

ANNUAL REPORT AND FINANCIAL STATEMENTS

HERMES FUND MANAGERS LIMITED

31 DECEMBER 2020



Registered No: 1661776

HERMES FUND MANAGERS LIMITED

INDEX

Our purpose	2
Our business	4
Our year in brief	6
Chairman's Statement	7
STRATEGIC REPORT	9
Our strategy	9
Holistic returns	15
Business development review	26
Financial review	29
Section 172 statement - stakeholder engagement	35
Employee alignment	41
Risk management	45
DIRECTORS	59
COMMITTEE REPORTS	64
Report of the Audit Committee	64
Report of the Risk and Compliance Committee	69
Report of the Remuneration Committee	74
Report of the Nominations Committee	90
DIRECTORS' REPORT	92
Statement of directors' responsibilities in respect of the annual report and the financial statements	96
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED	97
FINANCIAL STATEMENTS	101
Consolidated profit and loss account	101
Consolidated statement of comprehensive income	102
Consolidated balance sheet	103
Consolidated statement of changes in equity	105
Consolidated cash flow statement	109
Notes to the financial statements	111

HERMES FUND MANAGERS LIMITED

OUR PURPOSE

Ever since our 1983 origin, our purpose has been to deliver sustainable wealth creation: generating wealth through investments that enrich investors, society and the environment over the long term.

From day one to the present day, this purpose drives everything we do.

We aim to deliver sustainable outcomes for investors through our unique investment approach. Sustainable wealth creation is achieved through four core actions.

- First, high-active-share investment: we invest actively and with conviction over long time periods;
- Second, best-in-class Environmental Social and Governance (“ESG”) integration in public and private markets, from equities and credit to private debt and real estate;
- Third, Stewardship: harnessing investor capital to change companies for good, from within; and
- Fourth, our Responsibility Office: independent of investment teams, it ensures that we integrate ESG and stewardship insights with integrity and continue to innovate.

The delivery of sustainable wealth creation is driven by all employees at our firm and is overseen by our CEO, Investment Office, Responsibility Office and Equity Ownership Services (“EOS”) at Federated Hermes.

Seeking to fulfil this purpose, we have aligned companies’ strategies and behaviours with the long-term holistic interests of investors, and will strive to continue doing so.

HERMES FUND MANAGERS LIMITED

Important information

This Annual Report discusses the business, financial results and risk factors of Hermes Fund Managers Limited which, together with its consolidated subsidiaries, constitutes the international business of Federated Hermes ("HFML"), and not the consolidated business, financial results and risk factors of HFML's majority owner, Federated Hermes, Inc. Accordingly, unless the context clearly requires otherwise, or unless specifically specified otherwise, references in this Annual Report and Financial Statements to "our", "the Board," "ExCo", "CEO", Board committees, directors, officers, employees, service providers, agents, performance, plans, or similar expressions should be construed as referring to "HFML", "HFML's Board", "HFML's ExCo", "HFML's CEO" and Board committees, directors, officers, employees, service providers, agents, employees, plans, etc. of HFML (rather than HFML's majority owner, Federated Hermes, Inc.). For the purposes of this report, any reference to 'headcount', 'employees' or 'staff' are measured by full time equivalents rather than individual persons. For information regarding Federated Hermes, Inc.'s consolidated business, financial results, and risk factors, as well as other information, please see Federated Hermes, Inc.'s most recent Annual Report on Form 10-K for the year ended 31 December 2020 which is available under "Annual Report" under the "Investor Services" tab at www.FederatedHermes.com.

For the purposes of this report, Hermes Fund Managers Limited will be referred to as "the international business of Federated Hermes" or "HFML". Hermes GPE LLP will be referred to as 'HGPE' and MEPC Limited referred to as "MEPC".

Forward-looking statement

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

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

HFML's business and financial results are subject to business, operational and financial risks. Past performance is not a guarantee of future results. Both risks and mitigants are discussed on pages 45 to 56. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither HFML nor any other person assumes responsibility for the accuracy and completeness of such statements in the future.

HERMES FUND MANAGERS LIMITED

OUR BUSINESS

The Federated Hermes group consists of two specialist investment managers operating under one global brand, leveraging each other's expertise and commitment to sustainability to outperform for clients and create positive outcomes in the wider world.

Federated Hermes, Inc
Established 1955
Headquartered in Pittsburgh
Listed on the NYSE as FHI

The international business of Federated Hermes
Active investment and stewardship since 1983
Headquartered in London
Majority owned by Federated Hermes, Inc.

As a global leader in active investment and sustainability, Federated Hermes, Inc., offers specialised investment capabilities and pioneering stewardship services to investors around the world. At 31 December 2020, this included:

Active Equity	\$91.8bn Diverse range of high-active-share strategies
Fixed Income	\$84.3bn Dynamic security selection across the credit spectrum
Liquidity Solutions	\$420.3bn Cash-management pioneer and money-market leader
Private Markets and Alternatives	\$23.0bn Multiple access routes to world-class assets
Stewardship	\$1.3tn Driving outcomes-focused stewardship and advocate for sustainability

We are the international business of Federated Hermes

By pioneering global stewardship, developing innovative ESG strategies and advocating for a financial system that works for all, the international business of Federated Hermes has been at the forefront of investment and sustainability since 1983.

Stewardship assets under advice ("AUA") reached £938.5bn by 31 December 2020, a record high for the Group. This ground-breaking work in ESG integration across asset classes plays a key role in developing the Principles for Responsible Investment ("PRI") and illustrates our commitment and influence.

With industry-leading investment, stewardship and advocacy experts, we aim to deliver sustainable wealth creation that enriches investors, benefits society and preserves the environment – for current generations and those to come.

Investment and stewardship services

Our investment strategies are focused on achieving the financial goals of clients and end investors while supporting positive change in society and environmental preservation.

We manage investment funds, segregated mandates, co-investment partnerships and sub-advisory accounts for a range of clients, including pension funds, discretionary wealth managers, private banks, official institutions and distribution platforms.

HERMES FUND MANAGERS LIMITED

OUR BUSINESS (continued)

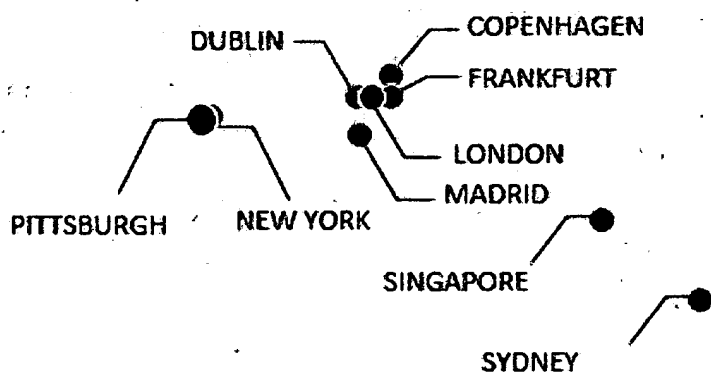
Our global stewardship capability covers public equity and fixed-income markets, providing corporate engagement, proxy voting, advisory, policy advocacy and portfolio screening services. Our private markets teams also engage intensively with the assets they invest in to meet interests of clients and broader stakeholders.

Our Investment Office oversees the quality and client focus of our investment activities and manages portfolio management teams. Of equal influence, the Responsibility Office ensures integrity in ESG and stewardship integration in our investment strategies. Both entities report directly to our CEO.

The international business of Federated Hermes: our investment and stewardship services

Asset management	Assets Under Management ("AUM") at 31 December 2020
Equity	£23.0bn AUM
Fixed Income	£4.5bn AUM
Real Estate	£5.9bn AUM
Private Equity	£3.0bn AUM
Infrastructure	£3.1bn AUM
	£39.5bn AUM
Stewardship	£938.5bn AUA at 31 December 2020

This combined offering is delivered by 533 investment and stewardship professionals working at nine locations worldwide.



Operational infrastructure

Underpinning our investment and stewardship propositions are the critical services provided by the following teams: Information Technology, Operations, Finance, Risk, Business Change, Human Resources, Compliance, Legal, Internal Audit and Tax.

Governance

Our vision, objectives and policies are set by the Board, which oversees our Executive Committee in developing and executing strategies to fulfil them.

To read the Strategic Report from our CEO, see p. 9











To read Committee Reports delivered by our Board, see p. 64

HERMES FUND MANAGERS LIMITED

OUR YEAR IN BRIEF

2020 financial and business highlights

Our mission is to deliver sustainable wealth creation that enriches investors, society and the environment over the long term. We understand that how we invest and engage affects the real value of the savings and future incomes of our clients, their customers and beneficiaries – and the world in which they live, will retire into and pass on to future generations.

OBJECTIVES	MEASURE	2020	2019	VARIANCE
DELIVERING SUSTAINABLE WEALTH CREATION	Percentage of investment strategies with a one, three and five-year track record to beat their benchmark ¹	One year: 54.3% Three year: 55.6% Five year: 45.0%	One year: 62.5% Three year: 50.0% Five year: 68.4%	
	Assets under stewardship ²	£938.5bn	£662.2bn	
	Number of companies engaged	1,245	1,043	
	Number of company and policy interactions	3,231	2,671	
EMPLOYEE ALIGNMENT	Employee turnover	7%	12%	
	Female employees (firm-wide)	44%	42%	
DELIVERING A SUSTAINABLE AND PROFITABLE FIRM	Assets under management and advice ³	£39.5bn	£37.1bn	
	Statutory revenue ⁴	£188.1m	£158.2m	
	Statutory pre-tax profit ⁵	£32.6m	£14.8m	
	Underlying profit ⁶	£33.2m	£25.8m	

1 – Performance is calculated using published benchmarks for strategies. If a strategy does not have an official benchmark a performance target is used. A representative portfolio for each strategy has been used where appropriate. Performance figures provided do not include HGPE strategies.

2 – Assets under stewardship relate to EOS at Federated Hermes ("EOS"). All figures as of 31 December.

3 – The movement in assets under management and advice is explained in more detail on page 31. All figures as of 31 December.

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

5 – Statutory pre-tax profit in 2020 is presented after deducting non-controlling interest.

6 – Underlying profit represents the result regularly provided to the Board as this is considered the most useful basis on which to manage the activities of the Group. This result excluded several items that are not fully within the control of management; material items include bonus deferrals, long-term incentive plans, goodwill and intangible asset amortisation. A full statutory to management reconciliation is provided on page 29.

HERMES FUND MANAGERS LIMITED

CHAIRMAN'S STATEMENT

For now, 2020 is largely synonymous with the shock and impacts of the COVID-19 pandemic. As a business, we offer sincere condolences to people suffering because of the disease. However, as vaccination programmes advance and healthcare treatments for the virus improve, governments and businesses continue to adapt and each of us maintains the resolve to help stop its spread, 2020 could also be remembered for the promise it showed.

Throughout 2020, humanity proved that it can work with common urgency and purpose at the grassroots, national and international levels to save lives and create a better future. Can this collective action be leveraged to combat the global environmental and social crises of our time, from the climate emergency to biodiversity loss, inequality and unsustainable production?

As a business pledged to deliver sustainable wealth creation that enriches investors, society and the environment over the long term, we will invest, engage and act to support the change needed by the planet, its people and the generations to come.

Adaptability and client focus

In response to the coronavirus outbreak, we continue to align our operations with official guidance in the jurisdictions in which we operate. Our staff work remotely or in safe office environments, connected across borders in a thriving virtual office with continuous health and wellbeing support. They have demonstrated remarkable productivity and client focus, and the Board commends their efforts.

As a business, we have continued to generate strong active investment performance for clients despite the global market crisis and sharp economic recession of 2020, while driving positive change through industry-leading stewardship and policy advocacy dialogue with regulators. In 2020, 55.6% of our strategies with a three-year track record outperformed their benchmarks and our engagement and policy interactions rose by 21% to 3,231 compared to the previous year.

We continued to innovate in integrating ESG data and engagement insight into investment decisions across all asset classes and regions. We deepened existing client relationships and forged new ones, maintained operational excellence and ensured our knowledge and perspectives were shared through intelligent marketing and press outreach activities.

In a challenging environment, we remained focused on clients' objectives and achieved the gross annual revenue target of £189.2m which was set before the pandemic broke out. We grew our business, increasing assets under management by 6% to reach £39.5bn, and raised assets under stewardship by an impressive 42%. Our underlying profit rose by £7.4m to £33.2m while our statutory profit more than doubled to £32.6m in 2020 further strengthening our already strong capital position.

Strategic initiatives

In close collaboration with our parent firm, we helped deliver a global rebrand which confirmed that together, as Federated Hermes, we are an exciting force in sustainability and investment. This identity leverages both firms' key strengths, histories of client focus and innovation, and long-term performance track records. Throughout the year we continued to execute the growth strategy developed with our parent, making liquidity and US credit strategies available to our client base and expanding our sales presence in Europe and the Asia-Pacific by establishing offices in Madrid and Sydney.

HERMES FUND MANAGERS LIMITED

CHAIRMAN'S STATEMENT (continued)

We invested in two of our key competitive advantages: EOS our pioneering stewardship team, and the Responsibility Office, which ensures the integrity of our ESG and engagement integration and leads our policy advocacy work. As the asset management industry continued to embrace sustainability, EOS's presence grew substantially in the US and the Responsibility Office provided key input to the UK Stewardship Code 2020 and focused on advancing our best-practice integration by launching an ESG Innovation Lab.

We strengthened our ability to deliver high-impact, high-performing real estate placemaking projects – exemplified by the regenerations of King's Cross in London, NOMA in Manchester and Paradise Circus in Birmingham – by acquiring specialist property developer MEPC, who we have partnered with on numerous works. We also acquired control of HGPE, concluding the joint venture launched in 2010, enabling us to further align this leading global private equity and UK infrastructure business with clients' interests.

True to our purpose and in response to investor demand for values-based and thematic strategies, we developed a pipeline of innovative sustainable and impact investment capabilities across equity, fixed income and private markets. To better align our existing range with our purpose and create a strong foundation for growth, we developed three pathways for achieving sustainable wealth creation: Active ESG, Sustainable and Impact. Equally powerful, each product category is distinguished by the outcomes our investors seek.

United by purpose

Adapting to unexpected challenges, focusing on growth and committed to fulfilling our purpose, we continue to evolve. Along the way, we maintain a deep respect for our heritage.

Our track record of delivering sustainable wealth creation began under the leadership of the late Ralph Quartano, the first CEO of our business. His dedication to championing investors' interests is epitomised by his public rebuke of the board of Marks & Spencer for weak corporate governance in 1983. Ralph retired in 1987 but remained keenly interested in the progress of our business until he recently passed away.

His legacy continues today, evident in the actions of our people who have voluntarily signed the Federated Hermes Pledge and aim to embody its values each working day. Together we seek to transform the purpose and practice of investment for better, for ever, for all.

David Stewart
Chairman

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT

OUR STRATEGY

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

We seek enduring business growth, profitability and to positively impact the world as a leader in investment and sustainability. These objectives are firmly aligned with the interests of our clients, the companies we invest in and engage with, and the societies in which they operate.

Our growth framework is therefore focused on areas where:

- There is enduring appeal from long-term investors;
- We have a differentiated approach to the way we manage assets;
- We can offer access to co-investment, segregated mandates, joint-venture and pooled opportunities in private markets alongside leading institutional investors; and
- We enhance performance by integrating ESG factors and stewardship into our public and private markets strategies. Going further, to fulfil mandates or product objectives, we invest in and engage with assets so they generate growth by addressing enduring social and environmental needs.

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

- Raising assets in our high-conviction, high-active-share public-equity strategies;
- Broadening our range of benchmarked, unconstrained and multi-asset fixed income capabilities;
- Leveraging the liquidity-solutions expertise of our parent company, which is a cash management pioneer and money market leader;
- Providing access to private-market investment opportunities in the infrastructure, private equity, private debt and real estate sectors through a range of segregated, pooled and joint-venture structures; and
- Expanding our market-leading stewardship services and ESG-integrated investment propositions by offering clients a range of thematic sustainable and impact investment strategies.

We believe that these pillars provide us with an optimum client-centric strategy for sustainable growth, delivering the performance and outcomes that our investors seek.

The opening of a pivotal decade

In time, 2020 will be a homage to compassion, ingenuity and resilience: three admirable characteristics of the human spirit.

History will chronicle how the COVID-19 pandemic brutally exposed the vulnerability and fallibility of our species. As the virus crossed borders early in the year, people sheltered indoors to stay safe, shield the vulnerable and preserve finite healthcare services for those in the greatest need. Businesses suffered. Economies contracted. Social contact retreated to households with rare exceptions.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

The opening of a pivotal decade (continued)

But history will also narrate how we fought back. Under siege, humanity responded with compassion: prioritising life over individual freedoms, subsidising companies forced to suspend activity to stop the spread of the virus, and by supporting each other – especially those in isolation – by socialising through device screens. Exercising ingenuity, scientists, and biotechnology and pharmaceutical firms developed powerful vaccines in record time and many businesses adapted to survive in a time of social distancing. Grieving lost family and friends, combating infection or weathering the physical and mental strain of restricted services and movement, we each found a way to move forward. Moreover, we helped each other to be resilient.

The vaccination programmes underway hopefully mark the beginning of the pandemic's end. Yet overcoming COVID-19 will only be one of many struggles that humanity must surmount this decade. Rather than feel daunted by the challenges of climate change, biodiversity loss, unsustainable production and inequality, we should leverage what was demonstrated in 2020 – our ability as communities, cities and nations to collectively focus on achieving a common goal – and not waste what scarce time we have left to combat these global threats to current and future generations.

Could history also perceive 2020 as the year when humanity en masse, realised that its wellbeing – if not survival – depended on our willingness to adapt to a sustainable way of life? We sincerely hope so. Since our business began in 1983, we have advocated and sought to embody a way of investing that enriches investors, society and the environment. Sustainable wealth creation is our way of ensuring that the capital we invest generates outperformance and environmental and social outcomes not only for our clients but for the generations that will follow.

In a world realising that sustainability is not a choice but an imperative, we know that how we invest makes a difference. In an industry where many competitors are awakening to the appeal of sustainable investment, we are energised by the opportunity to advance the leadership position we have long held by driving further change. Our clients, the companies we engage and the policymakers we advise and challenge know us first and foremost for one thing: when we say sustainability, we mean it.

Proof of our purpose

Despite the challenges of 2020, we continued to grow revenues, assets under management and stewardship, and invest in our future growth. Driven by our purpose to enrich investors, society and environment over the long term, we again showed that when we commit to delivering sustainable wealth creation, we mean it.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Proof of our purpose (continued)

#WeMeanIt

A+ PRI rating for stewardship, equity and private markets operations in 2020	£39.5bn in assets under management as of 31 December 2020	£938.5bn in assets under stewardship as of 31 December 2020	55.6%, 77.3% and 76.5% of our investment strategies outperformed the median manager over one, three and five years respectively.
Key influencer in the development of the UK Stewardship Code 2020	1,245 companies engaged in 2020	123,988 voting recommendations in 2020	858 clients in 40 countries as of 31 December 2020
33 consultation responses on sustainable investment public-policy in 2020	59 investment research and thought leadership publications in 2020	85% average active share for equity strategies over three years	Participated in 52 investment and sustainability industry groups and associations in 2020
Continued developing nine UK placemaking projects and began exporting this approach to the US	A PRI rating for our fixed income strategies in 2020	Ranked the 2nd most responsible asset management brand in Europe and in the top 10 worldwide by the RIBITM	Co-leader of the global Climate Action 100+ collaborative engagement initiative

Adapting to a new working world

The speed, scale and severity of the COVID-19 pandemic in 2020 was unmatched by any exogenous shock in living memory. With the preservation of life and healthcare services an undisputed priority, lockdowns suppressed economies and forced many companies to adapt. Like many financial services businesses, our operations migrated swiftly to the virtual world as the majority of our people worked from home in line with UK Government guidance. Our offices in St Paul's and Gutter Lane, London remained open to those unable to work from home.

Due to consistent and rigorous testing in the preceding years, our business continuity procedures enabled us to work productively from remote locations, implement advanced cyber-risk precautions and adapt our operational risk framework. We stayed connected with each other and clients to deliver our investment, stewardship, business development and operations services. Seeking progress, we expanded each of these teams, onboarded new suppliers and delivered 33 business-change programmes while initiating many new projects across the business.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

An exciting global brand is launched

In concert with our parent company, we delivered a global rebrand on 3 February 2020. Chris Donahue, CEO and President of Federated Hermes, Inc., rang the opening bell of the New York Stock Exchange as the company's stock began trading under the ticker FHI and the group's new corporate identity was unveiled worldwide. It was the first time that our parent company had changed its name, Federated Investors, Inc. since its 1955 inception – proof of its commitment to partnering with us in advancing the cause and practice of sustainable investment.



Chris Donahue, CEO and President of Federated Hermes, Inc., rings the opening bell of the New York Stock Exchange on 3 February 2020 with Saker Nusseibeh, CBE, CEO – International, and Harriet Steel, Head of Business Development – International, in attendance.

Federated Hermes, a global leader in active investment and sustainability, was announced through a dedicated microsite, federatedhermes.com, corporate offices displaying the new brand, prominent advertising and new social media profiles. The 'International' identifier for our London-based business was later created to ensure that we remain known for the investment and stewardship expertise we have developed over decades. As the international business of Federated Hermes, we continue to offer the investment and stewardship services for which we are known while offering access to capabilities from the wider group.

Progress in Private Markets

We completed two acquisitions that have strengthened our private markets offering. First, leading UK commercial real estate developer MEPC joined our business. Having partnered with MEPC on a number of long-term placemaking projects, we fully understand the benefits of bringing this capability in-house as we continue to advance our world-class placemaking programme in the UK and work to export it to the US, with the support of our parent.

Second, HGPE, the private equity and infrastructure asset management business we have held an interest in since 2010 as a joint-venture, became a subsidiary as Federated Hermes acquired our joint venture partner in March 2020. HGPE's private equity business is recognised for excellence in managing ESG-integrated, global portfolios and the infrastructure team is an adviser of choice for major asset owners, with assets including Eurostar, Associated British Ports and a number of UK wind farms.

These acquisitions bring 83 investment professionals into our business and deepen our private markets proposition.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Remembering Ralph Quartano and Gill Clarke



Ralph Quartano, CEO of PosTel, the predecessor of our firm, 1983-1987.

Ralph Quartano, the first CEO of our firm, is regarded as the pioneer of UK stewardship and engagement, famously rebuking the Marks & Spencer ("M&S") Board in 1983 for special loans it made to its Directors: "St Michael should be on the side of the angels".¹

His views sent a powerful message at a time of financial deregulation, privatisation of state-owned companies and trade union reform in the UK. He made it clear from the beginning, that our firm was committed to actively serving the needs of its clients and holding companies to account in order to drive better outcomes for investors and society. This proud legacy remains core to our purpose of delivering sustainable wealth creation today.



Gill Clarke, Head of Strategic Risk and Compliance, 2016-2020.

Gill Clarke was Head of Strategic Risk and Compliance and a member of the HFML ExCo. A qualified barrister with deep professional experience and expertise in her field, Gill was a role model and mentor to many in the firm. In addition to her impressive contribution to the development of our business, she is remembered for her characteristic positivity, pragmatism and friendliness.

¹ St Michael was an M&S brand at the time.

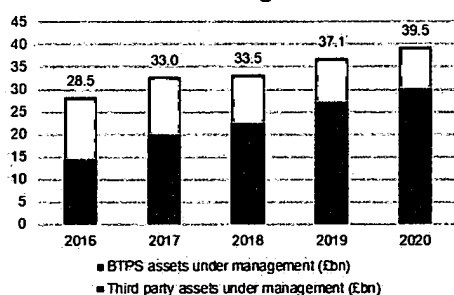
HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

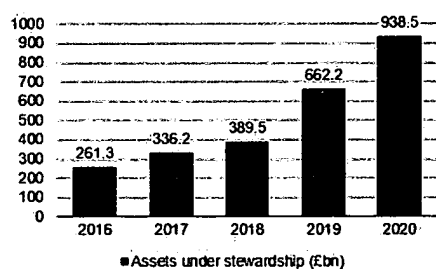
Five-year views: charts illustrating our progress

Our recent growth is conveyed by the following four financial measures: assets under management, assets under stewardship, underlying profit and statutory profit and loss before tax and excluding non-controlling interest. Each measure is disclosed as of 31 December. Assets under management are split between third party and those assets managed on behalf of the BT Pension Scheme, HFML's minority shareholder.

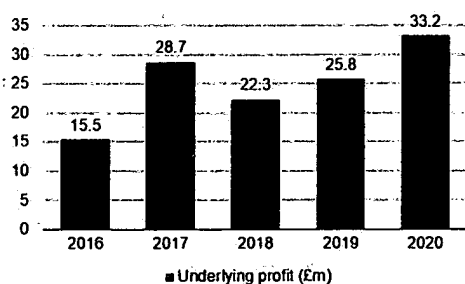
Assets under management



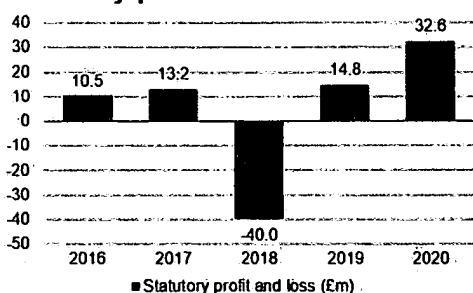
Assets under stewardship



Underlying profit



Statutory profit and loss before tax



HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

HOLISTIC RETURNS

Investment performance in 2020 and since inception

Delivering sustained, risk-adjusted outperformance is essential to generating sustainable wealth creation. Through highly active investment, strengthened by best-in-class ESG integration and stewardship, in public and private markets is essential in providing the long-term performance and positive outcomes our clients seek.

The majority of our strategies have outperformed their benchmarks since inception:

Strategy	Outperformance vs Benchmark	
	1 year	Since inception
Equity		
Asia ex-Japan	(11.6%)	4.4%
Asia Pacific ex-Japan ³	N/A	(3.7%)
Global Emerging Markets	5.1%	2.9%
Global Emerging Markets SMID	6.6%	5.9%
Global Emerging Markets ESG	5.9%	4.3%
Global Equity ESG	2.5%	1.2%
Global Equity Low Carbon	3.0%	0.3%
Global Equity	(0.3%)	0.3%
Global Equity Screened ESG	1.7%	0.6%
Global Equity Australia Balanced	(0.9%)	(0.4%)
Global Equity Developed ex NA	6.4%	5.3%
Global Equity Ethical	0.6%	1.0%
European Alpha	9.6%	1.6%
Europe ex-UK	14.4%	3.1%
Eurozone	18.4%	2.6%
Sustainable Europe	16.1%	4.0%
US SMID	(8.8%)	0.0%
SDG Engagement Equity	(7.2%)	(1.7%)
Global Small Cap	(4.9%)	0.3%
World ex US	(1.1%)	(0.7%)
Impact Opportunities	10.3%	6.3%
Fixed Income		
Global High Yield	(2.3%)	0.3%
Multi Strategy ¹	5.3%	5.4%
Absolute Return ¹	2.6%	3.1%
Unconstrained ¹	13.0%	11.1%

HERMES FUND MANAGERS LIMITED

Short Duration	(2.8%)	0.3%
High Yield ESG	(0.7%)	(0.1%)
SDG Engagement High Yield	0.7%	1.3%
UK Direct Lending ²	2.0%	3.6%
European Direct Lending ²	1.1%	1.3%
Real Estate Debt ²	4.3%	3.1%
Real Estate		
UK Core Real Estate	1.4%	(0.3%)
International Real Estate	(3.5%)	3.0%
Hermes Property Unit Trust	(0.4%)	1.7%

¹Net absolute returns

²IRR net absolute returns

³Strategy in existence less than 1 year (inception 1st August 2020)

Past performance is no guarantee of future results

For investment performance, see p.15

Strengthening key advantages: EOS and the Responsibility Office

Even in the nadir of the COVID-19 crisis, investors' interest in sustainable investing continued to strengthen. As flows into ESG-integrated, SDG-aligned, thematic and impact strategies increased, more investment managers launched strategies from across the sustainability spectrum and marketed stewardship services.

As the industry further embraced sustainability, we continued to lead. Since 1983, when our first CEO openly challenged a major UK company to improve its governance, to our current leader Saker Nusseibeh being awarded a CBE for services to responsible business in 2020, the international business of Federated Hermes has been at the forefront of sustainability and investment.

EOS and the Responsibility Office are vital in ensuring that our stewardship, ESG and engagement integration, and policy advocacy activities continue to advance best practice. In 2020, we strengthened these competitive advantages in the following ways:

- Expanded the combined headcount of EOS and the Responsibility Office to more than 54, including 10 engagement professionals in the US;
- Our Responsibility Office continued to support its Pittsburgh counterpart in building upon the ESG integration in money-market strategies to embed ESG analysis in a range of equity and credit products: US High Yield Credit, Investment Grade Bonds, International Fixed Income, Municipal Bonds, Strategic Value Dividend and International Growth Equity; and
- In London, we established an ESG Innovation Lab to improve the investment insights we generate from ESG and sustainability data. The objective is to further sharpen our information edge in this area in our aim to deliver sustainable wealth creation.

See p.35 for our review of stakeholder engagement in 2020.

STRATEGIC REPORT (continued)

Our inaugural Responsibility Report

Our fiduciary heritage and expertise in investment and sustainability ensure that our clients' interests come first and that we contribute to positive outcomes in the world.

