

ANNUAL REPORT AND FINANCIAL STATEMENTS

HERMES FUND MANAGERS LIMITED

31 DECEMBER 2021



Registered No: 1661776

HERMES FUND MANAGERS LIMITED

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COMPANY INFORMATION

Directors	D Stewart* (Chairman) S A Nusseibeh CBE S James* H Steel P Purewal* G Ceresino D Cunningham T Donahue J Fisher J E Lambesis R Novak (appointed 1 January 2021) T W Zierden III J Fraser (resigned 31 August 2021)
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*Non-Executive Director

Company Secretary	K Thompson
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Registered number	1661776
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Registered office	Sixth floor 150 Cheapside London EC2V 6ET England
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Independent auditors	Ernst & Young LLP 25 Churchill Place London E14 5EY
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Principal bankers	HSBC 8 Canada Square London E14 5HQ
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HERMES FUND MANAGERS LIMITED

Important information

This Annual Report discusses the business, financial results and risk factors of Hermes Fund Managers Limited, together with its consolidated subsidiaries, and for the purposes of this report will be referred to as "HFML" or "the Group". This report does not constitute the consolidated business, financial results and risk factors of HFML's 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," "Executive Committee" ("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 owner, Federated Hermes, Inc.). For the purposes of this report, any reference to 'headcount', 'employees' or 'staff' are measured by full time equivalents ("FTE") 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 2021 which is available under "Annual Report" under the "Investor Services" tab at www.FederatedHermes.com.

For the purposes of this report, Hermes GPE LLP will be referred to as "HGPE" and MEPC Limited referred to as "MEPC".

On 23 March 2022, the ExCo formally changed its name to the Senior Management Team ("SMT").

Forward-looking statements

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 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 20 to 26. 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

STRATEGIC REPORT

OUR BUSINESS AND STRATEGY

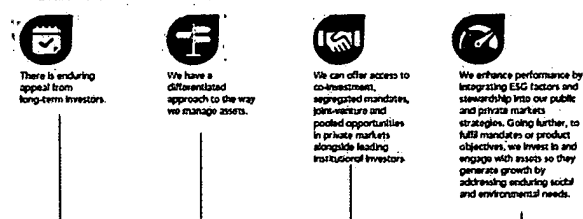
HFML is a market leader in active investment and sustainability, offering specialised investment capabilities and pioneering stewardship services to investors around the world.

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. By pioneering global stewardship, developing innovative Environment, Social and Governance (“ESG”) strategies and advocating for a financial system that works for all, HFML has been at the forefront of investment and sustainability since 1983. 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. This combined offering is delivered by 554 investment and stewardship professionals working at ten locations worldwide.

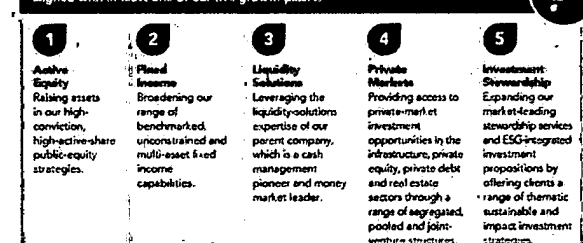
On 1 July 2018, Federated Hermes, Inc. (formerly Federated Investors, Inc.) acquired a majority stake in the ordinary share capital of HFML from the BT Pension Scheme (“BTPS”). From this date, HFML became a subsidiary of Federated Hermes, Inc. (“Federated Hermes”). On 31 August 2021, Federated Hermes acquired, from BTPS, its remaining stake in HFML. On 14 March 2022, Federated Hermes acquired the remaining stake in HFML, by exchanging restricted stock units in HFML, awarded to certain employees under the Group’s long-term incentive plan, for Federated Hermes Class B Common Stock, thus becoming the sole shareholder

Our growth strategy is driven by an intense focus on delivering sustainable wealth creation. That means we aim to provide strong risk-adjusted investment performance for clients and positive outcomes for society and the environment. We seek enduring business growth and profitability, and to make a positive impact 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:



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



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STRATEGIC REPORT (continued)

OUR YEAR IN BRIEF

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	2021	2020	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: 48.6% Three year: 60.0% Five year: 54.2%	One year: 54.3% Three year: 55.6% Five year: 45.0%	↓ ↑ ↑
	Assets under stewardship ²	£1.21tn	£938.5bn	↑
EMPLOYEE ALIGNMENT	Employee turnover	11%	7%	↑
	Female employees (firm-wide)	41%	44%	↓
DELIVERING A SUSTAINABLE AND PROFITABLE FIRM	Assets under management and advice ³	£44.5bn	£39.5bn	↑
	Statutory revenue ⁴	£222.9m	£188.1m	↑
	Statutory operating profit	£16.9m	£12.5m	↑

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 Hermes Equity Ownership Services Limited ("EOS"). All figures as of 31 December.

3 - The movement in assets under management and advice is explained in more detail on page 10. 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.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

INVESTMENT PERFORMANCE

Investment performance in 2021 and since inception

With active management, strengthened by best-in-class ESG integration and stewardship in public and private markets, we aim to deliver the positive, risk-adjusted 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	8.9%	4.7%
Asia Pacific ex-Japan	10.3%	4.4%
Global Emerging Markets	(3.7%)	2.3%
Global Emerging Markets SMID	(8.1%)	1.3%
Global Emerging Markets ESG	(4.3%)	3.3%
Global Equity ESG	1.1%	1.2%
Global Equity Low Carbon	(0.3%)	0.2%
Global Equity	0.2%	0.3%
Global Equity Screened ESG	0.8%	0.6%
Global Equity Australia Balanced	1.4%	0.4%
Global Equity Developed ex NA	0.1%	3.0%
Global Equity Ethical	0.7%	0.8%
Sustainable Global Equity ³	N/A	(0.9%)
European Alpha	2.9%	1.7%
Europe ex-UK	0.0%	2.9%
Sustainable Europe	(1.4%)	2.9%
Sustainable Europe ex UK ⁴	N/A	(1.7%)
US SMID	3.5%	0.1%
SDG Engagement Equity	1.4%	(1.0%)
Global Small Cap	1.6%	0.4%
World ex US	1.0%	(0.4%)
Impact Opportunities	(13.1%)	1.1%
Fixed Income		
Global High Yield	0.1%	0.3%
Multi Strategy ¹	1.5%	4.9%
Absolute Return ¹	0.4%	2.7%

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Unconstrained ¹	2.1%	8.5%
Short Duration	(1.6%)	(0.1%)
High Yield ESG	0.2%	(0.0%)
SDG Engagement High Yield	(0.8%)	0.4%
Climate Change High Yield ⁵	N/A	0.0%
UK Direct Lending ²	4.3%	3.8%
European Direct Lending ²	3.6%	3.0%
Real Estate Debt ²	3.9%	3.2%
Real Estate		
UK Core Real Estate	(1.5%)	(0.3%)
International Real Estate	(2.9%)	(1.3%)
Hermes Property Unit Trust	(0.3%)	1.6%

¹Net absolute returns

²IRR net absolute returns

³Strategy in existence less than 1 year (inception 1st July 2021)

⁴Strategy in existence less than 1 year (inception 1st November 2021)

⁵Strategy in existence less than 1 year (inception 1st October 2021)

Past performance is no guarantee of future results

With respect to the performance of the HGPE strategies, the performance figures below are reported as at 30 September 2021, based on the latest available information at the financial statement date.

The Private Equity team has built up specialist fund and co-investment programmes which have generated gross returns (in USD) of 1.7x and 13.1% IRR ("Internal Rate of Return") and 1.8x and 17.7% IRR respectively. Realised co-investments have generated gross returns of 1.8x and 17.6% IRR.

The Infrastructure team have established a shared platform for long-term direct infrastructure investments, enabling institutional investors to access bespoke infrastructure investment solutions. The flagship infrastructure fund has generated gross returns from realised and unrealised investments of 7.6% IRR and an 7.8% cash yield.

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STRATEGIC REPORT (continued)

FINANCIAL REVIEW

Group operating profits increased by £4.4m to £16.9m in 2021 as total revenue increased by 19% / £34.8m, from £188.1m in 2020 to £222.9m in 2021, while administrative expenses rose by 17% / £30.5m, from £175.5m to £206.0m. Part of the year-on-year variance, in both revenue and costs, is due to the consolidation of HGPE. HGPE was consolidated into the Group on 22 April 2020 and prior to this date it was accounted for as an equity investment, with HFML's share of profits recognised in non-operating activity.

HFML generated a profit before tax of £17.8m in 2021 (2020: £32.6m), a year on year decrease of £14.8m. The reduction in profits in the year was primarily due to non-operating activity in the prior year. In 2020, HFML recognised a negative goodwill credit of £14.4m through the profit and loss account, arising from the consolidation of HGPE into the Group.

With the exclusion of the HGPE consolidation timing as noted above, management fee revenue rose by £41.1m in the year due to positive net sales and favourable market movements; as assets under management increased by £5.0bn from £39.5bn at 31 December 2020 to £44.5bn at 31 December 2021. The largest increase in management fee revenue in the year was generated from our established Global Emerging Markets strategies, accounting for £18.5m. With the exception of three of our smaller strategies (combined AUM of £1.9bn), all other strategies recognised an increase in management fee revenues in the year. The increase in management fee revenues was offset in part by an increase in fee and commission expenses (£1.9m); a reduction in carried interest (£2.5m) and a reduction in performance fee revenues (£10.8m). Performance fee revenues in 2020 included two non-recurring real estate performance fees of £7.5m and £5.2m respectively.

HFML's cost base rose by 17% / £30.5m in the year; similar to the increase in revenues, part of this increase is due to the timing of the consolidation of HGPE. With the exclusion of the HGPE consolidation timing differences, the largest increase in the Group's cost base was staff costs, which rose by £7.6m in the year. The increase was driven by headcount as average headcount grew by 6.2% from 511 to 544 in 2021. Another notable increase in the Group's cost base was property and office costs, which rose by £4.7m in 2021. The prior year rent included the acceleration of a £3.7m lease incentive, resulting in a lower rental charge. The Group also leased additional space at its head office at 150 Cheapside, London, which has been reflected in the 2021 cost. Overall, the Group's cost base has increased in line with the planned organic and inorganic expansion of the Group.

Corporate Acquisitions

On 4 January 2021 (effective 1 January 2021), HFML completed the acquisition of Federated Investors Australia Services Limited ("FIAS") for AUD \$0.4m. The entity was acquired from Federated Investors Asia Pacific Pty Limited, a fellow entity within the Federated Hermes, Inc. group. Following this acquisition, HFML established a Sydney-based distribution hub to distribute HFML products.

Effective 1 July 2021, MEPC, a subsidiary of HFML, acquired a Birmingham development and asset management team, comprising eight employees, from Argent (Property Development) Services LLP. The addition of the Argent team will further bolster MEPC's market leading UK placemaking business.

