboard Laminates	3,969,845	2.60
	Technology: 1.22%		
1,602,278	Ju Teng International	756,620	0.51
2,320,000	Ju Teng International Receipt	1,086,539	0.71
	Total Hong Kong	17,950,768	11.79
	Malaysia: 3.02%		
	Consumer, Cyclical: 3.02%		
3,988,991	Genting Malaysia	4,604,689	3.02
	Total Malaysia	4,604,689	3.02
	People's Republic of China: 30.83%		
	Communications: 0.73%		
105,420	Perfect World ADR	1,117,452	0.73
	Consumer, Cyclical: 5.01%		
34,246,000	China Dongxiang Group	4,506,808	2.95
4,877,000	New World Department Store China	3,139,875	2.06
	Diversified: 2.45%		
1,169,852	China Merchants International	3,743,188	2.45
	Energy: 3.60%		
1,673,000	CNOOC	3,621,988	2.37
8,509	CNOOC ADR	1,870,108	1.23

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value \$	% of Net Assets
Equities (continued)			
People's Republic of China: 30.83% (continued)			
Financial: 11.61%			
821	China Life Insurance	2,685	-
5,516,166	COSCO Pacific	7,828,690	5.13
594,231	E-House China	2,412,578	1.58
9,336,000	Franshion Properties China	3,360,656	2.20
493,000	Ping An Insurance Group of China	4,124,924	2.70
Industrial: 0.01%			
204,763	Shengli Oil & Gas Pipe	21,135	0.01
Technology: 7.42%			
151,939	Changyou.com ADR	3,989,918	2.62
885,617	Shanda Games ADR	2,674,563	1.75
8,703,000	Travelsky Technology	4,648,667	3.05
Total People's Republic of China		47,063,235	30.83
Republic of South Korea: 27.21%			
Communications: 1.22%			
71,133	INTOPS	1,853,780	1.22
Consumer, Cyclical: 9.46%			
32,750	Daegu Department Store	468,043	0.31
26,001	Gwangju Shinsegae	5,622,429	3.69
26,309	Shinsegae Food	2,469,752	1.62
108,018	Youngone	5,852,036	3.84
Consumer, Non-cyclical: 0.54%			
4,062	Ottogi	829,038	0.54
Financial: 8.49%			
139,530	Hana Financial	4,515,998	2.96
18,576	KIWOOM Securities	1,021,999	0.67
56,241	Korea Investment	2,224,792	1.46
25,555	Samsung Fire & Marine Insurance	5,191,801	3.40
Industrial: 0.95%			
32,036	Hanil Cement	1,454,312	0.95

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value \$	% of Net Assets
Equities (continued)			
Republic of South Korea: 27.21% (continued)			
Technology: 6.55%			
2,191	Samsung Electronics	3,112,823	2.05
970	Samsung Electronics GDR	683,850	0.45
7,766	Samsung Electronics Pref	6,173,193	4.05
Total Republic of South Korea		41,473,846	27.21
Taiwan: 13.83%			
Consumer, Cyclical: 3.65%			
1,436,564	Depo Auto Parts Ind	3,269,978	2.14
2,578,451	Tong Yang Industry	2,308,610	1.51
Consumer, Non-cyclical: 2.41%			
1,628,902	Sporton International	3,668,521	2.41
Financial: 1.48%			
2,510,068	China Life Insurance	2,260,349	1.48
Industrial: 4.13%			
1,578,060	Hon Hai Precision Industry	4,825,639	3.16
1,200,820	Nan Ya Printed Circuit Board	1,484,536	0.97
Technology: 2.16%			
2,079,827	Greatek Electronics	1,736,830	1.14
3,636,000	Sunrex Technology	1,552,616	1.02
Total Taiwan		21,107,079	13.83
Thailand: 4.49%			
Energy: 2.00%			
570,600	PTT Exploration & Production Receipt	3,049,791	2.00
Financial: 2.49%			
594,897	Bangkok Bank Receipt	3,801,973	2.49
Total Thailand		6,851,764	4.49

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund (continued)		Fair Value	% of
Nominal Holding	Financial assets at fair value through profit or loss	\$	Net Assets
Equities (continued)			
United States: 3.68%			
Communications: 2.06%			
249,235	Corning	3,142,853	2.06
Technology: 1.62%			
390,611	Micron Technology	2,472,568	1.62
Total United States		5,615,421	3.68
Total Equities		144,666,802	94.85
Financial Derivative Instruments: 4.73%			
Warrants: 4.73%			
Bermuda: 0.51%			
108,043	Ping An Insurance Group of China	772,670	0.51
Total Bermuda		772,670	0.51
Curacao: 1.13%			
51,463	Kweichow Moutai	1,726,532	1.13
Total Curacao		1,726,532	1.13
India: 3.09%			
82,095	Bharat Electronics	1,952,244	1.28
632,998	Polaris Financial Technology	1,323,993	0.87
185,414	Sun TV Network	1,440,463	0.94
Total India		4,716,700	3.09
Total Warrants		7,215,902	4.73
Total Financial derivative instruments		7,215,902	4.73

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund (continued)		
Financial assets at fair value through profit or loss	Fair Value \$	% of Net Assets
Total financial assets at fair value through profit or loss (Cost: \$146,536,601)	151,882,704	99.58
Cash at bank	479,514	0.31
Other Net Assets	162,169	0.11
Net Assets Attributable to Holders of Redeemable Participating Shares	152,524,387	100.00
 Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		94.23
Financial derivative instruments dealt on a regulated market		4.70
Cash		0.31
Other net assets		0.76
Total		100.00

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2012

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund*	Hermes Quant Global Equity Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss		191,060,767	81,608,597	-	106,816,775
Cash at bank	3	1,381,025	1,904,863	20,180	176,239
Cash at clearing broker	3	-	-	-	-
Dividends and interest receivable		328,112	87,422	-	149,368
Securities sold receivable		20	-	-	-
Capital shares subscribed receivable		-	-	-	-
Variation margin receivable		-	-	-	-
Sundry debtors		1,774	4,794	75	390
Total Assets		192,771,698	83,605,676	20,255	107,142,772
Liabilities					
Financial liabilities at fair value through profit or loss		-	-	-	-
Securities purchased payable		344,529	-	-	-
Sub-custody fee payable	4 (d)	61,500	12,483	6,726	5,555
Capital shares redeemed payable		-	-	-	-
Investment Advisory fee payable	4 (b)	-	-	-	11
Investment Management fee payable	4 (a)	19	19	6	19
Administration fee payable	4 (c)	22,031	10,811	-	13,693
Custodian fee payable	4 (d)	6,269	2,733	-	3,520
Variation margin payable		-	-	-	-
Other accrued expenses	4	36,798	13,717	13,523	9,170
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		471,146	39,763	20,255	31,968
Net assets attributable to holders of redeemable participating shares		192,300,552	83,565,913	-	107,110,804

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

* Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2012 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund*	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss		192,672,716	-	142,533,131	183,373,277
Cash at bank	3	7,337,976	17,908	4,291,293	632,342
Cash at clearing broker	3	241,349	-	-	-
Dividends and interest receivable		282,428	-	31,074	129,589
Securities sold receivable		-	-	292,195	-
Capital shares subscribed receivable		-	-	-	15,109
Variation margin receivable		-	-	-	-
Sundry debtors		934	450	1,672	5,336
Total Assets		200,535,403	18,358	147,149,365	184,155,653
Liabilities					
Financial liabilities at fair value through profit or loss		-	-	16	-
Securities purchased payable		813,229	-	84,763	-
Sub-custody fee payable	4 (d)	2,486	2,749	6,341	18,290
Capital shares redeemed payable		-	-	-	-
Investment Advisory fee payable	4 (b)	-	-	-	508
Investment Management fee payable	4 (a)	17	8	1,605	24,111
Administration fee payable	4 (c)	22,676	-	17,623	19,191
Custodian fee payable	4 (d)	6,575	-	4,800	5,646
Variation margin payable		-	-	-	-
Other accrued expenses	4	12,655	15,601	13,016	13,352
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		857,638	18,358	128,164	81,098
Net assets attributable to holders of redeemable participating shares		199,677,765	-	147,021,201	184,074,555

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

*Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2012 (continued)

		Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II*	Hermes Sourcecap Europe Ex-UK Fund
Assets	Notes	€**	€**	£	€**
Financial assets at fair value through profit or loss		146,628,887	130,635,667	-	160,950,816
Cash at bank	3	8,252,928	13,048,272	69,029	1,862,382
Cash at clearing broker	3	-	-	-	-
Dividends and interest receivable		3,025,842	1,618,924	-	55,080
Securities sold receivable		-	-	-	-
Capital shares subscribed receivable		-	-	-	121,689
Variation margin receivable		-	39,314	-	-
Sundry debtors		-	-	-	6,658
Total Assets		157,907,657	145,342,177	69,029	162,996,625
Liabilities					
Financial liabilities at fair value through profit or loss		3,494,433	986,613	-	-
Securities purchased payable		-	-	-	-
Sub-custody fee payable	4 (d)	11,826	7,943	1,615	-
Capital shares redeemed payable		-	-	-	26,118
Investment Advisory fee payable	4 (b)	-	-	-	-
Investment Management fee payable	4 (a)	20	18	-	38,209
Administration fee payable	4 (c)	23,063	21,950	2,932	20,387
Custodian fee payable	4 (d)	2,877	2,717	742	5,285
Variation margin payable		-	94,344	-	-
Other accrued expenses	4	29,711	30,063	63,740	9,140
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		3,561,930	1,143,648	69,029	99,139
Net assets attributable to holders of redeemable participating shares		154,345,727	144,198,529	-	162,897,486

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

*Hermes Commodities Index Fund II Fund was fully redeemed on 15 November 2012.

**Euro denominated sub-funds are converted to GBP using the year end exchange rate of 1.226.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2012 (continued)

		Hermes US SMID Equity Fund*	Hermes Active UK Inflation-Linked Bond Fund**	Hermes Emerging Asia Equity Fund***	Total
Assets	Notes	\$****	£	\$****	£
Financial assets at fair value through profit or loss		102,579,090	102,724,466	151,882,704	1,515,588,310
Cash at bank	3	2,782,149	847,257	479,514	37,587,317
Cash at clearing broker	3	-	-	-	241,349
Dividends and interest receivable		42,132	351,407	117,037	5,290,938
Securities sold receivable		-	-	1,026,639	927,256
Capital shares subscribed receivable		-	-	-	114,356
Variation margin receivable		-	-	-	32,064
Sundry debtors		15,237	10,453	15,323	50,211
Total Assets		105,418,608	103,933,583	153,521,217	1,559,831,801
Liabilities					
Financial liabilities at fair value through profit or loss		-	-	-	3,654,649
Securities purchased payable		-	-	972,588	1,844,128
Sub-custody fee payable	4 (d)	-	-	-	133,868
Capital shares redeemed payable		-	-	-	21,301
Investment Advisory fee payable	4 (b)	-	-	-	519
Investment Management fee payable	4 (a)	4	-	2	57,001
Administration fee payable	4 (c)	10,760	9,144	9,648	184,063
Custodian fee payable	4 (d)	2,690	2,295	2,412	44,609
Variation margin payable		-	-	-	76,945
Other accrued expenses	4	8,354	8,431	12,180	268,909
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		21,808	19,870	996,830	6,285,992
Net assets attributable to holders of redeemable participating shares		105,396,800	103,913,713	152,524,387	1,553,545,809

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

* Hermes US SMID Equity Fund launched 26 September 2012, ** Hermes Active UK Inflation-Linked Bond Fund launched 9 October 2012.

*** Hermes Emerging Asia Equity Fund launched 1 November 2012.

**** US Dollar denominated sub-funds are converted to GBP using the year end exchange rate of 1.617.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2012 (continued)

The Financial Statements were approved on 25 April 2013 by the Board of Directors and signed on its behalf by:



Paul McNaughton
Director



Brian Collins
Director

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2011

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss		169,411,042	72,021,166	63,572,002	94,754,117
Cash at bank	3	5,997,927	1,929,060	1,725,616	611,010
Cash at clearing broker	3	-	-	160,567	-
Dividends and interest receivable		323,226	182,873	91,387	136,722
Variation margin receivable		-	-	-	-
Sundry debtors		54,274	9,308	4,720	3,770
Total Assets		175,786,469	74,142,407	65,554,292	95,505,619
Liabilities					
Financial liabilities at fair value through profit or loss		-	-	-	-
Securities purchased payable		165,241	-	-	-
Sub-custody fee payable	4 (d)	52,063	6,586	8,009	4,352
Investment Advisory fee payable	4 (b)	-	-	-	7
Investment Management fee payable	4 (a)	3	3	3	3
Administration fee payable	4 (c)	26,814	11,992	11,233	15,344
Custodian fee payable	4 (d)	1,883	749	702	963
Variation margin payable		-	-	-	-
Other accrued expenses	4	60,361	9,176	9,305	11,363
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		306,365	28,506	29,252	32,032
Net assets attributable to holders of redeemable participating shares		175,480,104	74,113,901	65,525,040	95,473,587

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2011 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss		147,411,292	116,554,642	148,095,656	136,482,086
Cash at bank	3	6,360,104	4,879,763	418,213	1,376,597
Cash at clearing broker	3	361,733	209,667	-	-
Dividends and interest receivable		330,974	432,618	-	221,054
Variation margin receivable		-	-	-	-
Sundry debtors		5,698	5,536	4,729	11,768
Total Assets		154,469,801	122,082,226	148,518,598	138,091,505
Liabilities					
Financial liabilities at fair value through profit or loss		-	-	-	-
Securities purchased payable		-	290,765	-	-
Sub-custody fee payable	4 (d)	2,551	3,636	5,675	11,968
Investment Advisory fee payable	4 (b)	-	-	-	92
Investment Management fee payable	4 (a)	2	2	3	2,260
Administration fee payable	4 (c)	23,329	20,107	22,778	18,877
Custodian fee payable	4 (d)	1,713	1,204	1,549	1,231
Variation margin payable		-	-	-	-
Other accrued expenses	4	12,730	11,127	13,180	11,277
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		40,325	326,841	43,185	45,705
Net assets attributable to holders of redeemable participating shares		154,429,476	121,755,385	148,475,413	138,045,800

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2011 (continued)

		Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II	Hermes Sourcecap Europe Ex-UK Fund	Total
	Notes	€*	€*	£	€*	£
Assets						
Financial assets at fair value through profit or loss		115,147,098	113,643,003	35,200,000	32,142,453	1,201,460,611
Cash at bank	3	18,879,351	15,335,059	372,649	188,688	52,408,064
Cash at clearing broker	3	157,729	2,230,665	-	-	2,727,007
Dividends and interest receivable		2,185,945	1,520,546	24,648	-	4,839,557
Variation margin receivable		-	41,793	-	-	34,910
Sundry debtors		2,062	11,784	65,074	-	176,442
Total Assets		136,372,185	132,782,850	35,662,371	32,331,141	1,261,646,591
Liabilities						
Financial liabilities at fair value through profit or loss		5,993,346	2,310,573	-	-	6,936,316
Securities purchased payable		-	-	-	-	456,006
Sub-custody fee payable	4 (d)	7,589	5,844	3,617	22	109,696
Investment Advisory fee payable	4 (b)	-	-	-	-	99
Investment Management fee payable	4 (a)	3	3	-	-	2,284
Administration fee payable	4 (c)	26,460	26,506	6,399	977	201,932
Custodian fee payable	4 (d)	1,354	1,357	1,602	-	13,861
Variation margin payable		-	60,836	-	-	50,817
Other accrued expenses	4	27,957	13,848	19,304	2,538	194,862
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		6,056,709	2,418,967	30,922	3,537	7,965,873
Net assets attributable to holders of redeemable participating shares		130,315,476	130,363,883	35,631,449	32,327,604	1,253,680,718

For information on the Net Asset Value per Share and Shares Outstanding on each share class please refer to note 11.

*Euro denominated sub-funds are converted to GBP using the year end exchange rate of 1.197.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2012

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund*	Hermes Quant Global Equity Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		4,849,771	1,553,462	189,227	2,784,077
Bank interest income		699	30	38	24
Bond interest income		-	-	-	-
Net gain on financial assets and liabilities at fair value through profit or loss		12,341,541	7,352,184	8,460,131	9,054,129
Investment Income		17,192,011	8,905,676	8,649,396	11,838,230
Expenses					
General expenses	4(g)	(114,245)	(39,514)	(195,659)	(41,536)
Advisory fee	4(b)	-	-	-	(5)
Investment Management fee	4(a)	(16)	(16)	(3)	(560)
Administration fee	4(c)	(66,325)	(32,014)	(5,672)	(40,853)
Sub-custodian fee	4(d)	(124,072)	(15,697)	(3,797)	(10,371)
Custodian fee	4(d)	(15,809)	(6,804)	(355)	(8,741)
Directors' fees	4(e)	(14,145)	(6,168)	(629)	(7,928)
Audit fee	4(f)	(6,317)	(6,317)	(2,826)	(6,317)
Operating Expenses		(340,929)	(106,530)	(208,941)	(116,311)
Operating Profit		16,851,082	8,799,146	8,440,455	11,721,919
Finance Costs					
Bank interest expense		(410)	(14)	-	(5)
Income distribution		-	-	-	-
		(410)	(14)	-	(5)
Net Profit before taxation		16,850,672	8,799,132	8,440,455	11,721,914
Taxation					
Withholding tax		(392,544)	(218,280)	(28)	(391,859)
Increase in net assets attributable to holders of redeemable participating shares from operations		16,458,128	8,580,852	8,440,427	11,330,055

* Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2012 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund*	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		5,150,103	1,634,833	3,476,481	4,661,835
Bank interest income		34,729	139	-	8
Bond interest income		-	19,497	-	-
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss		40,343,118	11,681,397	(6,008,370)	20,956,927
Investment Income/(Expense)		45,527,950	13,335,866	(2,531,889)	25,618,770
Expenses					
General expenses	4(g)	(70,881)	(195,180)	(61,450)	(64,871)
Advisory fee	4(b)	-	-	-	(416)
Investment Management fee	4(a)	(15)	(5)	(7,853)	(89,933)
Administration fee	4(c)	(64,165)	(22,978)	(54,796)	(56,946)
Sub-custodian fee	4(d)	(6,015)	(3,943)	(13,524)	(28,520)
Custodian fee	4(d)	(15,482)	(4,121)	(12,556)	(13,303)
Directors' fees	4(e)	(14,215)	(368)	(11,505)	(12,608)
Audit fee	4(f)	(6,317)	(2,826)	(6,317)	(6,317)
Operating Expenses		(177,090)	(229,421)	(168,001)	(272,914)
Operating Profit/(Loss)		45,350,860	13,106,445	(2,699,890)	25,345,856
Finance costs					
Bank interest expense		-	-	(1)	(159)
Income distribution		-	-	-	(913)
		-	-	(1)	(1,072)
Net Profit/(Loss) before taxation		45,350,860	13,106,445	(2,699,891)	25,344,784
Taxation					
Withholding tax		(534,372)	(153,073)	(243,354)	(627,747)
Increase/(Decrease) in net assets attributable to holders of redeemable participating shares from operations		44,816,488	12,953,372	(2,943,245)	24,717,037

*Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2012 (continued)

		Hermes Global Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II*	Hermes Sourcecap Europe Ex-UK Fund
	Notes	€**	€**	£	€**
Investment Income					
Dividend income		-	-	-	3,524,433
Bank interest income		1,353	4,755	269,072	131
Bond interest income		8,622,438	4,289,436	(78,313)	(7)
Net gain on financial assets and liabilities at fair value through profit or loss		15,589,086	9,714,330	486,756	22,279,135
Investment Income		24,212,877	14,008,521	677,515	25,803,692
Expenses					
General expenses	4(g)	(70,314)	(69,063)	(115,213)	(35,004)
Advisory fee	4(b)	-	-	-	-
Investment Management fee	4(a)	(17)	(16)	-	(236,667)
Administration fee	4(c)	(68,739)	(66,587)	(12,296)	(43,394)
Sub-custodian fee	4(d)	(17,840)	(13,370)	(5,653)	(4,121)
Custodian fee	4(d)	(5,186)	(4,963)	(3,074)	(10,830)
Directors' fees	4(e)	(13,307)	(13,281)	-	(11,387)
Audit fee	4(f)	(7,790)	(7,790)	(2,826)	(7,790)
Operating Expenses		(183,193)	(175,070)	(139,062)	(349,193)
Operating Profit		24,029,684	13,833,451	538,453	25,454,499
Finance costs					
Bank interest expense		(718)	(60)	(93)	(2)
Income distribution		-	-	-	-
		(718)	(60)	(93)	(2)
Net Profit before taxation		24,028,966	13,833,391	538,360	25,454,497
Taxation					
Withholding tax		-	-	-	(630,646)
Increase in net assets attributable to holders of redeemable participating shares from operations		24,028,966	13,833,391	538,360	24,823,851

*Hermes Commodities Index Fund II was fully redeemed on 15 November 2012.

**Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.233.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2012 (continued)

		Hermes US SMID Equity Fund*	Hermes Active UK Inflation-Linked Bond Fund**	Hermes Emerging Asia Equity Fund***	Total
	Notes	\$****	£	\$****	£
Investment Income					
Dividend income		524,381	-	180,949	27,603,091
Bank interest income		-	-	-	309,799
Bond interest income		-	249,753	-	10,662,145
Net gain on financial assets and liabilities at fair value through profit or loss		5,194,244	4,281,190	5,045,176	153,998,503
Investment Income		5,718,625	4,530,943	5,226,125	192,573,538
Expenses					
General expenses	4(g)	(5,573)	(3,149)	(11,311)	(1,053,771)
Advisory fee	4(b)	-	-	-	(421)
Investment Management fee	4(a)	(4)	-	(2)	(290,363)
Administration fee	4(c)	(10,760)	(9,144)	(9,648)	(523,004)
Sub-custodian fee	4(d)	-	-	-	(240,245)
Custodian fee	4(d)	(2,690)	(2,295)	(2,412)	(102,773)
Directors' fees	4(e)	(3,811)	(3,691)	(2,329)	(105,928)
Audit fee	4(f)	(2,587)	(3,325)	(2,587)	(71,926)
Operating Expenses		(25,425)	(21,604)	(28,289)	(2,388,431)
Operating Profit		5,693,200	4,509,339	5,197,836	190,185,107
Finance costs					
Bank interest expense		-	-	(227)	(1,458)
Income distribution		-	-	-	(913)
		-	-	(227)	(2,371)
Net Profit before taxation		5,693,200	4,509,339	5,197,609	190,182,737
Taxation					
Withholding tax		(78,657)	-	(3,122)	(3,124,299)
Increase in net assets attributable to holders of redeemable participating shares from operations		5,614,543	4,509,339	5,194,487	187,058,438

* Hermes US SMID Equity Fund launched 26 September 2012.

** Hermes Active UK Inflation-Linked Bond Fund launched 9 October 2012.

*** Hermes Emerging Asia Equity Fund launched 1 November 2012.

**** Dollar denominated sub-funds are converted to GBP using the average exchange rate of 1.585.

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2012 (continued)

Gains and losses arose solely from continuing operations with the exception of Hermes Pan European Small Cap Companies Fund which was fully redeemed on 12 March 2012, Hermes UK Smaller Companies Fund which was fully redeemed on 14 June 2012 and the Hermes Commodities Index Fund II which was fully redeemed on 15 November 2012. There were no gains or losses other than those dealt with in the Income Statement.

