

Hermes Investment Funds Public Limited Company

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

Annual Report and Audited Financial Statements

For the year ended 31 December 2011

Hermes Investment Funds Public Limited Company

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Hermes Investment Funds Public Limited Company Management and Administration

Directors

Paul McNaughton (Chairman) (Irish)*
Justin Egan (Irish)*
Brian Collins (Irish)*
Patrick Galligan (Irish)

Registered Office

Georges Court
54-62 Townsend Street
Dublin 2
Ireland

Promoter, Investment Manager and Distributor

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

Advisor

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

Custodian

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

Administrator, Registrar and Transfer Agent

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

Independent Auditor

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

Legal Advisor to the Company

William Fry
Fitzwilton House
Wilton Place
Dublin 2
Ireland

Sponsoring Broker

J & E Davy
Davy House
49 Dawson Street
Dublin 2
Ireland

*Non-executive Directors, independent of Investment Manager

Hermes Investment Funds Public Limited Company Directors' Report

The Directors of Hermes Investment Funds Public Limited Company (the "Company") have pleasure in presenting the Annual Report and audited Financial Statements of the Company for the year ended 31 December 2011.

Statement of Directors' responsibilities

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

Irish Company Law requires the Directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of the affairs of the Company and of the profit or loss for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements are prepared in accordance with IFRS as adopted by the European Union and comply with the Irish Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, (the UCITS Regulations). They are also responsible for safeguarding the assets of the Company and in fulfilment of this responsibility, they have entrusted the assets of the Company to a Custodian for safekeeping in accordance with the Memorandum and Articles of Association. The Directors are responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Review of business

The Company was incorporated on 23 October 2008 under the laws of the Republic of Ireland as an open ended umbrella type investment company with variable capital and limited liability in which different funds may be created from time to time. The Company is authorised by the Central Bank as an Investment Company pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011.

The principal risks and uncertainties faced by the Company are the investment risks associated with the portfolio of investments held for the account of each sub-fund (the term "sub-fund" relates to the 12 sub funds listed on page 122) and the operational risks associated with their management and administration (see note 7 to the Financial Statements).

Directors' statement on proper books of account

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

Hermes Investment Funds Public Limited Company

Director's Report (continued)

Transactions involving Directors

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

Revenue

The results of operations for the year ended 31 December 2011 are set out in the Income Statement.

Directors' Interests in shares of the company

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

Distributions

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

Independent auditor

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

Directors

There were no appointments or resignations during the year. The Directors of the Company at 31 December 2011 are stated on page 3.

Significant events during the year

Hermes Commodities Index Fund II and Hermes Sourcecap Europe Ex-UK Fund, authorised by the Central Bank on 13 June 2011 and 15 December 2011, were seeded on 15 June 2011 and 21 December 2011 respectively.

Subsequent events

The Board decided that the Hermes Pan European Small Cap Companies Fund was to be liquidated and the fund was fully redeemed on 12 March 2012.

Up to the date of approval of these Financial Statements there have been no other events subsequent to the year end, which will impact on the Financial Statements for the year ended 31 December 2011.

Corporate Governance Statement

The European Communities (Directive 2006/46/EC) Regulations (S.I. 450 of 2009 and S.I. 83 of 2010) (the "Regulations") requires the inclusion of a corporate governance statement in the Directors' Report. The Company is subject to corporate governance practices imposed by:

- (i) the Irish Companies Acts 1963-2009;
- (ii) the Articles of Association of the Company;
- (iii) the Central Bank of Ireland UCITS Notices and Guidance Notes which are available for inspection at the registered office of the Company.

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

Hermes Investment Funds Public Limited Company

Director's Report (continued)

Corporate Governance Statement (continued)

On 12th April 2011, the Board of Directors voluntarily adopted the Corporate Governance Code for Irish Domiciled Collective Investment Schemes as published by the IFIA, as the Company's corporate governance code. The Board of Directors have assessed the measures included in the IFIA Code as being consistent with its corporate governance practices and procedures for the financial year.

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

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

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

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

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



Paul McNaughton
Director



Brian Collins
Director

23 April 2012

Hermes Investment Funds Public Limited Company

Investment Manager's Report

Performance Update

Returns to year ended 31 December 2011

Portfolio	Year to Date		
	Return	Benchmark	Performance
Hermes Global Emerging Markets Fund ¹	-17.27	-17.82	0.67
Hermes Global Equity Select Fund ^{1*}	-5.15	-6.66	1.61
Hermes Pan European Small Cap Companies Fund	-18.25	-19.20	1.19
Hermes Quant Global Equity Fund ¹	-3.96	-4.84	0.92
Hermes UK Small and Mid Cap Companies Fund	-4.25	-10.82	7.37
Hermes UK Smaller Companies Fund	-8.28	-15.27	8.25
Hermes Japan Equity Fund	-6.96	-11.85	5.56
Hermes Sourcecap European Alpha Fund	-3.19	-11.12	8.92
Hermes Global High Yield Bond Fund	-1.85	1.22	-3.04
Hermes Global Investment Grade Fund	3.53	3.70	-0.16
Hermes Commodities Index Fund II ²	-15.16	-15.25	0.11
Hermes Sourcecap Europe Ex-UK Fund ²	3.03	3.27	-0.23

N.B.

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

¹Benchmark is net of withholding tax

²Since Inception

*The Hermes Global Equities Selection Fund changed its name to the Hermes Global Equity Select Fund effective 5 October 2011

Hermes Global Emerging Markets Fund

Market Review

Although the year started on a bullish note, events in Europe and the Middle East destabilised global markets, and Emerging Markets bore the brunt of the selling. Despite superior economic performance, earnings growth, and cheaper valuation, Emerging Markets underperformed Developed Markets in 2011 by a sizeable margin, dropping 17.8% versus 4.8% in Sterling terms. Earnings estimates for 2012 rose during the year, resulting in an asset class trading at levels last seen in 2008/9.

Even outside of the Eurozone it was an eventful year. The Arab Spring raised hopes of freedom from oppression across North Africa and the Middle East, but generated fears of revolution in the Chinese leadership. Iran moved closer to nuclear capability. A series of scandals in India pushed back the outlook for crucial infrastructure development. Thailand was subject to protests, a surprising election result, and terrible flooding, but by year end the waters had started to recede and rebuilding was starting. Russian leadership was surprised by sustained protests over the manipulation of election results. In South Africa talks about the nationalisation of the Mining sector have animated the political debate.

Many Emerging Markets battled inflation, particularly China, where housing prices soared. The government was quick to respond with harsh measures, leading commentators in the West to forecast an economic crash. This led to a pullback in commodity prices and weakness in mining stocks. Slow developed world growth and tight central bank liquidity relieved much of the pressure, however, towards the end of the year.

Visible and sustainable growth was at a premium, and this premium expanded modestly during the year. The best performing of the major markets were those with domestic demand that was largely insulated from problems in the West. Thus the Philippines and Indonesia both showed net gains, albeit in single digits. Markets penalised countries with current account problems, marking down both equity and currencies. Turkey and India lagged the benchmark, each down over 36% in US dollar terms.

Investment Strategy

Inflation has peaked in many Emerging Market economies, providing scope for a reversal of last year's market losses as interest rates come down. Thus China, Brazil and India are expected to see slowing growth in 2012, but also lower rates. From an industry perspective, this environment suggests overweight's in Consumer Discretionary, Financials, Technology and Industrials.

The Fund starts the year overweight China and Brazil, underweight Utilities, Telecommunications, Raw Materials and Heavy Industrials (late cycle plays), and building exposure in Consumer Discretionary.

The underweight in India is being closed, and Russia, currently neutral, is moving to overweight. Political ructions are the normal state of play in India, and the market, over time, swings between euphoria and despair. Despair brings cheap valuations and opportunity in Russia, despite recent protests over the election; the market now trades at under five times consensus earnings, well under book value and well below its own historic averages.

We maintained last year's positions in gold mines and Chinese gaming stocks, as valuations looked compelling and the problems looked temporary. Having visited with homebuilders PDG, Brazil, and CC Land, Chonqing, China, late in the year we decided to increase our positions in these companies. We continue to hold Franshion, investment property, and China Vanke, homebuilding, in China, as these stocks, in our opinion, more than discount the bad news on the property market.

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

Hermes Global Emerging Markets Fund (continued)

Performance Review

The Fund outperformed its benchmark by 0.7% in 2011. The majority of the outperformance came from country allocation, with stock selection a small net detractor.

The largest contributions to country selection were underweight's in India and Eastern Europe along with overweight positions in Thailand and China. These correct views were offset to some extent by underweights in Indonesia and the Philippines, markets that had already performed well in 2010 and looked expensive.

China was brought to overweight in the second quarter. From over 23 times prospective earnings in December 2007, the market bottomed at 7.6 times in October 2008, but by July of 2011 was trading once again under 8 times prospective earnings.

The Indian market saw a similar de-rating, beginning 2011 at nearly 20 times prospective earnings with slowing earnings growth. Serious government scandals translated into policy paralysis over the year, hindering prospects for approval of infrastructure projects.

Thailand, the largest positive contributor to performance at the country level, was maintained at overweight over the year despite good performance in the first half and a large drop in the autumn due to the floods.

Eastern Europe was moved to underweight despite what looked like cheap valuations. Hungary was avoided altogether as the new government's policies made little sense to us. Russia began the year overweight, benefiting from higher oil prices, but then was taken to underweight in the spring as the Quantitative Easing effect tapered off.

The biggest individual contributor to returns was Youngone Holdings, a Korean retailer/manufacturer of North Face outerwear, which surprised the market with strong earnings. The Fund was held back by holdings in housing related stocks. Rising inflation in Brazil and China drove investors away from these stocks.

Outlook

Despite the caution demonstrated by investors last year, Developed Markets may provide the stability investors seem to require to put money at risk in Emerging Markets. US corporations are sitting on nearly \$2 trillion of cash and margins are near all time highs. Purchasing manager indices have shown improvement; the Fed, always bank friendly and owned by banks, has now ridden to the rescue of Europe's banks, extending swap lines to the ECB for their use. In turn, ECB, with its Long Term Repo Operation, has thrown European banks a further lifeline in making available virtually unlimited liquidity for their use. All together, these have led to optimistic predictions for a 2012 recovery.

Despite this, however, the developed world debt overhang has not receded. The countries in Europe's periphery remain at risk of default. In particular, Greece may do so this semester, spelling more trouble for global banks and therefore equity markets. An oil shock from tensions in Iran or Nigeria cannot be ruled out. Finally, US consumers need to increase savings rates dramatically for retirement. The most recent figure of 3.5% is not consistent with this.

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

Hermes Global Emerging Markets Fund (continued)

Outlook (continued)

Thus the Fund remains defensively positioned, with a Beta of 0.94% and underweight highly cyclical markets like Korea and Taiwan and cyclical industries like Materials and Industrials.

Absent from further global shocks, the economic outlook for most Emerging Market economies continues to be good, the reverse in fact of the developed world. Growth is strong, debt levels remain low, deficits generally are under control, and inflation seems to have peaked. Over the year Emerging Markets have seen their prospective earnings multiple decline from 13.4 times to 10.1 times currently. This represents over a 20% discount to the World Index. Valuations are near prior trough levels, with strong balance sheets, robust domestic demand, and now, declining interest rates. Global shocks may very well continue to temporarily unsettle the Emerging Markets, but we are excited about their long term prospects, and in particular that of the holdings in the Fund, which represent, in our opinion, outstanding value.

**Hermes Investment Management Limited
January 2012**

Hermes Investment Funds Public Limited Company

Investment Manager's Report (continued)

Hermes Global Equity Select Fund

Market Review

2011 began on an optimistic note as markets rallied in the early months on strong earnings and expectations that the economic recovery would move toward expansion. However, the political landscape continued to weigh on sentiment as the macro environment began to overwhelm the corporate environment. Investors began to lose patience as the sovereign debt situation in Europe dragged on without meaningful progress toward a resolution. The US seemed to “kick the can down the road” on its deficit and debt ceiling issues which led to a downgrade from the ratings agencies and the Arab Spring created volatility in the energy markets amidst the civil unrest in the region. We also saw natural disasters wreak havoc in Japan and Thailand.

Amidst a volatile year, defensive sectors such as Consumer Staples and Health Care were the best performers as investors sought safety. Financials (particularly in Europe), Materials and Industrials were the weakest performers. As sovereign bond yields in Europe remained stubbornly high, the Euro sank to a 12-month low against the US Dollar. Egypt, Greece and India were the worst performing markets while Ireland, Indonesia and New Zealand were the stronger performing markets.

Investment Strategy

Our strategy remained focused on consistently aligning our conviction with our risk. As the environment deteriorated over the course of the year we adjusted our positioning to reflect our heightened caution by taking some of the sharp edges off our risk profile and reducing our overall beta exposure. We also added some significant positions to the Fund over the course of the year. We initiated a position in Vodafone Group, a global mobile operator with leading shares in the UK, Germany, Italy, Spain and the Netherlands. The company owns 45% of Verizon Wireless in the US and also has significant emerging exposure in India, South Africa and Turkey. We believe the company has been gaining operating momentum in its key markets through its focused approach and should deliver growth in the form of cash flow and dividends as its capital expenditures are flat to lower.

We purchased shares of Allergan Inc., a speciality pharmaceutical company with key franchises in eye care, dermatology, urology and aesthetics treatments. We continue to see solid growth driven by expanded therapeutic treatments for Botox, such as chronic migraines. We also believe the aesthetics business is resilient to a slowdown and the company is less vulnerable than many to potential reimbursement cuts from deficit reduction plans in the US.

Performance Review

The Fund outperformed the benchmark during the year led by strong relative performance from our selection within the Financials, Consumer Staples and Industrials sectors. Detracting from performance was our selection within the Energy, Health Care and Utilities sectors. At the individual stock level, Shire was our largest contributor to performance as the company grew its quarterly revenues by 25%, exceeding \$1 billion sales for the first time. Shire's key product sales were strong across the board, all beating projections. Also helping performance was our position in O'Reilly, as the automotive aftermarket retailer posted solid gains helped by moderating gas prices in May and June and the finalisation of the CSK integration. Digital Realty was also a strong performer as the speciality data centre REIT continued to show strong leasing volume growth. Our largest single detractor from performance was Dendreon, which sold off sharply after the company's revenues fell short of expectations and they withdrew their guidance for the year due to the complexities around the reimbursement of their key drug Provenge.

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

Hermes Global Equity Select Fund (continued)

Performance Review (continued)

Our position in Freeport McMoRan was also among the larger detractors as copper prices (one of the most macro-sensitive commodities) plummeted nearly 30% during the third quarter. Suez Environment was also a significant underperformer as its shares were hit by European cyclical concerns, profit warnings from rival Veolia and weaker recycle prices in the back end of the year. Our relative sector and region neutrality helped control volatility during the course of the year which enabled us to focus our risk budget at the stock level and generate very attractive risk-adjusted returns in aggregate.

Outlook

The political economy remains firmly in the driver's seat leading to a continued uncertain outlook. We believe that policy makers remain well aware of the potential catastrophic costs and will continue to work constructively toward a reasonable resolution. However, it will likely continue to be a slow and volatile process. We can certainly not exclude further falls in equities if a meaningful resolution of the EMU crisis is significantly delayed or does not materialise. While austerity measures will likely fuel a recession in Europe, the concern remains how deep the downturn will be and whether it will trigger recessionary conditions elsewhere around the globe. Accordingly, we are maintaining a balanced set of exposures in the Fund.

In an environment where margins are near peak levels, growth remains challenged as both public and private entities continue to deleverage, expansion of valuation multiples seems unlikely. That being said valuations remain at attractive levels and low yields should continue to support demand for equities. We remain encouraged by the balance sheet health of the corporate sector and economic indicators that continue to point to modest improvements and slow growth. While the macro environment remains challenging we continue to favour a selective approach in identifying attractive businesses that are less dependent on the economic environment to drive their earnings. We continue to believe that the best defence for a company in this environment lies in its underlying business model. We have a clear preference for companies with pricing power, either through innovative products, supply-constrained items or well-supported brands.

**Hermes Investment Management Limited
January 2012**

Hermes Pan European Small Cap Companies Fund

Market Review

2011 was a difficult year for the market, which fell by 19.2% in Sterling terms. Dominant themes have been political and macroeconomic, that of declining economic growth globally and the escalating European sovereign debt crisis. Much of the negative return occurred over the summer months, with August being by far the worst month, with the market staging only a small recovery from the lows by the year end.

Sovereign risk proved to be contagious, and when the large debtor nations of Spain and Italy were deemed at risk investors began to fear a disorderly sovereign default and potential breakup of the Euro. The inadequate response of policy makers made a bad situation worse and concerns over the stability of the Banking sector led to investors fearing another financial crisis similar to 2008/9. The policy response is restricted due to political hurdles in Europe to resolving the debt crisis. With low interest rates and high debt levels, developed economies have little scope to use traditional tools such as aggressively lowering interest rates and boosting public expenditure to counter the economic slowdown.

There was wide disparity in returns between countries and sectors and unsurprisingly those countries with sounder balance sheets or are outside of the Euro such as the UK and Sweden outperformed, and those more economically defensive sectors also outperformed.

Corporate results have worsened as the year progressed and this, together with the evidence of an economic slowdown, has led to analysts revising down their earnings expectations across most of the market.

Investment Strategy

The strategy has remained focused on fundamental bottom-up stock selection. By limiting sector exposure, and closely monitoring and controlling risk factors and style biases, we can ensure the vast majority of the risk is stock specific. Given the rising economic uncertainties, new investments were on the whole those companies with defensive attributes, such as low cyclicity, predictable growth and strong balance sheets.

The number of stocks the Fund holds has fallen further to 71 from 80, as the Fund continued to concentrate on its most favoured ideas.

Performance Review

The Fund was down 18.3% in sterling terms on the back of the weak market, but outperformed its benchmark by 1.2%, with the majority of this coming from stock selection. The Fund's bias towards growth and quality stocks has helped over this period of market uncertainty. The bulk of the outperformance was generated in the last four months of the year.

The strongest contributor to performance was Duerr. Duerr is the global leader in supplying paint shops to the auto industry. As well as good results, orders have been particularly strong as auto production continues to expand in Emerging Markets. This strong order book provides excellent visibility.

The biggest detractor to performance was Temenos. Temenos is a leading software company selling to the Banking sector. The company is well positioned, but the end markets remain difficult. The problems European banks have been facing has reduced their willingness to invest in new software and Temenos has suffered as a result.

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

Hermes Pan European Small Cap Companies Fund (continued)

Outlook

The concerns that have driven the market down in 2011 have not disappeared. The European sovereign debt crisis still looms large, and economic growth forecasts continue to decline. So far there has not been an effective policy response to these issues.

Given the market falls we have seen, any sign of an effective response is likely to lead to some relief. Even if the very negative scenarios of disorderly sovereign defaults and double dip recession are avoided, it is likely that we are looking at a low growth scenario for some time. The consumer and the public sectors in the developed world still have a debt problem and this deleveraging process will continue to curtail demand. The Fund has a growth bias which should be a positive in a world where growth is becoming scarce.

Nevertheless, corporates are better positioned than in 2008. Balance sheets are much stronger and companies seem to be more prepared going into any potential downturn, being leaner, with lower inventories and more flexibility in the cost base.

**Hermes Investment Management Limited
January 2012**

Hermes Quant Global Equity Fund

Market Review

Investors began 2011 in an optimistic mood, confident that the budding growth seen in 2010 would continue throughout the year, and that markets would stabilise as companies increased investment and began hiring for growth. The natural disaster and the following nuclear meltdown in Japan were the first hint of the turmoil that would govern the rest of the year. The markets reacted quickly, with global equity markets plunging in March in anticipation of the disruption to global supply chains. However, this was countered by an equally fast recovery as companies quelled immediate fears and reassured investors.

Entering the second quarter of 2011, the social unrest in the Middle East and Northern Africa led to concerns for oil supplies and the stability of the region. The problems persisted as the Arab Spring turned into summer, unsettling investors and increasing the feelings of nervousness. It was at this time that the global economic advance stalled and once again the risk of a double-dip recession was heightened. European policymakers were paralysed and allowed the sovereign debt crisis to intensify as only minor interventions were made on behalf of the weakest states within the union. The indecision further threatened the global recovery and cast a persistent shadow over the markets for the rest of the year.

In early August Standard & Poors announced a downgrade of US sovereign debt. The shock to markets was immediately felt across the globe, with equity markets plunging. Equity investors sought safety in quality stocks with strong balance sheets, favourable dividend yields and predictable earnings. This story endured for the remainder of 2011 with investors favouring this "risk off" viewpoint.

Investment Strategy

The Fund uses systematic fundamental analysis to assess the attractiveness of over 4000 stocks on a daily basis. This analysis involves a disciplined bottom up stock selection process based on well documented anomalies and trends in investor behaviour. The strategy aims to take advantage of systematic behavioural biases of market participants while remaining cognisant of the risks associated with the modelling of such behaviour.

Our stock-selection models are based on an extensive range of criteria, analysing stocks based on both "traditional" quantitative characteristics and our own, proprietary factors.

As markets evolve, the effectiveness of exploiting different strategies changes as investors modify their behaviour to the unique market circumstances. We approach stock selection from a variety of perspectives. We determine fair value for a stock using metrics from the full range of a company's financial statements, and our modelling employs a wide variety of stock characteristics (often referred to as factors) designed to proxy for investor behaviour and the tendencies of market participants.

We closely monitor the performance of each factor with the aim of building stock selection models that deliver consistent and sustainable excess returns.

The systematic fundamental analysis is integrated with our proprietary risk model called MultiFRAME. The internal development of the model allows for the risks of the portfolio to be more fully understood than it would be possible when using "off-the shelf" commercial risk systems. The tool allows us to assess the Fund's exposure to an extensive range of macroeconomic variables and to monitor and control the Fund's short and long term risk profile.

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

Hermes Quant Global Equity Fund (continued)

Performance Review

Performance over the year has been strong on a relative basis, with the Fund returning -4.0%, outperforming the MSCI World Index by 0.9%, with an ex-post information ratio of 1.4. Further, the Fund outperformed its benchmark in three out of four quarters during the year. The Fund follows a bottom up investment strategy and the effectiveness of this approach is evidenced by an analysis of the drivers of performance. Most of the Fund's excess return is attributable to superior stock selection skill with a smaller contribution originating from our sector and country allocation decisions.

Stock selection within the Financials, Technology and Utility sectors added the most value to the Fund. For example, holdings in Biogen Idec Inc., Nu Skin Enterprises Inc. and Humana were notable contributors. The best performing holding in the Fund was Chevron. The Fund's underweight holding in Financials, in particular European Banks, proved effective as these stocks performed poorly in 2011 and lagged most of the market.

The Fund's worst performing sector was Materials given the exposure to economically sensitive industrial metals rather than to defensive precious metals.

Outlook

With no firm solution to the Euro crisis we expect a prolonged period of economic instability and elevated equity market volatility. Reasons for optimism are becoming harder to find, with most economic commentators forecasting a difficult 2012 and some predicting a repeat of the 2008 financial crisis. Policy makers are running out of tools to stimulate growth and even if a full-blown recession can be avoided it is becoming increasingly likely that the Western economies will "do a Japan" and enter a multi-year depression. Some say that such a depression has already begun.

In these macro-driven markets the dispersion between stocks becomes smaller and there is less opportunity to add value, however we continue to see areas of the market where excess return can be generated. In volatile times investors favour high quality companies that can deliver sustainable growth and we expect this trend to continue.

While we agree that there are plenty of reasons to be negative, we are also mindful of the opportunities. Corporate balance sheets remain much stronger than in 2008 and profit margins remain high. Economic data from the US is beginning to improve and if combined with a robust solution to the Euro crisis this could prove the much needed catalyst to lead global equity markets higher in 2012.

**Hermes Investment Management Limited
January 2012**

Hermes UK Small & Mid Cap Companies Fund

Market Review

2011 was dominated by the escalation in the European sovereign debt crisis. What started as legitimate concerns over the solvency of Greece and a number of other peripheral countries within the Eurozone have escalated to levels calling into doubt the very survival of the currency area. As the crisis broadened and deepened to include Spain and Italy, fear grew over the funding and solvency of the Banking sector across the region and the outlook for economic growth. A series of political summits attended by European Union leaders were keenly anticipated by financial markets. But by and large, these meetings failed to meet expectations and the can was kicked further down the road. Risk assets rose and fell accordingly as the region appeared to become increasingly caught in a vicious spiral of low economic growth, increasing fiscal deficits and growing austerity measures, leading to yet lower economic growth.

UK equity markets started the year well but sold off as the year progressed. For 2011 as a whole, bigger was definitely better, the FTSE 100 Index declined by 2.2%, the FTSE 250 Index (ex-Investment Companies) by 10.3%, the FTSE Small Cap Index (ex-Investment Companies) by 15.3% and the FTSE AIM All-Share Index by 25.2%.

Investment Strategy

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

By being broadly sector neutral and controlling risk exposure, we aim to structure the Fund so that the majority of risk is stock specific. The steady, long term performers that we seek out are by nature relatively low risk stocks; this results in the portfolio being relatively low beta, i.e. having a small element of market risk in addition to stock risk.

During the highly volatile period of 2009, the stock market gyrated between fears of global financial collapse and subsequent relief that unprecedented fiscal and monetary stimulus had pulled the world out of economic freefall. The Fund adopted a new strategy of taking a number of index weight positions in high risk stocks in order to reduce the relative risk of the Fund, thereby keeping up with a strongly rising market. As volatility reduced in 2010 and 2011, we significantly reduced this 'completion portfolio'. However, its future role will be as a useful tool in our investment arsenal in order to adjust for any unintended factor exposures, for example sectors or size, resulting from our bottom up investment process. This will focus risk where it is intended to be taken, i.e. in stock positions.

Performance Review

The Fund significantly outperformed its benchmark over the year. The Fund declined by 4.3% compared to a decline in the composite benchmark of 10.8%, a relative outperformance of 7.4% over the year.

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

Hermes UK Small & Mid Cap Companies Fund (continued)

Performance Review (continued)

In terms of individual stock performance, notable positive contributors were, Hamworthy (+1.8%), the marine fluids handling engineering business that was subject to a takeover bid towards the end of the year, Holidaybreak (+1.8%), the education, leisure and activity holiday group agreed to a takeover offer for the business and RPC (+1.1%), a major European plastic packaging company that made great progress in improving profitability and augmented this with an earnings enhancing acquisition.

The most significant underperformers within the Fund were, Mothercare (-0.9%), which suffered from further evidence of the difficulties faced by management in turning around the performance of their UK stores, Robert Walters (-0.5%), the recruitment company that is seen as being highly exposed to the global economic outlook and Domino's Pizza (-0.5%) where the pizza franchise operator was unable to match previous levels of growth and the share price suffered a corresponding derating.

Outlook

As much of the developed world continues to grapple with the aftermath of the financial crisis, the contrasting forces of loose monetary policy, fiscal restraint and ongoing deleveraging suggests that economic growth will be, at best, muted. Until the fundamental problems of a highly indebted Banking sector, poor fiscal positions, large outstanding debts and a general lack of competitiveness across much of the Eurozone are addressed, financial markets will remain volatile. Sentiment towards equities is currently very depressed but therein lies the opportunity. It would not take much by way of incrementally positive news to improve sentiment to financial assets in general and equities look very attractive relative to other asset classes in offering a positive real income yield, unlike the yield that can currently be earned on cash or gilts. The dividend yield of the stock market is now almost 2% above the yield on 10-year gilts and with the continuing strength of free cash flow there is the expectation for cash returns in the form of dividends, share buybacks and special dividends to grow over time. An investment approach that seeks to invest in companies that demonstrate capital discipline and with sufficiently strong business models to grow earnings irrespective of the economic cycle should continue to deliver outperformance in an environment where income and growth in earnings will be hard to come by.

**Hermes Investment Management Limited
January 2012**

Hermes Investment Funds Public Limited Company

Investment Manager's Report (continued)

Hermes UK Smaller Companies Fund

Market Review

2011 was dominated by the escalation in the European sovereign debt crisis. What started as legitimate concerns over the solvency of Greece and a number of other peripheral countries within the Eurozone have escalated to levels calling into doubt the very survival of the currency area. As the crisis broadened and deepened to include Spain and Italy, fear grew over the funding and solvency of the Banking sector across the region and the outlook for economic growth. A series of political summits attended by European Union leaders were keenly anticipated by financial markets. But by and large, these meetings failed to meet expectations and the can was kicked further down the road. Risk assets rose and fell accordingly as the region appeared to become increasingly caught in a vicious spiral of low economic growth, increasing fiscal deficits and growing austerity measures, leading to yet lower economic growth.

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Investment Strategy

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By being broadly sector neutral and controlling risk exposure, we aim to structure the Fund so that the majority of risk is stock specific. The steady, long term performers that we seek out are by nature relatively low risk stocks; this results in the portfolio being relatively low beta, i.e. having a small element of market risk in addition to stock risk.

During the highly volatile period of 2009, the stock market gyrated between fears of global financial collapse and subsequent relief that unprecedented fiscal and monetary stimulus had pulled the world out of economic freefall. The Fund adopted a new strategy of taking a number of index weight positions in high risk stocks in order to reduce the relative risk of the Fund, thereby keeping up with a strongly rising market. As volatility reduced in 2010 and 2011, we significantly reduced this 'completion portfolio'. However, its future role will be as a useful tool in our investment arsenal in order to adjust for any unintended factor exposures, for example sectors or size, resulting from our bottom up investment process. This will focus risk where it is intended to be taken, i.e. in stock positions.

Performance Review

The Fund significantly outperformed its benchmark over the year. The Fund declined by 8.3% compared to a decline in the benchmark of 15.3%, a relative outperformance of 8.3% over the year, with stock selection the key driver.

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

Hermes UK Smaller Companies Fund (continued)

Performance Review (continued)

In terms of individual stock performance, notable positive contributors were, RPC (+1.8%), a major European plastic packaging company that made great progress in improving profitability and augmented this with an earnings enhancing acquisition; Innovation Group (+1.3%), a global provider of insurance software and business process outsourcer that signed several significant contracts over the year and Henry Boot (+0.9%) where the strong asset backing to the business provided support.

The most significant underperformers within the Fund were, Future (-1.5%) which suffered from a deterioration in its US magazine publishing division that lead to a restructuring of the business; Renovo (-1.1%) which had to stop the clinical trials of a key new drug in development and IP Group (-0.8%) an underweight position that weighed on performance over the period as the venture capital business announced a successful fund raising and significant positive developments in a number of portfolio companies.

Outlook

As much of the developed world continues to grapple with the aftermath of the financial crisis, the contrasting forces of loose monetary policy, fiscal restraint and ongoing deleveraging suggests that economic growth will be, at best, muted. Until the fundamental problems of a highly indebted Banking sector, poor fiscal positions, large outstanding debts and a general lack of competitiveness across much of the Eurozone are addressed, financial markets will remain volatile. Sentiment towards equities is currently very depressed but therein lies the opportunity. It would not take much by way of incrementally positive news to improve sentiment to financial assets in general and equities look very attractive relative to other asset classes in offering a positive real income yield, unlike the yield that can currently be earned on cash or gilts. The dividend yield of the stock market is now almost 2% above the yield on 10-year gilts and with the continuing strength of free cash flow there is the expectation for cash returns in the form of dividends, share buybacks and special dividends to grow over time. An investment approach that seeks to invest in companies that demonstrate capital discipline and with sufficiently strong business models to grow earnings irrespective of the economic cycle should continue to deliver outperformance in an environment where income and growth in earnings will be hard to come by.

**Hermes Investment Management Limited
January 2012**

Hermes Investment Funds Public Limited Company

Investment Manager's Report (continued)

Hermes Japan Equity Fund

Market Review

The Japanese stock market fell 11.9% in Sterling terms over the calendar year, yet this number belies another period of considerable volatility. Investors started the year in good spirits in January and February with positive economic news flow.

This, we will always remember, was tragically interrupted by the triple disaster of earthquake, tsunami and then nuclear explosion and fall out. This had a very significant impact on the domestic economy causing the deaths of some 20,000 people, the destruction of some 450 miles of coast line and repair costs of as much as JPY20 trillion.

The damage to electronic parts factories along the coast had a very serious impact on the global consumer and industrial electronics and auto industries. An attempt to rally in June was crushed in July with a collapse in confidence in Europe with regard to sovereign debt. Later in the autumn there were also concerns about a double dip recession in the US and how the Chinese economy would cope with its own rapidly slowing property market.