Seeking to generate sustainable wealth creation, we are clear about what we expect of companies and policymakers, and in turn are transparent about our own activities. Achieving our purpose begins with the meaning we embed in our work each day and the behaviours we demonstrate. Indeed, responsibility, integrity and client focus are at the heart of the Federated Hermes Pledge. Our inaugural Responsibility Report, published in 2020, is a public self-examination of our business, investment and advocacy practices.

In the report, we argue why transparency on asset managers should not stop with disclosure about investment decisions. We discuss our responsible business activities, environmental footprint, governance, diversity and inclusion initiatives, supply chain oversight, and tax, accounting and audit practices. Crucially, we investigate the areas where we have set internal commitments to drive and measure our progress as a sustainable business.



Our Responsibility Office acts as a hub of expertise and support to assist employees work towards our purpose of delivering sustainable wealth creation. Broadly, its remit is as follows:

- Ensure best-in-class ESG and stewardship integration in our investment strategies;
- Developing and leading our public-policy advocacy positions; and
- Holding each team accountable for acting responsibly and focusing on the interests of clients and their beneficiaries.

Strengthening key advantages: EOS and the Responsibility Office

EOS's stewardship AUA grew beyond £938bn in 2020, providing significant leverage to engage companies for positive change. The team's 2020-2022 Engagement Plan serves as a compass guiding the long-term, transformational interactions with companies.

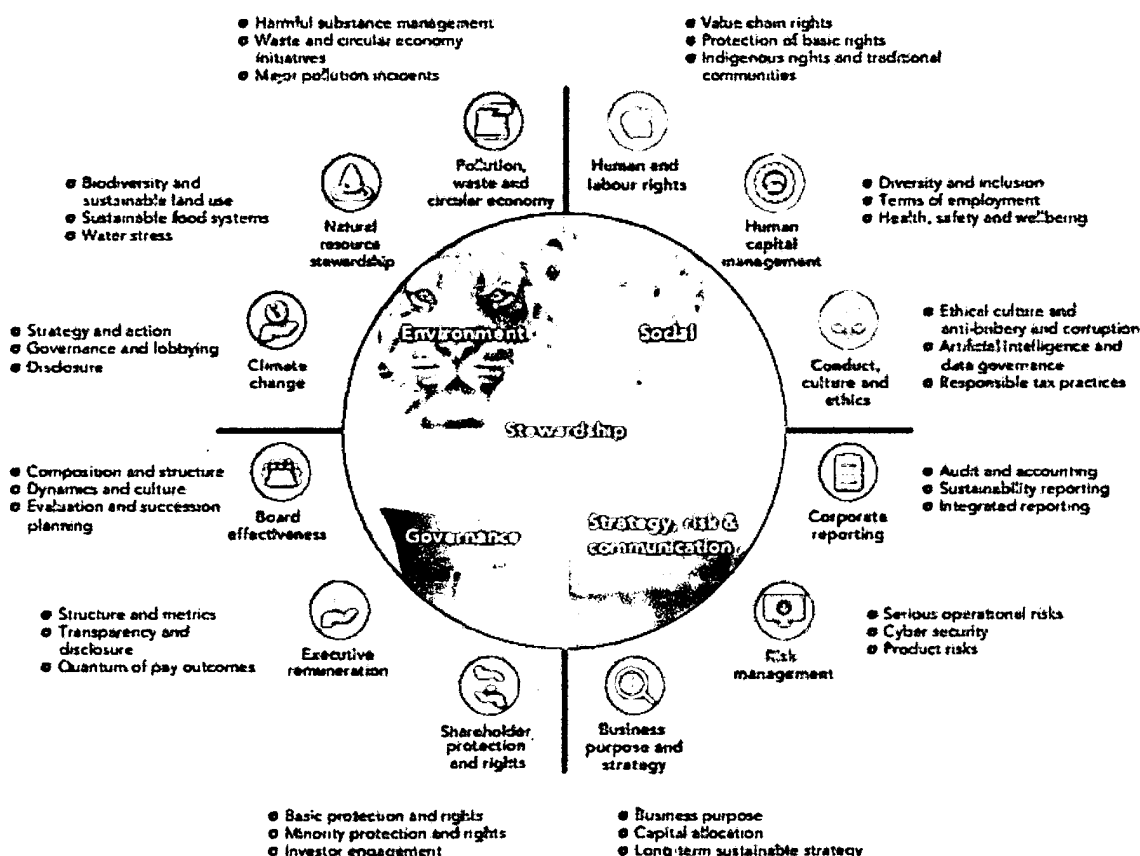
STRATEGIC REPORT (continued)

Strengthening key advantages: EOS and the Responsibility Office (continued)

Continuing its focus on strategic and ESG issues with the greatest potential for long-term positive outcomes for investors and their beneficiaries, the plan emphasised:

- Corporate action to help limit **climate change** to a 2°C increase, and ideally 1.5°C;
- Developing a **circular economy** to achieve sustainable consumption and ensure affordable and equitable access to safe food, clean water and natural resources;
- Reducing **pollution** so that it does not present a hazard to the health of humans and other living organisms;
- Respecting **human rights** linked to companies' operations, output and supply chains;
- Improving **human capital** and safeguarding **labour rights** to achieve healthy, skilled, productive and inclusive workforces; and
- Promoting corporate **conduct, culture and ethics** that places customers' interests first and treats material stakeholders fairly.

Engagement themes for 2021-23



HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Strengthening key advantages: EOS and the Responsibility Office (continued)

EOS also published the latest instalment of its 2021 UK Corporate Governance Principles, setting out our expectations of companies in our home market and continuing the pursuit of stronger governance we have undertaken since 1983. The principles emphasise corporate purpose, diversity and inclusion, climate change and executive remuneration.

ESG investing:

We published the fourth instalment of our biennial study of the effectiveness of ESG factors on equity returns in 2020. Like its predecessors, the research provided further evidence of the overall contribution of positive ESG behaviours on stock returns while shedding light on how the potency of each dimension is changing.

Our first and second instalments, published in 2014 and 2016, showed that good governance could add 30bps each month to returns. In 2018, we pointed to the 'social uprising' in which positive social actions by firms added up to 15bps and strong governance 24bps each month. Most recently, 'ESG investing: how COVID-19 accelerated the social awakening' found that the potential gain from good or improving social practices had risen to 17bps each month. Governance continued to add 24bps.

The study analysed stock returns from December 2008 to June 2020, taking advantage of a large dataset and also extracting valuable insights into the current influence of ESG factors. For instance, we found that social factors have supported the recent strong performance of hyper-growth companies.



STRATEGIC REPORT (continued)

CASE STUDIES

Case Study 1: Creating impact through the Sustainable Development Goals (“SDGs”)

Our SDG Engagement Equity and SDG High Yield Credit capabilities seek outperformance through impact. Through engagement, they focus on helping companies improve their operations, products and services to become more profitable in the long term and to support delivery of the Sustainable Development Goals.

In 2020, these capabilities performed extensive SDG-driven engagements:

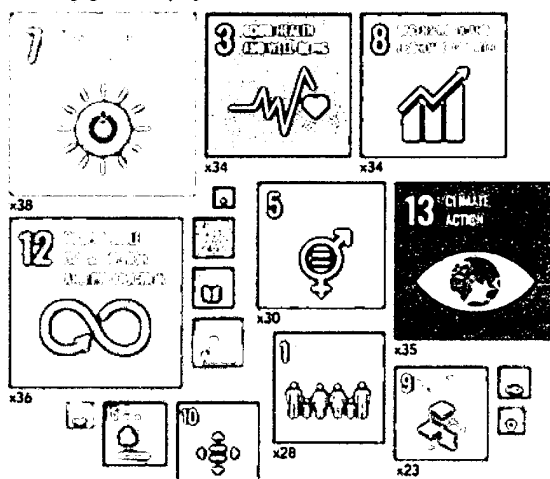
- SDG Engagement Equity: 193 actions with 52 companies
- SDG Engagement High Yield Credit: 353 actions with 114 portfolio companies

These engagements focused on a range of key sustainability issues, including:

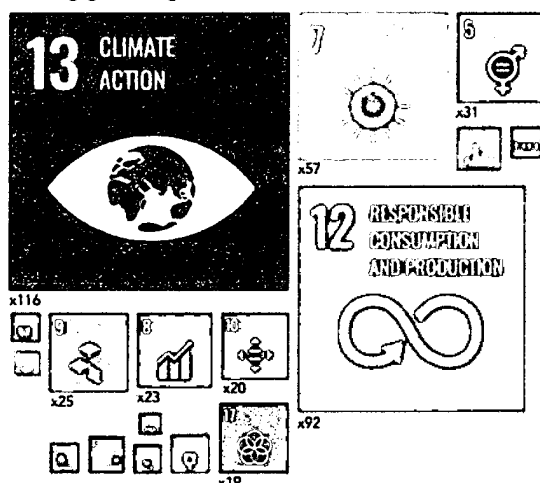
Women in STEM	Sustainable land use	Employee wellbeing
Circular economy	Carbon-emissions reduction	Corporate governance
Human-capital management	Recycling and waste reduction	Cobalt supply chains
Renewable energy	Human rights	Water use

These engagements resulted in the following levels of SDG engagement intensity, demonstrating clear alignment with many of the global goals.

SDG Engagement Equity



SDG Engagement High Yield Credit



HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Case Study 1: Creating impact through the Sustainable Development Goals (“SDGs”) (continued)

The intensity of each strategy's focus on specific SDGs is shown above. The larger the SDG icon, the greater the number of engagement actions aligned with its delivery.²

Collaborating to create SDG delivery

As engagers and investors, we aim to catalyse initiatives, create and strengthen relationships, heighten ambitions and accelerate progress on achieving sustainable outcomes for all stakeholders. In doing so, we recognise that companies ultimately deliver change supporting the delivery of the SDGs. This perspective manifests in our investment and engagement decisions and helps drive our delivery of sustainable wealth creation.

Case Study 2: Real Estate: placemaking and RPI progress

The investment and stakeholder returns generated through our real estate platform, and the transformative UK placemaking projects we have undertaken, provide evidence of our ability to deliver sustainable wealth creation. In 2020, our real estate team delivered multiple investment and sustainability outcomes:

Environment

- **Performance and decarbonisation**

The decoupling of outperformance from carbon emissions across our real estate portfolio, despite an increase in the number of assets and occupancy, continued throughout 2020. This is being achieved through controlled, active and careful asset management combined with careful investment acquisition and disposal strategies.

One highlight of our decarbonisation strategy has been the confirmation that Horizon Hurley, an office building in Berkshire under our management, became the first to fulfil the UK Green Building Council's accepted definition of achieving net-zero emissions.

- **Zero tolerance for coal**

Since June 2020, all electricity supplied to our portfolio properties has been generated from sources other than coal. As we develop new sites, we aim to decarbonise the heating of water and interior spaces and, ultimately, remove all fossil fuels from our energy supply.

- **Net-zero emissions pathway**

On behalf of our clients, we set out our proposed pathway to achieving net-zero emissions by 2035 across the managed assets included within our £5.9bn global real estate portfolio. This fulfilled our commitment as part of the Better Buildings Partnership (“BBP”) Climate Change Commitment, of which we were among the first signatories and now includes 27 commercial real estate investment managers and owners.

² Please note: because one engagement action with a company can address numerous SDGs, the sum of SDG-aligned engagement activities shown above will exceed the total number of engagement actions for the period.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Case Study 2: Real Estate: placemaking and RPI progress (continued)

We will report on progress annually and seek to meet the requirement of all assets under management achieving net-zero carbon emissions by 2050 or sooner. The pathway has four milestones:

- **Decarbonisation**
Remove the use of fossil fuels, increase energy efficiency, use green tariffs and reduce embodied carbon in our new developments and major refurbishments. This should support improvements in local infrastructure and emphasise best-practice innovation.
- **Energy efficiency**
Reduce energy use intensity by 66% in the years to 2035 against a 2018 baseline.
- **Stakeholder engagement**
Work with occupiers, suppliers and other stakeholders to successfully transition to net-zero alignment.
- **Use offset opportunities**
Apply credible, permanent carbon-removal methodologies for residual carbon, such as natural-capital solutions for carbon sequestration to address embodied carbon.

The pathway has a phased approach. The first phase aims to address our managed UK assets in 2021 and potentially publish detailed targets and timelines. The three subsequent phases focus on the wider international portfolio and consider specific challenges relating to the occupied areas of the residential assets. A pathway and timescale will be devised and agreed – including a methodology for target setting – and pathways will be published in 2021.

Social

- **Investing in housing**
Hestia, our residential investment platform, launched in December 2020 with two existing build-to-rent assets: the Cargo Building in Liverpool and Pomona Wharf in Manchester. It will also include Axion House in Lewisham, South-East London, which will provide 141 affordable new homes – 116 for shared ownership and 25 meeting affordable rent standards in London. The development, which will also feature commercial space and landscaped public realm, is due for completion in late 2023.
- **Support for residents**
In April 2020, we implemented a buddy system for all Cargo Building and Pomona Wharf residents vulnerable to COVID-19 or self-isolating. There are currently 46 buddies in Liverpool property and 29 at the Manchester development. The programme also enabled people to consult on-site mental health practitioners for guidance on managing anxiety and other concerns.
- **Career opportunities**
The Inspiration for Innovation Schools project, a venture between our Silverstone Park development and social enterprise Gaia Innovation, completed its second year.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Case Study 2: Real Estate: placemaking and RPI progress (continued)

The initiative works with three local secondary schools and 30 volunteers from companies in sectors including motorsport, computing and media to inform students about local career paths.

Governance

- **Towards net-zero emissions**

The international business of Federated Hermes and MEPC became signatories to the Better Building Partnership Design for Performance programme, which aims to ensure that the real-world efficiency of properties matches the intent of plans. We nominated two properties in our placemaking developments, 4 Angel Square located in the inner-city area of Manchester now called NOMA, and 11-12 Wellington Place, Leeds, to the initiative.

Committed to resource efficiency: 4 Angel Square



- 4 Angel Square, the first speculative net-zero office property in NOMA, is also on the way to becoming a Pioneer under the London Energy Transformation Initiative, a network of over 1000 built-environment professionals working together to put London and other cities on the path to a zero-carbon future. The 200,000 square foot office building aims to achieve a BREEAM 'outstanding' rating and an Energy Performance Certificate ranking in Band A.
- **Sustainability benchmarking**

The **Cargo Building** became the world's first residential building to achieve the 'Excellent' rating under the new BREEAM In Use residential certificate. BREEAM was created to drive high standards of sustainability and operational performance in residential buildings. In Leeds, office properties at **5-6 Wellington Place**, one of our placemaking developments, achieved BREEAM In Use 'Very Good' certificates.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Case Study 2: Real Estate: placemaking and RPI progress (continued)

Centre:MK, the shopping centre in Milton Keynes we manage on behalf of AustralianSuper and BTPS, retained its five-star rating in the annual assessment by GRESB, the global ESG benchmark for real assets. Importantly, it was also ranked number one in the UK retail shopping centre sector. Among our portfolios, our **BTPS mandate** also achieved five stars and was listed number one among peers in the development category, and the **Hermes Property Unit Trust** was ranked second among peers.

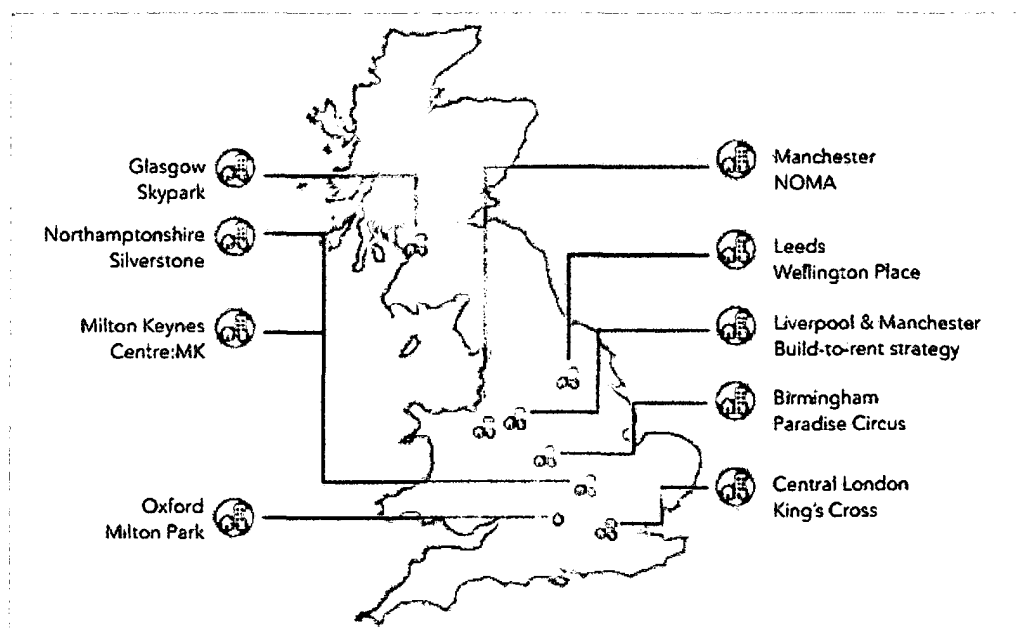
The power of Placemaking

Meaningful placemaking is a cornerstone of our real estate investment philosophy. Since most of HFML's property investments are concentrated in urban areas, how we manage those developments will have deep and enduring effects on these locations.

We define 'meaningful cities' as places where people want to work and live, and which foster civic pride and a sense of belonging among inhabitants. Peaceful, productive and diverse, they enable citizens to live fulfilling and connected lives. Constructed with respect for the environment and local history, they help preserve natural capital and ensure historical continuity in the built environment. In turn, meaningful cities are likely to sustain higher economic growth by attracting and retaining capital and talent, helping to provide a better return for investors.

Since 2008, we have undertaken seven major urban-regeneration schemes and developed two major business parks for science and technology firms. These projects cover 19m square feet and command an estimated end value of £13bn. They exemplify our approach to meaningful placemaking and are proof of our ability to deliver sustainable wealth creation.

Meaningful places: nine developments



STRATEGIC REPORT (continued)

Welcome to Paradise

The transformation of King's Cross, the largest urban regeneration project in Western Europe, is well documented. The rejuvenation of both the inner-city areas of Manchester and Leeds, NOMA and Wellington Place respectively, has also received widespread recognition. Another thriving project is Paradise Circus.

Paradise is a new urban neighbourhood in the heart of Birmingham comprising offices, homes, public spaces and squares, restaurants and other amenities. Looking beyond the pandemic, it will be a place to do business, socialise and enjoy community events.

Paradise will deliver:

- 10 high-quality, contemporary buildings combining new office, retail, hotel and leisure spaces;
- 3 new public squares: Ratcliffe, Chamberlain and Congreve squares;
- £700m investment into Birmingham;
- 1.74m sq ft of contemporary office space;
- 120,000 sq ft of retail and leisure space; and
- 346 new build-to-rent homes.

Historical echo



In 2020, a statue of Sir Thomas Attwood, the Victorian banker and MP for Birmingham who drove the 1832 Reform Act, was reinstated on the steps of Chamberlain Square in Paradise Circus after being stored during construction work.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

BUSINESS DEVELOPMENT REVIEW

To adapt to the new business world dawning in early 2020, we revised our annual revenue targets given the challenge of raising and retaining assets without frequent business travel, face-to-face meetings and in-person industry events.

Due to the commitment and ingenuity demonstrated by our business development, investment and stewardship teams, and operational support from the broader business, we surpassed our pre-pandemic budgeted gross sales targets despite COVID-19. At a Group level, this resulted in £45.1m of gross new revenues representing £8bn in gross AUM. However, due to the significant market deterioration caused by COVID-19, particularly in equity markets, redemptions were significantly higher than forecast, resulting in net outflow of £0.3bn for the year.

Throughout 2020 we attracted 139 new allocations from a range of investors, including major pension schemes and fund distributors, and engaged existing clients to retain more than £500m in AUM in strategies in outflow-hit sectors. Our relationships with strategic clients deepened: in Europe, for SDG Engagement Equity, SDG Engagement High Yield, Global Emerging Markets and Global Equity ESG; in the US, for Global Emerging Markets; in the Nordic region, for US Small-Mid Capitalisation ("SMID"); and worldwide for Global High Yield Credit. In our home market, Absolute Return Credit became favoured in the wealth management sector and was recommended by an influential pensions consultant in addition to Unconstrained Credit. EOS surpassed £938bn in assets under stewardship after gaining prominent UK, Europe and Australia pension funds as clients and achieved a 100% retention rate after securing eight contract renewals.

Delivering on the wider Group's five-year global growth plan, in which we lead Europe, Middle East and Africa ("EMEA") and Asia Pacific ("APAC") distribution, we opened two international offices: Madrid in July 2020 and Sydney in November 2020. Seeking to align capabilities managed by our parent with client demand, we raised £1bn in gross AUM for Federated Hermes liquidity strategies and launched a UCITS vehicle for US High Yield Credit. True to the mutual focus on collaboration between London and Pittsburgh, our US SMID capability joined SDG Engagement Equity, SDG Engagement High Yield and Global Equity ESG in being distributed throughout the US. Our Irish UCITS funds have also been registered and operationally set up to enable our parent company to distribute them into the US offshore and Latin American markets.

These results are testament to the efforts of all operations across Business Development. As our Sales and Client Relations teams created new relationships and developed existing ones through virtual means, they were supported by 400 Request for Proposals ("RfPs") and Request for Information ("RfI") distributed to prospects – a 10% year-on-year increase. The Distribution Management Team executed a further nine distribution agreements to expand sales coverage. The Marketing team adapted overnight to an entirely virtual way of working, producing events, webinars and all collateral – from presentations, sales literature and website, podcast and video content – through remote systems. It supported strategic clients with a strong pipeline of content and executed the UK, European and APAC aspects of the Federated Hermes rebrand before developing a clear and consistent set of principles for the international business that will be deployed in 2021.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

BUSINESS DEVELOPMENT REVIEW (continued)

Responding to investor appetite for thematic, values-based and impact strategies, the Product team led the scoping and development of a range of equity and credit capabilities aiming to strengthen our Sustainable and Impact offerings. The team also intensively researched the labelling regimes for sustainable investment products in many jurisdictions to ensure our existing strategies are visible in target markets.

Awards and recognition

We continue to increase the strength of our brand in the UK, Europe and Asia, winning awards for our business achievements, investment strategies, marketing and brand strength, and the individual excellence of our people. In alignment with our growth plan, we continue to extend our marketing and communications campaigns deeper into Europe and Asia, using media in innovative ways to ensure our unique perspectives reach targeted audiences with impact. Below is a selection of the awards we were honoured to receive in 2020.

	Award	Issuer
Corporate	<ul style="list-style-type: none">• 'A+' for equity, stewardship and private markets• 'A' for fixed income	PRI
	'A' rating and acceptance into the certified community	Real Impact Tracker
	<ul style="list-style-type: none">• Ranked 2nd out of 284 European asset managers• Ranked in the top 10 globally• Achieved Avant-Gardist status for the third consecutive year	Responsible Investment Brand Index (RIBI™)
	Winner, Asset Management	International Climate Reporting Awards 2020
	Asset Manager of the Year	OpRisk
	Ranked 2 nd most powerful social-media influencer in Europe	Onalytica
	Best ESG Advocate	Wealth Partnership Awards by Portfolio Adviser
Saker Nusseibeh, CEO – International	Commander of the Order of the British Empire for services to responsible business	New Year Honours List 2020
	European Personality of the Year	Funds Europe

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

BUSINESS DEVELOPMENT REVIEW (continued)

Awards and recognition (continued)

Global Emerging Markets	Best Global Emerging Markets Fund	2020 Fund Manager of the Year Awards by Investment Week
Global High Yield Credit	Best Specialist High Yield Debt Fund	2020 Specialist Investment Awards by Investment Week
Real Estate	Property Manager of the Year	Pensions Age

“A’ for real impact”

In 2020 our business earned an A rating by Real Impact Tracker, a company specialising in assessing the social and environmental impact created by investment firms. It is the highest score awarded to date and ensures that we are part of its certified community – which only 5%-10% of investment managers it has assessed were then invited to join.

Real Impact Tracker developed an open sourced, academically rigorous methodology on impact through investment which considers investment strategy, financial performance, intensity of shareholder engagement as well as advocacy efforts. It also scores culture and performs gap analyses.

We were identified as a leader in creating impact throughout our operations, investment process, corporate engagement, and policy and advocacy. In particular, our philosophy and approach to effective stewardship was judged to be an exemplar for other firms looking to improve their active ownership practices. Our research into determining the importance of ESG factors in the investment returns and leadership and collaboration in a range of responsible investment organisations and initiatives, such as Climate Action 100+, was also noted.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

FINANCIAL REVIEW

Financial highlights

	2016	2017	2018	2019	2020
	£m	£m	£m	£m	£m
Revenue	104.0	132.2	142.8	158.2	188.1
Administrative expenses	(99.3)	(124.2)	(182.8)	(145.8)	(175.5)
Non-operating items	5.8	5.2	-	2.4	20.9
Non-controlling interest					(0.9)
Statutory accounts pre-tax profit/(loss)	10.5	13.2	(40.0)	14.8	32.6
Add back goodwill and intangible asset amortisation	1.3	1.3	1.3	1.0	2.8
Transaction expenses associated with change of control	-	-	62.9	-	-
Deduct gain arising on acquisition of HGPE	-	-	-	-	(14.4)
Bonus deferral / retention	(2.0)	(2.6)	(6.8)	(3.0)	(2.0)
Regulatory change costs	-	1.1	1.6	-	-
Non-recurring performance fee crystallisation	3.6	-	-	-	-
Long-term incentive plan	3.6	14.9	4.4	12.6	12.2
Deferred consideration relating to acquisition of MEPC	-	-	-	-	1.5
Other	(1.5)	0.8	(1.1)	0.4	0.5
Underlying pre-tax profit	15.5	28.7	22.3	25.8	33.2

Information provided to the Board is prepared on an underlying basis as this is the most useful basis on which to manage the activities of the Group. This result excludes several items that are not fully within the control of management, including: goodwill and intangible asset amortisation, bonus deferral adjustments, the accounting impact of long-term incentive plans and foreign exchange retranslation of non-sterling denominated subsidiaries. In 2020, there were two additional material exclusions from the underlying profit. Firstly, £14.4m of negative goodwill was recognised through the profit and loss account on consolidation of HGPE. This statutory gain has been deducted from the underlying profits. Secondly, deferred consideration with respect to the acquisition of MEPC has been added back to the underlying profit. Included within the sale and purchase agreement was a provision for contingent consideration arising from future performance fees earned by MEPC. This performance fee crystallised in December 2020.

Revenues rose by 19% in 2020, primarily as a result of the consolidation of HGPE on 22 April 2020 and the acquisition of MEPC on 15 January 2020, effective 1 January 2020 (see 'Corporate Acquisitions' below). Despite the significant market deterioration resulting from COVID-19, HFML's management fee income still rose slightly in 2020. Net outflows of £0.3bn were experienced however most markets not only recovered but exceeded pre-COVID-19 levels by 31 December 2020. Performance fee revenues increased significantly in the year to £16.2m (2019: £5.5m); this increase resulted from two non-recurring real estate related performance fees of £7.5m and £5.2m respectively.

HFML's cost base rose by 20.4% in the year, similar to the increase in revenues noted above, the consolidation of HGPE and MEPC proved to be a significant driver and this accounted for £20.6m of additional administrative expenses.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Financial highlights (continued)

With the exclusion of HGPE and MEPC, HFML's cost base still rose by 6% in the year; with the key driver being staff related costs. By 31 December 2020, headcount increased by 36 to 450 (excluding HGPE and MEPC) as the Group continued its strategic growth plan. This plan included additional headcount in London, Dublin, Frankfurt, Pittsburgh and Sydney. While the discretionary bonus pool remained broadly flat, bonus costs increased in the year as deferred bonuses are notionally linked to the performance of HFML's funds and these funds have seen a significant uplift in market performance, especially in the second half of 2020. Overall, the cost base has increased in line with the growth in the Group. A notable reduction in the cost base however was business travel, which fell by £2.5m in 2020.

Corporate Acquisitions

On 15 January 2020 (effective 1 January 2020), HFML completed the acquisition of MEPC, a UK commercial real estate developer and asset manager for a consideration of £9.9m. The acquisition has enhanced HFML's real estate proposition by adding specialist asset and development management expertise to the existing portfolio.

On 5 March 2020 (effective 1 March 2020), Federated Hermes, Inc. completed the acquisition of HGPE Capital Limited. HGPE Capital Limited controls 50% of the voting rights of HGPE with HFML controlling the remaining 50%. Following this acquisition, a new Limited Liability Partnership Agreement was signed which changed the governance arrangements in place. This resulted in a change of control whereby, on 22 April 2020, HGPE became a subsidiary of HFML and was consolidated into the wider Group. The change of control occurred without any consideration being paid by HFML and this led to a gain on acquisition of £14.4m being recognised in the profit and loss account; representing negative goodwill generated upon consolidation.

Financial position

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

Consolidated net assets as at 31 December 2020 were £166.2m (31 December 2019: £123.1m). The increase was mainly due to the underlying profit for the year. 2020 did include some significant additions to the Group's asset base – including: Intangible assets resulting from the consolidation of HGPE (£19.5m net of amortisation); goodwill and intangible assets resulting from the acquisition of MEPC (£5.9m net of amortisation). The Group also acquired £7.3m of hedging investments and seeded £3.0m into new funds, in collaboration with its parent, Federated Hermes, Inc.