The Financial Statements were approved on 25 April 2013 by the Board of Directors and signed on its behalf by:



Paul McNaughton
Director



Brian Collins
Director

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2011

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		5,523,437	1,429,899	1,792,347	1,587,152
Bank interest income		8,862	3,521	1,191	152
Bond interest income		-	-	-	-
Net fair value loss on financial assets and liabilities at fair value through profit or loss		(40,402,292)	(4,923,233)	(16,044,087)	(4,850,856)
Investment Expense		(34,869,993)	(3,489,813)	(14,250,549)	(3,263,552)
Expenses					
General expenses	4(e)	(111,870)	(40,497)	(30,349)	(23,795)
Advisory fee	4(b)	-	-	-	-
Investment Management fee	4(a)	(3)	(3)	(3)	(840)
Administration fee	4(c)	(60,131)	(27,057)	(28,678)	(28,605)
Sub-custody fee	4(d)	(120,840)	(12,140)	(15,736)	(9,487)
Custody fee	4(d)	(4,822)	(1,881)	(1,863)	(1,679)
Directors' fee	4(e)	(19,515)	(7,771)	(7,754)	(6,433)
Audit fee	4(f)	(6,847)	(6,847)	(6,847)	(6,847)
Swap interest		-	-	-	-
Operating Expenses		(324,028)	(96,196)	(91,230)	(77,686)
Operating Loss		(35,194,021)	(3,586,009)	(14,341,779)	(3,341,238)
Finance Costs					
Bank interest expense		(2,377)	(29)	-	(50)
Income distribution		-	-	-	(851)
		(2,377)	(29)	-	(901)
Net Loss before taxation		(35,196,398)	(3,586,038)	(14,341,779)	(3,342,139)
Taxation					
Withholding tax		(594,579)	(184,201)	(207,744)	(207,686)
Decrease in net assets attributable to holders of redeemable participating shares from operations		(35,790,977)	(3,770,239)	(14,549,523)	(3,549,825)

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2011 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		5,103,300	4,454,331	2,332,142	4,128,539
Bank interest income		18,725	18,178	2	6,742
Bond interest income		-	-	-	-
Net fair value loss on financial assets and liabilities at fair value through profit or loss		(11,445,304)	(15,196,156)	(3,375,672)	(6,876,136)
Investment Expense		(6,323,279)	(10,723,647)	(1,043,528)	(2,740,855)
Expenses					
General expenses	4(e)	(51,508)	(43,779)	(26,927)	(40,913)
Advisory fee	4(b)	-	-	-	(92)
Investment Management fee	4(a)	(2)	(2)	(3)	(17,231)
Administration fee	4(c)	(51,973)	(45,368)	(38,432)	(40,121)
Sub-custody fee	4(d)	(5,888)	(6,414)	(10,060)	(22,075)
Custody fee	4(d)	(3,951)	(3,300)	(2,682)	(2,945)
Directors' fee	4(e)	(16,202)	(13,048)	(9,901)	(11,973)
Audit fee	4(f)	(6,847)	(6,847)	(6,847)	(6,847)
Swap interest		-	-	-	-
Operating Expenses		(136,371)	(118,758)	(94,852)	(142,197)
Operating Loss		(6,459,650)	(10,842,405)	(1,138,380)	(2,883,052)
Finance costs					
Bank interest expense		-	(173)	(189)	(1)
Income distribution		-	-	-	-
		-	(173)	(189)	(1)
Net Loss before taxation		(6,459,650)	(10,842,578)	(1,138,569)	(2,883,053)
Taxation					
Withholding tax		(481,736)	(437,355)	(163,250)	(634,214)
Decrease in net assets attributable to holders of redeemable participating shares from operations		(6,941,386)	(11,279,933)	(1,301,819)	(3,517,267)

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2011 (continued)

		Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II	Hermes Sourcecap Europe Ex-UK Fund	Total
	Notes	€*	€*	£	€*	£
Investment Income						
Dividend income		-	-	-	-	26,351,147
Bank interest income		11,783	14,868	159,946	-	240,440
Bond interest income		9,438,055	4,930,402	-	-	12,465,435
Net fair value (loss)/gain on financial assets and liabilities at fair value through profit or loss		(8,494,041)	2,797,357	(6,455,924)	776,875	(113,837,868)
Investment Income/(Expense)		955,797	7,742,627	(6,295,978)	776,875	(74,780,846)
Expenses						
General expenses	4(e)	(53,667)	(51,618)	(12,263)	(181)	(473,399)
Advisory fee	4(b)	-	-	-	-	(92)
Investment Management fee	4(a)	(3)	(3)	-	-	(18,092)
Administration fee	4(c)	(64,165)	(61,678)	(8,446)	(977)	(438,834)
Sub-custody fee	4(d)	(18,180)	(12,965)	(4,554)	-	(234,214)
Custody fee	4(d)	(3,298)	(3,122)	(2,111)	(22)	(30,823)
Directors' fee	4(e)	(10,579)	(9,551)	(2,455)	-	(112,516)
Audit fee	4(f)	(7,893)	(7,893)	(6,846)	(2,357)	(77,362)
Swap interest		-	-	(35,898)	-	(35,898)
Operating Expenses		(157,785)	(146,830)	(72,573)	(3,537)	(1,421,230)
Operating Profit/(Loss)		798,012	7,595,797	(6,368,551)	773,338	(76,202,076)
Finance costs						
Bank interest expense		(1,126)	(929)	-	-	(4,602)
Income distribution		-	-	-	-	(851)
		(1,126)	(929)	-	-	(5,453)
Net Profit/(Loss) before taxation		796,886	7,594,868	(6,368,551)	773,338	(76,207,529)
Taxation						
Withholding tax		-	-	-	-	(2,910,765)
Increase/(Decrease) in net assets attributable to holders of redeemable participating shares from operations		796,886	7,594,868	(6,368,551)	773,338	(79,118,294)

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.153. Gains and losses arose solely from continuing operations. There were no gains or losses other than those dealt with in the Income Statement. The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2012

	Hermes Global Emerging Markets Fund £	Hermes Global Equity Select Fund £	Hermes Pan European Small Cap Companies Fund* £	Hermes Quant Global Equity Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year	175,480,104	74,113,901	65,525,040	95,473,587
Redeemable participating share transactions				
Issue of redeemable participating shares for the year	362,320	871,160	-	423,796
Redemption of redeemable participating shares for the year	-	-	(73,965,467)	(116,634)
Net increase/(decrease) in net assets from redeemable participating share transactions	362,320	871,160	(73,965,467)	307,162
Increase in net assets attributable to holders of redeemable participating shares from operations	16,458,128	8,580,852	8,440,427	11,330,055
Net assets attributable to holders of redeemable participating shares at the end of the year	192,300,552	83,565,913	-	107,110,804

* Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2012 (continued)

	Hermes UK Small and Mid Cap Companies Fund £	Hermes UK Smaller Companies Fund* £	Hermes Japan Equity Fund £	Hermes Sourcecap European Alpha Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	154,429,476	121,755,385	148,475,413	138,045,800
Redeemable participating share transactions				
Issue of redeemable participating shares for the year/period	431,801	-	1,489,033	37,592,754
Redemption of redeemable participating shares for the year/period	-	(134,708,757)	-	(16,281,036)
Net increase/(decrease) in net assets from redeemable participating share transactions	431,801	(134,708,757)	1,489,033	21,311,718
Increase/(Decrease) in net assets attributable to holders of redeemable participating shares from operations	44,816,488	12,953,372	(2,943,245)	24,717,037
Net assets attributable to holders of redeemable participating shares at the end of the year/period	199,677,765	-	147,021,201	184,074,555

*Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2012 (continued)

	Hermes Global High Yield Bond Fund €**	Hermes Global Investment Grade Fund €**	Hermes Commodities Index Fund II* £	Hermes Sourcecap Europe Ex-UK Fund €**
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	130,315,476	130,363,883	35,631,449	32,327,604
Redeemable participating share transactions				
Issue of redeemable participating shares for the year/period	1,255	1,255	4,400,000	108,936,553
Redemption of redeemable participating shares for the year/period	-	-	(40,569,809)	(3,190,522)
Net increase/(decrease) in net assets from redeemable participating share transactions	1,255	1,255	(36,169,809)	105,746,031
Foreign exchange adjustments on aggregation (Note 2)				
Increase in net assets attributable to holders of redeemable participating shares from operations	24,028,966	13,833,391	538,360	24,823,851
Net assets attributable to holders of redeemable participating shares at the end of the year/period	154,345,697	144,198,529	-	162,897,486

*Hermes Commodities Index Fund II was fully redeemed on 15 November 2012.

**Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.233.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2012 (continued)

	Hermes US SMID Equity Fund* \$****	Hermes Active UK Inflation-Linked Bond Fund** £	Hermes Emerging Asia Equity Fund*** \$****	Total £
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	-	-	-	1,253,680,718
Redeemable participating share transactions				
Issue of redeemable participating shares for the year/period	99,782,257	99,404,374	147,329,900	389,253,322
Redemption of redeemable participating shares for the year/period	-	-	-	(268,229,138)
Net increase in net assets from redeemable participating share transactions	99,782,257	99,404,374	147,329,900	121,024,184
Foreign exchange adjustments on aggregation (Note 2)				(8,217,531)
Increase in net assets attributable to holders of redeemable participating shares from operations	5,614,543	4,509,339	5,194,487	187,058,438
Net assets attributable to holders of redeemable participating shares at the end of the year/period	105,396,800	103,913,713	152,524,387	1,553,545,809

* Hermes US SMID Equity Fund launched 26 September 2012.

** Hermes Active UK Inflation-Linked Bond Fund launched 9 October 2012.

*** Hermes Emerging Asia Equity Fund launched 1 November 2012.

**** US Dollar denominated sub-funds are converted to GBP using the average exchange rate of 1.585.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2011

	Hermes Global Emerging Markets Fund £	Hermes Global Equity Select Fund £	Hermes Pan European Small Cap Companies Fund £	Hermes Quant Global Equity Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	211,174,034	77,758,862	80,073,694	34,933,828
Redeemable participating share transactions				
Issue of redeemable participating shares for the year/period	294,439	458,783	869	87,542,941
Redemption of redeemable participating shares for the year/period	(197,392)	(333,505)	-	(23,453,357)
Net increase in net assets from redeemable participating share transactions	97,047	125,278	869	64,089,584
Decrease in net assets attributable to holders of redeemable participating shares from operations	(35,790,977)	(3,770,239)	(14,549,523)	(3,549,825)
Net assets attributable to holders of redeemable participating shares at the end of the year	175,480,104	74,113,901	65,525,040	95,473,587

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2011 (continued)

	Hermes UK Small and Mid Cap Companies Fund £	Hermes UK Smaller Companies Fund £	Hermes Japan Equity Fund £	Hermes Sourcecap European Alpha Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	161,369,993	133,034,449	58,979,354	114,712,386
Redeemable participating share transactions				
Issue of redeemable participating shares for the year/period	869	869	100,673,488	29,051,646
Redemption of redeemable participating shares for the year/period	-	-	(9,875,610)	(2,200,965)
Net increase in net assets from redeemable participating share transactions	869	869	90,797,878	26,850,681
Decrease in net assets attributable to holders of redeemable participating shares from operations	(6,941,386)	(11,279,933)	(1,301,819)	(3,517,267)
Net assets attributable to holders of redeemable participating shares at the end of the year	154,429,476	121,755,385	148,475,413	138,045,800

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2011 (continued)

	Hermes Global High Yield Bond Fund €*	Hermes Global Investment Grade Fund €*	Hermes Commodities Index Fund II £	Hermes Sourcecap Europe Ex-UK Fund €*	Total £
Net assets attributable to holders of redeemable participating shares at the beginning of the year/period	129,517,590	122,768,015	-	-	1,088,211,217
Redeemable participating share transactions					
Issue of redeemable participating shares for the year/period	1,000	1,000	42,000,000	31,554,266	287,400,719
Redemption of redeemable participating shares for the year/period	-	-	-	-	(36,060,829)
Net increase in net assets from redeemable participating share transactions	1,000	1,000	42,000,000	31,554,266	251,339,890
Foreign exchange adjustments on aggregation (Note 2)					(6,752,095)
Increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations	796,886	7,594,868	(6,368,551)	773,338	(79,118,294)
Net assets attributable to holders of redeemable participating shares at the end of the period/year	130,315,476	130,363,883	35,631,449	32,327,604	1,253,680,718

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.153.

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2012

	Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund*	Hermes Quant Global Equity Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	4,377,552	1,430,633	280,586	2,379,570
Interest received	75,488	30	38	24
Operating expenses paid	(302,870)	(109,361)	(213,299)	(112,995)
Realised gains/(losses) on forward foreign currency contracts	-	-	-	-
Purchase of financial assets	(191,249,267)	(53,254,670)	(926,352)	(19,440,700)
Proceeds from sales of financial assets	182,120,285	51,038,025	72,958,491	16,432,173
Net Cash (outflow)/inflow from Operating Activities	(4,978,812)	(895,343)	72,099,464	(741,928)
Cash Flows from Financing Activities				
Subscriptions	362,320	871,160	-	423,796
Redemptions	-	-	(73,965,467)	(116,634)
Interest paid	(410)	(14)	-	(5)
Net Cash inflow/(outflow) from Financing Activities	361,910	871,146	(73,965,467)	307,157
(Decrease)/Increase in cash and cash equivalents	(4,616,902)	(24,197)	(1,866,003)	(434,771)
Cash and cash equivalents at the beginning of the year/period	5,997,927	1,929,060	1,886,183	611,010
Cash and cash equivalents at the end of the year/period	1,381,025	1,904,863	20,180	176,239
Cash and cash equivalents at the end of the year/period is comprised of:				
Cash at bank	1,381,025	1,904,863	20,180	176,239
Cash at clearing broker	-	-	-	-
	1,381,025	1,904,863	20,180	176,239

* Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012.

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2012 (continued)

	Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund*	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	4,664,185	1,914,308	3,202,053	4,125,553
Interest received	34,821	19,706	-	8
Operating expenses paid	(168,242)	(241,399)	(164,728)	(232,002)
Realised gains/(losses) on forward foreign currency contracts	-	-	-	-
Purchase of financial assets	(56,465,322)	(5,988,325)	(89,184,597)	(56,430,420)
Proceeds from sales of financial assets	52,360,245	133,932,946	88,531,321	30,481,960
Net Cash inflow/(outflow) from Operating Activities	425,687	129,637,235	2,384,049	(22,054,901)
Cash Flows from Financing Activities				
Subscriptions	431,801	-	1,489,033	37,592,754
Redemptions	-	(134,708,757)	-	(16,281,949)
Interest paid	-	-	(1)	(159)
Net Cash inflow from Financing Activities	431,801	(134,708,757)	1,489,032	21,310,646
Increase/(Decrease) in cash and cash equivalents	857,488	(5,071,522)	3,873,080	(744,255)
Cash and cash equivalents at the beginning of the year/period	6,721,837	5,089,430	418,213	1,376,597
Cash and cash equivalents at the end of the year/period	7,579,325	17,908	4,291,293	632,342
Cash and cash equivalents at the end of the year/period is comprised of:				
Cash at bank	7,337,976	17,908	4,291,293	632,342
Cash at clearing broker	241,349	-	-	-
	7,579,325	17,908	4,291,293	632,342

*Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012.

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2012 (continued)

	Hermes Global High Yield Bond Fund €*	Hermes Global Investment Grade Fund €*	Hermes Commodities Index Fund II** £	Hermes Sourcecap Europe Ex-UK Fund €*
Cash Flows from Operating Activities				
Dividends received	-	-	-	2,838,836
Interest received	7,783,894	4,195,813	215,407	124
Operating expenses paid	(164,173)	(155,347)	(56,099)	(286,321)
Realised gains/(losses) on forward foreign currency contracts	-	-	-	-
Purchase of financial assets	(280,753,512)	(232,947,185)	(1,225,402,136)	(133,901,496)
Proceeds from sales of financial assets	262,349,102	224,388,072	1,261,109,110	27,276,521
Net Cash (outflow)/inflow from Operating Activities	(10,784,689)	(4,518,647)	35,866,282	(104,072,335)
Cash Flows from Financing Activities				
Subscriptions	1,255	1,255	4,400,000	108,936,553
Redemptions	-	-	(40,569,809)	(3,190,522)
Interest paid	(718)	(60)	(93)	(2)
Net Cash inflow from Financing Activities	537	1,195	(36,169,902)	105,746,029
(Decrease)/Increase in cash and cash equivalents	(10,784,152)	(4,517,452)	(303,620)	1,673,694
Cash and cash equivalents at the beginning of the year/period	19,037,080	17,565,724	372,649	188,688
Cash and cash equivalents at the end of the year/period	8,252,928	13,048,272	69,029	1,862,382
Cash and cash equivalents at the end of the year/period is comprised of:				
Cash at bank	8,252,928	13,048,272	69,029	1,862,382
Cash at clearing broker	-	-	-	-
	8,252,928	13,048,272	69,029	1,862,382

* Euro denominated sub-funds are converted to GBP using the year end exchange rate of 1.226.

**Hermes Commodities Index Fund II was fully redeemed on 15 November 2012.

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2012 (continued)

	Hermes US SMID Equity Fund*	Hermes Active UK Inflation-Linked Bond Fund**	Hermes Emerging Asia Equity Fund***	Total
	\$****	£	\$****	£
Cash Flows from Operating Activities				
Dividends received	403,592	-	60,679	24,976,907
Interest received	-	101,654	-	10,014,330
Operating expenses paid	(19,048)	(12,187)	(19,370)	(2,131,056)
Realised gains/(losses) on forward foreign currency contracts	-	-	-	-
Purchase of financial assets	(104,578,253)	(106,517,878)	(170,948,768)	(2,503,459,281)
Proceeds from sales of financial assets	7,193,601	8,074,602	24,057,189	2,335,586,964
Net Cash (outflow)/inflow from Operating Activities	(97,000,108)	(98,557,117)	(146,850,270)	(135,012,136)
Cash Flows from Financing Activities				
Subscriptions	99,782,257	99,404,374	147,329,900	386,677,758
Redemptions	-	-	-	(268,244,729)
Interest paid	-	-	(116)	(1,390)
Net Cash inflow from Financing Activities	99,782,257	99,404,374	147,329,784	118,431,639
Increase/(Decrease) in cash and cash equivalents	2,782,149	847,257	479,514	(16,580,497)
Foreign exchange adjustment on aggregation (Note 2)				(725,908)
Cash and cash equivalents at the beginning of the year/period	-	-	-	55,135,071
Cash and cash equivalents at the end of the year/period	2,782,149	847,257	479,514	37,828,666
Cash and cash equivalents at the end of the year/period is comprised of:				
Cash at bank	2,782,149	847,257	479,514	37,587,317
Cash at clearing broker	-	-	-	241,349
	2,782,149	847,257	479,514	37,828,666

* Hermes US SMID Equity Fund launched 26 September 2012.

** Hermes Active UK Inflation-Linked Bond Fund launched 9 October 2012.

*** Hermes Emerging Asia Equity Fund launched 1 November 2012.

**** US Dollar denominated sub-funds are converted to GBP using the year end exchange rate of 1.617.

Please note that the figures for “Purchase of financial assets” and “Proceeds from sales of financial assets” on the Cash Flow Statement differ from the figures used in the Unaudited Schedule of Significant Portfolio Movements, as the Cash Flow Statement includes any receivable or payable for financial assets at the year end.

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2011

	Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	5,033,767	1,137,127	1,519,442	1,290,687
Interest received	8,883	3,521	1,191	152
Operating expenses paid	(255,598)	(79,302)	(75,250)	(57,686)
Purchase of financial assets	(246,206,740)	(58,906,165)	(25,003,095)	(85,417,491)
Proceeds from sales of financial assets	239,715,833	57,529,398	24,554,793	20,461,854
Net Cash (outflow)/inflow from Operating Activities	(1,703,855)	(315,421)	997,081	(63,722,484)
Cash Flows from Financing Activities				
Subscriptions	294,439	458,783	869	87,542,941
Redemptions	(197,392)	(333,505)	-	(23,453,357)
Interest paid	(2,377)	(29)	-	(50)
Net Cash inflow from Financing Activities	94,670	125,249	869	64,089,534
(Decrease)/Increase in cash and cash equivalents	(1,609,185)	(190,172)	997,950	367,050
Cash and cash equivalents at the beginning of the year	7,607,112	2,119,232	888,233	243,960
Cash and cash equivalents at the end of the year	5,997,927	1,929,060	1,886,183	611,010
Cash and cash equivalents at the end of the year is comprised of:				
Cash at bank	5,997,927	1,929,060	1,725,616	611,010
Cash at clearing broker	-	-	160,567	-
	5,997,927	1,929,060	1,886,183	611,010

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2011 (continued)

	Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	4,554,527	3,921,042	2,168,892	3,328,450
Interest received	18,633	18,108	2	6,742
Operating expenses paid	(113,545)	(99,752)	(65,495)	(112,838)
Purchase of financial assets	(58,810,009)	(48,362,725)	(151,385,155)	(71,660,506)
Proceeds from sales of financial assets	48,941,095	46,246,631	58,897,829	42,245,433
Net Cash (outflow)/inflow from Operating Activities	(5,409,299)	1,723,304	(90,383,927)	(26,192,719)
Cash Flows from Financing Activities				
Subscriptions	869	869	100,673,488	29,051,646
Redemptions	-	-	(9,875,610)	(2,200,965)
Interest paid	-	(173)	(189)	(1)
Net Cash inflow from Financing Activities	869	696	90,797,689	26,850,680
(Decrease)/Increase in cash and cash equivalents	(5,408,430)	1,724,000	413,762	657,961
Cash and cash equivalents at the beginning of the year	12,130,267	3,365,430	4,451	718,636
Cash and cash equivalents at the end of the year	6,721,837	5,089,430	418,213	1,376,597
Cash and cash equivalents at the end of the year is comprised of:				
Cash at bank	6,360,104	4,879,763	418,213	1,376,597
Cash at clearing broker	361,733	209,667	-	-
	6,721,837	5,089,430	418,213	1,376,597

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2011 (continued)

	Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II	Hermes Sourcecap Europe Ex-UK Fund	Total
	€*	€*	£	€*	£
Cash Flows from Operating Activities					
Dividends received	9,677,609	4,900,556	-	-	35,131,167
Interest received	-	-	99,400	-	156,632
Operating expenses paid	(114,110)	(124,498)	(61,226)	-	(1,120,003)
Purchase of financial assets	(367,317,509)	(285,575,640)	(1,068,782,142)	(31,365,232)	(2,386,099,401)
Proceeds from sales of financial assets	369,397,530	281,481,067	1,027,116,617	(346)	2,109,392,190
Net Cash inflow/(outflow)from Operating Activities	11,643,520	681,485	(41,627,351)	(31,365,578)	(242,539,415)
Cash Flows from Financing Activities					
Subscriptions	1,000	1,000	42,000,000	31,554,266	286,383,052
Redemptions	-	-	-	-	(36,060,829)
Interest paid	(1,126)	(929)	-	-	(4,536)
Net Cash (outflow)/inflow from Financing Activities	(126)	71	42,000,000	31,554,266	250,317,687
Increase in cash and cash equivalents	11,643,394	681,556	372,649	188,688	7,778,272
Foreign exchange adjustment on aggregation (Note 2)					(523,357)
Cash and cash equivalents at the beginning of the year	7,393,686	16,884,168	-	-	47,880,156
Cash and cash equivalents at the end of the year	19,037,080	17,565,724	372,649	188,688	55,135,071
Cash and cash equivalents at the end of the year is comprised of:					
Cash at bank	18,879,351	15,335,059	372,649	188,688	52,408,064
Cash at clearing broker	157,729	2,230,665	-	-	2,727,007
	19,037,080	17,565,724	372,649	188,688	55,135,071

Please note that the figures for "Purchase of financial assets" and "Proceeds from sales of financial assets" on the Cash Flow Statement differ from the figures used in the Unaudited Schedule of Significant Portfolio Movements, as the Cash Flow Statement includes any receivable or payable financial assets at the year end.

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.153.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2012

1. Incorporation and Principal Activity

Hermes Investment Funds Public Limited Company (the “Company”) was incorporated on 23 October 2008 under the laws of the Republic of Ireland as an open-ended umbrella type investment company with variable capital and limited liability in which different sub-funds may be created from time to time. The Company was authorised on 24 November 2008 by the Central Bank as an Undertaking for Collective Investment in Transferable Securities in accordance with the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011.