Investment strategy

The Fund's investment strategy is to position the Fund, based on a bottom up basis, wherever the best mix of quality and value lie. From inception this strategy has given the Fund a domestic bias. Sectors such as Telecommunication and Media, Financials and Land Transportation were overweight as a residual of this process.

Export dependent sectors of the market such as Electricals and Autos were very under represented for reasons of deteriorating fundamentals and relatively unattractive valuations. This domestic tilt was adjusted later in the year when ever- deteriorating sentiment presented interesting opportunities in more cyclical areas of the market such as steel, shipping and auto parts. New positions in Fuji Film, manufacturer of electronic materials and medical equipment, and Sumitomo Electric, a world leading supplier of wire harnesses for autos, were made in December. These are both companies with a good record of innovation in their sectors and are currently under estimated by the market.

Performance Review

Performance last year was strong in relative terms with the Fund declining 7.0%, thereby outperforming the Topix benchmark by 5.6%. Since inception the Topix benchmark has declined by an annualised 0.7% in Sterling terms. The Fund has gained 4.9% over the same period. This positions the Fund top decile against its peer group in the Lipper Japan universe for 2011 and since inception.

The Fund's returns came mainly from the three top sector exposures at the start of the year, namely Telecommunications, Land Transport and Oil. The top contributors to returns were from KDDI, Japan's second largest mobile carrier, West Japan Railway, a railway operator focusing on the West part of the main island, NTT, the largest land line carrier, and Inpex, an oil and gas explorer. Negative returns were mainly from the Fund's financial positions. The top losers included T&D, a life insurer, Tokio Marine and Fire, the largest non-life insurer, and Sumitomo Trust Bank, the largest trust bank in Japan.

The final quarter also saw a loss from a holding in the shipping company Mitsui OSK. Shipping rates are under pressure from new supply of tonnage over the next two years. The point of maximum new vessel delivery will come in the middle of 2012. Share prices of peer group companies in Europe have already started to stabilise.

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

Hermes Japan Equity Fund (continued)

Outlook

An examination of the outlook for the Japanese market must start with a view on the world economy as a whole. From this perspective investors have some grounds for more optimism now. Although the European debt crisis is not solved the latest move by the European Central Bank to target funding directly to troubled banks is likely to give markets some relief.

When combined with recent good news on US housing and employment, together with signs that China can manage a soft landing, confidence can be expected to rise for equity investors round the world.

Valuations in most equity markets are attractive and particularly so in Japan where Topix starts the year trading below 0.9x Price-to-Book value. This is clearly a very low absolute level, but is also way below where the market can be expected to be relative to the improved level of profitability in the economy.

For a convincing improvement in stock market levels, though, we will need to see bond yields higher and the Yen start to depreciate. At the point of writing this review markets are hinting at such an outcome. We shall see if this can be sustained. Valuations in some export sectors such as Auto and Electronics are now attractive and we would expect a broad range of industries, including Financials, to recover when the market moves higher.

**Hermes Investment Management Limited
January 2012**

Hermes Sourcecap European Alpha Fund

Market Review

What a difference a year makes! The contrast in mood from the start to the end of 2011 is striking. Investor confidence took a severe battering over the year, reflected in the performance of the markets. At the beginning of 2011 the mood of investors in Europe was positive, despite the issues in the periphery of the Eurozone. There were some encouraging signs that manufacturing output was growing and consumer consumption in the US and Asia, in particular, was strong, a positive sign for exports. This bullish outlook did not last for long, with the FTSE All-World Europe Index peaking in February. With the exception of a couple of bounces, the markets then beat a steady retreat until the beginning of August when the Eurozone crisis, that had been bubbling away unchecked beneath the surface, suddenly exploded into life as Italy came under intense scrutiny. This caused a dramatic fall in the European market, which was at one point over 26% down from its peak in Euro terms.

The markets only partially recovered with the FTSE World Europe (ex UK) Index ending the year 12.5% down, in Euro terms. Dithering by policy makers saw the Eurozone lurch from one crisis to another with emerging fears of the impending demise of the Euro and concerns about the financial sector frequently on the front pages of newspapers. There were several new purported rescue packages, as governments repeatedly took "decisive" action. The increasingly febrile situation culminated in frantic talks, which saw the UK veto the amendment to the existing treaty proposed by Germany and France. All other EU members agreed, some subject to parliamentary approval, as the Eurozone club agreed to abide by the German model of fiscal frugality.

Investment Strategy

The deepening gloom of last year was in stark contrast with the rising tide of optimism that prevailed in 2010 and which carried initially markets to post Credit-Crisis highs in February 2011; in these two distinct periods the European Alpha strategy outperformed due to good stock selection. Running through this disjointed time was a growing focus by investors on companies with visible and secure outlooks for profit growth, where the importance of healthy balance sheets and strong cash generation was increasingly rewarded in stock prices. It was an ideal environment for our approach and one that we consistently capitalised on for the benefit of clients.

Competitive advantage is a distinct opportunity in an era of austerity. Those managements who are capable of embracing change, and recognise that the paradigm for business success has shifted, will also be rewarded if they move the business they control to a higher return and better funded level, which is why it is not sufficient just to invest in historic success alone, but to also embrace positive corporate change as an opportunity too. This is why we have started to give more emphasis to share buy-backs in our investment thinking, as this can be a helpful part of the process of enhancing the reward flowing to shareholders.

Structurally, we believe that companies that are able to grow their revenues and deliver sustainable and attractive excess cash returns for shareholders over the real cost of capital will be in a sweet spot that will persist for many years to come due to the powerful forces at work in the broad global economy that favour them. If they also possess strong balance sheets and the ability to generate free cash flow, then so much the better, as that will give them the ability to invest in new products, research and development, and advertising and promotional spend to grab a higher share of the limited available growth opportunities. It also illustrates why companies with sound policies on Environmental, Sustainability and Governance issues will be rewarded in the longer term, as these will provide a good framework for sustaining financial returns. High quality companies are able to create, as Warren Buffet calls them, "effective economic moats" - barriers that keep them ahead of the competition, leading to superior growth generation

Performance Review

We have continued with our long-held strategy that favoured companies with strong franchise value, pricing power, healthy balance sheets and selling products that people want or need. This again proved to be successful with the Fund outperforming the FTSE All-World Europe Index by 8.9% in Sterling terms during 2011. The healthy relative performance over the year has taken the excess return of the Fund since inception to 8.0% per annum, again in Sterling.

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

Hermes Sourcecap European Alpha Fund (continued)

Performance Review (continued)

Overall, value was added in 9 out of the 10 sectors, with both stock and sector selection contributing to relative returns. Stock selection, including currency effects, was the overwhelming source of the outperformance. Currency added 26bps to overall relative performance with the main contributions coming from the marginal overweight position in sterling, the underweight position in the Euro and by virtue of not holding Turkish Lira and Polish Zloty. The main detractors came from the underweight stance in the Swiss Franc and the overweight positions in Swedish Krona and Norwegian Kroner.

Value was added due to sector allocation in 5 out of the 10 sectors, with the main gains coming from the underweight positions in Financials and Industrials and the overweight stance in Healthcare. The most significant detractors came from the overweight stance in Materials.

Stock selection, including currency effects, added value in 7 out of 10 sectors, with the most significant contributions coming from Materials, Consumer Discretionary, Telecoms and Financials. The only significant detractor came from Healthcare stocks.

The largest individual stock contributions came from Randgold, Swedish Match, Pearson, British American Tobacco and Vodafone. The biggest detractors came from Lonmin, Xstrata and Petroleum Geo-Services.

Outlook

What we will witness, not just in Europe, but also in the rest of the developed world is diverging stock and market performance reflecting the widening cost of capital in each country and the differing strength of company balance sheets and cash flow. In a deleveraging and more austere world, balance sheets and free cash flow becomes ever more paramount when analysing and valuing companies. We have said for a long time that the strong will get stronger and the weak will get weaker, and that will be reflected in their respective valuations. Dwelling excessively on simple historic financial multiples for the appropriate frame of reference for valuing a stock will prove to be sub-optimal.

We have never pretended to know where the market will go in any one year and it is refreshing to see a few commentators joining our camp. Our approach has always been based on assessing the opportunities at the stock level primarily, and letting the market do its own thing. The majority of strategists, however, continue to vainly forecast what various assets will do over the next 12 months with a spurious sense of accuracy and confidence. Given the complexity and size of the challenges for the developed world, even before you start to add in geopolitical concerns, there are multiple outcomes to factor in, and, hand on heart, we cannot claim to know those outcomes with any precision. For now, we anticipate that central bankers will continue to provide abundant liquidity to the system and push for inflation over deflation, though the size of the deleveraging going on in the world, and the fiscal austerity of governments, could mean that deflation becomes a concern once again. In either a deflationary or inflationary world pricing power and balance sheet flexibility remain important characteristics that we will still emphasise in portfolios.

What we will focus on is identifying which companies will prosper and which will suffer, as this is an area where we have a definite insight. The diverging fundamentals between so many parts of the universe provides a wonderful environment for stock picking, as was demonstrated amply in 2011. This means that taking a purely beta approach to investing is futile when market volatility is elevated. An investment approach based on an individual companies fundamental merits has never been so important and will remain the cornerstone of our investment approach for the year we have just entered.

**Hermes Investment Management Limited
January 2012**

Hermes Global High Yield Bond Fund

Market Review

The DJ Stoxx 600 Index closed 11.3% lower in 2011, underperforming the S&P 500 Index (+3.3%) and FTSE 100 Index (-3.1%) on a Euro basis. The US outperformance was also seen in the credit market where US High Yield returned 4.3%, whilst European High Yield returned -1.1%.

Risk markets in 2011 typically moved sideways over the first half of the year, except for a brief spike in volatility in March as a result of the earthquake in Japan and the following backdrop of the Arab Spring. The earthquake in Japan brought fear to the market as a result of its real impact on global supply chains and confidence. The backdrop of the Arab Spring brought the risk of potentially rising oil prices and risk to global growth. We then witnessed markets decline significantly in the third quarter as investors made a major reassessment of risk after S&P downgraded the US sovereign debt rating, and as events surrounding Europe's sovereign debt crisis intensified.

The final quarter of the year closed higher with the DJStoxx 600 Index up by 8.1% despite a flurry of political events, including various EU summits, the surprising call by then Greek Prime Minister Papandreou for a referendum on the €130bn bailout package, contagion concerns surrounding Italy, and the US Q3 Gross Domestic Product growth being reduced to 2% from 2.5%. Some positive news came from the US Fed and five other major central banks announcing a coordinated effort to ease dollar funding pressures, and from China making the first cut in its reserve requirement ratio since 2008.

Investment Strategy

The Fund continues to look for alpha opportunities, leveraging on the research teams' fundamental views implemented through stock selection. We will also tactically employ alternative strategies such as pairs, curves and event trades to diversify our sources of alpha, all the time managing our market beta through derivative index instruments and high beta benchmark' names.

In the second half of the year, we looked to reduce further our allocation to CCC credit rated holdings, for example Berry Plastics, cyclical credit, for example Kinove and to credits exposed to the consumer, particularly in the UK, for example Dixons, ITV and Marks & Spencer. We continue to add to special situation credits, for example Tui Travel and Cemex, as well as further increasing our positions in less cyclical sectors such as Energy and Utilities where we took positions in NRG, Chesapeake, Calpine and WPX.

Our core positions remain in companies offering sound fundamentals including their ability to generate free cash flow and demonstrate conservative balance sheet management. As important in our investment process is that such opportunities offer appropriate returns when looked at from a relative value standpoint.

Performance Review

The Fund returned -1.9% in 2011, underperforming the benchmark, the Merrill Lynch Global High Yield Constrained 2% ex Financials Index, by 3.0%. The underperformance was driven by the favouring of single B credits over BBs, our overweight in European High Yield versus US High Yield and stock selection, particularly in peripheral Europe.

Our positions in Wind Lottomattica and Fiat Industrials were all hurt by Italian Sovereign contagion. This was offset somewhat by our underweight to CCC credits and our decision to underweight some Cyclical sectors such as Technology & Electronics, as well as Consumer Non-Cyclical sectors. These areas of the market did not perform well due to limited equity cushions and declining operational performance throughout the year. Weak end demand and margin squeeze from input costs were constant headwinds for producers. In addition, we experienced positive performance from stock picks such as RHA and FMG.

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

Hermes Global High Yield Bond Fund (continued)

Performance Review (continued)

Liquidity levels in the market remained very poor, and as such our trading volumes decreased as the year progressed, reflecting the increase in transaction costs associated with positional change.

Outlook

In 2012 we continue to be constructive about the fundamental prospects for most 'risk assets' including credit. As we head into earnings season, there is increased concern over companies' outlook, however, we believe that markets have discounted this to a large extent.

Support for credit markets will come from conservative balance sheet positioning, gradual economic recovery and superior relative valuations. A bottoming out of fund flows is expected given valuations and this, coupled with a lack of dealer inventory, will lead to excellent technical conditions.

Based on where default rates are priced and forecast, we still think that the market's present value is essentially based on valuation and companies' credit metrics. However, we also anticipate normal to increased levels of volatility and therefore expect an ongoing ability to outperform by stock selection. We will look to take advantage of this volatility as it creates mispricing of sectors, ratings categories, country categories and individual securities. Risk now centres on the ongoing EU sovereign debt crises, the anaemic US economic recovery and the sustainability of GDP growth in China.

**Hermes Investment Management Limited
January 2012**

Hermes Investment Funds Public Limited Company

Investment Manager's Report (continued)

Hermes Global Investment Grade Fund

Market Review

The DJ Stoxx 600 Index closed 11.3% lower in 2011, underperforming the S&P 500 Index (+3.3%) and FTSE 100 Index (-3.1%) on a Euro basis. The US outperformance was also seen in the credit market where US Investment Grade returned 9.2%, whilst European Investment Grade returned 2.0%. Movement in rates have been significant. While US 10 Year Treasury (Y) and German 10Y tightened by respectively 145bps and 113bps, peripheral European rates have suffered major repricing with Italian 10Y widening by 225bps.

Risk markets in 2011 typically moved sideways in the first half of the year, except for a brief spike in volatility in March as a result of the earthquake in Japan and following the backdrop of the Arab Spring. The earthquake in Japan brought fear to the market as a result of its real impact on global supply chains and confidence. The backdrop of the Arab Spring brought the risk of potentially rising oil prices and risk to global growth. We then witnessed markets decline significantly in the third quarter as investors made a major reassessment of risk after S&P downgraded the US sovereign debt rating, and events surrounding Europe's sovereign debt crisis intensified. Banks funding conditions have been greatly affected by these circumstances and markets have been questioning the value of their holdings.

The final quarter of the year closed higher with the DJStoxx 600 Index up by 8.1% despite a flurry of political events, including various EU summits, the surprising call by then Greek Prime Minister Papandreou for a referendum on the €130bn bailout package, contagion concerns surrounding Italy, and the US Q3 Gross Domestic Product growth being reduced to 2% from 2.5%. Some positive news came from the US Fed and five other major central banks announcing a coordinated effort to ease dollar funding pressures, and from China making the first cut in its reserve requirement ratio since 2008. The ECB also took a number of actions and put in place various programs to improve the funding market. However, Financials remained an area of underperformance.

Based on Option Adjusted Spread, the benchmark, the Merrill Lynch Global Corporate Investment Grade ex Sub Financial Debt Index, has also been very volatile. While it has moved sideways during the first half of the year within a range of 120bps to 140bps, it widened strongly during the summer and peaked at 230bps. It then experienced a relief rally before getting back to its widest level of the year. Year end posted a moderate tightening.

Investment Strategy

The Fund continues to look for alpha opportunities, leveraging on the research team's fundamental views implemented through stock selection. We will also tactically employ alternative strategies such as pairs, curves and event trades to diversify our sources of alpha, all the time managing our market beta through derivative index instruments and high beta 'benchmark' names.

The Fund had very limited beta bets over the year. We gradually increased the Fund beta through the summer and reduced it in late October early November.

We also recalibrated our geographical balance to increase idiosyncratic exposures in US credits over the year as we considered that they were more rewarding compared to the volatility taken on their European peers.

Hermes Global Investment Grade Fund (continued)

Investment Strategy (continued)

Given the extreme volatility experienced over the last two quarters, we had to recalibrate certain picks and rebalance them versus our conviction level, for example with OTE and Wind Acquisitions. We kept most of our top picks and core positions, accepting the marked to market volatility based on the assumption that the market will normalise for example with the Italian 2013 bonds and Spanish short. Given the mispricing between the liquid positions we owned and the illiquid part of the benchmark, we have been cautious in our rightsizing of positions.

The increased dispersion also generated some attractive moves in relative value within sectors and issuers which have a good potential for performance when the market reaches historic levels of volatility.

We have also been active on our Cyclical versus Non-Cyclical allocation. Through Q3 and Q4 we have been aggressively long Non-Cyclicals over short Cyclical. On peripheral Europe, we kept very idiosyncratic issuers over benchmark issuers where the alpha generation was nonexistent.

In Financials, barbell trades were kept. We kept to our core investment thesis over the year, long US Financial sector over the European and within Europe, long core, via high beta securities, over short of the rest of the tight senior market. We also did a number of trades around French and UK Financials, benefiting from the change in relative value.

Performance Review

The Fund returned 3.5% in 2011, slightly underperforming the benchmark by 0.2%. Q1 and Q2 had a slightly negative contribution as FX and movements in sovereign yields have greatly dominated investment grade credit spreads and overwhelmed our stock selection and sector allocation. In Q3, as a result of our stock picking process, the Fund had a bias towards European and high beta credits, which are negatively correlated to volatility, therefore posting a slight underperformance. Q4 was by far our best quarter where most of our key high conviction trades performed including Spanish banking shorts, a rally in the front end of the Italian Banking trades, a rebound on US Financials valuation versus European peers and strong performance of our off-benchmark high beta trades. We also managed to book most of our profit during the rally.

Liquidity levels in the market have remained very poor, and as such our trading volumes decreased as the year progressed, reflecting the increase in transaction costs associated with positional change.

Outlook

We think politics are likely to continue to drive market sentiment. In 2012 a number of major countries have elections which may have significant implications on the European sovereign situation. The ECB's role is also likely to evolve. Ultimately, we think it will act as a lender of last resort and will conduct quantitative easing upon market conditions.

While we do think that the economic situation in the US is likely to stabilise, and greatly outperform Europe, we do not think the current decoupling in valuation will last.

Hermes Global Investment Grade Fund (continued)

Outlook (continued)

Recent programs put in place by the ECB, including the Long Term Refinancing Operation and the Main Refinancing Operation, show the commitment to have a fairly supportive attitude toward the banking system in the short to medium term. We think it should lead to a brutal steepening of the credit curve in the European Banking sector as it addresses most of the short term financing issues. However, it does not help the medium term capital issue as we think problematic large recapitalisations are still ahead of us. We are still fairly confident in the US banking system as we think its valuation will benefit from a stabilisation of the US macro-economic figures.

Rating agencies are likely to remain in the spotlight as further sovereign downgrades, coupled with significant refinancing from peripheral Europe needed in this coming quarter, will bring additional volatility and put the market under pressure. 2011 demonstrated that sovereign valuation stresses contaminated national issuer credit spread curves.

On a corporate level, we are very comfortable with the majority of Investment Grade corporate balance sheets. Liquidity and maturity profiles are adequate and most of them seem well prepared for a reduced economic level. Bank financing has historically been the standard, however, with banks limiting their credit distribution, corporates are likely to be more reliant on the bond market. This will bring more diversification and potential interesting premium to the primary market.

In the short term, we maintain constructive views, while the investor consensus is very bearish; a view that seems greatly overdone for the time being.

Hermes Investment Management Limited
January 2012

Hermes Commodities Index Fund II

Market Review

The Fund's benchmark, the DJ UBS Commodity Index (Index), fell by 13.2% in 2011 in US Dollar terms as all sectors, led by natural gas, and bar precious metals, yielded negative returns for the year. 2011 started strongly, however it became a year shaped by events, both natural and human, and with varying effects on the world markets. From the tragic Tōhoku earthquake in Japan, to the Arab spring, the US debt ceiling impasse and the European sovereign debt crisis, so called 'tail risk' events were very prevalent throughout the year. The commodity markets were affected in often varying ways, as a whole and between sectors, as each event unfurled and this shows through the various sector returns for the year.

The energy sector fell by 16.0%, with all gains from the only positive returning constituents in the sector, Brent crude, heating oil and gasoline being wiped out by the decline in natural gas by 47.1%. Brent crude oil was the best performing commodity of the Index in 2011, up 16.8%. It performed strongly as geopolitical risk combined with strong Emerging Market demand and an increase in Japanese power generation demand saw inventories drawn down and OPEC spare capacity narrowed. The US refined products also performed strongly with gasoline and heating oil up by 14.5% and 10.7% respectively as demand, for middle distillates especially, remained robust, whilst tight levels of inventory outside of the US saw imports into the country decline. WTI crude oil diverged wildly from the rest of the petroleum complex as supply in the mid continent rocketed, whilst existing pipeline infrastructure with the US could not move oil away quickly enough to prevent inventory builds through the first half of the year. Natural gas was the worst performing commodity of the Index as supply continued to surprise to the upside for the third year running.

After a strong start to 2011 with many constituents rising to post 2008 highs, the base metals -24.2% return was the worst performer of the Index. The metals were susceptible to increasingly negative economic outlooks which saw consumers drawing down inventory and operating in a 'hand-to-mouth' fashion as expectations for future growth were slashed lower. The precious metals benefited from the negative sentiment, as gold's 9.6% return nearly offset silver's 10.1% fall, with the sector finishing the year up by 4.6%.

Agricultural commodities had a volatile year wherein the sector lost 14.4%. After trading to all-time highs in June, corn was the only sector constituent to finish the year in positive territory, +1.1% as the US stocks-to-use ratio remained very tight on a historical basis. World supply for the other grains rebounded through the second half of the year to a sufficient extent to see soybeans and wheat, the worst performing in the sector, down 16.3% and 34.0% respectively.

The livestock sector was quiet in comparison, losing 2.3%. Both live cattle and the lean hogs' decline of 1.0% and 4.6% respectively, was a factor of the cost of rolling the futures contracts with both producing a positive spot return which was insufficient to overcome this cost.

Investment Strategy

The Fund aims to deliver a return comparable to the total return of the Index, net of all fees and costs, while maintaining a similar volatility.

As the Fund seeks to replicate the performance of the Index, the Fund will therefore seek to gain exposure to all of the components of the Index in substantially the same weighting as the Index and consequently, the Fund will have an indirect exposure to the commodities to which the components of the Index give exposure.

Hermes Investment Funds Public Limited Company

Investment Manager's Report (continued)

Hermes Commodities Index Fund II (continued)

Performance Review

The Fund produced a return in Sterling terms of -15.2% compared to a benchmark return of -15.3% since the Fund's inception. By year end the Fund had \$58.1 million in notional exposure to commodity swaps of which \$29.2 million was in enhanced index swap strategies. Since Fund inception the enhanced index swap strategies contributed 20 bps to performance. The collateral management outperformance was 15.9 bps. On a gross basis the Fund outperformed the benchmark by 22 bps.

At the end of 2011, HCIF II was invested in four enhanced index swap products with the aim of mitigating Fund costs. These enhanced strategies seek to outperform the Index by rolling the underlying front month futures positions outside the standard index roll period of business days 5 to 9.

The best performing strategy was the bespoke Multi-Roll strategy which rolls agriculture, precious metals and industrial metals prior to the standard roll and the energy sector after the standard roll; livestock is rolled as per the standard roll dates of business days 5 to 9. This strategy added 5.1 bps of outperformance to the Fund.

Outlook

Whilst the macro economic picture remains uncertain some optimism does remain, albeit unevenly distributed along geographical lines. The Eurozone looks set to remain weak as fiscal austerity with the aim of reducing budget deficits across the continent becomes the main policy focus. Outside of Europe, the US is slowly making progress despite some US politicians who are seemingly intent on making this very difficult. We expect the Emerging Markets to continue to drive global growth through 2012. With this more sanguine outlook in mind, commodity markets have begun to trade more closely to underlying fundamentals. We expect shocks to the system again in 2012, although we see less of a risk of a highly correlated 'risk on/off' trading that dominated 2011.

Crude oil has been buffeted by further geopolitical concerns through the first week of 2012 as Iran ratchets up threatening rhetoric in the face of stricter sanctions from the US. Europe's delay in imposing sanctions should release some of the risk premium built into the markets. This will also give to markets time to shift oil trade flows gradually with China taking a greater share of Iranian oil, and probably at a discounted price, and Saudi Arabia and the UAE sending more crude oil to Europe. The return of around 1mb/d from Libya to the market should further help alleviate extreme tightness and weaken prompt spreads, however the potential for upside price spikes remain.

WTI crude oil continues to see good supply growth as documented by the Bakken fields producing over 500kb/d in November 2011. Furthermore, Canadian production continues to ramp up and prices of Canadian synthetic crude have fallen beneath those of WTI for the first time since January 2011. The reversal of the Seaway pipeline at the end of the first quarter will allow crude oil to flow from land-locked Cushing to the Gulf coast. We expect to see crude spreads tighten again and dynamics within the US oil market start to change as the bottleneck at Cushing starts to dissipate.

We anticipate that refined products will remain supported through 2012 as supply remains constrained in both Europe and the US. However, we maintain a bearish stance towards natural gas as supply continues to grow versus demand, which through the 2011/12 winter has been very weak with inventory carry-out now expected to hit record levels.

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

Hermes Commodities Index Fund II (continued)

Outlook (continued)

Until more confidence is engendered in the global economic system we expect the base metals to continue to trade around their marginal cost of production, with copper being the exception. However, policy loosening in China has the potential to support the complex with the Chinese expected to restock at some point over the next year. In this scenario we would expect copper to be the upside leader of the complex as the supply and demand balance remains tight.

Agricultural commodities should see large supply responses through 2012, particularly across the grains. We still see the current supply situation in corn and soybeans as tight and expect prices to be supported into the end of the season as adverse South American weather hurts production, pushing more of an export focus back into the US crops. Current pricing ratios should see more corn planted in the US than ever before, predominantly at the expense of soybeans. We continue to see the global supply response in sugar and cotton as sufficient to lower prices.

**Hermes Investment Management Limited
January 2012**

Hermes Sourcecap Europe Ex-UK Fund

Market Review

What a difference a year makes! The contrast in mood from the start to the end of 2011 is striking. Investor confidence took a severe battering over the year, reflected in the performance of the markets. At the beginning of 2011 the mood of investors in Europe was positive, despite the issues in the periphery of the Eurozone. There were some encouraging signs that manufacturing output was growing and consumer consumption in the US and Asia, in particular, was strong, a positive sign for exports. This bullish outlook did not last for long, with the FTSE All-World Europe Index peaking in February. With the exception of a couple of bounces, the markets then beat a steady retreat until the beginning of August when the Eurozone crisis, that had been bubbling away unchecked beneath the surface, suddenly exploded into life as Italy came under intense scrutiny. This caused a dramatic fall in the European market, which was at one point over 26% down from its peak in Euro terms.

The markets only partially recovered with the FTSE World Europe (ex UK) Index ending the year 12.5% down, in Euro terms. Dithering by policy makers saw the Eurozone lurch from one crisis to another with emerging fears of the impending demise of the Euro and concerns about the Financial sector frequently on the front pages of newspapers. There were several new purported rescue packages, as governments repeatedly took "decisive" action. The increasingly febrile situation culminated in frantic talks, which saw the UK veto the amendment to the existing treaty proposed by Germany and France. All other EU members agreed, some subject to parliamentary approval, as the Eurozone club agreed to abide by the German model of fiscal frugality.

Investment Strategy

The deepening gloom of last year was in stark contrast with the rising tide of optimism that prevailed in 2010 and which carried initially markets to post Credit-Crisis highs in February 2011; in these two distinct periods the European Alpha strategy outperformed due to good stock selection. Running through this disjointed time was a growing focus by investors on companies with visible and secure outlooks for profit growth, where the importance of healthy balance sheets and strong cash generation was increasingly rewarded in stock prices. It was an ideal environment for our approach and one that we consistently capitalised on for the benefit of clients.

Competitive advantage is a distinct opportunity in an era of austerity. Those managements who are capable of embracing change, and recognise that the paradigm for business success has shifted, will also be rewarded if they move the business they control to a higher return and better funded level, which is why it is not sufficient just to invest in historic success alone, but to also embrace positive corporate change as an opportunity too. This is why we have started to give more emphasis to share buy-backs in our investment thinking, as this can be a helpful part of the process of enhancing the reward flowing to shareholders.

Structurally, we believe that companies that are able to grow their revenues and deliver sustainable and attractive excess cash returns for shareholders over the real cost of capital will be in a sweet spot that will persist for many years to come due to the powerful forces at work in the broad global economy that favour them. If they also possess strong balance sheets and the ability to generate free cash flow, then so much the better, as that will give them the ability to invest in new products, research and development, and advertising and promotional spend to grab a higher share of the limited available growth opportunities. It also illustrates why companies with sound policies on Environmental, Sustainability and Governance issues will be rewarded in the longer term, as these will provide a good framework for sustaining financial returns. High quality companies are able to create, as Warren Buffet calls them, "effective economic moats" - barriers that keep them ahead of the competition, leading to superior growth generation.

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

Hermes Sourcecap Europe Ex-UK Fund (continued)

Performance Review

The Fund has returned +3.03% vs the FTSE All-World Europe Index (ex UK) return of 3.27% in Sterling terms since its launch during December 2011.

Outlook

What we will witness, not just in Europe, but also in the rest of the developed world is diverging stock and market performance reflecting the widening cost of capital in each country and the differing strength of company balance sheets and cash flow. In a deleveraging and more austere world, balance sheets and free cash flow becomes ever more paramount when analysing and valuing companies. We have said for a long time that the strong will get stronger and the weak will get weaker, and that will be reflected in their respective valuations. Dwelling excessively on simple historic financial multiples for the appropriate frame of reference for valuing a stock will prove to be sub-optimal.

We have never pretended to know where the market will go in any one year and it is refreshing to see a few commentators joining our camp. Our approach has always been based on assessing the opportunities at the stock level primarily, and letting the market do its own thing. The majority of strategists, however, continue to vainly forecast what various assets will do over the next 12 months with a spurious sense of accuracy and confidence. Given the complexity and size of the challenges for the developed world, even before you start to add in geopolitical concerns, there are multiple outcomes to factor in, and, hand on heart, we cannot claim to know those outcomes with any precision. For now, we anticipate that central bankers will continue to provide abundant liquidity to the system and push for inflation over deflation, though the size of the deleveraging going on in the world, and the fiscal austerity of governments, could mean that deflation becomes a concern once again. In either a deflationary or inflationary world, pricing power and balance sheet flexibility remain important characteristics that we will still emphasise in portfolios.

What we will focus on is identifying which companies will prosper and which will suffer, as this is an area where we have a definite insight. The diverging fundamentals between so many parts of the universe provide a wonderful environment for stock picking, as was demonstrated amply in 2011. This means that taking a purely beta approach to investing is futile when market volatility is elevated. An investment approach based on an individual company's fundamental merits has never been so important and will remain the cornerstone of our investment approach for the year we have just entered.

**Hermes Investment Management Limited
January 2012**

**Hermes Investment Funds Public Limited Company
Custodian's Report to the Shareholders
For the year ended 31 December 2011**

We have enquired into the conduct of Hermes Investment Funds Public Limited Company ('the Company') for the year ended 31 December 2011, in our capacity as Custodian to the Company.

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

Responsibilities of the Custodian

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

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

Basis of Custodian Opinion

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

Opinion

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

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



**Northern Trust Fiduciary Services (Ireland) Limited
23 April 2012**

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

We have audited the financial statements of Hermes Investment Funds Public Limited Company (the "Company") for the year ended 31 December 2011, which comprise the Balance Sheet, the Income Statement, the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares, the Cash Flow Statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditor

The Directors are responsible for preparing the Annual Report, including as set out in the Statement of Directors' Responsibilities, the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union and are properly prepared in accordance with Irish statute comprising the Companies Acts 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011.

We also report to you whether in our opinion: proper books of account have been kept by the Company and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the Company's Balance Sheet and Income Statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Investment Manager's Report, the Custodian's Report to the Shareholders, the Portfolio Statements and the Unaudited Schedule of Significant Portfolio Movements. Our responsibilities do not extend to other information.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

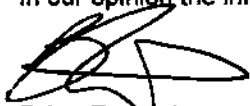
Opinion

In our opinion the financial statements;

- give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the affairs of the Company as at 31 December 2011 and of the loss for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Company's Balance Sheet and its Income Statement are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.