Cash balances at 31 December 2020 increased to £114.1m (2019: £89.9m), however £23.6m of this increase relates to cash held by HGPE. With the exclusion of HGPE, cash levels were broadly consistent year on year.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Regulatory capital

The Group has Tier 1 regulatory capital of £130.6m, which was £80.2m above the Financial Conduct Authority's capital requirement for the Group as at 31 December 2020 of £50.4m. Further details of the Group's approach to capital adequacy can be found on the HFML website: <https://www.hermes-investment.com/ukw/about-us/policies-and-disclosures/>

Tax governance

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

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

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

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

At 1 January 2020	37.1
Inflows	8.1
Outflows	(8.4)
Net flow	(0.3)
Market movement	2.7
At 31 December 2020	39.5

2020 proved to be a challenging year. While the Group raised £8.1bn of inflows in the year, surpassing its pre-COVID-19 forecasts, the severe deterioration in global markets in March 2020 following the onset of the pandemic resulted in outflows of £8.4bn. The net impact was a reduction in annualised management fee revenues of £3.0m. Global markets started to recover from June 2020 and this performance resulted in the Group achieving a closing AUM for the year of £39.5bn, a record high for the Group.

In 2020, our Sustainable Development Goals strategy was the most successful in raising assets, attracting £467.8m in net inflows, followed by our established Global Emerging Markets strategy with net inflows of £420.1m.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

Our £39.5bn in AUM can be analysed by client type and geography as follows:

By client type:

- £24.0bn is managed for institutional investors; and
- £15.5bn for wholesale clients.

By geography:

- £19.0bn is sourced from the UK and Ireland markets, a reduction of 0.48% since 2019;
- £12.5bn is managed for European investors, a rise of 12.62% since 2019;
- £5.8bn is managed for clients in North America, up 27.13% in the past year;
- £2.0bn is managed for Asian clients, a reduction of 1.33% since 2019; and
- £0.2bn is managed for Middle East and North African investors, marking an increase of 26.15% in the last year.

EOS's AUA grew by £276.3bn (by 42%) in 2020 to reach £938.5bn at 31 December 2020, a record year for EOS. This follows last year's £272.7bn, which represents 70% growth. The substantial growth clearly demonstrates the ever-increasing demand for engagement, advisory and intelligent voting recommendation services but also our expertise, experience and global leadership in this field. By 31 December 2020, EOS engaged with companies that together account for 63% of the weight of the MSCI ACWI ALL Cap Index. Our stewardship business is not just attracting new clients, it has been highly successful in retaining clients, with 80% of relationships in core engagement lasting at least five years.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

INVESTMENT REVIEW

In 2020 the global economy suffered its sharpest recession since World War II, triggered by the COVID-19 pandemic. According to the International Monetary Fund's estimates, global output fell by about 4.5% in 2020. The global economy rarely contracts – indeed, it just stalled during the Global Financial Crisis ("GFC") in 2008-09, when output losses in developed economies were offset by gains in emerging markets (in China notably). By contrast, the pandemic-related shock simultaneously hit across the board.

Developed markets were relatively worst affected, reflecting an underperformance of the services sector. Lockdown measures, travel restrictions and social distancing weighted on services such as transportation, accommodation, leisure and hospitality. Manufacturing fared relatively better, also helped by early signs of a recovery in China in the second half of the year.

The policy response to the pandemic was forceful. Central banks slashed policy rates to zero or slightly negative territory, reactivated asset purchasing programs and provided emergency liquidity. As a result, the G4 central banks' balance sheets expanded by about \$8tn to a cumulative stock of \$23tn. However, the new game in town was fiscal policy accommodation, enabled by easy monetary conditions. Since the end of March 2020, developed countries announced fiscal packages jointly worth about \$10tn, dwarfing fiscal measures that were adopted during and in the immediate aftermath of the GFC.

Financial markets were also severely hit by the pandemic-driven recession but have rebounded in the second half of the year, supported by easy monetary conditions and fiscal largesse, the prospects of mass vaccination and the removal of policy uncertainty following the US elections. Global equities were down about 30% over the first quarter of 2020, but more than reversed the losses over the remainder of the year, ending 2020 up by almost 17%. The US 10yr yield hit new record lows during the year, falling to almost 0.5% in early March and, again, in early August. It has recovered since then and it is now running above 1%, an historically low level that is consistent with expectations of persistently easy monetary conditions.

2021 outlook

2021 is set to be the year of the recovery. Major economies have stabilised and are expected to rebound in the second half of the year, once the vaccine rollout is completed. However, the big question concerns the shape of the recovery, whether it will be vigorous (V- or W-shaped), paltry (L-shaped) or uneven (K-shaped).

While there are still risks surrounding the successful roll-out of the vaccine due to logistical challenges and virus mutations, the momentum and breadth of the recovery will eventually come down to the policy mix authorities deploy. In particular, the focus will be on fiscal stimulus, and its composition. If public spending includes high-multiplier and structural items (infrastructure, research & development, labour force retraining, for instance), it will boost productivity, allowing for a more vigorous and sustained impact on growth.

Meanwhile, monetary policy will remain extremely loose, and increasingly coordinated with fiscal policy. Central banks will extend their existing purchasing plans, with the G4 central banks already set to jointly expand their balance sheets by about \$6tn over the year.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

INVESTMENT REVIEW (continued)

2021 outlook (continued)

Moreover, they will likely strengthen their commitment to keep rates low (by using forward guidance and, possibly, by adopting yield curve control policies), in turn providing an anchor for long-term rates. They will probably tweak their mandates, with broader adoption of Fed-style average inflation targeting frameworks and/or more explicit targeting of growth and employment.

Geographically, the recovery will be largely synchronised, the same way the sharp recession in 2020 concerned all regions. China – which was the first to be hit – has led the way, also reflecting a successful containment of the pandemic. However, synchronisation does not mean coordination, and the trend towards more insularity and regionalisation will likely continue, despite a more collaborative US Presidency. For markets, this may be more a ‘crack-in-the-ice’, than a ‘cliff-edge’, event. Moreover, investors need to see the German Chancellor’s successor keep the glue around the euro.

Within this challenging context, the aftermath of the pandemic might offer an opportunity to ‘build back better’ by tackling existential crises such as climate change. So far, fiscal stimulus has mainly focused on supporting employment and spending in the short term. Yet, green investment – yielding on longer-term horizons – has also gained relevance. In the recently approved EU budget (€1.8tn over seven years), 30% of funds are devoted to fighting climate change, the highest share ever. Meanwhile, in the US, President Biden has run on a strong mandate to fight climate change and the Democratic control of the Senate – albeit slim – means he has a decent chance of implementing at least parts of his green Agenda, which includes a commitment to net zero emissions by 2050 and a dedicated \$2tn budget over 10 years.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

SECTION 172 STATEMENT – STAKEHOLDER ENGAGEMENT

Section 172 of the Companies Act 2006 requires Directors to promote the success of the Company for the benefit of all the members as a whole and in doing so have regard to the interests of all of our key stakeholders.

The Directors have considered each of the requirements under Section 172 and believe them to be consistent with our commitment to treat all stakeholders fairly and with respect (see Federated Hermes Pledge pg.41). HFML's goal is to deliver sustainable wealth creation: investments that enrich investors, society and the environment for the long term. Among the Board's responsibilities is the formulation of our business purpose, namely to help individuals invest and retire better through sustainable wealth creation. This includes helping clients achieve better risk-adjusted returns and, where possible, contributing to positive societal and environmental outcomes in the wider world. Naturally this includes consideration of how the decisions we make as a business impact all of our stakeholders.

This year, as the world has fought the COVID-19 pandemic, how we engage with our different stakeholders matters more than ever. The crisis has highlighted the critical interdependence between companies, their stakeholders and governments. We strive to meet the commitments set out in the Federated Hermes Pledge, including treating clients, colleagues and all other stakeholders with dignity and respect. In addition to the following summary table, information about how we demonstrate this is integrated throughout this annual report.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2020
Clients and beneficiaries	<p>Consideration of clients and beneficiaries is integrated throughout our business. We believe we have a responsibility to lead the field in demonstrating we provide them with value for money by acting with integrity as skilled investors and good stewards of capital.</p> <p>We aim to create sustainable wealth for investors. This requires us to understand and put the needs of our clients and their beneficiaries first. It informs our investment processes, stewardship activities and public-policy work. To do this we build close relationships with clients to better understand their financial needs and broader objectives and concerns.</p> <p>Fair treatment of clients is central to our approach, and</p>	<p>We initiated a project to provide clients and prospects with enhanced factsheets and client reports incorporating best practice carbon, ESG and stewardship data.</p> <p>We published multiple thought pieces on investment and sustainability topics, ranging from harnessing the pandemic recovery to promoting sustainable development, European sustainable investment regulation and reducing auto-sector emissions – often breaking new ground.</p> <p>We held regular client conferences and seminars, including the EOS at Federated Hermes biannual Client Advisory Council.</p> <p>Further information on our stewardship and investment outcomes can be found on pages 17 and 15 respectively.</p>

HERMES FUND MANAGERS LIMITED

	<p>a key consideration for our governance bodies, including the oversight of the creation and lifecycle of our investment products. A robust policy framework supports this work, including a conflicts of interest policy and product development and review procedures.</p>	
Suppliers	<p>Like many businesses, we use external service providers and suppliers to supplement our own infrastructure and operations. This enables us to provide a higher quality of service to our clients and meet regulatory requirements. The Group retains responsibility for the performance of our third-party suppliers. We are committed to observance of all laws and regulations, including the Modern Slavery Act, and to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. It is essential for all product and service providers to adhere to our Supplier Code of Conduct so that we can live up to this commitment.</p>	<p>We have continued to maintain high standards of due diligence for our suppliers. While the impact of the pandemic on many of our services-based suppliers has been manageable, it has been a very challenging period for some of our suppliers. We have sought to avoid creating any additional unnecessary pressure on our suppliers. For example, our travel provider was forced to furlough staff, resulting in longer response times and the absence of our dedicated contact. We accepted these changes to our service and took on additional operational costs incurred by the supplier, in order to help them financially survive in this difficult time for the travel industry. We have also been working closely with a number of IT suppliers to continually improve our remote working environment.</p> <p>Our Brexit working group has developed strategies across business areas to manage key suppliers during the process of the UK's exit from the EU. The working group involves procurement Subject Matter Experts ("SMEs") from key areas of the business.</p> <p>As at 31 December 2020, the international business of Federated Hermes took an average of 21 days to pay our suppliers, with our standard payment terms being 30 days from the date of invoice. This compares favourably with many of our peers.</p>
People	<p>Our people's wellbeing and development are central to</p>	<p>Throughout the pandemic we have provided additional support and</p>

	<p>the ongoing success of our business. Staff are aligned to our mission of delivering sustainable wealth creation for clients and beneficiaries in a number of ways, including: being encouraged to sign the Federated Hermes Pledge, receiving market-aligned remuneration and benefits, receiving ongoing development support, and being encouraged to be collaborative and innovative through behavioural criteria in our performance management framework.</p> <p>We recognise that diversity and inclusion are key to developing a wide-ranging outlook to meet client needs. Diversity and inclusion initiatives are promoted through a formal Inclusion Committee reporting into Exco; Unity, our staff diversity and inclusion network, and talent development initiatives such as mentoring, coaching, unconscious bias training, mindfulness and financial wellbeing education. We are making progress and recognise the fact that we can make further significant improvements.</p>	<p>resources that focus on employee wellbeing. As well as supporting our entire workforce to work remotely with no staff being furloughed, we have rolled out the following initiatives:</p> <p>2020 employee pulse survey</p> <p>We launched a survey to understand what is effective from a communication, leadership and wellbeing perspective and where we still need to improve. Staff expressed satisfaction in the quality and level of communications and wellbeing initiatives.</p> <p>Weekly all-staff calls</p> <p>Our communications team has run regular calls hosted by ExCo to ensure staff feel engaged with the company and understand how wider issues are impacting us and being handled as a business.</p> <p>Training and development</p> <p>We have run regular webinars and workshops to support all staff. Topics include: managing teams remotely, resilience, managing change, mindfulness and dealing with isolation.</p> <p>Mental health first aid training</p> <p>Through virtual training, we have continued to ensure we are equipped with volunteer mental health first aiders who can help staff in need of support.</p> <p>Winter Wellness Programme</p> <p>We developed further training to support mental health awareness, physical movement and mindfulness to recognise the additional challenges presented by the change in seasons and ongoing remote working.</p>
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HERMES FUND MANAGERS LIMITED

		<p>Unity</p> <p>Our diversity and inclusion employee network continued to arrange activities supporting a range of themes, including LGBT+, race, working parents and broader wellbeing during remote working.</p>
Society and the environment	<p>We believe we should lead by example as a firm, seeking positive environmental and social outcomes in addition to investment outperformance. We therefore strive to make a difference by delivering sustainable wealth creation enriching investors, society and the environment. We aim to achieve this through our unique approach: a fusion of high-active-share investment, best-in-class ESG analysis and effective stewardship, with integration overseen by the Responsibility Office.</p> <p>Focusing on our own actions as a business, we seek to minimise the environmental impact of our operations, positively impact the communities in which we are based and benefit wider society. Pursuing these aims, we work with several environmental and community organisations and charities.</p>	<p>We have continued our ESG integration and stewardship across asset classes, and policy advocacy to promote responsible investment practices and business conduct on a range of environmental and social issues this year. More details can be found on page 17.</p> <p>In 2020 we planted 6,100 trees through our relationship with Trees for Cities. This offset our operational emissions of 2,268 tonnes of CO₂ in 2019. In 2020, our operational emissions fell to 938 tonnes of CO₂. We have cut our annual energy consumption to 411,682 kWh from 452,443 kWh in 2019 and reduced paper usage to less than one tonne from eight tonnes in 2019. Our waste volumes declined to 103 tonnes from 297 tonnes in 2019.</p> <p>The pandemic impacted many of our community activities due to the need to ensure the safety of all people involved. With this in mind, we undertook remote volunteering and support. We also increased our charitable donations:</p> <ul style="list-style-type: none"> • As part of our immediate charitable response to the pandemic, we donated £100,000, split equally between East End Community Foundation and Meals for NHS. • To support our charity of the year, The Brain Tumour Charity, we raised over £40,000 through a 650km charity cycling challenge completed by a group of employees. In addition to the fundraiser, we made a

HERMES FUND MANAGERS LIMITED

		<p>company donation of £20,000.</p> <ul style="list-style-type: none"> In response to the Black Lives Matter movement, we donated £10,000 to Urban Synergy, an early intervention mentoring charity that helps hundreds of young people aged between 11-18 years reach their full potential.
Regulators and policy makers	<p>Regulators have a legitimate interest in how we treat our clients and run our business. We believe that our clients' interests are best served when we engage constructively with regulators. Proactive engagement on regulation and policy governing responsible approaches to investment is also key to delivering sustainable wealth creation.</p> <p>Our Head of Policy & Advocacy works with staff across the firm to ensure these engagements are well informed, relevant and impactful. Using the skills and experience within our business to work constructively with policymakers, we aim to lead rather than follow policy debates.</p> <p>We engage with regulators and policymakers through a variety of means – bilaterally, alongside fellow investors and through collective initiatives. Day-to-day regulatory and legal activities are managed by our Compliance and Legal teams.</p>	<p>We have engaged with a wide range of regulators and policy makers this year, including: the European Commission and European Supervisory Authorities regarding elements of the EU sustainable finance legislation, the Financial Reporting Council ("FRC") about ongoing audit and accounting reform, and the US Securities and Exchange Commission ("SEC").</p> <p>We seek to be constructive in our engagement to help policymakers achieve outcomes that best serve the interests of clients and their beneficiaries. After our extensive engagement, we were pleased to see the European Commission's decision to delay the detailed Level 2 reporting requirements of the Sustainable Finance Disclosures Regulation ("SFDR"). This will allow time to align disclosures with the EU Sustainable Finance Taxonomy and ultimately generate an approach that serves end investors more effectively.</p>
Shareholders	<p>We rely on the support and engagement of our shareholders in order to deliver sustainable wealth creation for clients and beneficiaries, and to achieve</p>	<p>Both our majority and minority shareholders, Federated Hermes and BTPS, respectively, are represented on our Board.</p> <p>Our CEO, Saker Nusseibeh, is a</p>

HERMES FUND MANAGERS LIMITED

	<p>our strategic objectives and growth plans.</p> <p>Both our parent firm and minority shareholder have representation on the Company's Board of Directors as well as all the governance committees described in more detail in the Committee Reports section of this annual report.</p> <p>As such, both shareholders are actively involved in all strategic decision-making.</p>	<p>member of the Federated Hermes, Inc. Executive Staff. Saker attended all committee meetings in 2020.</p>
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Tackling the climate crisis

The COVID-19 pandemic has shown us that to tackle a global crisis, governments and companies need to come together for the public good. Asset managers, too, have an important role to play: by engaging with companies, they can understand and challenge businesses' operational and strategic responses to climate change, such as setting science-based carbon-reduction targets and shifting to renewable energy sources. In addition, they can advocate policies driving the transition to a low-carbon economy.

At the international business of Federated Hermes, our teams place stewardship, high-active-share investing and a truly long-term perspective at the heart of what we do. We integrate climate change considerations into our investment decision-making, encourage meaningful actions by our investments through our active engagements, thereby seeking strong performance and beneficial outcomes for society and the environment for years to come. For example, climate change is one of the key megatrends our Impact Opportunities strategy focuses on. They see renewable energy, electric vehicles, and energy-efficient housing as some of the key pillars in the fight against climate change.

Beyond our investments in and engagements with companies exposed to climate risks, our Responsibility Office engages with public policymakers and regulators on the topic of the climate crisis to promote positive change. Through our memberships in the Green Finance Institute, the Institutional Investors Group on Climate Change and the UK Sustainable Investment Forum, we ensure that the targets and tools investment managers need to fully play their part in delivering the net-zero-carbon transition are available.

As we navigate through COVID-19 and its impacts, we have an opportunity to shape the post-pandemic world so that confronting the climate emergency is an undisputed global priority.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Employee alignment

The Federated Hermes Pledge

Each of our employees is asked to sign the Federated Hermes Pledge which aligns employee behaviours to the company's mission and objectives.

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

OUR PLEDGE

The Federated Hermes Pledge underpins our Group-wide commitment to always put clients first, and to act responsibly and transparently.

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

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

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Employee alignment (continued)

Attracting and developing talent

Our success and growth continue to be driven by the values, behaviours and performance of our people. From recruitment to development, we focus on building a firm populated by talented and collaborative people motivated by our purpose and opportunities to excel. This underpins positive relationships throughout the business and our ability to embrace change in the pursuit of outcomes in the interest of our clients and society as a whole.

	2020	2019	2018
Number of employees	533	415	388
Employee turnover	7.1%	12.0%	11.0%

As a business we recognise that our people are our biggest asset and the strength and market differentiator behind our products and services. From investment to operations and business development, people make all the difference. Therefore, attracting talent and investing in the progression of our employees is crucial to our continued success. It is the responsibility of every leader and manager throughout HFML to create an environment where all our people can improve their knowledge and skills, feel valued and perform at the highest level.

To develop future talent within the business, HFML provides a suite of management programmes that span induction, business and professional skills, technical development, management development and professional studies. To support our employees outside work, the team also arranges frequent educational sessions about pensions and financial planning, as well as training to support our employee's mental health and well-being such as mindfulness sessions. Throughout the COVID-19 pandemic we have provided additional training and support to all our employees and line managers including coaching, managing teams remotely and resilience. In Q4 2020 we launched a Winter Wellness Programme to provide holistic support from a mindset, movement and mindfulness perspective covering topics such as sleep and nutrition, physical wellbeing, mental wellbeing, motivation and re-connecting teams.

Investment trainee programme

In 2020 HFML created a programme that encourages school and college leavers from socially disadvantaged backgrounds to explore employment opportunities within the Asset Management industry. As part of this initiative, HFML are particularly keen to increase the diverse demographics of the business and a pilot was launched in Q4 2020 with the support of Investment20/20. The trainee programme involves a 12-month rotation across some of our investment teams and risk & compliance, followed by an opportunity to embark on a 12-18-month apprenticeship. We are keen to provide training and development to junior talent and to provide those, who might not have ordinarily had the opportunity, to learn more about a career in our industry.

Diversity and inclusion

We have worked hard to build a progressive and diverse work force, to not only reflect the society we live in, but also because it leads to better business outcomes. In 2019, our Executive Committee endorsed a Diversity and Inclusion strategy along with a three-year implementation plan and we have been continuing the work to execute that plan.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Employee alignment (continued)

Diversity and inclusion (continued)

As part of our D&I strategy, over the course of 2020 we have increased the value and strength of our family friendly policies to support working parents by reducing the service required to qualify for the company paid element of family leave and to increase the pay for maternity, adoption and shared parental leave.

The activities of UNITY, our employee network, the Inclusion Committee, and our Corporate Social Responsibility and Human Resource teams have been instrumental in maintaining focus on the agenda during the challenges of the pandemic. We have made progress during the course of the year despite these challenges and have supported our employees through various virtual initiatives such as the Winter Wellness program, a series of virtual events focussed on wellbeing, and supporting parents during lockdown. We marked Black History Month with a series of events including sharing an ally's guide to anti-racism and an active allyship roundtable.

Having listened to feedback from colleagues across the business about challenges that specifically affect black and ethnic minority groups, we are working with a specialist consultant to build a deeper and better understanding of these challenges and to create an environment that promotes and supports all ethnic groups and addresses any shortcomings identified. We are undertaking a facilitated inclusion change program that includes learning and development for leaders and managers, to enhance race fluency and address bias and prejudice, both conscious and unconscious, in the workplace as well as a review of the 'employment lifecycle' to support progression and retention of diverse talent in the business.

We are proud to be signatories of the London Living Wage, Women in Finance and Race at Work Charters and through our networks, including the Diversity Project, the 30% Club, Investment20/20, CityHive, Business in the Community and the Employers Network for Equality & Inclusion, as well as our Engagement work advocate, and look for opportunities to collaborate and share best practices across the D&I agenda.

Whilst we continue to make incremental progress against our Women in Finance Charter targets and the Gender Pay Gap, we acknowledge there is much work still to be done but were delighted that recognition of our momentum was deservedly given to our Talent & Learning Development Partner through the 2020 Women in Investment Awards. We also have appointed a new Head of Inclusion to help drive further progress in the next stage of our D&I journey.

Women in Finance Charter

Gender diversity: employed women across HFML's business

	2021 Target	2020	2019	2018
Firm-wide	45%	44%	42%	40%
Board	35%	31%	31%	31%
Senior management	35%	33%	31%	28%

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

Employee alignment (continued)

Diversity and inclusion (continued)

Gender Pay Gap

Gender Pay Gap across HFML's business

	2020	2019
Mean pay gap	26.5%	27.0%
Median pay gap	26.0%	25.0%
Mean bonus gap	64.4%	68.4%
Median bonus gap	62.5%	52.4%

The full Gender Pay Report, submitted at the end of March 2020 regardless of the relaxation in the Governments legislation due to the pandemic, is accessible via <https://www.hermes-investment.com/about-us/diversity-and-inclusion/>

Board diversity

Fully aware that a wealth of deep and broad experience and perspectives at the highest level are instrumental in successfully guiding a business, we are committed to diversity in the boardroom. As at 31 December 2020, four of the 13 Directors (31%) on HFML's Board are women (31 December 2019: 31%). Specific criteria govern our appointments to the HFML Board, including appropriate expertise and experience alongside all measures of diversity. We expect that long and short lists of candidates reflect these requirements.

London Living Wage

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

Equal opportunities policy

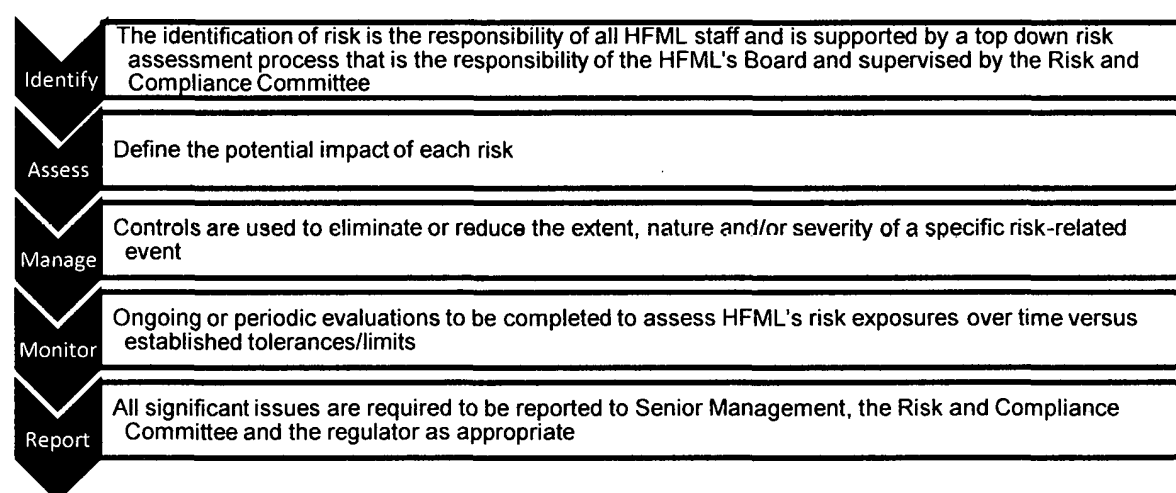
We believe in equal opportunities for all and aim to ensure that no current or prospective employee is treated less favourably on the basis of their gender, race, ethnicity, religion or belief, gender identity or expression, marriage or civil partnership, pregnancy and maternity, age, sexual orientation, or disability. During the course of 2020 we are proud to have achieved certified status as a Disability Confident employer.

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

HFML recognises that the management of risk as part of our everyday activities is essential to support the achievement of our strategic objectives. Effective risk management is fundamental to safeguard the interests of our clients and other key stakeholders. The Board of Directors of HFML is ultimately responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives. To help the board discharge its responsibilities, the group has a comprehensive Risk Management Process.

Risk Management Process



The risk management process plays an essential role in the Company with the aim of providing adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate risk to which HFML is exposed. HFML is subject to the requirement to have adequate governance frameworks in order to monitor those risks.

Risk management framework

The risk and control framework at HFML sets out the overall approach to manage the internal and external risks to which the firm is currently exposed or may be exposed to in the future. Underpinning this framework are several supporting Risk Policies that describe the principles and the approach to risk management, and define the content of the risk management process pursuant to the risks to which the firm is exposed.

The Risk Management Framework is founded on three pillars:

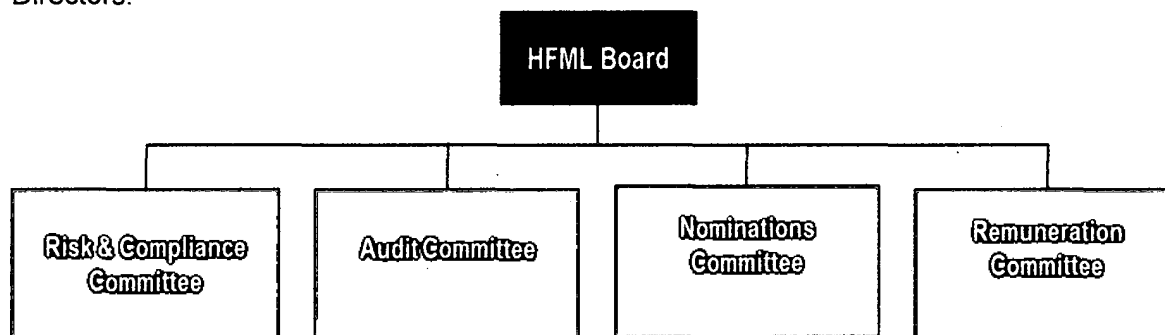
1. Risk appetite - Risk awareness is at the heart of our strategic planning process, supporting organisational decision making. Formulation and delivery of plans enable the management of business performance against strategic objectives. Our Risk Appetite is set by the HFML Board and details the amount of risk it is prepared to accept in conducting its business and in pursuit of its strategic objectives, after consideration of risk-reward trade-offs. Risk Appetite sets the framework for the development of corporate strategy and the risk framework.

HERMES FUND MANAGERS LIMITED

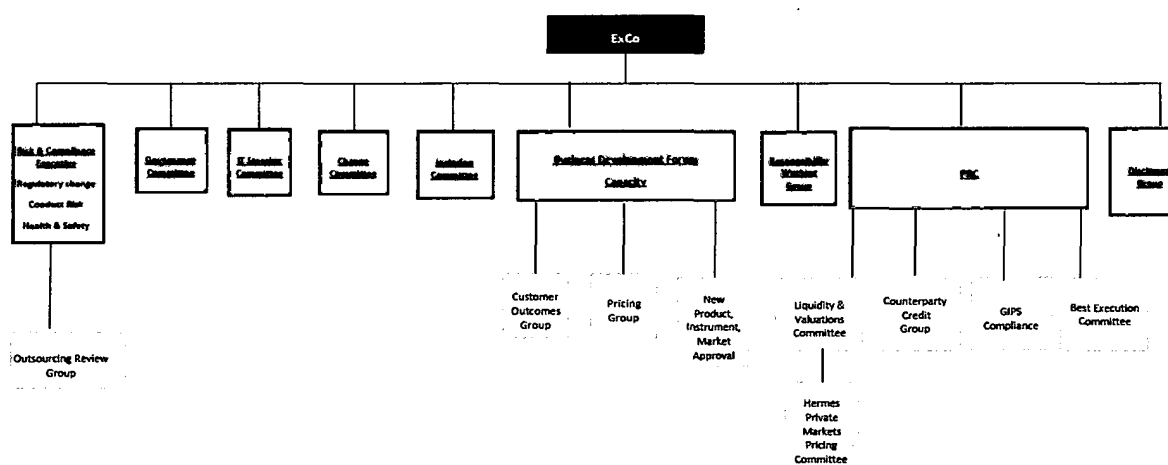
STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

2. Corporate governance - The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives. For the Board to accomplish its responsibilities, it has established a governance framework consisting of the following committees, members of which include HFML Senior Executives and Non-Executive Directors:



Day-to-day management of the business has been delegated by the HFML Board to the HFML CEO, who has established an Executive Committee ("ExCo"), as well as several oversight committees to support the governance framework, namely:



Notes: In addition to the above, there are team meetings and other informal groups which are not part of formal governance. HFML representatives are present at the above committees in accordance with their terms of reference. HGPE also has a governance structure including a Management Committee and Executive Committee that cover relevant risk matters.