Acquisitions in the prior year included the acquisition of MEPC, a UK commercial real estate developer and asset manager; and the consolidation of HGPE, following Federated Hermes, Inc.'s acquisition of HGPE Capital Limited, HFML's joint venture partner in HGPE.

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STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

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 assets and revenues.

Consolidated net assets as at 31 December 2021 were £190.3m (31 December 2020: £166.2m). The increase was mainly due to the underlying profit for the year. There were no new significant additions to the Group's assets in the year. While the acquisition of the Argent business was treated as a business combination, no intangible assets or goodwill were recognised. The Group continued to seed new Group funds in the year, with a £5.0m seed investment into the Federated Hermes Sustainable Global Equity fund and a €0.1m initial seed investment into the European Direct Lending II fund. Cash balances at 31 December 2021 increased to £143.8m (2020: £114.1m), reflecting the receipt of revenues over the course of the year, while the 2021 discretionary bonus liability was cash settled in February 2022.

Regulatory capital

The Group has Tier 1 regulatory capital of £152.6m (2020: £130.6m), which was £94.8m (2020: £80.2m) above the Financial Conduct Authority's capital requirement for the Group as at 31 December 2021 of £57.8m (2020: £50.4m). The regulatory capital surplus fell to £69.8m following the payment of a dividend on 4 February 2022. 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/>

On 1 January 2022, the new Investment Firms Prudential Regime ('IFPR') came into force. The new rules pertaining to the capital requirement have not materially impacted the Group. The HFML Group forms part of a wider FCA regulatory consolidation group, headed by Federated Holdings (UK) II Limited. This regulatory consolidation group remains both adequately capitalised and liquid.

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 the 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 falls within the scope of the Senior Accounting Officer ("SAO") regime and has appointed a SAO to ensure the Group establishes and maintains appropriate tax accounting arrangements to allow tax liabilities to be calculated accurately in all material respects.

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.

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STRATEGIC REPORT (continued)

FINANCIAL REVIEW (continued)

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

At 1 January 2021	39.5
Inflows	13.4
Outflows	(11.4)
Net flow	2.0
Market movement	3.0
At 31 December 2021	44.5

Asset management	Assets Under Management ("AUM") at 31 December 2021
Equity	£24.4bn AUM
Fixed Income	£6.7bn AUM
Real Estate	£6.5bn AUM
Private Equity	£3.9bn AUM
Infrastructure	£3.0bn AUM
	£44.5bn AUM
Stewardship	£1.21tn AUA at 31 December 2021

Our £44.5bn in AUM can be analysed by client type and geography as follows:

By client type:

- £25.2bn is managed for institutional investors, and increase of 5.0%; and
- £19.3bn for wholesale clients, an increase of 1.6%.

By geography:

- £19.8bn is sourced from the UK and Ireland markets, an increase of 4.21% since 2020;
- £15.2bn is managed for European investors, a rise of 20.80% since 2020;
- £6.7bn is managed for clients in North America, up 15.52% in the past year;
- £2.0bn is managed for Asian clients, an increase of 40.00% since 2020; and
- £0.2bn is managed for Middle East and North African investors, broadly flat on last year.

In 2021, our Credit strategies were the most successful in raising assets on a net basis, attracting £1.7bn in net inflows, followed by our Sustainable Development Goals strategy with net inflows of £413.0m. BTPS, HFML's previous owner, continued their planned divestment from HFML's public markets funds and this resulted in net outflows of £1.7bn in the year.

EOS's AUA grew by £273.0bn (by 29%) in 2021 to reach £1.21tn as of 31 December 2021. This follows last year's record breaking £276.3bn, which represented 42% 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 2021, EOS engaged with companies that together account for 63% of the weight of the MSCI ACWI ALL Cap Index. Upon establishing engagement relationships with companies, we tend to maintain long tenure with layered engagement objectives relevant to both the materiality of our clients' holdings and the most prominent risk or opportunity factors.

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STRATEGIC REPORT (continued)

ECONOMIC OUTLOOK

In our baseline macro scenario for 2022, the economic recovery from the COVID-19-induced recession will continue, although at a significantly slower pace and with even more pronounced regional difference compared to 2021.

For a start, the slowdown will likely reflect a physiological normalisation in growth rates, as the initial impact from the re-opening of the economies and the sugar rush from fiscal and monetary stimulus starts to fade. In addition, the Russian invasion of Ukraine in the first quarter of 2022 has acted as an exogenous negative supply shock on the global economy via its impact on energy prices. Demand will face downward pressures from fiscal and monetary policy tightening, and a squeeze to real incomes from cost-push inflation. However, generally healthy balance sheets should help households and corporates withstand those hits. At the same time, the persistence of China's zero-COVID-19 policy and the war in Ukraine will result in more extended supply constraints and supply chain disruptions. Accordingly, it will take longer for supply-demand imbalances to adjust, and inflation will remain higher than previously expected, for longer. Inflation is now expected to peak at around mid-year at close to double-digit figures across developed economies, and it should start a gradual descent in the second half of the year.

The impact from the conflict in Ukraine will likely vary significantly across regions, which will determine the policy response. Europe stands out as highly vulnerable, mainly due to its reliance on Russian energy commodities, while the US looks more insulated from the crisis in light of its energy independence. Accordingly, European countries will likely resort to some fiscal easing. As for monetary policy, all central banks have faced an exogenous stagflationary shock that will complicate their decisions. Against the backdrop of a tight labour market – potentially favouring the emergence of second-round effects – , the US Federal Reserve will likely focus on inflationary risks and will likely hike rates over the year, although the pace will depend on the evolving inflation-growth trade-off. European central banks will be more cautious, resorting to two-way optionality and flexibility as they approach policy normalisation. Meanwhile, amid the challenges of a structurally slowing economy, Chinese policymakers will likely provide ample fiscal stimulus to support short-term growth and to foster stability going into the 20th National Party Congress in the fall – when President Xi will seek an unprecedented third term.

Overall, 2022 looks like a challenging year. COVID-19-related distortions still muddle the picture and make it hard to read the underlying trends for economic activity, labour markets and inflation. Geopolitical and policy risks have compounded the uncertainty that was already surrounding the unusual recovery from the pandemic. Furthermore, there is the risk of losing sight of the existential threat from the ongoing ecological crisis and the need to rewire our economic and policy frameworks to give prominence to environmental and social considerations.

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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. 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.

As Government restrictions are removed and we transition to living with COVID-19, 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 expected of a responsible firm, including treating clients, colleagues and all other stakeholders with dignity and respect. Furthermore, each of our employees are encouraged to sign the Federated Hermes Pledge, which aligns employee behaviours to HFML's mission and objectives. The pledge underpins our Group-wide commitment to always put clients first, and to act responsibly and transparently.

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2021
Clients and beneficiaries	<p>As a responsible firm, we have a responsibility to lead the field in demonstrating that we provide clients 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 a key consideration for our</p>	<p>We completed a project to provide clients and prospective clients with enhanced factsheets and dedicated client reports. These incorporated best practice carbon, ESG and stewardship data on our funds.</p> <p>We published multiple thought pieces on investment and sustainability; including UK sustainable finance regulation, the continuing impact of the pandemic on companies, the impact of climate change on particular sectors and market trends.</p> <p>We held regular webinars for our clients across all our strategies to apprise them of market trends, portfolio performance and attribution, as well as our outlook and resulting positioning. Furthermore, we held regular client conferences and seminars, including the EOS at Federated Hermes biannual Client Advisory Council. Clients were invited to attend our Further, Faster</p>

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	<p>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>	<p>conference at COP26 virtually or in person.</p> <p>We developed a sustainability hub on our website. We established the Federated Hermes Academy, an education hub developed by our experts for our clients and prospective clients seeking to understand responsible investing and how the integration of environmental, social and governance and stewardship can help create long-term wealth sustainably. We ran five CPD accredited seminars throughout the year as part of our Academy.</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. We have also continued to work closely with a number of IT suppliers to enhance our remote working environment.</p> <p>Our suppliers are now tiered into four categories. The four categories are: (1) material outsourcing, (2) key and critical providers, (3) business essential and (4) one-off and non-critical suppliers. This enables us to prioritise resources for the management of our category 1 and 2 suppliers. These suppliers are managed and overseen by a subgroup of the Risk and Compliance function that includes Procurement, Risk and Legal that provide a proactive approach to supplier management.</p> <p>As at 31 December 2021, HFML took an average of 22 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>

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<p>People</p>	<p>Our people's wellbeing and development are central to 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 training and development support, and being encouraged to be collaborative and innovative through behavioural criteria in our performance management framework.</p> <p>We recognise that diversity, equity and inclusion are key to developing a wide-ranging outlook to meet client needs. Diversity, equity and inclusion initiatives are promoted through the staff Employee Resource Group (UNITY) and supported by the seven Employee Networks and the Inclusion Committee which reports into ExCo. Moreover, we have talent development initiatives such as mentoring; coaching; unconscious bias training; mindfulness and financial wellbeing education.</p>	<p>Throughout the pandemic we have provided additional support and resources that focus on employee wellbeing. Development of the agenda for diversity, equity and inclusion is a key priority of the CEO's Office in order to enhance its profile; with a new Head of Inclusion joining the firm in 2021. New initiatives in 2021 included:</p> <p>Employee engagement survey</p> <p>In October 2021, with the assistance of Workday Peakon Employee Voice, we launched an employee engagement survey, which 74% of our colleagues have completed. With the initiatives we have put in place both historically and specifically in 2021, it is heartening to see that 83% of participants have ranked HFML as seven or above (out of 10) for health and well-being. And, given our focus on sustainability and the wider community, it is encouraging that 73% of our colleagues also scored the organisation seven or above for how inspired they were by the Group's purpose and mission. While the survey results are quite positive, the Board and the ExCo, acknowledge that further work is necessary. In particular, with respect to diversity equity and inclusion ("DEI"). A DEI audit is underway and the results will underpin our DEI Strategy and Action Plan for 2022.</p> <p>Hybrid Wellbeing Programme</p> <p>The aim of this programme was to remind employees of best practice and etiquette for hybrid meetings as well as highlighting how managers can support their teams through this transition. We also worked with our IT department to create a technology guide for Microsoft Teams to improve our people's experience while working remotely.</p>
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		<p>Investment trainee programme</p> <p>In 2020, we created and launched a programme that encourages school and college leavers from socially disadvantaged backgrounds to explore employment opportunities within the asset management industry. The trainee programme involves a rotation across three or four of our investment and engagement teams and risk & compliance over a year. We took three trainees in February and five in September 2021. After 12 months rotating around the teams, the successful February trainees will be given 18-month apprenticeship roles. The September intake will be starting their Investment Operations Certificate in 2022.</p> <p>Winter Wellness Programme</p> <p>We once again provided further training and advice to support mental health awareness, physical health and mindfulness recognising the additional challenges presented by the change in seasons and ongoing remote and hybrid working.</p> <p>Mental Wellness and Health Support</p> <p>To support our staff we held a number of Mental Wellness webinars and events organised by our Mental Wellness Employee Network and we have a number of Mental Health First Aiders who are trained to be point of contact for any employee who is experiencing a mental health issue or emotional distress.</p> <p>UNITY</p> <p>We relaunched UNITY as a formal Employee Resource Group with seven Employee Networks – Gender, Disability, Mental Wellness, Race and Ethnicity, Families, LGBTQ and Returners. All Networks have two co-chairs, one Executive Committee and</p>
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		<p>two Management Committee sponsors. Events have been held throughout the year.</p> <p>Industry mentoring scheme</p> <p>As one of the lead sponsors for the City Hive Cross-Company Mentoring Scheme, which collaborated this year with #TalkAboutBlack, we provided four mentees with four mentors in 2021. We've also recently taken steps to help improve diversity within the industry by supporting a similar programme run by Girls Are INvestors ("GAIN"), which facilitates internship placements for female students who aspire to careers in investment management.</p> <p>Racial Equity Report</p> <p>We enlisted an external consultant to undertake a series of listening and coaching circles with leadership colleagues on ethnic diversity and inclusion. The resulting Insight Report was presented to all staff. Our Race Steering Committee is responsible for overseeing the implementation of the report's recommendations.</p>
Society and the environment	<p>As a Group, we 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</p>	<p>We have continued our stewardship and ESG integration across asset classes, and policy advocacy to promote responsible investment practices and business conduct on a range of environmental and social issues this year.</p> <p>In 2021 we planted 1,324 trees through our relationship with Trees for Cities. This offset our operational emissions and business travel (by air and rail) emissions, totalling 349.02 tonnes of CO₂ (2020: 627.41 tonnes of CO₂). Our emissions were low due to the continued travel restrictions resulting in below historic levels of business travel and office usage. Our annual energy consumption rose by 20,954 kWh from 906,288 kWh in 2020; however this was due to an increase in office space leased at both the Group headquarters in</p>

