

## Hermes Global Small Cap Fund

Monthly Review September 2019

# Fund Investment Report



Page	
2	Fund information <a href="#">Overview of Fund</a>
3	Executive summary <a href="#">Overview of period</a>
4	Fund breakdown <a href="#">Top 10 positions</a>
5	Performance attribution <a href="#">Key contributors and detractors</a>
8	Fund characteristics <a href="#">Style factors</a>
9	Risk analysis <a href="#">Key contributors to risk</a> <a href="#">Tracking error and volatility history</a>
10	Contact details

## Fund information

### Investment objective

The Investment objective of the Fund is to generate long-term capital growth.

### Investment policy

The Fund will primarily invest in shares and other share-like instruments of companies listed on the MSCI World Small Cap Index or of companies in countries referenced in this Index.

### Approach to ESG integration and stewardship

ESG integration and stewardship are integral to delivering sustainable returns. Through quantitative data and fundamental bottom-up research, we assess the absolute and change in ESG performance of companies. Engagement allows us to understand the effectiveness of their approach, the management of strategic issues and to exert positive influence.

## Fund information

Fund inception date	15 May 2015
Fund value	USD58.57m
Benchmark	MSCI World Small Cap Index Net
Lead Fund Manager	Hamish Galpin
Base currency	US Dollar

### Market and Performance Review

The MSCI World Index returned 2.06% in US Dollar term in September. The Fund outperformed the benchmark on a relative basis over the period.

Kirby Corp was the largest contributor. It rose sharply at the beginning of the month as investors rotated towards more cyclical areas of the market in the US. Horiba increased on little specific news, but its exposure to automotive testing and semiconductor industries provided a tailwind as investors preferred more cyclical areas of the market in September. Brunswick Corp increased after its management expressed their confidence that it would meet its 2020 earnings forecasts.

The largest detractor was Evolution Mining, the precious metal miner, which fell due to its perceived defensive qualities. SSP Group decreased after reporting softening Q4 sales that raised concerns that guidance, which management left unchanged, may have to be reduced. Steris Plc fell alongside the Health Care sector as investor sentiment shifted away from more defensive, quality growth companies.

### Outlook

Declining economic growth has been a recent concern for the market, exacerbated by the tariff dispute. We remain of the view that we are in a structurally low growth environment (and a flat yield curve one), which may mean occasional "recessions" in key markets, as defined by two quarters of negative GDP. This does not mean, however, that a material recession is imminent despite the longevity of the current economic expansion. Altogether, this is a favourable backdrop for active managers searching for price anomalies (and by contrast, a less favourable one for index-driven ETFs).

**Fund breakdown**
**Top 10 relative Fund positions**

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Reinsurance Group of America	United States	2.65	-	2.65
RPM International	United States	2.54	0.15	2.38
West Pharmaceutical Services	United States	2.54	0.18	2.37
Steris Healthcare	United States	2.33	-	2.33
AMN Healthcare Services	United States	2.34	0.05	2.29
Silicon Laboratories	United States	2.30	0.08	2.22
WEX	United States	2.35	0.15	2.20
Teradyne	United States	2.22	0.17	2.05
Wintrust Financial	United States	2.10	0.06	2.04
CACI International	United States	2.10	0.10	2.00

**Top 10 absolute Fund positions**

	Country	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Reinsurance Group of America	United States	2.65	-	2.65
West Pharmaceutical Services	United States	2.54	0.18	2.37
RPM International	United States	2.54	0.15	2.38
WEX	United States	2.35	0.15	2.20
AMN Healthcare Services	United States	2.34	0.05	2.29
Steris Healthcare	United States	2.33	-	2.33
Silicon Laboratories	United States	2.30	0.08	2.22
Teradyne	United States	2.22	0.17	2.05
Brown & Brown	United States	2.15	0.15	2.00
Wintrust Financial	United States	2.10	0.06	2.04

**Performance attribution - 1 month**
**Top 10 contributors to relative return**

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Kirby	United States	2.02	0.02	11.65	0.17
Horiba	Japan	1.90	0.04	12.14	0.17
Brunswick	United States	1.87	0.08	11.80	0.16
Brooks Automation	United States	1.75	0.05	11.31	0.14
Teradyne	United States	2.22	0.17	9.45	0.14
Paragon Banking	United Kingdom	1.36	0.03	11.90	0.12
Glanbia	Ireland	1.19	0.04	12.99	0.11
TS Tech	Japan	1.18	0.02	11.55	0.10
Technogym	Italy	1.34	0.02	9.75	0.10
Diversified Gas & Oil	United Kingdom	1.29	0.02	9.43	0.09