3. Culture - A policy management framework and a set of Group policies support the delivery of the organisation's strategy by establishing operating principles and standards for managing risks across the organisation.



Capital Adequacy

The Internal Capital Adequacy Assessment Process ("ICAAP") brings together risk management and monitoring of the Group's ongoing capital requirements. Specifically, the ICAAP quantifies the impact of HFML's Board's ongoing assessment of the Group's risks, anticipates the management actions it can take, and ascertains the amount of current and future capital that is required to enable the Group to endure. The ICAAP is embedded within the culture, systems, controls and governance of HFML and a review as to its adequacy is formally undertaken at least annually, with more frequent updates made as necessary if a material change occurs.

Stress and scenario testing have been developed in order to test the robustness of the Group's regulatory capital against a variety of events. Further details of the Group's approach to capital adequacy can be found on the HFML website: <http://www.hermes-investment.com/en-gb/literature.aspx>

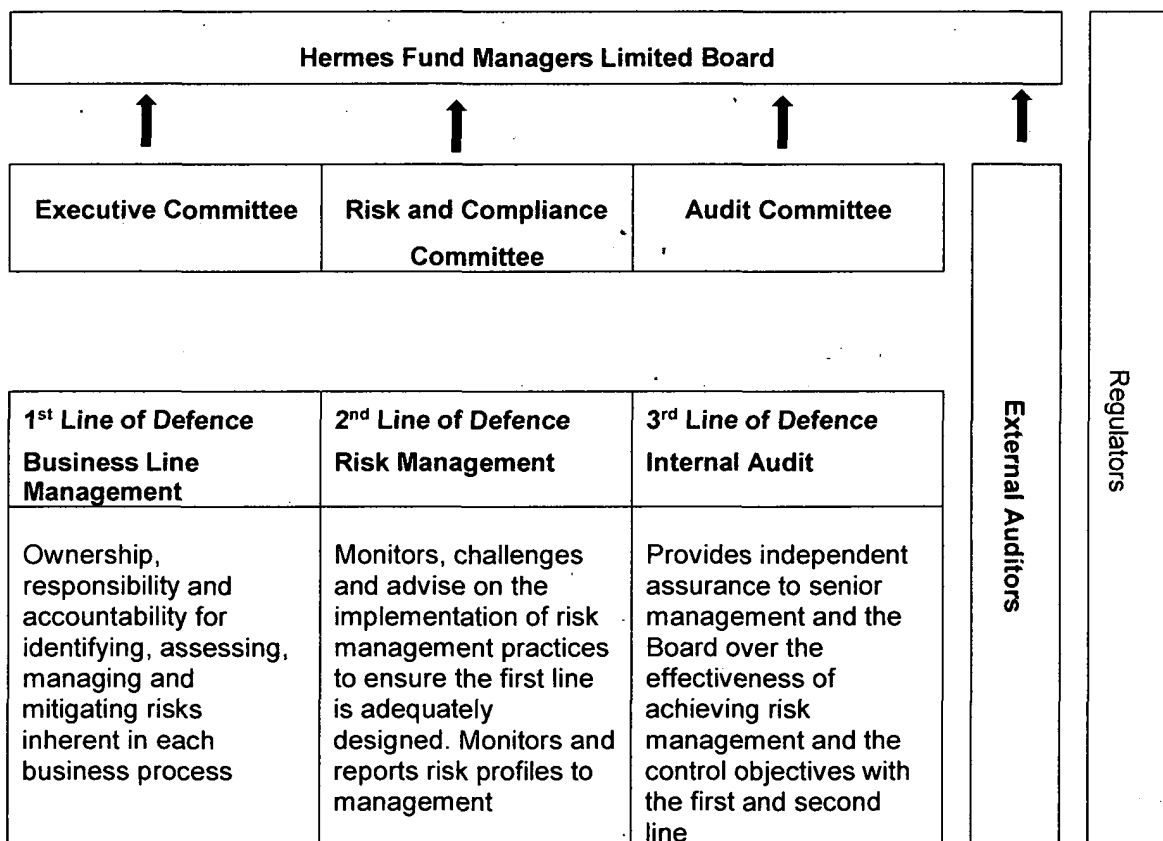
HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Three lines of defence

The HFML Risk Management Framework is underpinned by a three lines of defence model with defined responsibilities for risk management which are designed to deliver the standards of conduct that our stakeholders expect.



HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Principal Risks and Mitigants

The following section shows our assessment of the top 16 risks that we face, and that may affect potentially in a material way, HFML's business, results of operations, financial condition and/or cash flows, along with whether the significance of the risk has changed during the year. The top 16 risks are grouped as follows:

- Business risk;
- Operational risk; and
- Market and financial risk (includes risk categories in respect of capital, credit and liquidity).

These risks are not static. New and emerging risks are considered and assessed by the HFML Board throughout the year for inclusion in this list.

During the early part of 2020, the COVID-19 outbreak, which has been declared a pandemic by the World Health Organisation, emerged as a new risk that poses a significant threat to the global economy, which has implications for our business. The impact has been assessed by the Group and our responses documented below in the sections on Operating Model, Outsourcing and Technology.

Business Risk - Risk Profile 2020 vs 2019 (Increased)

HFML continued to focus on organic growth in 2020 with the Board reconfirming its agreement with the Group's strategy. Increasing geo-political instability in the wider macro-economic environment as discussed in the Investments Review and the continuing threat of the COVID-19 outbreak, increased business risk in 2020.

Risk	Mitigants
Strategy The risk that HFML does not meet its long-term strategic objectives. The risk includes external threats such as technological innovation and/or new market entrants within the industry reducing profitability and requiring fundamental change to the business model.	HFML has outlined its strategic aims, which are supported by the business operating model. Strategic planning includes an assessment of risks, client impact and consideration of Risk Appetite and capital. Indicators and financial metrics are in place to monitor progress against strategic objectives. A diversified range of products is offered, with regular new product launches to ensure that the offering remains in keeping with changing client requirements. A range of distribution channels mitigates against an excessive dependency on any single sales channel.
Investments The risk that portfolios will not meet their investment objectives adversely affecting	The HFML Investment Risk Framework provides monitoring and challenge of investment risks and performance across teams.

HERMES FUND MANAGERS LIMITED

<p>levels of new business or fee income. This risk includes poor performance, liquidity, capacity and/or counterparty management subsequently leading to reputational damage. The risk also includes failure to apply acceptable standards of stewardship and responsible investing including areas such as climate risk and wider ESG concerns.</p>	<p>The HFML Investment Office independently monitors risk and seeks to ensure the rigour of team strategies. Investment teams adhere to clearly defined investment processes including pre and post trade compliance.</p> <p>The Responsibility Office independently assesses the level and progress in stewardship and ESG integration activities.</p> <p>Various management committees such as the Portfolio Review Committee and the Liquidity & Valuation Committee are in place, to provide scrutiny over investment positions held.</p>
<p>Loss of Key Clients</p> <p>This risk relates to the loss of a key client or group of clients resulting in a detrimental impact on HFML.</p>	<p>The risk is mitigated by HFML having a strong culture of retaining clients by understanding and delivering outcomes aligned to evolving client requirements.</p> <p>HFML is actively growing its third party offerings and launching new products which help to develop and diversify its client base.</p>
<p>Sales</p> <p>Failure to meet sales targets, the pressure on revenue streams from inadequate distribution channels and the competitive pressures on distribution.</p>	<p>Sales teams develop comprehensive sales strategies by region and channel in conjunction with the Head of Business Development. Delivery of sales strategies and performance against targets is regularly monitored.</p> <p>Distribution and investment teams work closely with the sales staff with the objective of remaining well briefed on product characteristics. Oversight is also placed on third party distributors.</p> <p>Several training sessions are run by Compliance. Financial promotions are subject to regular Compliance approval and monitoring.</p>

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Operational Risk – Risk Profile 2020 vs 2019 (Increased)

Operational risk has increased with the growth of third-party clients, development of our distribution strategies and development / diversification of our product range, as well as the move to a working from home environment for HFML employees and our suppliers. Consequently, these drivers have increased the complexity of our operating model.

Risk	Mitigants
<p>Operating Model</p> <p>The risk that the operating infrastructure is not fit for purpose, is inefficient or not scalable, failing to support strategic plans. The risk that process failure results in heightened operational risks, errors and breaches. This risk includes the impact on business continuity.</p>	<p>Operational policies and procedures are reviewed and updated periodically and available to all staff. A robust governance structure exists with Board-level committees including the Risk & Compliance Committee and the Audit Committee who review risk events and audit findings and consider issues and reports on operational activities, assess priorities and operational progress against plans.</p> <p>Operational support to the business is based on middle office processes and controls that are performed in-house and back office processes undertaken by third-party service providers. The Operations team oversees that back-office operations perform in accordance with expectations and to defined tolerances.</p> <p>A business continuity programme and an Incident Management Team ("IMT") is in place. All teams have a Business Continuity Plan. Regular tests are planned in conjunction with IMT and in accordance with the policy timeframe. A register of issues is retained, and appropriate actions are taken to address matters in a timely fashion.</p> <p>In March 2020, the Business Continuity Plan was fully deployed following the COVID-19 outbreak. All HFML's offices were closed, and all staff were required to work from home for the foreseeable future. HFML strictly followed UK government guidelines to safely reopen offices for those who need to work there. Technological solutions, such as video conferencing capabilities, were accelerated to assist working from home. The IMT are closely monitoring and managing the performance of working from home and will continue to do so over the medium term to ensure no impact on business as usual activities.</p>

HERMES FUND MANAGERS LIMITED

<p>Change</p> <p>The risk that HFML fails to deliver a major change initiative in a controlled and timely manner, or the risk that the initiative does not deliver expected benefits. This risk includes the failure for new ventures to align with the culture and vision of HFML and the organisational stress or process failures through potential demands on staff and resources. Change risk includes the governance for products and sales (distribution / channels). Change risk also negatively impacts associated risks such as technology and cyber security risk.</p>	<p>There is in place a comprehensive Change Governance process including a dedicated Change Management Committee which reports to ExCo. Two members of HFML's ExCo are represented on this Committee.</p> <p>No change initiative can be actioned by HFML without it being approved by the Change Committee. All change initiatives are managed and overseen by a dedicated Change Management function.</p>
<p>Employee</p> <p>The risk that key staff across the business leave without an identified successor (key person risk) or that significant numbers of staff resign due to other factors within our 'control' such as (competitive) remuneration, culture or training. The risk includes the Health and Safety of the firm's employees.</p>	<p>To mitigate people risks, the Company has competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. HFML puts in place sustainable succession and development plans. Clear objectives are set, and success is measured in the annual review process, allowing the Company to identify motivational development initiatives for its staff including regular and sufficient training.</p> <p>The wellbeing of staff is of utmost importance to HFML. A number of new initiatives have been put in place to support the wellbeing of staff during the COVID-19 pandemic.</p>
<p>Regulatory / Legislative</p> <p>The risk of regulatory or legal action resulting in fines, penalties, censure and/or legal action arising from failure to identify or meet regulatory and/or legislative requirements in those jurisdictions in which HFML operates. This includes the risk of financial crime and that new regulations, or changes to the interpretation or implementation of existing regulations affect the Company. This risk includes the risk that Tax regulations are not understood, implemented and complied with.</p>	<p>The Compliance, Risk, Finance and Legal functions support front line staff to consider carefully the obligations HFML assumes and to ensure compliance with them.</p> <p>HFML maintains compliance procedures across the Firm and compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Key regulatory change risks are identified by Compliance as part of regulatory change monitoring and are also included on an Emerging Risks Assessment where appropriate.</p>
<p>Outsourcing</p> <p>The risk that outsourcing plans are not aligned to the wider strategy or that outsourcers fail to deliver the expected benefits. The risk includes the failure by HFML to oversee the outsourced relationship and additional third-party services including</p>	<p>Before entering into outsourcing arrangements, HFML undertakes due diligence on outsource providers. A programme of regular oversight and assessment against agreed service levels is in place, overseen by the Outsourcing Review Group.</p>

HERMES FUND MANAGERS LIMITED

technology and cyber security provision.	Following the COVID-19 outbreak, our main outsourcing provider Northern Trust deployed its own business continuity processes. It closed its main offices in India and enforced working from home across its group. Key activities relating to the services performed for HFML were temporarily transferred to the UK and Irish operations. HFML's management continues to closely monitor the service levels.
Fraud The risk of internal and external fraud resulting in such impacts as payments to unauthorised / fraudulent accounts, management accounting irregularities, segregation of duties and toxic combinations, theft of intellectual property and unauthorised access to sensitive data.	An extensive system of internal controls is in place including segregation between the front and back offices, payment controls including authorised signatories and limits, independent approval by separate functions, oversight by senior management and pre-and-post trade checks carried out automatically and manually.
Technology & Information Security The risk that technology systems and support are inadequate or fail to adapt to changing requirements. The risk that systems are vulnerable to third-party penetration, insider risk, or that technology solutions are not resilient and cannot continue to operate to an acceptable standard in the event of adversity/disaster. The risk includes the threat of a cyber-attack and a breach of data protection.	HFML relies on technology and qualified professionals to maintain its infrastructure and invests in IT accordingly. Disaster recovery plans are maintained and back-up plans are tested regularly. Service level agreements are in place with all third-party service providers in an effort to ensure the required level of information security is maintained. Following the outbreak of COVID-19, all staff were required to work from home. Remote access capabilities coped well with the increased demand and video conferencing and instant messaging technology were also put in place to ensure that staff could work effectively from their homes. HFML's management continues to monitor information security and the performance of the IT infrastructure.
Conduct & Culture Misconduct / market abuse potentially causing loss to HFML's and/or compromising HFML's reputation e.g. unauthorised / excessive activity, abuse of authority, insider trading, trader operating in an inappropriate manner, failing to uphold the integrity of the markets, personal account dealing, and the risk of mis-selling / misrepresentation of products to clients and prospects. This risk includes the risk of employee grievance and litigation.	Responsibility, appropriate conduct and a principled approach to treating investors fairly, are integral to HFML's culture. This culture is set via 'tone from the top' and is underpinned by 'Responsibility', which is explicitly stated as one of HFML's core values and is included in the Federated Hermes Pledge. The introduction of the Senior Managers and Certification Regime ("SMCR") by making individuals more accountable for their conduct and competence helps strengthen the culture and governance of the firm by encouraging staff at all levels to take personal responsibility for their actions. SMCR and the 'Tone from the Top' is supported by the Compliance, Risk and Internal Audit assurance functions conducting monitoring,

HERMES FUND MANAGERS LIMITED

	assessment and audits that seek to identify and address through action plans agreed with the business improvements in conduct and culture.
Reputation / Brand Reputational risk relates to the Federated Hermes brand, press and marketing activity as well as ethics, trust, relationships with stakeholders, partners and clients, conduct and the overall culture and values of HFML. Reputational risk can arise from any of the key risks outlined.	HFML engages in proactive communications with all stakeholders and monitors media coverage to understand how Federated Hermes' reputation is perceived. Reputational risk is a key consideration in any strategic decision.
Products Product risk arises when products either do not meet their performance objectives or are inappropriate for certain clients. Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to honour liquidity expectations of clients. Product risk includes the pressure on revenue streams from not having the right mix of products or a high concentration of AUM in certain products.	HFML has a dedicated Product Development team and a product approval and review procedure. The suitability of products for clients is carefully considered and products offered are matched against client needs. HFML monitors potential capacity constraints and mitigates them by restricting or preventing inflows into products where necessary. Specialist resources are used if HFML cannot fully support products / instruments. Appropriate legal agreements are put in place for all new products / instruments. The Product Strategy & Development Policy and the New Instrument & Market Approval Policy are approved and communicated.

Financial Risks – Risk Profile 2020 vs 2019 (Increased)

HFML understands that within financial risk many Geo-political / Market risk events are outside of the control of the organisation and that a downturn in economic conditions could impact the Group's performance through lower demand for its investment management products, and lower investor risk appetite as a result of financial-market instability. The initial impact of the COVID-19 pandemic saw sharp falls in global markets, which have since recovered to pre-pandemic market levels. Throughout this period demand for HFML products has remained strong and financial results have improved on both an underlying and statutory basis. HFML maintains a strong capital position and further increased its regulatory capital in 2020 through its profitability. See page 31 for the Group's regulatory capital.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Risk	Mitigants
<p>Geo-Political / Market</p> <p>Risks associated with political matters which could impact the governmental system and damage the economy and, therefore, impact HFML negatively (e.g. reduce earnings). Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.</p>	<p>Foreign Exchange ('FX') exposures: To the extent that Group's proprietary cash holdings in any currency is greater than the working capital requirements, these amounts are converted into Sterling to minimise the FX exposure. FX forward contracts are in place to reduce future earnings exposure from FX movements in foreign currencies.</p> <p>Balance sheet investments: The HFML Board has a limited appetite for market risk; therefore, HFML only holds proprietary investments for hedging purposes with the exception of seed capital. These investments are only used to hedge the valuation movements on bonuses (Co-investment) that are notionally linked to the value of HFML's funds. Seed capital is used to launch new products where management believes there will be clear client demand. A seed capital policy that governs the amount and duration of seed investment.</p> <p>Investment products: HFML offers a diversified and broad product range which provides clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies. Scenario analysis and impact is undertaken independently by the investment office to assess the performance of portfolios under a stressed environment.</p> <p>Climate change: HFML has committed to integrate Environmental, Social and Governance factors across all our strategies, to deliver long-term sustainable investment outcomes for our clients.</p> <p>HFML published its climate-related financial disclosures report in 2019, which describes our approach to identifying and managing climate risks and seizing opportunities as a business, ranging from our involvement at the policy level in the development of climate-rated initiatives, to the way we ensure that everyone at HFML factors the weight of the climate emergency into the work that they do.</p> <p>HFML engages with public policy makers and sector organisations, nationally or internationally, to promote policy or best practice. HFML are active members of, among others, the Client Financial Risk Forum, the institutional investors Group on Climate change,</p>

HERMES FUND MANAGERS LIMITED

	Climate Action 100+ and the Carbon Disclose Project.
<p>Financial Soundness</p> <p><i>Risk of financial failure arising from lack of capital, liquidity or counterparty (credit) failure for HFML. This risk relates to HFML's own balance sheet and not the investment products.</i></p>	<p>Counterparty (credit) risk: HFML has credit risk in relation to its own balance sheet, specifically: exposures to market counterparties (e.g. banks) where HFML cash is held; and fees receivable from clients. Finance oversee regular monitoring of market counterparties and outstanding fees receivable.</p> <p>Liquidity risk: Monthly cash forecasts are prepared based on projected revenues and approved cost budgets to ensure sufficient liquidity is available at all times. Cash held on deposit is used as a liquidity source. As at 31 December 2020 current assets significantly exceeded current liabilities, with liquid cash reserves comprising approximately 61% of total current assets, demonstrating the ability of HFML to meet current liabilities as they fall due in the ordinary course of business. HFML maintains a high level of liquidity to ensure that the regulatory solvency requirements are continuously met. HFML believes that a tolerance level of 1.25 x current liabilities should be maintained in each entity, i.e. liquid resources are maintained at that minimum level.</p> <p>Capital risk: Senior management, with support from Finance, monitor the current and projected capital resources and changing requirements. The HFML Board maintains a level of solvency capital that meets the requirements of local regulators, including an acceptable margin of comfort above the local statutory requirements.</p>

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

ASSESSMENT OF VIABILITY

In accordance with the UK Corporate Governance Code, the Directors of HFML have carried out a robust assessment of the key risks facing the Group and expect that the Group will continue to be viable for at least the next five years.

Assessment of prospects

A five-year period to December 2025 is in line with the Group's strategic business planning and forecasting period. The Group's strategic and financial planning process includes a detailed review of the business, key planning assumptions and the risks detailed on the previous pages. Risks are identified through the ICAAP which is a continuous process where risks are monitored and mitigating action taken if necessary.

Two of the key assumptions underpinning our financial planning process include:

- AUM growth in both local and foreign markets resulting from the Business Development Growth Plan undertaken by HFML and Federated Hermes, Inc.; and
- Diversification of revenue streams including expansion of product offerings into fixed income and private markets.

The Directors remain confident in the future prospects of the fund management industry in the UK and Europe and that HFML's longstanding focus on ESG leaves it well placed to succeed in this ever-growing market.

Assessment of viability

The assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group. The Directors review the key risks on an annual basis through the ICAAP and at least quarterly through the Risk and Compliance Committee. Both capital adequacy and liquidity stress testing is performed on the Group's business plan, which considers the impact of several of the Group's key risks crystallising over the assessment period.

The severe but plausible stress scenarios applied to the business plan include the following:

- Key person risk – the heads of the two largest revenue generating strategies resign; and
- Combined market events – world markets fall by 30%, and sales targets are not achieved.

Both of the above stress tests were included in this year's ICAAP. The five year forecast underpinning the 2020 ICAAP was adjusted downwards to reflect the significant market deterioration resulting from COVID-19. In addition, during the post-year end period prior to approving the financial statements the Group carried out further analysis of its ICAAP stress scenario relative to current market data as impacted by the COVID-19 pandemic and conducted a reverse stress test analysis to determine the levels to which flows and markets would need to fall in order for the Group's surplus regulatory capital to be eliminated.

Having reviewed the results of the stress scenario, the Directors have concluded that the Group would have sufficient capital and liquid resources in the above scenarios and that the Group's ongoing viability would be sustained.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

ASSESSMENT OF VIABILITY (continued)

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

A handwritten signature in black ink, appearing to read 'S.A. Nusseibeh', with a long horizontal flourish extending to the right.

S A Nusseibeh
Chief Executive Officer
26 March 2021

HERMES FUND MANAGERS LIMITED

DIRECTORS

The Board comprises the following Directors at 31 December 2020:

Name	Biography
D Stewart* (Chairman)	David is currently a Director of IMM Associates, Chairman of Caledonia Investment Trust, and a Non-Executive representative on the MacMillan Cancer Care Investment Committee. He was appointed as a Non-Executive member of the Executive Committee of Marathon Asset Management LLP in October 2019. His prior experience includes nine years at Odey Asset Management, initially as CEO and latterly as a Non-Executive Director until standing down in December 2014. Before that, David's career encompassed Fidelity Investments (1994-2005), James Capel (1986-1994) and Swire Pacific Ltd, Hong Kong (1981-1986).
S A Nusseibeh	<p>Saker is Chief Executive of HFML. He was appointed CEO in November 2011 having joined HFML in June 2009 as CIO. Prior to joining HFML, Saker was Global Head of Equities at Fortis Investments, having initially been appointed as Fortis CIO Global Equities in 2005. Before this he was CIO of Global Equities and Head of Marketing for SGAM UK. This role followed SGAM's acquisition of Trust Company of the West ("TCW"), where Saker was a Managing Director, running global and international strategies, as well as managing TCW's London office. He started his career at Mercury Asset Management in 1987.</p> <p>Saker is the founder of the 300 Club, a group of leading CIOs and investment professionals who seek to challenge investment orthodoxy. He is a member of the CFA Institute's Future of Finance Advisory Council, a member of the IIRC Council, and the FCA-PRA Climate Financial Risk Forum, as well as the United Nations Environmental Programme Financial Initiative Steering Committee. He sits on the Banking Standards Board (the "BSB"), which was created as a result of a Parliamentary enquiry to restore trust in the UK banking industry. In May 2020, Saker was appointed as a director of BSB (Global) Services Limited, a subsidiary of the BSB, and appointed Chairman, in November 2020. Saker also sits on UK National Advisory Board on Impact Investing.</p> <p>At the 2020 Funds Europe Awards, in November, Saker was named as Funds Europe "European Personality of the Year", in recognition for his "lifelong mission to bring ESG and Socially Responsible investing into the mainstream". This followed on from being awarded a CBE in the New Year's Honours List at the beginning of the year, which recognised his service to the development and promotion of Responsible Business and for contributions more broadly to the finance industry in the UK. In 2015, Saker was named CEO of the Year at the Global Investor Investment Excellence Awards and, in 2018, he was named CEO of the Year at the Financial News Asset Management Europe Awards.</p>

HERMES FUND MANAGERS LIMITED

DIRECTORS (continued)

S James*	Sally was appointed Non-Executive Director of HFML in April 2017. Sally served as Managing Director and General Counsel of UBS Investment Bank EMEA from 2001 to 2008. Previously she held several senior legal roles in investment banks in London and Chicago. She has been a Non-Executive Director of Moneysupermarket.com Group plc since April 2013 and now Senior Independent Director; a Non-Executive Director of Rotork plc since May 2012 and now Senior Independent Director; and a Non-Executive Director of Bank of America Merrill Lynch International Limited since February 2016 (now Bank of America Merrill Lynch International DAC).
J Fraser****	James was appointed as the BTPS Nominated Director on 23 June 2020 and as permanent successor to William McClory. James was a Non-Executive Director of Tilney Group Limited (now Tilney Smith and Williamson Limited) from March 2014 until September 2020 and served as Interim Chair of the Risk and Audit Committee from September 2019 until September 2020. James was Head of Financial Services at Permira Advisers LLP from October 2008 until his retirement in 2017. Since then he has been a Senior Advisor at Permira, advising the firm on new deal opportunities. James was a Non-Executive Director of Just Group plc from 2009 until 2017. He was at LEK Consulting from 1987 to 2008, making partner in 1996 and was latterly Co-Head of Financial Services.
H Steel	<p>Harriet is Head of Business Development at HFML, a member of the Executive Committee and an Executive Board Director. She joined the Company in 2011 with responsibility for Sales, Client Service, Marketing, Communications and Product Strategy. Harriet was appointed to the Board of HFML in 2013, becoming HFML's first female Executive Board Director.</p> <p>Prior to joining HFML, Harriet led Portico Advisors, an asset raising and marketing advisory firm for alternative investment managers, including hedge funds, private equity and real estate strategies, which she founded in 2003. Her earlier career included roles in capital markets at Morgan Stanley and Bankers Trust, where she started her career in 1990.</p>
P Purewal*	Pars was appointed Non-Executive Director of HFML in June 2020 and Chair of the Audit Committee in July 2020, in succession to David Watson. Pars retired as a senior partner from PriceWaterhouseCoopers ("PwC") in June 2019 after a thirty-six-year career at the firm. Pars' experience included being PwC's UK Asset Management Leader for ten years and Finance Partner for both Asset and Wealth Management. Pars also spent three years as People Partner; three years as Sales and Markets Partner for the PwC's Insurance and Asset Management sectors; and a year as Executive Assistant to the UK Managing Partner with responsibility for the firm's UK operations. Pars is a Fellow of the Institute of Chartered Accountants of England and Wales.