As at 31 December 2012 there were 12 sub-funds in existence with the following share classes:

<u>Name of the sub-fund</u>	<u>Share Class</u>	<u>Launch date</u>
Hermes Global Emerging Markets Fund	Z GBP Accumulating	9 December 2008
Hermes Global Emerging Markets Fund	R EUR Accumulating	12 October 2011
Hermes Global Emerging Markets Fund	T GBP Accumulating	24 October 2011
Hermes Global Emerging Markets Fund	F GBP Accumulating	9 November 2012
Hermes Global Equity Select Fund	Z GBP Accumulating	22 October 2009
Hermes Global Equity Select Fund	R EUR Accumulating	12 October 2011
Hermes Global Equity Select Fund	T GBP Accumulating	24 October 2011
Hermes Global Equity Select Fund	F GBP Accumulating	9 November 2012
Hermes Quant Global Equity Fund	Z GBP Accumulating	5 December 2008
Hermes Quant Global Equity Fund	R EUR Accumulating	12 October 2011
Hermes Quant Global Equity Fund	T GBP Accumulating	24 October 2011
Hermes Quant Global Equity Fund	F GBP Accumulating	9 November 2012
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	7 May 2009
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	12 October 2011
Hermes UK Small and Mid Cap Companies Fund	F GBP Accumulating	9 November 2012
Hermes UK Small and Mid Cap Companies Fund	T GBP Accumulating	18 July 2012
Hermes Japan Equity Fund	Z GBP Accumulating	18 January 2010
Hermes Japan Equity Fund	R EUR Accumulating	12 October 2011
Hermes Japan Equity Fund	T GBP Accumulating	24 October 2011
Hermes Japan Equity Fund	F GBP Accumulating	9 November 2012
Hermes Japan Equity Fund	R GBP Accumulating	1 August 2012
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	15 January 2010
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	13 April 2011
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	24 October 2011
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	16 November 2011
Hermes Sourcecap European Alpha Fund	F EUR Accumulating	13 November 2012
Hermes Sourcecap European Alpha Fund	F GBP Accumulating	9 November 2012
Hermes Sourcecap European Alpha Fund	F GBP Distributing	16 November 2012
Hermes Global High Yield Bond Fund	Z GBP Accumulating	11 May 2010
Hermes Global High Yield Bond Fund	R EUR Accumulating	11 October 2011
Hermes Global High Yield Bond Fund	F GBP Accumulating	8 November 2012

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

1. Incorporation and Principal Activity (continued)

<u>Name of the sub-fund</u>	<u>Share Class</u>	<u>Launch date</u>
Hermes Global Investment Grade Fund	Z GBP Accumulating	11 May 2010
Hermes Global Investment Grade Fund	R EUR Accumulating	11 October 2011
Hermes Global Investment Grade Fund	F GBP Accumulating	8 November 2012
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	21 December 2011
Hermes Sourcecap Europe Ex-UK Fund	R EUR Accumulating	9 March 2012
Hermes Sourcecap Europe Ex-UK Fund	R GBP Accumulating	13 June 2012
Hermes Sourcecap Europe Ex-UK Fund	F GBP Accumulating	9 November 2012
Hermes US SMID Equity Fund	F GBP Accumulating	26 September 2012
Hermes US SMID Equity Fund	R EUR Accumulating	26 September 2012
Hermes US SMID Equity Fund	Z GBP Accumulating	26 September 2012
Hermes Active UK Inflation-Linked Bond Fund	F GBP Accumulating	9 October 2012
Hermes Active UK Inflation-Linked Bond Fund	Z GBP Accumulating	9 October 2012
Hermes Emerging Asia Equity Fund	Z GBP Accumulating	1 November 2012
Hermes Emerging Asia Equity Fund	F GBP Accumulating	6 December 2012
Hermes Emerging Asia Equity Fund	R EUR Accumulating	6 December 2012

The Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012, the Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012 and the Hermes Commodities Index Fund II was fully redeemed on 15 November 2012.

Investment Objective

Hermes Global Emerging Markets Fund - The investment objective of the sub-fund is to provide long-term capital appreciation by investing primarily in a diversified portfolio of equity securities and equity related securities with an emerging markets bias quoted or traded on Regulated Markets in emerging market countries worldwide and the sub-fund will invest at least two-thirds of its assets in these securities.

The Index this sub-fund is benchmarked against is the MSCI Emerging Markets Index.

Hermes Global Equity Select Fund - The investment objective of the sub-fund is to achieve long-term capital appreciation by investing primarily in a diversified portfolio of equity securities and equity related securities quoted or traded on Regulated Markets worldwide - primarily in component securities of the MSCI All Country World Index (NR).

The Index this sub-fund is benchmarked against is the MSCI All Country World Index (NR).

Hermes Quant Global Equity Fund - The investment objective of the sub-fund is to provide long-term capital appreciation by investing in a portfolio of equity securities quoted or traded on Regulated Markets worldwide.

The Index this sub-fund is benchmarked against is the MSCI World Index.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

1. Incorporation and Principal Activity (continued)

Investment Objective (continued)

Hermes UK Small and Mid Cap Companies Fund - The investment objective of the sub-fund is to provide long-term capital appreciation by investing primarily in equity securities of small and mid-capitalisation companies (excluding investment companies) listed in the United Kingdom.

The Index this sub-fund is benchmarked against is the FTSE 250 Ex Investment Trust / FTSE Small Cap Ex Investment Trust Aggregated Index.

Hermes Japan Equity Fund - The investment objective of the sub-fund is to provide long-term capital appreciation. The sub-fund will seek to achieve its objective by investing primarily in a diversified portfolio of equity securities and equity related securities issued by Japanese companies. These securities will normally be listed or traded on Regulated Markets in Japan.

The Index this sub-fund is benchmarked against is the Tokyo Stock Price Index (TOPIX).

Hermes Sourcecap European Alpha Fund - The investment objective of the sub-fund is to achieve long-term capital appreciation. The sub-fund will seek to achieve its objective by investing primarily in a diversified portfolio of equity securities and equity related securities with a European bias (including Russia and Turkey) quoted or traded on Regulated Markets.

The Index this sub-fund is benchmarked against is the FTSE All World Europe Index.

Hermes Global High Yield Bond Fund - The investment objective of the sub-fund is to generate a high level of income. The sub-fund will seek to achieve its objective by investing primarily in a diversified portfolio of high yield bonds. The sub-fund may also use credit default swaps extensively.

The Index this sub-fund is benchmarked against is the Merrill Lynch Global Non-Financial High Yield Constrained Index.

Hermes Global Investment Grade Fund - The investment objective of the sub-fund is to generate a high level of income and capital appreciation over the long term. The sub-fund will seek to achieve its objective by investing primarily in a diversified portfolio of investment grade bonds. The sub-fund may also use credit default swaps extensively.

The Index of this sub-fund is benchmarked against is the Merrill Lynch Global Broad Market Corporate Excluding Sub Financials Index.

Hermes Sourcecap Europe Ex-UK Fund - The investment objective of the sub-fund is to achieve long term capital appreciation by investing primarily in a diversified portfolio of equity securities and equity related securities with a European bias (including Russia and Turkey but excluding the United Kingdom) quoted or traded on a regulated market.

The Index this sub-fund is benchmarked against is the FTSE World Europe ex-UK Index.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

1. Incorporation and Principal Activity (continued)

Investment Objective (continued)

Hermes US SMID Equity Fund - The investment objective of the sub-fund is to provide long term capital appreciation. The sub-fund will seek to achieve its objective by investing primarily in equity or equity related securities of, or relating, to small and mid-capitalisation companies domiciled in the US, or which derive a large proportion of their income from US activities, which are listed or traded in the US or Canada and which the Investment Manager has identified as being, in its view undervalued.

The Index this sub-fund is benchmarked against is the Russell 2500 Index.

Hermes Active UK Inflation-Linked Bond Fund - The investment objective of the sub-fund is to maximise total investment return (both income and capital appreciation) over the long term while also seeking to offer protection against the effects of inflation in the UK. The sub-fund will seek to achieve its objective by investing predominately (i.e. at least 60% of the Fund's Net Asset Value) in UK index-linked gilts.

The Index this sub-fund is benchmarked against is the FTSE Actuaries UK Gilts Index-Linked over 5 Years Index.

Hermes Emerging Asia Equity Fund - The investment objective of the sub-fund is to provide long term capital appreciation. The sub-fund will seek to achieve its objective (while meeting its regulatory diversification requirements) by investing primarily in a portfolio of equity and equity related securities (such as global depository receipts and American depository receipts) issued by companies in or deriving substantial revenues from the Asia ex-Japan region which are listed or traded on regulated markets world wide.

The Index this sub-fund is benchmarked against is the MSCI AC Asia ex Japan Index.

Hermes Investment Funds Public Limited Company

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2. Significant Accounting Policies

The significant accounting policies applied in the preparation of these Financial Statements are set out below.

Basis of Preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Irish statute comprising the Companies Act, 1963 to 2012 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies.

Foreign exchange translation

(a) Functional and presentation currency

Items included in the Company's Financial Statements are measured using the currency of the primary economic environment in which it operates ('the functional currency'). Except for the Hermes Global High Yield Bond Fund; the Hermes Global Investment Grade Fund; the Hermes Sourcecap Europe Ex-UK Fund; the Hermes US SMID Equity Fund and the Hermes Emerging Asia Equity Fund, the functional currency for all the sub-funds is Sterling, which reflects the fact that the majority of the redeemable participating shares are subscribed and redeemed in Sterling. The functional currency of the Hermes Global High Yield Bond Fund, the Hermes Global Investment Grade Fund and the Hermes Sourcecap Europe Ex-UK Fund is Euro, which reflects the fact that all the redeemable participating shares are subscribed and redeemed in Euro and a large number of the investments in their portfolios are denominated in Euro. The functional currency of the Hermes US SMID Equity Fund and the Hermes Emerging Asia Equity Fund is USD which reflects the fact that all the redeemable participating shares are subscribed and redeemed in USD and a large number of the investments in their portfolios are denominated in USD. The Hermes Global High Yield Bond Fund, the Hermes Global Investment Grade Fund, the Hermes Sourcecap Europe Ex-UK, the Hermes US SMID Equity Fund and the Hermes Emerging Asia Equity Fund have been converted to Sterling in the total columns. The presentation currency of the Company is Sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of each sub-fund using the exchange rates prevailing at the dates of the transactions. Assets and liabilities are translated into the functional currency of each sub-fund using exchange rates in effect at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Translation differences on financial instruments held at fair value through profit or loss are reported as part of net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the Income Statement.

(c) Foreign exchange adjustments on aggregation

For the purpose of consolidating the Financial Statements of the sub-funds, Euro and US Dollar denominated assets and liabilities in the Financial Statements have been translated to Sterling at the average rate of exchange for the year ended 31 December 2012 on the income statement and at the year end rate on the balance sheet. The notional exchange adjustment arising from the translation of the opening net assets is shown in the Statement of Changes in Net Assets. The method of translation has no effect on the Net Asset Value per share attributable to the sub-funds.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2. Significant Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss

(a) Classification

In accordance with International Accounting Standard (“IAS”) 39 “Financial Instruments: Recognition and Measurement”, all investments are classified as financial assets and liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

(i) Financial assets and liabilities held for trading

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term or if on initial recognition are part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are categorised as held for trading.

(ii) Financial assets and liabilities designated at fair value through profit or loss at inception

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company’s documented investment strategy. The Company’s policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. Equities, Collective Investment Schemes, Bonds and Floating Rate Notes are categorised as financial assets and liabilities designated at fair value through profit or loss at inception. These financial assets and liabilities are expected to be realised within 12 months of the Balance Sheet date.

(b) Recognition/derecognition

Purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred all risks and rewards of ownership. Gains and losses on the disposal of financial assets and liabilities are computed on a FIFO basis and are included in the Income Statement. Changes in unrealised gains and losses on financial assets and liabilities are recognised in the Income Statement.

(c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs for the year of £2,245,371 (2011: £2,907,600) are expensed in the Income Statement as part of the net fair value gain/loss on financial assets and liabilities at fair value through profit or loss. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the “financial assets or financial liabilities at fair value through profit or loss” category are presented in the Income Statement in the period in which they arise.

Bank and bond interest income from financial assets at fair value through profit or loss is recognised in the Income Statement using the effective interest method. Dividend income from financial assets at fair value through profit or loss are recognised on an accruals basis in the Income Statement.

International Financial Reporting Standard 7: Financial Instruments Disclosures (“IFRS 7”) requires enhanced classification and disclosures about financial instruments carried at fair value. IFRS 7 establishes a fair value hierarchy for the inputs used in valuation models and techniques used to measure fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date (an exit price).

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2. Significant Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss (continued)

(c) Measurement (continued)

Assets and liabilities measured at fair value are classified into one of the following categories based on the inputs used in measuring fair value:

- Level I – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The type of investments which would generally be included would include equities, liquid corporate bonds and derivatives listed on a securities exchange.
- Level II – Quoted prices in markets that are not considered to be active or financial instruments priced using inputs other than quoted prices and for which all significant inputs are observable, either directly or indirectly (including quoted prices for similar investments in active markets, interest rates and yield curves, credit risks, etc.). The type of investments which would generally be included in this category would include corporate bonds, bank debt and certain over-the-counter derivatives.
- Level III – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable (including the Investment Manager's own assumptions and assumptions used by the Board of Directors about what market participants would use in determining the fair value of investments). The type of investments which would generally be included in this category would include private or debt securities issued by private entities. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

(d) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities, warrants, floating rate notes and bonds) is based on quoted market prices at the Balance Sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Derivatives

Derivative contracts ("derivatives") are either exchange-traded or over-the-counter ("OTC") contracts. Exchange-traded derivatives are standard contracts traded on a regulated exchange. OTC contracts are private contracts negotiated with counterparties. Derivatives are comprised of futures, forward currency contracts, credit default swaps and interest rate swaps.

Derivatives are recorded at fair value. The sub-fund values exchange-traded derivative contracts at their official settlement price on the exchange where they are primarily traded. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market based inputs to model, model calibration to market-clearing transactions, brokers or dealers quotations, or alternative pricing sources with reasonable levels of transparency.

Futures

Futures contracts are valued at the last reported settlement or closing price as supplied by the exchange on which the contracts are traded. Cash balances held with Goldman Sachs are used as collateral for the futures contracts. Futures contracts are recorded on a trade date basis.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2. Significant Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss (continued)

(d) Fair value estimation (continued)

Futures (continued)

Gains or losses from futures contracts are considered realised for accounting purposes on the trade date of the transaction closing or offsetting the open position.

Realised gains or losses are included in the Income Statement. Unrealised gains or losses, representing the difference between the future rate and contract rate of open futures positions, are included in the Balance Sheet and Income Statement.

Forward currency contracts

Forward currency contracts are valued at the forward rate and are marked to market on the valuation date. The change in value is included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the Income Statement. When the contract is closed, the Company records a realised gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Warrants

Warrants are securities providing a return generated by a specified underlying equity or basket of equities. Investments in warrants are valued at the last reported trade price of the underlying security as of close of business at the reporting date. The resulting unrealised gains and losses for the year are included in the Balance Sheet and Income Statement. Realised gains and losses are included in the Income Statement.

Credit Default Swaps

Credit default swaps are OTC contracts in which the sub-fund pays or receives an interest flow in return for the counterparty accepting all or part of the risk of default or failure to pay off a reference entity on which the swap return is written. Where the sub-fund has bought protection the maximum potential loss is the value of the interest flows the sub-funds is contracted to pay until maturity of the contract. Where the sub-fund has sold protection the maximum potential loss is the nominal value of the protection sold. The credit default swaps are marked to market at each valuation point by a third party vendor and the change, if any, is recorded as a movement in unrealised gain or loss. Payments received or made as a result of a credit event or termination of the contract are recognised, net of a proportional amount of the upfront payment, as realised gains or losses. At the year end, only Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund invested in credit default swaps.

Interest Rate Swaps

The sub-fund may enter into interest rate swaps, which are arrangements between two parties to exchange cash flows based on a notional principal amount, to manage the sub fund's exposure to interest rates. Interest rate swaps are marked to market daily and the change, if any, is recorded as unrealised gain or loss. Payments made or received are recorded as part of realised gains and losses. The unrealised gain/(loss) on interest rate swap agreements is recognised as an asset/(liability) in the Balance Sheet.

2. Significant Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss (continued)

(e) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. Transaction costs for the year of £2,245,371 (2011: £2,907,600) have been included in the Income Statement as part of the net fair value gain/(loss) on financial assets and liabilities at fair value through profit or loss. Only transaction costs which are separately identifiable are disclosed. These include transaction costs paid to custodians and sub-custodians, identifiable brokerage charges and commissions, identifiable transaction related taxes and other market charges and separately identifiable transaction costs related to Financial Derivative Instruments.

Income from investments

Interest income and expense are recognised in the Income Statement using the effective interest rate method.

Dividends are credited to the Income Statement on the dates on which the relevant securities are listed as "ex-dividend". Dividend income is shown gross of any withholding taxes, which is disclosed separately in the Income Statement, and net of any tax credits.

Cash and other liquid assets

Cash and other liquid assets are valued at their face value together with interest accrued, where applicable. Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash at clearing broker and other short-term highly liquid investments with original maturities of three months or less.

Net assets attributable to holders of redeemable participating shares

International Accounting Standard 32 "Financial Instruments: Presentation" ("IAS 32") requires entities that issue financial instruments to classify such instruments as liabilities or equity in accordance with the substance of the contractual arrangement and the definitions contained within IAS 32. In this regard, IAS 32 requires that financial instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset be classified as a liability of the issuer.

The redeemable participating shares issued by the Company provide the redeemable participating shareholders with the right to redeem their shares for cash equal to their proportionate share of the Net Asset Value of the Company. Within the context of IAS 32 and IFRS 7, the existence of the option for the redeemable participating shareholders to put the shares back to the Company in exchange for cash requires the Company to classify the redeemable participating shares as liabilities.

The liability to redeemable participating shareholders is presented on the Balance Sheet as "net assets attributable to holders of redeemable participating shares" and is determined based on the residual assets of the Company after deducting the Company's other liabilities and management share capital.

Operating expenses

The Company is responsible for all normal operating expenses including audit fees, stamp and other duties and charges incurred on the acquisition and realisation of investments. Operating expenses are recognised on an accrual basis.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2. Significant Accounting Policies (continued)

New Standards and Interpretations not yet adopted by the Company

A number of new standards, amendments to standards and interpretations in issue are not yet effective, and have not been applied in preparing these Financial Statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

IFRS 12 Disclosures of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that Financial Statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

IFRS 13 Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and Financial Accounting Standards Board (“FASB”) to develop a converged fair value framework; the FASB has also issued conforming amendments to the US GAAP fair value guidance in ASC 820. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

The above standards are applicable for periods beginning on or after 1 January 2013 and the directors are currently considering the impact of these standards on the Financial Statements.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

3. Cash and Cash Equivalents

Cash at Bank

Substantially all of the cash assets of the sub-funds are held with Northern Trust (Guernsey) Limited, which is a 100% indirect wholly owned subsidiary of Northern Trust Corporation which has an S&P credit rating of A+.

Northern Trust Fiduciary Services (Ireland) Limited has appointed Northern Trust (Guernsey) Limited as its Global Sub-Custodian.

Cash at Clearing Broker

The Company is exposed to counterparty risk through its Clearing Broker, Goldman Sachs, which has a credit rating of A- from Standard & Poor's and A3 from Moody's.

As at 31 December 2012 the cash amounts held with Northern Trust (Guernsey) Limited and Goldman Sachs were as follows:

	Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
	£	£	£	£
Northern Trust (Guernsey) Limited	1,381,025	1,904,863	20,180	176,239
Goldman Sachs	-	-	-	-
	1,381,025	1,904,863	20,180	176,239
	Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	£	£	£	£
Northern Trust (Guernsey) Limited	7,337,976	17,908	4,291,293	632,342
Goldman Sachs	241,349	-	-	-
	7,579,325	17,908	4,291,293	632,342
	Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II	Sourcecap Europe Ex-UK Fund
	€**	€**	£	€**
Northern Trust (Guernsey) Limited	8,252,928	13,048,272	69,029	1,862,382
Goldman Sachs	-	-	-	-
	8,252,928	13,048,272	69,029	1,862,382

**Euro sub-funds are converted to GBP using the year end exchange rate 1.226.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

3. Cash and Cash Equivalents (continued)

	Hermes US SMID Equity Fund \$***	Hermes Active UK Inflation- Linked Bond Fund £	Hermes Emerging Asia Equity Fund \$***	Total £
Northern Trust (Guernsey) Limited	2,782,149	847,257	479,514	37,587,317
Goldman Sachs	-	-	-	241,349
	2,782,149	847,257	479,514	37,828,666

***USD sub-funds are converted to GBP using the year end exchange rate of 1.617.

As at 31 December 2011 the cash amounts held with Northern Trust (Guernsey) Limited, Goldman Sachs and Lloyds Bank were as follows:

	Hermes Global Emerging Markets Fund £	Hermes Global Equity Select Fund £	Hermes Pan European Small Cap Companies Fund £
Northern Trust (Guernsey) Limited	5,997,927	1,929,060	1,725,616
Goldman Sachs	-	-	160,567
Lloyds Bank	-	-	-
	5,997,927	1,929,060	1,886,183

	Hermes Quant Global Equity Fund £	Hermes UK Small and Mid Cap Companies Fund £	Hermes UK Smaller Companies Fund £
Northern Trust (Guernsey) Limited	611,010	160,104	179,763
Goldman Sachs	-	361,733	209,667
Lloyds Bank	-	6,200,000	4,700,000
	611,010	6,721,837	5,089,430

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

4. Cash and Cash Equivalents (continued)

	Hermes Japan Equity Fund £	Hermes Sourcecap European Alpha Fund £	Hermes Global High Yield Bond Fund €*
Northern Trust (Guernsey) Limited	418,213	1,376,597	18,879,351
Goldman Sachs	-	-	157,729
Lloyds Bank	-	-	-
	418,213	1,376,597	19,037,080

	Hermes Global Investment Grade Fund €*	Hermes Commodities Index Fund II £	Hermes Sourcecap Europe Ex-UK Fund €*	Total £
Northern Trust (Guernsey) Limited	15,335,059	372,649	188,688	41,508,064
Goldman Sachs	2,230,665	-	-	2,727,007
Lloyds Bank	-	-	-	10,900,000
	17,565,724	372,649	188,688	55,135,071

*Euro sub-funds are converted to GBP using the year end exchange rate 1.197.

4. Fees and Other Expenses

(a) Investment Management Fees

As at 31 December 2012 there were Class Z GBP Accumulating Shares in issue on all Funds. As per Client Agreement there are no investment management fees or expenses charged to the assets attributable to Class Z Shares. Shareholders of Class Z are subject to a fee with regard to their investment in each sub-fund, based on the Client Agreement between them and the Investment Manager. This fee cannot exceed 3% per annum of the value of the Shareholder's holding in the sub-fund.

As at 31 December 2012 there were Class T GBP Accumulating Shares in issue on the Hermes Global Emerging Markets Fund, the Hermes Global Equity Select Fund, the Hermes Quant Global Equity Fund, the Hermes Japan Equity Fund and the Hermes Sourcecap European Alpha Fund. As per Client Agreement there are no investment management fees or expenses charged to the assets attributable to Class T Shares. Shareholders of Class T are subject to a fee with regard to their investment in each sub-fund, based on the Client Agreement between them and the Investment Manager. This fee cannot exceed 1% per annum of the value of the Shareholder's holding in the sub-fund.

The Investment Manager is entitled to an annual fee at a rate of up to 1% of the Net Asset Value in respect of the Class F Shares for all sub-funds except the Hermes Global High Yield Bond Fund and the Hermes Global Investment Grade Fund (where there is an annual fee at a rate of up to 1.25%), the Hermes US SMID Equity Fund (where there is an annual rate of up to 0.75%) and the Hermes Active UK Inflation-Linked Bond Fund (where there is an annual fee at a rate of up to 0.20%).