**Top 10 detractors to relative return**

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Evolution Mining	Australia	1.50	0.08	-12.33	-0.24
SSP Group	United Kingdom	1.53	0.06	-11.27	-0.22
Steris Healthcare	United States	2.33	-	-6.18	-0.20
SCSK	Japan	2.02	0.04	-3.94	-0.12
Cargojet	Canada	1.04	-	-8.02	-0.11
West Pharmaceutical Services	United States	2.54	0.18	-2.50	-0.11
Aptar	United States	1.96	0.13	-3.08	-0.10
CAE	Canada	1.90	-	-2.80	-0.09
LivaNova	United States	1.27	0.06	-4.95	-0.09
Brown & Brown	United States	2.15	0.15	-2.25	-0.09

**Top 10 absolute returns**

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Glanbia	Ireland	1.19	0.04	12.99	0.11
Horiba	Japan	1.90	0.04	12.14	0.17
Paragon Banking	United Kingdom	1.36	0.03	11.90	0.12
Brunswick	United States	1.87	0.08	11.80	0.16
Kirby	United States	2.02	0.02	11.65	0.17
TS Tech	Japan	1.18	0.02	11.55	0.10
Brooks Automation	United States	1.75	0.05	11.31	0.14
Pendal Group	Australia	0.74	0.02	11.24	0.06
Weingarten Realty Investors	United States	0.89	0.06	11.05	0.07
Beazley	United Kingdom	1.13	0.07	10.51	0.08

**Bottom 10 absolute returns**

Holding	Country	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Petra Diamonds	United Kingdom	0.14	-	-16.84	-0.03
Evolution Mining	Australia	1.50	0.08	-12.33	-0.24
SSP Group	United Kingdom	1.53	0.06	-11.27	-0.22
Cargojet	Canada	1.04	-	-8.02	-0.11
Abiomed	United States	0.49	-	-7.86	-0.05
Amerisur Resources	United Kingdom	0.41	-	-7.67	-0.04
Schoeller-Bleckmann	Austria	0.96	0.01	-6.49	-0.09
Steris Healthcare	United States	2.33	-	-6.18	-0.20
LivaNova	United States	1.27	0.06	-4.95	-0.09
SCSK	Japan	2.02	0.04	-3.94	-0.12

## Performance attribution - 1 month

## Sector level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Information Technology	17.85	13.21	4.65	3.39	-0.03	-0.08	0.62	0.51
Consumer Staples	5.73	4.47	1.27	1.24	-0.03	0.00	0.10	0.07
Consumer Discretionary	7.82	11.71	-3.89	1.30	-0.03	-0.04	0.13	0.06
Communication Services	2.97	3.72	-0.75	1.57	0.03	0.01	0.02	0.05
Utilities	1.21	3.18	-1.97	2.92	0.00	0.00	0.03	0.03
Financials	14.94	13.74	1.20	-0.19	0.01	0.03	-0.04	0.00
Health Care	10.71	10.42	0.28	-0.08	0.02	-0.02	-0.03	-0.03
Energy	3.66	3.18	0.47	-2.30	0.02	0.01	-0.11	-0.07
Real Estate	7.38	12.33	-4.95	-0.56	-0.05	-0.05	0.01	-0.10
Industrials	15.76	17.17	-1.41	-0.48	-0.02	-0.02	-0.05	-0.10
Materials	9.28	6.88	2.41	-2.35	0.01	-0.02	-0.24	-0.25
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.69	-	2.69	-	0.00	-0.06	-	-0.05

## Regional level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Europe	25.87	21.11	4.77	1.04	-0.02	0.01	0.28	0.28
North America	55.55	61.24	-5.70	0.08	-0.02	0.04	0.04	0.07
Israel	-	0.70	-0.70	-	-0.01	-0.01	-	-0.02
Pacific	15.88	16.95	-1.06	-0.91	-0.03	-0.02	-0.11	-0.16
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.69	-	2.69	-	0.00	-0.06	-	-0.05