HERMES FUND MANAGERS LIMITED

DIRECTORS (continued)

G Ceresino**	<p>Gordy is Vice Chairman of Federated Hermes, Inc., President of Federated International Securities Corp., President of Federated Global Holdings LLC and Executive Director of Global Private Markets Development. He is responsible for leading, developing and executing the firm's global private markets distribution strategy.</p> <p>Gordy joined Federated Hermes in 2006 when the firm acquired MDT Advisers of Boston, where he served as Chief Executive Officer. Gordy is the President of Federated Holdings (UK) Limited and an Executive Board Director of Federated Holdings (UK) II Limited, Federated Investors (Canada) Holdings, Inc., Federated Investors Canada ULC, Federated Investors International PTE Ltd. (Singapore), Federated Hermes (UK) LLP, Federated Short-Term Daily U.S. Dollar Fund, Ltd. (Cayman), Hermes Equity Ownership Services Ltd. (UK) and Hermes Stewardship North America Inc. (US).</p>
D Cunningham**	<p>Deborah Cunningham, CFA – Chief Investment Officer, Global Liquidity Markets, Senior Portfolio Manager, Executive Vice President, Federated Investment Counseling, and Federated Investment Management Company.</p> <p>Debbie is Chief Investment Officer of Global Liquidity Markets. She joined Federated Hermes in 1981 as a performance analyst and has more than 30 years of investment experience. Since 1990 she has been a portfolio manager for all government and prime liquidity products. In 1994 she took over the management of the taxable liquidity group. In addition to the domestic taxable liquidity portfolios, Debbie also oversees the management of the domestic tax-exempt liquidity portfolios, as well as the offshore liquidity products. She is a current member of the CFA Society of Pittsburgh and previously held the title of Director and President of that organisation.</p>
T Donahue**	<p>Thomas Donahue – President, FII Holdings, Inc., Chief Financial Officer, Treasurer, and Director of Federated Hermes, Inc.</p> <p>Tom joined Federated Hermes in 1993 as a Vice President and currently serves as a Federated Hermes Director and Chief Financial Officer, and is a member of its executive committee. Prior to joining Federated Hermes, Tom was in the venture capital business, and from 1983 to 1987 was employed by PNC Bank in its Investment Banking division.</p>
J Fisher**	<p>John is President and Chief Executive Officer of the Federated Advisory Companies, and Vice President and Director of Federated Hermes, Inc. In this role since 2006, John provides overall leadership to Federated Hermes' investment management organisation, which employs more than 225 investment professionals. Joining the firm as a regional marketing representative in 1979, John rose through the distribution channel, serving in a variety of positions, culminating with him being named president of Federated Securities Corp., Institutional Division, prior to taking his current position. John is a member of the executive committee, Vice President and Director of Federated Hermes, Inc., and either principal executive officer or a board member of several Federated Hermes mutual funds.</p>

HERMES FUND MANAGERS LIMITED

DIRECTORS (continued)

J E. Lambesis **	Jane E. Lambesis – Senior Vice President, Regional Sales Consultant, Federated Securities Corp. Jane joined Federated Hermes in 1987 and is Senior Vice President of Sales. She specialises in consulting to individual financial advisors and their teams regarding income planning, manager search and selection, investment portfolio design and monitoring.
D McAuley III ***	Denis McAuley III – Vice President and Director of Corporate Finance of Federated Hermes, Inc., and Chairman and Director of various International subsidiaries and funds run by subsidiaries of Federated Hermes, Inc. Denis joined Federated Hermes in 1978 as an internal auditor and moved on to become Vice President, Manager of Corporate Accounting. In 1985, Denis assumed the position of Vice President and Manager, Fund Accounting. In 1989, he assumed the position of Senior Vice President and Chief Financial Officer of The National Funds in Greenwich, CT. Denis returned to Federated Hermes in 1993 as Senior Vice President of Corporate Finance and became Principal Accounting Officer in 2001, a position he held until 31 March 2013.
T W Zierden III **	Theodore W Zierden III – President, Administration, Federated Services Company. Ted manages a number of businesses at Federated Hermes, including Business Information Services, Investor Services, Literature Publishing and Fulfilment Services, Decision Support, Corporate Procurement, and Mergers and Acquisitions. Ted began his career at Federated Hermes in 1994.
R Novak**	<p>Richard A Novak – Principal Accounting Officer and Vice President of Federated Hermes, Inc. Rich is a director and President of Federated Investors Trust Company; director and Vice President of FII Holdings, Inc. Federated International Securities Corp. and Senior Vice President of Federated Investors Management Company. Rich is also a director, treasurer, and/or assistant treasurer of various subsidiaries and offshore funds managed by Federated Hermes, Inc.</p> <p>Prior to this appointment, Rich was the Fund Treasurer of Federated Hermes' domestic funds from January 2006 until April 2013. In this role, he had the responsibility for all financial aspects of the funds, including financial reporting, security valuation, fund accounting, fund tax, client compensation and expense projection and approval. Rich was the Controller of Federated Hermes, Inc. from 1997 through 2005. In this capacity, Rich had responsibility for overseeing Federated Hermes' domestic and international internal and external reporting, accounts payable, accounts receivable, client compensation and treasury functions. Rich joined Federated Hermes in 1995 as Vice President of Finance for Federated Services Company.</p> <p>Prior to joining Federated Hermes, Rich was an auditor at Arthur Andersen & Company and held various finance-related positions at The Mercy Hospital of Pittsburgh. Rich is a graduate of The Pennsylvania State University where he received his Bachelor of Science degree in Accounting. Rich was awarded his Master of Business Administration degree from Robert Morris College. Rich is a Certified Public Accountant.</p>

HERMES FUND MANAGERS LIMITED

DIRECTORS (continued)

- William McClory resigned as the BTPS Nominated Director with effect from 31 March 2020. Gillian Haselden, BTPS' Head of Legal, Risk and Compliance, was appointed BTPS' Nominated Director, for an interim period from 1 April 2020 to 23 June 2020, on which date she resigned her position.
- David Watson resigned as a Non-Executive Director with effect from 30 June 2020.
- Denis McAuley resigned with effect on 31 December 2020 and was replaced by Rich Novak on 1 January 2021

* Independent Non-Executive Directors

** Federated Hermes, Inc. nominated Directors

*** Federated Hermes, Inc. nominated Non-Executive Director

**** BTPS nominated Non-Executive Director

The table below reflects the Board members attendance during 2020.

Member	Attendance
David Stewart	7/7
Saker Nusseibeh	7/7
Sally James	6/7
William McClory	3/3
James Fraser	3/3
Harriet Steel	7/7
David Watson	4/4
Pars Purewal	3/3
Gordy Ceresino	7/7
Deborah Cunningham	7/7
Tom Donahue	4/7
John Fisher	7/7
Jane Lambesis	7/7
Denis McAuley	7/7
Ted Zierden	4/7
Gillian Haselden	1/1

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE

STATEMENT FROM THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee report for the year ended 31 December 2020. I would like to start by taking this opportunity to sincerely thank David Watson, Billy McClory and Denis McAuley for their valued contribution to HFML over the past number of years. David, in his role as Committee Chair, was instrumental in assisting and advising the Board since his appointment in July 2011. Billy served as BTPS' representative since his appointment to the Committee in August 2010. During their time on the Committee, HFML significantly expanded its third party AUM which culminated in the majority stake acquisition by Federated Hermes in July 2018. Following the acquisition, Denis was appointed to the Committee and played a key role ensuring the successful integration of HFML into the wider Federated Hermes group and the implementation of our robust Sarbanes-Oxley ("SOx") compliant control framework.

The Audit Committee operates as a body established from Non-Executive Directors of the Board and is charged with independent oversight of the financial affairs and control processes in operation within HFML. The Committee is proud to play its role in promoting the integrity of HFML's financial reporting.

Pars Purewal
Audit Committee Chairman

MEMBERSHIP

All members of the Audit Committee ("the Committee") are Non-Executive Directors of HFML. David Watson, in accordance with good governance requirements, stood down as Chair of the Audit Committee after serving nine years. Pars Purewal was appointed to the Audit Committee on 1 June 2020, and appointed as Chair of the Committee on 1 July 2020. William McClory and Denis McAuley also stepped down on 31 March 2020 and 31 December 2020, respectively. James Fraser joined the Committee on 23 June 2020, as a permanent successor to William, replacing Gillian Haselden's interim appointment (1 April 2020 – 23 June 2020). James serves as BTPS' nominated representative on the Committee. Richard Novak was appointed to the Committee post year-end on 1 January 2021 and will serve as Federated Hermes' nominated representative.

At 31 December 2020, the Committee comprised four members, Pars Purewal (Chair), Sally James, James Fraser and Denis McAuley. Both Pars Purewal and Sally James serve as independent Non-Executive Directors. Members of the Committee have been appointed by the Board by virtue of their previous financial services experience, senior executive experience and relevant accounting knowledge. The Committee oversees HFML's financial and operating controls framework on the Board's behalf.

Biographical details and experience of all members are detailed on pages 59 to 63.

RESPONSIBILITIES

The Committee's primary role is to assist the Board in fulfilling its oversight responsibilities. The scope includes, but is not limited to:

- reviewing and challenging, where appropriate, the actions and judgements of management in relation to the Group's financial statements, business review and any related formal statements before submission to, and approval by, the Board;

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE (continued)

RESPONSIBILITIES (continued)

- reviewing the adequacy and security of arrangements for the Group's employees and contractors to raise concerns, in confidence, about possible wrongdoings in financial reporting or other matters, and reviewing procedures for detecting and preventing both fraud and bribery;
- monitoring and reviewing the activities, processes and performance of both internal and external audit, including the external auditor's independence;
- reviewing and challenging, where appropriate, the management framework, systems, processes, procedures and controls in relation to all investment management activity and administration services that HFML has contracted to provide to its clients;
- reviewing going concern and the viability of the Group;
- approving non-audit services provided by the independent auditor;
- monitoring the design and operational effectiveness of internal controls in line with Section 404 of SOx; and
- conducting an annual review of the Committee's Terms of Reference to ensure that they are relevant and correct.

COMMITTEE ATTENDANCE IN 2020

Member	Attendance
Pars Purewal (Appointed 01/6/2020, appointed Chair 01/7/2020)	2 / 2
David Watson (Resigned Chair 30/06/2020)	2 / 2
Sally James	4 / 4
Denis McAuley	4 / 4
James Fraser (Appointed 23/06/2020)	2 / 2
William McClory (Resigned 31/03/2020)	2 / 2

THE COMMITTEE'S WORK IN 2020

Work of the Committee during 2020 included:

January	<ul style="list-style-type: none">• Review of the accounting policies estimates and judgements in the 2019 Annual Report while also ensuring the report is fair, balanced and understandable• Status update on both the statutory and SOx audit presented by EY
March	<ul style="list-style-type: none">• Recommend that the Board approve the 2019 Annual Report• Review of continued going concern assessment resulting from COVID-19• Assessment of findings of the 2019 Internal Audit thematic review• Review of Internal Audit Reports issued in the Quarter

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE (continued)

COMMITTEE'S WORK IN 2020 (continued)

July	<ul style="list-style-type: none">• Review of the purchase price accounting as a result of the acquisition of MEPC• Review of the external audit plan for 2020• Assessment of effectiveness of the 2019 external audit• Consideration of the recognition of deferred tax assets• Review of SOx compliance update• In camera session with EY excluding HFML management• Review of Internal Audit Reports issued in the Quarter
November	<ul style="list-style-type: none">• Consideration of the application of the methodology for recognising deferred tax assets and liabilities• Review of the consolidation accounting as a result of the step-acquisition of HGPE LLP• Review of Internal Audit Reports issued in the Quarter• Review of proposed accounting estimates and judgements to be included in the 2020 Annual Report• Interim testing update of both the statutory audit and the SOx audit provided by EY• Approval of the annual Internal Audit Plan for 2021• In camera session with EY excluding HFML management

On 26 March 2021, the Committee reviewed this Annual Report and concluded that the financial statements included in the Annual Report were fair, balanced and understandable. The Committee subsequently proposed that the Board approve the 2020 Annual Report.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Committee reviews whether suitable accounting policies have been adopted by management and whether the accounting estimates and judgements applied are appropriate. All material estimates and judgements are set out in note 2 of the financial statements on page 120. Three key areas of focus for the Committee in 2020 have been:

Acquisition of MEPC Limited.

On 15 January 2020 (effective 1 January 2020), HFML acquired 100% of the ordinary share capital of MEPC. Following the acquisition, MEPC became a subsidiary and was consolidated into the wider Group. HFML recognised both intangible assets and goodwill upon acquisition. HFML Finance, in collaboration with a third party valuation specialist, carried out an exercise to identify and fair value the intangible assets. The Group recognised £5.5m of intangible assets relating to customer contracts and the company's trade name. The Committee considered a report presented by the Finance Director setting out the underlying assumptions, the appropriateness of the discounted cash flow analysis and the principal estimates, including the discount factor rate. The Committee was satisfied with the proposal and concluded that the fair value estimates were appropriate. At 31 December 2020, a review was carried out to ensure that the fair value of the intangible assets has not been impaired. No evidence of impairment was identified.

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Consolidation of Hermes GPE LLP

Effective 1 March 2020, Federated Hermes acquired 100% of the share capital of HGPE Capital Limited ("HCL"); HFML's joint venture partner in Hermes GPE LLP ("HGPE"). Following the acquisition, HGPE's limited liability partnership agreement and voting structure was amended. This resulted in a change of control whereby HGPE became a subsidiary of HFML and was consolidated into the wider Group while also recognising a non-controlling interest of 22.5%. The consolidation date was 22 April 2020, this being the date from which the voting structure changes were effective. Prior to 22 April 2020, HFML accounted for its partial ownership interest in HGPE as an equity-method investment.

The Committee considered two key consolidation items resulting from the change of control. Firstly, the estimate of the fair value of the intangible assets recognised on the Group's balance sheet resulting from the acquisition. A specialist independent valuation company was engaged by Federated Hermes to carry out the purchase price accounting. The independent valuation company identified £21.5m of intangible assets as at 5 March 2020, the transaction date. The Committee requested additional support from the independent valuation company to ensure that the fair value of the intangible assets, recognised on the Group's balance sheet had not been impaired from the effective date of the acquisition (1 March 2020) to the consolidation date (22 April 2020) given the deterioration in the market in late March 2020 resulting from COVID-19. There was no evidence of impairment identified. At 31 December 2020, a further impairment review was carried out and, similarly, no evidence of impairment was identified.

Secondly, the Committee opined on the correct accounting treatment regarding the negative goodwill generated. This was generated through the consolidation of HGPE without any consideration being paid by the Company. HGPE was consolidated at its fair value including the recognition of the intangible assets described above and their associated deferred tax liabilities, resulting in a negative goodwill figure of £14.4m. This was taken to the income statement during the year. The Committee are satisfied that both of the above areas have been accounted for appropriately.

Deferred tax assets and liabilities

Deferred tax assets - Taking into account the results for 2020; the projections on a stand-alone legal entity basis and cancellation of the proposed decrease in corporate tax rate to 17%, management has determined that it is probable that a gross £19.2m of deferred tax assets will be recoverable against future taxable profits, which equates to a five to six-year timeframe to utilise these assets. The Committee reviewed the management proposals and, after challenge and debate agreed that the deferred tax asset was both appropriate and recoverable.

Deferred tax liabilities – Following the acquisition of MEPC and the consolidation of HGPE, intangible assets of £5.5m and £21.2m respectively were recognised on the HFML balance sheet. The intangible assets primarily related to customer contracts, with a smaller asset attributed to the companies' trade names. An associated deferred tax liability of 19% was therefore recognised.

HERMES FUND MANAGERS LIMITED

REPORT OF THE AUDIT COMMITTEE (continued)

EXTERNAL AUDITOR

The Committee carried out a formal review of the effectiveness of the external audit performed by Ernst & Young LLP ("EY LLP") and is satisfied with the standard of work from EY LLP. The formal evaluation was carried out by means of a questionnaire which was completed by the Committee and those members of staff who participated in the audit process. The Committee recommended to the Board that EY LLP be reappointed as external auditors, and the Board accepted this recommendation.

The Committee carefully monitors and approves the extent of non-audit services carried out by EY LLP aiming to ensure that these remain within the guidelines of EU related legislation relating to caps on non-audit fees. The non-audit fees paid to EY remained within these guidelines during 2020. To ensure the external auditor's objectivity and independence, non-audit services are limited to audit related services where EY LLP are best suited to provide. Non-audit services carried out by EY LLP included: assurance over the AAF Controls Report and CASS audit. In addition, EY LLP also carries out SOx control testing in support of the audit of HFML's US parent.

During the year, EY LLP informed the Committee that it would increase its fees charged in respect of the audit, driven principally by changes to the audit market and an increased focus on audit quality. The Committee challenged the level and rationale for the increases.

The external auditor attended all Committee meetings in 2020 and in 2021 up to the date the annual report was signed on 26 March 2021. At each meeting they presented reports and updates to the Committee, including a confirmation of independence at the planning and conclusion stages of the audit.

INTERNAL AUDIT

Internal Audit is independent of management and reports directly to the Committee. The team has unrestricted access to all functions, property, systems, records and staff as required to accomplish its audit objectives, including the permission to co-source with external advisers. Internal Audit operates a risk-based audit cycle based on an assessment of risks within the HFML Group. The annual audit plan is presented to the Committee for approval, and for amendments where necessary.

A new Head of Internal Audit was appointed in September 2020; the Committee was involved in the recruitment process and approved the appointment of this role. The Head of Internal Audit has regular meetings with the Chairman of the Committee and attends all meetings of the Committee to present reports on the Internal Audit findings and on the proposed future audits and audit plans. The Committee continues to monitor the internal audit plan on an ongoing basis to ensure that it remains relevant to the needs of the business and to allow it to be adapted or changed as required. The Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the business, and it periodically commissions external effectiveness reviews of Internal Audit in line with best practice.

EVALUATING PERFORMANCE OF THE COMMITTEE

In February 2021, the Committee was evaluated by means of a questionnaire. The evaluation demonstrated that, overall, the Committee is considered to be performing effectively, and is proactive and effective in carrying out its responsibilities.

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE

STATEMENT FROM THE CHAIR OF THE COMMITTEE

On behalf of the Committee I would like to take this opportunity to express our deepest condolences to the family and friends of Gill Clarke, who sadly passed in March 2020. In her role as Head of Strategic Risk and Compliance, Gill worked closely with the Committee since her appointment in May 2016. Gill's knowledge, experience and dedication has been invaluable to us as a Committee, and the Group as a whole. As a friend and colleague, Gill will be sorely missed.

I am pleased to present the Risk and Compliance Committee report for the year ended 31 December 2020. The Committee is integral to HFML's governance and risk management frameworks. A key focus of the Committee in 2020 was the ongoing impact of COVID-19 on the Group's operations; in particular the effectiveness of remote working, the stability of IT platforms and the severity of the stress testing within the ICAAP process. Despite the significant challenges arising from COVID-19, the Committee successfully addressed each of the key priorities as disclosed in last year's report.

Sally James
Risk and Compliance Committee Chair

MEMBERSHIP

All members of the Risk and Compliance Committee ("the Committee") are Non-Executive Directors of HFML. David Watson, William McClory and Denis McAuley stood down on 30 June 2020, 31 March 2020 and 31 December 2020, respectively. Pars Purewal and James Fraser joined the Committee on 1 June 2020 and 23 June 2020, respectively, while Richard Novak was appointed to the Committee post year-end, on 1 January 2021. Richard Novak serves as Federated Hermes' nominated representative to the Committee. James Fraser, acting as the BTPS Nominated Director, joined the Committee on 23 June 2020, as a permanent successor to William, replacing Gillian Haselden's interim appointment (1 April 2020 – 23 June 2020).

At 31 December 2020, the Committee comprised five members, Sally James (Chair), David Stewart, Pars Purewal, James Fraser and Denis McAuley. Both Sally James and Pars Purewal serve as independent Non-Executive Directors. The Board is satisfied that each member of the Committee has the competence relevant to the investment management industry to discharge their responsibilities effectively.

Biographical details and experience of all members are detailed on pages 59 to 63.

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)

The table below reflects the Committee attendance during 2020.

Member	Attendance
Sally James (Chair)	5/5
David Stewart	5/5
David Watson (Resigned 30/06/2020)	2/2
Pars Purewal (Appointed 01/06/2020)	3/3
William McClory (Resigned 31/03/2020)	1/1
James Fraser (Appointed 23/06/2020)	3/3
Denis McAuley (Resigned 31/12/2020)	5/5

RESPONSIBILITIES

The principal role of the Committee is to provide oversight and challenge on risk exposures taking into account risk appetite and to advise the HFML Board on risk strategy including capital and liquidity management. The key responsibilities remained unchanged in 2020, and include:

- Proposing to the Board an appropriate risk appetite that aligns with and supports the Group's strategy, including continual monitoring to ensure its safe delivery;
- Overseeing the Group's risk management framework and the integrity and effectiveness of risk management, governance and compliance activity within the Group;
- Reviewing the adequacy and resources of the Group's Risk and Compliance function;
- Overseeing outsourced services;
- Overseeing the management of relationships and registrations with regulatory authorities and reviewing developments and prospective changes in the regulatory environment;
- Reviewing the methodology and assumptions used in HFML's models for determining its regulatory capital, and satisfying itself that the models are fit for purpose; and
- Reviewing and approving the AAF 01/06 internal controls assurance report.

In carrying out its duties, the Committee is authorised by the HFML Board to obtain any and all information it needs from any Director or employee of the Group. The Head of Strategic Risk and Compliance (assisted by the Head of Risk and Compliance Monitoring) reports directly to the Committee and attends each meeting. Following the passing of Gill Clarke, the Committee appointed Keith Davies as the permanent Head of Strategic Risk and Compliance on 1 July 2020, replacing the interim Head who resigned 31 July 2020. The Committee regularly invites members of senior management to attend, thereby allowing a greater understanding of operational concerns faced by the business and facilitating effective debate at the meetings. Attendees during the year included: the Chief Executive Officer, the Chief Operating Officer, the Group Finance Director, the Head of Information Security and the Head of Compliance Advisory.

The Committee is also authorised to seek appropriate external professional advice whenever it considers this necessary; and did so in 2020 for reviews of the ICAAP, and Information Security infrastructure and also, for advice pertaining to new product offerings.

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)

THE COMMITTEE'S WORK IN 2020

Work of the Committee during 2020 outside of the regular agenda items comprised of:

February	<ul style="list-style-type: none">• Review and challenge of the cyber security planned remediation following the external review performed by Deloitte• Review of the "Dear CEO" letters from the FCA• Approval of the 2020 Compliance monitoring plan• Review of the information security risk dashboard• Following the successful implementation of SMCR in December 2019, the relevant workstreams were formally closed
May	<ul style="list-style-type: none">• Update on the key areas of exposure to LIBOR• Approval of the appointment of Alter Domus as private market fund administrator• Review of the Annual Money Laundering Report• Assessment of the business continuity in action – with a particular focus on staff working from home resulting from COVID-19• Progress update provided on the information security improvement programme
July	<ul style="list-style-type: none">• Update on the 2020 ICAAP• Review of the Conflicts Register• Review and adoption of a new Outside Business Interests process• Operating environment update provided by the Chief Operating Officer• Information security improvement programme update presented to Committee
September	<ul style="list-style-type: none">• Approval of the 2020 ICAAP• Assessment of newly identified COVID-19 related risks as presented by the Head of Risk
November	<ul style="list-style-type: none">• Review and approval of the group's Risk Appetite Statement• Approval of the updated Gifts and Entertainment policy

OTHER KEY AREAS OF WORK COVERED IN 2020

Internal Capital Adequacy Assessment Process ("ICAAP")

The 2019 ICAAP was the first report to be prepared with the new Federated Hermes consolidated group; this group comprises the HFML Group and two of Federated Hermes' regulated entities, along with several Federated Hermes holding companies. A third party review of the 2019 ICAAP identified a number of consolidation adjustments that were required and an updated methodology was implemented in the following year's report. For the 2020 report, the Committee also sought a further integration of the consolidated group's risk framework thus ensuring a more comprehensive Pillar II regulatory capital requirement. The Committee placed a particular focus on whether the severity of the stress scenarios presented by management were appropriate. Given the significant deterioration of the markets in March 2020 as a result of the COVID-19 pandemic, the Committee noted that management had adjusted downwards the previously Board approved five-year plan to reflect this market deterioration. Following considerable challenge of management, the Committee recommended the 2020 ICAAP for approval by the Board.

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)

OTHER KEY AREAS OF WORK COVERED IN 2020 (continued)

Information Security

As noted in our 'priorities for 2020' in last year's Committee Report, Information Security enhancement was a key area of focus for the Committee. Both the volume and sophistication of cyber-attacks has increased over a number of years and while the Information Security team remain vigilant and successful in protecting the Group, the Committee felt that an independent assessment should be conducted by a specialist third party organisation. Deloitte was engaged to carry out this review, which also included a maturity assessment of the Group's cyber security programme. Deloitte's initial assessment, carried out in 2019, concluded that there was a need for a comprehensive remediation programme. Following this review, management established a programme to ensure that Deloitte's findings and recommendations were implemented. The Head of Information Security provided a progress update to the Committee each time the Committee subsequently met. Deloitte carried out a final review of the newly implemented processes, the results of which were presented to the Committee.

Response to the COVID-19 pandemic

On 19 March 2020, in advance of the Government mandated national lockdown, the Executive Committee requested that all staff work from home. This unprecedented change to the Group's working environment resulted in over 500 people working remotely. Prior to this request, the Group ensured that all members of staff had been issued with the required equipment to work effectively. At the Committee's request, both the Chief Operating Officer and the Strategic Risk and Compliance Director provided an update of the ongoing impact of the new working environment at each meeting. The Committee's primary focus was on the effectiveness of remote working, the stability of the IT platforms, the increased risk of operational errors and the efficacy levels of third-party service providers. The Committee were satisfied that each of these key areas was being monitored effectively by management and noted there had been no deficiencies resulting from the changes in the work environment.

The Board and Committee received a subsequent update on the changes to firm's risk profile arising from home working and the other impacts of the pandemic, including the increased risks relating to conduct and compliance oversight, Information Security risk, and people risk (both within the Group and its third party suppliers), and the need for additional contingency plans should aspects of the new home working model be comprised. This led to additional risk management and monitoring activities which are being overseen by the Committee.

PRIORITIES FOR 2021

As well as considering the rolling agenda and ad hoc items, the Committee focuses on upcoming risks that are likely to be faced by HFML. The following areas are considered to be key for 2021:

- ICAAP 2021 - HGPE has joined the Group's regulatory group;
- LIBOR transition;
- Readiness for the new prudential regime for investment firms;
- On-going monitoring of the firm's response to the COVID pandemic and homeworking;
- Realigning the expertise and coverage of the risk management function to fully align to the firm's evolving risk profile; and

HERMES FUND MANAGERS LIMITED

REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)

PRIORITIES FOR 2021 (continued)

- People Risk Deep Dive – the scope of which will cover the skills and resources needed to ensure structures are in place to manage the behavioural, culture and conduct risks associated with remote working.

EVALUATING THE PERFORMANCE OF THE COMMITTEE

In February 2021, the Committee was evaluated by means of a questionnaire. The findings concluded that the Committee was performing its role effectively and providing rigorous debate and challenge to management, thereby providing the Board with the necessary assurances.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE

STATEMENT FROM THE CHAIR OF THE COMMITTEE

2020 has been another successful year for HFML, with both long-term and short-term investment performance outperforming its benchmarks, and our profits higher than the previous year. In an unprecedented year such as 2020 with the global pandemic, as is the case in the industry we have experienced net asset outflows for the year; however we have seen positive flows towards the end of the year.

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

The Committee believes that this a key driver for success over the long term. On an underlying basis, the total compensation is largely unchanged year on year.

The Committee continues to remain mindful of ensuring that remuneration is appropriate in light of industry challenges and remains clear of any bias or protected characteristic including but not limited to gender, race, and disability.

The Committee continues to focus on its targets with respect to the Gender Pay Gap and those agreed under the Women in Finance charter explained further in this report.

David Stewart
Remuneration Committee Chairman

MEMBERSHIP

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

The Committee currently comprises David Stewart (Chair), Sally James, Thomas Donahue, John Fisher, James Fraser, Pars Purewal and Gordy Ceresino.

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

This report continues to place an emphasis on remuneration disclosure in 2020, ensuring continuous improvement in both the transparency and detail of the Group's remuneration reporting.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

RESPONSIBILITIES

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

- agreeing the broad policy and framework for the remuneration of the Chief Executive Officer, other executive directors of the Company, and senior managers whose compensation is over a certain threshold;
- determining the overarching principles and parameters of the remuneration policy on a HFML Group-wide basis, excluding HGPE and Hermes Fund Managers Ireland Limited, which have their own remuneration committees;
- establishing and maintaining a competitive remuneration package to attract, motivate and retain high-calibre executive directors and senior management across the Group;
- aligning senior executives' remuneration with the interests of shareholders and relevant remuneration legislation; and
- ensuring compliance with the FCA and other regulators' rules with regards to remuneration.

Committee attendance in 2020

Member	Attendance
David Stewart (Chair)	3/3
Sally James	3/3
William McClory (Resigned 31/03/2020)	1/1
James Fraser (Appointed 23/06/2020)	2/2
David Watson (Resigned 30/06/2020)	1/1
Pars Purewal (Appointed 01/6/2020)	2/2
Gordon Ceresino	2/3
Tom Donahue	2/3
John Fisher	3/3

WORK OF THE COMMITTEE DURING 2020

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

- recommending a remuneration policy and remuneration policy statement to the HFML Board;
- continuing to apply regulations to compensation matters, and monitor developments of new regulations and government policies;
- approving remuneration proposals across salary, bonus and Long-Term Incentive Plan ("LTIP") arrangements; and
- reviewing proposals for new benefits and enhancements to existing schemes, including family friendly policies, to improve attraction and retention of staff.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

WORK OF THE COMMITTEE DURING 2020 (continued)

The Committee reviewed and endorsed salary and bonuses to be awarded during 2020 under the agreed terms of reference and reward plans in accordance with parameters previously approved by the Committee.

The Committee also reviewed and approved, where necessary, regulatory topics such as Code Staff List, Gender Pay Gap report and our Women in Finance Charter targets.

The Committee believes that these plans, operated within the positive culture of strong performance and behaviour that exists in HFML's business, supported by the Federated Hermes Pledge, provide alignment between management and both shareholders and clients, and are in accordance with the relevant legislative changes and best practice.

In setting these parameters and approving the awards, the Committee was aware of the market environment, peer group practice and the financial and investment performance of HFML.

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

Director remuneration is reviewed by the Chairman and the HFML Chief Executive Officer and implemented, where appropriate, following approval of the CEO and Compensation Committee of the Board of Directors of HFML's majority owner, Federated Hermes, Inc.

Transparency

The transparency of the disclosures included in this report is generally consistent with that of public companies in the UK. Disclosures include remuneration payable to executive directors and setting this in the context of HFML's performance. This aligns the disclosures with HFML's recommendations for public listed companies, and this is discussed in detail in the report.

Stakeholder alignment

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

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

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Strategy

HFML's ongoing strategy is to build a world-class investment management business through a focus on sustainable wealth creation; in order to deliver outstanding holistic return outcomes for clients and their beneficiaries, attract strong inflow of third-party assets, and continue to meet and exceed its financial objectives. HFML will continue to review the remuneration policy as HFML changes. Individuals' remuneration will continue to be linked with the success and long-term growth of the HFML Group.