Brian Forrester
For and on behalf of Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

28/4/12

Hermes Investment Funds Public Limited Company
Portfolio Statement
As at 31 December 2011

Hermes Global Emerging Markets Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities: 92.57% (2010: 92.41%)			
Bermuda: 0.00% (2010: 0.38%)			
Brazil: 16.33% (2010: 14.94%)			
250,800	Banco Bradesco	2,670,223	1.52
425,300	Banco do Brasil	3,489,729	1.99
194,400	Banco do Estado do Rio Grande do Sul	1,348,366	0.77
139,870	Bradespar	1,529,917	0.87
224,100	Cia Paranaense de Energia	3,023,243	1.72
386,404	Cosan Class A	2,734,498	1.56
138,300	M Dias Branco	2,283,505	1.30
176,600	Mahle-Metal LevelIndustria e Comercio	2,591,898	1.48
1,125,994	PDG RealtyEmpreendimentos e Participacoes	2,303,932	1.31
81,055	Petroleo Brasileiro ADR	1,302,941	0.74
168,667	Petroleo Brasileiro ADR Preference	2,562,900	1.46
203,761	Vale ADR	2,827,268	1.61
Total Brazil		28,668,420	16.33
Canada: 3.13% (2010: 2.35%)			
191,232	IAMGOLD	1,956,009	1.11
84,155	Pacific Rubiales Energy	998,457	0.57
267,012	Yamana Gold	2,540,751	1.45
Total Canada		5,495,217	3.13
Cayman Islands: 1.34% (2010: 0.93%)			
81,132	Netease.com ADR	2,353,820	1.34
Total Cayman Islands		2,353,820	1.34
Chile: 1.00% (2010: 0.00%)			
60,969	Empresa Nacional de Electricidad ADR	1,747,549	1.00
Total Chile		1,747,549	1.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities (continued)			
China: 5.96% (2010: 2.59%)			
1,767,893	China Life Insurance	2,823,688	1.61
316,108	China Real Estate Information ADR	822,016	0.47
821,618	China Vanke	515,201	0.29
357,000	CNOOC	403,720	0.23
26,561	CNOOC ADR	3,001,622	1.71
433,865	Shanda Games ADR	1,094,556	0.62
5,579,183	Shengli Oil & Gas Pipe	362,391	0.21
4,290,000	Travelsky Technology	1,436,136	0.82
Total China		10,459,330	5.96
Cyprus: 0.77% (2010: 0.00%)			
154,619	Globaltrans Investment GDR	1,354,254	0.77
Total Cyprus		1,354,254	0.77
Czech Republic: 1.22% (2010: 0.00%)			
85,000	CEZ	2,149,492	1.22
Total Czech Republic		2,149,492	1.22
Egypt: 0.00% (2010: 1.54%)			
Hong Kong: 11.12% (2010: 5.33%)			
9,892,000	AMVIG	3,377,382	1.92
13,376,000	C C Land	1,603,987	0.91
2,438,000	China Merchants International	4,578,175	2.61
900,520	China Mobile	5,688,020	3.25
5,076,000	China Pharmaceutical	722,820	0.41
1,102,000	China Resources Power	1,367,351	0.78
13,614,000	Franshion Properties China	1,689,212	0.96
1,655,500	Kingboard Laminates	488,028	0.28
Total Hong Kong		19,514,975	11.12
Hungary: 0.00% (2010: 1.38%)			

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)		Fair Value	% of Net
Nominal	Financial assets at fair value through profit or loss	£	Assets
Holding			
Equities (continued)			
India: 3.59% (2010: 4.03%)			
169,640	Bank of Baroda	1,356,686	0.77
109,890	Bharat Electronics	1,811,086	1.03
58,318	CMC	564,035	0.32
326,171	Housing Development Finance	2,575,556	1.47
Total India		6,307,363	3.59
Indonesia: 1.21% (2010: 2.12%)			
4,410,500	Bank Rakyat Indonesia Persero	2,123,844	1.21
Total Indonesia		2,123,844	1.21
Ireland: 1.15% (2010: 0.00%)			
4,382,875	Kenmare Resources	2,015,684	1.15
Total Ireland		2,015,684	1.15
Israel: 0.00% (2010: 0.47%)			
Malaysia: 2.57% (2010: 1.01%)			
5,784,427	Genting Malaysia	4,509,029	2.57
Total Malaysia		4,509,029	2.57
Mexico: 2.97% (2010: 2.93%)			
193,928	America Movil ADR	2,835,095	1.62
212,600	El Puerto de Liverpool SAB De	989,393	0.56
394,158	Kimberly-Clark de Mexico	1,378,023	0.79
Total Mexico		5,202,511	2.97
Nigeria: 0.83% (2010: 0.00%)			
30,258,528	Zenith Bank	1,456,541	0.83
Total Nigeria		1,456,541	0.83

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Philippines: 0.00% (2010: 0.47%)			
106,486	Ayala - Preferred	1,571	0.00
Total Philippines		1,571	0.00
Republic of South Korea: 11.90% (2010: 15.35%)			
77,718	Daewoong Pharmaceutical	1,261,205	0.72
165,270	Hana Financial Group	3,294,492	1.88
110,353	Korea Investment	2,249,349	1.28
3,856	Samsung Electronics	2,290,809	1.31
9,792	Samsung Electronics - Preferred	3,667,443	2.09
42,749	Samsung Fire & Marine Insurance	5,052,940	2.88
97,246	Youngone	3,057,918	1.74
Total Republic of South Korea		20,874,156	11.90
Russia 5.86% (2010: 10.61%)			
420,777	Gazprom ADR	2,901,535	1.65
505,528	Rosneft Oil GDR	2,155,010	1.23
2,078,031	Sberbank of Russia	3,295,746	1.88
73,523	Sberbank of Russia ADR	470,606	0.27
134,679	Sistema JSFC GDR	1,456,648	0.83
Total Russia		10,279,545	5.86
South Africa: 6.05% (2010: 7.86%)			
63,852	AngloGold Ashanti	1,746,953	1.00
292,795	Mr Price	1,866,434	1.06
338,373	MTN	3,878,768	2.21
101,648	Sasol	3,130,181	1.78
Total South Africa		10,622,336	6.05

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities (continued)			
Taiwan: 7.50% (2010: 10.15%)			
5,195,758	China Life Insurance	2,719,519	1.55
5,479,912	Greatek Electronics	2,803,859	1.60
2,961,600	Hon Hai Precision Industry	5,238,824	2.99
1,494,400	Nan Ya Printed Circuit Board	1,963,446	1.12
617,000	Tong Yang Industry	428,396	0.24
Total Taiwan		13,154,044	7.50
Thailand: 3.89% (2010: 2.87%)			
676,095	Bangkok Bank Receipt	2,113,960	1.20
8,043,201	LPN Development Receipt	2,110,854	1.20
401,363	PTT Receipt	2,608,650	1.49
Total Thailand		6,833,464	3.89
Turkey: 1.27% (2010: 3.37%)			
104,667	Tupras Türkiye Petrol Rafinerileri	1,423,695	0.81
874,779	Yapi ve Kredi Bankasi	800,251	0.46
Total Turkey		2,223,946	1.27
United Kingdom: 1.47% (2010: 0.73%)			
583,272	Allied Gold Mining	816,581	0.47
1,536,055	Petra Diamonds	1,751,103	1.00
Total United Kingdom		2,567,684	1.47
United States: 1.44% (2010: 1.00%)			
78,013	Sohu.com	2,523,223	1.44
Total United States		2,523,223	1.44
Total Equities		162,437,998	92.57

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Collective Investment Schemes: 1.42% (2010: 0.00%)			
United States: 1.42% (2010: 0.00%)			
156,201	Market Vectors Junior Gold Miners ETF	2,495,740	1.42
Total United States		2,495,740	1.42
Total Collective Investment Schemes		2,495,740	1.42
Financial Derivative Instruments			
Warrants: 2.55% (2010: 3.82%)			
Bermuda: 1.31% (2010: 1.34%)			
661,000	Ping An Insurance Group	2,305,440	1.31
Total Bermuda		2,305,440	1.31
India: 0.00% (2010: 1.66%)			
Qatar: 0.64% (2010: 0.00%)			
75,592	Commercial Bank of Qatar	1,123,479	0.64
Total Qatar		1,123,479	0.64
United Kingdom: 0.60% (2010: 0.82%)			
224,548	Godrej Consumer Products	1,048,385	0.60
Total United Kingdom		1,048,385	0.60
Total Warrants		4,477,304	2.55
Total Futures 0.00% (2010: 0.10%)			
Total Financial Derivative Instruments: 0.00% (2010: (0.12%))			

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Emerging Markets Fund (continued)		
	Fair Value £	% of Net Assets
Financial assets at fair value through profit or loss		
Total financial assets at fair value through profit or loss (2010: 96.21%) (Cost: GBP 175,815,489)	169,411,042	96.54
Cash at bank (2010: 3.6%)	5,997,927	3.42
Other Net Assets (2010: 0.19%)	71,135	0.04
Net assets attributable to holders of redeemable participating shares	<u>175,480,104</u>	<u>100.00</u>
Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		96.37
Cash and other assets		3.63
Total		<u>100.00</u>

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Equity Select Fund		Fair Value	% of Net
Nominal	Financial assets at fair value through profit or loss	£	Assets
Holding			
Equities: 97.18% (2010: 97.18%)			
Belgium: 1.78% (2010: 3.59%)			
49,671	Umicore	1,319,772	1.78
Total Belgium		1,319,772	1.78
Brazil: 1.46% (2010: 1.56%)			
93,816	Cia Energetica de Minas Gerais ADR	1,079,621	1.46
Total Brazil		1,079,621	1.46
Canada: 3.75% (2010: 0.00%)			
42,337	Potash of Saskatchewan	1,129,991	1.52
34,160	Toronto-Dominion Bank	1,651,709	2.23
Total Canada		2,781,700	3.75
China: 1.54% (2010: 1.18%)			
15,125	Baidu ADR	1,139,145	1.54
Total China		1,139,145	1.54
Denmark: 0.00% (2010: 1.73%)			
France: 2.20% (2010: 2.02%)			
36,163	Eutelsat Communications	912,439	1.23
96,259	Suez Environnement	716,941	0.97
Total France		1,629,380	2.20
Germany: 0.00% (2010: 1.93%)			
Hong Kong: 2.28% (2010: 0.89%)			
838,200	AIA	1,689,177	2.28
Total Hong Kong		1,689,177	2.28

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Equity Select Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Ireland: 2.20% (2010: 2.34%)			
72,913	Shire	1,633,251	2.20
Total Ireland		1,633,251	2.20
Israel: 0.00% (2010: 2.00%)			
Japan: 4.73% (2010: 3.85%)			
261,000	Mitsubishi Electric	1,605,966	2.17
60,000	Unicharm	1,898,607	2.56
Total Japan		3,504,573	4.73
Mexico: 0.00% (2010: 2.06%)			
Netherlands: 1.87% (2010: 2.06%)			
297,293	ING Groep	1,382,787	1.87
Total Netherlands		1,382,787	1.87
Norway: 1.62% (2010: 4.13%)			
113,743	Telenor	1,199,562	1.62
Total Norway		1,199,562	1.62
Portugal: 1.69% (2010: 1.47%)			
117,304	Jeronimo Martins	1,253,591	1.69
Total Portugal		1,253,591	1.69
South Korea: 0.00% (2010: 1.41%)			

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Equity Select Fund (continued)		Fair Value	% of Net
Nominal	Financial assets at fair value through profit or loss	£	Assets
Holding			
Equities (continued)			
Sweden: 2.03% (2010: 2.33%)			
108,345	Atlas Copco Class A	1,502,447	2.03
Total Sweden		1,502,447	2.03
Switzerland: 4.36% (2010: 3.43%)			
41,865	ACE	1,899,212	2.56
5,533	Swatch Group	1,337,158	1.80
Total Switzerland		3,236,370	4.36
Taiwan: 1.66% (2010: 2.54%)			
147,442	Taiwan Semiconductor Manufacturing ADR	1,228,445	1.66
Total Taiwan		1,228,445	1.66
Thailand: 0.90% (2010: 0.00%)			
629,700	CP ALL	664,906	0.90
Total Thailand		664,906	0.90
United Kingdom: 11.80% (2010: 10.30%)			
505,498	Aberdeen Asset Management	1,063,568	1.44
142,739	BG	1,964,802	2.65
68,099	British American Tobacco	2,080,765	2.81
323,897	Centrica	936,710	1.26
1,052,909	Vodafone	1,883,654	2.54
40,246	Weir Group	817,799	1.10
Total United Kingdom		8,747,298	11.80

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Equity Select Fund (continued)		Fair Value	% of Net
Nominal	Financial assets at fair value through profit or loss	£	Assets
Holding			
Equities (continued)			
United States: 51.31% (2010: 46.36%)			
31,131	Air Products & Chemicals	1,714,732	2.31
33,100	Allergan	1,878,429	2.53
9,445	Amazon.com	1,057,896	1.43
27,723	Amphenol Class A	813,990	1.10
33,935	Apache	1,988,377	2.68
22,151	Cabot Oil & Gas	1,087,418	1.47
21,774	Chart Industries	760,872	1.03
7,993	CME Group	1,259,780	1.70
61,303	Crown Castle International	1,775,761	2.40
68,240	CVS Caremark	1,800,134	2.43
43,528	Dick's Sporting Goods	1,037,869	1.40
40,675	Digital Realty Trust Reits	1,753,927	2.37
40,581	Freeport-McMoRan Copper & Gold	965,764	1.30
3,498	Google Class A	1,461,471	1.97
32,619	Halliburton	727,961	0.98
39,583	Lam Research	947,903	1.28
33,413	McKesson	1,683,078	2.27
19,917	Mead Johnson Nutrition	885,372	1.19
29,591	O'Reilly Automotive	1,530,180	2.06
4,109	Priceline.com	1,243,173	1.68
44,950	Prudential Financial	1,457,335	1.97
40,455	SanDisk	1,287,526	1.74
64,934	Spectra Energy	1,290,783	1.74
42,003	TJX Cos	1,754,133	2.37
24,373	Union Pacific	1,670,273	2.25
26,247	United Technologies	1,240,786	1.67
25,623	Visa Class A	1,683,006	2.27
23,634	VMware Class A	1,271,212	1.72
Total United States		38,029,141	51.31
Total Equities		72,021,166	97.18

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Equity Select Fund (continued)		
	Fair Value £	% of Net Assets
Financial assets at fair value through profit or loss		
Total financial assets at fair value through profit or loss (2010: 97.18%) (Cost: GBP 67,333,817)	72,021,166	97.18
Cash at bank (2010: 2.73%)	1,929,060	2.60
Other Net Assets (2010: 0.09%)	163,675	0.22
Net assets attributable to holders of redeemable participating shares	<u>74,113,901</u>	<u>100.00</u>
Portfolio Classification		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		97.14
Cash and other assets		2.86
Total		<u>100.00</u>

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Pan European Small Cap Companies Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities: 97.00% (2010: 98.86%)			
Argentina: 0.40% (2010: 0.64%)			
60,000	GeoPark	258,000	0.40
	Total Argentina	258,000	0.40
Australia: 0.85% (2010: 1.01%)			
192,500	Medusa Mining	558,250	0.85
	Total Australia	558,250	0.85
Austria: 2.82% (2010: 3.10%)			
21,000	Andritz	1,122,805	1.72
125,534	Wienerberger	721,618	1.10
	Total Austria	1,844,423	2.82
Belgium: 2.21% (2010: 3.30%)			
32,937	D'ieteren	936,336	1.43
100,059	Nyrstar	510,450	0.78
	Total Belgium	1,446,786	2.21
Denmark: 3.20% (2010: 2.74%)			
87,614	Sydbank	888,638	1.36
33,668	Tryg	1,209,023	1.84
	Total Denmark	2,097,661	3.20
Finland: 1.72% (2010: 3.77%)			
37,200	Outotec	1,129,127	1.72
	Total Finland	1,129,127	1.72

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Pan European Small Cap Companies Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
France: 7.35% (2010: 9.35%)			
47,346	Faurecia	578,678	0.88
143,000	Groupe Eurotunnel	628,272	0.96
32,000	Mercialys Reits	666,541	1.02
33,043	Neopost	1,439,027	2.20
31,820	Nexity	466,404	0.71
49,408	Orpea	1,035,755	1.58
Total France		4,814,677	7.35
Germany: 12.02% (2010: 9.25%)			
134,373	Alstria Office REIT-AG	1,025,780	1.57
21,265	Bilfinger Berger	1,162,066	1.77
55,324	Duerr	1,576,228	2.41
15,635	Lanxess	519,315	0.79
118,777	Rhoen Klinikum	1,456,701	2.22
94,477	Subsea 7	1,128,550	1.72
98,825	Tom Tailor	1,008,558	1.54
Total Germany		7,877,198	12.02
Ireland: 8.16% (2010: 4.40%)			
93,874	DCC	1,439,992	2.20
123,955	FBD	659,222	1.01
293,472	Glanbia	1,107,386	1.69
37,476	Paddy Power	1,405,023	2.14
189,607	Smurfit Kappa	736,249	1.12
Total Ireland		5,347,872	8.16
Italy: 0.97% (2010: 3.22%)			
114,000	Buzzi Unicem	638,239	0.97
Total Italy		638,239	0.97

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Pan European Small Cap Companies Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Jersey: 1.65% (2010: 0.00%)			
227,575	UBM	1,083,485	1.65
Total Jersey		1,083,485	1.65
Luxembourg: 1.14% (2010: 0.95%)			
884,880	Regus	747,724	1.14
Total Luxembourg		747,724	1.14
Netherlands: 5.77% (2010: 5.36%)			
76,977	Aalberts Industries	830,359	1.27
126,864	BinckBank	878,109	1.34
45,881	Brunel International	874,659	1.33
78,806	Unit 4 Agresso	1,196,983	1.83
Total Netherlands		3,780,110	5.77
Norway: 4.06% (2010: 3.16%)			
910,547	BW Offshore	925,990	1.41
158,585	SpareBank 1	670,697	1.03
318,502	Storebrand	1,061,856	1.62
Total Norway		2,658,543	4.06
Spain: 0.00% (2010: 1.63%)			
Sweden: 9.32% (2010: 5.79%)			
74,421	AarhusKarlshamn	1,389,519	2.12
146,131	Byggmax	360,590	0.55
72,550	Gefinge Class B	1,182,369	1.80
79,680	Hexagon Class B	769,273	1.18
141,240	Intrum Justitia	1,427,877	2.18
105,643	Loomis	976,321	1.49
Total Sweden		6,105,949	9.32

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Pan European Small Cap Companies Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities (continued)			
Switzerland: 6.11% (2010: 8.64%)			
28,184	Aryzta	878,554	1.34
35,200	Bank Sarasin & Cie	664,894	1.02
13,414	Dufry	797,978	1.22
4,100	Kaba	926,097	1.41
69,530	Temenos	734,426	1.12
Total Switzerland		4,001,949	6.11
United Kingdom: 29.25% (2010: 32.55%)			
137,283	Babcock International	1,006,971	1.54
295,853	Big Yellow Reits	725,727	1.11
106,879	Bunzl	942,673	1.44
458,520	Caretech	453,935	0.69
118,800	Cranswick	873,774	1.33
178,218	Domino Printing Sciences	901,783	1.38
208,854	Domino's Pizza UK & IRL	840,637	1.28
607,832	Goals Soccer Centres	559,206	0.85
224,904	Hargreaves Lansdown	967,087	1.48
484,152	Helical Bar	901,733	1.38
227,735	IG	1,086,068	1.66
48,321	IMI	365,307	0.56
5,320,048	Innovation	1,064,010	1.62
101,791	Kier	1,370,107	2.09
177,258	Nautical Petroleum	452,008	0.69
656,544	Paragon	1,196,223	1.83
464,049	Petra Diamonds	529,016	0.81
286,628	Premier Oil	1,037,307	1.58
387,728	RPC	1,388,066	2.12
173,208	SAF-Holland	518,488	0.79
195,379	SDL	1,293,409	1.97
63,150	Victrex	692,124	1.05
Total United Kingdom		19,165,659	29.25
Total Equities		63,555,652	97.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Pan European Small Cap Companies Fund

	Fair Value £	% of Net Assets
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Open Futures Contracts: 0.02% (2010: 0.01%)

Description	No. of Currency Contracts	Unrealised Gain/(loss)	% of Net Assets
United Kingdom			
FTSE 250 Mid LIFFE March 2012	GBP 10	16,350	0.02
Total Fair Value Gains on Open Futures Contracts		<u>16,350</u>	<u>0.02</u>
Total financial assets at fair value through profit or loss (2010: 98.87%) (Cost: GBP 61,636,658)		63,572,002	97.02
Cash at bank and clearing broker (2010: 1.11%)		1,886,183	2.88
Other Net Assets (2010: 0.10%)		66,855	0.10
Net assets attributable to holders of redeemable participating shares		<u>65,525,040</u>	<u>100.00</u>

Portfolio Classification

	% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market	96.95
Financial derivative instruments dealt in on a regulated market	0.02
Cash and other assets	3.03
Total	<u>100.00</u>

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities: 99.25% (2010: 99.19%)			
Australia: 3.38% (2010: 3.17%)			
27,525	BHP Billiton	623,275	0.65
14,000	Campbell Brothers	444,614	0.47
33,131	Commonwealth Bank of Australia	1,071,801	1.12
200,000	QR National	448,799	0.47
31,753	Woodside Petroleum	639,402	0.67
Total Australia		3,227,891	3.38
Austria: 0.60% (2010: 0.88%)			
15,950	OMV	309,671	0.32
15,000	Voestalpine	268,318	0.28
Total Austria		577,989	0.60
Bermuda: 2.89% (2010: 2.67%)			
33,710	Axis Capital	697,140	0.73
23,839	Bunge	881,452	0.92
10,400	Jardine Matheson	316,460	0.33
80,343	Lancashire	578,871	0.61
31,567	Marvell Technology	282,610	0.30
Total Bermuda		2,756,533	2.89
Canada: 2.85% (2010: 2.95%)			
50,000	Precision Drilling	331,648	0.35
24,611	Rogers Communications	612,398	0.64
59,802	SEMAFO	249,906	0.26
23,611	Talisman Energy	194,341	0.20
27,693	Toronto-Dominion Bank	1,339,016	1.40
Total Canada		2,727,309	2.85

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Cayman Islands: 0.62% (2010: 0.97%)			
17,643	Herbalife	589,926	0.62
Total Cayman Islands		589,926	0.62
Denmark: 2.17% (2010: 1.22%)			
21,306	Carlsberg	971,367	1.02
63,259	Danske Bank	517,350	0.54
7,783	Novo Nordisk	577,814	0.61
Total Denmark		2,066,531	2.17
Finland: 0.55% (2010: 0.36%)			
21,910	Metso	522,381	0.55
Total Finland		522,381	0.55
France: 1.66% (2010: 2.92%)			
38,656	GDF Suez	681,606	0.72
4,558	PPR	422,064	0.44
34,000	Vivendi	481,286	0.50
Total France		1,584,956	1.66
Germany: 3.50% (2010: 3.92%)			
7,633	Adidas	321,240	0.34
12,950	BASF	581,964	0.61
9,242	Bayer	380,332	0.40
23,949	Henkel	750,871	0.79
21,545	ProSiebenSat.1 Media	252,151	0.26
22,990	ThyssenKrupp	342,365	0.36
8,195	Volkswagen	708,094	0.74
Total Germany		3,337,017	3.50

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Hong Kong: 1.17% (2010: 1.92%)			
29,000	Cheung Kong	222,659	0.23
149,000	Cheung Kong Infrastructure	561,458	0.59
70,000	Power Assets	334,014	0.35
Total Hong Kong		1,118,131	1.17
Ireland: 1.42% (2010: 0.37%)			
21,557	Ingersoll-Rand	424,614	0.45
28,768	Shire	644,403	0.67
29,600	Warner Chilcott Class A	289,509	0.30
Total Ireland		1,358,526	1.42
Israel: 1.10% (2010: 1.07%)			
15,849	Check Point Software Technologies	538,347	0.56
11,366	Teva Pharmaceutical Industries	295,013	0.31
8,303	Teva Pharmaceutical Industries ADR	216,773	0.23
Total Israel		1,050,133	1.10
Japan: 9.16% (2010: 8.30%)			
30,000	Asahi Diamond Industrial	232,749	0.24
24,900	Canon	707,777	0.74
154,000	Hitachi	518,852	0.54
19,300	Honda Motor	377,887	0.40
10,000	Honda Motor ADR	197,684	0.21
53,000	ITOCHU	346,498	0.36
27,900	Komatsu	418,917	0.44
69,000	KYB	209,975	0.22
112,500	Mitsubishi Chemical	396,902	0.42
18,200	Mitsubishi	236,451	0.24
37,000	Nippon Telegraph & Telephone	1,214,114	1.27
14,300	Sony	164,861	0.17

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Japan: 9.16% (2010: 8.30%) (continued)			
8,105	Sony ADR	94,477	0.10
45,900	Sumitomo Mitsui Financial Group	821,959	0.86
41,800	Sundrug	814,935	0.85
16,500	Takeda Pharmaceutical	464,870	0.49
182,000	Toagosei	477,770	0.50
17,000	West Japan Railway	473,983	0.50
160,000	Yokohama Rubber	577,859	0.61
Total Japan		8,748,520	9.16
Luxembourg: 0.00% (2010: 0.58%)			
Jersey: 0.00% (2010: 0.49%)			
Netherlands: 0.56% (2010: 1.27%)			
19,511	ASML	530,250	0.56
Total Netherlands		530,250	0.56
Norway: 2.33% (2010: 5.03%)			
27,692	Aker Solutions	187,148	0.20
135,692	Kvaerner	142,082	0.15
108,916	Norsk Hydro	323,499	0.34
78,000	Norwegian EnergyAS	39,116	0.04
72,551	Statoil	1,196,899	1.25
12,922	Yara International	333,465	0.35
Total Norway		2,222,209	2.33
Singapore: 0.61% (2010: 0.82%)			
17,000	Jardine Cycle & Carriage	406,516	0.43
90,000	SembCorp Marine	171,132	0.18
Total Singapore		577,648	0.61

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Spain: 0.87% (2010: 0.44%)			
97,091	Banco Santander	476,377	0.50
14,927	Viscofan	358,015	0.37
Total Spain		834,392	0.87
Sweden: 2.07% (2010: 2.76%)			
52,956	Kinnevik Investment	664,794	0.70
29,786	Skanska Class B	316,634	0.33
25,518	Swedish Match	584,188	0.61
57,714	Volvo Class B	407,207	0.43
Total Sweden		1,972,823	2.07
Switzerland: 5.08% (2010: 4.31%)			
76,539	ABB	930,651	0.97
21,271	ACE	964,962	1.01
33,166	Nestle	1,231,267	1.29
18,669	TE Connectivity	371,955	0.39
9,242	Zurich Financial Services	1,351,427	1.42
Total Switzerland		4,850,262	5.08
United Kingdom: 9.52% (2010: 7.55%)			
156,065	Aberdeen Asset Management	328,361	0.34
79,057	ARM	466,436	0.49
37,735	AstraZeneca	1,120,164	1.17
41,042	BHP Billiton	768,101	0.81
100,492	Bodycote	264,093	0.28
168,245	GKN	307,888	0.32
165,054	HSBC	810,498	0.85
65,627	Imperial Tobacco	1,598,017	1.67
39,879	Kazakhmys	367,286	0.39
75,000	National Grid	468,000	0.49
71,437	Prudential	455,411	0.48

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United Kingdom: 9.52% (2010: 7.55%) (continued)			
3,862,206	Rolls-Royce Preference	3,862	0.00
71,974	Rolls-Royce	536,926	0.56
83,792	Smith & Nephew	523,700	0.55
21,312	Smiths	194,685	0.20
491,056	Vodafone	878,499	0.92
Total United Kingdom		9,091,927	9.52
United States: 47.14% (2010: 45.22%)			
18,725	Ameriprise Financial	601,395	0.63
15,043	Amgen	624,821	0.65
26,668	Analog Devices	616,888	0.65
27,563	ANN	441,286	0.46
15,180	Apache	889,452	0.93
6,669	Apple	1,747,124	1.83
15,365	Biogen Idec	1,093,808	1.15
11,667	BorgWarner	481,125	0.50
24,808	Capital One Financial	678,653	0.71
50,702	Chevron	3,487,710	3.65
5,928	Cimarex Energy	237,327	0.25
29,244	Corning	245,355	0.26
25,000	Dick's Sporting Goods	596,093	0.62
11,918	Dollar Tree	640,730	0.67
19,357	Dr Pepper Snapple Group	494,349	0.52
20,191	Dresser-Rand Group	651,483	0.68
39,000	Duke Energy	554,512	0.58
28,506	Eaton	802,682	0.84
22,795	EMC	317,322	0.33
6,724	Entergy	317,736	0.33
58,611	Ford Motor	407,574	0.43
28,185	Freeport-McMoRan Copper & Gold	670,759	0.70
81,826	General Electric	947,994	0.99
2,716	Google Class A	1,134,750	1.19
44,129	GT Advanced Technologies	206,672	0.22
23,184	Hess	851,835	0.89
15,032	Humana	851,998	0.89
7,716	Intercontinental Exchange	601,298	0.63

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities (continued)			
United States: 47.14% (2010: 45.22%) (continued)			
12,108	International Business Machines	1,440,209	1.51
73,270	JPMorgan Chase	1,575,454	1.65
29,666	KBR	534,829	0.56
22,793	Lam Research	545,829	0.57
11,237	Lockheed Martin	587,764	0.62
23,454	Marathon Oil	444,077	0.47
9,727	Marathon Petroleum	209,528	0.22
13,427	McKesson	676,344	0.71
23,568	Medicis Pharmaceutical Class A	506,912	0.53
26,821	MetLife	540,966	0.57
59,299	Microsoft	995,797	1.04
18,145	Noble Energy	1,107,903	1.16
16,030	Northrop Grumman	606,400	0.64
23,414	Nu Skin Enterprises Class A	735,029	0.77
9,354	Occidental Petroleum	567,025	0.59
16,784	Peabody Energy	359,479	0.38
67,970	Pfizer	951,466	1.00
20,434	Philip Morris International	1,037,099	1.09
16,678	SanDisk	530,796	0.55
18,528	Thermo Fisher Scientific	538,977	0.56
9,194	Tiffany	393,833	0.41
14,367	TJX	599,996	0.63
24,239	Travelers	927,758	0.97
20,301	Union Pacific	1,391,221	1.46
68,424	Verizon Communications	1,774,447	1.86
51,316	Viacom Class B	1,507,381	1.58
13,083	Visa Class A	859,336	0.90
80,770	Wells Fargo	1,439,952	1.51
21,489	Western Digital	430,225	0.45
Total United States		45,008,763	47.14
Total Equities		94,754,117	99.25

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Quant Global Equity Fund (continued)		
	Fair Value £	% of Net Assets
Financial assets at fair value through profit or loss		
Total financial assets at fair value through profit or loss (2010: 99.19%) (Cost: GBP 91,859,007)	94,754,117	99.25
Cash at bank (2010: 0.70%)	611,010	0.64
Other Net Assets (2010: 0.11%)	108,460	0.11
Net assets attributable to holders of redeemable participating shares	95,473,587	100.00
Portfolio Classification		
		% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market		99.21
Cash and other assets		0.79
Total		100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Small & Mid Cap Companies Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities: 95.43% (2010: 92.96%)			
Basic Materials: 5.75% (2010: 5.75%)			
823,144	Anglo Pacific	2,268,585	1.47
820,326	Centamin	671,847	0.43
93,910	Croda International	1,694,136	1.10
1,068,075	Petra Diamonds	1,217,605	0.79
275,609	Victrex	3,020,675	1.96
Total Basic Materials		8,872,848	5.75
Communications: 6.28% (2010: 6.74%)			
895,886	Informa	3,227,877	2.09
4,953,806	KCOM	3,467,664	2.25
629,670	United Business Media	2,997,859	1.94
Total Communications		9,693,400	6.28
Consumer, Cyclical: 13.30% (2010: 16.51%)			
443,964	Bellway	3,161,024	2.05
328,000	Brammer	774,080	0.50
204,427	Burberry	2,422,460	1.57
777,312	Domino's Pizza	3,128,681	2.03
2,602,730	Goals Soccer Centres	2,394,512	1.55
353,000	Inchcape	1,030,054	0.67
253,427	Mitchells & Butlers	591,752	0.38
109,781	Paddy Power	4,115,830	2.66
200,000	Persimmon	938,000	0.61
412,537	Restaurant	1,221,110	0.79
96,200	Travis Perkins	765,271	0.49
Total Consumer, Cyclical		20,542,774	13.30
Consumer, Non-cyclical: 12.49% (2010: 12.44%)			
1,876,588	Ashtead	4,222,323	2.72
722,671	Babcock International	5,300,792	3.43
864,050	BTG	2,710,525	1.76
227,407	Bunzl	2,005,730	1.30
434,029	Cranswick	3,192,283	2.07
793,612	Mcbride	888,845	0.58
622,974	Robert Walters	979,627	0.63
Total Consumer, Non-cyclical		19,300,125	12.49