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

4. Fees and Other Expenses (continued)

(a) Investment Management Fees (continued)

The Investment Manager is entitled to an annual fee in respect of the Class R Shares for the Hermes Global Emerging Markets Fund, the Hermes Global Equity Select Fund, the Hermes Quant Global Equity Fund, the Hermes Japan Equity Fund, the Hermes Sourcecap European Alpha Fund, the Hermes Sourcecap Europe Ex-UK Fund and the Hermes Emerging Asia Equity Fund at a rate of up to 1.50%; the Hermes UK Small and Mid Cap Companies Fund, the Hermes Global High Yield Bond Fund, the Hermes Global Investment Grade Fund and the Hermes US SMID Equity Fund at a rate of up to 1.25%; and the Hermes Active UK Inflation-Linked Bond Fund at a rate of 0.40%.

(b) Advisory Fees (voting and engagement services)

The fee payable to the Advisor on all Share Classes will be 0.008% per annum calculated on the value of the sub-fund at the Commencement Date and each quarter thereafter, payable quarterly in arrears commencing on the Commencement Date. VAT will be added where appropriate. This fee is effective from 21 October 2009. This fee is only applicable to new investors.

(c) Administration Fees

The Company has engaged the services of Northern Trust International Fund Administration Services (Ireland) Limited, an indirect wholly-owned subsidiary of Northern Trust Corporation, to provide administration services for a fee.

In respect of the Hermes Global High Yield Bond Fund and the Hermes Global Investment Grade Fund, an annual fee (plus any applicable value added tax) of:

- 0.05% of the Net Asset Value of the relevant sub-fund on the first £100,000,000; and
- 0.04% of the Net Asset Value of the relevant sub-fund for any amounts in excess of £100,000,000 will apply subject to a monthly minimum fee of £4,500.

In respect of the Hermes Global Emerging Markets Fund, the Hermes Global Equity Select Fund, the Hermes Quant Global Equity Fund, the Hermes UK Small and Mid Cap Companies Fund, the Hermes Japan Equity Fund, the Hermes Sourcecap European Alpha Fund, the Hermes Sourcecap Europe Ex-UK Fund, the Hermes US SMID Equity Fund, the Hermes Active UK Inflation-Linked Bond Fund, and the Hermes Emerging Asia Equity Fund an annual fee (plus any applicable value added tax) of:

- 0.04% of the Net Asset Value of the relevant sub-fund on the first £100,000,000;
- 0.03% of the Net Asset Value of the relevant sub-fund on £100,000,000 to £200,000,000
- 0.025% of the Net Asset Value of the relevant sub-fund on £200,000,000 to £500,000,000
- 0.015% of the Net Asset Value of the relevant sub-fund for any amounts in excess of £500,000,000 will apply subject to a monthly minimum fee of £2,750.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

4. Fees and Other Expenses (continued)

(d) Custodian and Sub-custodian Fees

Northern Trust Fiduciary Services (Ireland) Limited acts as a Custodian of the Company. The Custodian is a Private Limited Company incorporated in Ireland on 5 July 1990 and is an indirect wholly-owned subsidiary of Northern Trust Corporation.

The Custodian is entitled, out of the assets of each sub-fund, to a fee of 0.01% of the Net Asset Value, accrued and calculated daily and payable monthly in arrears. In addition the Custodian is entitled to recover safekeeping and transaction charges.

(e) Directors' Fees

The Company shall pay to the Directors such annual fees for acting as Directors of the Company as the Directors may from time to time agree, provided however that the annual fees of each Director shall not exceed €50,000 without the approval of the Board of Directors. Directors' fees will total not more than €110,000 on a per annum basis. No other remuneration will be payable by the Company to the Directors except for out-of-pocket expenses reasonably incurred by them. Patrick Galligan waived his rights to receive Director's fees from the Company. He resigned from the Board of Directors on 15 November 2012. Michelle Green was appointed to the Board of Directors on 6 February 2013. Michelle Green has waived her right to receive Director's fees from the Company.

(f) Remuneration for Audit, Audit Related and non Audit Work

Deloitte & Touche, as statutory auditors, received €75,500 + VAT (2011: €72,500 + VAT) in relation to the audit of the Company's Financial Statements. The difference between the audit fee disclosed in the Income Statement is due to exchange rates differences. There were no other assurance, tax advisory or non audit services provided by the statutory auditors during 2012 or 2011.

(g) Other Fees and Expenses

In addition, each sub-fund will pay the costs and expenses incurred in its operation, including, without limitation, stamp duties, taxes, brokerage or other expenses of acquiring and disposing of investments, the fees and expenses of the auditors, listing fees, legal expenses, the costs of printing and distributing reports, accounts and any Prospectus, publishing prices and any costs incurred as a result of a change in law or the introduction of any new law (including any costs incurred as a result of compliance with any applicable code, whether or not having the force of law).

All fees and expenses will be charged to the sub-fund in respect of which they were incurred, or where an expense is not considered by the Directors to be attributable to any one sub-fund, the expense will normally be allocated to classes of all sub-funds pro rata to the Net Asset Value of the relevant sub-funds.

Details of each of the fees payable at the year end in respect of each sub-fund are disclosed in the Balance Sheet on pages 96 to 103.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

5. Related Party Disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Investment Management

The Company has appointed Hermes Investment Management Limited as Investment Manager, distributor and promoter of the Company. The Investment Manager is a wholly-owned subsidiary of Hermes Fund Management Limited, which is a wholly-owned subsidiary of BriTel Fund Trustees Limited and is a part of BT Pension Scheme Group. The Investment Manager was incorporated under the laws of England and Wales and was established on 1 February 1990.

The investment management fee rates for each of the sub-funds are disclosed in note 4.

Patrick Galligan was connected through employment with the parent company of the Investment Manager. He resigned from the Board of Directors with effect from 15 November 2012. Michelle Green was appointed to the Board of Directors on 6 February 2013. Michelle Green is an employee of Hermes Fund Managers Limited.

The majority shareholder in the sub-funds below as at 31 December 2012 and 2011 is BriTel Fund Trustees Limited who holds the following percentages of the issued shares at that date.

Name	Issued Shares	% Held
Hermes Global Emerging Markets Fund	101,278,278	99.58
Hermes Global Equity Select Fund	61,924,840	98.51
Hermes Quant Global Equity Fund	62,513,538	99.20
Hermes UK Small and Mid Cap Companies Fund	71,831,896	99.75
Hermes Japan Equity Fund	137,098,346	98.89
Hermes Sourcecap European Alpha Fund	130,739,609	76.49
Hermes Global High Yield Bond Fund	100,001,500	99.99
Hermes Global Investment Grade Fund	100,001,500	99.99
Hermes Sourcecap Europe Ex-UK Fund	101,694,127	84.35
Hermes US SMID Equity Fund	61,626,047	99.99
Hermes Active UK Inflation-Linked Bond Fund	99,404,374	99.99
Hermes Emerging Asia Equity Fund	91,199,973	99.99

31 December 2011

Name	Issued Shares	% Held
Hermes Global Emerging Markets Fund	100,940,994	99.91
Hermes Global Equity Select Fund	61,123,420	99.80
Hermes Pan European Small Cap Companies Fund	40,873,895	100.00
Hermes Quant Global Equity Fund	62,254,032	99.62
Hermes UK Small and Mid Cap Companies Fund	71,655,181	100.00
Hermes UK Smaller Companies Fund	70,516,871	100.00
Hermes Japan Equity Fund	135,611,260	99.97
Hermes Sourcecap European Alpha Fund	115,800,072	86.36
Hermes Global High Yield Bond Fund	100,000,000	99.99
Hermes Global Investment Grade Fund	100,000,000	99.99
Hermes Sourcecap Europe Ex-UK Fund	26,283,467	100.00

Hermes Investment Funds Public Limited Company

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

5. Related Party Disclosures (continued)

(b) Advisor

The Company has appointed Hermes Equity Ownership Services Limited as Advisor to provide voting and engagement services. The Advisor is a wholly-owned subsidiary of Hermes Fund Management Limited, which is a wholly-owned subsidiary of BriTel Fund Trustees Limited and is a part of BT Pension Scheme Group.

The Advisory fees rate for each of the sub-funds is disclosed in note 4.

6. Share Capital

On incorporation the authorised share capital of the Company was £1,000,000 divided into 1,000,000 Subscriber Shares of a par value of £1 each and 500,000,000 shares of no par value initially designated as participating shares. Each sub-fund may issue Class F, R, T or Z Shares, each of them Distributing or Accumulating shares, in one of the following currencies: Sterling, Euro, US Dollars.

Accumulating Share Classes are not intended to distribute dividends to Shareholders. The income and other profits will be accumulated and reinvested on behalf of Shareholders. Dividends, if paid, may be paid out of the net income of each sub-fund including interest and dividends earned by the sub-fund less expenses of the sub-fund.

Distributing Share Classes are intended to declare dividends on the Shares of the Distributing Classes of the sub-fund out of the net income of the sub-fund including interest and dividends earned by the sub-fund less expenses of the sub-fund. Dividends will be declared twice yearly and paid within two months of the date on which they have been declared.

The holders of Shares are entitled to one vote per whole Share and to such dividends as the Directors may from time to time declare.

In respect of Class Z Shares, the Minimum Subscription, Minimum Holding and Minimum Redemption will be as agreed in the Client Agreement. In respect of Class F Shares, the Minimum Subscription and Minimum Holding amounts are each £100,000 (or its foreign currency equivalent) and Minimum Redemption Amount is £5,000 (or its foreign currency equivalent). In respect of Class R shares, the Minimum Subscription and Minimum Holding amounts are each €1,000 (or its foreign currency equivalent) and the Minimum Redemption Amount is €1,000 (or its foreign currency equivalent). In respect of Class T shares, the Minimum Subscription and Minimum Holding amounts are each £1,000 (or its foreign currency equivalent) and the Minimum Redemption Amount is £1,000 (or its foreign currency equivalent).

The Company has the power to redeem the remaining holding of any Shareholder who redeems his Minimum Holding of Shares to below the Minimum Holding or its foreign currency equivalent.

Every Shareholder will have the right to require the Company to redeem his Shares in the sub-fund on any Dealing Day (save during any period when the calculation of the Net Asset Value is suspended in the circumstances set out in the Prospectus) on furnishing to the Administrator a redemption request. All redemption requests are dealt with on a forward pricing basis, i.e. by reference to the price for Shares calculated at the Valuation Point on the relevant Dealing Day. The request for redemption of Shares must be received before 5.00 pm (Irish time) on the Business Day prior to the relevant Dealing Day.

All the Shares of the sub-fund may be redeemed at the discretion of the Directors if, after the first anniversary of the first issue of Shares of the sub-fund, the Net Asset Value of the sub-fund falls below £250,000,000 for any period of time.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

6. Share Capital (continued)

The movement in the number of redeemable participating shares during the year ended 31 December 2012 was as follows:

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global Emerging Markets Fund	Z GBP Accumulating	100,849,979	-	-	100,849,979
Hermes Global Emerging Markets Fund	R EUR Accumulating	500	-	-	500
Hermes Global Emerging Markets Fund	T GBP Accumulating	90,515	336,284	-	426,799
Hermes Global Emerging Markets Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Global Equity Select Fund	Z GBP Accumulating	61,000,000	-	-	61,000,000
Hermes Global Equity Select Fund	R EUR Accumulating	500	-	-	500
Hermes Global Equity Select Fund	T GBP Accumulating	122,920	800,420	-	923,340
Hermes Global Equity Select Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Quant Global Equity Fund	Z GBP Accumulating	62,014,932	-	-	62,014,932
Hermes Quant Global Equity Fund	R EUR Accumulating	500	-	-	500
Hermes Quant Global Equity Fund	T GBP Accumulating	114,233	382,873	-	497,106
Hermes Quant Global Equity Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Quant Global Equity Fund	F GBP Distributing	124,367	-	(124,367)	-
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	71,654,681	144,764	-	71,799,445
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	500	-	-	500
Hermes UK Small and Mid Cap Companies Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes UK Small and Mid Cap Companies Fund	T GBP Accumulating	-	30,950	-	30,950
Hermes Japan Equity Fund	Z GBP Accumulating	135,574,084	-	-	135,574,084
Hermes Japan Equity Fund	R EUR Accumulating	500	-	-	500
Hermes Japan Equity Fund	T GBP Accumulating	36,676	186,086	-	222,762
Hermes Japan Equity Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Japan Equity Fund	R GBP Accumulating	-	1,300,000	-	1,300,000

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

6. Share Capital (continued)

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	1,318,480	9,803,070	(4,681,475)	6,440,075
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	14,398,667	4,242,027	(4,423,412)	14,217,282
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	82,926	447,978	-	530,904
Hermes Sourcecap European Alpha Fund	F EUR Accumulating	-	3,600,000	-	3,600,000
Hermes Sourcecap European Alpha Fund	F GBP Accumulating	-	15,570	-	15,570
Hermes Sourcecap European Alpha Fund	F GBP Distributing	-	5,935,779	-	5,935,779
Hermes Global High Yield Bond Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global High Yield Bond Fund	R EUR Accumulating	500	-	-	500
Hermes Global High Yield Bond Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Global Investment Grade Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global Investment Grade Fund	R EUR Accumulating	500	-	-	500
Hermes Global Investment Grade Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	26,283,467	59,492,314	-	85,775,781
Hermes Sourcecap Europe Ex-UK Fund	R EUR Accumulating	-	10,430,511	(1,081,386)	9,349,125
Hermes Sourcecap Europe Ex-UK Fund	R GBP Accumulating	-	7,196,748	(628,528)	6,568,220
Hermes Sourcecap Europe Ex-UK Fund	F GBP Accumulating	-	1,000	-	1,000

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

6. Share Capital (continued)

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes US SMID Equity Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes US SMID Equity Fund	R EUR Accumulating	-	500	-	500
Hermes US SMID Equity Fund	Z GBP Accumulating	-	61,624,547	-	61,624,547
Hermes Active UK Inflation-Linked Bond Fund	F GBP Accumulating	-	1,000	-	1,000
Hermes Active UK Inflation-Linked Bond Fund	Z GBP Accumulating	-	99,403,374	-	99,403,374
Hermes Emerging Asia Equity Fund	Z GBP Accumulating	-	91,198,473	-	91,198,473
Hermes Emerging Asia Equity Fund	R EUR Accumulating	-	500	-	500
Hermes Emerging Asia Equity Fund	F GBP Accumulating	-	1000	-	1,000
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	40,873,395	-	(40,873,395)	-
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	500	-	(500)	-
Hermes UK Smaller Companies Fund	Z GBP Accumulating	70,516,371	-	(70,516,371)	-
Hermes UK Smaller Companies Fund	R EUR Accumulating	500	-	(500)	-
Hermes Commodities Index Fund II	Z GBP Accumulating	42,000,000	5,689,900	(47,689,900)	-

The movement in the number of redeemable participating shares during the year ended 31 December 2011 was as follows:

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global Emerging Markets Fund	Z GBP Accumulating	100,849,979	-	-	100,849,979
Hermes Global Emerging Markets Fund	R EUR Accumulating	-	500	-	500
Hermes Global Emerging Markets Fund	T GBP Accumulating	-	122,621	(32,106)	90,515

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

6. Share Capital (continued)

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global Equity Select Fund	Z GBP Accumulating	61,000,000	-	-	61,000,000
Hermes Global Equity Select Fund	R EUR Accumulating	-	500	-	500
Hermes Global Equity Select Fund	T GBP Accumulating	-	444,487	(321,567)	122,920
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	40,873,395	-	-	40,873,395
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	-	500	-	500
Hermes Quant Global Equity Fund	Z GBP Accumulating	21,897,579	40,117,353	-	62,014,932
Hermes Quant Global Equity Fund	F GBP Distributing	-	124,367	-	124,367
Hermes Quant Global Equity Fund	R EUR Accumulating	-	500	-	500
Hermes Quant Global Equity Fund	T GBP Accumulating	-	192,105	(77,872)	114,233
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	71,654,681	-	-	71,654,681
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	-	500	-	500
Hermes UK Smaller Companies Fund	Z GBP Accumulating	70,516,371	-	-	70,516,371
Hermes UK Smaller Companies Fund	R EUR Accumulating	-	500	-	500
Hermes Japan Equity Fund	Z GBP Accumulating	50,000,000	85,574,084	-	135,574,084
Hermes Japan Equity Fund	R EUR Accumulating	-	500	-	500
Hermes Japan Equity Fund	T GBP Accumulating	-	36,676	-	36,676
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	-	2,415,542	(1,097,062)	1,318,480
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	-	14,645,434	(246,767)	14,398,667
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	-	121,953	(39,027)	82,926
Hermes Global High Yield Bond Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global High Yield Bond Fund	R EUR Accumulating	-	500	-	500
Hermes Global Investment Grade Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global Investment Grade Fund	R EUR Accumulating	-	500	-	500
Hermes Commodities Index Fund II	Z GBP Accumulating	-	42,000,000	-	42,000,000
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	-	26,283,467	-	26,283,467

7. Financial Risk Management

Strategy in using financial instruments

The sub-funds are exposed to a variety of financial risks in pursuing their stated investment objectives and policies. These risks are defined in IFRS 7 as including credit risk, liquidity risk and market risk (which in turn includes currency risk, interest rate risk and other price risk). The sub-funds take exposure to certain of these risks to generate investment returns on their portfolios, although these risks can also potentially result in a reduction in the sub-funds net assets.

The Investment Manager will use its best endeavours to minimise the potentially adverse effects of these risks on the sub-funds' performance where it can do so while still managing the investments of the sub-funds in ways that are consistent with each sub-fund's investment objectives and policies.

The risks, and the measures adopted by the Company for managing these risks, are detailed below.

Market price risk

Market price risk is defined in IFRS 7 as the risk that the fair value of a financial instrument or its future cash flows will fluctuate because of changes in market prices.

The sub-funds' assets consist principally of bonds, equities, futures, forward currency contracts and credit default swaps.

The values of these instruments are determined by market forces and there is accordingly a risk that market prices can change in a way that is adverse to a sub-funds' performance.

The Company has adopted a number of investment restrictions which are set out in the individual sub-funds supplements to the Company's Prospectus and which limit the exposure of the sub-funds to adverse changes in the price of any individual financial asset. In accordance with Company's policy, the Investment Manager monitors the sub-funds' positions on a daily basis and reports regularly to the Board of Directors. The Board reviews the information on each sub-funds' overall market exposure provided by the Investment Manager at its periodic meetings.

In addition, the Investment Manager manages the exposure of the portfolios to the risk of adverse changes in the general level of market prices through adhering to its formal risk management process, which includes the use of systems and technology to monitor overall market and position risk on a daily basis.

The maximum risk arising from an investment in a financial instrument is determined by the fair value of the financial instruments, or in the case of certain derivatives the nominal value of the underlying assets, except for short positions in derivatives and securities where the loss may potentially be unlimited.

As at 31 December 2012 and 2011 the overall market exposure for each sub-fund is as shown in the Portfolio Statements, other than for derivatives where the exposure could be greater.

7. Financial Risk Management (continued)

Market price risk (continued)

At 31 December 2012 and 2011, market price risks defined by IFRS 7 applying to each sub-fund are affected by two main components: changes in market prices and currency exchange rates. The sub-funds which hold Bonds will be affected by a third component, bond interest rates. IFRS 7 requires a sensitivity analysis showing how the Net Asset Values of the sub-funds would be affected by changes in each of these factors.

Market price and currency exchange rate movements primarily affect the fair values of equity securities and related instruments held on account for each sub-fund.

For details of market price risk sensitivity analysis please refer to market price and sensitivity analysis on pages 169 to 172.

Currency risk

Currency risk is defined in IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The sub-funds are exposed to currency risk as the assets and liabilities of the sub-funds may be denominated in a currency other than the functional currency of the relevant sub-funds.

The fluctuations in the rate of exchange between the currency in which the asset or liability is denominated and the functional currency could result in an appreciation or depreciation in the fair value of that asset. The Investment Manager may attempt to mitigate these risks through the use of financial derivative instruments.

In accordance with Company policy, the Investment Manager monitors the sub-funds' currency exposure on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on any significant exposures at its periodic meetings.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency Risk (continued)

At 31 December 2012 each sub-fund's currency exposure was as follows:

Hermes Global Emerging Markets Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Brazilian real	12,208	5	-	12,213
British pound	5,572	-	15	5,587
Canadian dollar	4,476	-	-	4,476
Czech Koruna	-	-	-	-
Euro	-	-	-	-
Hong Kong dollar	34,728	-	-	34,728
Indian rupee	8,256	-	-	8,256
Indonesian rupiah	1,789	-	-	1,789
Korean won	33,344	-	-	33,344
Malaysian ringgit	3,709	-	-	3,709
Mexican peso	3,160	-	-	3,160
Nigerian Naira	1,955	-	-	1,955
Philippine peso	2	-	-	2
Russian ruble	10,017	(195)	-	9,822
South African rand	10,928	-	-	10,928
Taiwan dollar	10,432	16	-	10,448
Thai baht	5,132	-	-	5,132
Turkish lira	3,023	-	-	3,023
US dollar	42,190	1,554	(15)	43,729
	<u>190,921</u>	<u>1,380</u>	<u>-</u>	<u>192,301</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency Risk (continued)

Hermes Global Equity Select Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Australian dollar	6	-	-	6
British pound	8,620	1	3	8,624
Canadian dollar	4,671	-	-	4,671
Danish kroner	-	-	-	-
Euro	12,754	2	-	12,756
Hong Kong dollar	2,305	-	-	2,305
Japanese yen	1,718	-	-	1,718
Norwegian Kroner	-	-	-	-
Singapore dollar	-	-	-	-
Swedish krona	-	-	-	-
SA Rands	-	-	-	-
Swiss franc	1,500	-	-	1,500
Thai baht	1,676	-	-	1,676
Taiwan dollar	-	16	-	16
US dollar	48,412	1,885	(3)	50,294
	<u>81,662</u>	<u>1,904</u>	<u>-</u>	<u>83,566</u>

Hermes Quant Global Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Australian dollar	4,278	-	-	4,278
British pound	12,171	5	-	12,176
Canadian dollar	2,702	-	-	2,702
Danish kroner	2,737	-	-	2,737
Euro	10,146	1	-	10,147
Hong Kong dollar	1,282	-	-	1,282
Japanese yen	8,806	-	-	8,806
Norwegian kroner	2,902	-	-	2,902
Singapore dollar	414	-	-	414
Swedish krona	2,210	-	-	2,210
Swiss franc	3,824	-	-	3,824
US dollar	55,464	169	-	55,633
	<u>106,936</u>	<u>175</u>	<u>-</u>	<u>107,111</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes UK Small and Mid Cap Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	187,838	7,575	-	195,413
Euro	4,261	4	-	4,265
	<u>192,099</u>	<u>7,579</u>	<u>-</u>	<u>199,678</u>

Hermes Japan Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	(42)	-	6	(36)
Euro	-	1	-	1
Japanese yen	142,772	4,290	(6)	147,056
	<u>142,730</u>	<u>4,291</u>	<u>-</u>	<u>147,021</u>

Hermes Sourcecap European Alpha Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	48,472	-	-	48,472
Danish kroner	5,935	-	-	5,935
Euro	73,600	633	-	74,233
Norwegian kroner	22,144	-	-	22,144
Swedish krona	15,081	-	-	15,081
Swiss franc	18,210	-	-	18,210
	<u>183,442</u>	<u>633</u>	<u>-</u>	<u>184,075</u>

Hermes Global High Yield Bond Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
British pound	13,865	1,426	(14,782)	509
Euro	53,172	5,828	95,200	154,200
US dollar	78,986	999	(80,348)	(363)
	<u>146,023</u>	<u>8,253</u>	<u>70</u>	<u>154,346</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes Global Investment Grade Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
Canadian dollar	(6)	531	-	525
Euro	31,041	3,126	108,869	143,036
British pound	11,913	3,207	(14,782)	338
Japanese yen	-	149	-	149
US dollar	88,172	5,971	(93,992)	151
	<u>131,120</u>	<u>12,984</u>	<u>95</u>	<u>144,199</u>

Hermes Sourcecap Europe Ex-UK Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
British pound	6,912	(17)	10	6,905
Danish kroner	9,710	-	-	9,710
Euro	87,870	1,880	(10)	89,740
Norwegian kroner	19,620	-	-	19,620
Swedish krona	18,743	-	-	18,743
Swiss franc	18,179	-	-	18,179
	<u>161,034</u>	<u>1,863</u>	<u>-</u>	<u>162,897</u>

Hermes US SMID Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	\$'000	\$'000	\$'000	\$'000
Canadian dollar	1,677	12	-	1,689
British pound	-	2	-	2
US dollar	100,939	2,767	-	103,706
	<u>102,616</u>	<u>2,781</u>	<u>-</u>	<u>105,397</u>

Hermes Active UK Inflation-Linked Bond Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	103,067	847	-	103,914
	<u>103,067</u>	<u>847</u>	<u>-</u>	<u>103,914</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes Emerging Asia Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	\$'000	\$'000	\$'000	\$'000
Hong Kong dollar	51,941	-	-	51,941
Korean won	40,958	-	-	40,958
Malaysian ringgit	4,605	-	-	4,605
Taiwan dollar	22,118	327	-	22,445
Thai baht	6,852	-	-	6,852
US dollar	25,571	152	-	25,723
	<u>152,045</u>	<u>479</u>	<u>-</u>	<u>152,524</u>

Monetary Assets are cash and time deposits and Non-Monetary Assets are all other assets.