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	<p>environmental and community organisations and charities.</p>	<p>London, and internationally, specifically: Sydney and Tokyo. Please see the SECR statement on page 30 for further details.</p> <p>We partnered with Giki Zero Pro. This initiative allows staff members to calculate, track and reduce their environmental footprint. Between 15 September and 9 December 2021, colleagues committed to 54,748kg carbon emission reduction and 1,400,842 litres water saving.</p> <p>Highlights of our community engagement activities and charitable donations included:</p> <ul style="list-style-type: none"> • During our two year partnership with The Brain Tumour Charity we have donated over £70,000. This is equivalent to 280 days of essential research into brain tumours. • For our longer-term response to the COVID-19 challenges, we are supporting and committing to a three-year partnership with the East End Community Life Chances Campaign. The Life Chances Campaign aims to create a £5m Life Chances Fund for grassroots organisations supporting the most vulnerable to recover from the pandemic crisis and create lasting change. Our involvement started in October 2021. • In response to the Black Lives Matter movement, we have continued with a second-year donation to Urban Synergy, an early intervention mentoring charity that helps hundreds of young people between 11-18 years of age reach their full potential. With HFML's support, Urban Synergy has reached a record high of over 6,500 young
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		<p>people this year and offered more than 3,200 hours of work experience to them.</p> <ul style="list-style-type: none"> • We also donated to 'Treedom' for the second year. With this donation, Treedom has assigned 1,680 trees to be planted across the world on our behalf. • Staff members took part in volunteering days; we increased the frequency of the employability workshops for young adults, technology sessions for the elderly and gardening and tree planting projects.
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</p>	<p>We have engaged with a wide range of regulators and policy makers this year, including: the Financial Conduct Authority ("FCA") regarding our involvement in the UK sustainable finance regulation and our involvement in the UK Climate Financial Risk Forum; the European Supervisory Authorities regarding elements of the EU sustainable finance legislation; the UK Department for Business, Energy and Industrial Strategy ("BEIS") on ongoing audit and accounting reform; and the Autorité des Marchés Financiers regarding sustainable finance topics including corporate disclosure.</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. For example, we have seen many elements we have been advocating for – including a recognition of the important role of stewardship and mandatory disclosure of transition plans – reflected in the UK's various proposals on sustainable finance regulation and climate-related disclosure. We were pleased to see the work of the Disclosures Working Group ("DWG") – which we chair - of</p>

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	Compliance and Legal teams.	the UK Climate Financial Risk Forum is referenced as useful guidance on voluntary additional disclosure in the FCA's Policy Statement on mandatory climate-related disclosures for FCA-regulated firms including asset managers.
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 our strategic objectives and growth plans.</p> <p>Our parent firm has representation on the Company's Board of Directors as well as all the various Committees.</p> <p>As such, our majority shareholder is actively involved in all strategic decision-making.</p>	<p>On 31 August 2021, Federated Hermes, Inc. agreed to the acquisition of BTPS' remaining 29.5% interest in HFML. Federated Hermes, Inc. previously acquired a 60% majority interest in HFML from BTPS in 2018. The approximate 10% of HFML that was held by senior staff members of HFML was exchanged for Federated Hermes Class B Common Stock in March 2022.</p> <p>Our majority shareholder Federated Hermes, Inc. is represented on our Board.</p> <p>Our CEO, Saker Nusseibeh CBE, is a member of the Federated Hermes, Inc. Executive Staff. Saker attended 19 out of 21 committee meetings in 2021.</p>

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STRATEGIC REPORT (continued)

RISK MANAGEMENT

The Board of Directors of HFML recognise that the management of risk as part of our everyday activities is essential to achieving our strategic objectives and safeguarding the interests of our clients and other key stakeholders. The Board 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. The strategy is not to eliminate risk entirely, but rather to manage it in accordance with HFML's risk appetite. To help the Board discharge its responsibilities, the Group has a comprehensive Risk Management Framework and Process that aims to provide adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate the risks to which the Group is exposed.

Risk Management Framework

Three lines of defence

HFML's Risk Management Framework is based on a three-lines-of-defence model with defined responsibilities for risk management. Business line management is the first line with responsibility for identifying, assessing, managing, mitigating and reporting risks in the business processes. Risk and Compliance acts as the second line, monitoring, challenging and advising the first line on risk activities and reporting to senior management. Internal Audit is the third line, providing independent assurance to senior management on the effectiveness of the first and second line.

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

The Risk Management Framework is founded on three pillars:

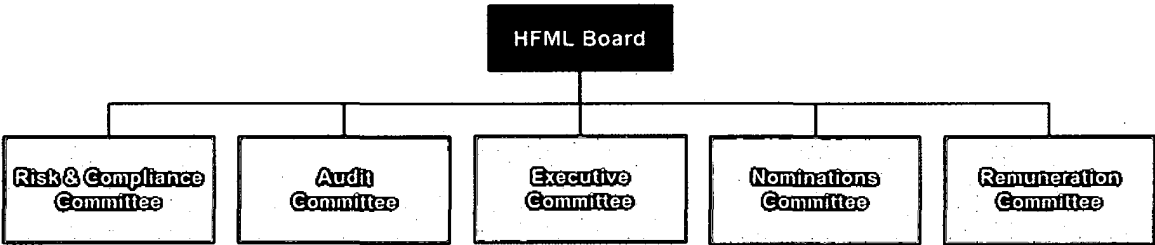
Risk appetite – Our Risk appetite is set by the Board and details the amount of risk it is prepared to accept in conducting its business and in pursuit of its strategic objectives, after consideration of risk-reward trade-offs. Risk appetite and associated tolerances and limits define the framework for the development of corporate strategy and the risk framework.

Corporate governance – For the Board to fulfil its duties, it has established a governance framework consisting of the following committees. Members include Senior Executives and Non-Executive Directors. The Executive Committee consists of only Senior Executives.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

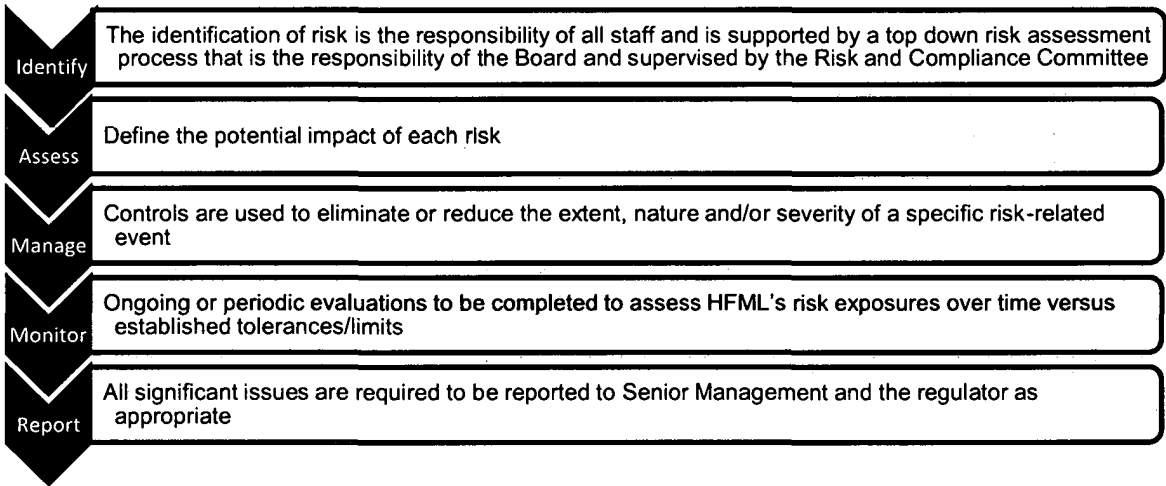


Day-to-day management of the business has been delegated by the Board to HFML’s CEO, who has established an Executive Committee (“ExCo”), as well as several oversight committees to support the governance framework.

Company 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 the Group’s risks across the organisation.

Risk Management Process

In order to implement the Risk Management Framework and help the Board discharge its responsibilities, the Group has comprehensive Risk Management Processes that enable the Board and Senior Management to understand, identify, measure, manage and mitigate the various risks and opportunities to which the Group is exposed.