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Small & Mid Cap Companies Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Energy: 4.86% (2010: 6.16%)			
1,271,328	Faroe Petroleum	1,961,023	1.27
381,198	GeoPark	1,639,151	1.06
510,579	Nautical Petroleum	1,301,976	0.84
720,280	Premier Oil	2,606,693	1.69
Total Energy		7,508,843	4.86
Financial: 22.78% (2010: 19.36%)			
950,955	Amlin	2,978,391	1.93
319,842	Ashmore	1,067,952	0.69
3,428,266	Beazley	4,604,161	2.98
709,361	Big Yellow	1,740,063	1.13
461,550	CLS	2,653,912	1.72
3,993,755	Hansteen	3,045,238	1.97
825,221	Hardy Underwriting Bermuda	1,567,920	1.02
772,235	Hargreaves Lansdown	3,320,611	2.15
1,031,428	Helical Bar	1,921,035	1.24
795,791	IG	3,795,127	2.46
2,217,438	Paragon	4,040,172	2.62
603,149	Shaftesbury	2,817,912	1.82
971,604	Unite	1,619,664	1.05
Total Financial		35,172,158	22.78
Industrial: 23.13% (2010: 17.84%)			
225,000	Cookson	1,145,250	0.74
1,128,719	Fenner	4,504,718	2.92
824,923	Galliford Try	3,918,384	2.54
565,994	Hamworthy	4,658,131	3.02
285,830	IMI	2,160,875	1.40
403,556	James Fisher & Sons	2,054,100	1.33
274,843	Kier	3,699,387	2.40
803,020	Meggitt	2,825,827	1.83
275,166	Ricardo	1,005,044	0.65
1,250,846	RPC	4,478,029	2.90
2,161,618	Senior	3,696,367	2.39
779,210	WSP	1,564,264	1.01
Total Industrial		35,710,376	23.13

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Small & Mid Cap Companies Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets	
Equities (continued)				
Technology: 6.84% (2010: 7.46%)				
352,357	CSR	646,575	0.42	
865,567	Domino Printing Sciences	4,379,769	2.83	
265,000	Misys	615,595	0.40	
744,157	SDL	4,926,319	3.19	
Total Technology		10,568,258	6.84	
Total Equities		147,368,782	95.43	
Financial Derivative Instruments: 0.03% (2010: 0.07%)				
Open Futures Contracts: 0.03% (2010: 0.07%)				
Description	Currency	No. of Contracts	Unrealised Gain	% of Net Assets
United Kingdom				
FTSE 250 Mid LIFFE March 2012	GBP	26	42,510	0.03
Total Fair Value Gains on Open Futures Contracts			42,510	0.03
Total Financial Derivative Instruments			42,510	0.03
Total financial assets at fair value trough profit or loss (2010: 92.33%) (Cost: GBP 121,859,992)			147,411,292	95.46
Cash at bank and clearing broker (2010: 7.52%)			6,721,837	4.35
Other Net Assets (2010: 0.15%)			296,347	0.19
Net assets attributable to holders of redeemable participating shares			154,429,476	100.00
Portfolio Classifications				
Transferable securities admitted to official stock exchange listing or traded on a regulated market				95.40
Financial derivative instruments dealt in on a regulated market				0.03
Cash and other assets				4.57
				100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Smaller Companies Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities: 95.71% (2010: 97.51%)			
Basic Materials: 2.50% (2010: 4.49%)			
686,663	Anglo Pacific	1,892,443	1.56
1,400,000	Capital Drilling	1,148,000	0.94
Total Basic Materials		3,040,443	2.50
Communications: 8.26% (2010: 10.87%)			
3,273,788	Creston	2,258,914	1.86
14,109,045	Future	1,163,996	0.96
4,663,573	KCOM	3,264,501	2.68
608,439	Mecom	1,242,737	1.02
10,362,195	Vislink	2,124,250	1.74
Total Communications		10,054,398	8.26
Consumer, Cyclical: 9.58% (2010: 10.82%)			
2,198,220	Boot (Henry)	2,703,811	2.22
677,056	Brammer	1,597,852	1.31
1,048,835	Cineworld	2,139,623	1.76
3,753,890	Spirit Pub Co	1,604,788	1.32
569,115	Ted Baker	3,616,726	2.97
Total Consumer, Cyclical		11,662,800	9.58
Consumer, Non-cyclical: 16.43% (2010: 20.00%)			
974,674	4imprint	2,222,257	1.83
2,616,638	Bioquell	2,695,137	2.21
187,384	Cranswick	1,378,209	1.13
516,511	Dechra Pharmaceuticals	2,678,109	2.20
416,834	Fuller Smith & Turner	2,928,259	2.41
865,445	Hyder Consulting	3,072,330	2.52
660,857	McBride	740,160	0.61
819,759	Robert Walters	1,289,071	1.06
524,934	Staffline	918,634	0.76
1,046,717	Tribal	442,238	0.36
2,934,237	Vectura	1,635,837	1.34
Total Consumer, Non-cyclical		20,000,241	16.43

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Smaller Companies Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Energy: 2.18% (2010: 1.03%)			
16,875,000	Aminex	675,000	0.55
900,000	Enteq Upstream	1,080,000	0.89
4,319,249	Iofina	896,244	0.74
Total Energy		2,651,244	2.18
Financial: 17.88% (2010: 18.75%)			
859,091	Burford Capital	1,030,909	0.85
645,000	City of London Investment	2,064,000	1.70
447,923	CLS	2,575,557	2.11
1,106,139	Development Securities	1,631,555	1.34
3,801,659	Hansteen	2,898,765	2.38
1,466,042	Hardy Underwriting Bermuda	2,785,480	2.29
661,929	Helical Bar	1,232,843	1.01
2,790,282	Metric Property Investments	2,371,740	1.95
857,000	NewRiver Retail	1,885,400	1.55
739,000	Primary Health Properties	2,348,172	1.93
840,767	St. Modwen Properties	941,659	0.77
Total Financial		21,766,080	17.88
Industrial: 29.48% (2010: 23.70%)			
581,816	Air Partner	1,803,630	1.48
1,193,781	Carclo	3,402,276	2.79
540,060	Fenner	2,155,379	1.77
1,015,917	Hill & Smith	2,539,793	2.09
813,611	James Fisher & Sons	4,141,280	3.40
265,685	Latchways	2,869,398	2.36
893,200	Marshalls	794,948	0.65
969,700	May Gurney Integrated Services	2,693,342	2.21
932,879	Ricardo	3,407,341	2.80
919,009	RPC	3,290,052	2.70
503,761	Severfield-Rowen	838,762	0.69
4,066,432	Trifast	1,443,583	1.19
1,813,973	TT electronics	2,439,794	2.00
474,121	Vitec Group	2,607,665	2.14
734,503	WSP Group	1,474,515	1.21
Total Industrial		35,901,758	29.48

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes UK Smaller Companies Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities (continued)			
Technology: 7.60% (2010: 7.85%)			
22,931,229	Innovation	4,586,246	3.77
2,124,152	Kewill	1,624,976	1.33
590,000	Kofax	1,380,600	1.13
200,000	NCC	1,662,000	1.37
Total Technology		9,253,822	7.60
Utilities: 1.80% (2010: 0.00%)			
234,698	XP Power	2,194,426	1.80
Total Utilities		2,194,426	1.80
Total Equities		116,525,212	95.71
Financial Derivative Instruments: 0.02% (2010: 0.00%)			
Open Futures Contracts: 0.02% (2010: 0.00%)			
Description	Currency	No. of Contracts	Unrealised Gain % of Net Assets
United Kingdom			
FTSE 250 Mid LIFFE March 2012	GBP	18	29,430 0.02
Total Fair Value Gains on Open Futures Contracts		29,430	0.02
Total Financial Derivative Instruments		29,430	0.02
Total financial assets at fair value through profit or loss (2010: 97.51%) (Cost: GBP 110,556,190)		116,554,642	95.73
Cash at bank and clearing broker (2010: 2.53%)		5,089,430	4.18
Other Net Assets (2010: (0.04%))		111,313	0.09
Net assets attributable to holders of redeemable participating shares		121,755,385	100.00
Portfolio Classifications			% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market			95.45
Financial derivative instruments dealt in on a regulated market			0.02
Cash and other assets			4.53
			100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Japan Equity Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities: 99.75% (2010: 100.01%)			
Basic Materials: 6.20% (2010: 0.00%)			
165,000	Shin-Etsu Chemical	5,221,169	3.52
762,600	Tokyo Steel Manufacturing	3,978,316	2.68
Total Basic Materials		9,199,485	6.20
Communications: 15.32% (2010: 13.16%)			
6,492	Fuji Media	6,317,561	4.26
130,000	Hakuhodo DY Holdings	4,787,483	3.22
182,000	Nippon Telegraph & Telephone	5,972,126	4.02
685,700	Tokyo Broadcasting System	5,663,815	3.82
Total Communications		22,740,985	15.32
Consumer, Cyclical: 17.51% (2010: 23.37%)			
164,200	Sankyo	5,333,129	3.59
334,100	Shimachu	4,929,912	3.32
650,000	Sumitomo Electric Industries	4,537,512	3.06
1,260,000	Takashimaya	5,846,305	3.94
250,000	Toyota Motor	5,346,364	3.60
Total Consumer, Cyclical		25,993,222	17.51
Consumer, Non-cyclical: 13.20% (2010: 3.21%)			
224,900	Alfresa	6,082,494	4.10
900,000	Kamigumi	4,981,022	3.35
1,070,000	Toppan Printing	5,045,228	3.40
225,000	Toyo Suisan Kaisha	3,496,873	2.35
Total Consumer, Non-cyclical		19,605,617	13.20
Energy: 0.00% (2010: 9.46%)			

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Japan Equity Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Financial: 20.03% (2010: 24.48%)			
500,000	Mitsubishi Estate	4,794,589	3.23
1,915,400	Mitsubishi UFJ Financial	5,204,281	3.51
290,600	Sumitomo Mitsui Financial	5,203,949	3.50
2,545,350	Sumitomo Mitsui Trust	4,787,932	3.22
820,000	T&D	4,894,744	3.30
342,000	Tokio Marine	4,860,635	3.27
Total Financial		29,746,130	20.03
Industrial: 19.61% (2010: 19.90%)			
148,400	East Japan Railway	6,073,018	4.09
300,000	FUJIFILM	4,559,666	3.07
649,400	Komori	2,801,431	1.89
2,000,000	Mitsui OSK Lines	4,965,973	3.34
225,200	West Japan Railway	6,278,880	4.23
410,000	Yamato Holdings	4,435,433	2.99
Total Industrial		29,114,401	19.61
Technology: 7.88% (2010: 6.42%)			
404,000	Nomura Research Institute	5,856,638	3.95
2,845	NTT Data	5,839,178	3.93
Total Technology		11,695,816	7.88
Total Equities		148,095,656	99.75

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Japan Equity Fund (continued)

	Fair Value £	% of Net Assets
Financial assets at fair value through profit or loss		
Total financial assets at fair value through profit or loss (2010: 100.01%) (Cost: GBP 146,918,923)	148,095,656	99.75
Cash at bank (2010: 0.01%)	418,213	0.28
Other Net Liabilities (2010: -0.02%)	(38,456)	(0.03)
Net assets attributable to holders of redeemable participating shares	148,475,413	100.00

	% of Total Assets
Portfolio Classification	
Transferable securities admitted to official stock exchange listing or traded on a regulated market	99.72
Cash and other assets	0.28
	100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap European Alpha Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	£	Assets
Equities: 98.86% (2010: 99.33%)			
Belgium: 0.00% (2010: 1.45%)			
Czech Republic: 0.00% (2010: 1.07%)			
Denmark: 4.69% (2010: 2.97%)			
58,778	Novo Nordisk	4,363,713	3.16
105,938	Novozymes	2,107,244	1.53
Total Denmark		6,470,957	4.69
France: 4.13% (2010: 4.38%)			
59,221	Bureau Veritas	2,777,816	2.01
32,114	LVMH Moet Hennessy Louis Vuitton	2,926,675	2.12
Total France		5,704,491	4.13
Germany: 19.51% (2010: 22.24%)			
87,151	Adidas	3,667,805	2.66
86,398	Bayer	3,555,496	2.58
51,568	Fresenius	3,086,887	2.24
73,687	Kabel Deutschland	2,419,759	1.75
34,974	Linde	3,358,537	2.43
36,453	Muenchener Rueckversicherungs	2,884,344	2.09
68,337	Porsche Automobil	2,343,010	1.70
101,227	SAP	3,466,444	2.51
90,145	Software	2,145,852	1.55
Total Germany		26,928,134	19.51
Italy: 0.00% (2010: 2.03%)			
Jersey: 2.68% (2010: 2.46%)			
56,199	Randgold Resources	3,700,704	2.68
Total Jersey		3,700,704	2.68

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap European Alpha Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
Luxembourg: 2.15% (2010: 2.55%)			
191,724	SES	2,972,261	2.15
Total Luxembourg		2,972,261	2.15
Netherlands: 4.31% (2010: 9.26%)			
90,753	ASML	2,466,393	1.79
748,420	ING	3,481,097	2.52
Total Netherlands		5,947,490	4.31
Norway: 13.53% (2010: 15.04%)			
487,570	DnB	3,064,232	2.22
363,110	Petroleum Geo-Services	2,545,801	1.84
173,756	Seadrill	3,732,263	2.70
242,363	Statoil	3,998,346	2.90
337,440	Telenor	3,558,726	2.58
69,159	Yara International	1,784,719	1.29
Total Norway		18,684,087	13.53
Sweden: 9.92% (2010: 8.13%)			
131,568	Elektro	3,684,770	2.67
162,593	Hennes & Mauritz	3,356,142	2.43
391,182	Swedbank	3,266,515	2.36
148,199	Swedish Match	3,392,743	2.46
Total Sweden		13,700,170	9.92
Switzerland: 10.42% (2010: 8.05%)			
57,927	Compagnie Financiere Richemont	1,893,798	1.37
41,470	Roche	4,540,167	3.29
22,547	Syngenta	4,265,119	3.09
377,198	Xstrata	3,681,452	2.67
Total Switzerland		14,380,536	10.42

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap European Alpha Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value £	% of Net Assets
Equities (continued)			
United Kingdom: 27.52% (2010: 19.70%)			
530,113	ARM	3,127,667	2.27
113,890	AstraZeneca	3,380,825	2.45
363,955	BG	5,009,841	3.63
129,844	British American Tobacco	3,967,383	2.86
1,022,065	Kingfisher	2,561,295	1.86
204,927	Lonmin	1,995,989	1.44
370,695	Pearson	4,481,702	3.25
178,506	SABMiller	4,045,838	2.93
3,429,654	Vodafone	6,135,651	4.45
161,765	Weir	3,287,065	2.38
Total United Kingdom		37,993,256	27.52
Total Equities		136,482,086	98.86
Total financial assets at fair value through profit or loss (2010: 99.33%) (Cost: GBP 129,660,610)		136,482,086	98.86
Cash at bank (2010: 0.63%)		1,376,597	1.00
Other Net Assets (2010: 0.04%)		187,117	0.14
Net assets attributable to holders of redeemable participating shares		138,045,800	100.00
Portfolio Classification			% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market			98.83
Cash and other assets			1.17
			100.00

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Corporate Bonds: 82.70% (2010: 92.30%)			
Australia: 2.04% (2010: 1.94%)			
3,400,000	FMG Resources 7.00% 01/11/2015	2,658,398	2.04
Total Australia		2,658,398	2.04
Austria: 1.56% (2010: 0.97%)			
241,000	PE Paper Escrow 12.00% SNR Notes 01/08/2014	197,716	0.15
478,000	PE Paper Escrow 11.75% GTD Notes 01/08/2014	506,680	0.39
2,000,000	Sappi Papier 6.625% 15/04/2021	1,328,814	1.02
Total Austria		2,033,210	1.56
Brazil: 0.00% (2010: 0.71%)			
Canada: 1.45% (2010: 0.99%)			
2,400,000	MEG Energy 6.50% 15/03/2021	1,890,382	1.45
Total Canada		1,890,382	1.45
Cayman Islands: 0.90% (2010: 0.28%)			
1,500,000	UPCB Finance V 7.25% 15/11/2021	1,169,934	0.90
Total Cayman Islands		1,169,934	0.90
Denmark: 1.54% (2010: 0.00%)			
2,095,000	ISS 8.875% 15/05/2016	2,000,725	1.54
Total Denmark		2,000,725	1.54
Finland: 0.88% (2010: 0.11%)			
500,000	Stora Enso 6.40% 15/04/2016	373,609	0.29
1,000,000	UPM-Kymmene 5.625% 01/12/2014	774,179	0.59
Total Finland		1,147,788	0.88

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Corporate Bonds (continued)			
France: 2.78% (2010: 5.65%)			
1,750,000	Banque PSA Finance 5.75% 04/04/2021	1,219,527	0.94
1,150,000	Lafarge 6.50% 15/07/2016	904,480	0.69
500,000	Pernod-Ricard 4.45% 15/01/2022	412,125	0.32
1,000,000	Rhodia 7.00% 15/05/2018	1,087,500	0.83
Total France		3,623,632	2.78
Germany: 3.05% (2010: 3.46%)			
1,000,000	Grohe 8.625% 01/10/2014	884,900	0.68
2,250,000	Kabel BW Erste Beteiligungs 7.50% 15/03/2019	1,828,564	1.40
1,550,000	Unitymedia Hessen 8.125% 01/12/2017	1,261,170	0.97
Total Germany		3,974,634	3.05
Ireland: 1.46% (2010: 1.32%)			
2,450,000	Smurfit Kappa Funding 7.75% SNR Sub Bonds 01/04/2015	1,896,738	1.46
Total Ireland		1,896,738	1.46
Italy: 1.85% (2010: 3.37%)			
2,000,000	Lottomatica 5.375% 02/02/2018	1,724,334	1.32
911,000	UniCredit 5.00% 01/02/2016	687,666	0.53
Total Italy		2,412,000	1.85
Jersey: 1.84% (2010: 0.00%)			
2,000,000	Consolidated Minerals 8.875% 01/05/2016	1,332,666	1.02
1,500,000	ProSecure Funding 4.67% 30/06/2016	1,059,570	0.82
Total Jersey		2,392,236	1.84

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value €	% of Net Assets
Corporate Bonds (continued)			
Liberia: 1.29% (2010: 1.16%)			
1,720,000	Royal Caribbean Cruises 5.625% 27/01/2014	1,685,600	1.29
Total Liberia		1,685,600	1.29
Luxembourg: 8.90% (2010: 12.51%)			
1,046,926	ARD Finance PIK 11.125% 01/06/2018	689,536	0.53
1,589,463	ARD Finance 11.125% 01/06/2018	1,247,728	0.96
2,582,000	Calcipar 2.75% 01/07/2014	2,297,980	1.76
1,250,000	Codere Finance 8.25% 15/06/2015	1,158,375	0.89
1,000,000	Glencore Finance 7.50% 06/10/2049	783,962	0.60
850,000	Intelsat Jackson 7.25% 15/10/2020	664,600	0.51
2,500,000	Intelsat Jackson 7.25% 01/04/2019	1,954,705	1.50
369,000	Prologis International Funding 5.875% 23/10/2014	367,303	0.28
4,319,916	Wind Acquisition Finance 12.25% 15/07/2017	2,437,575	1.87
Total Luxembourg		11,601,764	8.90
Mexico: 0.88% (2010: 0.00%)			
2,000,000	Cemex SAB de 5.58% 30/09/2015	1,145,861	0.88
Total Mexico		1,145,861	0.88
Netherlands: 9.58% (2010: 9.57%)			
1,750,000	Clondalkin Acquisition 2.55% 15/12/2013	1,260,448	0.97
2,000,000	EDP Finance 5.375% 02/11/2012	1,525,463	1.17
3,500,000	HeidelbergCement Finance 9.50% 15/12/2018	3,664,150	2.81
2,250,000	ING Verzekeringen 3.27% 21/06/2021	1,905,750	1.46
960,000	Intergen 9.50% 30/06/2017	1,152,152	0.88
2,700,000	UPC Holding 9.875% 15/04/2018	2,228,075	1.71
750,000	Ziggo Bond 8.00% 15/05/2018	753,750	0.58
Total Netherlands		12,489,788	9.58

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Corporate Bonds (continued)			
Norway: 0.91% (2010: 0.00%)			
1,500,000	Petroleum Geo-Services 7.375% 15/12/2018	1,184,378	0.91
Total Norway		1,184,378	0.91
South Africa: 0.86% (2010: 1.41%)			
1,500,000	Edcon 4.68% 15/06/2014	1,125,000	0.86
Total South Africa		1,125,000	0.86
Spain: 0.93% (2010: 1.23%)			
1,230,000	Obrascon Huarte Lain 8.75% 15/03/2018	1,211,550	0.93
Total Spain		1,211,550	0.93
Sweden: 0.00% (2010: 1.15%)			
United Kingdom: 8.07% (2010: 11.66%)			
1,175,000	EC Finance 9.75% 01/08/2017	907,687	0.70
1,328,000	Hanson 6.125% 15/08/2016	1,043,454	0.80
4,400,000	Imperial Tobacco Finance 5.00% 25/06/2012	4,454,837	3.42
1,500,000	Jaguar Land Rover 8.125% 15/05/2021	1,091,939	0.84
750,000	Phones4u Finance 9.50% 01/04/2018	711,565	0.54
500,000	Southern Water Greensands Financing 8.50% 15/04/2019	542,196	0.42
1,700,000	TUI Travel 6.00% 05/10/2014	1,765,458	1.35
Total United Kingdom		10,517,136	8.07

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Corporate Bonds (continued)			
United States: 31.93% (2010: 34.82%)			
3,650,000	American Honda Finance 5.125% 03/10/2012	3,752,200	2.88
3,750,000	Calpine 7.25% 15/10/2017	3,047,606	2.34
1,250,000	CCO Holdings Capital Corp 7.00% Notes 15/01/2019	1,003,832	0.77
1,000,000	CCO Holdings Capital Corp 6.50% SR NT 30/04/2021	779,956	0.60
250,000	CCO Holdings Capital Corp 7.375% Bonds 01/06/2020	204,137	0.16
2,000,000	Chrysler 8.25% 15/06/2021	1,386,589	1.06
37	CityCenter 10.75% 15/01/2017	29	0.00
1,500,000	Clear Channel Communications 7.25% Bonds 15/10/2027	482,417	0.37
1,500,000	Clear Channel Communications 6.875% Debentures 15/06/2018	528,637	0.41
2,000,000	Crown Americas Capital Corp III 6.25% 01/02/2021	1,617,687	1.24
2,450,000	DPL 6.50% 15/10/2016	2,014,694	1.55
2,450,000	First Data 11.25% 31/03/2016	1,566,460	1.20
247,000	First Data 9.875% 24/09/2015	178,855	0.14
5,000,000	Ford Motor Credit 3.875% 15/01/2015	3,837,261	2.94
250,000	Ford Motor Credit 5.875% 02/08/2021	200,710	0.15
2,529,000	Fresenius Medical Care US Finance 5.75% 15/02/2021	1,945,722	1.49
1,300,000	Huntsman International 7.50% 01/01/2015	1,293,500	0.99
500,000	International Lease Finance 8.625% 15/01/2022	391,560	0.30
2,600,000	Isle of Capri Casinos 7.00% 01/03/2014	1,872,665	1.44
1,750,000	Linn Energy 6.50% 15/05/2019	1,337,962	1.03
671,000	Lyondell Chemical 8.00% 01/11/2017	567,286	0.44
500,000	MarkWest Energy Partners/MarkWest Energy Finance 6.25% 15/06/2022	402,496	0.31
1,000,000	Momentive Performance Materials 12.50% 15/06/2014	820,398	0.63
2,250,000	Peabody Energy 6.00% 15/11/2018	1,767,900	1.36
1,935,000	Quiksilver 6.875% 15/04/2015	1,384,379	1.06
1,850,000	Reynolds 7.75% 15/10/2016 series 144a	1,499,923	1.15
250,000	Reynolds 7.75% 15/10/2016 series regular	203,655	0.16
1,700,000	Rite Aid 9.75% 12/06/2016	1,440,511	1.10
1,000,000	SESI 7.125% 15/12/2021	808,843	0.62
700,000	Travelport 10.875% 01/09/2016	287,000	0.22
1,500,000	Visteon 6.75% 15/04/2019	1,158,379	0.89
3,000,000	Windstream 7.50% 01/04/2023	2,282,094	1.75
500,000	Windstream 7.50% 01/06/2022	384,201	0.29
1,500,000	WPX Energy 5.25% 15/01/2017	1,161,268	0.89
Total United States		41,610,812	31.93
Total Corporate Bonds		107,771,566	82.70

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Mortgage Backed Securities: 3.54% (2010: 0.00%)				
United States: 3.54% (2010: 0.00%)				
6,180,000	Nextel Communications 5.95% 15/03/2014		4,617,802	3.54
Total United States			4,617,802	3.54
Total Mortgage Backed Securities			4,617,802	3.54
Financial Derivative Instruments: 2.12% (2010: 1.69%)				
Credit Default Swaps: 2.12% (2010: 1.25%)				
2,500,000	American Axle & Manufacturing 20/12/2016	USD	138,566	0.11
500,000	Banco de Sabadell 20/12/2016	EUR	101,200	0.08
500,000	Bankinter 20/12/2016	EUR	78,389	0.06
750,000	Bankinter 20/12/2016	EUR	117,583	0.09
(500,000)	Bombardier 20/12/2016	USD	1,973	0.00
1,000,000	Boyd Gaming 20/12/2016	USD	169,519	0.13
(1,000,000)	Chesapeake Energy 20/12/2016	USD	23,034	0.02
(3,000,000)	Chesapeake Energy 20/12/2016	USD	69,101	0.05
500,000	Dixons Retail 20/12/2016	EUR	92,522	0.07
1,250,000	Dixons Retail 20/12/2016	EUR	231,305	0.18
(1,250,000)	Ford Motor Credit Company 20/12/2016	USD	75,444	0.06
2,000,000	INEOS 20/03/2013	EUR	74,278	0.06
(500,000)	Iron Mountain 20/12/2016	USD	22,781	0.02
(1,500,000)	Iron Mountain 20/12/2016	USD	68,343	0.05
1,500,000	Level 3 Communications 20/12/2016	USD	137,813	0.11
2,500,000	Next 20/12/2016	EUR	94,550	0.07
2,000,000	NXP 20/12/2016	EUR	267,902	0.21
(3,375,000)	Owens-Illinois 20/12/2016	USD	40,848	0.03
2,000,000	Renault 20/12/2016	EUR	332,036	0.25
2,000,000	Royal Caribbean cruises 20/12/2016	USD	24,308	0.02
1,000,000	Solvay 20/06/2014	EUR	13,594	0.01
1,500,000	Stena Aktiebolag 20/12/2016	EUR	198,178	0.15
(1,100,000)	Sunrise Communications 20/12/2016	EUR	0.00	0.00
1,500,000	Textron 20/12/2016	USD	66,816	0.05
750,000	UniCredit SpA 20/12/2016	EUR	111,992	0.09
2,000,000	Univision Communications 20/12/2016	USD	160,568	0.12
1,500,000	Wendel 20/12/2016	EUR	45,087	0.03
Total Credit Default Swaps			2,757,730	2.12

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Forward Currency Contracts : 0.00% (2010: 0.43%)				
			-	-
Open Futures Contracts: 0.00% (2010: 0.01%)				
			-	-
Total Financial Derivative Instruments			2,757,730	2.12
Total financial assets at fair value through profit or loss			115,147,098	88.36
Financial liabilities at fair value through profit or loss				
Financial Derivative Instruments: -4.60% (2010: -1.55%)				
	Credit Default Swaps: -4.37% (2010: -1.55%)	Currency	Fair Value €	% of Net Assets
(1,500,000)	Alcatel-Lucent 20/12/2016	EUR	(488,131)	(0.37)
(500,000)	Alcatel-Lucent 20/12/2016	EUR	(162,710)	(0.12)
(500,000)	Alcatel-Lucent 20/12/2016	EUR	(162,710)	(0.12)
(500,000)	Banco de Sabadell 20/12/2016	EUR	(87,670)	(0.07)
(750,000)	Bankinter 20/12/2016	EUR	(77,284)	(0.06)
(500,000)	Bankinter 20/12/2016	EUR	(51,523)	(0.04)
(1,500,000)	Bombardier 20/12/2016	USD	(188,389)	(0.14)
(500,000)	Bombardier 20/12/2016	USD	(62,796)	(0.05)
(500,000)	Bombardier 20/12/2016	USD	(62,796)	(0.05)
(750,000)	Caesars Entertainment 20/03/2014	USD	(151,001)	(0.12)
(500,000)	Caesars Entertainment 20/06/2014	USD	(116,707)	(0.09)
(500,000)	Caesars Entertainment 20/06/2014	USD	(113,084)	(0.09)
(1,500,000)	Caesars Entertainment 20/12/2014	USD	(431,613)	(0.33)
(2,500,000)	CDX NA HY 16% 20/06/2016	USD	(87,627)	(0.07)
(1,250,000)	CDX NA HY 16.5% 20/06/2016	USD	(43,814)	(0.03)
(1,000,000)	CDX NA HY 17.5% 20/06/2016	USD	(54,046)	(0.04)
(2,000,000)	CDX NA HY 17.5% 20/06/2016	USD	(108,091)	(0.08)
(2,000,000)	CDX NA HY 17.5% 20/06/2016	USD	(108,091)	(0.08)
1,500,000	Continental Aktiengesellschaft 20/12/2016	EUR	(4,142)	0.00
750,000	Continental Aktiengesellschaft 20/12/2016	EUR	(2,071)	0.00
(2,000,000)	El Paso 20/12/2016	USD	(122,457)	(0.09)
(500,000)	El Paso 20/12/2016	USD	(30,614)	(0.02)
(500,000)	El Paso 20/12/2016	USD	(30,614)	(0.02)
(500,000)	El Paso 20/12/2016	USD	(30,614)	(0.02)
(500,000)	Fiat 20/09/2012	EUR	(4,732)	0.00
(1,000,000)	Fiat Industrial 20/12/2014	EUR	(66,507)	(0.05)
(2,250,000)	Fiat Industrial 20/12/2016	EUR	(268,103)	(0.21)
(2,500,000)	Frontier Communications 20/12/2016	USD	(490,689)	(0.38)
(500,000)	Frontier Communications 20/12/2016	USD	(38,807)	(0.03)

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Credit Default Swaps -4.37% (2010: -1.55%) (continued)				
1,000,000	Gannett 20/12/2016	USD	(47,054)	(0.04)
500,000	Gannett 20/12/2016	USD	(23,527)	(0.02)
(500,000)	Glencore International 20/12/2016	EUR	(72,138)	(0.06)
(500,000)	HCA 20/12/2016	USD	(12,409)	(0.01)
(2,900,000)	HCA 20/12/2016	USD	(71,970)	(0.05)
2,500,000	HeidelbergCement 20/12/2016	EUR	(42,625)	(0.03)
(2,500,000)	Hertz 20/12/2016	USD	(89,160)	(0.07)
(1,500,000)	iTraxx Europe Crossover 20/12/2016	EUR	(137,280)	(0.11)
500,000	ITV 20/12/2016	EUR	(37,387)	(0.03)
500,000	ITV 20/12/2016	EUR	(37,387)	(0.03)
500,000	ITV 20/12/2016	EUR	(37,387)	(0.03)
(2,000,000)	Kinder Morgan Energy 20/12/2016	USD	(71,704)	(0.06)
(450,000)	Kinder Morgan Energy 20/12/2016	USD	(16,133)	(0.01)
(500,000)	M-real 20/12/2012	EUR	(6,899)	(0.01)
(500,000)	M-real 20/12/2012	EUR	(6,899)	(0.01)
(500,000)	M-real 20/12/2016	EUR	(6,899)	(0.01)
(2,500,000)	NRG Energy 20/12/2016	USD	(87,676)	(0.07)
(1,000,000)	ONO Finance 20/12/2016	EUR	(287,254)	(0.22)
(2,000,000)	Peugeot 20/12/2016	EUR	(396,064)	(0.30)
(500,000)	Sunrise Communications 20/12/2016	EUR	(38,474)	(0.03)
(2,100,000)	TRW Automotive 20/12/2016	USD	(207,479)	(0.16)
(1,050,000)	TRW Automotive 20/12/2016	USD	(103,740)	(0.08)
(1,250,000)	UPC 20/12/2016	EUR	(112,691)	(0.09)
(2,000,000)	Virgin Media Finance 20/03/2021	EUR	(35,094)	(0.03)
1,000,000	Vulcan Materials 20/12/2016	USD	(54,832)	(0.04)
Total Credit Default Swaps			(5,687,595)	(4.37)

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global High Yield Bond Fund (continued)

	Fair Value €	% of Net Assets
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Open Forward Currency Contracts: -0.19% (2010: 0.43%)

	Currency Buys	Currency Sells	Currency Rate	Maturity Date	Unrealised Loss	% of Net Assets
EUR	5,938,024 GBP	5,000,000	1.1876	21/03/2012	(39,816)	(0.03)
EUR	38,772,278 USD	50,500,000	0.7678	21/03/2012	(104,421)	(0.08)
EUR	38,770,105 USD	50,500,000	0.7677	21/03/2012	(106,594)	(0.08)
Total Fair Value loss on Forward Currency Contracts					(250,831)	(0.19)

Open Futures Contracts: -0.04% (2010: 0.00%)

Description	Currency	No. of Contracts	Unrealised Loss	% of Net Assets
Germany				
Eurx Eur-Bobl March 2012	EUR	(35)	(54,920)	(0.04)
Total Fair Value loss on Open Future Contracts			(54,920)	(0.04)
Total Financial Derivative Instruments			(5,993,346)	(4.60)
Total financial liabilities at fair value through profit or loss			(5,993,346)	(4.60)
Total financial assets and financial liabilities at fair value through profit or loss (2010: 92.44%) (Cost: EUR 110,929,409)			109,153,752	83.76
Cash at bank and clearing broker (2010: 5.71%)			19,037,080	14.61
Other Net Assets (2010: 1.85%)			2,124,644	1.63
Net assets attributable to holders of redeemable participating shares			130,315,476	100.00

Portfolio Classification

	% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market	79.03
OTC financial derivative instruments / mortgage backed securities	5.41
Cash and other assets	15.56
Total	100.00

The counterparties for the forward currency contracts are HSBC and Barclays, the counterparty for the credit default swaps and futures contracts is Goldman Sachs.