Hermes Pan European Small Cap Companies Fund, Hermes UK Smaller Companies Fund and Hermes Commodities Index Fund II terminated during the year, therefore, there is no currency exposure on these sub-funds at the year end.

For details of currency risk sensitivity analysis please refer to market price and sensitivity analysis on pages 169 to 172.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

At 31 December 2011 each sub-fund's currency exposure was as follows:

Hermes Global Emerging Markets Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Brazilian real	19,537	-	-	19,537
British pound	4,496	98	-	4,594
Canadian dollar	2,962	-	-	2,962
Czech Koruna	2,149	-	-	2,149
Euro	-	12	-	12
Hong Kong dollar	24,982	-	45	25,027
Indian rupee	6,217	-	-	6,217
Indonesian rupiah	2,124	-	-	2,124
Korean won	20,883	-	-	20,883
Malaysian ringgit	4,509	-	-	4,509
Mexican peso	2,367	-	-	2,367
Nigerian Naira	1,457	-	-	1,457
Philippine peso	2	-	-	2
Russian ruble	3,296	-	-	3,296
South African rand	10,622	-	-	10,622
Taiwan dollar	13,154	414	-	13,568
Thai baht	6,833	-	-	6,833
Turkish lira	2,224	-	-	2,224
US dollar	41,668	5,474	(45)	47,097
	<u>169,482</u>	<u>5,998</u>	<u>-</u>	<u>175,480</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes Global Equity Select Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Australian dollar	-	1	-	1
British pound	10,461	(1)	-	10,460
Canadian dollar	2,782	1	-	2,783
Danish kroner	-	-	-	-
Euro	5,586	3	-	5,589
Hong Kong dollar	1,690	-	-	1,690
Japanese yen	3,505	-	-	3,505
Norwegian Kroner	1,199	-	-	1,199
Singapore dollar	-	-	-	-
Swedish krona	1,502	-	-	1,502
Swiss franc	1,337	-	-	1,337
Thai baht	665	-	-	665
Taiwan dollar	-	16	-	16
US dollar	43,458	1,909	-	45,367
	<u>72,185</u>	<u>1,929</u>	<u>-</u>	<u>74,114</u>

Hermes Pan European Small Cap Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	21,340	154	-	21,494
Danish kroner	2,098	-	-	2,098
Euro	26,305	1,732	-	28,037
Norwegian Kroner	3,787	-	-	3,787
Swedish Krona	6,106	-	-	6,106
Swiss Franc	4,003	-	-	4,003
	<u>63,639</u>	<u>1,886</u>	<u>-</u>	<u>65,525</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes Quant Global Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Australian dollar	3,228	-	-	3,228
British pound	10,344	1	-	10,345
Canadian dollar	2,733	1	-	2,734
Danish kroner	2,067	-	-	2,067
Euro	7,387	(3)	-	7,384
Hong Kong dollar	1,118	-	-	1,118
Israel Shekel	295	-	-	295
Japanese yen	8,482	-	-	8,482
Norwegian kroner	2,222	-	-	2,222
Singapore dollar	578	-	-	578
Swedish krona	1,973	-	-	1,973
Swiss franc	3,513	-	-	3,513
US dollar	50,923	612	-	51,535
	<u>94,863</u>	<u>611</u>	<u>-</u>	<u>95,474</u>

Hermes UK Small and Mid Cap Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	149,791	519	-	150,310
Euro	4,116	3	-	4,119
	<u>153,907</u>	<u>522</u>	<u>-</u>	<u>154,429</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes UK Smaller Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	121,366	386	-	121,752
Euro	-	3	-	3
	<u>121,366</u>	<u>389</u>	<u>-</u>	<u>121,755</u>

Hermes Japan Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	(38)	36	-	(2)
Euro	-	3	-	3
Japanese yen	148,095	379	-	148,474
	<u>148,057</u>	<u>418</u>	<u>-</u>	<u>148,475</u>

Hermes Sourcecap European Alpha Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	45,563	-	-	45,563
Danish kroner	6,471	-	-	6,471
Euro	41,552	1,377	-	42,929
Norwegian kroner	18,684	-	-	18,684
Swedish krona	13,700	-	-	13,700
Swiss franc	10,699	-	-	10,699
	<u>136,669</u>	<u>1,377</u>	<u>-</u>	<u>138,046</u>

Hermes Global High Yield Bond Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
British pound	4,970	711	(5,978)	(297)
Euro	35,795	13,554	83,480	132,829
US dollar	70,764	4,772	(77,753)	(2,217)
	<u>111,529</u>	<u>19,037</u>	<u>(251)</u>	<u>130,315</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Currency risk (continued)

Hermes Global Investment Grade Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
Canadian dollar	3	404	-	407
Euro	61,834	2,898	63,367	128,099
British pound	1,362	8,269	(8,728)	903
Japanese yen	3	117	-	120
US dollar	79,639	5,878	(84,682)	835
	<u>142,841</u>	<u>17,566</u>	<u>(30,043)</u>	<u>130,364</u>

Hermes Commodities Index Fund II

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	(4)	220	(32)	184
US dollar	35,248	153	46	35,447
	<u>35,244</u>	<u>373</u>	<u>14</u>	<u>35,631</u>

Hermes Sourcecap Europe Ex-UK Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
British pound	2,399	(9)	-	2,390
Danish kroner	2,583	-	-	2,583
Euro	14,427	198	-	14,625
Norwegian kroner	4,232	-	-	4,232
Swedish krona	5,606	-	-	5,606
Swiss franc	2,892	-	-	2,892
	<u>32,139</u>	<u>189</u>	<u>-</u>	<u>32,328</u>

Monetary Assets are cash and time deposits and Non-Monetary Assets are all other assets.

For details of currency risk sensitivity analysis please refer to market price and sensitivity analysis on pages 169 to 172.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Interest rate risk

Interest rate risk is defined in IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The majority of the sub-funds' financial assets and liabilities are non-interest bearing and any excess cash and cash equivalents are invested at short term market interest rates. As a result, most of the sub-funds are not subject to significant amounts of risk due to fluctuations in the prevailing level of market interest rates.

The Hermes Global High Yield Bond Fund, the Hermes Global Investment Grade Fund and the Hermes Active UK Inflation-Linked Bond Fund have interest-bearing financial assets and liabilities. As a result, the sub-funds are subject to the risk of potentially adverse movements in the prevailing levels of market interest rates. The Investment Manager may from time to time enter into contracts on behalf of the Fund that seek to mitigate the effects of these movements.

In accordance with the sub-fund's policy, the Investment Manager monitors the sub-funds interest rate exposures on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings. The Investment Manager has systems in place to review the interest rate risk through modified duration calculations and in 2012 has hedged a portion of its interest rate risk by shorting fixed income futures.

As at 31 December 2012 the sub-funds' interest rate exposures were as follows:

Hermes Global High Yield Bond Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total €
Assets					
Financial assets	23,716,542	54,485,501	65,750,046	2,676,798	146,628,887
Cash	8,252,928	-	-	-	8,252,928
Interest receivable	-	-	-	3,025,842	3,025,842
Total Assets	31,969,470	54,485,501	65,750,046	5,702,640	157,907,657
Liabilities					
Financial liabilities	-	-	-	3,494,433	3,494,433
Accrued expenses	-	-	-	67,497	67,497
Total Liabilities	-	-	-	3,561,930	3,561,930
Net Assets	31,969,470	54,485,501	65,750,046	2,140,710	154,345,727

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Interest rate risk (continued)

Hermes Global Investment Grade Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total €
Assets					
Financial assets	6,923,023	37,181,592	85,492,107	1,038,945	130,635,667
Cash	13,048,272	-	-	-	13,048,272
Interest receivable	-	-	-	1,658,238	1,658,238
Total Assets	19,971,295	37,181,592	85,492,107	2,697,183	145,342,177
Liabilities					
Financial liabilities	-	-	-	986,613	986,613
Accrued expenses	-	-	-	157,035	157,035
Total Liabilities	-	-	-	1,143,648	1,143,648
Net Assets	<u>19,971,295</u>	<u>37,181,592</u>	<u>85,492,107</u>	<u>1,553,535</u>	<u>144,198,529</u>
Hermes Active UK Inflation-Linked Bond Fund					
Hermes Active UK Inflation-Linked Bond Fund	Up to 1 year £	1-5 years £	Over 5 years £	Non interest bearing £	Total £
Assets					
Financial assets	-	7,372,305	95,352,161	-	102,724,466
Cash	847,257	-	-	-	847,257
Interest receivable	-	-	-	361,860	361,860
Total Assets	847,257	7,372,305	95,352,161	361,860	103,933,583
Liabilities					
Accrued expenses	-	-	-	19,870	19,870
Total Liabilities	-	-	-	19,870	19,870
Net Assets	<u>847,257</u>	<u>7,372,305</u>	<u>95,352,161</u>	<u>341,990</u>	<u>103,913,713</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Interest rate risk (continued)

As at 31 December 2011 the sub-funds' interest rate exposure was as follows:-

Hermes Global High Yield Bond Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total €
Assets					
Financial assets	9,732,500	55,447,951	47,208,917	2,757,730	115,147,098
Cash	19,037,080	-	-	-	19,037,080
Interest receivable	-	-	-	2,188,007	2,188,007
Total Assets	28,769,580	55,447,951	47,208,917	4,945,737	136,372,185
Liabilities					
Financial liabilities	-	-	-	5,993,346	5,993,346
Accrued expenses	-	-	-	63,363	63,363
Total Liabilities	-	-	-	6,056,709	6,056,709
Net Assets	28,769,580	55,447,951	47,208,917	(1,110,972)	130,315,476
Hermes Global Investment Grade Fund					
Hermes Global Investment Grade Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total €
Assets					
Financial assets	4,364,328	55,482,495	51,776,488	2,019,692	113,643,003
Cash	17,565,724	-	-	-	17,565,724
Interest receivable	-	-	-	1,574,123	1,574,123
Total Assets	21,930,052	55,482,495	51,776,488	3,593,815	132,782,850
Financial liabilities	-	-	-	2,310,573	2,310,573
Accrued expenses	-	-	-	108,394	108,394
Total Liabilities	-	-	-	2,418,967	2,418,967
Net Assets	21,930,052	55,482,495	51,776,488	1,174,848	130,363,883

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Interest rate risk (continued)

Hermes Commodities Index Fund II	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total €
Assets					
Financial assets	35,200,000	-	-	-	35,200,000
Cash	372,649	-	-	-	372,649
Interest receivable	-	-	-	89,722	89,722
Total Assets	35,572,649	-	-	89,722	35,662,371
Liabilities					
Accrued expenses	-	-	-	30,922	30,922
Total Liabilities	-	-	-	30,922	30,922
Net Assets	<u>35,572,649</u>	<u>-</u>	<u>-</u>	<u>58,800</u>	<u>35,631,449</u>

Credit risk

Credit risk is defined in IFRS 7 as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Transactions in securities are generally settled or paid for on delivery, or cleared through the appropriate clearing system for the market on which the securities are traded. The risk of default is not considered to be material, as delivery of securities sold is only made once the Custodian has received confirmation of payment. Payment is also only made on a purchase once confirmation of delivery of the securities has been received by the Custodian. The trade will fail if either party fails to deliver the required confirmations.

At 31 December 2012 and 2011 none of the sub-funds' financial assets were past due or impaired.

The Custodian to the Company is Northern Trust Fiduciary Services (Ireland) Limited, an indirect wholly-owned subsidiary of Northern Trust Corporation ("TNTC"). TNTC is publicly traded and a constituent of the S&P 500. TNTC has a credit rating of A+ from Standard & Poors.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Credit risk (continued)

Substantially all of the cash assets are held with the Northern Trust (Guernsey) Limited ("NTGL"). Cash deposited with NTGL is deposited as banker and is held on its Balance Sheet. Accordingly, in accordance with usual banking practice, NTGL's liability to the Company in respect of such cash deposits shall be that of debtor and the Company will rank as a general creditor of NTGL. The financial assets are held with the Custodian, Northern Trust Fiduciary Services (Ireland) Limited. These assets are held distinct and separately from the proprietary assets of the Custodian. Securities are clearly recorded to ensure they are held on behalf of the Company. Bankruptcy or insolvency of the Custodian and or one of its agents or affiliates may cause the Company's rights with respect to the securities held by the Custodian to be delayed.

Both Northern Trust Fiduciary Services (Ireland) Limited and the NTGL are wholly owned subsidiaries of Northern Trust Corporation. As at 31 December 2012 Northern Trust Corporation had a long term rating from Standard & Poors of A+.

Risk is managed by monitoring the credit quality and financial positions of the Custodian the Fund uses.

Northern Trust acts as its own sub-custodian in the U.S., the U.K., Ireland and Canada. In all other markets Northern Trust appoints a local sub - custodian. Northern Trust continually reviews its sub-custodian network to ensure clients have access to the most efficient, creditworthy and cost-effective provider in each market.

The Custodian is responsible for ensuring this segregation is as effective as possible in the context of the markets in which the Company operates. The Company will however only rank as an unsecured creditor in relation to any cash deposited or derivative positions with the Custodian, its related companies and its appointed agents, and is therefore subject to the credit risk of the relevant institution in this respect.

To mitigate the risks the sub-funds are exposed to from the use of the counterparties, the Investment Manager employs appropriate procedures to ensure that the counterparties are reputable institutions and that the credit risk is acceptable to the sub-fund. The sub-funds only transact with counterparties that are regulated entities subject to prudential supervision, or with high credit-ratings assigned by international credit-rating agencies. In addition, the sub-funds' securities are maintained by the Sub-Custodian in segregated accounts. Cash is also held at the clearing broker, Goldman Sachs (see note 3).

The Investment Manager monitors the credit quality and financial position of the Custodian and reviews the SSAE 16 of the Custodian. The Company is additionally exposed to credit risk arising from the counterparties used in OTC derivatives. This risk is mitigated by the Company only engaging with counterparties which meet the UCITS regulatory requirements and are approved by the Investment Manager and are continually monitored.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Credit risk (continued)

The value of the assets exposed to credit risk at 31 December 2012 and 31 December 2011 amounted to:

Name of the sub-fund	£
Hermes Global Emerging Markets Fund	1,381,025
Hermes Global Equity Select Fund	1,904,863
Hermes Pan European Small Cap Companies Fund	20,180
Hermes Quant Global Equity Fund	176,239
Hermes UK Small and Mid Cap Companies Fund	7,579,325
Hermes UK Smaller Companies Fund	17,908
Hermes Japan Equity Fund	4,291,293
Hermes Sourcecap European Alpha Fund	632,342
Hermes Commodities Index Fund II	69,029
Hermes Active UK Inflation-Linked Bond Fund	847,257
	€
Hermes Global High Yield Bond Fund	8,346,170
Hermes Global Investment Grade Fund	13,159,445
Hermes Sourcecap Europe Ex-UK Fund	1,862,382
	\$
Hermes US SMID Equity Fund	2,782,149
Hermes Emerging Asia Equity Fund	479,514
	£
Hermes Global Emerging Markets Fund	5,997,927
Hermes Global Equity Select Fund	1,929,060
Hermes Pan European Small Cap Companies Fund	1,902,533
Hermes Quant Global Equity Fund	611,010
Hermes UK Small and Mid Cap Companies Fund	6,764,347
Hermes UK Smaller Companies Fund	5,118,860
Hermes Japan Equity Fund	418,213
Hermes Sourcecap European Alpha Fund	1,376,597
Hermes Commodities Index Fund II	35,572,649
	€
Hermes Global High Yield Bond Fund	18,982,160
Hermes Global Investment Grade Fund	17,572,080
Hermes Sourcecap Europe Ex-UK Fund	188,688

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is defined in IFRS 7 specifically as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The sub-funds are exposed to daily cash redemptions of redeemable participating shares. The sub-funds invest the majority of their assets in securities and other instruments that are traded on an active market and which are considered to be liquid, as under normal market conditions they can be readily disposed of in the event that cash needs to be raised to meet redemptions or to pay expenses.

In accordance with Company policy, the Investment Manager monitors the sub-funds' liquidity on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings.

The maturities of the relevant financial assets and liabilities at fair value through profit or loss are set out in the individual sub-fund portfolio statements. All the sub-funds' other liabilities had maturities of up to one month.

Fair value measurement risk

The following is a summary of the inputs used to value each sub-funds assets and liabilities carried at fair value as at 31 December 2012, as discussed in note 2.

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I £	Level II £	Level III £	Total £
Hermes Global Emerging Markets Fund				
Corporate Bonds	-	5,400,408	-	5,400,408
Equities	179,080,933	-	-	179,080,933
Warrants	6,579,426	-	-	6,579,426
	<u>185,660,359</u>	<u>5,400,408</u>	<u>-</u>	<u>191,060,767</u>
Hermes Global Equity Select Fund				
Equities	81,608,597	-	-	81,608,597
Hermes Quant Global Equity Fund				
Equities	106,816,775	-	-	106,816,775
Hermes UK Small and Mid Cap Companies Fund				
Equities	192,608,876	-	-	192,608,876
Futures	63,840	-	-	63,840
	<u>192,672,716</u>	<u>-</u>	<u>-</u>	<u>192,672,716</u>
Hermes Japan Equity Fund				
Equities	142,533,104	-	-	142,533,104
Forward currency contracts	-	27	-	27
Forward currency contracts	-	(16)	-	(16)
	<u>142,533,104</u>	<u>11</u>	<u>-</u>	<u>142,533,115</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Fair value measurement risk (continued)

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I £	Level II £	Level III £	Total £
Hermes Sourcecap European Alpha Fund				
Equities	183,373,277	-	-	183,373,277
Hermes Active UK Inflation-Linked Bond Fund				
Corporate Bonds	-	1,006,878	-	1,006,878
Government Bonds	-	101,717,588	-	101,717,588
	-	102,724,466	-	102,724,466

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I €	Level II €	Level III €	Total €
Hermes Global High Yield Bond Fund				
Corporate Bonds	-	134,049,230	-	134,049,230
Floating Rate Notes	-	9,902,859	-	9,902,859
Credit Default Swaps	-	2,583,556	-	2,583,556
Credit Default Swaps	-	(3,371,781)	-	(3,371,781)
Interest Rate Swaps	-	(99,585)	-	(99,585)
Forward currency contracts	-	93,242	-	93,242
Forward currency contracts	-	(23,067)	-	(23,067)
	-	143,134,454	-	143,134,454
Hermes Global Investment Grade Fund				
Corporate Bonds	-	119,096,694	-	119,096,694
Government Bonds	-	5,314,027	-	5,314,027
Floating Rate Notes	-	5,186,001	-	5,186,001
Credit Default Swaps	-	728,365	-	728,365
Credit Default Swaps	-	(707,112)	-	(707,112)
Forward currency contracts	-	111,173	-	111,173
Forward currency contracts	-	(15,351)	-	(15,351)
Futures	199,407	-	-	199,407
Futures	(264,150)	-	-	(264,150)
	(64,743)	129,713,797	-	129,649,054
Hermes Sourcecap Europe Ex-UK Fund				
Equities	160,950,816	-	-	160,950,816

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Fair value measurement risk (continued)

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
Hermes US SMID Equity Fund				
Collective Investment Schemes	1,248,000	-	-	1,248,000
Equities	101,331,090	-	-	101,331,090
	<u>102,579,090</u>	-	-	<u>102,579,090</u>
Hermes Emerging Asia Equity Fund				
Equities	144,666,802	-	-	144,666,802
Warrants	7,215,902	-	-	7,215,902
	<u>151,882,704</u>	-	-	<u>151,882,704</u>
Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	£	£	£	£
Hermes Global Emerging Markets Fund				
Equities	164,933,738	-	-	164,933,738
Warrants	4,477,304	-	-	4,477,304
	<u>169,411,042</u>	-	-	<u>169,411,042</u>
Hermes Global Equity Select Fund				
Equities	72,021,166	-	-	72,021,166
Hermes Pan European Small Cap Companies Fund				
Equities	63,555,652	-	-	63,555,652
Futures	16,350	-	-	16,350
	<u>63,572,002</u>	-	-	<u>63,572,002</u>
Hermes Quant Global Equity Fund				
Equities	94,754,117	-	-	94,754,117
Hermes UK Small and Mid Cap Companies Fund				
Equities	147,368,782	-	-	147,368,782
Futures	42,510	-	-	42,510
	<u>147,411,292</u>	-	-	<u>147,411,292</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Fair value measurement risk (continued)

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	£	£	£	£
Hermes UK Smaller Companies Fund				
Equities	116,525,212	-	-	116,525,212
Futures	29,430	-	-	29,430
	<u>116,554,642</u>	-	-	<u>116,554,642</u>
Hermes Japan Equity Fund				
Equities	148,095,656	-	-	148,095,656
Hermes Sourcecap European Alpha Fund				
Equities	136,482,086	-	-	136,482,086
Hermes Commodities Index Fund II				
Deposits	35,200,000	-	-	35,200,000

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	€	€	€	€
Hermes Global High Yield Bond Fund				
Bonds	-	112,389,368	-	112,389,368
Credit Default Swaps	-	2,757,730	-	2,757,730
Credit Default Swaps	-	(5,687,595)	-	(5,687,595)
Forward currency contracts	-	(250,831)	-	(250,831)
Futures	(54,920)	-	-	(54,920)
	<u>(54,920)</u>	<u>109,208,672</u>	-	<u>109,153,752</u>
Hermes Global Investment Grade Fund				
Bonds	-	111,623,307	-	111,623,307
Credit Default Swaps	-	1,681,605	-	1,681,605
Credit Default Swaps	-	(1,687,235)	-	(1,687,235)
Forward currency contracts	-	(291,603)	-	(291,603)
Futures	338,091	-	-	338,091
Futures	(331,735)	-	-	(331,735)
	<u>6,356</u>	<u>111,326,074</u>	-	<u>111,332,430</u>
Hermes Sourcecap Europe Ex-UK Fund				
Equities	32,142,453	-	-	32,142,453

There were no transfers between levels during 2012 and 2011.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Sensitivity analysis

Some limitations of sensitivity analysis are:

- markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- the market price risk information is a relative estimate of risk rather than a precise and accurate number; the market price information represents a hypothetical outcome and is not intended to be predictive; and
- future market conditions could vary significantly from those experienced in the past.