Two key aspects of the Risk Management Process are the Internal Capital Adequacy Assessment Process (“ICAAP”) (replaced by the Internal Capital Adequacy and Risk Assessment (“ICARA”) in 2022); and the identification, assessment, mitigation and monitoring of Principal Risks.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Capital Adequacy

The ICAAP process forms a key part of the ongoing risk management assessment conducted across the business. The ICAAP process assesses the amount, type and distribution of capital that the Group considers adequate to cover the level and nature of risks to which it is or might be exposed, and is undertaken at least annually. The Group will undertake the ICARA process for the first time in 2022 however our initial assessment suggests no material increase in the level of regulatory capital to be held. Further details can be found on the Group's website: [0012144-fhi-corporate-pillar-3-disclosures-2021.pdf \(hermes-investment.com\)](#)

Principal Risks and Mitigants

The following section shows our assessment of the top 16 risks that may potentially affect our operations in a material way: HFML's business, results of operations, financial condition and/or cash flows. The top 16 risks are grouped into Business, Operational Risk and Market and Financial Risks. The list of principal risks, including possible new and emerging risks, is considered and assessed by the Board throughout the year. The principal risks are reviewed on a regular basis to ensure they reflect the current risk profile of the Group and the external risks that may impact the Group.

Business Risk – Risk Profile 2021 vs 2020 (No-change)

HFML continued to focus on organic growth in 2021, with the Board reconfirming that it agreed with the Group's strategy. Geo-political instability in the wider macroeconomic environment, and the continued uncertainty of the COVID-19 pandemic did not translate into any observable increase in the business risk environment. Group sales exceeded targets.

Risk	Mitigants
Strategy The risk that HFML does not meet its long-term strategic objectives.	Strategic mitigants for HFML include aligning strategic aims with the business operating model, an assessment of risks, client impact and consideration of Risk Appetite and capital, supported by indicators and financial metrics to monitor progress against strategic objectives.
Investments The risk that portfolios will not meet their investment objectives adversely affecting levels of new business or fee income.	The HFML Investment Office monitors investment and performance risk and seeks to ensure that Investment teams adhere to clearly defined investment processes including pre-and post-trade compliance. There is also second line oversight of key parts of the portfolio.
Loss of Key Client This risk relates to the loss of a key client or group of clients resulting in a detrimental impact on HFML.	HFML seeks to ensure that we retain clients by understanding and delivering outcomes aligned to evolving client requirements and by actively growing its third-party offerings and launching new products which help to develop and diversify its client base.
Sales Failure to meet sales and revenue targets.	Sales teams develop comprehensive sales strategies by region and channel, in conjunction with the Head of Business Development, and delivery against targets is regularly monitored.

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STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Operational Risk – Risk Profile 2021 vs 2020 (No-change)

Whilst we are cognisant of the new risks that the current hybrid-working environment presents for HFML employees and our suppliers and mindful of the increased cyber threat landscape has on technology, along with the added complexity of our operating model that comes with the growth of third-party clients business, development of our distribution strategies and development/diversification of our product range, we have strengthened our operational resilience in key areas, increased our oversight of third party suppliers and recognise that these risks have not materialised into observable increases in operational events.

Risk	Mitigants
Operating Model The risk that the operating infrastructure is not fit for purpose, is inefficient or not scalable, failing to support strategic plans and resulting in process failures. This risk includes the impact on business continuity.	<p>Operational policies and procedures are in place, and a robust governance structure exists with Board-level committees, including the Risk & Compliance Committee and the Audit Committee, which monitor the effectiveness of risk management activities, reviews risk events and audit findings, and assesses priorities and operational progress against plans.</p> <p>Operational support to the business is based on processes and controls that are either performed in-house or undertaken by third-party service providers and overseen by the Operations Department.</p> <p>The Business Continuity Plan was fully deployed following the COVID-19 outbreak, resulting in a new hybrid working environment. Further work on resilience activities for critical processes along with increased oversight of critical third parties.</p>
Change The risk that HFML fails to deliver a major change initiative in a controlled and timely manner, or the initiative does not deliver expected benefits.	<p>A comprehensive Change Governance process is in place, including a dedicated Change Management Committee responsible for approving and monitoring all change initiatives – through which Risk and Compliance provide advice and oversight.</p>
Employee The risk that key staff leave without an identified successor or that significant numbers of staff resign due to other factors within our 'control'. The risk includes the Health and Safety of the firm's employees.	<p>HFML has competitive remuneration and retention policies, with appropriate deferred benefits targeted at key employees, and seeks to put in place sustainable succession and development plans.</p> <p>The wellbeing of staff is of utmost importance to HFML. Several new initiatives have been put in place to support staff during the COVID-19 pandemic.</p>

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Regulatory/Legislative The risk of regulatory or legal action arising from the failure to identify or meet regulatory and/or legislative requirements. The risk includes financial crime and tax regulation.	The Compliance, Risk, Finance and Legal functions identify and monitor legal and regulatory changes and support front line staff to achieve and maintain compliance with the requirements.
Third-Party Management The risk that critical third-party suppliers are not aligned to the wider strategy or that third parties fail to deliver the expected benefits.	Before entering into material third-party arrangements, HFML undertakes due diligence on providers. A programme of regular oversight and assessment against agreed service levels is in place, overseen by the Outsourcing Review Group.
Fraud The risk of internal and external fraud.	An extensive system of internal controls is in place, including segregation of duties between roles, payment controls including authorised signatories and limits, independent approval by separate functions, and oversight by senior management. Pre- and post-trade checks are automatically and manually carried out. Control processes and oversight are in place to manage and mitigate internal and external financial crime.
Technology & Information Security The risk that technology systems and support are inadequate, fail to adapt to changing requirements, are vulnerable to penetration or insider risk, or are not resilient and cannot continue to operate to an acceptable standard in the event of adversity/disaster.	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. Since the outbreak of COVID-19, all staff were provided with remote access capabilities. The second line oversight is being enhanced with the creation of a comprehensive IT Risk Framework.
Conduct & Culture The risk of misconduct/market abuse potentially causing loss to HFML and/or compromising HFML's reputation.	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 HFML's core values as expressed in the Federated Hermes Pledge. The Senior Managers and Certification Regime ("SMCR") makes individuals more accountable for their conduct.
Reputation/Brand Reputational risk is the risk that our activities, behaviours and/or communications, do not align with stakeholder	Given the Group's position as an ESG leader, authenticity and reputation is a material driver of the firm's long-term value. Both the Responsibility Office and Risk function play important roles in safeguarding HFML's reputation and brand. The Responsibility Office holds the business to account for ensuring we act as a responsible firm and

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expectations in ways which adversely impact trust or our reputation.	that we keep the interests of clients and their beneficiaries at the centre of what we do. And in 2021, the Risk function established a dedicated Reputational & Sustainability Risk team, who are developing a robust and future facing reputational risk framework and embedding reputational risk considerations into key business decisions.
Products Risk that products either do not meet their performance objectives or are inappropriate for certain clients.	HFML's Product Development team carefully considers the products offered are matched against client needs and that performance objectives are being met.

Financial Risks – Risk Profile 2021 vs 2020 (No-change)

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 performance through lower demand for its investment management products and lower investor risk appetite as a result of financial-market instability. Increasing global inflation and interest rates risks may begin to emerge and have a material impact on the financial risk profile in the future. HFML maintains a strong capital position and further increased its regulatory capital in 2021 through its profitability. See page 9 for HFML's regulatory capital.

Risk	Mitigants
Market Risks associated with political matters which could impact the governmental system and damage the economy; and could, therefore, impact HFML negatively. 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>Balance sheet investments and Foreign Exchange ("FX") exposures: HFML only holds proprietary investments for hedging purposes and seeding of new products. Non-sterling cash and cash equivalents in excess of what is required for working capital and/or hedged through forward contracts is converted into sterling to minimise the FX exposure.</p> <p>Investment products: HFML's wide product range serves to diversify individual market dependencies. Scenario analysis is used to assess the performance of portfolios under a stressed environment.</p> <p>Climate change: HFML has committed to integrating Environmental, Social and Governance factors across all strategies to deliver long-term sustainable investment outcomes for our clients. In August 2021, HFML published its climate-related financial disclosures report for 2020; this describes our approach to identifying and managing climate risks and how we ensure that the weight of the climate crisis is front and centre of everything that we do.</p> <p>In addition, HFML is developing second line oversight of climate change risks and sustainability risk more broadly. A sustainability risk framework is being developed to</p>

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	<p>provide additional focus on the risk management activities required for ESG-related and climate change initiatives. The management, and monitoring of sustainability risks, including climate change risk, will also align to our climate change and ESG risk appetite statements which are currently under development, to support our sustainability targets and commitments as well as our ambition to meet the expectations of our stakeholders and society.</p> <p>HFML engages with public policy makers and sector organisations globally to promote policy and best practice. HFML is an active member of, among others, the Client Financial Risk Forum, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project.</p>
<p>Financial Soundness 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.</p>	<p>Counterparty (credit) risk: Finance oversees regular monitoring of market counterparties for HFML's corporate exposure and outstanding fees receivable. Risk oversees regular monitoring of the firms approved counterparties.</p> <p>Liquidity risk: Monthly cash forecasts are prepared to ensure sufficient liquidity is available at all times. Cash held on deposit is used as a liquidity source. As at 31 December 2021, current assets significantly exceed current liabilities, with liquid cash reserves comprising approximately 66% of total current assets. HFML maintains a high level of liquidity to ensure that the regulatory solvency requirements are continuously met.</p> <p>Capital risk: 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 and holds a surplus over minimum regulatory capital requirement of approximately 160%.</p>

2021 was overshadowed by the unique challenges and risks of the ongoing COVID-19 pandemic. Our robust risk management and governance framework allowed the Risk function to support the firm in adapting, understanding and responding quickly to these risks. Reporting and processes were developed to monitor operational resilience as the firm moved to a remote/hybrid working environment. During this time, the Risk team closely monitored the effects on our people, operations and control environment, ensuring that senior management were informed of risks and mitigants as they emerged in the rapidly changing environment, and that business processes continued to be carried out effectively.

ESG (including Climate risk), Responsibility and Sustainability have also been a key focus for the industry in 2021. Our stakeholders expect us to meet the needs of the present without compromising the ability of future generations to meet their own needs. Responding proactively to these material risks, the Risk function has evolved and expanded and now includes a dedicated Reputational and Sustainability Risk team.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

ASSESSMENT OF VIABILITY

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, initially prepared in 2020 and updated, and Board approved in 2021 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 currently identified through the ICAAP which is a continuous process where risks are monitored and mitigating action taken if necessary. The ICAAP will be replaced by the ICARA in 2022.

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. HFML expanded its global footprint in 2021 with the establishment of distribution hubs in Sydney and Tokyo.

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 (ICARA in 2022) 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 at 31 December 2021 include the following:

- Key person risk – the Head of the largest revenue generating strategy resigns;
- Combined market events – world markets fall sharply (equities by 40% and fixed income by 25%) coupled with sales targets not being achieved;
- The largest client withdraws assets from all equities and fixed income investment strategies immediately;
- Sustained under-performing investment strategies lower AUM, precipitating client outflows and put pressure on margin reduction;
- Government or competitive pressure forces an industry-wide cap on fees; and
- A combination of the second stress (combined market events) plus the departure of the Head of the second largest revenue generating strategy.