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value €	% of Net Assets
Corporate Bonds: 79.69% (2010: 84.79%)			
Australia: 3.72% (2010: 2.06%)			
1,000,000	Fairfax Media 6.25% 15/06/2012	981,100	0.75
500,000	FMG Resources 7.00% 01/11/2015	390,941	0.30
1,000,000	Newcrest Finance 4.45% 15/11/2021	761,329	0.58
1,500,000	Wesfarmers 2.98% 18/05/2016	1,164,682	0.89
2,000,000	Westpac Banking 3.00% 04/08/2015	1,558,529	1.20
Total Australia		4,856,581	3.72
Brazil: 0.00% (2010: 1.34%)			
Canada: 1.02% (2010: 2.94%)			
1,200,000	Encana 3.90% 15/11/2021	930,539	0.71
500,000	Potash Corp of Saskatchewan 3.25% 01/12/2017	403,460	0.31
Total Canada		1,333,999	1.02
Cayman Islands: 3.24% (2010: 0.94%)			
1,200,000	Braskem Finance 5.75% 15/04/2021	926,703	0.71
2,250,000	Noble Holding International 4.625% 01/03/2021	1,809,718	1.39
1,500,000	Petrobras International Finance 5.875% 07/03/2022	1,492,500	1.14
Total Cayman Islands		4,228,921	3.24
Denmark: 0.00% (2010: 0.39%)			
France: 4.27% (2010: 12.91%)			
2,100,000	Areva 3.50% 22/03/2021	1,656,566	1.27
850,000	AXA 5.25% 16/04/2040	621,245	0.48
800,000	Eutelsat 5.00% 14/01/2019	811,040	0.62
250,000	France Telecom 2.125% 16/09/2015	190,795	0.15
600,000	Rhodia 6.875% 15/09/2020	506,105	0.39
1,250,000	Valeo 3.75% 24/06/2013	1,259,800	0.97
500,000	Vallourec 4.25% 14/02/2017	508,700	0.39
Total France		5,554,251	4.27

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value €	% of Net Assets
Corporate Bonds (continued)			
Germany: 0.78% (2010: 5.70%)			
1,000,000	Volkswagen Leasing 3.25% 10/05/2018	1,011,704	0.78
Total Germany		1,011,704	0.78
Italy: 3.52% (2010: 1.39%)			
1,500,000	Banca Monte dei Paschi di Siena 4.125% 11/11/2013	1,427,427	1.09
500,000	Lottomatica 5.375% 05/12/2016	455,028	0.35
1,000,000	Pirelli 5.125% 22/02/2016	959,200	0.74
1,200,000	UniCredit 4.375% 31/01/2022	1,045,186	0.80
750,000	Unione di Banche Italiane 4.125% 21/10/2013	707,165	0.54
Total Italy		4,594,006	3.52
Jersey: 1.33% (2010: 0.00%)			
1,000,000	Gatwick Funding 6.125% 02/03/2026	1,306,347	1.00
600,000	ProSecure Funding 4.67% 30/06/2016	423,828	0.33
Total Jersey		1,730,175	1.33
Luxembourg: 0.64% (2010: 1.45%)			
500,000	GAZ Capital 8.125% 31/07/2014	416,939	0.32
600,000	Wind Acquisition Finance 11.75% 15/07/2017	415,977	0.32
Total Luxembourg		832,916	0.64
Mexico: 0.00% (2010: 1.72%)			
Netherlands: 5.79% (2010: 6.93%)			
1,000,000	ABN Amro Bank 4.25% 06/04/2021	1,083,646	0.83
700,000	Allianz Finance II 6.125% 31/05/2022	686,525	0.53
1,140,000	Brenntag Finance 5.50% 19/07/2018	1,155,732	0.89
1,400,000	EDP Finance 5.375% 02/11/2012	1,067,824	0.82
1,500,000	Heineken 5.00% 04/11/2013	1,579,257	1.21
700,000	ING Verzekeringen 3.268% 21/06/2021	592,900	0.45
1,300,000	Shell International Finance 6.375% 15/12/2038	1,383,410	1.06
Total Netherlands		7,549,294	5.79

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value €	% of Net Assets
Corporate Bonds (continued)			
Spain: 0.00% (2010: 0.97%)			
Sweden: 0.97% (2010: 0.00%)			
1,250,000	Skandinaviska Enskilda Banken 4.25% 21/02/2018	1,266,861	0.97
Total Sweden		1,266,861	0.97
United Kingdom: 8.09% (2010: 7.15%)			
500,000	Anglo American Capital 4.45% 27/09/2020	385,195	0.30
1,400,000	Barclays Bank 5.125% 08/01/2020	1,109,626	0.85
1,000,000	BAT International Finance 3.625% 09/11/2021	992,534	0.76
1,800,000	BP Capital Markets 2.25% 01/11/2016	1,395,431	1.07
1,000,000	HSBC Bank 4.00% 15/01/2021	1,017,830	0.78
1,000,000	HSBC 5.10% 05/04/2021	818,544	0.63
1,200,000	International Power Finance 7.25% 11/05/2017	1,328,880	1.02
1,250,000	Lloyds TSB Bank 4.50% 15/09/2014	1,230,208	0.94
1,000,000	Royal Bank of Scotland 5.25% 15/05/2013	999,619	0.77
1,250,000	Standard Chartered 3.875% 20/10/2016	1,267,149	0.97
Total United Kingdom		10,545,016	8.09
United States: 45.75% (2010: 38.90%)			
1,500,000	Anheuser-Busch 2.875% 15/02/2016	1,220,390	0.94
1,500,000	Bank of America 3.625% 17/03/2016	1,065,109	0.82
750,000	Bank of America 5.00% 13/05/2021	527,187	0.40
400,000	Berkshire Hathaway Finance 5.75% 15/01/2040	366,971	0.28
1,200,000	Boston Properties 3.70% 15/11/2018	945,306	0.73
2,000,000	Broadcom 2.70% 01/11/2018	1,560,049	1.20
750,000	Case New Holland 7.75% 01/09/2013	613,854	0.47
500,000	Citigroup 4.50% 14/01/2022	370,536	0.28
2,700,000	Citigroup 6.125% 21/11/2017	2,219,715	1.70
1,300,000	Comcast 5.85% 15/11/2015	1,140,348	0.87
2,100,000	ConocoPhillips 5.75% 01/02/2019	1,949,311	1.50

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)			
Nominal Holding	Financial assets at fair value through profit or loss	Fair Value €	% of Net Assets
Corporate Bonds (continued)			
United States: 45.75% (2010: 38.90%) (continued)			
1,100,000	Deere & Co 5.375% 16/10/2029	1,068,100	0.82
1,000,000	DirectTV 3.50% 01/03/2016	794,916	0.61
1,000,000	DirectTV 4.60% 15/02/2021	802,436	0.62
1,300,000	Embarq 7.082% 01/06/2016	1,085,491	0.83
2,000,000	Enterprise Products Operating 5.20% 01/09/2020	1,708,285	1.31
2,700,000	Exelon Generation 4.00% 01/10/2020	2,141,932	1.64
2,000,000	FirstEnergy Solutions 6.05% 15/08/2021	1,712,816	1.31
1,400,000	General Electric Capital 5.625% 15/09/2017	1,195,077	0.92
1,500,000	Gilead Sciences 5.65% 01/12/2041	1,284,127	0.99
2,000,000	Goldman Sachs 3.70% 01/08/2015	1,510,633	1.16
1,500,000	HJ Heinz 2.00% 12/09/2016	1,167,751	0.90
1,500,000	Honeywell International 4.25% 01/03/2021	1,307,128	1.00
1,250,000	International Lease Finance 5.75% 15/05/2016	893,138	0.69
500,000	International Paper 4.75% 15/02/2022	410,220	0.31
1,000,000	JPMorgan Chase 3.40% 24/06/2015	785,888	0.60
2,000,000	JPMorgan Chase 4.35% 15/08/2021	1,558,957	1.20
1,000,000	Kinder Morgan Energy Partners 5.30% 15/09/2020	838,920	0.64
1,500,000	Kraft Foods 5.375% 10/02/2020	1,335,494	1.02
1,500,000	Lorillard Tobacco 3.50% 04/08/2016	1,169,990	0.90
2,500,000	Marathon Petroleum 5.125% 01/03/2021	2,015,524	1.55
2,500,000	Millipore 5.875% 30/06/2016	2,817,250	2.16
1,500,000	Morgan Stanley 3.80% 29/04/2016	1,065,606	0.82
1,500,000	Morgan Stanley 4.10% 26/01/2015	1,096,797	0.84
2,000,000	Oracle 3.875% 15/07/2020	1,700,236	1.30
1,250,000	Peabody Energy 6.00% 15/11/2018	982,167	0.75
2,600,000	Pfizer 6.20% 15/03/2019	2,471,331	1.89
1,500,000	Simon Property 4.125% 01/12/2021	1,208,261	0.93
500,000	SLM 6.25% 25/01/2016	374,563	0.29
1,000,000	Teva Pharmaceutical Finance IV 1.70% 10/11/2014	776,282	0.60
1,000,000	Time Warner 4.875% 15/03/2020	836,168	0.64
650,000	Time Warner Cable 5.00% 01/02/2020	548,597	0.42
1,300,000	UnitedHealth Group 4.70% 15/02/2021	1,127,931	0.87
1,900,000	Verizon Communications 6.35% 01/04/2019	1,783,433	1.37
2,500,000	Verizon Wireless Capital 5.55% 01/02/2014	2,092,326	1.60
1,250,000	Waste Management 4.60% 01/03/2021	1,045,409	0.80
1,000,000	WEA Finance 6.75% 02/09/2019	859,181	0.66
1,400,000	Wells Fargo 5.625% 11/12/2017	1,228,933	0.94
Total United States		59,640,575	45.75

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Corporate Bonds (continued)				
British Virgin Islands: 0.57% (2010: 0.00%)				
750,000	Global Switch 5.50% 18/04/2018		742,455	0.57
Total British Virgin Islands			742,455	0.57
Total Corporate Bonds			103,886,754	79.69
Government Bonds: 5.93% (2010: 0.00%)				
United States: 5.93% (2010: 0.00%)				
3,000,000	United States (Government of) 0.375% 30/09/2012		2,315,404	1.77
7,000,000	United States (Government of) 0.625% 28/02/2013		5,421,149	4.16
Total United States			7,736,553	5.93
Total Government Bonds			7,736,553	5.93
Financial Derivative Instruments: 1.55% (2010: 0.91%)				
Credit Default Swaps : 1.29% (2010: 0.21%)		Currency	Fair Value €	% of Net Assets
750,000	Aktiebolaget Volvo 20/12/2016	EUR	52,426	0.04
1,000,000	American Express 20/09/2016	USD	3,160	0.00
750,000	Assicurazioni Generali 20/12/2016	EUR	82,133	0.06
500,000	Banco Bilbao Vizcaya Argentaria 20/09/2016	EUR	51,976	0.04
800,000	Banco de Sabadell 20/12/2016	EUR	161,919	0.12
400,000	Banco de Sabadell 20/12/2016	EUR	80,960	0.06
250,000	Banco Popular Espanol 20/06/2016	EUR	21,566	0.02
500,000	Banco Santander 20/12/2016	EUR	11,167	0.01
500,000	Bankinter 20/12/2016	EUR	125,817	0.10
2,000,000	Bayer 20/12/2016	EUR	45,744	0.04
500,000	Dixons Retail 20/12/2016	EUR	92,522	0.07
1,500,000	Dow Chemical 20/12/2016	USD	53,985	0.04
750,000	Eastman Chemical 20/12/2016	USD	581	0.00
(1,500,000)	Eli Lilly 20/12/2016	USD	16,019	0.01
1,000,000	EnBW Energie Baden 20/12/2016	EUR	15,045	0.01
1,500,000	Endesa 20/12/2016	EUR	55,220	0.04
1,400,000	Fairfax Media 20/06/2012	USD	6,872	0.01
1,000,000	Fiat 20/12/2016	EUR	169,189	0.13
(2,000,000)	GlaxoSmithKline 20/12/2016	EUR	44,438	0.03

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Credit Default Swaps 1.29% (2010: 0.21%) (continued)				
(2,000,000)	International Business Machines 20/12/2016	USD	43,759	0.03
1,200,000	iTraxx Europe 20/06/2016	EUR	36,202	0.03
500,000	iTraxx Europe 20/12/2016	EUR	45,760	0.04
3,500,000	iTraxx Europe 20/06/2016	EUR	105,588	0.08
1,000,000	Next 20/12/2016	EUR	37,820	0.03
600,000	Renault 20/12/2016	EUR	99,611	0.08
1,000,000	Telekom Austria Aktien 20/12/2016	EUR	29,087	0.02
(1,000,000)	Virgin 20/12/2016	EUR	16,402	0.01
(2,500,000)	Walmart 20/12/2016	USD	43,500	0.03
700,000	Wendel 20/12/2016	EUR	21,041	0.02
300,000	Wendel 20/12/2016	EUR	9,017	0.01
1,500,000	Whirlpool 20/12/2016	USD	103,079	0.08
Total Credit Default Swaps			1,681,605	1.29
Forward Currency Contracts: 0.00% (2010: 0.41%)				
Open Futures Contracts: 0.26% (2010: 0.29%)				
Description	Currency	No. of Contracts	Unrealised Gain	% of Net Assets
Canada				
10 year CDN Bonds March 2012	CAD	46	41,198	0.03
Germany				
Eurx E - Schatz March 2012	EUR	80	20,000	0.02
Euro Buxl-Bnd March 2012	EUR	2	10,400	0.01
Japan				
Tokyo Stock Exchange 10 year JGB March 2012	JPY	2	16,771	0.01
United Kingdom				
LIF Long Gilt March 2012	GBP	39	147,001	0.11
United States				
CBT Treasury Bond March 2012	USD	72	83,612	0.07
5 Year Treasury Notes March 2012	USD	16	4,752	0.00
2 Year Treasury Notes March 2012	USD	12	100	0.00
US Treasury Bond March 2012	USD	9	14,257	0.01
Total Fair Value Gains on Open Futures Contracts			338,091	0.26
Total Financial Derivative Instruments			2,019,696	1.55
Total financial assets at fair value through profit or loss			113,643,003	87.17

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)				
Nominal Holding	Financial assets at fair value through profit or loss		Fair Value €	% of Net Assets
Financial liabilities at fair value through profit or loss				
Financial Derivative Instruments: -1.77% (2010: 0.70%)				
	Credit Default Swaps : -1.30% (2010: -0.47%)	Currency	Fair Value €	% of Net Assets
(1,400,000)	Alcoa 20/12/2016	USD	(122,119)	(0.09)
(2,500,000)	Altaria 20/12/2016	USD	(14,424)	(0.01)
(400,000)	Banco de Sabadell 20/12/2016	EUR	(40,154)	(0.03)
(800,000)	Banco de Sabadell 20/12/2016	EUR	(140,271)	(0.11)
(500,000)	Bankinter 20/12/2016	EUR	(51,523)	(0.04)
(1,500,000)	Caterpillar Financial 20/12/2016	USD	(37,842)	(0.03)
(1,500,000)	CBS 1% 20/12/2016	USD	(6,877)	(0.01)
(1,250,000)	CDX NA IG 15.1% 20/12/2015	USD	(4,442)	0.00
(1,000,000)	CDX NA IG 16.1% 20/06/2016	USD	(5,755)	0.00
(1,000,000)	CDX NA IG 16.1% 20/06/2016	USD	(5,755)	0.00
(1,200,000)	Compagnie Financiere 20/12/2016	EUR	(59,371)	(0.04)
(750,000)	Constellation Energy 20/06/2016	USD	(9,183)	(0.01)
1,500,000	Continental 20/12/2016	EUR	(4,141)	0.00
(1,500,000)	Daimler 20/12/2016	EUR	(49,479)	(0.04)
(2,000,000)	Deutsche Telecom 20/12/2016	EUR	(20,690)	(0.02)
750,000	Ei DuPont de Numours 20/12/2016	USD	(8,692)	(0.01)
(1,300,000)	Fiat Industrial 20/12/2016	EUR	(154,904)	(0.12)
1,000,000	Fortum 20/12/2016	EUR	(668)	0.00
1,400,000	Gannett 20/12/2016	USD	(65,875)	(0.05)
(1,250,000)	General Electric 20/12/2016	USD	(63,422)	(0.05)
(2,000,000)	iTraxx Europe 20/06/2016	EUR	(60,336)	(0.05)
(2,000,000)	Metlife 20/12/2016	USD	(150,077)	(0.12)
(2,600,000)	National Rural Utilities 20/12/2016	USD	(26,108)	(0.02)
(500,000)	Peugeot 20/12/2016	EUR	(99,016)	(0.08)
(2,000,000)	Prudential Financial 20/12/2016	USD	(112,782)	(0.09)
1,000,000	Stora Enso 20/12/2016	EUR	(49,861)	(0.04)
1,250,000	The Sherwin Williams 20/12/2016	USD	(18,503)	(0.01)
(2,100,000)	TRW Automotive 20/12/2016	USD	(207,476)	(0.16)
1,000,000	Vodafone 20/09/2016	EUR	(1,781)	0.00
(1,500,000)	Xerox 20/12/2016	USD	(95,708)	(0.07)
Total Credit Default Swaps			(1,687,235)	(1.30)

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Global Investment Grade Fund (continued)							Fair Value	% of Net
Financial assets at fair value through profit or loss							€	Assets
Financial Derivative Instruments (continued)								
Open Forward Currency Contracts : -0.22% (2010: -0.01%)								
	Currency		Currency	Currency	Maturity	Unrealised	% of Net	
	Buy		Sells	Rate	Date	Loss	Assets	
EUR	8,669,515	GBP	7,300,000	1.1876	21/03/2012	(58,131)	(0.04)	
EUR	42,239,459	USD	55,000,000	0.7680	21/03/2012	(101,500)	(0.08)	
EUR	42,208,988	USD	55,000,000	0.7674	21/03/2012	(131,972)	(0.10)	
Total Fair Value loss on Forward Currency Contracts							(291,603)	(0.22)
Open Futures Contracts: -0.25% (2010: -0.22%)								
Description				Currency	No. of Contracts	Unrealised Loss	% of Net Assets	
Germany								
Eurx Eur-Bobl March 2012				EUR	(15)	(17,939)	(0.01)	
Eurx Eur-Bund March 2012				EUR	(14)	(42,380)	(0.03)	
United States								
10 Year Treasury Note March 2012				USD	(227)	(271,416)	(0.21)	
Total Fair Value loss on Open Futures Contracts							(331,735)	(0.25)
Total Financial Derivative Instruments							(2,310,573)	(1.77)
Total financial liabilities at fair value through profit or loss							(2,310,573)	(1.77)
Total financial assets and liabilities at fair value through profit or loss (2010: 85.00%) (Cost: EUR 108,541,187)							111,332,430	85.40
Cash at bank and clearing broker (2010: 13.75%)							17,565,724	13.48
Other Net Assets (2010: 1.25%)							1,465,729	1.12
Net assets attributable to holders of redeemable participating shares							130,363,883	100.00
Portfolio Classification								% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market								84.06
Financial derivative instruments dealt in on a regulated market								0.26
OTC financial derivative instruments								1.27
Cash and other assets								14.41
								100.00

The counterparties for the forward currency contracts are HSBC, Northern Trust and UBS. The counterparty for the credit default swaps and futures contracts is Goldman Sachs.

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Commodities Index Fund II				Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss			£	Assets
Deposits: 98.79% (2010: 0.00%)					
United Kingdom: 98.79% (2010: 0.00%)					
7,000,000	ING Bank 1.05% 15/03/2012			7,000,000	19.64
6,000,000	National Australia Bank 0.80% 28/03/2012			6,000,000	16.83
7,000,000	Nationwide Building Society 1.00% 29/02/2012			7,000,000	19.65
3,500,000	Royal Bank of Scotland 1.80% 02/11/2012			3,500,000	9.82
4,700,000	Lloyds 0.54% 03/01/2012			4,700,000	13.19
Total United Kingdom				35,200,000	98.78
Total Deposits				35,200,000	98.78
Total Return Swaps: 0.00% (2010: 0.00%)					
	Termination Date	Amount Index* Leg	Amount Interest Leg	Unrealised Gain/Loss	% of Net Assets
MOTC - USD 3MTBILL 21BPS	29/02/2012	5,800,000	(5,800,000)	-	-
UBS Strategy 1 - USD 3MTBILL 11BPS	29/06/2012	14,600,000	(14,600,000)	-	-
UBS Strategy 2 - USD 3MTBILL 12BPS	29/02/2012	14,900,000	(14,900,000)	-	-
UBS Strategy 3 - USD 3MTBILL 12BPS	29/02/2012	7,684,814	(7,684,814)	-	-
UBS Strategy 4 - USD 3MTBILL 15BPS	29/06/2012	5,800,000	(5,800,000)	-	-
Total - Total Return Swaps				-	-
Total investments at fair value through profit or loss (Cost: GBP 35,200,000)				35,200,000	98.78
Cash at bank (2010: 0.00%)				372,649	1.05
Other Net Assets (2010: 0.00%)				58,800	0.17
Net assets attributable to holders of redeemable participating shares				35,631,449	100.00
Portfolio Classification					% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market					98.70
Financial derivative instruments dealt in on a regulated market					-
Cash and other assets					1.30
Total					100.00

* Dow Jones – USB Commodity Index Total Return

Hermes Commodities Index Fund II has entered into the open total return swap contracts listed above. Any gain or loss is based on the movement in the index price between the date when the contract was set and the next payment or reset date. The contracts are generally reset monthly. After the contracts are reset the fund still has an ongoing obligation as the termination date of these contracts will be at some date in the future. These dates are stated above.

Any gains or losses are realised when the swaps are reset and as such all losses on the swaps were realised as at 31 December 2011. There were no unrealised gains or losses as at 31 December 2011.

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap Europe Ex-UK Fund		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Equities: 99.43% (2010: 0.00%)			
Bermuda: 2.93% (2010: 0.00%)			
36,908	Seadrill	947,329	2.93
Total Bermuda		947,329	2.93
Denmark: 7.99% (2010: 0.00%)			
13,757	Novo Nordisk	1,220,430	3.78
27,663	Novozymes	657,522	2.03
5,854	Topdanmark	704,774	2.18
Total Denmark		2,582,726	7.99
France: 7.13% (2010: 0.00%)			
14,117	Bureau Veritas	791,258	2.45
7,801	LVMH Moet Hennessy Louis Vuitton	849,529	2.63
12,014	Sodexo	663,053	2.05
Total France		2,303,840	7.13
Germany: 27.48% (2010: 0.00%)			
19,018	Adidas	956,415	2.96
20,559	Bayer	1,010,989	3.12
12,158	Fresenius	869,662	2.69
14,105	Fuchs Petrolub	477,525	1.48
15,646	Kabel Deutschland	613,949	1.90
8,149	Linde	935,098	2.89
10,561	Merck	810,662	2.51
9,471	Muenchener Rueckversicherungs	895,483	2.77
18,000	Porsche Automobil	737,460	2.28
23,236	SAP	950,817	2.94
22,011	Software	626,103	1.94
Total Germany		8,884,163	27.48

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap Europe Ex-UK Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Equities (continued)			
Jersey: 1.70% (2010: 0.00%)			
6,982	Randgold Resources	549,393	1.70
Total Jersey		549,393	1.70
Luxembourg: 2.34% (2010: 0.00%)			
40,820	SES	756,190	2.34
Total Luxembourg		756,190	2.34
Netherlands: 5.66% (2010: 0.00%)			
21,646	ASML	702,954	2.17
203,005	ING Groep	1,128,302	3.49
Total Netherlands		1,831,256	5.66
Norway: 10.16% (2010: 0.00%)			
121,543	DnB	912,772	2.82
58,319	Statoil	1,149,667	3.56
68,531	Telenor	863,640	2.67
11,618	Yara International	358,262	1.11
Total Norway		3,284,341	10.16
Spain: 2.03% (2010: 0.00%)			
10,364	Inditex	655,523	2.03
Total Spain		655,523	2.03

Hermes Investment Funds Public Limited Company
Portfolio Statement (continued)
As at 31 December 2011

Hermes Sourcecap Europe Ex-UK Fund (continued)		Fair Value	% of Net
Nominal Holding	Financial assets at fair value through profit or loss	€	Assets
Equities (continued)			
Sweden: 14.82% (2010: 0.00%)			
22,682	Elekta	759,083	2.35
39,660	Hennes & Mauritz	978,226	3.02
103,638	Swedbank	1,034,124	3.20
35,569	Swedish Match	973,027	3.01
69,786	Tele2	1,046,859	3.24
Total Sweden		4,791,319	14.82
Switzerland: 8.95% (2010: 0.00%)			
16,198	Cie Financiere Richemont	632,793	1.96
9,143	Roche	1,196,119	3.70
4,702	Syngenta	1,062,852	3.29
Total Switzerland		2,891,764	8.95
United Kingdom: 8.24% (2010: 0.00%)			
100,626	ARM	709,431	2.19
22,998	Astra Zeneca	814,781	2.52
35,287	Pearson	509,787	1.58
294,987	Vodafone	630,610	1.95
Total United Kingdom		2,664,609	8.24
Total Equities		32,142,453	99.43
Total financial assets at fair value through profit or loss (2010: 0.00%) (Cost: EUR 31,365,232)		32,142,453	99.43
Cash at bank (2010: 0.00%)		188,688	0.58
Other Net Liabilities (2010: 0.00%)		(3,537)	(0.01)
Net assets attributable to holders of redeemable participating shares		32,327,604	100.00
Portfolio Classification			% of Total Assets
Transferable securities admitted to official stock exchange listing or traded on a regulated market			99.42
Cash and other assets			0.58
Total			100.00

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

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

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

The accompanying notes form an integral part of these Financial Statements

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

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss	7	147,411,292	116,554,642	148,095,656	136,482,086
Cash at bank	3	6,360,104	4,879,763	418,213	1,376,597
Cash at clearing broker	3	361,733	209,667	-	-
Dividends and interest receivable		330,974	432,618	-	221,054
Variation margin receivable		-	-	-	-
Sundry debtors		5,698	5,536	4,729	11,768
Total Assets		154,469,801	122,082,226	148,518,598	138,091,505
Liabilities					
Financial liabilities at fair value through profit or loss	7	-	-	-	-
Securities purchased payable		-	290,765	-	-
Sub-custody fee payable	4 (d)	2,551	3,636	5,675	11,968
Investment Advisory fee payable	4 (b)	-	-	-	92
Investment Management Fee payable	4 (a)	2	2	3	2,260
Administration fee payable	4 (c)	23,329	20,107	22,778	18,877
Custody fee payable	4 (d)	1,713	1,204	1,549	1,231
Variation margin payable		-	-	-	-
Other accrued expenses	4	12,730	11,127	13,180	11,277
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		40,325	326,841	43,185	45,705
Net assets attributable to holders of redeemable participating shares		154,429,476	121,755,385	148,475,413	138,045,800

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

The accompanying notes form an integral part of these Financial Statements

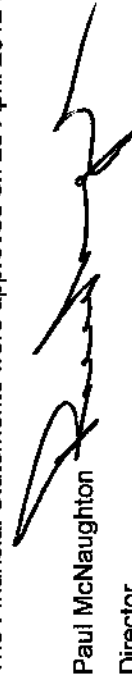
Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2011 (continued)

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

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

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

The Financial Statements were approved on 23 April 2012 by the Board of Directors and signed on its behalf by:


Paul McNaughton
 Director


Brian Collins
 Director

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2010

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss	7	203,436,726	75,567,632	79,170,012	34,650,185
Cash at bank	3	5,911,917	2,119,232	734,412	243,960
Cash at clearing broker	3	1,695,195	-	153,821	-
Dividends and interest receivable		409,111	74,302	26,226	47,945
Variation margin receivable		-	-	-	-
Sundry debtors		19,044	12,432	7,876	5,916
Total Assets		211,471,993	77,773,598	80,092,347	34,948,006
Liabilities					
Financial liabilities at fair value through profit or loss	7	260,490	-	2,225	-
Securities purchased payable		-	-	-	-
Sub-custody fee payable	4 (d)	17,833	1,958	2,014	1,323
Administration fee payable	4 (c)	4,315	2,158	4,315	4,315
Custody fee payable	4 (d)	880	322	325	144
Other accrued expenses	4	14,441	10,298	9,774	8,396
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		297,959	14,736	18,653	14,178
Net assets attributable to holders of redeemable participating shares		211,174,034	77,758,862	80,073,694	34,933,828

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

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2010 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
Assets	Notes	£	£	£	£
Financial assets at fair value through profit or loss	7	148,987,683	129,727,953	58,984,002	113,943,149
Cash at bank	3	11,757,836	3,365,430	4,451	718,636
Cash at clearing broker	3	372,431	-	-	-
Dividends and interest receivable		263,845	336,614	-	55,179
Variation margin receivable		-	-	-	-
Sundry debtors		6,486	6,190	5,421	12,840
Total Assets		161,388,281	133,436,187	58,993,874	114,729,804
Liabilities					
Financial liabilities at fair value through profit or loss	7	-	-	-	-
Securities purchased payable		-	384,014	-	-
Sub-custody fee payable	4 (d)	634	757	630	2,782
Administration fee payable	4 (c)	4,315	4,315	2,158	2,158
Custody fee payable	4 (d)	781	430	237	479
Other accrued expenses	4	12,558	12,222	11,495	11,999
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		18,288	401,738	14,520	17,418
Net assets attributable to holders of redeemable participating shares		161,369,993	133,034,449	58,979,354	114,712,386

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

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Balance Sheet
As at 31 December 2010 (continued)

		Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Total
	Notes	€*	€*	£
Assets				
Financial assets at fair value through profit or loss	7	121,729,100	105,205,286	1,038,919,397
Cash at bank	3	7,256,761	15,429,136	44,294,617
Cash at clearing broker	3	136,925	1,455,032	3,585,539
Dividends and interest receivable		2,413,716	1,475,832	4,546,038
Variation margin receivable		-	120,784	103,495
Sundry debtors		13,456	13,528	99,327
Total Assets		131,549,958	123,699,598	1,091,548,413
Liabilities				
Financial liabilities at fair value through profit or loss	7	2,001,286	853,258	2,708,673
Securities purchased payable		-	-	384,014
Sub-custody fee payable	4 (d)	2,276	1,756	31,386
Administration fee payable	4 (c)	10,926	10,922	46,770
Custody fee payable	4 (d)	553	532	4,528
Other accrued expenses	4	17,327	65,115	161,825
Total liabilities (excluding net assets attributable to holders of redeemable participating shares)		2,032,368	931,583	3,337,196
Net assets attributable to holders of redeemable participating shares		129,517,590	122,768,015	1,088,211,217

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

*Euro denominated sub-funds are converted to GBP using the year end exchange rate of 1.167.

