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INVESTMENT NOTE **12 May 2014**

Hermes UK Smid scores with Goals Soccer Centres

Hermes UK Smid's second largest holding, Goals Soccer Centres, has been performing well for the Hermes UK Smid fund. A strong 2013 and compelling development plans suggest more gains to come, say Portfolio Managers David Stormont and John Leahy.

Aim-listed GSC operates outdoor five-a-side soccer facilities: currently 43 in the UK and one in the US. It is a 3.37% weighting in the fund. The company is showing strong progress, turning the business round after the debt-fuelled expansion rebounded on it in the wake of the financial crisis. Cash flow is improving, debt is down from £54m to £46.4m and is expected to fall further, and EPS has also recovered strongly in 2013.

The market now seems to be taking notice, with the share price up more than two-thirds over the past year. We believed that the negative fortunes of the company at the end of the previous decade had not undermined the potential for growth from its attractive business model, and this is now being realised:

- **Maturing centres:** Centres opened in the past few years have contributed to the strong rebound in net income seen over 2013.

- **Digital strategy:** The company intends to launch a new app and website in the second quarter of the year. GSC's online strategy should also help drive revenue, with its website and smartphone app allowing users' team leaders to collect money from their team mates and organise teams, thus underpinning a more reliable cash flow.

- **Cost reduction:** Proposed modularly constructed sites are estimated to reduce building costs by 40%. The company now believes it is in a strong enough position to start a "controlled rollout" of new centres later this year.

Hermes UK Smid backed the successful rejection of the August 2012 bid by Ontario Teachers' Pension Plan, which offered 144p-per-share, with the team's own fundamental analysis indicating it undervalued the company. This has been subsequently validated, with the share price now around 230p.

Over the first quarter of 2014, the fund outperformed its benchmark by 1.7%, up 4.36% in absolute terms, and over three years by an annualised 2.8%.

Performance shown is the F share class sterling Accum net of all costs and management fees since seeding on 08 November 2012, prior track record is the Z share class sterling Accum, fee adjusted since inception net of all costs

The views and opinions contained herein are those of John Leahy and David Stormont, Lead Porfolio Managers, and may not necessarily represent views expressed or reflected in other Hermes communications, strategies or products.

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Notes to Editors:

Hermes Fund Managers
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- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.

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- **Innovation**: We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

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Hermes manages assets on behalf of more than 200 clients* across these investment areas with £26.9 billion* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £103 billion* of assets.

*Please note the total AuM figure includes £3.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.5bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 March 2014.