Both the first and last stress scenario requires management actions to ensure the Group maintains sufficient capital and liquid resources. The key management action is a reduction in discretionary remuneration.

HERMES FUND MANAGERS LIMITED

STRATEGIC REPORT (continued)

ASSESSMENT OF VIABILITY (continued)

For stresses which are industry-wide, there is more scope for a reduction in discretionary remuneration. However, given the first and last stress are specific to the Group, a Board approved cap has been placed on discretionary remuneration reductions in these stress events.

Having reviewed the results of the stress scenario, including the appropriateness of the management actions, 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.

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



S A Nusseibeh, CBE
Chief Executive Officer
23 March 2022

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT

Secretary: Kathy Thompson
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 2021. The Directors who served during the year are listed on page 2.

RESULTS AND DIVIDEND

The results for the year are shown in the Consolidated Profit and Loss Account. The Directors are satisfied with the Group's performance in the year and 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 8. Further, the Group's principal risks and uncertainties are disclosed in the Risk Management section and key fund performance is provided in the Investment Performance section of the Strategic Report.

On 13 January 2022, the Directors approved a dividend of £0.303856 per share (£24.9m) to be paid to shareholders on 4 February 2022.

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 at least 12 months from the date of approving this annual report.

As part of their enquiries, HFML's Directors have reviewed the adequacy of the Group's regulatory capital position (post dividend) under a number of severe but plausible scenarios as detailed in the viability statement on page 27. The Directors have also taken account of the potential impact on the Group of the continued COVID-19-induced recession (as described in further detail in the 'Outlook' and 'Principal Risks and Mitigants' sections on pages 11 and 22 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 on page 49.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2021.

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 28 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. Moreover, in October 2021, we launched a firm-wide employee engagement survey which 74% of staff completed. For details of further employee engagement, please refer to Section 172 Stakeholder Engagement on page 12.

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, age, 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. The emissions disclosed below include activities which the Group is responsible globally across all our leased properties.

The International Energy Agency ("IEA") and DEFRA UK Government Conversion Factors for GHG Company Reporting have been used to convert activity data into tCO₂e emissions. Actual data was prioritised for reporting, however in instances where this was not available, consumption data was estimated using the following methods: Average daily consumption for any unknown period within the same reporting year, substituting actual consumption for known periods in place of those missing, apportioning building level consumption data based on the Group's leased floor area, or the 2021 CIBSE Guide F Benchmarks where no data was available (using the associated asset type's benchmark and multiplying this by the occupied floor area of the assets).

In 2021, HFML was responsible for a total of 927,288 kWh (2020: 906,334 kWh) building energy consumption for all assets leased by HFML globally.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

STREAMLINED ENERGY AND CARBON REPORTING STATEMENT (continued)

The period covered for the purpose of the SECR section is from 1 January to 31 December 2021 together with 2020. Our calculations are for the following scopes:

Table 1: HFML's global underlying energy consumption

Consumption Source (kWh)	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
Natural Gas	38,757	23,477
Electricity	888,530	882,857
Total Energy	927,287	906,334

Table 2: HFML's global greenhouse gas emissions

Greenhouse Gas (GHG) Emissions Scopes (tCO ₂ e)	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
Scope 1 - Direct combustion of fuel from operation of properties (no business travel in company-owned cars)	14.65	8.93
Scope 2 - Electricity purchased for landlord shared services and own use	208.04	234.03
Scopes 1 + 2 - Mandatory carbon footprint disclosure	222.69	242.96
Scope 3 - Category 4: Fuel and Energy Related Activities (Transmission & Distribution losses only)	16.88	18.66
Scope 3 - Category 8: Upstream Leased Assets (Serviced Offices)	9.81	6.10
Scopes 1 + 2 + 3 - Voluntary carbon footprint disclosure	249.38	267.72

In 2021, Scope 1 and 2 emissions have decreased by 8% when compared against 2020 emissions, which is primarily due to efficiency improvements in existing equipment and control schedules. Reductions have also been achieved due to the implementation of energy efficiency recommendations identified from the 2019 Energy Savings Opportunity Scheme ("ESOS") assessment, further details of which can be found in the Energy Efficiency Actions section below. As there was one additional floor occupied in 2020 at the Group's headquarters, 150 Cheapside, this is not a like-for-like comparison between the two reporting years and is in absolute terms.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

STREAMLINED ENERGY AND CARBON REPORTING STATEMENT (continued)

Intensity Metrics

HFML's chosen intensity ratio of GHG emissions per £million revenue is detailed below:

GHG Emissions Intensity Ratio	1 January 2021 to 31 December 2021	1 January 2020 to 31 December 2020
GHG emissions per £million revenue (tCO ₂ e/£million revenue)	1.57	3.34

Energy Efficiency Actions carried out in 2021

- In 2021 HFML achieved a successful ISO14001 surveillance audit on its Energy Management System (EMS) at 150 Cheapside, London in order to maintain its ISO14001 certification;
- 150 Cheapside has made efforts to reduce energy intensive equipment (printers), efficient running and control of existing equipment, and significant reduction of travel (implementing a new travel policy in 2021 highlighting the need for employees to choose the most carbon efficient means of travel);
- Target set and achieved to reduce operational electricity consumption by 5% per FTE in 2021 compared to 2019; and
- Target set in 2021 to reduce waste by <400 kg per FTE, which has been achieved during 2021 with only 234kg of waste generated per FTE, surpassing the target by over 41%.

DONATIONS

HFML supported a number of charities in the year by donating £54,240 in 2021 (2020: £182,430). No political donations were made in the current or prior year.

SUBSEQUENT EVENTS

On 13 January 2022, the Directors approved a dividend of £0.303856 per share (£24.9m) to be paid to shareholders on 4 February 2022.

On 14 March 2022, those employees awarded restricted stock units in HFML, under the Group's long-term incentive plan, an equity-settled share-based payment, exchanged these awards for Federated Hermes, Inc. Class B Common Stock under our parent's Stock Incentive Plan. Following this exchange, HFML became a 100% owned subsidiary of Federated Hermes, Inc.

The restricted stock units were valued by an independent third-party valuation specialist as at 31 December 2021, with the valuation reduced for the dividend noted above.

HERMES FUND MANAGERS LIMITED

DIRECTORS' REPORT (continued)

AUDITOR

Ernst & Young 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, CBE
Chief Executive Officer

23 March 2022

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 2021 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the company balance sheet, the company statement of changes in equity and the company cash flow statement, and the related notes 1 to 31, 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 2021 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 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 this gives rise to 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 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 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 34, the directors are responsible for the preparation of the financial statements and for being satisfied

HERMES FUND MANAGERS LIMITED

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

Responsibilities of directors (continued)

that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 group and determined that the most significant are those that relate to the reporting framework, United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland', the Companies Act 2006 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 Committee and correspondence received from regulatory bodies.

HERMES FUND MANAGERS LIMITED

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

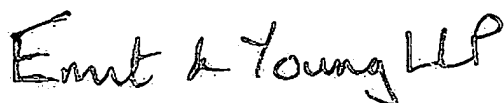
Auditor's responsibilities for the audit of the financial statements (continued)

- 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 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

23 March 2022

HERMES FUND MANAGERS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Notes	£'000	£'000
Group revenue	3	233,052	196,328
Fee and commission expenses	3	(10,198)	(8,268)
Net group revenue		<u>222,854</u>	<u>188,060</u>
Administrative expenses	4	(205,978)	(175,540)
Group operating profit		<u>16,876</u>	<u>12,520</u>
Share of profit of the joint venture	5	-	724
Gain arising upon acquisition of HGPE LLP	15	-	14,416
Net gain on investments and foreign exchange	6	<u>2,239</u>	<u>5,447</u>
Profit on ordinary activities before interest and taxation		19,115	33,107
Interest receivable	7	<u>84</u>	<u>435</u>
Profit on ordinary activities before taxation	8	19,199	33,542
Tax charge	11	(222)	(1,934)
Profit on ordinary activities after taxation		<u>18,977</u>	<u>31,608</u>
Profit on ordinary activities after taxation attributable to:			
Controlling interest - HFML		17,600	30,690
Non-controlling interest - HCL	23	<u>1,377</u>	<u>918</u>
		18,977	31,608

All of the results are derived from continuing operations.

The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021	2020
	£'000	£'000
Profit for the financial year	18,977	31,608
Other comprehensive expense		
(Loss) / profit arising from re-translation of foreign currency denominated subsidiaries	(514)	244
Total comprehensive income	18,463	31,852
Total comprehensive income for the year attributable to:		
Equity shareholders of the Company	17,086	30,934
Non-controlling interest	1,377	918

The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Intangible assets			
Goodwill	13	1,303	1,466
Intangible assets	13	20,357	23,878
		<u>21,660</u>	<u>25,344</u>
Fixed assets			
Tangible assets	14	7,490	8,529
Investments	15	39,739	31,667
Debtors – amounts after one year	16	2,906	2,845
		<u>50,135</u>	<u>43,041</u>
Current assets			
Debtors	16	76,922	71,070
Financial assets – forward contracts	20	-	3,749
Cash at bank	26	143,798	114,080
		<u>220,720</u>	<u>188,899</u>
Current liabilities			
Creditors – amounts due within one year	17	(83,576)	(73,182)
Financial liabilities – forward contracts	20	(1,215)	-
Net current assets		<u>135,929</u>	<u>115,717</u>
Total assets less current liabilities		<u>207,724</u>	<u>184,102</u>
Creditors – amounts due after more than one year	17	(14,880)	(15,709)
Provisions for liabilities	18	(2,503)	(2,217)
Net assets		<u>190,341</u>	<u>166,176</u>
Capital and reserves			
Called up share capital	21	83,592	83,592
Other reserves	22	26,840	19,550
Profit and loss account		76,239	59,153
Non-controlling interest		3,670	3,881
Shareholders' funds		<u>190,341</u>	<u>166,176</u>

These financial statements were approved by the HFML Board and authorised for issue on 23 March 2022. The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

Signed on behalf of the HFML Board of Directors:



S A Nusseibeh, CBE – Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Tangible assets	14	5,767	6,583
Investments	15	86,258	78,832
Debtors – amounts due after one year	16	1,732	1,717
		<u>93,757</u>	<u>87,132</u>
Current assets			
Debtors	16	80,145	63,915
Financial assets – forward contracts	20	-	3,749
Cash at bank	26	97,650	69,993
		<u>177,795</u>	<u>137,657</u>
Current liabilities			
Creditors – amounts due within one year	17	(118,769)	(99,621)
Financial liabilities – forward contracts	20	(1,215)	-
		<u>57,811</u>	<u>38,036</u>
Net current assets			
		<u>151,568</u>	<u>125,168</u>
Total assets less current liabilities			
Creditors – amounts due after more than one year	17	(7,107)	(6,787)
Provisions	18	(2,167)	(1,908)
		<u>142,294</u>	<u>116,473</u>
Net assets			
		<u>142,294</u>	<u>116,473</u>
Capital and reserves			
Called up share capital	21	83,592	83,592
Other reserves		16,945	12,473
Profit and loss account		41,757	20,408
Shareholders' funds		<u>142,294</u>	<u>116,473</u>

The Company's profit after tax for the year amounted to £21,349,038 (2020 profit: £898,505).