The accompanying notes form an integral part of these Financial Statements

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

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

The accompanying notes form an integral part of these Financial Statements

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

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

The accompanying notes form an integral part of these Financial Statements

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

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

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

The accompanying notes form an integral part of these Financial Statements

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

Gains and losses arose solely from continuing operations. There were no gains or losses other than those dealt with in the Income Statement.

The Financial Statements were approved on 23 April 2012 by the Board of Directors and signed on its behalf by:



Paul McNaughton
Director



Brian Collins
Director

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2010

		Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		4,435,801	1,146,071	1,375,666	796,918
Bank interest income		80,682	18	-	996
Bond interest income		-	-	-	-
Net fair value gain on financial assets and liabilities at fair value through profit or loss		29,834,435	11,673,733	15,851,944	4,808,919
Investment Income		34,350,918	12,819,822	17,227,610	5,606,833
Expenses					
General expenses	4(g)	(30,082)	(2,556)	(3,476)	(2,714)
Advisory fee	4(b)	2,681	821	988	450
Administration fee	4(c)	(20,386)	(10,056)	(19,829)	(19,829)
Sub-custody fee	4(d)	(103,127)	(11,262)	(11,223)	(6,661)
Custody fee	4(d)	(4,714)	(1,716)	(1,686)	(777)
Directors' fees	4(e)	(28,979)	(9,287)	(10,159)	(4,768)
Audit fee	4(f)	(6,739)	(6,739)	(6,739)	(6,739)
Operating Expenses		(191,346)	(40,795)	(52,124)	(41,038)
Operating Profit		34,159,572	12,779,027	17,175,486	5,565,795
Finance costs					
Bank interest expense		(56,742)	(567)	(90)	(528)
		(56,742)	(567)	(90)	(528)
Net Profit before taxation		34,102,830	12,778,460	17,175,396	5,565,267
Taxation					
Withholding tax		(550,063)	(163,476)	(192,842)	(114,488)
Increase in net assets attributable to holders of redeemable participating shares from operations		33,552,767	12,614,984	16,982,554	5,450,779

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2010 (continued)

		Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	Notes	£	£	£	£
Investment Income					
Dividend income		4,208,183	3,918,902	1,077,141	2,742,850
Bank interest income		196	16,551	818	1,562
Bond interest income		-	-	-	4,110
Net fair value gain on financial assets and liabilities at fair value through profit or loss		40,309,219	18,301,994	8,018,405	12,468,289
Investment Income		44,517,598	22,237,447	9,096,364	15,216,811
Expenses					
General expenses	4(g)	(3,541)	(8,161)	(15,483)	(9,033)
Advisory fee	4(b)	2,037	1,940	-	-
Administration fee	4(c)	(19,829)	(19,829)	(7,674)	(9,409)
Sub-custody fee	4(d)	(4,051)	(4,569)	(4,657)	(14,879)
Custody fee	4(d)	(3,433)	(3,010)	(1,274)	(2,433)
Directors' fees	4(e)	(20,775)	(18,977)	(5,783)	(10,284)
Audit fee	4(f)	(6,739)	(6,739)	(6,739)	(6,739)
Operating Expenses		(56,331)	(59,345)	(41,610)	(52,777)
Operating Profit		44,461,267	22,178,102	9,054,754	15,164,034
Finance costs					
Bank interest expense		-	-	-	-
		-	-	-	-
Net Profit before taxation		44,461,267	22,178,102	9,054,754	15,164,034
Taxation					
Withholding tax		(408,975)	(356,207)	(75,400)	(451,648)
Increase in net assets attributable to holders of redeemable participating shares from operations		44,052,292	21,821,895	8,979,354	14,712,386

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Income Statement
For the year ended 31 December 2010 (continued)

		Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Total
	Notes	€*	€*	£
Investment Income				
Dividend income		-	-	19,701,532
Bank interest income		-	-	100,823
Bond interest income		6,087,053	3,061,735	7,843,383
Net fair value gain on financial assets and liabilities at fair value through profit or loss		6,331,588	2,606,214	148,925,425
Investment Income		12,418,641	5,667,949	176,571,163
Expenses				
General expenses	4(g)	(14,208)	(14,426)	(99,585)
Advisory fee	4(b)	-	-	8,917
Administration fee	4(c)	(40,572)	(40,568)	(196,367)
Sub-custody fee	4(d)	(9,204)	(6,724)	(174,077)
Custody fee	4(d)	(1,958)	(1,940)	(22,383)
Directors' fees	4(e)	(9,389)	(9,727)	(125,392)
Audit fee	4(f)	(7,868)	(7,867)	(67,395)
Operating Expenses		(83,199)	(81,252)	(676,282)
Operating Profit		12,335,442	5,586,697	175,894,881
Finance costs				
Bank interest expense		-	(831)	(58,639)
		-	(831)	(58,639)
Net Profit before taxation		12,335,442	5,585,866	175,836,242
Taxation				
Withholding tax		-	-	(2,313,099)
Increase in net assets attributable to holders of redeemable participating shares from operations		12,335,442	5,585,866	173,523,143

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.165

The accompanying notes form an integral part of these Financial Statements

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

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

The accompanying notes form an integral part of these Financial Statements

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

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

The accompanying notes form an integral part of these Financial Statements

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

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

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

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2010

	Hermes Global Emerging Markets Fund £	Hermes Global Equity Select Fund £	Hermes Pan European Small Cap Companies Fund £	Hermes Quant Global Equity Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year	177,621,267	65,143,878	63,091,140	29,483,049
Redeemable participating share transactions				
Issue of redeemable participating shares for the year	-	-	-	-
Redemption of redeemable participating shares for the year	-	-	-	-
Net increase/(decrease) in net assets from redeemable participating share transactions	-	-	-	-
Increase in net assets attributable to holders of redeemable participating shares from operations	33,552,767	12,614,984	16,982,554	5,450,779
Net assets attributable to holders of redeemable participating shares at the end of the year	211,174,034	77,758,862	80,073,694	34,933,828

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2010 (continued)

	Hermes UK Small and Mid Cap Companies Fund £	Hermes UK Smaller Companies Fund £	Hermes Japan Equity Fund £	Hermes Sourcecap European Alpha Fund £
Net assets attributable to holders of redeemable participating shares at the beginning of the year	130,317,701	123,212,554	-	-
Redeemable participating share transactions				
Issue of redeemable participating shares for the year	-	-	50,000,000	100,000,000
Redemption of redeemable participating shares for the year	(13,000,000)	(12,000,000)	-	-
Net increase/(decrease) in net assets from redeemable participating share transactions	(13,000,000)	(12,000,000)	50,000,000	100,000,000
Increase in net assets attributable to holders of redeemable participating shares from operations	44,052,292	21,821,895	8,979,354	14,712,386
Net assets attributable to holders of redeemable participating shares at the end of the year	161,369,993	133,034,449	58,979,354	114,712,386

The accompanying notes form an integral part of these Financial Statements

Hermes Investment Funds Public Limited Company
Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares
For the year ended 31 December 2010 (continued)

	Hermes Global High Yield Bond Fund €*	Hermes Global Investment Grade Fund €*	Total £
Net assets attributable to holders of redeemable participating shares at the beginning of the period	-	-	588,869,589
Redeemable participating share transactions			
Issue of redeemable participating shares for the period	117,182,148	117,182,149	350,818,485
Redemption of redeemable participating shares for the period	-	-	(25,000,000)
Net increase in net assets from redeemable participating share transactions	117,182,148	117,182,149	325,818,485
Increase in net assets attributable to holders of redeemable participating shares from operations	12,335,442	5,585,866	173,523,143
Net assets attributable to holders of redeemable participating shares at the end of the period	129,517,590	122,768,015	1,088,211,217

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.165

The accompanying notes form an integral part of these Financial Statements

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

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

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

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

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

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

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

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

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2010

	Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	3,622,625	950,552	1,163,705	670,531
Interest received	80,661	18	-	996
Operating expenses paid	(205,076)	(35,944)	(55,552)	(37,621)
Purchase of financial assets	(107,242,943)	(67,218,630)	(36,986,930)	(14,383,383)
Proceeds from sales of financial assets	104,446,959	67,428,146	35,883,156	13,967,106
Net Cash Inflow from Operating Activities	702,226	1,124,142	4,379	217,629
Cash Flows from Financing Activities				
Subscriptions	-	-	-	-
Redemptions	-	-	-	-
Interest paid	(56,742)	(567)	(90)	(528)
Net Cash Outflow from Financing Activities	(56,742)	(567)	(90)	(528)
Increase in cash and cash equivalents	645,484	1,123,575	4,289	217,101
Cash and cash equivalents at the beginning of the year	6,961,628	995,657	883,944	26,859
Cash and cash equivalents at the end of the year	7,607,112	2,119,232	888,233	243,960
Cash and cash equivalents at the end of the year is comprised of:				
Cash at bank	5,911,917	2,119,232	734,412	243,960
Cash at clearing broker	1,695,195	-	153,821	-
	7,607,112	2,119,232	888,233	243,960

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2010 (continued)

	Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund
	£	£	£	£
Cash Flows from Operating Activities				
Dividends received	3,706,090	3,378,675	1,001,741	2,236,023
Interest received	196	12,699	818	5,672
Operating expenses paid	(64,695)	(53,204)	(33,150)	(49,189)
Purchase of financial assets	(42,250,372)	(34,157,355)	(93,217,130)	(36,319,786)
Proceeds from sales of financial assets	62,085,749	40,236,596	42,252,172	(65,154,084)
Net Cash Inflow/(Outflow) from Operating Activities	23,476,968	9,417,411	(49,995,549)	(99,281,364)
Cash Flows from Financing Activities				
Subscriptions	-	-	50,000,000	100,000,000
Redemptions	(13,000,000)	(12,000,000)	-	-
Interest paid	-	-	-	-
Net Cash (Outflow)/Inflow from Financing Activities	(13,000,000)	(12,000,000)	50,000,000	100,000,000
Increase/(Decrease) in cash and cash equivalents	10,476,968	(2,582,589)	4,451	718,636
Cash and cash equivalents at the beginning of the year	1,653,299	5,948,019	-	-
Cash and cash equivalents at the end of the year	12,130,267	3,365,430	4,451	718,636
Cash and cash equivalents at the end of the year is comprised of:				
Cash at bank	11,757,836	3,365,430	4,451	718,636
Cash at clearing broker	372,431	-	-	-
	12,130,267	3,365,430	4,451	718,636

Hermes Investment Funds Public Limited Company
Cash Flow Statement
For the year ended 31 December 2010 (continued)

	Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Total
	€*	€*	£
Cash Flows from Operating Activities			
Dividends received	3,673,337	1,585,903	21,236,399
Interest received	-	-	101,060
Operating expenses paid	(65,573)	(63,904)	(645,375)
Purchase of financial assets	(260,954,824)	(230,482,057)	(852,871,424)
Proceeds from sales of financial assets	147,558,598	128,662,909	537,830,247
Net Cash Outflow from Operating Activities	(109,788,462)	(100,297,149)	(294,349,093)
Cash Inflows from Financing Activities			
Subscriptions	117,182,148	117,182,148	350,818,482
Redemptions	-	-	(25,000,000)
Interest paid	-	(831)	(58,639)
Net Cash Inflow from Financing Activities	117,182,148	117,181,317	325,759,843
Increase in cash and cash equivalents	7,393,686	16,884,168	31,410,750
Cash and cash equivalents at the beginning of the period/year	-	-	16,469,406
Cash and cash equivalents at the end of the period/year	7,393,686	16,884,168	47,880,156
Cash and cash equivalents at the end of the period/year is comprised of:			
Cash at bank	7,256,761	15,429,136	44,294,617
Cash at clearing broker	136,925	1,455,032	3,585,539
	7,393,686	16,884,168	47,880,156

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

*Euro denominated sub-funds are converted to GBP using the average exchange rate of 1.165.

Hermes Investment Funds Public Limited Company

Notes to the Financial Statements for year ended 31 December 2011

1. Incorporation and Principal Activity

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

Twelve sub-funds have been launched since incorporation:

<u>Name of the sub-fund</u>	<u>Share Class</u>	<u>Launch date</u>
Hermes Global Emerging Markets Fund	Z GBP Accumulating	9 December 2008
Hermes Global Emerging Markets Fund	R EUR Accumulating	12 October 2011
Hermes Global Emerging Markets Fund	T GBP Accumulating	24 October 2011
Hermes Global Equity Select Fund	Z GBP Accumulating	22 October 2009
Hermes Global Equity Select Fund	R EUR Accumulating	12 October 2011
Hermes Global Equity Select Fund	T GBP Accumulating	24 October 2011
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	5 December 2008
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	12 October 2011
Hermes Quant Global Equity Fund	Z GBP Accumulating	5 December 2008
Hermes Quant Global Equity Fund	F GBP Distributing	11 March 2011
Hermes Quant Global Equity Fund	R EUR Accumulating	12 October 2011
Hermes Quant Global Equity Fund	T GBP Accumulating	24 October 2011
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	7 May 2009
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	12 October 2011
Hermes UK Smaller Companies Fund	Z GBP Accumulating	7 May 2009
Hermes UK Smaller Companies Fund	R EUR Accumulating	12 October 2011
Hermes Japan Equity Fund	Z GBP Accumulating	18 January 2010
Hermes Japan Equity Fund	R EUR Accumulating	12 October 2011
Hermes Japan Equity Fund	T GBP Accumulating	24 October 2011
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	15 January 2010
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	13 April 2011
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	16 November 2011
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	24 October 2011
Hermes Global High Yield Bond Fund	Z GBP Accumulating	11 May 2010
Hermes Global High Yield Bond Fund	R EUR Accumulating	11 October 2011
Hermes Global Investment Grade Fund	Z GBP Accumulating	11 May 2010
Hermes Global Investment Grade Fund	R EUR Accumulating	11 October 2011
Hermes Commodities Index Fund II	Z GBP Accumulating	15 June 2011
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	21 December 2011

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

1. Incorporation and Principal Activity (continued)

Investment Objective

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

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

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

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

Hermes Pan European Small Cap Companies Fund - The investment objective of the sub-fund is to provide long-term capital appreciation by investing primarily in equity securities of small-capitalisation companies listed in Europe.

The Index this sub-fund is benchmarked against is the MSCI Europe Small Cap Index.

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

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

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

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

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

The Index this sub-fund is benchmarked against is the FTSE All Small Ex Investment Companies Index.

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

1. Incorporation and Principal Activity (continued)

Investment Objective (continued)

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

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

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

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

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

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

Hermes Commodities Index Fund II - The investment objective of the sub-fund is to achieve returns (net of any fees and expenses) equivalent to the performance of the Commodity Benchmark Index while maintaining a similar volatility to the Commodity Benchmark Index.

The Index this sub-fund is benchmarked against the Dow Jones-UBS Commodity Index Total Return.

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

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

Hermes Investment Funds Public Limited Company

Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies

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

Basis of Preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Irish statute comprising the Companies Act 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011.

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

Foreign exchange translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Foreign exchange adjustments on aggregation

A foreign exchange adjustment on aggregation arises as disclosed in the Statement of Changes in Net Assets Attributable to Holders of Redeemable participating shares and Cash Flow Statement from the re-translations of Euro based sub-funds Income Statement and Statement of Changes in Net Assets converted using the average exchange rate for the year, versus the year end exchange rate.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

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

(a) Classification

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

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

(i) Financial assets and liabilities held for trading

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

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

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

(b) Recognition/derecognition

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

(c) Measurement

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

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

(c) Measurement (continued)

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

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

(d) Fair value estimation

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

Derivatives

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

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

Futures

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

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

(d) Fair value estimation (continued)

Futures (continued)

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

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

Forward currency contracts

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

Warrants

Warrants are securities providing a return generated by a specified underlying equity or basket of equities. Warrants are valued at the prevailing market price at the reporting date. The resulting unrealised gains and losses for the year are included in the Balance Sheet and Income Statement. Realised gains and losses are included in the Income Statement.

Credit Default Swaps

Credit default swaps are ("OTC") contracts in which the sub-fund pays or receives an interest flow in return for the counterparty accepting all or part of the risk of default or failure to pay off a reference entity on which the swap return is written. Where the sub-fund has bought protection the maximum potential loss is the value of the interest flows the sub-funds is contracted to pay until maturity of the contract. Where the sub-fund has sold protection the maximum potential loss is the nominal value of the protection sold. At the year end, only Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund invested in credit default swaps.

Total Return Swaps

The Funds may enter into total return swaps in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. Total return swaps are valued at their fair value. The fair value is based on their quoted market prices or obtained from a third party provider at the Balance Sheet date without any deduction for estimated future selling costs. Financial assets are priced at last prices, while financial liabilities are priced at current asking prices. At the year end, only Hermes Commodities Index Fund II invested in total return swaps.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

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

(d) Fair value estimation (continued)

Mortgage Backed Securities

The Fund principally invests in mortgage backed securities ("MBS") that are not traded in any active market. The fair value of MBS are estimated by the Directors based on prices obtained from third party brokers. The brokers use market bid and ask prices for similar investments to determine these prices and such financial instruments are included under level 2. At the year end, only Hermes Global High Yield Bond Fund invested in MBS.

Income from investments

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

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

Cash and other liquid assets

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

Net assets attributable to holders of redeemable participating shares

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

Operating Expenses

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

New Standards and Interpretations not yet adopted by the Company

A number of new standards, amendments to standards and interpretations in issue are not yet effective, and have not been applied in preparing these financial statements. None of these are currently expected to have a material effect on the financial statements of the Company, with the possible exception of IFRS 9 Financial Instruments, published on 12th November 2009 and 25th October 2010, as part of phase I of the IASB's comprehensive project to replace IAS 39.

IFRS 9 Financial Instruments

IFRS 9 deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

On 12 May 2011 the IASB issued the following four standards. The standards are applicable for periods beginning on or after 1 January 2013 with earlier application permitted.

IFRS 10 Consolidated Financial Statements

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

2. Significant Accounting Policies (continued)

New Standards and Interpretations not yet adopted by the Company (continued)

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosures of Involvement with Other Entities

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

IFRS 13 Fair Value Measurement

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

The directors are currently considering the impact of these standards on the financial statements.

3. Cash and cash equivalents

Cash at Bank

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

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

Cash balances are also held with Goldman Sachs and Lloyds Bank.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

3. Cash and cash equivalents (continued)

Cash at Clearing Broker

The Company is exposed to counterparty risk through its Clearing Broker, Goldman Sachs which has a credit rating of A from Standard & Poors and A1 from Moodys.

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

	Hermes Global Emerging Markets Fund	Hermes Global Equity Select Fund	Hermes Pan European Small Cap Companies Fund	Hermes Quant Global Equity Fund	
	£	£	£	£	
Northern Trust (Guernsey)	5,997,927	1,929,060	1,725,616	611,010	
Goldman Sachs	-	-	160,567	-	
Lloyds Bank	-	-	-	-	
	5,997,927	1,929,060	1,886,183	611,010	

	Hermes UK Small and Mid Cap Companies Fund	Hermes UK Smaller Companies Fund	Hermes Japan Equity Fund	Hermes Sourcecap European Alpha Fund	
	£	£	£	£	
Northern Trust (Guernsey)	160,104	179,763	418,213	1,376,597	
Goldman Sachs	361,733	209,667	-	-	
Lloyds Bank	6,200,000	4,700,000	-	-	
	6,721,837	5,089,430	418,213	1,376,597	

	Hermes Global High Yield Bond Fund	Hermes Global Investment Grade Fund	Hermes Commodities Index Fund II	Hermes Sourcecap Europe Ex-UK Fund	Total
	*€	*€	£	*€	£
Northern Trust (Guernsey)	18,879,351	15,335,059	372,649	188,688	41,508,064
Goldman Sachs	157,729	2,230,665	-	-	2,727,007
Lloyds Bank	-	-	-	-	10,900,000
	19,037,080	17,565,724	372,649	188,688	55,135,071

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

3. Cash and cash equivalents (continued)

As at 31 December 2010 the cash amounts held with Northern Trust (Guernsey) Limited, Goldman Sachs International and Societe Generale were as follows:

	Hermes Global Emerging Markets Fund £	Hermes Global Equity Select Fund £	Hermes Pan European Small Cap Companies £	Hermes Quant Global Equity Fund £
Northern Trust (Guernsey)	5,911,917	2,119,232	734,412	243,960
Goldman Sachs International	1,695,195	-	153,821	-
	7,607,112	2,119,232	888,233	243,960
	Hermes UK Small and Mid Cap Companies Fund £	Hermes UK Smaller Companies Fund £	Hermes Japan Equity Fund £	Hermes Sourcecap European Alpha Fund £
Northern Trust (Guernsey)	257,836	3,365,430	4,451	718,636
Goldman Sachs International	372,431	-	-	-
Societe Generale	11,500,000	-	-	-
	12,130,267	3,365,430	4,451	718,636
	Hermes Global High Yield Bond Fund €*	Hermes Global Investment Grade Fund €*	Total £	
Northern Trust (Guernsey)	7,256,761	15,429,136	32,794,617	
Goldman Sachs International	136,925	1,455,032	3,585,539	
Societe Generale	-	-	11,500,000	
	7,393,686	16,884,168	47,880,156	

*Euro sub-funds are converted to GBP using the year end exchange rate 1.167

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

4. Fees and Other Expenses

(a) Investment Management Fees

In the year to 31 December 2011 there were Class Z Sterling Accumulating Shares in issue on all Funds. As per Client Agreement there are no investment management fees or expenses charged to the assets attributable to Class Z Shares. Shareholders of Class Z are subject to a fee with regard to their investment in each sub-fund, based on the Client Agreement between them and the Investment Manager. This fee cannot exceed 3% per annum of the value of the Shareholder's holding in the sub-fund.

In the year to 31 December 2011 there were Class T Sterling Accumulating Shares in issue on Hermes Global Emerging Markets Fund, Hermes Global Equity Select Fund, Hermes Quant Global Equity Fund, Hermes Japan Equity Fund and Hermes Sourcecap European Alpha Fund. As per Client Agreement there are no investment management fees or expenses charged to the assets attributable to Class T Shares. Shareholders of Class T are subject to a fee with regard to their investment in each sub-fund, based on the Client Agreement between them and the Investment Manager. This fee cannot exceed 1% per annum of the value of the Shareholder's holding in the sub-fund.

The Investment Manager is entitled to an annual fee at a rate of up to 1% of the Net Asset Value in respect of the Class F Shares for all sub-funds except Hermes Commodities Index Fund II (where there is an annual fee at a rate of up to 0.35%), Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund (where there is an annual fee at a rate of up to 1.25%). Please refer to note 1 for Class F Shares launched during the year.

The Investment Manager is entitled to an annual fee in respect of the Class R Shares for Hermes Global Emerging Markets Fund, Hermes Global Equity Select Fund, Hermes Pan European Small Cap Companies Fund, Hermes Quant Global Equity Fund, Hermes Japan Equity Fund, Hermes Sourcecap European Alpha Fund and Hermes Sourcecap Europe Ex-UK at a rate of up to 1.50%; Hermes Commodities Index Fund II at a rate of up to 0.85%; Hermes UK Smaller Companies Fund, Hermes UK Small and Mid Cap Companies Fund, Hermes High Yield Bond Fund and Hermes Investment Grade Fund at a rate of up to 1.25%. Please refer to note 6 for Class R Shares launched during the year.

(b) Advisory Fees (voting and engagement services)

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

(c) Administration Fees

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

4. Fees and Other Expenses (continued)

(c) Administration Fees (continued)

Administration Fees effective from 31 March 2011

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

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

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

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

In respect of the Hermes Commodities Index Fund II, an annual fee (plus any applicable value added tax) of 0.04% of the first £100,000,000 of the Net Asset Value of the Fund, 0.035% of the Net Asset Value of the Fund on amounts between £100,000,000 and £200,000,000 and 0.03% thereafter, subject to a monthly minimum of £4,000.

Administration Fees for the period from 1 January 2011 to 31 March 2011

The Administrator is entitled to a fee at a rate up to 0.0075% of the Net Asset Value of each sub-fund, with the exception of Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund, accrued and calculated daily and payable monthly in arrears, subject to an annual minimum fee of £25,000. This minimum fee may be increased by £2,500 per annum for each additional share class created after the establishment of the sub-fund. The Administrator agreed to waive the minimum annual fee for a period of 6 months from the close of the Initial Offer Period of the relevant sub-fund, and further, to reduce it by 50% for the subsequent 12 months.

The Administrator is entitled to receive an annual fee from the Company of 0.05% of the Net Asset Value of the Hermes Global High Yield Bond Fund and Hermes Global Investment Grade Fund on the first £100,000,000 and 0.04% of the Net Asset Value of the Funds thereafter, subject to a monthly minimum fee of £4,500 to be accrued and paid monthly in arrears.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

4. Fees and Other Expenses (continued)

(d) Custodian and Sub-custodian Fees

Northern Trust Fiduciary Services (Ireland) Limited act as a Custodian of the Company. The Custodian is a Private Limited Company incorporated in Ireland on 5th July 1990 and is a wholly-owned subsidiary of Northern Trust GFS Holdings Limited which in turn is wholly-owned by Northern Trust Corporation.

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

(e) Directors' Fees

The Company shall pay to the Directors such annual fees for acting as Directors of the Company as the Directors may from time to time agree, provided however that the annual fees of each Director shall not exceed €50,000 without the approval of the Board of Directors. Director's fees will total not more than €110,000 (net of VAT) on a per annum basis. No other remuneration will be payable by the Company to the Directors except for out-of-pocket expenses reasonably incurred by them. Patrick Galligan has waived his rights to receive Directors' fees from the Company.

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

Deloitte & Touche, as statutory auditors, received €72,500 (2010: €65,000) in relation to the audit of the Company's Financial Statements. There were no other assurance, tax advisory or non audit services provided by the statutory auditors.

(g) Other Fees and Expenses

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

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

Details of each of the fees payable at the year end in respect of each sub-fund are disclosed in the Balance Sheet on pages 97 to 102.

5. Related Party Disclosures

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

5. Related Party Disclosures (continued)

(a) Investment Management

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

The investment management fees rate for each of the sub-funds is disclosed in Note 4.

Patrick Galligan is connected through employment with the parent company of the Investment Manager.

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

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

(b) Advisor

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

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

6. Share Capital

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

6. Share Capital (continued)

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

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

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

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

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

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

6. Share Capital (continued)

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global Emerging Markets Fund	Z GBP Accumulating	100,849,979	-	-	100,849,979
Hermes Global Emerging Markets Fund	R EUR Accumulating	-	500	-	500
Hermes Global Emerging Markets Fund	T GBP Accumulating	-	122,621	(32,106)	90,515
Hermes Global Equity Select Fund	Z GBP Accumulating	61,000,000	-	-	61,000,000
Hermes Global Equity Select Fund	R EUR Accumulating	-	500	-	500
Hermes Global Equity Select Fund	T GBP Accumulating	-	444,487	(321,567)	122,920
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	40,873,395	-	-	40,873,395
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	-	500	-	500
Hermes Quant Global Equity Fund	Z GBP Accumulating	21,897,579	40,117,353	-	62,014,932
Hermes Quant Global Equity Fund	F GBP Distributing	-	124,367	-	124,367
Hermes Quant Global Equity Fund	R EUR Accumulating	-	500	-	500
Hermes Quant Global Equity Fund	T GBP Accumulating	-	192,105	(77,872)	114,233
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	71,654,681	-	-	71,654,681
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	-	500	-	500
Hermes UK Smaller Companies Fund	Z GBP Accumulating	70,516,371	-	-	70,516,371
Hermes UK Smaller Companies Fund	R EUR Accumulating	-	500	-	500
Hermes Japan Equity Fund	Z GBP Accumulating	50,000,000	85,574,084	-	135,574,084
Hermes Japan Equity Fund	R EUR Accumulating	-	500	-	500
Hermes Japan Equity Fund	T GBP Accumulating	-	36,676	-	36,676
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	-	2,415,542	(1,097,062)	1,318,480
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	-	14,645,434	(246,767)	14,398,667
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	-	121,953	(39,027)	82,926

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

6. Share Capital (continued)

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global High Yield Bond Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global High Yield Bond Fund	R EUR Accumulating	-	500	-	500
Hermes Global Investment Grade Fund	Z GBP Accumulating	100,000,000	-	-	100,000,000
Hermes Global Investment Grade Fund	R EUR Accumulating	-	500	-	500
Hermes Commodities Index Fund II	Z GBP Accumulating	-	42,000,000	-	42,000,000
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	-	26,283,467	-	26,283,467

The movement in the number of redeemable participating shares during the year ended 31 December 2010 was as follows:

	Class	Opening Shares	Subscriptions	Redemptions	Closing Shares
Hermes Global Emerging Markets Fund	Z GBP Accumulating	100,849,979	-	-	100,849,979
Hermes Global Equity Select Fund	Z GBP Accumulating	61,000,000	-	-	61,000,000
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	40,873,395	-	-	40,873,395
Hermes Quant Global Equity Fund	Z GBP Accumulating	21,897,579	-	-	21,897,579
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	79,023,231	-	(7,368,550)	71,654,681
Hermes UK Smaller Companies Fund	Z GBP Accumulating	77,767,336	-	(7,250,965)	70,516,371
Hermes Japan Equity Fund	Z GBP Accumulating	-	50,000,000	-	50,000,000
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	-	100,000,000	-	100,000,000
Hermes Global High Yield Bond Fund	Z GBP Accumulating	-	100,000,000	-	100,000,000
Hermes Global Investment Grade Fund	Z GBP Accumulating	-	100,000,000	-	100,000,000

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management

Strategy in using financial instruments

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

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

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

Market price risk

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

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

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

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

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

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

As at 31 December 2011 and 2010 the overall market exposure for each sub-fund is as shown in the Portfolio Statements, other than for derivatives where the exposure could be greater.

7. Financial risk management (continued)

Market Price Risk (continued)

At 31 December 2011 and 2010, market price risks defined by IFRS 7 applying to each sub-fund are affected by two main components: changes in market prices and currency exchange rates. The sub-funds which hold Bonds will be affected by a third component, bond interest rates. IFRS 7 requires a sensitivity analysis showing how the net asset values of the sub-funds would be affected by changes in each of these factors.

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

For details of market price risk sensitivity analysis please refer to market price and sensitivity analysis on pages 161 to 163.