## Country level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
United States	52.62	57.44	-4.83	0.35	-0.01	0.03	0.18	0.20
Italy	3.52	1.35	2.17	4.07	-0.02	0.03	0.13	0.15
Netherlands	3.58	1.05	2.53	2.82	-0.02	0.02	0.10	0.10
Switzerland	1.60	1.83	-0.23	4.05	0.00	0.00	0.06	0.06
Ireland	2.78	0.18	2.59	-1.57	-0.02	0.12	-0.04	0.06
Sweden	1.31	2.20	-0.89	2.03	0.00	0.01	0.03	0.04
France	-	1.32	-1.32	-	0.01	0.01	-	0.02
Belgium	-	0.87	-0.87	-	0.01	0.01	-	0.02
Japan	13.64	12.18	1.46	-0.02	-0.02	0.05	-0.01	0.02
Spain	-	0.81	-0.81	-	0.01	0.00	-	0.01
Finland	1.63	0.48	1.15	-0.40	-0.01	0.03	-0.01	0.01
Denmark	-	0.65	-0.65	-	0.01	0.00	-	0.01
Portugal	-	0.13	-0.13	-	0.00	0.00	-	0.00
New Zealand	-	0.38	-0.38	-	0.00	0.00	-	0.00
Singapore	-	0.72	-0.72	-	0.00	0.00	-	0.00
Norway	-	0.82	-0.82	-	0.00	0.00	-	0.00
Hong Kong	-	0.71	-0.71	-	0.00	-0.01	-	-0.01
Israel	-	0.70	-0.70	-	-0.01	-0.01	-	-0.02
Germany	2.07	2.25	-0.18	-1.14	0.00	0.00	-0.02	-0.02
Austria	0.96	0.34	0.62	-7.79	-0.01	0.00	-0.08	-0.09
United Kingdom	8.42	6.82	1.60	-1.51	0.03	0.02	-0.13	-0.09
Canada	2.93	3.80	-0.87	-4.69	0.00	0.02	-0.15	-0.13
Australia	2.24	2.96	-0.71	-7.05	0.00	0.01	-0.17	-0.17
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.69	-	2.69	-	0.00	-0.06	-	-0.05

All data end weight as at 30 September 2019. All figures shown in USD on a gross basis. Source: Northern Trust.

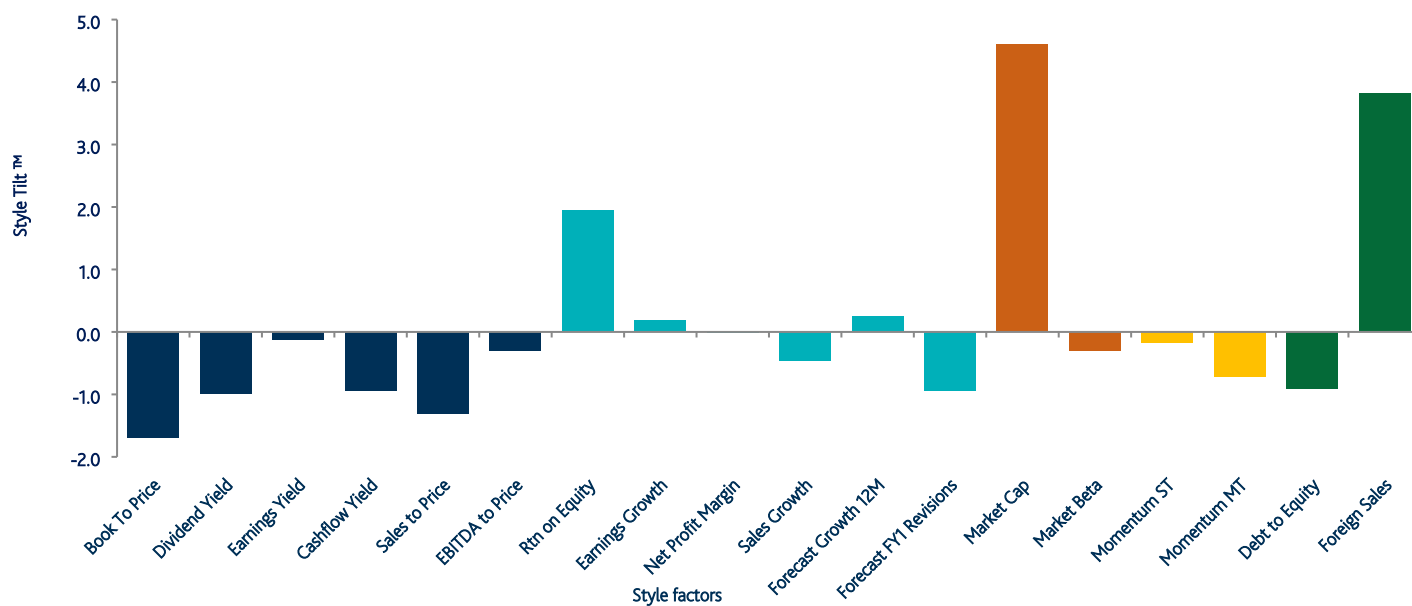
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 1B	4.08	13.75	-9.67	0.10	0.04	-0.09	-0.02	-0.07
1 - 2.5B	22.33	30.04	-7.71	1.69	-0.13	-0.05	0.54	0.35
2.5 - 5B	37.42	34.24	3.19	1.26	0.01	0.01	0.43	0.44
5B+	33.47	21.81	11.66	-0.99	0.01	-0.24	-0.33	-0.55
Unclassified	-	0.16	-0.16	-	0.00	0.01	-	0.01
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	2.69	-	2.69	-	0.00	-0.06	-	-0.05