These financial statements were approved by the HFML Board and authorised for issue on 23 March 2022. The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

Signed on behalf of the HFML Board of Directors by:



S A Nusseibeh, CBE – Director

Registered company number: 1661776

HERMES FUND MANAGERS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Non- controlling interest £'000	Total £'000
At 1 January 2021		83,592	19,550	59,153	3,881	166,176
Profit for the year		-	-	17,600	1,377	18,977
Loss arising from re-translation of foreign currency denominated subsidiaries		-	-	(514)	-	(514)
Total comprehensive profit		-	-	17,086	1,377	18,463
Costs attributable to awards made under the Group's long-term incentive plan	22	-	7,290	-	-	7,290
Amounts distributed to non-controlling interest		-	-	-	(1,588)	(1,588)
At 31 December 2021		83,592	26,840	76,239	3,670	190,341

The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

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	22	-	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 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2021		83,592	12,473	20,408	116,473
Profit for the year		-	-	21,349	21,349
Costs attributable to awards made under the Group's long-term incentive plan		-	4,472	-	4,472
At 31 December 2021		83,592	16,945	41,757	142,294

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 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Net cash from operating activities	25	36,991	39,682
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		4,206	59
Purchase of fixed asset investments		(8,874)	(10,328)
Investment in subsidiary		-	(6,869)
Interest received on cash and cash equivalents		84	433
Distribution to HGPE Capital Limited		(1,588)	(270)
Dividends received from joint venture		-	2,013
Dividends received from subsidiary		-	1,788
Purchase of tangible fixed assets		(695)	(743)
Net cash flows used in investing activities		(6,868)	(13,917)
Net increase in cash and cash equivalents	26	30,123	25,766
Cash and cash equivalents at beginning of year	26	114,080	89,894
Effect of foreign exchange rate changes		(405)	(1,580)
Cash and cash equivalents at end of year	26	143,798	114,080

The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Net cash from / (used in) operating activities	25	14,721	11,469
Cash flows from investing activities			
Proceeds from sale of fixed asset investments		4,149	59
Purchase of fixed asset investments		(8,518)	(10,328)
Investment in subsidiaries		(232)	(9,986)
Interest received		-	377
Dividends received from joint ventures		-	1,788
Dividends received from subsidiaries		19,607	2,013
Purchase of tangible fixed assets		(580)	(729)
Net cash flows from investing activities		14,426	(16,806)
Net increase in cash and cash equivalents	26	29,147	(5,337)
Cash and cash equivalents at beginning of year	26	69,993	75,670
Effect of foreign exchange rate changes		(1,490)	(340)
Cash and cash equivalents at end of year	26	97,650	69,993

The notes to these financial statements on pages 48 to 87 are an integral part of these financial statements.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021

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. HFML 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 29. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 4 to 28.

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, and rounded to the nearest thousand.

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 ("HAL") and Hermes Investments (North America) Limited ("HINAL"), 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 2021 by virtue of Section 479A of the Companies Act 2006. HAL's principal activity is to receive residual income related to its legacy business, which is sporadic in nature; while HINAL is not an operating entity and acts as a holding company for its investment in Hermes Stewardship North America, Inc.

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 2021 (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 2021, the Group held cash of £143.8m (2020: £114.1m) and net current assets of £135.9m (2020: £115.7m); having generated a profit for the year of £17.6m and a cash inflow from operating activities of £37.0m (2020: £39.7m) from assets under management ("AUM") of £44.5bn (2020: £39.5bn). In addition, the Group had surplus regulatory capital of £69.8m (after dividend paid in February 2022) (2020: £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.

The Directors have considered the Group's liquidity as part of their going concern assessment. As noted above, the Group holds £143.8m of cash and cash equivalents at 31 December 2021; this equates to 12 months of the Group's overhead requirement.

The Directors have also reviewed the adequacy of the Group's regulatory capital and solvency position (post dividend) under a number of severe yet plausible scenarios including: six stress scenarios whereby: the Head of our largest revenue generating funds resigns; world markets fall sharply (equities by 40% and fixed income by 25%) coupled with not achieving the Group's sales targets; the largest client withdraws assets from all equity and fixed income strategies; continued underperformance of investment strategies results in significant outflows; Government intervention or intense competitive pressure forces an industry-wide cap on fees; and a combination stress of severe market downturn plus the Head of our second largest desk resigning. 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 at least 12 months from the date the financial statements are approved.

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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

d) Revenue (continued)

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.

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 development management fees generated through MEPC, a subsidiary of HFML. Other income also includes: licence fees and 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

g) Goodwill (continued)

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.

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).

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 Group 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.

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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

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 are measured at cost less impairment. The impairment policy is shown below in policy (k). 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 two private markets credit funds; and co-investments by HGPE into a number of the funds they manage. There is no readily available market price for these investments.

k) 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

k) Impairment (continued)

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.

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.

l) 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.

m) 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

m) Foreign exchange (continued)

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 foreign operations are reported in other comprehensive income and accumulated in equity.

n) 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:

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.

o) 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.

p) 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.

q) 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

r) 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.

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.

s) 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.

t) 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

1. ACCOUNTING POLICIES (continued)

t) Share based payments (continued)

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.

u) 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.

v) 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.

w) 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.

X) Cash and cash equivalents

Cash and cash equivalents comprises deposits held with banks and other short-term highly liquid investments, notably investments in money market funds. The Group's policy pertaining to interest recognised on cash and cash equivalents can be found above, in policy (w).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

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 (t) and (p), 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, in particular the amount of the asset recognised at 19% or 25%. Please refer to note 11 for further details.

(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 18, 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

A performance fee recognised in the year remains 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 three years. A discount of 2% represents the best estimate of the potential reduction in the fee entitlement that could arise from movements in the underlying source data.

(iv) 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, Inc. 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, third and fourth tranches were granted on the first, second and third anniversary of the sale, respectively. The Directors no longer considered the enterprise value at the acquisition date to be appropriate for each tranche following the first 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.

(v) Intangible assets

Effective 1 July 2021, MEPC, a subsidiary of HFML, acquired the Birmingham based development and asset management team, comprising eight employees, from Argent (Property Development) Service LLP ("Argent"). While there was no consideration attributed to this acquisition, the board of MEPC agreed to reimburse Argent for any external legal fees suffered and also for certain internal time spent. Unlike the acquisition of MEPC and HGPE in 2020, where a third-party specialist was engaged, given the size of this transaction, the purchase price accounting was carried out internally. No intangible assets were identified through the discounted cash flow valuation technique and as such, all costs associated with the acquisition were taken through the profit and loss account in the year.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (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	
	2021 £'000	2020 £'000
Net management fees	210,453	161,641
Stewardship fees	12,315	11,046
Performance fees	5,333	16,157
Carried interest	1,648	3,856
Other fee income	3,303	3,628
Total Group revenue	<u>233,052</u>	<u>196,328</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 2021, the amount of fees and commissions recognised in the income statement were £10,197,717 (2020: £8,268,057).

4. ADMINISTRATIVE EXPENSES

The largest administrative expense is staff cost. The other administrative expenses category includes certain significant costs as administration fees, marketing and IT costs.

	2021 £'000	2020 £'000
Staff costs	132,430	119,733
Non-staff costs	73,548	55,807
	<u>205,978</u>	<u>175,540</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

5. SHARE OF PROFIT OF THE JOINT VENTURE

Share of results of the joint venture:

	2021 £'000	2020 £'000
Joint venture:		
Hermes GPE LLP	-	724
	<u>-</u>	<u>724</u>

On 22 April 2020, HGPE was fully consolidated into the wider Group as a subsidiary. The share of profit of the joint venture in the prior year covers the period 1 January 2020 to 22 April 2020, where HFML's investment in HGPE was accounted for as an equity method investment.

6. NET GAIN ON INVESTMENTS AND FOREIGN EXCHANGE

	2021 £'000	2020 £'000
Net realised gain/(loss) on closed forward contracts	3,211	(433)
Net unrealised (loss)/gain on open forward contracts	(4,964)	1,410
Unrealised gains on fixed asset investment	2,943	3,794
Profit on sale of fixed asset investment	460	82
Short-term and long-term capital gains	113	-
Net gain on foreign exchange	476	594
	<u>2,239</u>	<u>5,447</u>

7. FINANCE INCOME

	2021 £'000	2020 £'000
Interest receivable in respect of:		
Interest in relation to cash and cash equivalents	84	435
	<u>84</u>	<u>435</u>

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021
(continued)

8. PROFIT ON OPERATING ACTIVITIES

	2021 £'000	2020 £'000 (restated)
Profit on operating activities stated after charging:		
Depreciation on tangible fixed assets (note 14)	1,734	1,619
Amortisation of intangible assets and goodwill (note 13)	3,521	2,939
Rental charges under operating leases	4,047	3,712
Auditor's remuneration:		
Audit fees - Subsidiaries	407	390*
- Company	110	101
	<u>517</u>	<u>491</u>
Non-audit fees:		
Other assurance services**	140	116*
Tax compliance	454	220*
Total fees payable to the Group's auditor	<u>1,111</u>	<u>827</u>

*The prior year fees for the audit of subsidiaries, other assurance services, and tax compliance has been restated from £146k, £106k and £0 respectively, to fully reflect the fees paid to EY by HGPE.

**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 2021 (continued)

9. STAFF NUMBERS AND COSTS

Average number of persons employed by the Group in the year:	2021	2020
Investment management	113	108
Stewardship	53	49
Business development	89	83
Administration	197	192
MEPC	23	19
HGPE	68	60
	543	511

At the year ended 31 December 2021 the Group employed 554 full time employees.