REWARD STRATEGY PRINCIPLES

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

HFML is aligned to those principles we have communicated to listed companies. There is a key focus on strategic delivery (HFML does not have a share price on a public exchange) and rewarding both "the how" as well as "the what" in terms of operational and financial performance, and through representation on the HFML Board there are clear lines of accountability to the owners.

Diversity and gender pay gap

We are committed to employee diversity. This year we have continued working to increase the representation of women on an HFML-wide basis at the senior management level. Having achieved our 2020 targets, which we set in 2016, we are now aiming for new 2021 targets and have set new targets for 2025 as outlined in the Strategic Report.

Despite the relaxation by the government on reporting Gender Pay Gap figures in 2020, as a responsible employer we published our Gender Pay Report in accordance with the UK Government Equalities Office reporting regulation. HFML has a strong culture of responsibility, ingrained in our DNA, and HFML's management firmly believes that we should lead by example. We remain committed to treating everyone fairly, with dignity and respect, and believe that diversity and an inclusive culture allows us to continue to grow as a strong and innovative organisation.

As a signatory of the Women in Finance Charter, we have set HFML-wide targets for the business and achieved an increase in female employees to 44% in 2020 (2019: 42%, 2018: 40%). Despite being on par with the rest of the asset management industry, we need to change this imbalance across HFML as well as the rest of the industry. As disclosed in the Strategic Report, HFML has set targets for gender representation at a HFML Board level, senior management level and HFML as a whole (see page 43).

HFML remuneration philosophy and principles

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

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

REWARD STRATEGY PRINCIPLES (continued)

HFML remuneration philosophy and principles (continued)

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

The following two pages demonstrates how HFML embodies these key principles.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

REWARD STRATEGY PRINCIPLES (continued)

Remuneration Principles promoted by HFML	Specifics	How are they implemented at HFML?
Shareholding Executives should make a material long-term investment in the Company's shares	Long-term awards for senior management that encourage long-term success Commitment to not pay more than is necessary	<p>Our LTIP awards restricted stock units ("RSU") up to 10.5% of the equity of HFML to selected employees, generally senior management, and is designed to encourage profitable growth over a five-year profile. The details are discussed further on in this report.</p> <p>The HFML Chief Executive Officer (CEO) is eligible to participate in a UK Sub-Plan of the Federated Hermes, Inc. Stock Incentive Plan. Under the terms of the Sub-Plan, the CEO is eligible to be invited annually to purchase a set number of shares in the Group's parent company, Federated Hermes, Inc. at a discounted price. These shares vest five years after the date of purchase.</p> <p>The CEO is also eligible to participate in Federated Hermes, Inc.'s Bonus Restricted Stock Program under which he is eligible to receive a portion of his annual bonus in restricted stock of Federated Hermes, Inc. at 85% of its value. The bonus restricted stock vests over a three year period.</p>
Alignment Pay should be aligned to the long-term success and the desired corporate culture	Strategic performance metrics (rather than total shareholder return) to dominate incentive schemes Assessment of performance with use of relevant metrics focused towards impact on stakeholders To promote a sound and aware approach to risk management that is aligned with the Company's risk appetite, client needs and corporate objectives Tail risk built into pay structures	<p>A proportion of key employees' deferred remuneration is delivered as fund awards, which are notional investments in funds managed by the Group, thereby aligning the short and long-term interests of employees with our clients and stakeholders.</p> <p>Individuals are assessed on a combination of financial, technical and behavioural key performance indicators. Non-financial metrics include demonstration of HFML's corporate behaviours as outlined in the Federated Hermes Pledge. Individuals will be highly rated if they perform successfully while embodying the HFML behaviours as conveyed in the Federated Hermes Pledge. Further detail is discussed later in the report.</p> <p>The Remuneration Committee works closely with the Risk and Compliance Committee to ensure that remuneration principles are governed by a sound and risk-aware management system.</p> <p>During the vesting period for deferred compensation, awards are subject to the malus clause in the plan rules. After vesting, awards remain subject to clawback.</p>
Simplicity Pay schemes should be clear and understandable for both investors and executives	To deliver reward programs that are transparent, simple to administer and affordable to the Group	HFML has a single incentive scheme for HFML's senior management. The discretionary bonus rewards past performance and includes a deferred portion for ongoing alignment, while the RSU's provide a forward-looking motivational tool to deliver a sustainable business. Additionally, the UK Sub-Plan of the Federated Hermes, Inc. Stock Incentive Plan referred to above has been introduced for the CEO.
Accountability Remuneration committees should use discretion to ensure that awards properly reflect business performance	Ownership and accountability for pay outcomes, including greater use of discretion Publication of pay ratio	<p>Our Remuneration Committee is consistently enhancing the disclosures we provide within the annual remuneration report.</p> <p>Total variable compensation is determined by the Remuneration Committee and recommended to the Board. The Remuneration Committee directly review and approve the remuneration payable to the top 50 highest paid employees. The Remuneration Committee has overall discretion to adjust 100% of discretionary awards and has adjusted awards both up and down over recent years.</p> <p>We have disclosed our relative spend on pay and the ratio of total CEO pay as compared to median employee pay. Our CEO and fellow Executive Committee members hold regular events in which they make themselves available to answer any questions from staff.</p>

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

REWARD STRATEGY PRINCIPLES (continued)

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

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

Fixed pay elements – base salary, retirement and other benefits

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

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

Bonus

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

Structure:

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

Performance & Adjustment:

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

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Outline of individual pay elements of the Group (continued)

Co-investment / bonus deferral

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

Structure:

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

Long-term incentive plan ("LTIP")

Aligns the interests of employees to those of the shareholders by encouraging employees to grow profits over the long term through sustained performance. The LTIP awards RSU's of up to 10.5% of the equity of HFML to senior management and is designed to encourage profitable growth over a six-year period.

Structure:

- Participants are selected at the discretion of the HFML Executive Committee and approved by HFML's Remuneration Committee based on an employee's projected ability to influence HFML over the performance period and can be in any part of HFML.
- The RSU's are valued by an independent valuation firm.
- Good and Bad leaver provisions apply to the award.
- Participants are entitled to receive dividends prior to the end of the vesting period.

UK Sub-Plan of the Federated Hermes, Inc. Stock Incentive Plan

The Group's parent company, Federated Hermes, Inc., operates a Sub-Plan to its existing Stock Incentive Plan. Awards from this plan are eligible to be made annually to the HFML CEO.

Structure:

- The Sub-Plan allows awards of shares of restricted Federated Hermes, Inc. Class B common stock to be granted to employees in the United Kingdom.
- In connection with any award, payment representing dividends may be made to participants.
- The Federated Hermes compensation committee has full authority to make awards under the Sub-Plan, to determine the terms and conditions of such awards, and to interpret and make all other determinations affecting the Sub-Plan, subject to the provisions of the Sub-Plan and the existing Federated Hermes, Inc. Stock Incentive Plan, and direction by Federated Hermes, Inc.'s board of directors.
- Periodic awards under the Sub-Plan have a purchase price of \$3.00 per share.

Performance & Adjustment:

- Periodic awards have a five-year vesting schedule and are subject to certain vesting acceleration, forfeiture or malus and clawback provisions that may apply depending upon the circumstances surrounding a participant's termination of employment or the occurrence of certain other events.
- Bonus restricted stock is awarded under the Federated Hermes Bonus Restricted Stock Program at 85% of fair market value, based on the closing price of Federated Hermes, Inc. Class B common stock on the New York Stock Exchange on the award date and generally vests over a three-year period.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

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

- The Company's performance management process requires all managers to review the performance and behaviours of their employees and to assign a rating to reflect their contribution throughout the year.
- All roles are benchmarked against the market to ensure that their remuneration is competitive.
- A rigorous review is undertaken to ensure a strong correlation between performance and awards.
- Non-financial metrics include demonstration of corporate behaviours, and successfully delivering agreed objectives.

Remuneration ratios

The compensation to revenue ratio, bonus to revenue ratio and CEO to median employee ratio form part of the key remuneration measures at HFML. These measures allow us to benchmark performance against industry peers and align compensation with the Company's financial performance. In January 2020, the HFML Board, which includes representation from HFML's shareholders, approved bonuses of £41.7m inclusive of National Insurance for the 2020 performance year (2019: £41.7m), equating to a bonus to revenue ratio of 24% (2019: 26%).

The table below shows the comparable relative spend on pay:

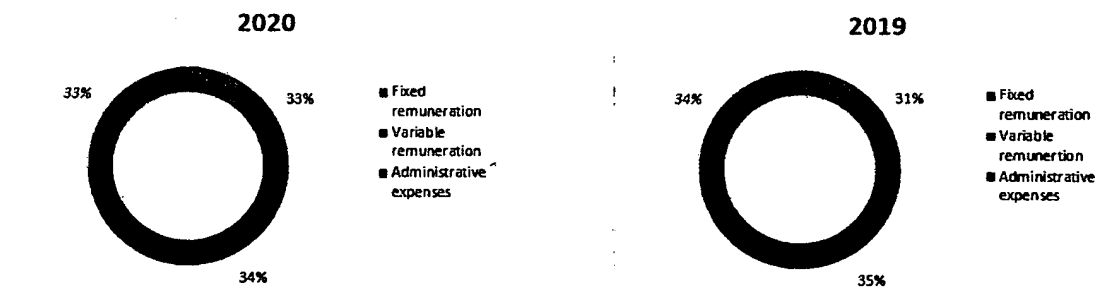
Relative Spend on Pay on an underlying basis

Ratio	2020	2019
Compensation ratio	52%	51%
Total compensation for employees /underlying revenues		
Bonus to revenue ratio	24%	26%
Bonus/underlying revenues		
CEO to median employee pay	22x	23x
Total pay for CEO/Median annual compensation for UK employees (excl. executives)		

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

The charts below show the relative spend on remuneration (both fixed and variable) as a percentage of total costs of the business.



Treatment of executive incentive schemes, deferred compensation awards and LTIPs

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

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

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

Guaranteed variable remuneration

HFML may agree to make an award of guaranteed variable remuneration in line with HFML's policies. Replacement awards, such as the buyout of a new joiner's deferred compensation that they are forfeiting to join HFML, are not the HFML standard compensation practice; however, on the occasions where a replacement award is considered, HFML will take steps to determine an appropriate amount and at all times be committed to paying no more than is necessary.

Remuneration Policy Coverage

This policy covers all permanent employees of HFML, wherever based, and across all subsidiaries. We believe the current policy to be fully compliant with the requirements of BIPRU Investment Firms (Prudential sourcebook for Banks, Building Societies and Investment firms), Undertakings for collective investment in transferable securities ("UCITS") and Alternative Investment Fund Managers ("AIFMD").

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

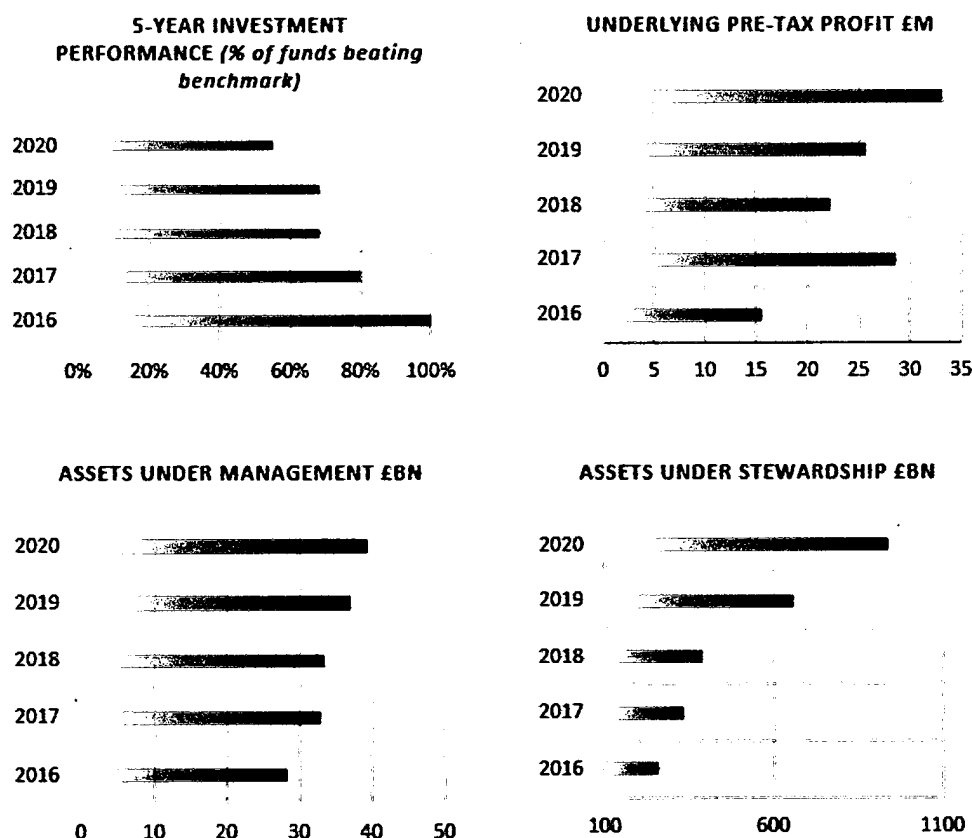
Performance and KPIs

2020 Performance and Remuneration outcomes

The Committee considered HFML's results relative to key performance indicators below and progress against its strategic objectives, as well as the personal performance of each HFML Executive Committee member (further information on remuneration amounts can be found in Directors' note 9). This includes taking a balanced approach to growing the business profitably and in a sustainable way that encourages the longevity of client relationships, while retaining and developing the key talent critical to the long-term success of HFML.

KPIs at a glance

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



Executive Committee Remuneration vs. Key Performance Indicators

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

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

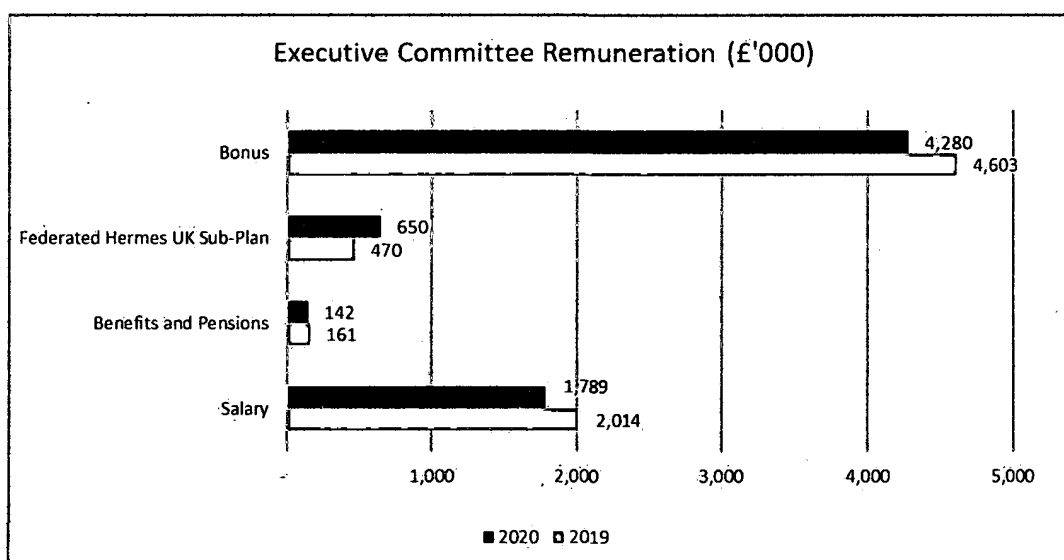
Executive Committee Remuneration vs. Key Performance Indicators (continued)

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

	2020	2019
	£'000	£'000
Ongoing remuneration	6,210	6,777
Federated Hermes, Inc. UK Sub-Plan	650	470
	<u>6,860</u>	<u>7,247</u>

Total ongoing key management personnel remuneration includes emoluments, HFML's contributions to money purchase pension schemes and the Federated Hermes, Inc. UK Sub-Plan in the case of the CEO.

The chart below shows the composition of remuneration for 2020 and 2019.



HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

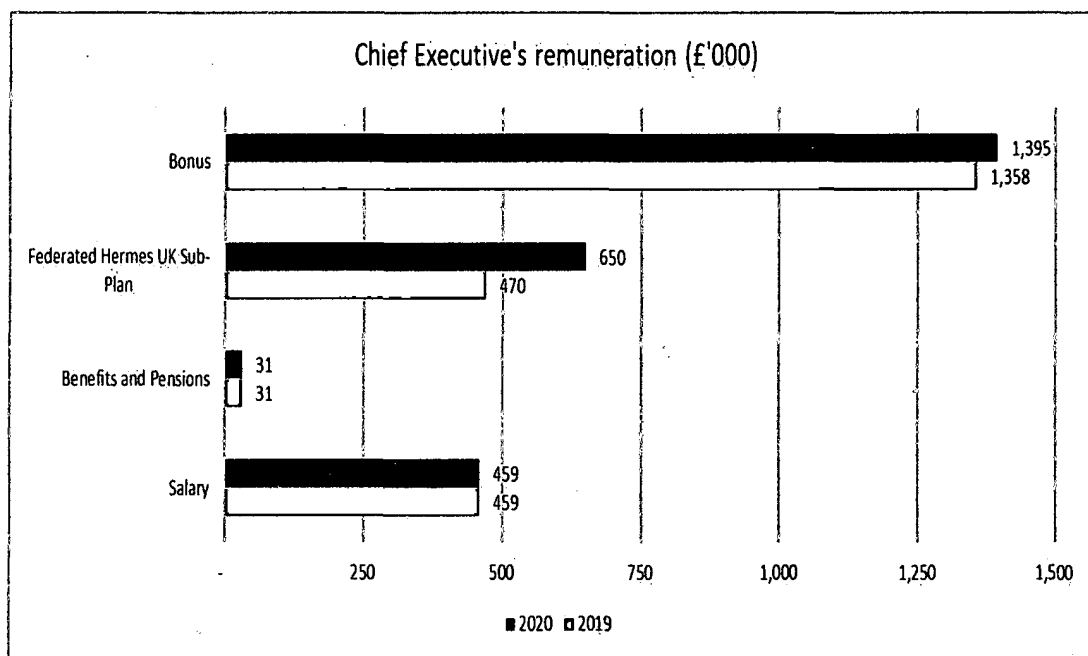
CEO remuneration

The CEO's performance is formally assessed twice each year by the Chairman of the HFML Board. Assessment is against the CEO's annual objectives and progress toward the achievement of the long-term objectives of the business.

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

	2020	2019
	£'000	£'000
Ongoing remuneration	1,884	1,848
Federated Hermes, Inc. UK Sub-Plan	650	470
	<u>2,534</u>	<u>2,318</u>

The total CEO's remuneration includes salary, bonus, Company contributions to money purchase pension schemes, the long-term incentive pay award, and the Federated Hermes, Inc. UK Sub-Plan.



HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

CEO remuneration (continued)

Key performance indicators	Key points in 2020 financial year – relevant to bonus award	Assessment
Strategic Delivery	Lead the execution of HFML's corporate strategy and in particular support/drive Business Development, US EOS and MAC plans for growth	✓✓
Management Account Profit		
Third party growth	Deliver the HFML financial growth plan in line with Target Performance Indicators	✓
Cost control	Drive and where appropriate 'sponsor' cost management initiatives functionally and company-wide in support of HFML's financial performance Ensure new products are profitable	✓✓✓
Investment performance	Maintain investment performance of third-party and shareholders' assets and, adapting to market direction, maximise investment performance/ growth opportunities across the product range	✓✓
Cultural Leadership		
Ambassador for asset management industry through initiatives	Act as the champion of change within the organisation and actively sponsor the firms Responsible Accountabilities Act as a key representative and ambassador for the firm and asset management industry, supporting and championing initiatives for positive change across a spectrum of groups and events Advocate for market reform and holistic return through conferences, and membership of the 300 Club, UK National Advisory Board on Impact Investing, Banking Standard Board and the UN Environmental Programme Financial Initiative Steering Committee	✓✓✓
Federated Hermes Pledge and performance and behaviour framework	Promote an inclusive and performance-led culture that supports HFML's vision statement Build a collaborative relationship with the majority shareholder and BTPS that supports productive, solution orientated outcomes with beneficiaries at the heart of decisions Stakeholder management of the HFML Board, Executive Committee, owners, clients, key talent and employees	✓✓✓

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

The remuneration of the CEO is approved by the Chairman of the HFML Board and the Chief Executive Officer and compensation committee of Federated Hermes, Inc., the ultimate parent of HFML.

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

POTENTIAL REGULATORY CHANGE UPDATE

On 21 December 2015, the European Banking Authority published its final guidelines on sound remuneration policies, which came into effect on 1 January 2017. HFML continues to apply 'Proportionality' as a Level 3 firm under the Prudential Regulatory Authority's and Financial Conduct Authority's regulations on remuneration. In the future, due to upcoming Investment Firms Directive ("IFD") regulation or HFML internal organisation we may be required to make changes to the remuneration policy to remain compliant with these rules.

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

In December 2020, final texts on IFD that contains the majority of the remuneration requirements were published in the European Journal following adoption by the European Parliament. IFD was initially proposed on the premise that it was not appropriate to apply the same requirements to banks and investment management, given the different risks faced by each industry. Based on the text made available so far, some structural remuneration requirements are likely to apply to our European entity, however the FCA is yet to confirm its stance on the application of IFD as a result of UK's departure from the EU, and is likely to publish its final text in late Q2 of 2021.

HFML's Board and the Committee continue to monitor regulatory developments likely to become effective 1 January 2022 and will consult with the Committee and HFML's shareholders if a new policy is required.

Independence and Objectivity of the Remuneration Committee

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

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

HERMES FUND MANAGERS LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

Personal Shareholding Policy

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

Avoiding Conflicts of Interest

To ensure remuneration policies avoid conflicts of interests, HFML developed a Conflicts of Interest Policy in accordance with the Markets in Financial Instruments Directive (MiFID), which outlines the steps HFML has taken to identify and mitigate the types of conflict of interests that exist or may exist. HFML is also subject to Federated Hermes, Inc.'s Code of Business Conduct and Ethics and the Code of Ethics for Senior Financial Officers.

Effective Risk Management

To ensure that remuneration decisions consider the implications for risk and risk management of the Company, the heads of Legal, Risk, Compliance and Audit provide the Committee with regular updates on any errors or breaches that may have occurred throughout the performance period. At the end of the period, the control functions are re-engaged to ensure that any errors or breaches have been considered for making remuneration decisions.

Directors' Emoluments

Directors' emoluments, all of which have been approved by the Committee, are disclosed in note 9 to the financial statements.

EVALUATING THE PERFORMANCE OF THE COMMITTEE

In February 2021, the Committee was evaluated by means of a questionnaire. The findings concluded that the Committee was performing its role effectively and providing rigorous debate and challenge to management, thereby providing the Board with the necessary assurances.

HERMES FUND MANAGERS LIMITED

REPORT OF THE NOMINATIONS COMMITTEE

MEMBERSHIP

The HFML Nominations Committee is chaired by David Stewart and its members include Gordy Ceresino, Sally James, Pars Purewal and James Fraser. Both David Watson and William McClory stood down during the year and were replaced by Pars Purewal and James Fraser, respectively.

RESPONSIBILITIES

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

- Evaluating the balance, skills, knowledge and experience of members;
- Regularly reviewing the structure, size and composition of the HFML Board;
- Identifying and nominating candidates for appointment to the HFML Board;
- Considering the leadership needs of the Group and considering succession planning for HFML's Directors and other senior executives;
- Assessing the contribution of the HFML Non-Executive Directors; and
- Approving the appointment of any Director to the Board of a subsidiary operating company of the Group.

Committee attendance in 2020

Member	Attendance
David Stewart (Chair)	4/4
Sally James	4/4
William McClory (Resigned 31/03/2020)	2/2
James Fraser (Appointed 23/06/2020)	1/1
David Watson (Resigned 30/06/2020)	3/3
Pars Purewal (Appointed 01/6/2020)	1/1
Gordy Ceresino	4/4
Gillian Haselden	1/1

Work of the Committee in 2020

Major topics considered by the Committee during the year were:

- Review of the Terms of Reference;
- Appointment of three Non-Executive Directors to the Board of HFML. The final appointee joined the Board on 1 January 2021;
- Reappointment of a Non-Executive Director of HFML for a further three-year period;
- Appointment of a permanent Company Secretary to HFML;
- Appointment of a Director to the board of MEPC;
- Appointment of a Director to the board to Hermes Alternative Investment Management Limited; and

HERMES FUND MANAGERS LIMITED

REPORT OF THE NOMINATIONS COMMITTEE (continued)

Work of the Committee in 2020 (continued)

- The appointment of three Non-Executive Directors to the board of Hermes Fund Managers Ireland Limited. Two of the appointees joined the Board on 1 January 2021.

EVALUATING THE PERFORMANCE OF THE COMMITTEE

In February 2021, the Committee was evaluated by means of a questionnaire. The findings concluded that the Committee was performing its role effectively and providing rigorous debate and challenge to management, thereby providing the Board with the necessary assurances.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT

Secretary: Kathy Thompson (appointed 25 March 2020)
Registered Office: Sixth Floor, 150 Cheapside, London, England, EC2V 6ET
Registered Number: 1661776

The HFML Directors present their report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2020. The Directors who served during the year are listed on pages 59 to 63.

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

RESULTS AND DIVIDEND

The results for the year are shown in the Consolidated Profit and Loss Account. A detailed business review is included in the Strategic Report. The Directors consider that HFML is well placed to take advantage of future opportunities. The overall performance of the Group is explained in the Financial Review section of the Strategic Report on page 29. Further, the Group's principal risks and uncertainties are disclosed in the Risk Management section and key performance indicators are provided in the Investment Performance section of the Strategic Report.

The Directors do not recommend a dividend payment in respect of 2020 (2019: £Nil).

GOING CONCERN

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

As part of their enquiries, HFML's Directors have reviewed the adequacy of the Group's regulatory capital position under a number of severe but plausible scenarios as detailed in the viability statement on page 57. The Directors have also taken account of the potential impact on the Group of the uncertain market outlook resulting from the COVID-19 outbreak (as described in further detail in the 'Outlook' and 'Principal Risks and Mitigants' sections on pages 33 and 45 respectively of the Strategic Report) and continue to have a high degree of confidence that the Group will continue to be profitable and generate cash on a timely basis to enable it to manage its liabilities. Further details of this assessment are provided in note 1c of the financial statements.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2020.

FINANCIAL INSTRUMENTS

The Group has financial instruments including debtors, creditors, investments and cash. These mostly arise from the Group's operations. The Group has a policy of identifying and controlling the financial risks associated with such instruments. These risks include credit risk, liquidity risk, interest rate risk and market risk. Bearing in mind the nature of the exposure to financial instruments within the Group and the limited risks associated with them, HFML's Directors are satisfied that there is adequate control of the risks. Note 27 presents further information on the Group's financial risk management objectives and strategy.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' INDEMNITIES

Qualifying third-party indemnity provisions, which were made during the year for the benefit of HFML's Directors, remain in force at the date of this report.

EMPLOYEE CONSULTATION

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

During the year meetings are held by executive management to discuss the performance of the Group with all employees. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees. For details of further employee engagement please refer to Section 172 Stakeholder Engagement on page 35.

EQUAL OPPORTUNITIES POLICY

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

STREAMLINED ENERGY AND CARBON REPORTING STATEMENT

Under the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018, large UK companies are mandated to disclose their UK energy use and associated greenhouse gas ("GHG") emissions. Specifically, and as a minimum, HFML is required to report those GHG emissions relating to natural gas, electricity, and transport fuel, as well as an intensity ratio, under the Streamlined Energy and Carbon Reporting ("SECR") Regulations.

HFML collated its GHG data and engaged the services of an energy consultant to complete the calculation of the Group's carbon footprint as part of our annual Environmental Management System and ISO 14001 accreditation. The data has been compiled in line with the 2019 and 2020 UK Government environmental reporting Guidance as well as the Department for Business, Energy & Industrial Strategy ("BEIS") emissions factors.

The period covered for the purpose of the SECR section is from 1 January to 31 December 2020 together with 2019. Our calculations are for the following scopes:

- Buildings related energy – natural gas (Scope1); and
- Buildings related energy - electricity (Scope 2)

We have measured both Scope 1 and 2 emissions in line with the SECR guidelines. HFML has not disclosed Scope 3 emissions, as this disclosure is only required when an organisation is responsible for the purchasing of fuel, and HFML has no such purchasing responsibility.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

STREAMLINED ENERGY AND CARBON REPORTING STATEMENT (continued)

Energy consumption for MEPC includes estimated data. Meter readings were taken in October 2019 and again in December 2020, therefore this has been apportioned to calculate an estimated 12 month consumption.

The amount of data estimated compared to the total energy consumption of HFML equates to 3.25% of total electricity consumption however 100% of gas consumption as the MEPC office is the sole consumer of gas.

HFML's GHG emissions for the years ended 31 December 2020 together with 2019 are presented below:

Scope 1 In metric Tonnes of CO ₂ e	Calendar Year 2020	Specific exclusions % for relevant scope	% of data estimated	Calendar Year 2019
Gas consumption	4.51	None	100%	1.13
Total Scope 1	4.51	N/A	100%	1.13

Scope 2 In metric Tonnes of CO ₂ e	Calendar Year 2020	Specific exclusions % for relevant scope	% of data estimated	Calendar Year 2019
Electricity Consumption	208.70	None	3.25%	202.10
Total Scope 2	208.70	N/A	3.25%	202.10

Intensity Metrics

	Calendar Year 2020	Exclusions	Calendar Year 2019
T CO ₂ °/FTE Scope 1 & scope 2 emissions	6.7	None	2.2

The Directors continue to assess the environmental impact of HFML's ongoing operations by way of the Environmental Management System and the ISO 14001 accreditation.