Currency risk

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency Risk (continued)

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

Hermes Global Emerging Markets Fund

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency Risk (continued)

Hermes Global Equity Select Fund

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

Hermes Pan European Small Cap Companies Fund

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes Quant Global Equity Fund

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

Hermes UK Small and Mid Cap Companies Fund

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes UK Smaller Companies Fund

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

Hermes Japan Equity Fund

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

Hermes Sourcecap European Alpha Fund

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

Hermes Global High Yield Bond Fund

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes Global Investment Grade Fund

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

Hermes Commodities Index Fund II

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

Hermes Sourcecap Europe Ex-UK Fund

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

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

For details of currency risk sensitivity analysis please refer to market price and sensitivity analysis on pages 161 to 163.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

At 31 December 2010 each sub-fund's currency exposure was as follows:

Hermes Global Emerging Markets Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Brazilian real	16,594	-	-	16,594
British pound	1,518	3	-	1,521
Canadian dollar	3,795	-	-	3,795
Egyptian pound	3,253	-	-	3,253
Euro	-	11	-	11
Hong Kong dollar	13,219	1,039	10,253	24,511
Hungarian forint	2,904	-	-	2,904
Indian rupee	6,665	-	-	6,665
Indonesian rupiah	4,480	-	-	4,480
Korean won	29,223	377	-	29,600
Malaysian ringgit	2,124	-	-	2,124
Mexican peso	2,624	-	-	2,624
Philippine peso	984	-	-	984
Russian ruble	4,713	-	-	4,713
South African rand	16,625	318	(3,695)	13,248
Taiwan dollar	11,949	585	-	12,534
Thai baht	6,084	-	-	6,084
Turkish lira	7,112	-	-	7,112
US dollar	69,791	5,378	(6,752)	68,417
	<u>203,657</u>	<u>7,711</u>	<u>(194)</u>	<u>211,174</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes Global Equity Select Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	9,867	4	-	9,871
Danish kroner	1,341	-	-	1,341
Euro	8,612	-	-	8,612
Hong Kong dollar	1,605	-	-	1,605
Japanese yen	2,997	-	-	2,997
Korean won	1,094	-	-	1,094
Norwegian Kroner	3,218	31	(31)	3,218
Swedish krona	1,811	-	-	1,811
Swiss franc	1,032	-	-	1,032
Taiwan dollar	1,974	-	-	1,974
US dollar	42,091	2,083	30	44,204
	<u>75,642</u>	<u>2,118</u>	<u>(1)</u>	<u>77,759</u>

Hermes Pan European Small Cap Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	26,355	173	329	26,857
Danish kroner	2,197	-	-	2,197
Euro	34,734	722	(331)	35,125
Norwegian Kroner	4,339	-	-	4,339
Swedish Krona	4,638	-	-	4,638
Swiss Franc	6,918	-	-	6,918
	<u>79,181</u>	<u>895</u>	<u>(2)</u>	<u>80,074</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes Quant Global Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
Australian dollar	1,106	1	-	1,107
British pound	2,909	3	-	2,912
Canadian dollar	1,035	1	-	1,036
Danish kroner	425	-	-	425
Euro	3,619	-	-	3,619
Hong Kong dollar	876	-	-	876
Japanese yen	2,517	-	-	2,517
Norwegian kroner	1,756	2	(2)	1,756
Singapore dollar	288	-	-	288
Swedish krona	966	-	-	966
Swiss franc	1,188	1	-	1,189
US dollar	18,005	236	2	18,243
	<u>34,690</u>	<u>244</u>	<u>-</u>	<u>34,934</u>

Hermes UK Small and Mid Cap Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	145,938	12,238	-	158,176
Euro	3,194	-	-	3,194
	<u>149,132</u>	<u>12,238</u>	<u>-</u>	<u>161,370</u>

Hermes UK Smaller Companies Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	129,669	3,365	-	133,034
	<u>129,669</u>	<u>3,365</u>	<u>-</u>	<u>133,034</u>

Hermes Japan Equity Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	(9)	-	-	(9)
Japanese yen	58,984	4	-	58,988
	<u>58,975</u>	<u>4</u>	<u>-</u>	<u>58,979</u>

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Currency risk (continued)

Hermes Sourcecap European Alpha Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	£'000	£'000	£'000	£'000
British pound	28,983	-	-	28,983
Czech koruna	1,225	-	-	1,225
Danish kroner	3,409	-	-	3,409
Euro	48,075	664	53	48,792
Norwegian kroner	17,252	55	(55)	17,252
Swedish krona	9,327	-	-	9,327
Swiss franc	5,724	-	-	5,724
	<u>113,995</u>	<u>719</u>	<u>(2)</u>	<u>114,712</u>

Hermes Global High Yield Bond Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
British pound	6,224	81	(6,183)	122
Euro	60,481	5,455	62,469	128,405
US dollar	54,856	1,866	(55,731)	991
	<u>121,561</u>	<u>7,402</u>	<u>555</u>	<u>129,518</u>

Hermes Global Investment Grade Fund

	Non-monetary Assets	Monetary Assets	Hedging	Total
	€'000	€'000	€'000	€'000
Canadian dollar	3,258	13	(3,296)	(25)
Euro	42,640	15,443	63,367	121,450
British pound	3,756	1,166	(4,783)	139
Japanese yen	-	44	-	44
US dollar	55,641	318	(54,799)	1,160
	<u>105,295</u>	<u>16,984</u>	<u>489</u>	<u>122,768</u>

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

For details of currency risk sensitivity analysis please refer to market price and sensitivity analysis on pages 161 to 163.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Interest rate risk

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

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

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

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

In accordance with the Fund's policy, the Investment Manager monitors the sub-funds interest rate exposures on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings. The Investment Manager has systems in place to review the interest rate risk through modified duration calculations and in 2011 has hedged a portion of its interest rate risk by shorting fixed income futures.

As at 31 December 2011 the sub-funds interest rate exposures were as follows:

Hermes Global High Yield Bond Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total 31/12/2011 €
Assets					
Financial assets	9,732,500	55,447,951	47,208,917	2,757,730	115,147,098
Cash	19,037,080	-	-	-	19,037,080
Interest receivable	-	-	-	2,188,007	2,188,007
Total Assets	28,769,580	55,447,951	47,208,917	4,945,737	136,372,185
Liabilities					
Financial liabilities	-	-	-	5,993,346	5,993,346
Accrued expenses	-	-	-	63,363	63,363
Total Liabilities	-	-	-	6,056,709	6,056,709
Interest sensitivity gap for Balance Sheet	28,769,580	55,447,951	47,208,917	(1,110,972)	130,315,476

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Interest rate risk (continued)

Hermes Global Investment Grade Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total 31/12/2011 €
Assets					
Financial assets	4,364,328	55,482,495	51,776,488	2,019,692	113,643,003
Cash	17,565,724	-	-	-	17,565,724
Securities sold receivable	-	-	-	-	-
Interest receivable	-	-	-	1,574,123	1,574,123
Total Assets	21,930,052	55,482,495	51,776,488	3,593,815	132,782,850
Liabilities					
Financial liabilities	-	-	-	2,310,573	2,310,573
Accrued expenses	-	-	-	108,394	108,394
Total Liabilities	-	-	-	2,418,967	2,418,967
Interest sensitivity gap for Balance Sheet	21,930,052	55,482,495	51,776,488	1,174,848	130,363,883

Hermes Commodities Index Fund II	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total 31/12/2011 €
Assets					
Financial assets	35,200,000	-	-	-	35,200,000
Cash	372,649	-	-	-	372,649
Securities sold receivable	-	-	-	-	-
Interest receivable	-	-	-	89,722	89,722
Total Assets	35,572,649	-	-	89,722	35,662,371
Liabilities					
Cash overdraft	-	-	-	-	-
Financial liabilities	-	-	-	-	-
Accrued expenses	-	-	-	30,922	30,922
Total Liabilities	-	-	-	30,922	30,922
Interest sensitivity gap for Balance Sheet	35,572,649	-	-	58,800	35,631,449

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Interest rate risk (continued)

As at 31 December 2010 the sub-funds' interest rate exposure was as follows:-

Hermes Global High Yield Bond Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total 31/12/2010 €
Assets					
Financial assets	-	50,324,001	69,221,689	2,183,410	121,729,100
Cash	7,393,686	-	-	-	7,393,686
Interest receivable	2,427,172	-	-	-	2,427,172
Total Assets	9,820,858	50,324,001	69,221,689	2,183,410	131,549,958
Liabilities					
Financial liabilities	-	-	-	2,001,286	2,001,286
Accrued expenses	-	-	-	31,082	31,082
Total Liabilities	-	-	-	2,032,368	2,032,368
Interest sensitivity gap for Balance Sheet	9,820,858	50,324,001	69,221,689	151,042	129,517,590
Hermes Global Investment Grade Fund	Up to 1 year €	1-5 years €	Over 5 years €	Non interest bearing €	Total 31/12/2010 €
Assets					
Financial assets	5,998,860	23,575,737	74,523,563	1,107,125	105,205,285
Cash and cash equivalents	16,884,168	-	-	-	16,884,168
Interest receivable	1,610,144	-	-	-	1,610,144
Total Assets	24,493,172	23,575,737	74,523,563	1,107,125	123,699,597
Liabilities					
Financial liabilities	-	-	-	853,258	853,258
Accrued expenses	-	-	-	78,325	78,325
Total Liabilities	-	-	-	931,583	931,583
Interest sensitivity gap for Balance Sheet	24,493,172	23,575,737	74,523,563	175,542	122,768,014

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Credit risk

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

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

A Total Return Swap gives the Sub-Fund economic exposure to the performance of the Reference Portfolio in exchange for a floating rate of return being paid by the Sub-Fund to the Approved Counterparty. The Sub-Fund purchases Funding Assets and transfers the economic interest in such Funding Assets to the Approved Counterparty under a total return swap (the "Funding Swap") in exchange for a floating rate of return being received by the Sub-Fund from the Approved Counterparty. The floating rate of return received under the Funding Swap shall be equal to that paid to the Approved Counterparty under the Portfolio Total Return Swap referred to above.

At 31 December 2011 and 2010 none of the sub-funds' financial assets were past due or impaired.

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

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

Both Northern Trust Fiduciary Services (Ireland) Limited and the Northern Trust (Guernsey) Limited are wholly owned subsidiaries of Northern Trust Corporation. As at 31 December 2011 Northern Trust Corporation had a long term rating from Standard & Poors of A+.

The securities held by the Company are legally held with the Custodian, which holds the securities in segregated accounts, and subject to any security given by the Company to secure its overdraft facilities, the Company's securities should be returned to the Company in the event of the insolvency of the Custodian or its appointed agents, although it may take time for the Company to prove its entitlement to the securities and for them to be released by the liquidator of the insolvent institution.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Credit risk (continued)

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

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

Thus in the event of insolvency or bankruptcy of the Sub-Custodian the Fund's securities are segregated and protected and this further reduces counterparty risk.

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

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

Name of the sub-fund	Cash £
Hermes Global Emerging Markets Fund	5,997,927
Hermes Global Equity Select Fund	1,929,060
Hermes Pan European Small Cap Companies Fund	1,886,183
Hermes Quant Global Equity Fund	611,010
Hermes UK Small and Mid Cap Companies Fund	6,721,837
Hermes UK Smaller Companies Fund	5,089,430
Hermes Japan Equity Fund	418,213
Hermes Sourcecap European Alpha Fund	1,376,597
Hermes Commodities Index Fund II	35,572,649
	€
Hermes Global High Yield Bond Fund	19,037,080
Hermes Global Investment Grade Fund	17,565,724
Hermes Sourcecap Europe Ex-UK Fund	188,688

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Credit risk (continued)

The value of the assets exposed to credit risk at 31 December 2010 amounted to:

Name of the sub-fund	Cash £
Hermes Global Emerging Markets Fund	7,607,112
Hermes Global Equity Select Fund	2,119,232
Hermes Pan European Small Cap Companies Fund	888,233
Hermes Quant Global Equity Fund	243,960
Hermes UK Small and Mid Cap Companies Fund	12,130,267
Hermes UK Smaller Companies Fund	3,365,430
Hermes Japan Equity Fund	4,451
Hermes Sourcecap European Alpha Fund	718,636
	€
Hermes Global High Yield Bond Fund	126,939,376
Hermes Global Investment Grade Fund	120,982,329

Liquidity risk

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

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Fair value measurement risk

The following is a summary of the inputs used to value each sub-funds assets and liabilities carried at fair value as at 31 December 2011, as discussed in note 2.

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I £	Level II £	Level III £	Total £
Hermes Global Emerging Markets Fund				
Equities	164,933,738	-	-	164,933,738
Warrants	4,477,304	-	-	4,477,304
	169,411,042	-	-	169,411,042
Hermes Global Equity Select Fund				
Equities	72,021,166	-	-	72,021,166
Hermes Pan European Small Cap Companies Fund				
Equities	63,555,652	-	-	63,555,652
Futures	16,350	-	-	16,350
	63,572,002	-	-	63,572,002
Hermes Quant Global Equity Fund				
Equities	94,754,117	-	-	94,754,117
Hermes UK Small and Mid Cap Companies Fund				
Equities	147,368,782	-	-	147,368,782
Futures	42,510	-	-	42,510
	147,411,292	-	-	147,411,292
Hermes UK Smaller Companies Fund				
Equities	116,525,212	-	-	116,525,212
Futures	29,430	-	-	29,430
	116,554,642	-	-	116,554,642
Hermes Japan Equity Fund				
Equities	148,095,656	-	-	148,095,656

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Fair value measurement risk (continued)

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	£	£	£	£
Hermes Sourcecap European Alpha Fund				
Equities	136,482,086	-	-	136,482,086
Hermes Commodities Index Fund II				
Deposits	35,200,000	-	-	35,200,000
Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I	Level II	Level III	Total
	€	€	€	€
Hermes Global High Yield Bond Fund				
Bonds	-	112,389,368	-	112,389,368
Credit Default Swaps	-	2,757,730	-	2,757,730
Credit Default Swaps	-	(5,687,595)	-	(5,687,595)
Forward currency contracts	-	(250,831)	-	(250,831)
Futures	(54,920)	-	-	(54,920)
	(54,920)	109,208,672	-	109,153,752
Hermes Global Investment Grade Fund				
Bonds	-	111,623,307	-	111,623,307
Credit Default Swaps	-	1,681,605	-	1,681,605
Credit Default Swaps	-	(1,687,235)	-	(1,687,235)
Forward currency contracts	-	(291,603)	-	(291,603)
Futures	338,091	-	-	338,091
Futures	(331,735)	-	-	(331,735)
	6,356	111,326,074	-	111,332,430
Hermes Sourcecap Europe Ex-UK Fund				
Equities	32,142,453	-	-	32,142,453

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Fair value measurement risk (continued)

The following is a summary of the inputs used to value each sub-funds assets and liabilities carried at fair value as at 31 December 2010, as discussed in note 2.

Fair value measurement risk

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I £	Level II £	Level III £	Total £
Hermes Global Emerging Markets Fund				
Equities	195,147,953	-	-	195,147,953
Warrants	8,079,266	-	-	8,079,266
Futures	143,397			143,397
Forward currency contracts	-	(194,380)	-	(194,380)
	203,370,616	(194,380)	-	203,176,236
Hermes Global Equity Select Fund				
Equities	75,567,632	-	-	75,567,632
Hermes Pan European Small Cap Companies Fund				
Equities	79,162,827	-	-	79,162,827
Futures	7,185			7,185
Forward currency contracts	-	(2,225)		(2,225)
	79,170,012	(2,225)	-	79,167,787
Hermes Quant Global Equity Fund				
Equities	34,650,185	-	-	34,650,185
Hermes UK Smaller Companies Fund				
Equities	129,727,953	-	-	129,727,953
Hermes UK Small and Mid Cap Companies Fund				
Equities	148,879,908	-	-	148,879,908
Futures	107,775	-	-	107,775
	148,987,683	-	-	148,987,683
Hermes Japan Equity Fund				
Equities	58,984,002	-	-	58,984,002
Hermes Sourcecap European Alpha Fund				
Equities	113,943,149	-	-	113,943,149

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Fair value measurement risk (continued)

The following is a summary of the inputs used to value each sub-funds assets and liabilities carried at fair value as at 31 December 2010, as discussed in note 2.

Fund name	Financial assets and liabilities at fair value through profit or loss			
	Level I €	Level II €	Level III €	Total €
Hermes Global High Yield Bond Fund				
Bonds	-	119,545,690	-	119,545,690
Credit Default Swaps	-	(381,303)	-	(381,303)
Forward currency contracts	-	555,547	-	555,547
Futures	7,880	-	-	7,880
	7,880	119,719,934	-	119,727,814
Hermes Global Investment Grade Fund				
Bonds	-	104,098,161	-	104,098,161
Credit Default Swaps	-	(334,321)	-	(334,321)
Forward currency contracts	-	489,360	-	489,360
Futures	98,828	-	-	98,828
	98,828	104,253,200	-	104,352,028

There were no transfers between levels during 2011 and 2010.

Sensitivity analysis

Some limitations of sensitivity analysis are:

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

The portfolio's as at 31 December 2011 were stressed tested using a risk based model by applying a 20% movement to their benchmark to determine the percentage change disclosed overleaf:

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Sensitivity analysis (continued)

	Change (%)	Impact £ (unless stated)	Per Share £ (unless stated)
Hermes Global Emerging Markets Fund			
Market Price test: Decrease MSCI Emerging Markets Free Bmk by 20%	(18.84%)	142,412,829	1.41
Currency test: Change GBP/USD FX rate by 20%	(12.25%)	153,979,204	1.53
Hermes Global Equity Select Fund			
Market Price test: Decrease MSCI AC World Bmk by 20%	(18.66%)	60,282,889	0.99
Currency test: Change GBP/USD FX rate by 20%	(8.78%)	67,610,057	1.11
Hermes Pan European Small Cap Companies Fund			
Market Price test: Decrease MSCI European Small Cap Bmk by 20%	(19.47%)	52,770,185	1.29
Currency test: Change GBP/EUR FX rate by 20%	(14.72%)	55,880,403	1.37
Hermes Quant Global Equity Fund			
Market Price test: Decrease MSCI World Bmk by 20%	(20.27%)	76,124,359	1.22
Currency test: Change GBP/USD FX rate by 20%	(9.80%)	86,116,187	1.38
Hermes UK Small and Mid Cap Companies Fund			
Market Price test: Decrease Composite Bmk by 20%	(18.39%)	126,036,424	1.76
Hermes UK Smaller Companies Fund			
Market Price test: Decrease FTSE All Small XIT Bmk by 20%	(15.61%)	102,754,752	1.46
Hermes Japan Equity Fund			
Market Price test: Decrease Topix Bmk by 20%	(18.78%)	120,585,315	0.89
Currency test: Change GBP/JPY FX rate by 20%	(3.88%)	56,736,662	1.13
Hermes Sourcecap European Alpha Fund			
Market Price test: Decrease FTSE All-World Europe Bmk by 20%	(18.71%)	112,210,789	0.97
Currency test: Change GBP/EUR FX rate by 20%	(14.59%)	117,910,228	1.02
Hermes Global High Yield Bond Fund			
Market Price test: Decrease ML Global HY Constrained ex Fin Bmk by 20%	(12.56%)	€95,181,410	€0.95
Interest Rate Test: USD/EUR/GBP/JPY rates +50bps	(3.77%)	€104,749,623	€1.05
Currency test: combined EUR/USD/GBP FX rate by 20%	1.19%	€110,148,752	€1.10
Hermes Global Investment Grade Fund			
Market Price test: Decrease ML Global Corp IG ex Sub Fin Debt Bmk by 20%	(15.38%)	€92,145,960	€0.92
Interest Rate Test: USD/EUR/GBP/JPY rates +50bps	(0.96%)	€107,848,450	€1.08
Currency test: combined EUR/USD/GBP FX rate by 20%	(0.81%)	€108,011,791	€1.08
Hermes Commodities Index Fund II			
Market Price test: Decrease DJ UBS Commodities Bmk by 20%	(20.00%)	28,505,159	0.68
Hermes Sourcecap Europe Ex UK Fund			
Market Price test: Decrease FTSE All-World Europe Bmk by 20%	(19.26%)	€21,802,243	€0.83
Currency test: Change GBP/EUR FX rate by 20%	(18.55%)	€21,994,854	€0.84

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

7. Financial risk management (continued)

Sensitivity analysis (continued)

As at 31 December 2010, the results of the stress tests were as follows:

	Change (%)	Impact £ (unless stated)	Per Share £ (unless stated)
Hermes Global Emerging Markets Fund			
Market Price test: Decrease MSCI Emerging Markets Free Bmk by 20%	(20.18%)	168,429,113	1.67
Currency test: Change GBP/USD FX rate by 20%	4.21%	219,901,820	2.18
Hermes Global Equity Select Fund			
Market Price test: Decrease MSCI AC World Bmk by 20%	(20.74%)	61,587,284	1.01
Currency test: Change GBP/USD FX rate by 20%	(0.11%)	77,613,444	1.27
Hermes Pan European Small Cap Companies Fund			
Market Price test: Decrease MSCI Pan European Small Cap Bmk by 20%	(17.66%)	66,214,817	1.62
Currency test: Change GBP/EUR FX rate by 20%	(2.47%)	78,427,065	1.92
Hermes Quant Global Equity Fund			
Market Price test: Decrease MSCI World Bmk by 20%	(20.58%)	27,720,105	1.27
Currency test: Change GBP/USD FX rate by 20%	(0.26%)	34,810,460	1.59
Hermes UK Small and Mid Cap Companies Fund			
Market Price test: Decrease Composite Bmk by 20%	(7.30%)	149,862,948	2.09
Hermes UK Smaller Companies Fund			
Market Price test: Decrease FTSE All Small XIT Bmk by 20%	(14.05%)	115,036,236	1.63
Hermes Japan Equity Fund			
Market Price test: Decrease Topix Bmk by 20%	(20.75%)	46,781,931	0.94
Currency test: Change GBP/JPY FX rate by 20%	(3.88%)	56,736,662	1.13
Hermes Sourcecap European Alpha Fund			
Market Price test: Decrease FTSE All-World Europe Bmk by 20%	(20.62%)	91,157,682	0.91
Currency test: Change GBP/EUR FX rate by 20%	(5.34%)	108,703,531	1.09
Hermes Global High Yield Bond Fund			
Market Value: 31/12/2010			
Market Price test: Decrease Topix Bmk by 20%	(10.26%)	€117,616,182	€1.18
Interest Rate test:	(1.45%)	€129,161,771	€1.29
Hermes Global Investment Grade Fund			
Market Value: 31/12/2010			
Market Price test: Decrease Topix Bmk by 20%	(16.42%)	€101,868,795	€1.02
Interest Rate test:	(1.53%)	€120,013,030	€1.20

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

8. Exchange Rates

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

8. Exchange Rates (continued)

The 31 December 2010 year end exchange rates were as follows:

	Exchange rate to £		Exchange rate to £
Australian dollar	1.5274	Mexican peso	19.3107
Brazil real	2.5990	Norwegian kroner	9.1003
Canadian dollar	1.5557	Philippine peso	68.5911
Czech koruna	29.2812	Russian Ruble	47.7946
Danish kroner	8.6970	Singapore dollar	2.0057
Egyptian pound	9.0886	South African rand	10.3579
Euro	1.1670	South Korean won	1,776.8561
Hong Kong dollar	12.1708	Swedish krona	10.5256
Hungarian forint	324.8471	Swiss franc	1.4593
Indian rupee	70.0080	Taiwan dollar	45.6489
Indonesian rupiah	14,106.5055	Thai baht	47.1965
Japanese yen	126.9820	Turkish lira	2.4095
Malaysian ringgit	4.8277	US dollar	1.5656

	Exchange rate to €
Canadian dollar	1.3330
Japanese yen	108.8064
Pound sterling	0.8569
US dollar	1.3416

9. Soft Commission Arrangements

There were no soft commission arrangements affecting the Company during the year ended 31 December 2011 or 31 December 2010.

10. Taxation

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

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

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

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

11. Net asset value per redeemable participating share

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

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

As at 31 December 2011 the reconciliation of the net asset value per the Financial Statements to the published net asset value used for shareholder dealing is as follows:

		Published Net	Bid	Net Asset Value
	Share Class	Asset Value	Adjustment	per Financial Statements
Hermes Global Emerging Markets Fund	Z GBP Accumulating	175,631,764	(245,103)	175,386,661
Hermes Global Emerging Markets Fund	R EUR Accumulating	882	(1)	881
Hermes Global Emerging Markets Fund	T GBP Accumulating	92,691	(129)	92,562
Hermes Global Equity Select Fund	Z GBP Accumulating	74,113,077	(128,556)	73,984,521
Hermes Global Equity Select Fund	R EUR Accumulating	918	(2)	916
Hermes Global Equity Select Fund	T GBP Accumulating	128,687	(223)	128,464
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	65,469,466	54,708	65,524,174
Hermes Pan European Small Cap Companies Fund	R EUR Accumulating	865	1	866
Hermes Quant Global Equity Fund	Z GBP Accumulating	95,408,595	(173,051)	95,235,544
Hermes Quant Global Equity Fund	F GBP Distributing	118,150	(214)	117,936
Hermes Quant Global Equity Fund	R EUR Accumulating	910	(2)	908
Hermes Quant Global Equity Fund	T GBP Accumulating	119,416	(217)	119,199
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	154,719,105	(290,533)	154,428,572
Hermes UK Small and Mid Cap Companies Fund	R EUR Accumulating	906	(2)	904
Hermes UK Smaller Companies Fund	Z GBP Accumulating	122,652,510	(897,984)	121,754,526
Hermes UK Smaller Companies Fund	R EUR Accumulating	865	(6)	859
Hermes Japan Equity Fund	Z GBP Accumulating	148,843,033	(405,110)	148,437,923
Hermes Japan Equity Fund	R EUR Accumulating	838	(2)	836
Hermes Japan Equity Fund	T GBP Accumulating	36,754	(100)	36,654

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

11. Net asset value per redeemable participating share (continued)

		Published Net	Bid	Net Asset Value
	Share Class	Asset Value	Adjustment	per Financial Statements
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	110,677,322	264,972	110,942,294
Hermes Sourcecap European Alpha Fund	R EUR Accumulating	2,120,018	5,076	2,125,094
Hermes Sourcecap European Alpha Fund	Z EUR Accumulating	24,834,888	59,457	24,894,345
Hermes Sourcecap European Alpha Fund	T GBP Accumulating	83,866	201	84,067
Hermes Global High Yield Bond Fund	Z GBP Accumulating	130,649,653	(335,239)	130,314,414
Hermes Global High Yield Bond Fund	R EUR Accumulating	1,065	(3)	1,062
Hermes Global Investment Grade Fund	Z GBP Accumulating	130,494,557	(131,698)	130,362,859
Hermes Global Investment Grade Fund	R EUR Accumulating	1,025	(1)	1,024
Hermes Commodities Index Fund II	Z GBP Accumulating	35,631,449	-	35,631,449
Hermes Sourcecap Europe Ex-UK Fund	Z GBP Accumulating	32,248,391	79,213	32,327,604

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

11. Net asset value per redeemable participating share (continued)

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

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

11. Net asset value per redeemable participating share (continued)

As at 31 December 2010 the reconciliation of the net asset value per the Financial Statements to the published net asset value used for shareholder dealing is as follows:

		Published Net	Bid	Net Asset Value
	Share Class	Asset Value	Adjustment	per Financial Statements
Hermes Global Emerging Markets Fund	Z GBP Accumulating	211,749,101	(575,067)	211,174,034
Hermes Global Equities Selection Fund	Z GBP Accumulating	77,772,430	(13,568)	77,758,862
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	80,424,380	(350,686)	80,073,694
Hermes Quant Global Equity Fund	Z GBP Accumulating	34,942,604	(8,776)	34,933,828
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	161,932,067	(562,074)	161,369,993
Hermes UK Smaller Companies Fund	Z GBP Accumulating	134,297,819	(1,263,370)	133,034,449
Hermes Japan Equity Fund	Z GBP Accumulating	59,018,847	(39,493)	58,979,354
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	114,731,341	(18,955)	114,712,386
Hermes Global High Yield Bond Fund	Z GBP Accumulating	129,764,575	(246,985)	129,517,590
Hermes Global Investment Grade Fund	Z GBP Accumulating	122,864,919	(96,904)	122,768,015

		Published Net Asset	Bid	Net Asset Value
	Share Class	Value per	Adjustment	per redeemable
		redeemable		participating
		participating share		share
Hermes Global Emerging Markets Fund	Z GBP Accumulating	2.10	(0.01)	2.09
Hermes Global Equities Selection Fund	Z GBP Accumulating	1.28	(0.01)	1.27
Hermes Pan European Small Cap Companies Fund	Z GBP Accumulating	1.97	(0.01)	1.96
Hermes Quant Global Equity Fund	Z GBP Accumulating	1.60	-	1.60
Hermes UK Small and Mid Cap Companies Fund	Z GBP Accumulating	2.26	(0.01)	2.25
Hermes UK Smaller Companies Fund	Z GBP Accumulating	1.90	(0.01)	1.89
Hermes Japan Equity Fund	Z GBP Accumulating	1.18	-	1.18
Hermes Sourcecap European Alpha Fund	Z GBP Accumulating	1.15	-	1.15
Hermes Global High Yield Bond Fund	Z GBP Accumulating	1.30	-	1.30
Hermes Global Investment Grade Fund	Z GBP Accumulating	1.23	-	1.23

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

12. Distributions

The following distribution was paid during the year for the Hermes Quant Global Equity Fund:

Distribution Date per unit	declared	Ex-date	Record Date	Date paid	Amount £	Relevant period
0.0028701	30/06/2011	30/06/2011	29/06/2011	05/07/2011	357	01/01/2011 - 30/06/2011

The following distribution was declared on 30 December 2011 for the Hermes Quant Global Equity Fund:

Distribution Date per unit	declared	Ex-date	Record Date	Date paid	Amount £	Relevant period
0.0039687	30/12/2011	30/12/2011	29/12/2011	05/01/2012	494	01/07/2011 - 31/12/2011

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

13. Comparative Net Asset Values

Hermes Global Emerging Markets Fund	Share Class	2011	2010	2009
		£	£	£
Total Net Asset Value	Z GBP Accumulating	175,386,661	211,174,034	177,621,267
Net Asset Value per share	Z GBP Accumulating	1.7391	2.0939	1.7612
		£		
Total Net Asset Value	T GBP Accumulating	92,562		
Net Asset Value per share	T GBP Accumulating	1.0226		
		£		
Total Net Asset Value	R EUR Accumulating	881		
Net Asset Value per share	R EUR Accumulating	1.7615		
Hermes Global Equity Select Fund	Share Class	2011	2010	2009
		£	£	£
Total Net Asset Value	Z GBP Accumulating	73,984,521	77,758,862	65,143,878
Net Asset Value per share	Z GBP Accumulating	1.2129	1.2747	1.0679
		£		
Total Net Asset Value	T GBP Accumulating	128,464		
Net Asset Value per share	T GBP Accumulating	1.0451		
		£		
Total Net Asset Value	R EUR Accumulating	916		
Net Asset Value per share	R EUR Accumulating	1.8328		
Hermes Pan European Small Cap Companies Fund	Share Class	2011	2010	2009
		£	£	£
Total Net Asset Value	Z GBP Accumulating	65,524,174	80,073,694	63,091,140
Net Asset Value per share	Z GBP Accumulating	1.6031	1.9591	1.5436
		£		
Total Net Asset Value	R EUR Accumulating	866		
Net Asset Value per share	R EUR Accumulating	1.7314		

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

13. Comparative Net Asset Values (continued)

Hermes Quant Global Equity Fund	Share Class	2011	2010	2009
		£		
Total Net Asset Value	F GBP Distributing	117,936		
Net Asset Value per share	F GBP Distributing	0.9483		
		£	£	£
Total Net Asset Value	Z GBP Accumulating	95,235,543	34,933,828	29,483,049
Net Asset Value per share	Z GBP Accumulating	1.5357	1.5953	1.3464
		£		
Total Net Asset Value	T GBP Accumulating	119,199		
Net Asset Value per share	T GBP Accumulating	1.0435		
		£		
Total Net Asset Value	R EUR Accumulating	908		
Net Asset Value per share	R EUR Accumulating	1.8167		
Hermes UK Small and Mid Cap Companies Fund	Share Class	2011	2010	2009
		£	£	£
Total Net Asset Value	Z GBP Accumulating	154,428,572	161,369,993	130,317,701
Net Asset Value per share	Z GBP Accumulating	2.1552	2.2521	1.6491
		£		
Total Net Asset Value	R EUR Accumulating	904		
Net Asset Value per share	R EUR Accumulating	1.8081		
Hermes UK Smaller Companies Fund	Share Class	2011	2010	2009
		£	£	£
Total Net Asset Value	Z GBP Accumulating	121,754,526	133,034,449	123,212,554
Net Asset Value per share	Z GBP Accumulating	1.7266	1.8866	1.5844
		£		
Total Net Asset Value	R EUR Accumulating	859		
Net Asset Value per share	R EUR Accumulating	1.7173		

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

13. Comparative Net Asset Values (continued)

Hermes Japan Equity Fund	Share Class	2011	2010
		£	£
Total Net Asset Value	Z GBP Accumulating	148,437,923	58,979,354
Net Asset Value per share	Z GBP Accumulating	1.0949	1.1796
		£	
Total Net Asset Value	T GBP Accumulating	36,654	
Net Asset Value per share	T GBP Accumulating	0.9994	
		£	
Total Net Asset Value	R EUR Accumulating	836	
Net Asset Value per share	R EUR Accumulating	1.6714	
 Hermes Sourcecap European Alpha Fund	 Share Class	 2011	 2010
		£	£
Total Net Asset Value	Z GBP Accumulating	110,942,294	114,712,386
Net Asset Value per share	Z GBP Accumulating	1.1094	1.1471
		£	
Total Net Asset Value	T GBP Accumulating	84,067	
Net Asset Value per share	T GBP Accumulating	1.0138	
		£	
Total Net Asset Value	R EUR Accumulating	2,125,094	
Net Asset Value per share	R EUR Accumulating	1.6118	
		£	
Total Net Asset Value	Z EUR Accumulating	24,894,345	
Net Asset Value per share	Z EUR Accumulating	1.7289	
 Hermes Global High Yield Bond Fund	 Share Class	 2011	 2010
		€	€
Total Net Asset Value	Z GBP Accumulating	130,314,413	129,517,590
Net Asset Value per share	Z GBP Accumulating	1.3031	1.2952
		€	
Total Net Asset Value	R EUR Accumulating	1,062	
Net Asset Value per share	R EUR Accumulating	2.1242	

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

13. Comparative Net Asset Values (continued)

Hermes Global Investment Grade Fund	Share Class	2011	2010
		€	€
Total Net Asset Value	Z GBP Accumulating	130,362,860	122,768,015
Net Asset Value per share	Z GBP Accumulating	1.3036	1.2277
		€	
Total Net Asset Value	R EUR Accumulating	1,024	
Net Asset Value per share	R EUR Accumulating	2.0484	
Hermes Commodities Index Fund II	Share Class	2011	
		£	
Total Net Asset Value	Z GBP Accumulating	35,631,449	
Net Asset Value per share	Z GBP Accumulating	0.8484	
Hermes Sourcecap Europe Ex-UK Fund	Share Class	2011	
		€	
Total Net Asset Value	Z GBP Accumulating	32,327,604	
Net Asset Value per share	Z GBP Accumulating	1.2300	

14. Efficient Portfolio Management

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

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

15. Significant events during the year

Hermes Commodities Index Fund II was launched on 15 June 2011 and the Hermes Sourcecap Europe Ex-UK Fund was launched on 21 December 2011. Effective 5 October 2011, the Hermes Global Equities Selection Fund changed its name to the Hermes Global Equity Select Fund.