The portfolios as at 31 December 2012 were stress tested using a risk based model by applying a 20% movement to their benchmark to determine the percentage change disclosed below:

	Change (%)	Net Asset Value resulting from stress test £ (unless stated)	Per Share £ (unless stated)
Hermes Global Emerging Markets Fund			
Market Price test: Decrease MSCI Emerging Markets Index by 20%	(19.99%)	153,861,921	1.52
Currency test: Change GBP/USD FX rate by 20%	5.29%	202,480,608	2.00
Hermes Global Equity Select Fund			
Market Price test: Decrease MSCI All Country World Index (NR) by 20%	(19.01%)	67,676,025	1.09
Currency test: Change GBP/USD FX rate by 20%	(1.64%)	82,195,026	1.33
Hermes Quant Global Equity Fund			
Market Price test: Decrease MSCI World Index by 20%	(20.52%)	85,133,246	1.36
Currency test: Change GBP/USD FX rate by 20%	0.44%	107,583,315	1.72
Hermes UK Small and Mid Cap Companies Fund			
Market Price test: Decrease FTSE 250 Ex Investment Trust / FTSE Small Cap Ex Investment Trust Aggregated Index by 20%	(18.44%)	162,854,777	2.27
Hermes Japan Equity Fund			
Market Price test: Decrease TOPIX by 20%	(18.33%)	120,065,431	0.88
Currency test: Change GBP/JPY FX rate by 20%	(6.72%)	137,134,530	1.13
Hermes Sourcecap European Alpha Fund			
Market Price test: Decrease FTSE All-World Europe Index by 20%	(19.15%)	148,819,507	1.14
Currency test: Change GBP/EUR FX rate by 20%	(16.60%)	153,510,170	1.17

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Sensitivity analysis (continued)

	Change (%)	Net Asset Value resulting from stress test £ (unless stated)	Per Share £ (unless stated)
Hermes Global High Yield Bond Fund			
Market Price test: Decrease Merrill Lynch Global Non-Financial High Yield Constrained Index by 20%	(14.95%)	\$131,271,041	€1.31
Interest Rate test: USD/EUR/GBP/JPY rates +50bps	(0.56%)	\$153,481,391	€1.53
Currency test: USD/GBP vs EUR FX rate by 20%	1.57%	\$156,768,955	€1.57
Hermes Global Investment Grade Fund			
Market Price test: Decrease Merrill Lynch Global Broad Market Corporate Excluding Sub Financials Index by 20%	(11.58%)	\$127,500,339	€1.27
Interest Rate test: USD/EUR/GBP/JPY rates +50bps	(2.96%)	\$139,930,253	€1.40
Currency test: USD/GBP vs EUR FX rate by 20%	1.23%	\$145,972,171	€1.46
Hermes Sourcecap Europe Ex UK Fund			
Market Price test: Decrease FTSE All-World Europe ex-UK Index by 20%	(19.15%)	\$148,819,507	€1.46
Currency test: Change GBP/EUR FX rate by 20%	(16.60%)	\$153,510,170	€1.51
Hermes US SMID Equity Fund			
Market Price test: Decrease Russell 2500 Index by 20%	(17.18%)	\$87,290,197	€1.42
Currency test: Change GBP/USD FX rate by 20%	(5.39%)	\$99,713,445	€1.62
Hermes Active UK Inflation-Linked Bond Fund			
Market Price test: Decrease FTSE Actuaries UK Gilts Index Linked Over 5 years Index by 20%	(20.14%)	115,156,945	1.16
Interest Rate test: GBP rates +50bps	(3.39%)	139,310,199	1.40
Hermes Emerging Asia Equity Fund			
Market Price test: Decrease MSCI AC Asia ex Japan Index by 20%	(19.62%)	\$122,595,014	\$1.34
Currency test: Change GBP/USD FX rate by 20%	3.45%	\$157,791,413	\$1.73

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Sensitivity analysis (continued)

As at 31 December 2011, the results of the stress tests were as follows:

	Change (%)	Net Asset Value resulting from stress test £ (unless stated)	Per Share £ (unless stated)
Hermes Global Emerging Markets Fund			
Market Price test: Decrease MSCI Emerging Markets Free Bmk by 20%	(18.84%)	142,412,829	1.41
Currency test: Change GBP/USD FX rate by 20%	(12.25%)	153,979,204	1.53
Hermes Global Equity Select Fund			
Market Price test: Decrease MSCI AC World Bmk by 20%	(18.66%)	60,282,889	0.99
Currency test: Change GBP/USD FX rate by 20%	(8.78%)	67,610,057	1.11
Hermes Pan European Small Cap Companies Fund			
Market Price test: Decrease MSCI European Small Cap Bmk by 20%	(19.47%)	52,770,185	1.29
Currency test: Change GBP/EUR FX rate by 20%	(14.72%)	55,880,403	1.37
Hermes Quant Global Equity Fund			
Market Price test: Decrease MSCI World Bmk by 20%	(20.27%)	76,124,359	1.22
Currency test: Change GBP/USD FX rate by 20%	(9.80%)	86,116,187	1.38
Hermes UK Small and Mid Cap Companies Fund			
Market Price test: Decrease Composite Bmk by 20%	(18.39%)	126,036,424	1.76
Hermes UK Smaller Companies Fund			
Market Price test: Decrease FTSE All Small XIT Bmk by 20%	(15.61%)	102,754,752	1.46
Hermes Japan Equity Fund			
Market Price test: Decrease Topix Bmk by 20%	(18.78%)	120,585,315	0.89
Currency test: Change GBP/JPY FX rate by 20%	(3.88%)	56,736,662	1.13
Hermes Sourcecap European Alpha Fund			
Market Price test: Decrease FTSE All-World Europe Bmk by 20%	(18.71%)	112,210,789	0.97
Currency test: Change GBP/EUR FX rate by 20%	(14.59%)	117,910,228	1.02
Hermes Global High Yield Bond Fund			
Market Price test: Decrease ML Global HY Constrained ex Fin Bmk by 20%	(12.56%)	€95,181,410	€0.95
Interest Rate Test: USD/EUR/GBP/JPY rates +50bps	(3.77%)	€104,749,623	€1.05
Currency test: combined EUR/USD/GBP FX rate by 20%	1.19%	€110,148,752	€1.10

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7. Financial Risk Management (continued)

Sensitivity analysis (continued)

	Change (%)	Net Asset Value resulting from stress test £ (unless stated)	Per Share £ (unless stated)
Hermes Global Investment Grade Fund			
Market Price test: Decrease ML Global Corp IG ex Sub Fin Debt Bmk by 20%	(15.38%)	€92,145,960	€0.92
Interest Rate Test: USD/EUR/GBP/JPY rates +50bps	(0.96%)	€107,848,450	€1.08
Currency test: combined EUR/USD/GBP FX rate by 20%	(0.81%)	€108,011,791	€1.08
Hermes Commodities Index Fund II			
Market Price test: Decrease DJ UBS Commodities Bmk by 20%	(20.00%)	€28,505,159	€0.68
Hermes Sourcecap Europe Ex UK Fund			
Market Price test: Decrease FTSE All-World Europe Bmk by 20%	(19.26%)	€21,802,243	€0.83
Currency test: Change GBP/EUR FX rate by 20%	(18.55%)	€21,994,854	€0.84

Methodology for Calculating Global Exposure and Leverage

The Company's global exposure and leverage is calculated and monitored by the Investment Manager using the commitment approach.

8. Exchange Rates

The 31 December 2012 year end exchange rates were as follows:

	Exchange rate to £		Exchange rate to £
Australian dollar	1.5657	Mexican peso	21.1087
Brazil real	3.3282	Nigerian naira	253.8218
Canadian dollar	1.6185	Norwegian kroner	9.0463
Czech koruna	30.9411	Philippine peso	66.7471
Danish kroner	9.1989	Russian ruble	49.6558
Egyptian pound	10.3453	Singapore dollar	1.9855
Euro	1.2329	South African rand	13.7914
Hong Kong dollar	12.5990	South Korean won	1,740.2197
Hungarian forint	359.0490	Swedish krona	10.5746
Israeli shekel	6.0649	Swiss franc	1.4879
Indian rupee	89.0611	Taiwan dollar	47.2029
Indonesian rupiah	15,665.7569	Thai baht	49.7240
Japanese yen	140.5489	Turkish lira	2.9010
Malaysian ringgit	4.9708	US dollar	1.6167

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

8. Exchange Rates (continued)

	Exchange rate to €		Exchange rate to US\$
Canadian dollar	1.3127	Canadian dollar	0.9957
Swiss franc	1.2068	Hong Kong dollar	7.7509
Danish kroner	7.4610	Malaysian ringgit	3.0580
Pound sterling	0.8111	South Korean won	1,070.5750
Japanese yen	113.9954	Taiwan dollar	29.0390
Norwegian kroner	7.3372		
Swedish krona	8.5768		
US dollar	1.3184		

The 31 December 2011 year end exchange rates were as follows:

	Exchange rate to £		Exchange rate to £
Australian dollar	1.5196	Mexican peso	21.5954
Brazil real	2.8835	Nigerian naira	250.7450
Canadian dollar	1.5770	Norwegian kroner	9.2924
Czech koruna	30.8445	Philippine peso	67.7954
Danish kroner	8.8833	Russian ruble	49.8173
Egyptian pound	9.3229	Singapore dollar	2.0090
Euro	1.1970	South African rand	12.5185
Hong Kong dollar	12.0085	South Korean won	1,780.8768
Hungarian forint	373.7189	Swedish krona	10.6582
Israeli shekel	5.9101	Swiss franc	1.4532
Indian rupee	82.0950	Taiwan dollar	46.8083
Indonesian rupiah	14,017.4483	Thai baht	48.7731
Japanese yen	119.6140	Turkish lira	2.9187
Malaysian ringgit	4.9001	US dollar	1.5459

	Exchange rate to €
Canadian dollar	1.3218
Swiss franc	1.2161
Danish kroner	7.4341
Pound sterling	0.8369
Japanese yen	99.8797
Norwegian kroner	7.7764
Swedish krona	8.9194
US dollar	1.2982

9. Soft Commission Arrangements

There were no soft commission arrangements affecting the Company during the year ended 31 December 2012 or 31 December 2011.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

10. Taxation

Under current law and practice the Company qualifies as an investment undertaking as defined in Section 739B of the Taxes Consolidation Act, 1997, as amended. On that basis, it is not chargeable to Irish tax on its income or gains.

However, Irish tax may arise on the happening of a "chargeable event". A chargeable event includes any distribution payments to shareholders or any encashment, redemption, cancellation or transfer of redeemable participating shares. No Irish tax will arise on the Company in respect of chargeable events in respect of:

- (a) a shareholder who is neither Irish resident nor ordinarily resident in Ireland for tax purposes, at the time of the chargeable event, provided appropriate valid declarations in accordance with the provisions of the Taxes Consolidation Act, 1997, as amended, are held by the Company; and
- (b) certain exempted Irish tax resident shareholders who have provided the Company with the necessary signed statutory declarations.

Dividends, interest and capital gains (if any) received on investments made by the Company may be subject to withholding taxes imposed by the country from which the investment income/gains are received and such taxes may not be recoverable by the Company or its shareholders.

11. Net Asset Value Per Redeemable Participating Share

The Net Asset Value per redeemable participating share of each sub-fund of the Company is determined by dividing the value of the net assets of the sub-fund by the total number of redeemable participating shares in issue.

The Net Asset Value per redeemable participating share at which shareholders may subscribe for or redeem participating shares in the sub-funds of the Company differs from that presented in these Financial Statements. The difference is due to the use of Bid and Offer prices in the Financial Statements to value the investments held in the portfolio in compliance with IAS 39.

As at 31 December 2012 the reconciliation of the Net Asset Value per the Financial Statements to the published Net Asset Value used for shareholder dealing is as follows:

		Published Net	Bid	Net Asset
	Share Class	Asset Value*	Adjustment	Value per
				Financial
				Statements
Hermes Global Emerging Markets Fund	Z GBP Accumulating	£192,088,327	(£267,119)	£191,821,208
Hermes Global Emerging Markets Fund	R EUR Accumulating	£951	(£1)	£950
Hermes Global Emerging Markets Fund	T GBP Accumulating	£478,046	(£665)	£477,381
Hermes Global Emerging Markets Fund	F GBP Accumulating	£1,014	(£1)	£1,013
Hermes Global Equity Select Fund	Z GBP Accumulating	£81,813,284	£674,638	£82,487,922
Hermes Global Equity Select Fund	R EUR Accumulating	£999	£8	£1,007
Hermes Global Equity Select Fund	T GBP Accumulating	£1,067,156	£8,800	£1,075,956
Hermes Global Equity Select Fund	F GBP Accumulating	£1,020	£8	£1,028
Hermes Quant Global Equity Fund	Z GBP Accumulating	£105,702,802	£825,717	£106,528,519
Hermes Quant Global Equity Fund	R EUR Accumulating	£993	£8	£1,001
Hermes Quant Global Equity Fund	T GBP Accumulating	£575,762	£4,498	£580,260
Hermes Quant Global Equity Fund	F GBP Accumulating	£1,016	£8	£1,024

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

		Published Net	Bid	Net Asset
	Share Class	Asset Value*	Adjustment	Value per
				Financial
				Statements
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	£200,261,171	(£620,400)	£199,640,772
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	£1,156	(£4)	£1,152
Hermes UK Small and Mid Cap Companies Fund	F GBP Accumulating	£1,032	(£3)	£1,029
Hermes UK Small and Mid Cap Companies Fund	T GBP Accumulating	£34,920	(£108)	£34,812
Hermes Japan Equity Fund	Z GBP Accumulating	£145,712,112	(£182,670)	£145,529,442
Hermes Japan Equity Fund	R EUR Accumulating	£809	(£1)	£808
Hermes Japan Equity Fund	T GBP Accumulating	£218,575	(£275)	£218,300
Hermes Japan Equity Fund	F GBP Accumulating	£1,036	(£1)	£1,035
Hermes Japan Equity Fund	R GBP Accumulating	£1,273,212	(£1,596)	£1,271,616
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	£130,551,338	(£186,276)	£130,365,062
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	£12,031,558	(£17,167)	£12,014,391
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	£28,925,311	(£41,272)	£28,884,039
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	£633,250	(£904)	£632,346
Hermes Sourcecap European Alpha Fund	F EUR Accumulating	£5,965,901	(£8,512)	£5,957,389
Hermes Sourcecap European Alpha Fund	F GBP Accumulating	£16,079	(£23)	£16,056
Hermes Sourcecap European Alpha Fund	F GBP Distributing	£6,214,139	(£8,867)	£6,205,272
Hermes Global High Yield Bond Fund	Z GBP Accumulating	€154,659,521	(€316,317)	€154,343,204
Hermes Global High Yield Bond Fund	R EUR Accumulating	€1,246	(€3)	€1,243
Hermes Global High Yield Bond Fund	F GBP Accumulating	€1,283	(€3)	€1,280
Hermes Global Investment Grade Fund	Z GBP Accumulating	€144,269,966	(€73,805)	€144,196,162
Hermes Global Investment Grade Fund	R EUR Accumulating	€1,119	(€1)	€1,118
Hermes Global Investment Grade Fund	F GBP Accumulating	€1,250	(€1)	€1,249
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	€132,405,429	(€178,868)	€132,226,561
Hermes Sourcecap Europe Ex-UK Fund	R EUR Accumulating	€21,103,205	(€28,509)	€21,074,696
Hermes Sourcecap Europe Ex-UK Fund	R GBP Accumulating	€9,607,926	(€12,980)	€9,594,946
Hermes Sourcecap Europe Ex-UK Fund	F GBP Accumulating	€1,285	(€2)	€1,283
Hermes US SMID Equity Fund	F GBP Accumulating	\$1,640	\$26	\$1,666
Hermes US SMID Equity Fund	R EUR Accumulating	\$1,308	\$20	\$1,328
Hermes US SMID Equity Fund	Z GBP Accumulating	\$103,771,361	\$1,622,445	\$105,393,806
Hermes Active UK Inflation-Linked Bond Fund	F GBP Accumulating	£1,044	(£1)	£1,043
Hermes Active UK Inflation-Linked Bond Fund	Z GBP Accumulating	£104,051,602	(£138,932)	£103,912,670
Hermes Emerging Asia Equity Fund	Z GBP Accumulating	\$153,054,554	(£533,177)	\$152,521,377
Hermes Emerging Asia Equity Fund	R EUR Accumulating	\$1,353	(£5)	\$1,348
Hermes Emerging Asia Equity Fund	F GBP Accumulating	\$1,668	(£6)	\$1,662

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

	Share Class	Published Net Asset Value per redeemable participating share*	Adjustment	Net Asset Value per redeemable participating share
Hermes Global Emerging Markets Fund	Z GBP Accumulating	£1.90	£0.00	£1.90
Hermes Global Emerging Markets Fund	R EUR Accumulating	£1.90	£0.00	£1.90
Hermes Global Emerging Markets Fund	T GBP Accumulating	£1.12	£0.00	£1.12
Hermes Global Emerging Markets Fund	F GBP Accumulating	£1.01	£0.00	£1.01
Hermes Global Equity Select Fund	Z GBP Accumulating	£1.34	£0.01	£1.35
Hermes Global Equity Select Fund	R EUR Accumulating	£2.00	£0.02	£2.02
Hermes Global Equity Select Fund	T GBP Accumulating	£1.16	£0.01	£1.17
Hermes Global Equity Select Fund	F GBP Accumulating	£1.02	£0.01	£1.03
Hermes Quant Global Equity Fund	Z GBP Accumulating	£1.70	£0.02	£1.72
Hermes Quant Global Equity Fund	R EUR Accumulating	£1.99	£0.01	£2.00
Hermes Quant Global Equity Fund	T GBP Accumulating	£1.16	£0.01	£1.17
Hermes Quant Global Equity Fund	F GBP Accumulating	£1.02	£0.00	£1.02
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	£2.79	(£0.01)	£2.78
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	£2.31	(£0.01)	£2.30
Hermes UK Small and Mid Cap Companies Fund	F GBP Accumulating	£1.03	£0.00	£1.03
Hermes UK Small and Mid Cap Companies Fund	T GBP Accumulating	£1.13	£0.00	£1.13
Hermes Japan Equity Fund	Z GBP Accumulating	£1.07	£0.00	£1.07
Hermes Japan Equity Fund	R EUR Accumulating	£1.62	£0.00	£1.62
Hermes Japan Equity Fund	T GBP Accumulating	£0.98	£0.00	£0.98
Hermes Japan Equity Fund	F GBP Accumulating	£1.04	£0.00	£1.04
Hermes Japan Equity Fund	R GBP Accumulating	£0.98	£0.00	£0.98
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	£1.31	£0.00	£1.31
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	£1.87	£0.00	£1.87
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	£2.03	£0.00	£2.03
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	£1.19	£0.00	£1.19
Hermes Sourcecap European Alpha Fund	F EUR Accumulating	£1.66	£0.00	£1.66
Hermes Sourcecap European Alpha Fund	F GBP Accumulating	£1.03	£0.00	£1.03
Hermes Sourcecap European Alpha Fund	F GBP Distributing	£1.05	£0.00	£1.05
Hermes Global High Yield Bond Fund	Z GBP Accumulating	€1.55	€0.00	€1.55
Hermes Global High Yield Bond Fund	R EUR Accumulating	€2.49	(€0.01)	€2.48
Hermes Global High Yield Bond Fund	F GBP Accumulating	€1.28	€0.00	€1.28
Hermes Global Investment Grade Fund	Z GBP Accumulating	€1.44	€0.00	€1.44
Hermes Global Investment Grade Fund	R EUR Accumulating	€2.24	€0.00	€2.24
Hermes Global Investment Grade Fund	F GBP Accumulating	€1.25	€0.00	€1.25

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

	Share Class	Published Net Asset Value per redeemable participating share*	Adjustment	Net Asset Value per redeemable participating share
Hermes Soureicap Europe Ex-UK Fund	Z GBP Accumulating	€1.54	€0.00	€1.54
Hermes Sourcecap Europe Ex-UK Fund	R EUR Accumulating	€2.26	€0.00	€2.26
Hermes Sourcecap Europe Ex-UK Fund	R GBP Accumulating	€1.46	€0.00	€1.46
Hermes Sourcecap Europe Ex-UK Fund	F GBP Accumulating	€1.29	€0.00	€1.29
Hermes US SMID Equity Fund	F GBP Accumulating	\$1.64	\$0.03	\$1.67
Hermes US SMID Equity Fund	R EUR Accumulating	\$2.62	\$0.04	\$2.66
Hermes US SMID Equity Fund	Z GBP Accumulating	\$1.68	\$0.03	\$1.71
Hermes Active UK Inflation-Linked Bond Fund	F GBP Accumulating	£1.04	£0.00	£1.04
Hermes Active UK Inflation-Linked Bond Fund	Z GBP Accumulating	£1.05	£0.00	£1.05
Hermes Emerging Asia Equity Fund	Z GBP Accumulating	\$1.68	(\$0.01)	\$1.67
Hermes Emerging Asia Equity Fund	R EUR Accumulating	\$2.71	(\$0.01)	\$2.70
Hermes Emerging Asia Equity Fund	F GBP Accumulating	\$1.67	(\$0.01)	\$1.66

* The published Net Asset Value and the published Net Asset Value per redeemable participating share used in these Financial Statements is calculated using mid day prices and exchange rates with the exception of Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund which use close of business prices and exchange rates. The Net Asset Value per Financial Statements and the Net Asset Value per redeemable participating share is based on close of business prices and exchange rates.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

As at 31 December 2011 the reconciliation of the Net Asset Value per the Financial Statements to the published Net Asset Value used for shareholder dealing is as follows:

	Share Class	Published Net Asset Value*	Bid Adjustment	Net Asset Value per Financial Statements
Hermes Global Emerging Markets Fund	Z GBP Accumulating	£175,631,764	(£245,103)	£175,386,661
Hermes Global Emerging Markets Fund	R EUR Accumulating	£882	(£1)	£881
Hermes Global Emerging Markets Fund	T GBP Accumulating	£92,691	(£129)	£92,562
Hermes Global Equity Select Fund	Z GBP Accumulating	£74,113,077	(£128,556)	£73,984,521
Hermes Global Equity Select Fund	R EUR Accumulating	£918	(£2)	£916
Hermes Global Equity Select Fund	T GBP Accumulating	£128,687	(£223)	£128,464
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	£65,469,466	£54,708	£65,524,174
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	£865	£1	£866
Hermes Quant Global Equity Fund	Z GBP Accumulating	£95,408,595	(£173,051)	£95,235,544
Hermes Quant Global Equity Fund	F GBP Distributing	£118,150	(£214)	£117,936
Hermes Quant Global Equity Fund	R EUR Accumulating	£910	(£2)	£908
Hermes Quant Global Equity Fund	T GBP Accumulating	£119,416	(£217)	£119,199
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	£154,719,105	(£290,533)	£154,428,572
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	£906	(£2)	£904
Hermes UK Smaller Companies Fund	Z GBP Accumulating	£122,652,510	(£897,984)	£121,754,526
Hermes UK Smaller Companies Fund	R EUR Accumulating	£865	(£6)	£859
Hermes Japan Equity Fund	Z GBP Accumulating	£148,843,033	(£405,110)	£148,437,923
Hermes Japan Equity Fund	R EUR Accumulating	£838	(£2)	£836
Hermes Japan Equity Fund	T GBP Accumulating	£36,754	(£100)	£36,654
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	£110,677,322	£264,972	£110,942,294
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	£2,120,018	£5,076	£2,125,094
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	£24,834,888	£59,457	£24,894,345
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	£83,866	£201	£84,067
Hermes Global High Yield Bond Fund	Z GBP Accumulating	€130,649,653	(€335,239)	€130,314,414
Hermes Global High Yield Bond Fund	R EUR Accumulating	€1,065	(€3)	€1,062
Hermes Global Investment Grade Fund	Z GBP Accumulating	€130,494,557	(€131,698)	€130,362,859
Hermes Global Investment Grade Fund	R EUR Accumulating	€1,025	(€1)	€1,024
Hermes Commodities Index Fund II	Z GBP Accumulating	£35,631,449	-	£35,631,449
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	€32,248,391	€79,213	€32,327,604

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

As at 31 December 2011 the reconciliation of the Net Asset Value per the Financial Statements to the published Net Asset Value used for shareholder dealing is as follows:

		Published Net Asset Value per redeemable participating share*	Bid Adjustment	Net Asset Value per redeemable participating share
	Share Class			
Hermes Global Emerging Markets Fund	Z GBP Accumulating	£1.74	£0.00	£1.74
Hermes Global Emerging Markets Fund	R EUR Accumulating	£1.76	£0.00	£1.76
Hermes Global Emerging Markets Fund	T GBP Accumulating	£1.02	£0.00	£1.02
Hermes Global Equity Select Fund	Z GBP Accumulating	£1.21	£0.00	£1.21
Hermes Global Equity Select Fund	R EUR Accumulating	£1.83	£0.00	£1.83
Hermes Global Equity Select Fund	T GBP Accumulating	£1.05	£0.00	£1.05
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	£1.60	£0.00	£1.60
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	£1.73	£0.00	£1.73
Hermes Quant Global Equity Fund	Z GBP Accumulating	£1.54	£0.00	£1.54
Hermes Quant Global Equity Fund	F GBP Distributing	£0.95	£0.00	£0.95
Hermes Quant Global Equity Fund	R EUR Accumulating	£1.82	£0.00	£1.82
Hermes Quant Global Equity Fund	T GBP Accumulating	£1.04	£0.00	£1.04
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	£2.16	£0.00	£2.16
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	£1.81	£0.00	£1.81
Hermes UK Smaller Companies Fund	Z GBP Accumulating	£1.74	(£0.01)	£1.73
Hermes UK Smaller Companies Fund	R EUR Accumulating	£1.73	(£0.01)	£1.72
Hermes Japan Equity Fund	Z GBP Accumulating	£1.10	£0.00	£1.10
Hermes Japan Equity Fund	R EUR Accumulating	£1.67	£0.00	£1.67
Hermes Japan Equity Fund	T GBP Accumulating	£1.00	£0.00	£1.00
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	£1.11	£0.00	£1.11
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	£1.61	£0.00	£1.61
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	£1.73	£0.00	£1.73
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	£1.01	£0.00	£1.01
Hermes Global High Yield Bond Fund	Z GBP Accumulating	€1.30	€0.00	€1.30
Hermes Global High Yield Bond Fund	R EUR Accumulating	€2.13	(€0.01)	€2.12
Hermes Global Investment Grade Fund	Z GBP Accumulating	€1.30	€0.00	€1.30
Hermes Global Investment Grade Fund	R EUR Accumulating	€2.05	€0.00	€2.05
Hermes Commodities Index Fund II	Z GBP Accumulating	£0.85	£0.00	£0.85
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	€1.23	€0.00	€1.23

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11. Net Asset Value Per Redeemable Participating Share (continued)

* The published Net Asset Value per redeemable participating share used in these Financial Statements is calculated using mid day prices and exchanges rates with the exception of the following funds; Hermes Global High Yield Bond Fund, Hermes Global Investment Grade Fund and Hermes Commodities Index Fund II which use close of business prices and exchange rates. The Net Asset Value per Financial Statements and the Net Asset Value per redeemable participating share is based on close of business prices and exchange rates.