In an effort to further reduce the Group's GHG emissions, HFML has completed surveys across the business identifying as part of the Energy Savings Opportunities Scheme.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

DONATIONS

HFML supported a number of charities in the year by donating £182,430 in 2020 (2019: £108,572). No political donations were made in the current or prior year.

SUBSEQUENT EVENTS

On 4 January 2021 (effective 1 January 2021), HFML completed the acquisition of Federated Investors Australia Services Limited, a regulated investment management company incorporated in Australia for a consideration of USD 50,000 plus the net asset value of the company at 31 December 2020. The entity was acquired from Federated Investors Asia Pacific Pty Ltd, a fellow group undertaking of the parent company. The acquisition is expected to expedite HFML's expansion into the Australian market.

On 1 January 2021, Richard Novak was appointed as a Non-Executive Director of HFML, replacing Denis McAuley who resigned on 31 December 2020. Richard is employed by our parent, Federated Hermes, Inc., and acts as a Federated Hermes Nominated Director on behalf of HFML. Richard has also been appointed to both the Audit Committee and the Risk and Compliance Committee.

AUDITOR

EY LLP will be deemed to be reappointed at the end of the next period for appointing independent auditors as defined in Section 485(2) of the Companies Act 2006.

STATEMENT ON DISCLOSURE OF INFORMATION TO THE AUDITOR

HFML's Directors, having made enquiries to fellow Directors, can state that:

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

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

This report was approved by order of HFML's Board and signed on behalf of HFML's Board by:



S A Nusseibeh
Chief Executive Officer

26 March 2021

HERMES FUND MANAGERS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

HFML's Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law HFML's Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

- *select suitable accounting policies and then apply them consistently;*
- *make judgements and estimates that are reasonable and prudent;*
- *state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;*
- *assess the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and*
- *use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations or have no realistic alternative but to do so.*

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

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

HERMES FUND MANAGERS LIMITED

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

Opinion

We have audited the financial statements of Hermes Fund Managers Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which include the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated and Company cash flow statements and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

HERMES FUND MANAGERS LIMITED

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 96, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is

HERMES FUND MANAGERS LIMITED

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

Responsibilities of directors (continued)

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those relating to the reporting framework (FRS 102, the Companies Act 2006 and the Companies (Miscellaneous Reporting) Regulations 2018) and relevant tax compliance regulations.
- We understood how the Group is complying with those frameworks by making enquiries of management, including the Head of Legal and Company Secretary, Group Finance Director, Chief Operating Officer, Head of Compliance and Internal Audit and also the Non-Executive Directors including the Chair of the Audit Committee. We corroborated our understanding through our review of board minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with directors and management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by

HERMES FUND MANAGERS LIMITED

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

directors and management. We identified fraud and management override risks in relation to revenue recognition (including rebates). In response to this risk we have: understood the movement of revenue and the drivers, such as the change in number of funds, market performance, and fee rates; tested the effectiveness of the controls operated by management in order to prevent errors in the calculation of the revenue; and on a sample basis validated that fees have been correctly calculated by reperforming calculations including testing inputs into fee calculations to external support.

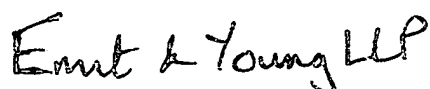
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management; and focused substantive testing.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Matthew Price (Senior statutory auditor)

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

London

26 March 2021

HERMES FUND MANAGERS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	Notes	£'000	£'000
Group revenue	3	196,328	165,731
Fee and commission expenses	3	(8,268)	(7,534)
Net group revenue		188,060	158,197
Administrative expenses		(175,540)	(145,857)
Group operating profit		12,520	12,340
Share of profit of the joint venture	4	724	1,706
Gain arising upon acquisition of HGPE LLP	14	14,416	-
Net gain / (loss) on investments and foreign exchange	5	5,447	(86)
Profit on ordinary activities before interest and taxation		33,107	13,960
Interest receivable	6	435	864
Profit on ordinary activities before taxation	7	33,542	14,824
Tax (charge)/credit	10	(1,934)	2,317
Profit on ordinary activities after taxation		31,608	17,141
Profit on ordinary activities after taxation attributable to:			
Controlling interest - HFML		30,690	17,141
Non-controlling interest - HCL		918	-
		31,608	17,141

All of the results are derived from continuing operations.

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020	2019
	£'000	£'000
Profit for the financial year	31,608	17,141
Other comprehensive expense		
Profit arising from re-translation of foreign currency denominated subsidiaries	244	158
Total comprehensive income	31,852	17,299
Profit for the year attributable to:		
Equity shareholders of the Company	30,690	17,141
Non-controlling interest	918	-
Total comprehensive income for the year attributable to:		
Equity shareholders of the Company	30,934	17,299
Non-controlling interest	918	-

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Intangible assets			
Goodwill	12	1,466	-
Intangible assets	12	23,878	-
		<u>25,344</u>	<u>-</u>
Fixed assets			
Tangible assets	13	8,529	7,001
Joint ventures	14	-	10,494
Investments	14	31,667	16,036
Debtors – amounts after one year	15	2,845	1,873
		<u>43,041</u>	<u>35,404</u>
Current assets			
Debtors	15	71,070	64,221
Financial assets – forward contracts	19	3,749	2,338
Cash at bank	25	114,080	89,894
		<u>188,899</u>	<u>156,453</u>
Current liabilities			
Creditors – amounts due within one year	16	(73,182)	(55,102)
Net current assets		<u>115,717</u>	<u>101,351</u>
Total assets less current liabilities		184,102	136,755
Creditors – amounts due after more than one year	16	(15,709)	(11,970)
Provisions for liabilities	17	(2,217)	(1,659)
Net assets		166,176	123,126
Capital and reserves			
Called up share capital	20	83,592	83,592
Other reserves	21	19,550	11,315
Profit and loss account		59,153	28,219
Non-controlling interest		3,881	-
Shareholders' funds		166,176	123,126

These financial statements were approved by the HFML Board and authorised for issue on 26 March 2021. The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

Signed on behalf of the HFML Board of Directors:



S A Nusseibeh – Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Tangible assets	13	6,583	7,001
Investments	14	78,832	54,727
Debtors – amounts due after one year	15	1,717	1,873
		<u>87,132</u>	<u>63,601</u>
Current assets			
Debtors	15	63,915	54,128
Financial assets – forward contracts	19	3,749	2,338
Cash at bank	25	69,993	75,670
		<u>137,657</u>	<u>132,136</u>
Current liabilities			
Creditors – amounts due within one year	16	(99,621)	(78,060)
Net current assets		<u>38,036</u>	<u>54,076</u>
Total assets less current liabilities		125,168	117,677
Creditors – amounts due after more than one year	16	(6,787)	(5,499)
Provisions	17	(1,908)	(1,659)
Net assets		<u>116,473</u>	<u>110,519</u>
Capital and reserves			
Called up share capital	20	83,592	83,592
Other reserves		12,473	7,418
Profit and loss account		20,408	19,509
Shareholders' funds		<u>116,473</u>	<u>110,519</u>

The Company's profit after tax for the year amounted to £898,505 (2019: £72,515,795).

These financial statements were approved by the HFML Board and authorised for issue on 26 March 2021. The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

Signed on behalf of the HFML Board of Directors by:



S A Nusseibeh - Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Non- controlling interest £'000	Total £'000
At 1 January 2020		83,592	11,315	28,219	-	123,126
Profit for the year		-	-	30,690	918	31,608
Profit arising from re-translation of foreign currency denominated subsidiaries		-	-	244	-	244
Total comprehensive profit		-	-	30,934	918	31,852
Costs attributable to awards made under the Group's long-term incentive plan	21	-	8,235	-	-	8,235
Non-controlling interest on acquisition of HGPE		-	-	-	3,233	3,233
Amounts distributed to non-controlling interest					(270)	(270)
At 31 December 2020		83,592	19,550	59,153	3,881	166,176

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		83,592	71,866	3,897	(60,946)	98,409
Profit for the year		-	-	-	17,141	17,141
Profit arising from re-translation of foreign currency denominated subsidiaries		-	-	-	158	158
Total comprehensive profit		-	-	-	17,299	17,299
Cancellation of share premium		-	(71,866)	-	71,866	-
Costs attributable to awards made under the Group's long-term incentive plan	21	-	-	7,418	-	7,418
At 31 December 2019		83,592	-	11,315	28,219	123,126

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**COMPANY STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2020		83,592	7,418	19,509	110,519
Profit for the year		-	-	899	899
Costs attributable to awards made under the Group's long-term incentive plan		-	5,055	-	5,055
At 31 December 2020		83,592	12,473	20,408	116,473

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		83,592	71,866	3,897	(124,873)	34,482
Profit for the year		-	-	-	72,516	72,516
Cancellation of share premium	19	-	(71,866)	-	71,866	-
Costs attributable to awards made under the Group's long-term incentive plan		-	-	3,521	-	3,521
At 31 December 2019		83,592	-	7,418	19,509	110,519

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Net cash from operating activities			
	24	39,682	30,341
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		59	25
Purchase of fixed asset investments		(10,328)	(15,206)
Investment in subsidiary		(6,869)	-
Investment in joint venture		-	(887)
Interest received on cash and cash equivalents		433	864
Distribution to HGPE Capital Limited		(270)	-
Dividends received from joint venture		2,013	-
Dividends received from subsidiary		1,788	-
Purchase of tangible fixed assets		(743)	(541)
Net cash flows used in investing activities		(13,917)	(15,745)
Net increase in cash and cash equivalents	25	25,766	14,596
Cash and cash equivalents at beginning of year	25	89,894	81,149
Effect of foreign exchange rate changes		(1,580)	(5,851)
Cash and cash equivalents at end of year	25	114,080	89,894

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Net cash from / (used in) operating activities	24	11,469	(57,044)
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		59	25
Purchase of fixed asset investments		(10,328)	(15,206)
Investment in joint venture		-	(887)
Investment in subsidiaries		(9,986)	(11)
Interest received		377	828
Dividends received from joint ventures		1,788	-
Dividends received from subsidiaries		2,013	80,124
Purchase of tangible fixed assets		(729)	(541)
Net cash flows from investing activities		(16,806)	64,332
Net increase in cash and cash equivalents	25	(5,337)	7,288
Cash and cash equivalents at beginning of year	25	75,670	73,720
Effect of foreign exchange rate changes		(340)	(5,338)
Cash and cash equivalents at end of year	25	69,993	75,670

The notes to these financial statements on pages 111 to 150 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES

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

a) General information and basis of accounting

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

Hermes Fund Managers Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office of the company is given on page 92. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 9 to 63.

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

The functional currency of both the Group and the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated and Company financial statements are presented in pounds sterling.

b) Basis of consolidation

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

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

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

Hermes Assured Limited and Hermes Investments (North America) Limited, two wholly owned subsidiaries, are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2020 by virtue of Section 479A of the Companies Act 2006.

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

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

c) Going concern

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

As at 31 December 2020, the Group held cash of £114.1m and net current assets of £115.7m; having generated a profit for the year of £30.7m and a cash inflow from operating activities of £39.7m from assets under management ("AUM") of £39.5bn. In addition, the Group had surplus regulatory capital of £50.5m and no external borrowings. The Directors consider that the Group's AUM provide a strong base from which to generate future revenues and the Group's existing financial resources provide a level of protection from which to withstand significant market stress.

Given the market turmoil created by the COVID-19 pandemic, the Directors have reviewed the adequacy of the Group's regulatory capital and solvency position under a number of severe yet plausible scenarios that take account of the potential impact on the Group of the uncertain market outlook resulting from the COVID-19 outbreak (including two stress scenarios whereby the Head fund managers of our two largest revenue generating funds resign, and world markets fall by 30% coupled with not achieving the Group's sales targets). In addition, the Directors have conducted a reverse stress testing analysis to determine the levels to which the Group's assets under management would need to fall in order for the Group's surplus regulatory capital and cash liquidity to be exhausted.

Following this review, whilst certain of the more severe stressed scenarios considered by the Directors may impact the Group's profitability in the short term, the Group's existing significant regulatory capital surplus and cash positions provide the Directors with a high degree of confidence that the Group will be able to continue to meet its liabilities for the foreseeable future.

Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d) Revenue

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

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

d) Revenue (continued)

Revenue includes performance fees that are calculated based upon rolling performance periods of up to three years. Performance fees are recognised in the year the performance period ends and the fee has crystallised. A fee has crystallised when the contractual conditions have been satisfied, an amount of revenue can be reliably measured and it is probable that the economic benefits will flow to the Group.

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

e) Carried Interest

Carried interest is accrued on profits generated by certain funds managed by HGPE, a subsidiary of HFML, on behalf of third parties. The recognition of carried interest takes relevant performance hurdles into consideration, assuming all investments were realised at the prevailing book value. Carried interest is only paid or received when the relevant performance hurdles are met on a cash basis and the accrual is discounted to reflect expected payment periods.

Carried interest receivable or received may be subject to clawback provisions if the performance of the fund deteriorates in the period following carried interest being paid. The Group will only accrue carried interest where the risk of reversal is highly unlikely. The Group will typically not recognise carried interest until towards the end of the relevant vehicle's life cycle and any carried interest received will be recognised on the balance sheet as deferred income until such time that the risk of clawback is remote.

f) Other income

Other income is recognised on an accruals basis. Other income primarily comprises legacy income from non-core past operations, class actions and licence fees. Other income also includes income generated from sub-leasing the Group's excess office space in certain global locations.

g) Goodwill

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

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

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

g) Goodwill (continued)

HFML acquired 100% of the ordinary share capital of MEPC on 15 January 2020, effective 1 January 2020. As a result of this acquisition, the Group recognised goodwill on its balance sheet.

Following the acquisition of HCL by Federated Hermes, Inc. the HGPE Limited Liability Partnership Agreement was amended. These amendments resulted in a change of corporate governance whereby HGPE became a subsidiary of HFML. Given that HFML was not the acquiring party and paid no consideration, negative goodwill was generated and recognised as a credit to the profit and loss account.

h) Intangible assets

Intangible assets arise when the Group acquires a business and its fair value exceeds the value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the acquired business' identifiable assets. These intangible assets are measured on initial recognition at cost. Following initial recognition, these assets are measured at cost less accumulated amortisation and any provision for impairment (see policy 'i' for details). Identifiable assets acquired in 2020, resulting from the acquisition of MEPC and the consolidation of HGPE, comprised customer contracts to manage client assets and brand names. The value of these identifiable assets are amortised on a straight-line basis through the profit and loss account over their useful economic lives.

i) Financial instruments

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

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

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

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

Derivatives are classified as financial assets at fair value through profit or loss and are re-measured to their fair value at each reporting date.

The resulting gain or loss is recognised in profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

1. ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

Debtor and creditor balances are classified as basic financial instruments and initially recognised at the transaction price and subsequently measured at amortised cost less provision for impairment.

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

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

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

j) Investments

Investments in subsidiaries and joint ventures are measured at cost less impairment. The impairment policy is shown below in policy (l). The Group does not have regulatory permissions to trade on its own account, however the Group can hold investments in its own funds for the purpose of seed and hedging of deferred bonuses. These investments are classified as being held at fair value through profit or loss. Both unrealised gains or losses arising on the revaluation of these investments, and realised gains and losses on the disposal of these investments are recognised in the profit or loss account.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market (Level 1). When quoted prices are unavailable, other market observable inputs provide evidence of fair value (Level 2). If the market is not active, unobservable inputs may be used where the fair value is estimated by using a valuation technique (Level 3). Level 1 investments include hedging investments in relation to deferred bonuses and seed capital in listed investments. Level 3 investments include seed capital in a private markets credit fund. There is no readily available market price for this investment.

k) Joint Ventures

In the Group financial statements investments in joint ventures are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of joint venture profits, less losses, while the Group's investment in joint ventures is shown separately in the consolidated balance sheet and represents the Group's share of the net assets of the joint venture.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

k) Joint Ventures (continued)

Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy for goodwill above in policy (g). Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

HFML's investment in joint venture in HGPE terminated on 22 April 2020. From that date HGPE became a subsidiary and was consolidated into the wider Group; while also recognising a non-controlling interest relating to HCL, a Federated Hermes subsidiary (see business combinations policy (m)).

l) Impairment

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

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Where indicators exist for a decrease in impairment loss, the prior impairment loss is assessed for indications of reversal. For all assets other than goodwill and intangible assets (see below), if and only if the reasons for the impairment loss have ceased to apply, an impairment loss shall be reversed in a subsequent period.

An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The reversal of an impairment is recognised in the profit and loss account.

Financial assets

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

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date. Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is assessed to determine whether a reversal can be objectively related to an event occurring after the impairment was recognised.

An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

l) Impairment (continued)

Goodwill and intangible assets

Both goodwill and intangible assets are carried at amortised cost. If objective evidence exists that determines the carrying value exceeds its fair value, then an impairment is recognised immediately through the profit and loss account and this cannot be reversed.

m) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the Group. The fair value of an acquisition is calculated by recognising the identifiable assets and liabilities acquired at the acquisition date. The consideration includes the fair value of any liability resulting from contingent or deferred consideration arrangements. Contingent or deferred consideration will be recognised at fair value at the acquisition date, with any subsequent changes to the fair value taken through the Group's profit and loss account. The Group recognises any non-controlling interest at the fair value of the proportionate share of the identifiable net assets.

n) Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date.

These translation differences are presented within the profit and loss account.

In the case of the consolidated financial statements, foreign operations are retranslated using the net investment method. The results of these foreign operations that have a functional currency that is different to the Group are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date.

Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

o) Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful economic lives of the assets and is recognised in the profit and loss account. The estimated useful economic lives are as follows:

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

o) Tangible fixed assets (continued)

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

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

p) Administrative expenses

Administrative expenses include the Group's significant overhead costs such as staff costs, administration fees, market data services, marketing and IT costs. Expenses are recognised on an accruals basis.

q) Operating leases

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

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

r) Pension benefits

The Company operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year and is recognised on an accruals basis. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

s) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax balances are not discounted.

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

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

1. ACCOUNTING POLICIES (continued)

s) Taxation (continued)

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

t) Bonus costs

Bonus costs are recognised on an accruals basis. Deferred bonuses subject to co-investment arrangements are accrued on a straight-line basis over the period to vesting.

u) Share based payments

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

The fair value of the awarded restricted stock units was determined by an external valuation of the Company's shares. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of the Company (market conditions) and non-vesting conditions.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and HFML management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. No expense is recognised for awards that are not expected to vest.

v) Provisions

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

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligation is a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate of obligations can be reliably measured.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

1. ACCOUNTING POLICIES (continued)

w) Dividends

Dividends are recognised when they have been declared and approved by the Board of HFML. Intra-Group dividends from the underlying subsidiary entities to the parent are recognised in the accounting period in which the dividends are declared and approved.

x) Interest income

The Group earns income as a result of holding its excess cash on deposit. Interest on cash and cash equivalents is recognised on an accruals basis using the effective interest method.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Group are sensitive to the accounting policies, judgements and estimates that underlie the preparation of its financial statements. UK company law requires the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated. In particular, in selecting the Group's accounting policies, the Directors have determined that the Group's Long-Term Incentive Plan meets the definition of an Equity Settled Scheme (as defined by Section 26 of FRS 102) as opposed to a cash settled scheme and that the Group's lease arrangements meet the definition of an operating lease rather than finance lease. Please refer to accounting policies (u) and (q), respectively, for details of the accounting policies adopted as a result of these judgements. The Directors have not identified any other key areas of judgement in selecting the Group's accounting policies.

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

(i) Deferred tax asset

The ability of the Group to recognise a deferred tax asset in relation to taxable losses brought forward from prior years is limited to the extent that it is probable that the Group will generate sufficient taxable profits in the future against which these losses can be offset. The Directors have prepared a profit forecast that provides their best estimate of the extent of profits that will be generated by the Group in the foreseeable future. The forecast adopts management's best estimate of the revenue and cost drivers that will impact the Group's future profitability. This estimation drives the value of the deferred tax asset recognised by the Group in respect of carried forward losses. Please refer to note 10 for further details.

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)**

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(ii) Dilapidation provision

The Directors review the dilapidation provision annually. A third-party specialist is engaged to ensure that the provision recognised is sufficient to restore the premises to their original condition on termination of the leases. As disclosed in note 17, the Directors have recognised a dilapidation provision that represents their best estimate of the costs that will be required to restore the London office premises, at Cheapside and Gutter Lane, to their original condition upon termination of the leases.

(iii) Revenue recognition of performance fee revenue and carried interest

Certain performance fees recognised in the year remain subject to fluctuation dependent on the finalisation of net asset value and benchmark data for the underlying funds. The Directors have calculated the performance fee entitlement based on their best estimate of this data and then applied a discount to reflect uncertainty. The discount was derived through sensitivity analysis that was carried out by comparing the end year accrual value versus the final invoice issued over the past two years. Discounts range from 2% to 5% and represent the best estimate of the potential reduction in the fee entitlement that could arise from movements in the underlying source data.

On 9 December 2020, MEPC became entitled to a performance fee of £5.2m resulting from the practical completion of Site 1 Phase 3 of the Wellington Place development in Leeds. The fee is expected to become payable in late 2021. The Directors have calculated the performance fee with the latest information available at the year-end. Given the uncertainty with respect to COVID-19 and the cultural shift in work practices following the national lockdowns, a discount of 10% has been applied to the current market value of the site. Given the Company's in-house expertise in the Real Estate market, the 10% discount applied was agreed to be a reasonable forecast of the potential fall in the market value of this site by late 2021.

Certain carried interest entitlements previously recorded as revenue were found to have clawback provisions attached. When received, this carried interest is treated as deferred income on the balance sheet. This deferred income, as it accumulates, will be used to offset any potential carry clawback that may arise on those funds with clawback provisions. Each quarter, the Directors fair value the carry entitlements / potential clawback to crystallise at the year-end given the underlying asset values of the funds. At 31 December 2020, the expected carry clawback for the year is in excess of carry entitlements for the prior year and a provision for the net payable has been recognised through the profit and loss account.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(iii) Long-term incentive plan

The key estimate with respect to the LTIP awards is identifying the fair value of the HFML business from which the value of these awards is derived. The first tranche of LTIP awards was granted on 1 July 2018, the date Federated Hermes acquired a majority stake in HFML, and the Directors were satisfied that the enterprise value at which the stake was acquired was an appropriate fair value. The second and third tranches were granted on the first and second anniversary of the sale, respectively. The Directors no longer considered the enterprise value at the acquisition date to be appropriate for tranche two or three and therefore a third-party valuation of the HFML business was carried out by a third party specialist valuation team at the grant date of each year.

(iv) Intangible assets

MEPC

Following the acquisition of MEPC Limited on 15 January 2020, effective 1 January 2020 the Directors engaged a third party specialist valuation team to determine the value of the identifiable intangible assets and their expected useful economic life. The intangible assets identified included customer contracts to manage client assets and the company's brand name. The value of both these groups of assets was determined through the discounted cash flow valuation technique and an appropriate discount rate was applied. An impairment assessment was carried out at the year ended 31 December 2020, and there was no evidence of impairment noted.

HGPE

On 5 March 2020, Federated Hermes, Inc. completed the acquisition of HCL. Following this acquisition, a new HGPE Limited Liability Partnership Agreement was signed which changed the governance arrangements in place. This resulted in a change of control whereby, on 22 April 2020, HGPE became a subsidiary of HFML and was consolidated into the wider Group. On consolidation, HFML recognised on its balance sheet, those intangible assets as identified as part of the purchase price accounting carried out by the Company's parent, Federated Hermes, Inc. The intangible assets identified included customer contracts pertaining to both the infrastructure and private equity businesses and HGPE's brand name. The fair value of these intangible assets was determined as at 5 March 2020; given the significant deterioration in the markets in late March 2020 following the onset of the COVID-19 pandemic, the Directors engaged a specialist valuation team to carry out a full valuation to ensure that the valuation of these intangible assets had not been impaired during the period from the initial valuation to their consolidation on to the HFML balance sheet. There was no evidence to suggest these assets had been impaired. A further impairment test was carried out for the year ended 31 December 2020, and there was no evidence of impairment noted.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

3. REVENUE

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

	Group	
	2020	2019
	£'000	£'000
Net management fees	161,641	140,432
Stewardship fees	11,046	8,827
Performance fees	16,157	5,501
Carried interest	3,856	8,900
Other fee income	3,628	2,071
Total Group revenue	<u>196,328</u>	<u>165,731</u>

Fees and commission expenses are paid to third parties for ongoing services under distribution agreements and are charged to the income statement over the period in which the services are expected to be provided. In 2020, the amount of fees and commissions recognised in the income statement were £8,268,057 (2019: £7,534,183).

4. SHARE OF PROFIT OF THE JOINT VENTURE

Share of results of the joint venture:

	2020	2019
	£'000	£'000
Joint venture:		
Hermes GPE LLP	<u>724</u>	<u>1,706</u>
	<u>724</u>	<u>1,706</u>

Share of profit from the joint venture arose from the Company's partial ownership in HGPE. This profit covers the period from 1 January 2020 to 22 April 2020; where HFML's investment in joint venture was accounted for as an equity method investment. From 22 April 2020 onwards, HGPE was fully consolidated into the wider Group as a subsidiary. Note 14 discloses additional information on our investment in HGPE.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

5. NET GAIN / (LOSS) ON INVESTMENTS AND FOREIGN EXCHANGE

	2020	2019
	£'000	£'000
Net realised loss on closed forward contracts	(433)	(3,777)
Net unrealised gain on open forward contracts	1,410	5,343
Unrealised gains on fixed asset investment	3,794	606
Profit on sale of fixed asset investment	82	4
Net gain/(loss) on foreign exchange	594	(2,262)
	<u>5,447</u>	<u>(86)</u>

6. FINANCE INCOME

	2020	2019
	£'000	£'000
Interest receivable in respect of:		
Interest in relation to cash and cash equivalents	435	864
	<u>435</u>	<u>864</u>

7. PROFIT ON OPERATING ACTIVITIES

	2020	2019
	£'000	£'000
Profit on operating activities stated after charging:		
Depreciation on tangible fixed assets (note 13)	1,619	1,510
Amortisation of intangible assets and goodwill (note 12)	2,939	967
Loss on disposal of tangible fixed assets	-	175
Rental charges under operating leases	3,712	3,175
	<u>3,712</u>	<u>3,175</u>
Auditor's remuneration:		
Audit fees - Subsidiaries	146	122
- Company	101	84
	<u>247</u>	<u>206</u>
Non-audit fees:		
Other assurance services*	106	89
Total fees payable to the Group's auditor	<u>353</u>	<u>295</u>

*Other assurance services in the current and prior year included: assurance over the AAF Controls Report and the CASS audit.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

8. STAFF NUMBERS AND COSTS

Average number of persons employed by the Group in the year:	2020	2019
Investment management	108	104
Stewardship	41	34
Business development	83	76
Administration	200	187
MEPC	19	-
HGPE	60	-
	<u>511</u>	<u>401</u>

At the year ended 31 December 2020 the Group employed 533 full time employees. The increase in the year is primarily a result of the acquisition of MEPC and consolidation of HGPE.

Staff costs during the year in respect of these directors and employees were:	2020 £'000	2019 £'000
Wages and salaries	102,144	81,369
Social security costs	11,892	10,461
Pension costs	5,100	4,492
Redundancy payments	597	768
	<u>119,733</u>	<u>97,090</u>

9. DIRECTORS' REMUNERATION AND TRANSACTIONS

Directors' remuneration (including Non-Executive Directors)	2020 £'000	2019 £'000
Emoluments	3,431	3,713
Amounts receivable under long-term incentive schemes	650	470
Company contributions to money purchase pension schemes	36	38
	<u>4,117</u>	<u>4,221</u>

The Group operates a bonus deferral scheme whereby a portion of bonuses awarded in respect of the year are deferred. The full value of deferred awards granted to HFML's Executive Directors in respect of the year was £1,465,000 (2019: £1,422,000), although they will only become payable after the HFML Executive Directors satisfy future service conditions.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

9. DIRECTORS' REMUNERATION AND TRANSACTIONS (continued)

The annual cost attributable to these deferred awards is included in total remuneration disclosed above.

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

The number of HFML Directors who:	2020 No.	2019 No.
Are members of a money purchase pension scheme	2	2
Have awards receivable in the form of units under a long-term incentive scheme	2	2
Remuneration of the highest paid HFML director:	2020	2019
	£'000	£'000
Emoluments	1,866	1,829
Company contributions to money purchase pension schemes	18	19
Amounts receivable (other than shares and share options) under long-term incentive schemes	650	470
	<u>2,534</u>	<u>2,318</u>

Of the emolument balance above £1,055,000 (2019: £862,000) is deferred over a period of up to three years.