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
23.52	96.91	1.75	4,758.74	5.60

Fund Style Skyline™



Source: \*Northern Trust. \*\* Barra. \*\*\*Style Research, Market Cap is the Portfolio Weighted Average.



### Risk analysis

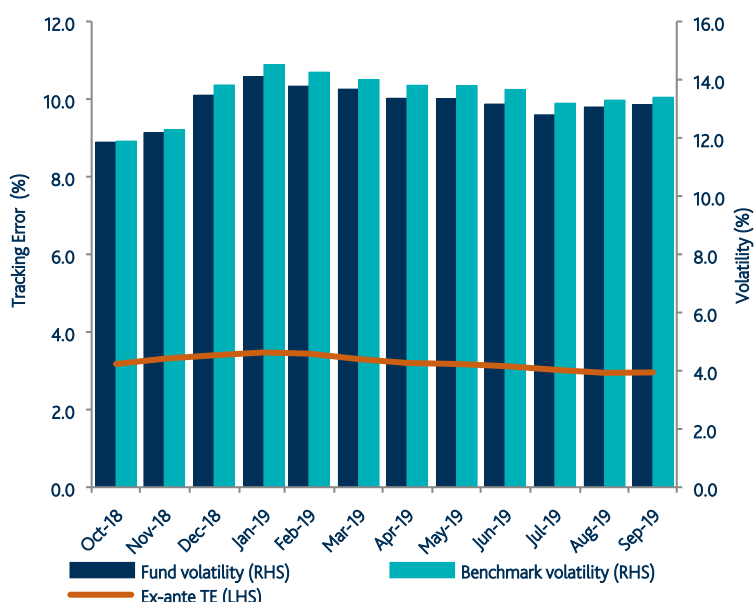
#### Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
Brooks Automation	United States	4.29
AMN Healthcare Services	United States	3.97
Horiba	Japan	3.37
Open House	Japan	3.35
Teradyne	United States	3.24
Silicon Laboratories	United States	2.96
SCSK	Japan	2.77
IMCD	Netherlands	2.71
RPM International	United States	2.70
Green REIT	Ireland	2.52

### Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	2.96	0.96	13.14	13.40	-	-
Ex-post	3.51	0.92	12.54	13.15	0.70	0.67

#### Tracking error (TE) and volatility history (ex-ante)



#### Fund statistics

Number of stocks (Fund)	63
Number of stocks (Benchmark)	4338
Upside market capture ratio	103.50
Downside market capture ratio	87.63

## Contact us

If you have any general questions concerning your investment, or specifically related to the content of this Fund investment report, please let us know using the contact details below.

Hermes Client Services [ClientServices@hermes-investment.com](mailto:ClientServices@hermes-investment.com)

Hermes Marketing [Marketing@hermes-investment.com](mailto:Marketing@hermes-investment.com)

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Where the Fund invests in debt instruments such as bonds there is a risk that the entity who issues the contract will not be able to repay the debt or to pay the interest on the debt. If this happens then the value of the Fund may vary sharply in value or result in loss. The Fund makes extensive use of Financial Derivative Instruments (FDIs), the value of which depends on the performance of an underlying asset. Small changes in the price of that asset may cause larger changes in the value of the FDIs, increasing either potential gain or loss. Past performance is not a reliable indicator of future results and targets are not guaranteed.

## Important information

This document does not constitute a solicitation or offer to any person to buy or sell any related securities, financial instruments or products; nor does it constitute an offer to purchase securities to any person in the United States or to any US Person as such term is defined under the US Securities Exchange Act of 1933. It pays no regard to an individual's investment objectives or financial needs of any recipient. No action should be taken or omitted to be taken based on this document. Tax treatment depends on personal circumstances and may change. This document is not advice on legal, taxation or investment matters so investors must rely on their own examination of such matters or seek advice. Before making any investment (new or continuous), please consult a professional and/or investment adviser as to its suitability. All figures, unless otherwise indicated, are sourced from Hermes.