As at 31 December 2011, the Net Asset Value and the Net Asset Value per redeemable participating for each share class has been converted to the underlying currency of the relevant sub-fund.

12. Distributions

The following distribution was declared on 31 December 2012 for the Hermes Sourcecap European Alpha Fund:

Distribution Date					Amount	
per unit	declared	Ex-date	Record Date	Date paid	£	Relevant period
0.00015385	31/12/2012	31/12/2012	30/12/2012	04/01/2013	913	01/01/2012 - 31/12/2012

The following distributions were declared during the year ended 31 December 2011 for the Hermes Quant Global Equity Fund:

Distribution Date					Amount	
per unit	declared	Ex-date	Record Date	Date paid	£	Relevant period
0.00287005	30/06/2011	30/06/2011	29/06/2011	05/07/2011	357	01/01/2011 - 30/06/2011

Distribution Date					Amount	
per unit	declared	Ex-date	Record Date	Date paid	£	Relevant period
0.00396865	30/12/2011	30/12/2011	29/12/2011	05/01/2012	494	01/07/2011 - 31/12/2011

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values

Hermes Global Emerging Markets Fund	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	191,821,208	175,386,661	211,174,034
Net Asset Value per share	Z GBP Accumulating	1.9020	1.7391	2.0939
		£	£	
Net Asset Value	R EUR Accumulating	950	881	
Net Asset Value per share	R EUR Accumulating	1.8996	1.7615	
		£	£	
Net Asset Value	T GBP Accumulating	477,381	92,562	
Net Asset Value per share	T GBP Accumulating	1.1185	1.0226	
		£		
Net Asset Value	F GBP Accumulating	1,013		
Net Asset Value per share	F GBP Accumulating	1.0128		
Hermes Global Equity Select Fund	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	82,487,922	73,984,521	77,758,862
Net Asset Value per share	Z GBP Accumulating	1.3523	1.2129	1.2747
		£	£	
Net Asset Value	R EUR Accumulating	1,007	916	
Net Asset Value per share	R EUR Accumulating	2.0139	1.8328	
		£	£	
Net Asset Value	T GBP Accumulating	1,075,956	128,464	
Net Asset Value per share	T GBP Accumulating	1.1653	1.0451	
		£		
Net Asset Value	F GBP Accumulating	1,028		
Net Asset Value per share	F GBP Accumulating	1.0283		

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values (continued)

Hermes Quant Global Equity Fund	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	106,528,519	95,235,543	34,933,828
Net Asset Value per share	Z GBP Accumulating	1.7178	1.5357	1.5953
		£	£	
Net Asset Value	R EUR Accumulating	1,001	908	
Net Asset Value per share	R EUR Accumulating	2.0024	1.8167	
		£	£	
Net Asset Value	T GBP Accumulating	580,260	119,199	
Net Asset Value per share	T GBP Accumulating	1.1673	1.0435	
		£	£	
Net Asset Value	F GBP Distributing	-	117,936	
Net Asset Value per share	F GBP Distributing	-	0.9483	
		£		
Net Asset Value	F GBP Accumulating	1,024		
Net Asset Value per share	F GBP Accumulating	1.0235		
Hermes UK Small and Mid Cap Companies Fund				
	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	199,640,772	154,428,572	161,369,993
Net Asset Value per share	Z GBP Accumulating	2.7805	2.1552	2.2521
		£	£	
Net Asset Value	R EUR Accumulating	1,152	904	
Net Asset Value per share	R EUR Accumulating	2.3042	1.8081	
		£		
Net Asset Value	F GBP Accumulating	1,029		
Net Asset Value per share	F GBP Accumulating	1.0291		
		£		
Net Asset Value	T GBP Accumulating	34,812		
Net Asset Value per share	T GBP Accumulating	1.1248		

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values (continued)

Hermes Japan Equity Fund	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	145,529,442	148,437,923	58,979,354
Net Asset Value per share	Z GBP Accumulating	1.0734	1.0949	1.1796
		£	£	
Net Asset Value	R EUR Accumulating	808	836	
Net Asset Value per share	R EUR Accumulating	1.6152	1.6714	
		£	£	
Net Asset Value	T GBP Accumulating	218,300	36,654	
Net Asset Value per share	T GBP Accumulating	0.9800	0.9994	
		£	£	
Net Asset Value	F GBP Accumulating	1,035		
Net Asset Value per share	F GBP Accumulating	1.0344		
		£	£	
Net Asset Value	R GBP Accumulating	1,271,616		
Net Asset Value per share	R GBP Accumulating	0.9782		
Hermes Sourcecap European Alpha Fund				
	Share Class	2012	2011	2010
		£	£	£
Net Asset Value	Z GBP Accumulating	130,365,062	110,942,294	114,712,386
Net Asset Value per share	Z GBP Accumulating	1.3037	1.1094	1.1471
		£	£	
Net Asset Value	R EUR Accumulating	12,014,391	2,125,094	
Net Asset Value per share	R EUR Accumulating	1.8656	1.6118	
		£	£	
Net Asset Value	Z EUR Accumulating	28,884,039	24,894,345	
Net Asset Value per share	Z EUR Accumulating	2.0316	1.7289	
		£	£	
Net Asset Value	T GBP Accumulating	632,346	84,067	
Net Asset Value per share	T GBP Accumulating	1.1911	1.0138	

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values (continued)

Hermes Sourcecap European Alpha Fund (continued)

	<u>Share Class</u>	<u>2012</u>
		£
Net Asset Value	F GBP Distributing	6,205,272
Net Asset Value per share	F GBP Distributing	<u>1.0454</u>

		£
Net Asset Value	F GBP Accumulating	16,056
Net Asset Value per share	F GBP Accumulating	<u>1.0312</u>

		£
Net Asset Value	F EUR Accumulating	5,957,389
Net Asset Value per share	F EUR Accumulating	<u>1.6548</u>

Hermes Global High Yield Bond Fund

	<u>Share Class</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
		€	€	€
Net Asset Value	Z GBP Accumulating	154,343,204	130,314,413	129,517,590
Net Asset Value per share	Z GBP Accumulating	<u>1.5434</u>	<u>1.3031</u>	<u>1.2952</u>

		€	€
Net Asset Value	R EUR Accumulating	1,243	1,062
Net Asset Value per share	R EUR Accumulating	<u>2.4859</u>	<u>2.1242</u>

		€
Net Asset Value	F GBP Accumulating	1,280
Net Asset Value per share	F GBP Accumulating	<u>1.2799</u>

Hermes Global Investment Grade Fund

	<u>Share Class</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
		€	€	€
Net Asset Value	Z GBP Accumulating	144,196,162	130,362,860	122,768,015
Net Asset Value per share	Z GBP Accumulating	<u>1.4420</u>	<u>1.3036</u>	<u>1.2277</u>

		€	€
Net Asset Value	R EUR Accumulating	1,118	1,024
Net Asset Value per share	R EUR Accumulating	<u>2.2378</u>	<u>2.0484</u>

		€
Net Asset Value	F GBP Accumulating	1,249
Net Asset Value per share	F GBP Accumulating	<u>1.2498</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values (continued)

Hermes Sourcecap Europe Ex-UK Fund	Share Class	2012	2011
		€	€
Net Asset Value	Z GBP Accumulating	132,226,561	32,327,604
Net Asset Value per share	Z GBP Accumulating	1.5415	1.2300
		€	
Net Asset Value	R EUR Accumulating	21,074,696	
Net Asset Value per share	R EUR Accumulating	2.2542	
		€	
Net Asset Value	R GBP Accumulating	9,594,946	
Net Asset Value per share	R GBP Accumulating	1.4608	
		€	
Net Asset Value	F GBP Accumulating	1,283	
Net Asset Value per share	F GBP Accumulating	1.2832	
Hermes US SMID Equity Fund	Share Class	2012	
		\$	
Net Asset Value	Z GBP Accumulating	105,393,806	
Net Asset Value per share	Z GBP Accumulating	1.7103	
		\$	
Net Asset Value	R EUR Accumulating	1,328	
Net Asset Value per share	R EUR Accumulating	2.6574	
		\$	
Net Asset Value	F GBP Accumulating	1,666	
Net Asset Value per share	F GBP Accumulating	1.6657	
Hermes Active UK Inflation-Linked Bond Fund	Share Class	2012	
		£	
Net Asset Value	F GBP Accumulating	1,043	
Net Asset Value per share	F GBP Accumulating	1.0431	
		£	
Net Asset Value	Z GBP Accumulating	103,912,670	
Net Asset Value per share	Z GBP Accumulating	1.0454	

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

13. Comparative Net Asset Values (continued)

Hermes Emerging Asia Equity	Share Class	2012
		\$
Net Asset Value	Z GBP Accumulating	152,521,377
Net Asset Value per share	Z GBP Accumulating	<u>1.6724</u>
		\$
Net Asset Value	R EUR Accumulating	1,348
Net Asset Value per share	R EUR Accumulating	<u>2.6964</u>
		\$
Net Asset Value	F GBP Accumulating	1,662
Net Asset Value per share	F GBP Accumulating	<u>1.6617</u>

14. Efficient Portfolio Management

The Company may, on behalf of each sub-fund, employ (subject to the conditions and within the limits laid down by the Central Bank) techniques and instruments relating to transferable securities and money market instruments, provided that such techniques and instruments are used for efficient portfolio management purposes. Such techniques and instruments may also, on behalf of each sub-fund, include foreign exchange transactions which alter the currency characteristics of transferable securities held by the Company. The Company may also, on behalf of each sub-fund, employ (subject to the conditions and within the limits laid down by the Central Bank) techniques and instruments intended to provide protection against exchange risks in the context of the management of its assets and liabilities.

Realised gains and losses on financial instruments used for efficient portfolio management are included in the Income Statement.

15. Significant Events During The Year

The following sub-funds were launched during the year:-

Fund Name	Authorised by the Central Bank	Date Seeded
Hermes US SMID Equity Fund	25 September 2012	26 September 2012
Hermes Active UK Inflation-Linked Bond Fund	25 September 2012	9 October 2012
Hermes Emerging Asia Equity Fund	25 September 2012	1 November 2012

The following sub-funds were fully redeemed during the year:-

Fund Name	Date Terminated
Hermes Pan European Small Cap Companies Fund	12 March 2012
Hermes UK Smaller Companies Fund	14 June 2012
Hermes Commodities Index Fund II	15 November 2012

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for the year ended 31 December 2012 (continued)

15. Significant Events During The Year (continued)

The Hermes Sterling Liquidity Fund was approved by the Central bank on 25 July 2012 as a sub-fund of the Company.

16. Subsequent Events

Up to the date of approval of these Financial Statements there have been no events affecting the Company subsequent to the year end, which would impact on the Financial Statements for the year ended 31 December 2012.

17. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors on 25 April 2013.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012

Hermes Global Emerging Markets Fund		
Total purchases in the year		£191,384,007
Major Purchases	Nominal Holdings	Cost £
Samsung Electronics	9,421	7,069,012
Petroleo Brasileiro Preference	446,762	5,669,936
COSCO Pacific	6,464,885	5,274,553
China Construction Bank	10,846,000	5,218,208
Merrill Lynch	1,422,702	4,662,709
Baidu	65,938	4,586,744
Samsung Electronics Preferred	11,251	4,362,640
Clicks	1,113,883	4,073,646
Corning	480,783	3,951,405
China Mengniu Dairy	2,101,000	3,885,741
SK Telecom	420,756	3,745,535
Transneft	2,890	3,553,662
Merrill Lynch	176,145	3,420,266
Morgan Stanley 0.00% 30/08/2013	295,936	3,385,732
Galaxy entertainment Group	1,496,000	3,084,592
Datatec	826,574	3,073,391
Hyundai Motor Preferred	77,673	3,005,865
Sberbank of Russia	1,540,773	2,996,975
Posco ADR	51,611	2,951,581
KGHM Polska Miedz	115,967	2,797,061
Total sales in the year		£182,188,555
Major Sales	Nominal Holdings	Proceeds £
China Mobile	1,151,264	7,501,950
China Merchants International	3,429,625	6,546,649
MTN Group	396,409	4,491,398
AngloGold Ashanti	185,127	4,425,320
Baidu	65,938	4,096,039
Mahle-Metal Level Industria e Comercio	509,500	4,049,478
Asian Property Development Receipt	23,577,051	4,024,420
Samsung Electronics Preferred	9,077	3,780,087
Gazprom	590,324	3,557,581
Merrill Lynch	1,422,702	3,510,980
PTT Receipt	539,882	3,473,157
SK Telecom	420,756	3,313,488
KGHM Polska Miedz	115,967	3,201,228
Sohu.com	114,179	3,194,888
CNOOC	25,490	3,127,604
Bank of Baroda	353,602	3,065,007
Posco ADR	51,611	2,969,040
Greatek Electronics	5,479,912	2,955,764
Vale ADR	203,761	2,921,968
Yapi ve Kredi Bankasi	1,977,098	2,855,867

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Global Equity Select Fund		
Total purchases in the year		£53,254,670
Major Purchases	Nominal Holdings	Cost £
Royal Dutch Shell	115,682	2,598,859
Apple	6,543	2,493,987
EMC	143,890	2,254,348
Capital One Financial	57,892	2,122,840
Schneider Electric	43,552	1,877,007
SAP	44,622	1,873,939
Precision Castparts	17,686	1,839,466
Formento Economico Mexicano	31,792	1,826,242
Sherwin-Williams	20,458	1,726,884
Technip	24,694	1,664,819
First Republic Bank San Fransisco	78,182	1,632,844
Cooper	29,514	1,598,800
VF	16,059	1,561,900
APA	491,485	1,539,137
Telus	39,571	1,533,521
Standard Chartered	98,486	1,403,725
Oceaneering International	42,096	1,387,202
Google Class A	3,139	1,386,066
Calpine	108,978	1,249,066
Agrium	18,538	1,200,259
Total sales in the year		£51,116,104
Major Sales	Nominal Holdings	Proceeds £
Apple	6,543	2,505,211
Telenor	194,504	2,283,337
Apache	33,935	1,886,613
Vodafone	1,052,909	1,831,417
Mckesson	33,413	1,828,382
APA	491,485	1,776,129
Priceline.com	4,109	1,751,372
Potash of Saskatchewan	63,135	1,667,329
Mead Johnson Nutrition	33,312	1,617,835
Air Products & Chemicals	31,131	1,586,335
Atlas Copco Class A	111,294	1,538,540
Mitsubishi Electric	261,000	1,513,841
CME Group	31,649	1,405,680
Cia Energetica de Minas Gerais ADR	93,816	1,402,647
Jeronimo Martins	127,614	1,381,199
VMware Class A	23,634	1,363,098
Spectra Energy	68,696	1,341,651
Freeport-McMoRan Cooper & Gold	63,584	1,315,045
Baidu ADR	15,125	1,190,859
Visa Class A	13,988	1,138,073

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Pan European Small Cap Companies Fund*

Total purchases in the period **£10,687**

Major Purchases	Nominal Holdings	Cost £
Cranswick	1,518	10,687

Total sales in the period **£71,868,109**

Major Sales	Nominal Holdings	Proceeds £
Duerr	55,324	2,201,104
Dcc	93,874	1,550,616
Aarhuskarlshamn	74,421	1,469,647
Glanbia	293,472	1,467,424
Paddy Power	37,476	1,449,875
RPC Group	387,728	1,426,064
Rhoen Klinikum	118,777	1,416,395
Subsea 7	94,477	1,411,554
Neopost	33,043	1,405,399
Intrum Justitia	141,240	1,404,547
SDL	195,379	1,386,214
Outotec	37,200	1,385,949
United Business Media	227,575	1,383,656
Unit 4	78,806	1,375,965
Bilfinger Berger	21,265	1,335,398
Getinge 'B'	72,550	1,294,887
Andritz	21,000	1,259,492
Kier Group	101,791	1,250,299
Brunel Internationa	45,881	1,195,678
Paragon Group	656,544	1,194,254

*Hermes Pan European Small Cap Companies Fund was fully redeemed on 12 March 2012.

The above represents all purchases and the largest 20 sales in the period.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Quant Global Equity Fund		
Total purchases in the year		£19,440,700
Major Purchases	Nominal Holdings	Cost £
ING Groep	230,371	1,274,309
Toyota Motor	43,900	1,182,182
DNB	137,000	946,335
Merck & Co	31,000	863,912
Danske Bank	83,000	835,024
Novo Nordisk	7,925	690,774
Freeport-McMoRan Copper & Gold	28,000	632,723
CVS Caremark	20,500	626,119
Kao	34,000	614,195
Cisco Systems	47,000	572,301
APA	163,454	539,197
Wartsila	20,000	454,514
Nitto Denko	13,500	431,453
Vodafone	235,586	412,176
Jazz Pharmaceuticals	14,000	395,454
Volvo Class B	47,500	394,012
Hess	12,500	383,522
Echo Entertainment	130,000	359,726
Randgold Resources	6,200	351,202
Valeo	12,000	349,915
Total sales in the year		£16,431,607
Major Sales	Nominal Holdings	Proceeds £
Woodside Petroleum	32,216	649,433
Metso	21,910	632,527
Danske Bank	63,259	586,618
Sundrug	25,700	560,796
Carlsberg	10,597	534,120
Medicis Pharmaceutical Class A	23,568	523,587
Banco Santander	99,201	489,184
Biogen Idec	5,500	484,756
Takeda Pharmaceutical	16,500	467,260
Nippon Telegraph & Telephone	16,800	463,390
West Japan Railway	17,000	420,578
Vivendi	34,000	397,759
Komatsu	27,900	384,172
Peabody Energy	19,784	382,128
Norsk Hydro	108,916	381,780
ThyssenKrupp	22,990	370,133
Novo Nordisk	3,500	349,274
Nu Skin Enterprises Class A	10,600	333,264
Teva Pharmaceutical Industries	11,366	323,050
Statoil	20,000	313,398

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes UK Small and Mid Cap Companies Fund

Total purchases in the year **£57,278,551**

Major Purchases	Nominal Holdings	Cost £
St. Modwen Properties	2,301,451	3,780,590
Hyder Consulting	874,945	3,561,765
Latchways	338,591	3,460,978
Dechra Pharmaceuticals	696,464	3,436,725
Spirit Pub	6,690,261	3,328,914
Lavendon	3,033,245	3,265,747
Close Brothers	396,688	2,847,246
Inchcape	818,699	2,657,112
Ricardo	714,286	2,584,298
Ophir Energy	483,248	2,512,504
Cookson	353,305	2,281,258
Invensys	680,000	2,154,498
Restaurant	547,503	2,113,250
Coastal Energy	172,740	2,045,615
Synergy Health	232,222	1,963,189
Goals Soccer Centres	1,676,851	1,902,061
Berkeley	99,808	1,267,492
Enteq Upstream	1,250,000	1,250,000
Provident Financial	101,336	1,076,762
Amlin	259,969	979,123

Total sales in the year **£51,674,702**

Major Sales	Nominal Holdings	Proceeds £
Hamworthy	565,994	4,669,451
IG	795,791	3,680,634
BTG	864,050	3,313,032
Nautical Petroleum	692,837	3,117,767
Cookson	578,305	3,069,260
WSP	779,210	2,800,784
Premier Oil	720,280	2,580,861
Bunzl	227,407	2,402,256
Hardy Underwriting Bermuda	825,221	2,310,619

The above represents the 20 largest purchases and all sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes UK Smaller Companies Fund*

Total purchases in the period **£5,697,560**

Major Purchases	Nominal Holdings	Cost £
Cranswick	2,395	16,861
Vectura Group	89,559	49,605
St Modwen Properties	154,203	242,939
Spirit Publications	2,611,609	1,333,890
Robert Walters	622,974	1,541,755
Unite Group	971,604	2,047,652

Total sales in the period **£133,848,919**

Major Sales	Nominal Holdings	Proceeds £
Ted Baker	569,115	5,087,888
James Fisher & Sons	813,611	4,759,624
Carclo	1,193,781	4,691,559
Innovation Grp.	22,931,229	4,586,246
Hardy Underwriting Bermuda	1,466,042	4,071,932
Hyder Consulting	865,445	3,504,350
Rpc Grp.	919,009	3,451,798
Bioquell	2,616,638	3,440,879
Dechra Pharms.	671,464	3,286,816
Kcom Grp.	4,663,573	3,271,496
Hill & Smith Hldgs.	1,015,917	3,253,474
Ricardo	932,879	3,249,494
Wsp Grp.	734,503	3,180,398
Vitec Grp.	474,121	2,994,074
Fuller Smith & Turner 'A'	416,834	2,988,700
Spirit Pub	6,365,499	2,953,229
Vislink	10,362,195	2,902,451
Boot Henry	2,198,220	2,901,650
Hansteen Hldgs.	3,801,659	2,822,732
Tt Electncs.	1,813,973	2,808,937

*Hermes UK Smaller Companies Fund was fully redeemed on 14 June 2012.