Staff costs during the year in respect of these directors and employees were:	2021 £'000	2020 £'000
Wages and salaries	111,739	102,144
Social security costs	13,121	11,892
Pension costs	5,442	5,100
Redundancy payments	549	597
	130,851	119,733

10. DIRECTORS' REMUNERATION AND TRANSACTIONS

Directors' remuneration (including Non-Executive Directors)	2021 £'000	2020 £'000
Emoluments	3,552	3,431
Amounts receivable under long-term incentive schemes	713	650
Company contributions to money purchase pension schemes	36	36
	4,301	4,117

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 £909,000 (2020: £1,465,000), 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 2021 (continued)

10. 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:	2021 No.	2020 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:	2021 £'000	2020 £'000
Emoluments	1,700	1,866
Company contributions to money purchase pension schemes	18	18
Amounts receivable (other than shares and share options) under long-term incentive schemes	713	650
	2,431	2,534

Of the emolument balance above £349,000 (2020: £1,055,000) 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 29.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

a)	Analysis of tax charge for the year	2021	2020
		£'000	£'000
Amounts recognised in profit or loss			
<i>Current tax:</i>			
	UK corporation tax at 19% (2020: 19%)	1,801	2,115
	Foreign tax	110	157
	Other	-	(7)
	Adjustment in respect of prior periods	(13)	28
	Total current tax charge	1,898	2,293
<i>Deferred tax:</i>			
	Timing differences, origination and reversal	1,660	(316)
	Adjustment in respect of prior periods	(344)	(43)
	Corporation tax rate change	(2,992)	-
	Total deferred tax	(1,676)	(359)
	Tax charge on profit on ordinary activities	222	1,934

b) Reconciliation of tax charge

The tax charge for the year differs from that resulting from applying the average rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£'000	£'000
Profit on ordinary activities before tax but after deducting non-controlling interest	17,822	32,624
Profit on ordinary activities multiplied by the average rate of corporation tax in the UK of 19% (2020: 19%)	3,386	6,198
<i>Effects of:</i>		
Non-deductible expenses / (non-taxable income)	328	(2,240)
Non-taxable income from non-controlling interest	(110)	-
Adjustments in respect of prior periods	(357)	-
Effect of differences to tax rates	(2,992)	235
Difference in tax rates for foreign jurisdiction	(33)	-
Deferred tax recognised	-	(2,262)
Other	-	3
Current tax charge for the year	222	1,934

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021

(continued)

11. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The UK corporation tax rate is 19%. The Group had an effective tax rate of 1.2% (2020: 5.9%) mainly due to the impact of the increase in the deferred tax asset as a result of the expected corporation tax rate increase from 19% to 25%.

c) Deferred tax position

	2021 Provided £'000	2020 Provided £'000
The Group		
Deferred tax (asset)/liability:		
Fixed asset timing difference	(1,742)	(1,594)
Tax losses	(8,816)	(9,569)
Bonus and share based timing differences	(10,793)	(4,284)
Unpaid pension contributions	(209)	(172)
Unrealised gains on seed investments	465	271
Short-term timing differences	(107)	(3,899)
Deferred tax asset	<u>(21,202)</u>	<u>(19,247)</u>
Deferred tax liability on intangible assets	<u>4,825</u>	<u>4,536</u>
The Company		
Deferred tax (asset)/liability:		
Fixed asset timing differences	(1,737)	(1,538)
Tax losses	(8,816)	(7,345)
Bonus and share based timing differences	(5,326)	(2,755)
Unpaid pension contributions	(209)	(172)
Unrealised gains on seed investments	465	271
Short-term timing differences	(215)	(1,623)
	<u>(15,838)</u>	<u>(13,162)</u>

Trading losses of £26,638,352 (2020: £28,504,443) have not been recognised as deferred tax assets as it is not probable that the Group will be able to recover those assets within the foreseeable future.

The Group currently forecasts that the deferred tax asset will unwind by approximately £3.5m in the next 12 months.

During the year, legislation was enacted such that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19% and 25% rate. This resulted in an increase in the deferred tax asset of £3.9m.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

12. PROFIT ATTRIBUTABLE TO THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income for the Company is presented as part of these financial statements. The Company's loss after tax for the year amounted to £21,349,038 (2020 profit: £898,505).

13. 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 2021	1,629	5,500	21,154	26,654
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2021	1,629	5,500	21,154	26,654
Accumulated depreciation:				
At 1 January 2021	163	1,125	1,651	2,776
Charge for the year	163	1,125	2,396	3,521
Disposals	-	-	-	-
At 31 December 2021	326	2,250	4,047	6,297
Net book value:				
At 31 December 2021	1,303	3,250	17,107	20,357
At 31 December 2020	1,466	4,375	19,503	23,878

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

13. INTANGIBLE ASSETS (continued)

All intangible assets and goodwill were recognised in 2020 and are amortised over their useful economic lives on a straight-line basis. The table below details the initial useful economic life of each of the assets recognised:

Intangible Asset	Initial 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 acquired and 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.

At each reporting date, the Group applies judgement to determine whether objective evidence exists, that indicates that the carrying value of goodwill and acquired intangible assets exceeds its recoverable amount.

The recoverable amount of the goodwill (MEPC) and acquired intangible assets (MEPC and HGPE) was determined using a discounted cash flow model. The financial information underpinning this model was the Board approved five-year plan; with the key assumption being the discount rate of 21%. The results of these calculations indicate that no evidence of impairment exists at 31 December 2021.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021
(continued)

14. TANGIBLE FIXED ASSETS

The Group	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
Cost:			
At 1 January 2021	10,796	9,943	20,739
Additions	263	432	695
Disposals	-	-	-
At 31 December 2021	11,059	10,375	21,434
Accumulated depreciation:			
At 1 January 2021	3,200	9,010	12,210
Charge for the year	1,218	516	1,734
Disposals	-	-	-
At 31 December 2021	4,418	9,526	13,944
Net book value:			
At 31 December 2021	6,641	849	7,490
At 31 December 2020	7,596	933	8,529

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021
(continued)

14. TANGIBLE FIXED ASSETS (continued)

Included within the net book value of leasehold improvements is an amount of £1,336,398 (2020: £1,204,578) 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 2021. Please see note 18 for further details.

The Company	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
Cost:			
At 1 January 2021	8,815	9,868	18,683
Additions	259	322	581
Disposals	-	-	-
At 31 December 2021	9,074	10,190	19,264
Accumulated depreciation:			
At 1 January 2021	3,126	8,974	12,100
Charge for the year	1,036	361	1,397
Disposals	-	-	-
At 31 December 2021	4,162	9,335	13,497
Net book value:			
At 31 December 2021	4,912	855	5,767
At 31 December 2020	5,689	894	6,583

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

15. FIXED ASSET INVESTMENTS

	Level 1 Investments (restated) £'000	Level 3 Investments (restated) £'000	Total £'000
The Group			
At 1 January 2021*	26,598*	5,069*	31,667
Additions	8,352	522	8,874
Movement in fair value	2,617	326	2,943
Realised gains	460	-	460
Disposals	(3,585)	(620)	(4,205)
At 31 December 2021	34,442	5,297	39,739

* At 31 December 2020, Level 3 investments relating to HGPE's co-investments in their underlying funds, totalling £1,819,000, were incorrectly categorised as Level 1. As a result, the opening balances above for both Level 1 and Level 3 investments have been restated from £28,417,000 and £3,250,000 to £26,598,000 and £5,069,000 respectively. Total investments for the prior year remain unchanged.

Investments held at 31 December 2021 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 2021, the Group held Level 1 investments totalling £34,442,000 (2020 restated: £26,598,000).

Level 3 investments include seed capital in two private markets credit funds and HGPE's co-investments in their underlying funds. There is no readily available market price for these investments.

- The seed investments in the credit funds have 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.
- HGPE's co-investment in their underlying funds have been measured at fair value through profit and loss. The Valuation Committee of HGPE review and confirm that the valuations are compliant with the International Private Equity and Venture Capital Valuation ("IPEV") guidelines 2018.

At 31 December 2021, the Group held Level 3 investments totalling £5,297,000 (2020: restated £5,069,000).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021
(continued)

15. FIXED ASSET INVESTMENTS (continued)

	Investment in Subsidiaries £'000	Level 1&3 Investments £'000	Total £'000
The Company			
Cost / fair value:			
At 1 January 2021	49,090	29,848	78,938
Additions	230	8,520	8,750
Realised gains	-	460	460
Movement in fair value	-	2,283	2,283
Disposals	-	(3,817)	(3,817)
At 31 December 2021	49,320	37,294	86,614
Provision for impairment:			
At 1 January 2021	106	-	106
Additions	250	-	250
At 31 December 2021	356	-	356
Carrying value:			
At 31 December 2021	48,964	37,294	86,258
At 31 December 2020	48,984	29,848	78,832

On 4 January 2021 (effective 1 January 2021), the Company completed the acquisition of Federated Investors Australia Services Limited for AUD \$0.4m. The entity was acquired from Federated Investors Asia Pacific Pty Limited, a fellow entity within the Federated Hermes, Inc. group. Following this acquisition, HFML established a Sydney-based distribution hub to distribute HFML products

In 2021, the Company recognised a provision for impairment against its equity investment in Hermes Equity Ownership Services Limited due to the uncertain timing as to when the Company will earn a return from this investment.

The Company has previously recognised a provision for impairment against its equity investment in Hermes Investments (North America) Limited.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

16. DEBTORS

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Due within one year:				
Amounts due from subsidiaries	-	54,777	-	46,406
Amounts due from parent	250	250	656	230
Trade debtors	3,785	165	9,629	265
Deferred tax	21,202	15,838	19,247	13,162
Other debtors	1,308	997	1,940	654
Corporation tax recoverable	-	2,076	-	2,465
Prepayments and accrued income	50,377	6,042	39,597	733
	76,922	80,145	71,070	63,915
Due after one year:				
Other debtors	2,906	1,732	2,845	2,845
	2,906	1,732	2,845	2,845

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 24).

Other debtors also comprise prepaid assets greater than one year of £0.4m and HGPE accrued revenue greater than one year of £0.7m. 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 2021
(continued)

17. CREDITORS

	2021	2021	2020	2020
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Amounts due to parent	402	345	612	474
Amounts due to subsidiaries	-	86,158	-	75,139
Other creditors	5,133	5,499	1,955	1,199
Corporation tax payable	330	-	767	-
Deferred income	144	144	281	81
Accruals	77,567	26,623	69,567	22,728
	83,576	118,769	73,182	99,621

	2021	2021	2020	2020
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year:				
Other creditors	834	834	903	903
Accruals	13,733	5,960	14,507	5,821
Deferred income	313	313	299	63
	14,880	7,107	15,709	6,787

Other creditors falling due after more than one year includes an unfunded retirement benefit with respect to two retired former staff members. The fair value of this liability as at 31 December 2021 was £834,000 (2020: £903,000).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

18. PROVISIONS

	Group	Company
	2021	2021
	£'000	£'000
Dilapidation provision		
At 1 January	2,217	1,908
Charged to the profit and loss	286	259
At 31 December	2,503	2,167

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. In 2020, 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 2021, both the Company and HGPE revised upwards their provision following advice from a third-party specialist.