Hermes Investment Funds Public Limited Company
Notes to the Financial Statements for year ended 31 December 2011 (continued)

15. Significant events during the year (continued)

Effective 5 October 2011, all sub-funds moved from a close of business valuation point to a noon valuation point with the exception of the Hermes Global High Yield Bond Fund, the Hermes Global Investment Grade Fund and the Hermes Commodities Index Fund II.

On 13 December 2011 all sub-funds were delisted from the Irish Stock Exchange.

16. Subsequent Events

The Board decided that the Hermes Pan European Small Cap Companies Fund was to be liquidated and the fund was fully redeemed on 12 March 2012.

Up to the date of approval of these financial statements, there were no events subsequent to the year end, which, in the opinion of the Directors of the Company, may have had an impact on the Financial Statements for the year ended 31 December 2011.

17. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors on 23 April 2012.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011

Hermes Global Emerging Markets Fund		
Total purchases in the year		£246,416,529
Major Purchases	Nominal Holdings	Cost
China Mobile	2,068,213	11,779,598
Industrial & Commercial Bank of China	10,982,000	5,343,169
Market Vectors Junior Gold Miners ETF	235,694	5,269,030
Hon Hai Precision Industry	2,891,000	4,996,846
Samsung Electronics	11,061	4,985,333
PTT Receipt	689,988	4,780,318
Genting Malaysia	5,799,200	4,364,520
China Merchants International	2,438,000	4,321,890
Sohu.com	88,761	3,843,153
Samsung Fire & Marine Insurance	28,023	3,665,354
Empresa Nacional de Electricidad ADR	107,143	3,658,545
iShares MSCI Malaysia Free Index Fund	396,949	3,644,637
Nan Ya Printed Circuit Board	1,921,000	3,550,229
Vale ADR	203,761	3,471,543
PDG Realty Empreendimentos e Participacoes	1,125,994	3,430,304
Cia Paranaense de Energia	224,100	3,418,624
Hana Financial Group	165,270	3,398,344
Samsung Electronics - Preferred	9,792	3,297,768
Ping An Insurance Group	769,000	3,270,299
SK Telecom	34,608	3,092,584
Total sales in the year		£240,386,748
Major Sales	Nominal Holdings	Proceeds
Samsung Electronics	26,197	12,480,305
China Mobile	2,040,793	11,974,769
Taiwan Semiconductor Manufacturing ADR	1,376,792	10,716,519
Gazprom ADR	779,673	6,917,041
Hyundai Motor	142,700	5,160,082
Industrial & Commercial Bank of China	10,982,000	4,614,437
Cosco Pacific	4,946,000	3,838,439
Ping An Insurance Group	769,000	3,656,610
Reliance Industries	334,101	3,625,125
Harmony Gold Mining	479,490	3,448,587
SK Telecom ADR	343,983	3,364,846
OTP Bank	187,903	3,360,431
iShares MSCI Malaysia Free Index Fund	396,949	3,341,135
Itau Unibanco	300,300	3,292,476
Kiwoom Securities	98,138	3,231,238
SK Telecom	34,608	2,997,820
Bank of Communications	5,065,880	2,972,602
Bharat Heavy Electricals	107,790	2,913,102
Sino-Forest	222,366	2,864,479
Bangkok Bank	816,500	2,821,053

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Global Equity Select Fund

Total purchases in the year **£58,906,165**

Major Purchases	Nominal Holdings	Cost
McKesson	44,838	2,206,356
Swatch Group	6,633	2,051,511
Mead Johnson Nutrition	52,239	2,001,402
Potashof Saskatchewan	28,776	1,976,829
Mitsubishi Electric	282,000	1,968,432
Vodafone	1,052,909	1,739,328
AIA	871,200	1,732,471
O'Reilly Automotive	48,686	1,723,056
CVS Caremark	68,240	1,641,013
Fedex	28,277	1,631,538
Priceline.com	5,316	1,614,491
TJX Cos	46,508	1,613,002
Natura Cosméticos	87,900	1,568,852
Toronto-Dominion Bank	34,160	1,530,520
Suez Environnement	143,773	1,523,845
Allergan	33,100	1,509,108
Baidu ADR	15,125	1,423,960
Spectra Energy	86,385	1,406,575
Dick's Sporting Goods	57,229	1,406,078
Cabot Oil & Gas	27,107	1,300,211

Total sales in the year

£57,535,568

Major Sales	Nominal Holdings	Proceeds
Wells Fargo	103,596	1,816,825
HSBC	328,187	1,681,765
HTC	103,312	1,667,768
ResMed	89,014	1,612,403
LG Chemical	7,026	1,600,880
SuccessFactors	80,300	1,574,339
Scripps Networks Interactive	53,167	1,566,820
Donaldson	43,100	1,551,106
America Movil ADR	43,720	1,542,834
Crown Holdings	63,813	1,518,638
Peabody Energy	46,353	1,453,331
Publicis	46,994	1,446,744
Mead Johnson Nutrition	32,322	1,433,508
Seadrill	72,932	1,403,570
Teva Pharmaceutical Industries	50,077	1,383,171
Anheuser-Busch	38,416	1,367,834
Fedex	28,277	1,365,657
Kubota	234,000	1,359,486
Vertex Pharmaceutical	47,902	1,307,852
Daimler	37,934	1,306,932

The above represents the largest 20 purchases and sales in the year

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Pan European Small Cap Companies Fund

Total purchases in the year **£25,003,095**

Major Purchases	Nominal Holdings	Cost
Neopost	33,043	1,665,756
BW Offshore	910,547	1,411,008
Helical Bar	484,152	1,330,807
Glanbia	293,472	1,289,932
Brunel International	45,881	1,257,208
Tryg	33,668	1,242,460
Getinge Class B	72,550	1,213,078
Chr. Hansen	83,600	1,207,925
Alstria Office REIT-AG	134,373	1,165,420
SAF-Holland	173,208	1,159,017
Loomis	105,643	885,693
Aryzta	26,031	870,517
FBD	123,955	808,377
Babcock International	137,283	785,237
DCC	41,264	745,021
Orpea	27,788	684,199
Temenos	29,015	606,016
Nautical Petroleum	177,258	515,247
Premier Oil	286,628	458,667
BinckBank	46,864	439,544

Total sales in the year

£24,696,493

Major Sales	Nominal Holdings	Proceeds
Danisco	19,181	1,420,841
Ebro Puleva	95,964	1,302,451
Galenica	3,000	1,215,304
Chr. Hansen	83,600	1,192,372
Michael Page International	201,800	1,065,243
Gruppo Coin	179,764	996,854
Teleperformance	48,374	978,115
Vossloh	11,675	886,478
Serco	158,500	874,044
Aalberts Industries	63,160	872,597
April Group	39,953	767,927
CLS	118,535	765,253
Sponda	248,750	749,131
SKW Stahl-Metallurgie	46,068	726,387
Oriola-KD	264,321	675,791
Storebrand	127,525	671,569
SeLoger.com	19,735	627,307
Groupe Crit	29,000	585,434
Faurecia	24,704	568,407
Subsea 7	37,333	556,924

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Quant Global Equity Fund

Total purchases in the year **£85,417,491**

Major Purchases	Nominal Holdings	Cost
Chevron	32,627	1,997,292
Verizon Communications	68,424	1,555,658
Societe Generale	35,989	1,290,949
Zurich Financial Services	7,942	1,218,203
JPMorgan Chase	49,670	1,216,244
Nippon Telegraph & Telephone	37,000	1,187,645
Apple	5,729	1,159,876
Carlsberg	21,306	1,147,124
Wells Fargo	64,570	1,064,899
Imperial Tobacco	49,919	1,045,179
Viacom Class B	33,999	999,868
HSBC	165,054	991,796
Toronto-Dominion Bank	18,018	900,312
Nestle	22,966	887,781
International Business Machines	8,485	853,544
AstraZeneca	27,335	853,024
Bunge	20,639	850,534
Pfizer	67,970	840,337
Statoil	55,086	828,044
Union Pacific	13,165	815,760

Total sales in the year **£20,454,473**

Major Sales	Nominal Holdings	Proceeds
NTT Docomo	887	1,002,560
AT&T	49,718	909,911
Johnson & Johnson	21,557	865,837
Societe Generale	39,601	798,738
Heineken	22,107	643,559
France Telecom	53,471	567,167
Texas Instruments	28,743	549,557
Prada	150,000	538,930
Joy Global	10,432	529,485
Aker Drilling	219,000	516,683
Constellation Energy Group	22,983	515,877
Nippon Electric Glass	74,000	451,027
Atlas Copco	33,139	440,397
M&T Bank	8,944	413,587
Incitec Pivot	203,190	411,024
Hysan Development	182,498	410,493
Bristol-Myers Squibb	23,877	381,400
Apple	1,500	355,369
GT Solar International	44,129	320,870
Merck & Co	14,298	303,974

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes UK Small and Mid Cap Companies Fund

Total purchases in the year **£58,810,009**

Major Purchases	Nominal Holdings	Cost
Holidaybreak	1,327,201	3,763,375
Galliford Try	824,923	3,404,650
Ashtead	1,876,588	3,338,449
Senior	2,161,618	3,245,624
CLS	467,169	2,946,344
Chemring	527,820	2,880,198
Amlin	950,955	2,732,047
Anglo Pacific	823,144	2,615,891
Robert Walters	797,247	2,525,579
GeoPark	381,198	2,391,465
Faroe Petroleum	1,271,328	2,101,614
Premier Oil	720,280	2,041,628
Shaftesbury	438,149	2,040,461
Unite	971,604	2,036,911
Bellway	273,964	1,763,033
Nautical Petroleum	510,579	1,699,975
Petra Diamonds	1,068,075	1,624,703
Centamin	820,326	1,492,822
Aminex	16,875,000	1,350,000
Filtrona	376,399	1,283,114

Total sales in the year **£48,969,039**

Major Sales	Nominal Holdings	Proceeds
Holidaybreak	1,327,201	5,734,836
Premier Oil	240,344	3,268,955
Chemring	527,820	2,940,377
Chemring Group	105,564	2,880,198
Meggitt	642,456	2,398,545
Salamander Energy	1,000,000	2,305,758
4imprint	814,400	2,016,785
Michael Page International	370,200	1,909,878
Talvivaara Mining	416,000	1,845,043
Halfords	519,800	1,770,242
Serco	296,149	1,709,273
Centamin Egypt	820,326	1,492,822
Greene King	300,000	1,481,102
Wetherspoon (J.D)	345,000	1,448,948
Filtrona	376,399	1,428,957
Development Securities	638,298	1,403,421
Regus	2,103,220	1,396,109
Aminex	16,875,000	1,371,083
Hargreaves Lansdown	215,589	1,348,937
IMI	132,503	1,272,044

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes UK Smaller Companies Fund

Total purchases in the year **£48,269,476**

Major Purchases	Nominal Holdings	Cost
XP Power	264,549	3,677,242
TT electronics	1,813,973	3,149,449
City of London Investment	645,000	2,878,909
Vitec Group	474,121	2,864,847
May Gurney Integrated Services	969,700	2,519,162
Hill & Smith	845,468	2,397,733
Holidaybreak	770,278	2,304,266
Hyder Consulting	586,664	2,219,025
NewRiver Retail	857,000	2,190,901
Brammer	677,056	1,875,879
Capital Pub	1,120,873	1,779,845
Galliford Try	410,881	1,741,493
Spirit Pub Co	3,753,890	1,552,260
NCC	200,000	1,411,736
Aminex	16,875,000	1,384,816
Kofax	590,000	1,375,412
Helical Bar	661,929	1,332,370
Iofina	4,319,249	1,291,412
ST Modwen Properties	840,767	1,059,860
RPC	717,421	1,025,912

Total sales in the year

£46,715,440

Major Sales	Nominal Holdings	Proceeds
Holidaybreak	1,796,832	6,081,406
Chaucer	6,252,803	3,357,811
Galliford Try	810,881	3,324,601
RPC	946,286	2,905,894
Capital Pub	1,120,873	2,628,782
Headlam	840,716	2,532,231
Senior	1,681,012	2,474,439
Phoenix IT	1,370,447	2,284,068
Anglo Pacific	686,500	2,167,270
Unite	971,604	2,026,755
Office2office	1,312,300	1,486,230
Melrose Resources	579,267	1,476,090
RSM Tenon	5,658,273	1,422,750
Workspace	5,350,000	1,364,940
KCOM	1,824,427	1,305,824
SDL	206,069	1,305,495
Collins Stewart	1,325,000	1,154,134
Carclo	299,926	908,780
Development Securities	406,452	896,563
Picton Property Income	1,600,000	816,025

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Japan Equity Fund

Total purchases in the year **£151,385,155**

Major Purchases	Nominal Holdings	Cost
Shin-Etsu Chemical	200,000	6,397,359
Mitsui OSK Lines	2,000,000	6,099,737
Mitsubishi	410,000	5,364,619
Sumitomo Mitsui Trust	2,543,350	5,325,136
Alfresa	224,900	5,311,967
Mitsubishi Estate	500,000	5,282,900
Nomura	1,510,800	5,062,049
All Nippon Airways	2,600,000	5,000,880
Kamigumi	900,000	4,975,952
Toppan Printing	1,070,000	4,940,738
Tokyo Steel Manufacturing	762,600	4,716,829
FUJIFILM	300,000	4,498,459
Sumitomo Electric Industries	650,000	4,476,946
Toyota Motor	187,000	4,466,261
Hakuhodo DY Holdings	130,000	4,347,496
NTT Data	2,065	3,905,771
T&D	335,700	3,870,024
Tokio Marine	237,000	3,860,820
Seven & I Holdings	227,700	3,687,881
KDDI	856	3,638,500

Total sales in the year

£58,789,958

Major Sales	Nominal Holdings	Proceeds
KDDI	1,286	5,766,299
Seven & I Holdings	337,700	5,597,413
Mitsubishi	410,000	5,130,698
All Nippon Airways	2,600,000	5,072,324
Kao	292,900	4,828,856
Daiwa Securities	1,973,000	4,455,171
Nomura	1,510,800	3,854,188
Shima Seiki Manufacturing	245,100	3,378,766
Nippon Meat Packers	350,000	2,872,720
Inpex	600	2,507,990
Yamaha Motor	195,000	2,239,381
Sumitomo Trust & Banking	615,000	2,190,358
Mitsubishi Logistics	225,000	1,964,158
Japan Petroleum Exploration	65,500	1,860,147
Hitachi Transport System	205,000	1,790,387
Ricoh	235,000	1,564,922
JX Holdings	330,600	1,318,395
Mitsubishi Estate	106,000	1,242,213
Shin-Etsu Chemical	35,000	1,238,267
Yamato Holdings	65,000	611,526

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Sourcecap European Alpha Fund

Total purchases in the year **£71,660,506**

Major Purchases	Nominal Holding	Cost
Roche	46,496	5,061,798
SABMiller	178,506	3,998,492
AstraZeneca	135,299	3,713,171
Weir	168,463	3,439,066
Swedish Match	173,599	3,433,271
ARM	530,113	3,105,812
Vodafone	1,714,755	3,028,556
Porsche Automobil	68,337	2,865,728
Deutsche Boerse	61,384	2,777,019
Kabel Deutschland	73,687	2,595,934
Kingfisher	1,022,065	2,558,595
ASM International	108,741	2,489,755
DnB	277,870	2,188,377
Novozymes	105,938	2,001,462
Pearson	176,595	1,935,967
Compagnie Financiere Richemont	57,927	1,931,380
Elekta	71,768	1,882,473
Adidas	43,439	1,837,220
Muenchener Rueckversicherungs	23,051	1,830,366
Xstrata	174,911	1,754,398

Total sales in the year **£42,390,173**

Major Sales	Nominal Holding	Proceeds
BASF	68,320	3,842,973
Parmalat	1,324,220	3,033,880
Koninklijke Philips Electronics	141,400	2,812,574
Tesco	671,224	2,712,579
Imperial Tobacco	126,407	2,475,952
Deutsche Boerse	110,598	4,606,373
Lanxess	53,862	2,333,275
Julius Baer	77,923	2,007,529
Tele2	168,611	1,932,843
ASM International	108,741	1,850,117
Yara International	58,318	1,618,277
Ageas	1,131,818	1,550,527
Telefonica	96,285	1,302,523
CSM	89,845	1,214,349
Adidas	25,400	1,187,031
International Power	361,497	1,177,220
Vodafone	542,801	933,605
ASML	37,100	748,552
British American Tobacco	25,549	724,159
ASML Holding	31,882	717,618

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Global High Yield Bond Fund

Total purchases in the year **€367,317,509**

Major Purchases	Nominal Holdings	Cost
FCE Bank 4.75% 19/01/2015	6,000,000	5,992,920
HeidelbergCement Finance 9.50% 15/12/2018	4,500,000	4,755,540
Obrascon Huarte Lain 8.75% 15/03/2018	4,480,000	4,487,300
Imperial Tobacco Finance 5.00% 25/06/2012	4,400,000	4,481,840
Fiat Finance & Trade 6.125% 08/07/2014	4,421,000	4,421,000
M-real 8.75% 01/04/2013	4,250,000	4,312,050
Nextel Communications 5.95% 15/03/2014	6,180,000	4,228,315
Fiat Finance & Trade 6.375% 01/04/2016	4,000,000	4,000,625
Wendel 6.75% 20/04/2018	4,000,000	3,972,960
American Honda Finance 5.125% 03/10/2012	3,650,000	3,773,005
Wind Acquisition Finance 12.25% 15/07/2017	4,194,917	3,646,619
OTE 7.25% 08/04/2014	3,550,000	3,538,427
Ford Motor Credit 3.875% 15/01/2015	5,000,000	3,527,088
Freescale Semiconductor 8.05% 01/02/2020	5,000,000	3,337,306
Linn Energy 6.50% 15/05/2019	4,750,000	3,314,141
EC Finance 9.75% 01/08/2017	3,000,000	3,292,500
Cemex Finance 4.75% 05/03/2014	3,975,000	3,291,969
Musketeer 9.50% 15/03/2021	3,000,000	3,075,000
Banque PSA Finance 5.75% 04/04/2021	4,250,000	2,936,208
Fresenius Medical Care US Finance 5.75% 15/02/2021	4,029,000	2,914,799

Total sales in the year

€372,228,345

Major Sales	Nominal Holdings	Proceeds
FCE Bank 4.75% 19/01/2015	6,000,000	5,913,878
Nextel Communications 6.875% 31/10/2013	6,800,000	4,907,666
ISS Financing 11.00% 15/06/2014	4,415,000	4,741,906
Fiat Finance & Trade 6.125% 08/07/2014	4,421,000	4,413,994
M-real 8.75% 01/04/2013	4,250,000	4,199,938
Fiat Finance & Trade 6.375% 01/04/2016	4,000,000	4,032,525
Wendel 6.75% 20/04/2018	4,000,000	3,945,250
Ineos Finance 9.00% 15/05/2015	4,500,000	3,569,660
OTE 7.25% 08/04/2014	3,550,000	3,529,123
Freescale Semiconductor 8.05% 01/02/2020	5,000,000	3,452,800
FCE Bank 5.125% 16/11/2015	2,900,000	3,320,269
EC Finance 9.75% 01/08/2017	3,000,000	3,277,813
Cemex Finance 4.75% 05/03/2014	3,975,000	3,251,675
Obrascon Huarte Lain 8.75% 15/03/2018	3,250,000	3,240,488
Lyondell Chemical 8.00% 01/11/2017	3,385,000	3,142,028
ITV 7.375% 05/01/2017	2,628,000	3,123,569
Musketeer 9.50% 15/03/2021	3,000,000	3,118,750
Rockwood Specialties 7.625% 15/11/2014	2,980,000	3,002,300
New World Resources 7.375% 15/05/2015	3,103,000	2,990,730
Rhodia 6.875% 15/09/2020	3,600,000	2,971,080

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Global Investment Grade Fund

Total purchases in the year **€285,575,640**

Major Purchases	Nominal Holdings	Cost
Germany (Federal Republic) 2.00% 26/02/2016	8,458,750	8,250,785
Germany (Federal Republic) 4.25% 04/07/2018	5,218,000	6,020,569
Germany (Federal Republic) 4.00% 04/01/2018	5,093,000	5,544,171
Germany (Federal Republic) 0.00% 09/02/2011	5,000,000	4,999,111
United States (Government of) 0.625% 28/02/2013	7,000,000	4,938,092
Bundesobligation 2.75% 08/04/2016	4,825,000	4,909,116
Germany (Federal Republic) 2.50% 04/01/2021	4,980,000	4,683,031
United States (Government of) 2.125% 15/08/2021	5,970,000	4,373,867
United States (Government of) 2.125% 29/02/2016	5,230,000	3,763,989
United Kingdom (Government of) 5.00% 07/03/2025	2,619,750	3,739,716
Germany (Federal Republic) 3.75% 04/01/2017	3,114,500	3,367,345
Valeo 3.75% 24/06/2013	3,250,000	3,282,205
Pirelli 5.125% 22/02/2016	3,250,000	3,249,685
Allianz Finance II 5.75% 08/07/2041	3,000,000	2,989,650
Societe Generale 4.00% 20/04/2016	2,600,000	2,544,568
Banque PSA Finance 3.625% 14/10/2011	2,500,000	2,518,319
Volkswagen Leasing 3.375% 03/06/2016	2,500,000	2,495,475
Red Electrica Financiaciones 4.875% 29/04/2020	2,500,000	2,495,350
Renault 4.625% 25/05/2016	2,500,000	2,486,475
Volkswagen Leasing 2.75% 13/07/2015	2,500,000	2,486,100

Total sales in the year **€282,784,776**

Major Sales	Nominal Holdings	Proceeds
Germany (Federal Republic) 2.00% 26/02/2016	8,458,750	8,252,091
Germany (Federal Republic) 4.25% 04/07/2018	5,218,000	6,017,148
Germany (Federal Republic) 0.00% 12/01/2011	6,000,000	6,000,000
Germany (Federal Republic) 4.00% 04/01/2018	5,093,000	5,544,400
Germany (Federal Republic) 0.00% 09/02/2011	5,000,000	4,999,111
Bundesobligation 2.75% 08/04/2016	4,825,000	4,908,038
Germany (Federal Republic) 2.50% 04/01/2021	4,980,000	4,685,240
United States (Government of) 2.125% 15/08/2021	5,970,000	4,369,021
United States (Government of) 2.125% 29/02/2016	5,230,000	3,762,138
United Kingdom (Government of) 5.00% 07/03/2025	2,619,750	3,736,375
Germany (Federal Republic) 3.75% 04/01/2017	3,114,500	3,366,628
Canada (Government of) 3.50% 01/06/2020	4,200,000	3,157,817
Allianz Finance II 5.75% 08/07/2041	3,000,000	2,941,820
Societe Generale 4.00% 20/04/2016	2,600,000	2,572,284
Red Electrica Financiaciones 4.875% 29/04/2020	2,500,000	2,531,260
Banque PSA Finance 3.625% 14/10/2011	2,500,000	2,500,000
Volkswagen Leasing 3.375% 03/06/2016	2,500,000	2,490,739
Renault 4.625% 25/05/2016	2,500,000	2,476,408
Germany (Federal Republic) 3.25% 04/07/2015	2,325,000	2,476,125
Volkswagen Leasing 2.75% 13/07/2015	2,500,000	2,475,750

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Commodities Index Fund II

Total purchases in the period

£1,068,792,758

Major Purchases	Nominal Holdings	Cost
Banca Intesa 0.60% 22/07/2011	7,000,000	7,000,000
National Australia Bank 0.70% 28/12/2011	7,000,000	7,000,000
ING Bank 0.90% 15/12/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 03/11/2011	7,000,000	7,000,000
Lloyds bank 0.54% 04/11/2011	7,000,000	7,000,000
Barclays Bank 0.35% 04/11/2011	7,000,000	7,000,000
Santander 0.90% 02/01/2012	7,000,000	7,000,000
HSBC 0.50% 17/06/2011	7,000,000	7,000,000
UBS 0.50% 28/06/2011	7,000,000	7,000,000
Barclays Bank 0.82% 02/11/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 21/07/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 01/01/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 02/11/2011	7,000,000	7,000,000
ING Bank 1.05% 15/03/2012	7,000,000	7,000,000
UBS 0.52% 16/06/2011	7,000,000	7,000,000
National Australia Bank 0.52% 24/06/2011	7,000,000	7,000,000
UBS 0.50% 24/06/2011	7,000,000	7,000,000
UBS 0.50% 27/06/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 18/07/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 19/07/2011	7,000,000	7,000,000

Total sales in the period

£1,027,160,539

Major Sales	Nominal Holdings	Proceeds
Banca Intesa 0.60% 22/07/2011	7,000,000	7,000,000
National Australia Bank 0.70% 28/12/2011	7,000,000	7,000,000
ING Bank 0.90% 15/12/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 03/11/2011	7,000,000	7,000,000
Lloyds bank 0.54% 04/11/2011	7,000,000	7,000,000
Barclays Bank 0.35% 04/11/2011	7,000,000	7,000,000
HSBC 0.50% 17/06/2011	7,000,000	7,000,000
UBS 0.50% 28/06/2011	7,000,000	7,000,000
Barclays Bank 0.82% 02/11/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 21/07/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 01/01/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 02/11/2011	7,000,000	7,000,000
UBS 0.52% 16/06/2011	7,000,000	7,000,000
National Australia Bank 0.52% 24/06/2011	7,000,000	7,000,000
UBS 0.50% 24/06/2011	7,000,000	7,000,000
UBS 0.50% 27/06/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 18/07/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 19/07/2011	7,000,000	7,000,000
Lloyds Bank 0.54% 03/08/2011	7,000,000	7,000,000
HSBC 0.50% 16/06/2011	7,000,000	7,000,000

The above represents the largest 20 purchases and sales in the year.

Hermes Investment Funds Public Limited Company
Unaudited Schedule of Significant Portfolio Movements
For the year ended 31 December 2011 (continued)

Hermes Sourcecap Europe Ex-UK Fund

Total purchases in the period

€ 31,365,232

Major Purchases	Nominal Holding	Cost
Novo Nordisk	13,757	1,201,985
Roche	9,143	1,170,846
Statoil	58,319	1,116,004
ING Groep	203,005	1,084,047
Syngenta	4,702	1,032,066
Swedbank	103,638	1,002,855
Tele2	69,786	998,957
Bayer	20,559	967,198
Hennes & Mauritz	39,660	947,076
Adidas	19,018	940,060
Swedish Match	35,569	931,275
Seadrill	36,908	930,093
SAP	23,236	927,465
Linde	8,149	920,022
DnB	121,543	888,702
Muenchener Rueckversicherungs	9,471	881,655
Fresenius	12,158	854,707
Telenor	68,531	838,247
LVMH Moet Hennessy Louis Vuitton	7,801	823,786
Astra Zeneca	22,998	796,542

The above represents the largest 20 purchases in the year. There were no sales during the year.

Hermes Investment Funds Public Limited Company

Notice of Annual General Meeting

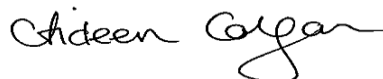
To: The Shareholders of Hermes Investment Funds plc: -

NOTICE is hereby given that the Annual General Meeting of the Shareholders of Hermes Investment Funds plc will be held at George's Court, 54-62 Townsend Street, Dublin 2 on Tuesday, 3 July 2012 at 9:15 a.m.

AGENDA

1. **Report and Accounts**
To receive and consider the Annual Report and Audited Financial Statements of the Company for the period from 1 January 2011 to 31 December 2011.
2. **Re-election of Auditors**
To approve the re-election of Deloitte & Touche as the Auditors of the Company.
3. **Re-appointment of Director**
To approve the re-appointment of Mr. Justin Egan as a director of the Company.
4. **Re-appointment of Director**
To approve the re-appointment of Mr. Brian Collins as a director of the Company.
5. **Re-appointment of Director**
To approve the re-appointment of Mr. Patrick Galligan as a director of the Company.
6. **Re-appointment of Director**
To approve the re-appointment of Mr. Paul McNaughton as a director of the Company.
7. **Auditors' Remuneration**
To authorise the Directors to fix the Auditors' remuneration.

By Order of the Board



For and on behalf of Northern Trust International Fund
Administration Services (Ireland) Limited as Secretary

Dated the 4 day of May 2012

NOTE

Every member entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A body corporate may appoint an authorised person to attend, speak and vote on its behalf. A proxy or an authorised representative need not be a member of the company.

Hermes Investment Funds Public Limited Company

Form of Proxy

I/We, _____

of _____

being Members of the above Company hereby appoint _____ or failing him/her, the Chairman of the Meeting, Ms. Margaret Bergin, Ms. Sonya Mooney, Ms. Lynda Ellis, Ms. Aideen Colgan of Northern Trust International Fund Administration Services (Ireland) Limited as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 3 July 2012 at 9:15 a.m., and at any adjournment thereof.

Please indicate with an X in the spaces below how you wish your vote(s) to be cast. Unless otherwise instructed, the proxy will vote as he/she thinks fit.

Resolutions:

1. **Report and Accounts 2011**
To receive the Annual Report and Audited Financial Statements of the Company for the period from January 2011 to 31 December 2011.
2. **Re-election of Auditors**
To re-elect Deloitte & Touche as the Auditors of the Company.
3. **Re-appointment of Director**
To re-appoint Mr. Justin Egan as a director of the Company.
4. **Re-appointment of Director**
To re-appoint Mr. Brian Collins as a director of the Company.
5. **Re-appointment of Director**
To re-appoint Mr. Patrick Galligan as a director of the Company.
6. **Re-appointment of Director**
To re-appoint Mr. Paul McNaughton as a director of the Company.
7. **Auditors' Remuneration**
To authorise the Directors to fix the Auditors' remuneration.

For	Against

Signed: _____ Date: _____

Please return to: Northern Trust International Fund Administration Services (Ireland) Limited
George's Court
54-62 Townsend Street
Dublin 2
Ireland
Attention: Ms. Aideen Colgan

NOTES:

1. This instrument of proxy, to be valid, must be sent so as to arrive, or be lodged, at the address printed below not later than 5 p.m. on Friday, 29 June 2012, being at least 48 hours before the time of the meeting.
2. In the case of a corporate shareholder, this instrument may be either under its Common Seal or under the hand of an officer or attorney authorised in that behalf.
3. If you wish to appoint a proxy other than the Chairman of the meeting, please insert his/her name and address and delete "the Chairman of the meeting".
4. If this instrument is signed and returned without any indication of how the person appointed proxy shall vote, he/she will exercise discretion as to how he/she votes and whether or not he/she abstains from voting.
5. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority should be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. The address to which the proxy forms should be returned is:-

Northern Trust International Fund Administration Services (Ireland) Limited
George's Court
54-62 Townsend Street
Dublin 2
Ireland
Attention: Aideen Colgan
7. Proxy forms may be returned in the first instance by fax to +353 1 434 5273 but the original should be forwarded by mail to the address shown at 6 above.