Hermes Investment Funds plc ("HIF") is an open-ended investment company with variable capital and with segregated liability between its sub-funds (each, a "Fund"). HIF is incorporated in Ireland and authorised by the Central Bank of Ireland ("CBI"). HIF appoints Hermes Fund Managers Ireland Limited ("HFM Ireland") as its management company. HFM Ireland is authorised and regulated by the CBI.

Further information on investment products and any associated risks can be found in the relevant Fund's Key Investor Information Document ("KIID"), the prospectus and any supplements, the articles of association and the annual and semi-annual reports. In the case of any inconsistency between the descriptions or terms in this document and the prospectus, the prospectus shall prevail. These documents are available free of charge (i) at the office of the Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, Georges Court, 54- 62 Townsend Street, Dublin 2, Ireland. Tel (+ 353) 1 434 5002 / Fax (+ 353) 1 531 8595; (ii) at <https://www.hermes-investment.com/ie/>; (iii) at the office of its representative in Switzerland (ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, [www.acolin.ch](http://www.acolin.ch)). The paying agent in Switzerland is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, PO Box CH-8024 Zürich.

Issued and approved by Hermes Fund Managers Ireland Limited ("HFM Ireland") which is authorised and regulated by the Central Bank of Ireland. Registered address: The Wilde, 53 Merrion Square, Dublin 2, Ireland. Telephone calls will be recorded for training and monitoring purposes. HFM Ireland appoints Hermes Investment Management Limited ("HIML") to undertake distribution activities in respect of the Fund in certain jurisdictions. HIML is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. Telephone calls will be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation may not be available under the United Kingdom Financial Services Compensation Scheme.

**In Australia:** This document is directed at 'Wholesale Clients' only. Any investment products referred to in this document are only available to such clients. Hermes Investment Management Limited operates under the relevant class order relief and does not hold an Australian Financial Services Licence.

**In Hong Kong:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. The fund is not authorised under Section 104 of the Securities and Futures Ordinance of Hong Kong by the Securities and Futures Commission of Hong Kong. Accordingly the distribution of this document, and the placement of interests in the fund in Hong Kong, is restricted. This document may only be distributed, circulated or issued to persons who are professional investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by the Securities and Futures Ordinance.

**In Singapore:** This document and the information contained herein shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a Hermes Investment Funds Public Limited Company prospectus, as supplemented with the global supplement, the relevant fund supplement, and the relevant Singapore supplement (the "prospectus"), describing the offering and the related subscription agreement. In the case of any inconsistency between the descriptions or terms in this document and the prospectus, the prospectus shall control. Securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. For the avoidance of doubt, this document has not been prepared for delivery to and review by persons to whom any offer of units in a scheme is to be made so as to assist them in making an investment decision. This document and the information contained herein shall not constitute part of any information memorandum. Without prejudice to anything contained herein, neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished on a confidential basis and solely for information and may not be reproduced, disclosed, or distributed to any other person. This document has not been reviewed by the Monetary Authority of Singapore.

**In Spain:** The information contained herein refers to a sub-fund (the "Sub-Fund") of Hermes Investment Funds plc (the "Company"), a collective investment scheme duly registered with the Spanish Securities Market Commission ("CNMV") under number 1394, the website [www.cnmv.es](http://www.cnmv.es) may be consulted for an updated list of authorised distributors of the Company in Spain (the "Spanish Distributors"). This document only contains brief information on the Sub-Fund and does not disclose all of the risks and other significant aspects relevant to a potential investment in the Sub-Fund. Any investment decision must be based solely on the basis of careful consideration and understanding of all information contained in the Company's latest prospectus, key investor information document ("KIID") and the latest half-yearly and audited yearly reports. The Spanish Distributors must provide to each investor, prior to that investor subscribing for shares of a Sub-Fund, a copy the KIID translated into Spanish, and the latest published financial report. All mandatory official documentation shall be available through the Spanish Distributors, in hard copy or by electronic means, and also available upon request. These documents are also available free of charge at the office of the Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, Georges Court, 54- 62 Townsend Street, Dublin 2, Ireland, tel (+ 353) 1 434 5002 / Fax (+ 353) 1 531 8595, or at <https://www.hermes-investment.com/ie/>. It is advisable to obtain further information and request professional advice before making an investment decision.