19. 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 £5,442,153 (2020: £5,099,896). The year on year increase is due to the additional headcount investments across the Group including MEPC's acquisition of the Argent team.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

20. FINANCIAL INSTRUMENTS

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

	Notes	2021 £'000	2020 £'000
Financial assets			
Measured at fair value through profit or loss			
Fixed asset listed and unlisted investments	15	39,739	31,667
Foreign exchange forward derivative contracts	20	-	3,749
Measured at amortised cost			
Cash and cash equivalents	26	143,798	114,080
Trade and other debtors excluding deferred tax	16	58,626	54,667
		242,163	204,163
	Notes	2021 £'000	2020 £'000
Financial liabilities			
Measured at fair value through profit or loss			
Foreign exchange forward derivative contracts	20	1,215	-
Measured at amortised cost:			
Measured at undiscounted amount payable:			
Trade and other creditors (excluding deferred income)	17	97,999	88,311
		99,214	88,311

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 following table reflects the fair value of those open forward contracts at the balance sheet dates:

Liabilities as at 31 December 2021

Sell		Buy		Settlement date	Fair value in £'000
USD '000	31,122	GBP '000	22,600	31/03/2022	(380)
USD '000	31,889	GBP '000	23,000	30/06/2022	(563)
USD '000	32,821	GBP '000	24,000	30/09/2022	(272)
			69,600	Fair value	(1,215)

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

20. FINANCIAL INSTRUMENTS (continued)

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
			47,300	Fair value	3,749

21. CALLED UP SHARE CAPITAL

	2021 £'000	2020 £'000
Issued and fully paid ordinary shares of £1 each	83,592	83,592
	83,592	83,592

22. 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 ("RSUs") of up to 10.5% of the equity of HFML to senior management and is designed to encourage profitable growth. The RSUs 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 2021 (Tranche 1)	4,624,542	1,574,312
Forfeited during the year	(117,865)	(25,078)
At 31 December 2021	4,506,677	1,549,234

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 2021 (continued)

22. 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
At 1 January 2021 (Tranche 2)	624,000
Forfeited during the year	-
At 31 December 2021	<u>624,000</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
At 1 January 2021 (Tranche 3)	548,900
Forfeited during the year	(4,800)
At 31 December 2021	<u>544,100</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.

	Pool A
At 1 January 2021 (Tranche 4)	-
Awarded during the year	237,027
Forfeited during the year	(5,000)
At 31 December 2021	<u>232,027</u>

The vested award, granted in July 2021, 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 2021. 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.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

22. LONG-TERM INCENTIVE PLAN (continued)

Tranche 2, Tranche 3 and Tranche 4 were awarded on the first, second and third anniversary of the acquisition respectively. The value of the share award was determined by a third-party specialist on the grant date of each award.

The total amount recognised as at 31 December 2021 in relation to these awards was £7,290,000 (2020: £9,302,000) and at that date, there remained 1,316,100 unallocated shares (2020: 1,405,384); including those shares that have been forfeited.

23. NON-CONTROLLING INTEREST

Non-controlling interest relates to HGPE Capital Limited ("HCL"), a subsidiary of Federated Hermes, Inc. and a minority shareholder of HGPE. 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.

24. FINANCIAL COMMITMENTS

Operating lease commitments and contractual obligations

As at 31 December 2021, 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	The Company
	Land and Buildings	Land and Buildings	Land and Buildings	Land and Buildings
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Within one year	4,428	3,384	4,385	3,384
Between one– five years	16,005	13,536	15,232	13,536
After five years	13,238	12,972	16,551	16,355
	33,671	29,892	36,168	33,275

Operating leases with respect to land and buildings primarily relate to the London offices at 150 Cheapside and 33 Gutter Lane. Office space has also been leased by the Group in Dublin, Copenhagen, Frankfurt, Pittsburgh, Singapore, New York, Madrid, Sydney and Tokyo.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

24. FINANCIAL COMMITMENTS (continued)

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 2021 by virtue of Section 479A of the Companies Act 2006.

As previously disclosed in the Group's Annual Report for the year ended 31 December 2019 and 2020, 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 2021, 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 16).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021
(continued)

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Operating profit/ (loss)	16,876	(1,432)	12,520	(8,638)
Bank charges	(57)	(19)	(45)	(17)
Depreciation	1,734	1,397	1,506	1,395
Amortisation	3,684	-	2,939	-
Share based payments	7,290	4,472	8,236	5,055
Increase in provisions	286	259	558	249
Impairment of subsidiary	-	250	-	-
Consolidation of HGPE	-	-	1,011	-
Decrease/ (increase) in debtors	894	(1,686)	(12,295)	5,888
Increase/(decrease) in creditors	7,937	13,109	28,184	9,053
Tax paid	(1,653)	(1,629)	(2,932)	(1,516)
Net cash generated in operating activities	36,991	14,721	39,682	11,469

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

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Net funds at beginning of year	114,080	69,993	89,894	75,670
Increase in cash in year	30,123	29,147	25,766	(5,337)
Effect of foreign exchange rate changes	(405)	(1,490)	(1,580)	(340)
Net funds at end of year	143,798	97,650	114,080	69,993

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

27. 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	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes European Equities Limited*	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Private Equity Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Alternative Investment Management Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Equity Ownership Services Limited	Stewardship and corporate governance	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Assured Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Investments (North America) Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Stewardship North America, Inc.	Stewardship and corporate governance	1001 Liberty Avenue #2100, Pittsburgh, PA 1522, USA
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	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Secretariat Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Sourcecap Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Asset Management Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes GP Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Pensions Management Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
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 BPK Co-Investment Trustee Limited	Inactive	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Seoul GP, S.à.r.l.	Investment management	Airport Centre Luxembourg 5, Heienhaff, L1736, Luxembourg

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

27. ADDITIONAL INFORMATION OF PRINCIPAL SUBSIDIARIES (continued)

Hermes GPE LLP	Investment management	33 Gutter Lane, London, EC2V 8AS
Federated Investors Australia Services Limited	Investment management	Level 36, 1 Macquarie Place, Sydney, Australia
Federated Hermes Japan Limited	Investment management	4F Tekko Building, 1-8-2 Marunouchi Chiyoda-ku, Tokyo, Japan
MEPC Limited	Development and Asset Management	99 Park Drive, Milton Park, Oxfordshire, OX14 4RY
Federated Hermes European Direct Lending Fund II GP, S.à.r.l.	Investment management	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.

28. 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 2021, 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 2021 (continued)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

Financial assets	2021	2021	2020	2020
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank	143,798	97,650	114,080	69,993
Forward foreign exchange contracts	-	-	3,749	3,749
Owed by subsidiaries	-	55,027	-	46,406
Trade debtors and accrued income	44,470	166	46,362	273
Owed by parent	250	250	656	230
Other debtors	4,214	3,073	4,786	2,371
	192,732	156,166	169,633	123,022

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 Group may have limited rights in respect of the amounts owed. The Group 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 £511,000 that were more than 90 days past due (2020: £1,193,000). At the time of signing the annual report, £67,000 remains outstanding.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

28. 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	2021 Group	2021 Company	2020 Group	2020 Company
		£'000	£'000	£'000	£'000
Owed to parent	On demand	402	345	612	474
Owed to subsidiaries	On demand	-	86,158	-	75
Other creditors	On demand	5,599	5,499	2,722	2,722
Accruals	On demand	77,431	26,623	69,567	69,567
Accruals	>12 months	13,733	5,959	14,507	14,507
Other creditors	>12 months	834	834	903	903
		97,999	125,418	88,311	88,311

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.

Sensitivity Analysis

If the average rate of interest was 2% higher during the year based upon the average cash position, an additional £2.3m of interest would have been earned. A decrease in the average rate of interest would have an equal and opposite impact.

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

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 20 for further disclosures). The Group has £63.5m of foreign currency exposure on the balance sheet at 31 December 2021 of which £38.4m 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 15) which are subject to market price risk. The Group's exposure to market price risk as at 31 December 2021 is £39.7m.

If the price of these investments weakened by 10%, this would result in a loss of £4.0m, while an increase in the value of these investments would have an equal opposite impact.

29. 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 2021 (continued)

29. RELATED PARTY TRANSACTIONS (continued)

Federated Hermes, Inc.

Stewardship fees and distribution fees of £1,945,361 (2020: £1,443,527) were recognised in relation to stewardship services of which £667,705 remained due to the Group at 31 December 2021 (31 December 2020: £804,000). In 2021, HFML invested \$2.5m in one of Federated Hermes, Inc.'s funds however redeemed in full later in the year. Federated Hermes (UK) Limited, a UK domiciled subsidiary of Federated Hermes, Inc. has sub-let office space in the HFML head office at 150 Cheapside at a fee of £324,456 in 2021 (2020: £324,456). Hermes Stewardship North America, Inc. has sub-let office space in the Federated Hermes, Inc. head office at a fee of £37,619 (2020: £72,994). Other shared services between HFML and Federated Hermes, Inc. totalled an expense to HFML of £531,321 in the year (2020: £238,983).

HGPE

Profit distributions of £10,877,963 was received by the Company from HGPE during the year (2020: £3,801,471). There was no capital contribution in the year (2020: £nil)

Net recharge from HGPE to the Company totalled £506,000 during the year (2020: expense £331,456). A net amount was due to HGPE from the Company totalling £227,587 at year-end (2020: £15,594).

No carried Interest was recognised as revenue by the Company during the year from the fund vehicles managed by HGPE (2020: £1,581,024).

The amounts outstanding above for Federated Hermes, Inc. 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 2021 or 2020.

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 £7,501,000 (2020: £6,860,000), being remuneration disclosed in note 10 of £4,301,000 (2020: £4,117,000) and remuneration provided to other key management personnel of £3,200,000 (2020: £2,743,000).

HERMES FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2021 (continued)

29. RELATED PARTY TRANSACTIONS (continued)

HGPE related party transactions with HGPE Key Management

The key management personnel are defined as per the FCA SMCR regime. Total remuneration paid to key management personnel was £5,627,000 in the year (2020: £6,237,000). In addition to this, an amount of £2,300,000 (2020: £13,622,000) was distributed to key management personnel during the year by funds managed by the LLP.

30. 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.

31. SUBSEQUENT EVENTS

On 13 January 2022, the Directors approved a dividend of £0.303856 per share (£24.9m) to be paid to shareholders on 4 February 2022.

On 14 March 2022, those employees awarded restricted stock units in HFML, under the Group's long-term incentive plan, an equity-settled share-based payment, exchanged these awards for Federated Hermes, Inc. Class B Common Stock under our parent's Stock Incentive Plan. Following this exchange, HFML became a 100% owned subsidiary of Federated Hermes, Inc.

The restricted stock units were valued by an independent third-party valuation specialist as at 31 December 2021, with the valuation reduced for the dividend noted above.

There were no other subsequent events material to the financial statements from the balance sheet date, 31 December 2021, to the date of approval of the financial statements, 23 March 2022.