The above represents all purchases and the largest 20 sales in the period.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Japan Equity Fund		
Total purchases in the year		£89,269,360
Major Purchases	Nominal Holdings	Cost £
NGK Insulators	820,000	6,523,354
Mazda Motor	5,250,000	5,585,141
Nippon Building Fund	960	5,442,831
Inpex	1,430	5,379,869
Mitsubishi Corporation	410,000	5,294,898
Hitachi	1,450,000	5,176,895
Takeda Pharmaceutical	176,000	5,155,576
Orix	78,000	5,111,853
Kao	300,000	5,108,862
Nippon Telegraph & Telephone	180,000	5,056,772
Honda Motor	245,000	5,042,084
Mitsubishi UFJ Financial	1,445,000	4,545,909
Toyo Suisan Kaisha	270,000	4,275,141
Shimamura	44,000	2,885,549
Marui	560,000	2,572,536
FUJIFILM	170,000	2,249,868
Tokyo Steel Manufacturing	400,000	2,094,167
Nomura Research Institute	146,000	1,880,832
Toppan Printing	400,000	1,491,934
Sumitomo Electric Industries	210,000	1,462,429
Total sales in the year		£89,192,364
Major Sales	Nominal Holdings	Proceeds £
West Japan Railway	250,200	6,438,348
Nippon Building Fund	960	6,128,015
Alfresa	224,900	6,118,638
Mitsubishi Estate	500,000	6,071,058
Takashimaya	1,440,000	5,858,690
Nippon Telegraph & Telephone	182,000	5,814,145
Mitsubishi UFJ Financial	1,915,400	5,776,427
NTT Data	3,095	5,708,352
Kao	300,000	4,908,211
Mitsubishi Corporation	410,000	4,536,964
Sankyo	180,000	4,437,777
Tokyo Steel Manufacturing	1,162,600	4,251,597
Mazda Motor	5,250,000	3,911,784
Mitsui OSK Lines	2,000,000	3,600,265
Toyo Suisan Kaisha	225,000	3,400,468
Komori	649,400	2,881,490
Nomura Research Institute	135,000	1,625,064
Shin-Etsu Chemical	45,000	1,585,549
Fuji Media	1,492	1,480,088
Hakuhodo DY Holdings	25,000	1,078,903

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Sourcecap European Alpha Fund

Total purchases in the year **£56,430,420**

Major Purchases	Nominal Holding	Cost £
UBS	574,224	5,435,845
Sodexo	102,463	4,964,191
Deutsche Boerse	102,920	3,940,703
Gemalto	65,325	3,626,077
Valeo	103,487	2,884,658
Roche	20,571	2,404,934
Vodafone	1,039,338	1,824,114
LVMH Moet Hennessy Louis Vuitton	17,322	1,805,298
ING	367,111	1,758,654
Porsche Automobil	37,537	1,580,665
Bayer	31,175	1,533,950
Weir	84,891	1,427,240
BG	118,561	1,394,544
Randgold Resources	23,080	1,345,226
Kingfisher	396,889	1,089,345
SAP	24,037	1,010,905
Adidas	18,317	931,871
Novo Nordisk	10,074	905,959
Syngenta	3,989	891,872
SABMiller	33,116	872,299

Total sales in the year **£30,526,902**

Major Sales	Nominal Holding	Proceeds £
AstraZeneca	124,844	3,535,788
Elekta	343,844	3,205,007
Muenchener Rueckversicherungs	37,202	2,991,423
Compagnie Financiere Richemont	63,466	2,382,524
Yara International	73,376	2,197,079
Novozymes	118,288	1,999,138
Software	95,641	1,851,612
Lonmin	217,421	1,751,135
Adidas	23,115	1,171,102
Novo Nordisk	9,552	864,930
ING	159,811	864,283
Syngenta	3,410	752,886
ASML Holding	100,020	745,331
Roche	6,143	671,452
Vodafone	377,873	643,758
BG	17,385	235,800
SABMiller	8,526	212,967
Pearson	17,705	204,309
SAP	4,955	198,481
Bayer	4,606	198,065

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Global High Yield Bond Fund

Total purchases in the year **€284,040,944**

Major Purchases	Nominal Holdings	Cost £
FCE Bank 7.12% 15/01/2013	4,750,000	4,899,625
Ziggo Bond 8.00% 15/05/2018	4,420,000	4,850,290
HJ Heinz 5.35% 15/07/2013	5,650,000	4,789,222
Kraft Foods 6.00% 11/02/2013	6,000,000	4,783,215
Volkswagen Leasing 4.87% 18/10/2012	4,000,000	4,092,000
Beverage Packaging Holding II 9.5% 15/06/2017	3,850,000	3,863,188
Gecina 4.75% 11/04/2019	3,800,000	3,780,962
Huntsman International 4.875% 15/11/2020	4,650,000	3,620,085
ISS 8.875% 15/05/2016	3,232,000	3,347,709
Stora Enso 5.0% 19/03/2018	3,350,000	3,335,930
France Telecom 7.25% 28/01/2013	3,000,000	3,148,500
Wendel 5.875% 17/09/2019	3,100,000	3,100,000
Daily Mail & General Trust 7.5% 29/03/2013	2,400,000	3,025,109
INEOS 7.87% 15/02/2016	3,400,000	3,013,875
Beverage Packaging Luxembourg II 8.00% 15/12/2016	3,300,000	2,997,500
Nara Cable 8.875% 01/12/2018	3,750,000	2,776,842
ArcelorMittal 10.35% 01/06/2019	2,875,000	2,633,514
EDP Finance 5.75% 21/09/2017	2,550,000	2,536,317
Buzzi Unicem 6.25% 28/09/2018	2,400,000	2,400,000
Renault 4.625% 18/09/17	2,400,000	2,397,384

Total sales in the year **€261,388,489**

Major Sales	Nominal Holdings	Proceeds £
Nextel Communications 5.95% 15/03/2014	6,180,000	4,805,374
Imperial Tobacco Finance 5.00% 25/06/2012	4,400,000	4,400,000
Ford Motor Credit 3.875% 15/01/2015	5,200,000	4,298,306
HeidelbergCement Finance 9.50% 15/12/2018	3,500,000	4,059,250
Volkswagen Leasing 4.87% 18/10/2012	4,000,000	4,000,000
Gecina 4.75% 11/04/2019	3,800,000	3,745,036
American Honda Finance 5.125% 03/10/2012	3,650,000	3,650,000
FMG Resources 7.00% 01/11/2015	4,400,000	3,481,464
Cemex SAB de 5.311% 30/09/2015	4,650,000	3,349,246
Stora Enso 5.0% 19/03/2018	3,350,000	3,340,142
Beverage Packaging Luxembourg II 8.00% 15/12/2016	3,300,000	3,319,961
Calpine 7.25% 15/10/2017	3,750,000	3,195,465
INEOS 7.87% 15/02/2016	3,400,000	3,121,313
Wendel 5.875% 17/09/2019	3,100,000	3,109,345
Nara Cable 8.875% 01/12/2018	3,750,000	2,789,125
Calcipar 2.75% 01/07/2014	2,682,000	2,604,200
Buzzi Unicem 6.25% 28/09/2018	2,400,000	2,422,800
Renault 4.625% 18/09/17	2,400,000	2,396,323
Obrascon Huarte Lain 8.75% 15/03/2018	2,180,000	2,301,633
UPC Holding 9.875% 15/04/2018	2,700,000	2,257,790

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Global Investment Grade Fund

Total purchases in the year **€233,683,859**

Major Purchases	Nominal Holdings	Cost €
Germany (Federal Republic) 3.75% 04/01/2019	5,652,000	6,577,752
Germany (Federal Republic) 1.50% 04/09/2022	6,034,000	6,050,984
Germany (Federal Republic) 1.75% 04/07/2022	4,510,000	4,669,848
Gecina 4.75% 11/04/2019	3,800,000	3,780,962
Germany (Federal Republic) 3.50% 04/07/2019	3,056,000	3,575,229
Societe Generale 2.375% 28/02/2018	3,000,000	2,993,640
UK Gilt 6.00% 07/12/2028	1,554,000	2,912,920
Germany (Federal Republic) 4.25% 04/07/2017	2,439,000	2,870,810
US Treasury Note 2.00% 15/11/2021	3,410,000	2,663,299
Germany (Federal Republic) 3.25% 04/01/2020	2,296,000	2,646,405
Germany (Federal Republic) 2.25% 04/09/2020	2,350,000	2,568,574
AT&T 1.875% 04/12/2020	2,400,000	2,378,376
BHP Billiton 3.25% 24/09/2027	2,400,000	2,363,340
Germany (Federal Republic) 3.75% 04/01/2017	2,035,000	2,326,590
Goldman Sachs Group 5.75% 24/01/2022	3,000,000	2,325,890
HIT Finance 5.75% 09/03/2018	2,000,000	2,097,180
Klepierre 2.75% 17/09/2019	2,100,000	2,092,762
Mapfre 5.125% 16/11/2015	2,000,000	2,020,875
UBS 3.125% 18/01/2016	2,000,000	2,005,245
Intensa Sanpaolo Bank 4.00% 07/08/2014	2,000,000	1,996,640

€223,116,969

Total sales in the year

Major Sales	Nominal Holdings	Proceeds €
Germany (Federal Republic) 3.75% 04/01/2019	5,652,000	6,575,496
Germany (Federal Republic) 1.50% 04/09/2022	6,034,000	6,050,670
Germany (Federal Republic) 1.75% 04/07/2022	4,510,000	4,663,944
Gecina 4.75% 11/04/2019	3,800,000	3,798,654
Germany (Federal Republic) 3.50% 04/07/2019	3,056,000	3,573,581
Societe Generale 2.375% 28/02/2018	3,000,000	3,052,545
UK Gilt 6.00% 07/12/2028	1,554,000	2,922,213
Germany (Federal Republic) 4.25% 04/07/2017	2,439,000	2,871,581
US Treasury Note 2.00% 15/11/2021	3,410,000	2,674,158
Germany (Federal Republic) 3.25% 04/01/2020	2,296,000	2,642,968
Pfizer 6.20% 15/03/2019	2,600,000	2,579,869
Germany (Federal Republic) 2.25% 04/09/2020	2,350,000	2,569,255
US Treasury Note 0.375% 30/09/2012	3,000,000	2,331,908
Germany (Federal Republic) 3.75% 04/01/2017	2,035,000	2,326,697
Standard Chartered 4.125% 18/01/2019	2,000,000	2,237,000
HIT Finance 5.75% 09/03/2018	2,000,000	2,089,330
Verizon Wireless Capital 5.55% 01/02/2014	2,500,000	2,083,040
UBS 3.125% 18/01/2016	2,000,000	2,052,300
Intensa Sanpaolo Bank 4.00% 07/08/2014	2,000,000	2,004,320
Volkswagen 2.125% 19/01/2015	2,000,000	1,998,600

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Commodities Index Fund II

Total purchases in the period **£1,225,402,136**

Major Purchases	Nominal Holdings	Cost £
HSBC 0.45% 19/07/12	14,000,000	14,000,000
RREPO HSBC .4% 18/09/2012	8,300,000	8,300,000
HSBC 0.45% 31/07/12	8,200,000	8,200,000
HSBC 0.35% 03/08/12	8,200,000	8,200,000
HSBC 0.45% 25/07/12	8,200,000	8,200,000
RREPO HSBC .4% 19/09/2012	8,100,000	8,100,000
HSBC 0.40% 06/08/12	8,100,000	8,100,000
HSBC 0.45% 27/07/12	8,100,000	8,100,000
HSBC 0.45% 26/07/12	8,100,000	8,100,000
HSBC 0.45% 30/07/12	8,100,000	8,100,000
RREPO HSBC 0.4% 17/09/2012	8,000,000	8,000,000
HSBC 0.45% 24/07/12	8,000,000	8,000,000
HSBC 0.45% 23/07/12	7,800,000	7,800,000
RREPO HSBC 0.4% 14/09/2012	7,700,000	7,700,000
RREPO HSBC 0.4% 12/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 11/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 13/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 10/09/2012	7,600,000	7,600,000
ING 0.437% 26/09/2012	7,500,000	7,500,000
ING 0.35% 31/10/2012	7,500,000	7,500,000

Total sales in the period **£1,261,093,151**

Major Sales	Nominal Holdings	Proceeds £
HSBC 0.45% 19/07/12	14,000,000	14,000,000
RREPO HSBC .4% 18/09/2012	8,300,000	8,300,000
HSBC 0.45% 31/07/12	8,200,000	8,200,000
HSBC 0.35% 03/08/12	8,200,000	8,200,000
HSBC 0.45% 25/07/12	8,200,000	8,200,000
RREPO HSBC 0.4% 19/09/2012	8,100,000	8,100,000
HSBC 0.40% 06/08/12	8,100,000	8,100,000
HSBC 0.45% 27/07/12	8,100,000	8,100,000
HSBC 0.45% 26/07/12	8,100,000	8,100,000
HSBC 0.45% 30/07/12	8,100,000	8,100,000
RREPO HSBC 0.4% 17/09/2012	8,000,000	8,000,000
HSBC 0.45% 24/07/12	8,000,000	8,000,000
HSBC 0.45% 23/07/12	7,800,000	7,800,000
RREPO HSBC 0.4% 14/09/2012	7,700,000	7,700,000
RREPO HSBC 0.4% 12/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 11/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 13/09/2012	7,600,000	7,600,000
RREPO HSBC 0.4% 10/09/2012	7,600,000	7,600,000
ING 0.437% 26/09/2012	7,500,000	7,500,000
ING 0.35% 31/10/2012	7,500,000	7,500,000

*Hermes Commodities Index Fund II was fully redeemed on 15 November 2012.

The above represents the largest 20 purchases and sales in the period.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Sourcecap Europe Ex-UK Fund		
Total purchases in the year		€133,927,366
Major Purchases	Nominal Holdings	Cost €
UBS	473,108	5,602,033
Kinnevik AB Investment	216,758	3,193,250
Gemalto	44,078	3,008,352
Valeo	84,838	2,967,543
BMW	43,490	2,915,803
AstraZeneca	73,398	2,571,266
Roche	16,702	2,411,782
Bilfinger Berger	34,566	2,397,871
Deutsche Boerse	36,405	1,600,360
Porsche Automobil	19,439	982,059
Kabel Deutschland	11,649	540,423
Petroleum Geo Services	45,980	525,509
Vodafone	218,973	507,935
LVMH Moet Hennessy Louis Vuitton	3,527	456,767
ING Groep	91,463	446,900
Sodexo	6,345	373,323
Swedish Match	11,502	344,249
SAP	6,985	335,027
Bayer	4,420	227,405
DNB	28,004	209,977
Total sales in the year		€27,397,384
Major Sales	Nominal Holdings	Proceeds €
Tele2	244,288.00	3,274,597
Astra Zeneca	89,668.00	3,091,199
Cie Financiere Richemont	64,847.00	2,927,192
AstraZeneca	73,398.00	2,641,168
Novozymes	111,203.00	2,321,498
Fuchs Petrolub	45,923.00	2,071,615
ARM Holdings	327,616.00	1,952,396
Elekta	124,398.00	1,779,656
Software	71,663.00	1,722,562
Adidas	14,881.00	949,388
ASML Holding	87,016.00	798,807

The above represents the largest 20 purchases and all sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes US SMID Equity Fund*		
Total purchases in the period		\$104,578,253
Major Purchases	Nominal Holdings	Cost \$
United Stationers	71,396	1,910,224
Superior Energy Services	74,321	1,551,027
Martin Marietta Materials	17,875	1,518,175
Ingredion	17,691	1,003,606
FLIR Systems	39,784	789,104
East West Bancorp	28,007	596,435
Clean Harbors	12,319	591,494
Wesco Aircraft	34,825	455,197
CAE	29,037	294,584
Kirby	1,385	80,764
Total sales in the period		\$7,193,081
Major Sales	Nominal Holdings	Proceeds \$
Trex	40,000	1,493,138
Progressive Waste Solutions	60,000	1,202,298
West Pharmaceutical Services	16,933	893,937
Washington Federal	44,547	715,085
LKQ	29,024	622,779
Eagle Materials	11,278	583,515
Schnitzer Steel	20,000	543,033
Alimentation Couche-Tard	10,773	532,987
Ag Growth International	14,900	452,158
American Reprographics	60,000	154,150

*Hermes US SMID Equity Fund launched on 26 September 2012.

The above represents all purchases and sales in the period.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Active UK Inflation Linked Bond Fund*

Total purchases in the period **£106,517,877**

Major Purchases	Nominal Holdings	Cost £
UK Treasury Inflation Linked Bond 0.125% 22/03/2044	3,270,000	3,113,514
UK Treasury Inflation Linked Bond 2.5% 26/07/2016	550,000	1,896,225
UK Treasury Inflation Linked Bond 0.75% 22/11/2047	240,000	322,659
UK Treasury Inflation Linked Bond 0.25% 22/03/2052	100,000	95,013
UK Treasury Inflation Linked Bond 0.125% 22/03/2024	50,000	53,100

Total sales in the period

£8,074,618

Major Sales	Nominal Holdings	Proceeds £
UK Treasury Inflation Linked Bond 1.25% 22/11/2027	1,500,000	2,324,109
UK Treasury Inflation Linked Bond 0.375% 22/03/2062	1,200,000	1,372,413
UK Treasury Inflation Linked Bond 2.5% 26/07/2016	250,000	859,635
UK Treasury Inflation Linked Bond 0.125% 22/03/2044	250,000	246,390
UK Treasury Inflation Linked Bond 0.25% 22/03/2052	100,000	96,077

*Hermes Active UK Inflation Linked Bond Fund launched on 9 October 2012.

The above represents all purchases and sales in the period.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2012 (continued)

Hermes Emerging Asia Equity Fund*		
Total purchases in the period		\$171,921,356
Major Purchases	Nominal Holdings	Cost \$
Samsung Fire & Marine Insurance	30,687	6,542,333
Youngone	108,018	6,091,532
Samsung Electronics Pref	7,766	5,646,207
Gwangju Shinsegae	26,001	5,591,760
Hon Hai Precision Industry	1,578,060	4,848,139
Genting Malaysia	3,988,991	4,626,434
Hana Financial	139,530	4,049,574
Ping An Insurance Group of China	493,000	3,859,007
INTOPS	162,602	3,727,530
Sporton International	1,628,902	3,706,355
Baidu ADR	34,741	3,510,272
Korea Investment	96,699	3,254,193
Shinsegae Food	32,087	3,236,511
Depo Auto Parts Ind	1,436,564	3,032,040
New World Department Store China	4,877,000	2,967,125
Samsung Electronics	2,428	2,887,646
Micron Technology	390,611	2,619,964
Wuliangye Yibin Warrants 10/07/2017	414,052	2,274,263
Tong Yang Industry	2,578,451	2,094,704
China Life Insurance	2,510,068	2,022,166
Total sales in the period		\$25,060,142
Major Sales	Nominal Holdings	Proceeds \$
Baidu ADR	34,741	3,189,574
Ju Teng International	5,962,000	2,745,496
China Life Insurance	903,000	2,722,912
INTOPS	91,469	2,317,647
Wuliangye Yibin Warrants 10/07/2017	414,052	1,645,098
WuXi PharmaTech ADR	99,594	1,559,451
Korea Investment	40,458	1,542,612
Asian Property Development Receipt	4,381,227	1,217,678
Samsung Fire & Marine Insurance	5,132	1,027,048
Ottogi	4,551	1,013,429
PTT Exploration & Production Receipt	178,500	904,686
COSCO Pacific	596,000	862,862
China Life Insurance ADR	16,787	734,917
Ajisen China Holdings	753,000	677,547
Shengli Oil & Gas Pipe	7,594,975	674,002
Shinsegae Food	5,778	599,873
Shanda Games ADR	140,293	429,534
Samsung Electronics	237	319,877
Daegu Department Store	23,500	282,969
Ju Teng International Receipt	596,000	274,148

*Hermes Emerging Asia Equity Fund launched on 1 November 2012.

The above represents the largest 20 purchases and all sales in the period

Hermes Investment Funds Public Limited Company Notice of Annual General Meeting

To: The Shareholders of Hermes Investment Funds plc: -

NOTICE is hereby given that the Annual General Meeting of the Shareholders of Hermes Investment Funds plc will be held at George's Court, 54-62 Townsend Street, Dublin 2 on Wednesday, 3 July 2013 at 12:45 p.m.

AGENDA

1. **Report and Accounts**
To receive and consider the Annual Report and Audited Financial Statements of the Company for the period from 1 January 2012 to 31 December 2012.
2. **Re-election of Auditors**
To approve the re-election of Deloitte & Touche as the Auditors of the Company.
3. **Auditors' Remuneration**
To authorise the Directors to fix the Auditors' remuneration.

By Order of the Board



For and on behalf of Northern Trust International Fund
Administration Services (Ireland) Limited as Secretary

Dated the 30th April 2013

NOTE

Every member entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A body corporate may appoint an authorised person to attend, speak and vote on its behalf. A proxy or an authorised representative need not be a member of the company.

**Hermes Investment Funds Public Limited Company
Form of Proxy**

I/We, _____

of _____

being Members of the above Company hereby appoint _____ or failing him/her, the Chairman of the Meeting, Ms. Aideen Colgan, Ms. Margaret Bergin or Ms. Sonya Mooney of Northern Trust International Fund Administration Services (Ireland) Limited as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 3 July 2013 at 12:45 p.m., and at any adjournment thereof.

Please indicate with an X in the spaces below how you wish your vote(s) to be cast. Unless otherwise instructed, the proxy will vote as he/she thinks fit.

Resolutions:

1. **Report and Accounts 2012**
To receive the Annual Report and Audited Financial Statements of the Company for the period from January 2012 to 31 December 2012.
2. **Re-election of Auditors**
To re-elect Deloitte & Touche as the Auditors of the Company.
3. **Auditors' Remuneration**
To authorise the Directors to fix the Auditors' remuneration.

	For	Against
1. Report and Accounts 2012 To receive the Annual Report and Audited Financial Statements of the Company for the period from January 2012 to 31 December 2012.		
2. Re-election of Auditors To re-elect Deloitte & Touche as the Auditors of the Company.		
3. Auditors' Remuneration To authorise the Directors to fix the Auditors' remuneration.		

Signed: _____ Date: _____

Please return to: Northern Trust International Fund Administration Services (Ireland) Limited
George's Court
54-62 Townsend Street
Dublin 2
Ireland

Attention: Ms. Aideen Colgan

Hermes Investment Funds Public Limited Company
Form of Proxy (continued)

NOTES:

1. This instrument of proxy, to be valid, must be sent so as to arrive, or be lodged, at the address printed below not later than 5 p.m. on Friday, 28 June 2013, being at least 48 hours before the time of the meeting.
2. In the case of a corporate shareholder, this instrument may be either under its Common Seal or under the hand of an officer or attorney authorised in that behalf.
3. If you wish to appoint a proxy other than the Chairman of the meeting, please insert his/her name and address and delete "the Chairman of the meeting".
4. If this instrument is signed and returned without any indication of how the person appointed proxy shall vote, he/she will exercise discretion as to how he/she votes and whether or not he/she abstains from voting.
5. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority should be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. The address to which the proxy forms should be returned is:-

Northern Trust International Fund Administration Services (Ireland) Limited
George's Court

54-62 Townsend Street
Dublin 2
Ireland.
Attention: Ms. Aideen Colgan
7. Proxy forms may be returned in the first instance by fax to +353 1 434 5273 but the original should be forwarded by mail to the address shown at 6 above.