Details of transactions with HFML's Directors and key management personnel during the year are disclosed in note 28.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of tax charge/(credit) for the year	2020	2019
	£'000	£'000
Amounts recognised in profit or loss		
<i>Current tax:</i>		
UK corporation tax at 19% (2019: 19%)	2,115	1,844
Overseas tax	157	105
Other	(7)	-
Adjustment in respect of prior periods	28	(12)
Total current tax charge	2,293	1,937
<i>Deferred tax:</i>		
Timing differences, origination and reversal	(316)	(3,754)
Adjustment in respect of prior periods	(43)	(500)
Total deferred tax credit	(359)	(4,254)
Tax charge/(credit) on profit on ordinary activities	1,934	(2,317)

b) Reconciliation of tax charge

The tax credit for the year differs from that resulting from applying the average rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£'000	£'000
Profit/(loss) on ordinary activities multiplied by the average rate of corporation tax in the UK of 19% (2018: 19%)	6,198	2,816
<i>Effects of:</i>		
Non-taxable income	(2,790)	(265)
Non-deductible expenses	550	590
Adjustments in respect of prior periods	-	(455)
Effect of differences to tax rates	235	338
Deferred tax recognised	(2,262)	(5,281)
Deferred tax liability unwind	1	-
Other	2	(5)
Chargeable gains	-	(55)
Current tax credit for the year	1,934	(2,317)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The UK corporation tax rate is 19%. The Group had an effective tax rate of 5.9% (2019: minus 15.6%) mainly due to the impact of the increase in expected corporation tax rate from 17% to 19% and non-taxable items (e.g. goodwill recognition).

c) Deferred tax position

	2020 Provided £'000	2020 Unprovided £'000	2019 Provided £'000	2019 Unprovided £'000
The Group				
Deferred tax (asset)/liability:				
Fixed asset timing difference	(1,594)	-	(1,715)	-
Tax losses	(9,569)	(5,416)	(10,467)	(4,846)
Share based timing differences	(4,284)	-	(2,179)	-
Short-term timing differences	(3,800)	-	(4,418)	-
Deferred tax asset	<u>(19,247)</u>	<u>(5,416)</u>	<u>(18,779)</u>	<u>(4,846)</u>
Deferred tax liability on intangible assets	<u>4,536</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Company				
Deferred tax (asset)/liability:				
Fixed asset timing differences	(1,538)	-	(1,705)	-
Tax losses	(7,345)	(5,201)	(7,460)	(4,654)
Share based timing differences	(2,755)	-	(2,179)	-
Short-term timing differences	(1,524)	-	(2,929)	-
	<u>(13,162)</u>	<u>(5,201)</u>	<u>(14,273)</u>	<u>(4,654)</u>

Deferred tax assets totalling £5,415,844, (2019: £4,845,755) have not been recognised in respect of certain trading losses as it is not probable that the Group will be able to recover those assets within the foreseeable future.

The Group currently forecasts that there will be no material unwind of the deferred tax asset in the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Since the balance sheet date, it was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change has not yet been substantively enacted. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19% and 25% rate. The possible maximum impact when, or if, this rate change is enacted would be an increase to the deferred tax asset of £6.1m.

11. PROFIT ATTRIBUTABLE TO THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income for the Company is presented as part of these financial statements. The Company's profit after tax for the year amounted to £898,505 (2019: £72,515,795).

12. INTANGIBLE ASSETS

	Goodwill MEPC	Acquired Intangible Asset MEPC	Acquired Intangible Asset HGPE	Total Acquired Intangible Assets
The Group	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2020	-	-	-	-
Additions	1,629	5,500	21,154	26,654
Disposals	-	-	-	-
At 31 December 2020	1,629	5,500	21,154	26,654
Accumulated depreciation:				
At 1 January 2020	-	-	-	-
Charge for the year	163	1,125	1,651	2,776
Disposals	-	-	-	-
At 31 December 2020	163	1,125	1,651	2,776
Net book value:				
At 31 December 2020	1,466	4,375	19,503	23,878
At 31 December 2019	-	-	-	-

HFML acquired MEPC on 15 January 2020, effective 1 January 2020 and consolidated HGPE into the wider Group through a step acquisition on 5 March 2020 (effective 1 March 2020) by Federated Hermes accompanied by a change of control and consolidation of HGPE on 22 April 2020. As a result of these acquisitions, significant intangible assets were recognised on the Group's balance sheet. Further details of each of these transactions has been disclosed in Note 2 (v).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

12. INTANGIBLE ASSETS (continued)

All intangible assets and goodwill are amortised over their useful economic lives on a straight-line basis. The table on the following page details the useful economic life of each of the assets recognised:

Intangible Asset	Useful Economic Life
MEPC:	
Goodwill	10 years
Intangible asset – trade name	20 years
Intangible asset – contracts*	Between 4 and 6 years
HGPE:	
Intangible asset – trade name	2 years
Intangible asset – contracts – private equity	9 years
Intangible asset – contracts - infrastructure	11 years

*Seven MEPC customer contracts were reviewed as part of the purchase price accounting and a useful economic life ("UEL") of between four and six years was attributed to each contract. The weighted average UEL of these contracts is five years.

13. TANGIBLE FIXED ASSETS

The Group	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
Cost:			
At 1 January 2020	8,566	9,139	17,705
Net assets acquired on acquisition of subsidiaries	1,981	61	2,042
Additions	249	743	992
Disposals	-	-	-
At 31 December 2020	10,796	9,943	20,739
Accumulated depreciation:			
At 1 January 2020	2,014	8,690	10,704
Charge for the year	1,186	320	1,506
Disposals	-	-	-
At 31 December 2020	3,200	9,010	12,210
Net book value:			
At 31 December 2020	7,596	933	8,529
At 31 December 2019	6,552	449	7,001

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

13. TANGIBLE FIXED ASSETS (continued)

Included within the net book value of leasehold improvements is an amount of £1,204,578 (2019: £1,163,959) relating to the Company's estimate of the costs of restoring the London office, 150 Cheapside, to its original state at the end of the lease. The increase in the year is due to an uplift in the dilapidation provision as at 31 December 2020. Please see note 17 for further details.

The Company	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
Cost:			
At 1 January 2020	8,566	9,139	17,705
Additions	249	729	978
Disposals	-	-	-
At 31 December 2020	8,815	9,868	18,683
Accumulated depreciation:			
At 1 January 2020	2,014	8,690	10,704
Charge for the year	1,112	284	1,396
Disposals	-	-	-
At 31 December 2020	3,126	8,974	12,100
Net book value:			
At 31 December 2020	5,689	894	6,583
At 31 December 2019	6,552	449	7,001

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

14. FIXED ASSET INVESTMENTS

	Investment in Joint Ventures £'000	Level 1 Investments £'000	Level 3 Investments £'000	Total £'000
The Group				
At 1 January 2020	10,494	13,232	2,804	26,530
Share of retained profit	724	-	-	724
Additions	-	11,702	446	12,148
Movement in fair value	-	3,542	-	3,542
Goodwill amortisation	(301)	-	-	(301)
Distribution	(2,013)	-	-	(2,013)
Disposals	(8,904)	(59)	-	(8,963)
At 31 December 2020	-	28,417	3,250	31,667

As disclosed in Note 2 (v), HGPE was consolidated into the wider Group as a subsidiary on 22 April 2020. Prior to this date HFML accounted for its investment in HGPE as a joint venture. HGPE was consolidated at its fair value, resulting in a negative goodwill credit of £14.4m, which was recognised through the profit and loss account.

Investments held at 31 December 2020 include both Level 1 and Level 3 investments. For Level 1 investments, a publicly quoted price is available and these investments are measured at fair value through profit and loss. Level 1 investments include hedging investments in relation to deferred bonuses and seed capital in listed investments. At 31 December 2020, the Group held Level 1 investments totalling £28,417,000 (2019: £13,232,000). Level 3 investments include seed capital in a private markets credit fund. There is no readily available market price for this investment. This investment has been measured at fair value through profit and loss, however with no readily available observable market data, the cost of the investment is the most appropriate fair value. At 31 December 2020, the Group held Level 3 investments totalling £3,250,000 (2019: £2,804,000).

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

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

14. FIXED ASSET INVESTMENTS (continued)

	Investment in Subsidiaries £'000	Investment in Joint Ventures £'000	Level 1&3 Investments £'000	Total £'000
The Company				
Cost / fair value:				
At 1 January 2020	23,865	14,932	16,036	54,833
Additions	25,225	-	10,329	35,554
Movement in fair value	-	-	3,542	3,542
Disposals	-	(14,932)	(59)	(14,991)
At 31 December 2020	49,090	-	29,848	78,938
Provision for impairment:				
At 1 January 2020	106	-	-	106
At 31 December 2020	106	-	-	106
Carrying value:				
At 31 December 2020	48,984	-	29,848	78,832
At 31 December 2019	23,759	14,932	16,036	54,727

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

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

15. DEBTORS

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Due within one year:				
Amounts due from subsidiaries	-	46,406	-	26,296
Amounts due from the joint venture	-	-	51	-
Amounts due from shareholders	656	230	3,536	437
Trade debtors	9,629	265	1,185	142
Deferred tax	19,247	13,162	18,779	14,273
Other debtors	1,940	654	413	897
Corporation tax recoverable	-	2,465	-	1,412
Prepayments and accrued income	39,597	733	40,257	10,671
	<u>71,070</u>	<u>63,915</u>	<u>64,221</u>	<u>54,128</u>
Due after one year:				
Other debtors	2,845	1,717	1,873	1,873
	<u>2,845</u>	<u>1,717</u>	<u>66,094</u>	<u>56,001</u>

Other debtors due after one year primarily comprise a deposit of \$2.3m lodged with the U.S. Internal Revenue Service ("IRS") in 2019. This deposit is interest bearing and callable on demand. The deposit paid to the IRS relates to the application submitted by Federated Hermes Investment Funds Plc. regarding a historical US withholding tax obligation (see note 23).

Included within the current year balance are prepaid assets greater than one year of £0.6m and HGPE accrued revenue greater than one year of £0.5m. The accrued revenue greater than one year arises from two of HGPE's infrastructure funds which are not in a position to settle management fees until such point as the underlying assets are sold.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

16. CREDITORS

	2020	2020	2019	2019
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Amounts due to parent	612	474	70	-
Amounts due to the joint venture	-	-	657	520
Amounts due to subsidiaries	-	75,139	-	52,430
Other creditors	1,955	1,199	495	459
Corporation tax payable	767	-	873	-
Deferred income	281	81	3,840	3,840
Accruals	69,567	22,728	49,167	20,811
	73,182	99,621	55,102	78,060

	2020	2020	2019	2019
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year:				
Other creditors	903	903	904	842
Accruals	^v 14,507	5,821	11,004	4,595
Deferred income	299	63	62	62
	15,709	6,787	11,970	5,499

Other creditors falling due after more than one year includes an unfunded retirement benefit with respect to two retired former chief executives. The fair value of this liability as at 31 December 2020 was £903,000 (2019: £842,000).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

17. PROVISIONS

	Group 2020 £'000	Company 2020 £'000
Dilapidation provision		
At 1 January	1,659	1,659
Acquired on acquisition of subsidiaries - HGPE	250	-
Charged to the profit and loss	308	250
At 31 December	2,217	1,909

A dilapidation provision, in respect of the work that will need to be carried on termination of the Company's existing lease arrangements to restore the premises at 150 Cheapside, London to its original condition was recognised in 2017. On consolidation of HGPE, the Group recognised an existing dilapidation provision on its balance sheet to restore HGPE's premises at Gutter Lane, London to its original condition. At 31 December 2020, both the Company and HGPE revised upwards their provision following advice from a third-party specialist. Included within the charge for the year is the initial recognition of a dilapidation provision for additional space leased at the head office, 150 Cheapside, in October 2020.

18. PENSION COMMITMENTS

The Group operates a defined contribution scheme. Under this scheme, the Group's annual contribution and obligation to an employee's pension is measured as, and limited to, a specific percentage of salary. Contributions to the defined contribution scheme amounted to £5,099,896 (2019: £4,491,837). The year on year increase is due to the additional headcount, primarily resulting from the acquisition of MEPC and the consolidation of HGPE.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

19. FINANCIAL INSTRUMENTS

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

	Notes	2020 £'000	2019 £'000
Financial assets			
Measured at fair value through profit or loss			
Fixed asset listed and unlisted investments	14	31,667	16,036
Foreign exchange forward derivative contracts		3,749	2,338
Measured at amortised cost			
Cash and cash equivalents	25	114,080	89,894
Trade and other debtors excluding deferred tax	15	54,667	47,315
		<u>204,163</u>	<u>155,583</u>

The Group enters into forward foreign exchange contracts to hedge exposure to net revenues received in a foreign currency but does not apply hedge accounting. The asset above reflects the fair value of those derivative contracts at the balance sheet date. The analysis below shows the contracts open as of the years ended:

Assets as at 31 December 2020

Sell		Buy		Settlement date	Fair value in £'000
USD '000	21,947	GBP '000	14,300	31/03/2021	982
USD '000	20,006	GBP '000	16,000	30/06/2021	1,392
USD '000	22,243	GBP '000	17,000	30/09/2021	1,375
			<u>47,300</u>	Fair value	<u>3,749</u>

Assets as at 31 December 2019

Sell		Buy		Settlement date	Fair value in £'000
USD '000	21,264	GBP '000	16,000	31/03/2020	18
USD '000	24,058	GBP '000	19,000	30/06/2020	960
USD '000	22,243	GBP '000	18,000	30/09/2020	1,360
			<u>53,000</u>	Fair value	<u>2,338</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

19. FINANCIAL INSTRUMENTS (continued)

	Notes	2020 £'000	2019 £'000
Financial liabilities			
Measured at amortised cost:			
Measured at undiscounted amount payable:			
Trade and other creditors (excluding deferred income)	16	88,311	63,170
		<u>88,311</u>	<u>63,170</u>

20. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Issued and fully paid ordinary shares of £1 each	<u>83,592</u>	<u>83,592</u>
	<u>83,592</u>	<u>83,592</u>

21. LONG-TERM INCENTIVE PLAN

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

	Pool A	Pool B
At 1 January 2020 (Tranche 1)	4,673,652	1,591,031
Granted during the year	-	-
Forfeited during the year	(49,110)	(16,719)
At 31 December 2020	<u>4,624,542</u>	<u>1,574,312</u>

The vested award, granted in July 2018, is available for sale from the two pools as follows:

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

21. LONG-TERM INCENTIVE PLAN (continued)

- Pool A: 6th Anniversary (33.3%), 7th Anniversary (33.3%), 8th Anniversary (33.3%) of the grant date.
- Pool B: 4th Anniversary (50%), 5th Anniversary (50%) of the grant date.

	Pool A	Pool B
At 1 January 2020 (Tranche 2)	624,000	-
Granted during the year	-	-
Forfeited during the year	-	-
At 31 December 2020	<u>624,000</u>	<u>-</u>

The vested award, granted in July 2019, is available for sale from Pool A as follows:

- Pool A: 6th Anniversary (33.3%), 7th Anniversary (33.3%), 8th Anniversary (33.3%) of the grant date.

	Pool A	Pool B
At 1 January 2020 (Tranche 3)	-	-
Granted during the year	548,900	-
Forfeited during the year	-	-
At 31 December 2020	<u>548,900</u>	<u>-</u>

The vested award, granted in July 2020, is available for sale from Pool A as follows:

- Pool A: 6th Anniversary (33.3%), 7th Anniversary (33.3%), 8th Anniversary (33.3%) of the grant date.

None of the outstanding awards were exercisable as of 31 December 2020. The fair value of the share awards granted in Tranche 1 was determined using the enterprise value derived from the price paid by Federated Hermes, Inc. at the time of acquisition, which coincided with the date of grant of the awards. Both Tranche 2 and Tranche 3 were awarded on the first and second anniversary of the acquisition respectively. The value of the share award was determined by a third-party specialist.

The total amount recognised as at 31 December 2020 in relation to these awards was £9,302,000 (2019: £11,315,000) and at that date, there remained 647,541 unallocated shares (2019: 1,241,141). Of the unallocated shares, 45,000 related to Tranche 2 (2019: 45,000).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

22. NON-CONTROLLING INTEREST

As described in Note 12, HCL was acquired by Federated Hermes, Inc. during the year and following the subsequent amendment to the HGPE Limited Liability Partnership Agreement, HGPE became a subsidiary of HFML from 22 April 2020. HCL is entitled to a 22.5% economic share in the profits arising from HGPE and this is represented by the non-controlling interest included in this consolidated set of financial statements.

23. FINANCIAL COMMITMENTS

Operating lease commitments and contractual obligations

As at 31 December 2020, the Group's and Company's total future minimum lease payments under non-cancellable operating leases were as follows:

	The Group	The Company	The Group and Company
	Land and Buildings 2020 £'000	Land and Buildings 2020 £'000	Land and Buildings 2019 £'000
Within one year	4,385	3,384	2,912
Between one– five years	15,232	13,536	13,551
After five years	16,551	16,355	19,645
	<u>36,168</u>	<u>33,275</u>	<u>36,108</u>

Operating leases with respect to land and buildings primarily relate to the London offices at 150 Cheapside and 33 Gutter Lane. In November 2019, a new lease for 150 Cheapside was signed (effective October 2020) extending the Group's lease to 2030, while also increasing the Group's floor space. Office space has also been leased to the Group in Dublin, Copenhagen, Frankfurt, Pittsburgh and Madrid.

Contingent Liabilities

During the year the Company gave guarantees under Section 479C of the Companies Act 2006 to two wholly owned subsidiary undertakings: Hermes Assured Limited and Hermes Investments (North America) Limited. As such, both subsidiaries are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2020 by virtue of Section 479A of the Companies Act 2006.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

23. FINANCIAL COMMITMENTS (continued)

As previously disclosed in the Group's Annual Report for the year ended 31 December 2018 and 2019, Federated Hermes Investment Fund plc ("FHIF"), a HFML-managed fund, claimed a reduced rate of withholding tax on US dividends from 1 January 2013 up to 1 March 2018. An external advisor has been corresponding with the United States' Internal Revenue Service ("IRS") in respect of the issue on behalf of HFML/FHIF. Following further discussions with the external advisor, the Directors remain optimistic of a favourable outcome. Accordingly, the existence of any obligations at 31 December 2020, is considered to be less than probable and no provision for any potential liability has been made in these financial statements.

In the event that the IRS deems that FHIF is required to make any payment relating to retrospective taxes, HFML has provided a guarantee to reimburse two of FHIF's sub-funds for taxes suffered.

Notwithstanding this, the Company has professional indemnity insurance which may be available to cover the material amount of any potential claim. As part of the application to the IRS submitted in September 2019, the Company and FHIF lodged a deposit with the IRS in respect of the withholding tax under discussion (see note 15).

24. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Operating profit / (loss)	12,520	(8,638)	12,340	(12,926)
Bank charges	(45)	(17)	(26)	(17)
Depreciation	1,506	1,395	1,510	1,510
Amortisation	2,939	-	967	-
Loss on disposal of tangible fixed assets	-	-	175	175
Share based payments	8,236	5,055	7,418	3,521
Increase in provisions	558	249	-	-
Consolidation of HGPE	1,011	-	-	-
(Increase)/decrease in debtors	(12,295)	5,888	475	(17,238)
Increase/(decrease) in creditors	28,184	9,053	8,355	(31,196)
Tax paid	(2,932)	(1,516)	(873)	(873)
Net cash generated/(used) in operating activities	39,682	11,469	30,341	(57,044)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

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

	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Net funds at beginning of year	89,894	75,670	81,149	73,720
Increase in cash in year	25,766	(5,337)	14,596	7,288
Effect of foreign exchange rate changes	(1,580)	(340)	(5,851)	(5,338)
Net funds at end of year	<u>114,080</u>	<u>69,993</u>	<u>89,894</u>	<u>75,670</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

26. ADDITIONAL INFORMATION OF PRINCIPAL SUBSIDIARIES

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

SUBSIDIARY UNDERTAKINGS	ACTIVITY	REGISTERED ADDRESS
Hermes Investment Management Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Real Estate Investment Management Limited	Investment management	Cheapside
Hermes European Equities Limited*	Inactive	Cheapside
Hermes Private Equity Limited	Investment management	Cheapside
Hermes Alternative Investment Management Limited	Investment management	Cheapside
Hermes Equity Ownership Services Limited	Stewardship and corporate governance	Cheapside
Hermes Assured Limited	Investment management	Cheapside
Hermes Investments (North America) Limited	Investment management	Cheapside
Hermes Stewardship North America, Inc.	Stewardship and corporate governance	1001 Liberty Avenue #2100, Pittsburgh, PA 1522, USA
Hermes Real Estate Debt GP Limited	Investment management	Cheapside
Hermes Private Debt I GP Limited	Investment management	Cheapside
Hermes Global Funds GP Limited	Inactive	c/o Walkers Corporate Services Limited, 87 Rory Street, George Town, Grand Cayman, KY1-9005, Cayman Islands
Hermes Pension Fund Management Limited	Inactive	Cheapside
Hermes Secretariat Limited	Inactive	Cheapside
Hermes Sourcecap Limited	Inactive	Cheapside
Hermes Asset Management Limited	Inactive	Cheapside
Hermes GP Limited	Inactive	Cheapside
Hermes Pension Fund Management Limited	Inactive	Cheapside
Hermes Pensions Management Limited	Inactive	Cheapside
Hermes Private Debt (Lux) I GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Private Debt (Lux) II GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Fund Managers Ireland Limited	Investment management	The Wilde 53 Merrion Square, Dublin 2, Ireland
Hermes Direct Lending Limited Partnership	Investment management	Cheapside
Hermes BPK Co-Investment Trustee Ltd	Inactive	Cheapside
Hermes Seoul GP, S.à.r.l.	Investment management	Airport Centre Luxembourg 5, Heienhaff, L1736, Luxembourg
MEPC Limited	Development and Asset Management	99 Park Drive, Milton Park, Oxfordshire, OX14 4RY

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

26. ADDITIONAL INFORMATION OF PRINCIPAL SUBSIDIARIES (continued)

Hermes GPE LLP	Investment management	33 Gutter Lane, London, EC2V 8AS
Federated Hermes European Direct Lending Fund II GP, S.à.r.l.	Investment management	15, Boulevard F.W. Raiffeisen, L-2411 Luxembourg
Federated Hermes European Direct Lending Fund II Master SCA, RAIF	Fund	15, Boulevard F.W. Raiffeisen, L-2411 Luxembourg

*Hermes European Equities Limited is currently in the process of being voluntarily wound down.

With the exception of HGPE which is part owned by our parent company, all other subsidiary undertakings disclosed above are all wholly-owned subsidiaries. All active subsidiaries disclosed above have been consolidated in these financial statements.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY

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

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

Credit Risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the entity. a consequence of both investment transactions within the funds and transactions within Group entities is the involvement of counterparties, particularly brokers. A process is in place to assess the suitability of counterparties. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. At 31 December 2020, the Group and the Company's financial assets exposed to credit risk amounted to the following:

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Financial assets	2020	2020	2019	2019
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank	114,080	69,993	89,894	75,670
Forward foreign exchange contracts	3,749	3,749	2,338	2,338
Owed by the joint venture	-	-	51	-
Owed by subsidiaries	-	46,406	-	26,296
Trade debtors and accrued income	46,362	273	38,126	7,142
Owed by parent	656	230	3,536	437
Other debtors	4,786	2,371	2,286	2,770
	<u>169,633</u>	<u>123,022</u>	<u>136,231</u>	<u>114,653</u>

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

Bankruptcy or insolvency of the counterparty may cause delays in obtaining the amounts owed, or the Company may have limited rights in respect of the amounts owed. The Company manages its risk by dealing with reputable counterparties offering a low risk of default. The financial position of the counterparties is regularly reviewed. At year-end, there were trade debtors, totalling £1,193,235 that were more than 90 days past due (2019: £6,225). At the time of signing the annual report, £42,750 remains outstanding.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Liquidity Risk

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

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

Financial liabilities	Maturity	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Owed to parent	On demand	612	474	70	-
Owed to the joint venture	On demand	-	-	657	520
Owed to subsidiaries	On demand	-	75,139	-	52,430
Other creditors	On demand	2,722	1,199	1,368	459
Accruals	On demand	69,567	22,728	49,167	20,811
Accruals	>12 months	14,507	5,821	11,004	4,595
Other creditors	>12 months	903	903	904	842
		<u>88,311</u>	<u>106,264</u>	<u>63,170</u>	<u>79,657</u>

The Company's liquidity risk relates to its cash dealings with clients, day-to-day trading activity, the funding of operational expenses and meeting solvency requirements as determined by the regulator (Financial Conduct Authority). The maintenance of liquidity is reported and monitored by senior management on a regular basis.

Interest Rate Risk

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

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020
(continued)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Sensitivity Analysis

If the average rate of interest was 2% higher during the year based upon the average cash position, an additional £1.7m of interest would have been earned. A decrease in the average rate of interest would have an equal opposite impact.

Market Risk

Market risk is the possibility for the Group to experience losses due to factors that affect the overall performance of the financial markets in which the Group is involved.

Foreign Exchange Exposure

One key factor is foreign currency exchange risk as the Group receives income and incurs expenses in foreign currencies.

Due to a net exposure to foreign currency movements, the Group hedges the majority of this exposure through the use of foreign currency forward contracts (see note 19 for further disclosures). The Group has £50.0m of foreign currency exposure on the balance sheet at 31 December 2020 of which £36.8m is US dollar denominated.

If the US dollar strengthened against sterling by 2%, this would result in a gain of £0.8m, while a weakening would have an equal opposite impact.

Investments

Assets measured at fair value through profit and loss include hedging investments in relation to deferred bonuses and seed capital (see note 14) which are subject to market price risk. The Group's exposure to market price risk as at 31 December 2020 is £31.7m.

If the price of these investments weakened by 10%, this would result in a loss of £3.2m, while an increase in the value of these investments would have an equal opposite impact.

28. RELATED PARTY TRANSACTIONS

(a) General information and disclosure exemptions

Subsidiaries

The Company prepares Group accounts into which its subsidiaries are consolidated. The Company has not disclosed related party transactions with wholly owned subsidiaries as it is taking advantage of the exemption in FRS 102.

(b) Related-party transactions

The following transactions occurred during the year with related parties:

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

28. RELATED PARTY TRANSACTIONS (continued)

Federated Hermes, Inc.

Stewardship fees and distribution fees of £1,443,527 (2019: £251,250) were recognised in relation to stewardship services of which £804,000 remained due to the Company at 31 December 2020 (31 December 2019: £80,000). In 2020, HFML in conjunction with Federated Hermes seeded two new funds; the HFML investment totalling £2,559,415 (\$3,500,000). Federated Hermes (UK) Limited, a UK domiciled subsidiary of Federated Hermes has sub-let office space in the HFML head office at 150 Cheapside at a fee of £324,456 in 2020 (2019: £267,380). Hermes Stewardship North America Inc. has sub-let office space in the Federated Hermes, Inc. head office at a fee of £72,994 (2019: £nil). Other shared services between HFML and Federated Hermes totalled an expense to HFML of £238,983 in the year.

BTPS

Management fees of £28,813,763 (2019: £26,909,553) were recognised in relation to investment management services of which £6,634,289 remained due to the Group at 31 December 2020 (31 December 2019: £3,081,924). Included within management fees are fees from real estate joint venture limited partnerships managed by the Group where BTPS is an investor.

BT Pension Scheme Management Limited ("BTPSM")

Central allocated costs from the Company to BTPSM totalled £140,217 during the year (2019: £1,156,665), none of which was due to the Company from BTPSM at year-end (2019: £426,868). No further cost allocations are expected going forward.

HGPE

Profit distributions of £3,801,471 was received by the Company from HGPE during the year (2019: £nil). There was no capital contribution in the year (2019: £887,500)

Net recharge from HGPE to the Company totalled £331,456 during the year (2019: expense £280,601). A net amount was due to HGPE from the Company totalling £15,594 at year-end (2019: payable to HGPE £605,522).

Carried Interest of £1,581,024 (2019: £8,900,275) was recognised as revenue by the Company during the year from the fund vehicles managed by HGPE.

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

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

Directors' transactions

There were no Directors' transactions to note in either 2020 or 2019.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

28. RELATED PARTY TRANSACTIONS (continued)

Other related-party transactions

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

The total remuneration for key management personnel for the period totalled £6,860,000 (2019: £7,247,000), being remuneration disclosed in note 9 of £4,117,000 (2019: £4,221,000) and remuneration provided to other key management personnel of £2,742,664 (2019: £3,025,239).

HGPE related party transactions with:

BTPS

Management fees of £4,918,549 (2019: £4,506,580) were recognised in relation to investment management services of which £1,415,895 remained due to the Group at 31 December 2020 (31 December 2019: £1,375,997).

HGPE Key management

The key management personnel are defined as per the FCA SMCR regime. Total remuneration paid to key management personnel was £6,237,000 in the year (2019: £6,131,000. In addition to this, an amount of £13,622,000 (2019: £5,766,000) was distributed to key management personnel during the year by funds managed by the LLP.

29. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Federated Hermes, Inc. is the Group's ultimate parent undertaking and controlling party, it is also the parent of the largest group for which group financial statements are prepared.

The accounts of Federated Hermes, Inc. can be obtained at its Registered Office at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779, United States of America.

The accounts of HFML can be obtained at its Registered Office, Sixth Floor, 150 Cheapside, London, England, EC2V 6ET.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2020 (continued)

30. SUBSEQUENT EVENTS

On 4 January 2021 (effective 1 January 2021) HFML completed the acquisition of Federated Investors Australia Services Limited, a regulated investment management company incorporated in Australia for a consideration of USD 50,000 plus the net asset value of the company at 31 December 2020. The entity was acquired from Federated Investors Asia Pacific Pty Ltd, a fellow group undertaking of the parent company. The acquisition is expected to expedite HFML's expansion into the Australian market.

There were no other subsequent events material to the financial statements from the balance sheet date, 31 December 2020, to the date of approval of the financial statements, 26 March 2021.