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HERMES: INSTITUTIONAL INVESTORS PLAN TO REJECT 'ATTRACTIVE' INVESTMENTS WITH SIGNIFICANT ESG RISKS

Environmental, social and corporate governance (ESG) factors are becoming increasingly significant for institutional investors, with over two-thirds believing that pension schemes will reject a growing number of investment opportunities over the next five years if they involved ESG risks, according to Hermes Investment Managements' inaugural *Responsible Capitalism Survey*.

The *Responsible Capitalism Survey*, conducted with institutional investors from across the UK and Europe[1], found that:

- **79%** of respondents consider significant ESG risks with financial implications as sufficient reasons to **reject an otherwise attractive investment**
- **71%** believe that company pension schemes will **reject more investment opportunities** over the next five years due to ESG risks
- **55%** think that companies which focus on ESG issues, particularly corporate governance, **produce better long term returns for investors**
- **90%** of institutional investors believe fund managers should **price in corporate governance risks** as a core part of their investment analysis, alongside financial metrics
- Over **85%** identified a range of **diverse professional experiences at board director** level and an **independent board** as important corporate governance practices when looking to make an investment

Saker Nusseibeh, Hermes Investment Management Chief Executive, says: "I believe that these findings indicate that responsible capitalism in the pensions industry is at a tipping point: over two-thirds of institutional investors would reject an 'otherwise attractive' investment, and a staggering 90% say that corporate governance risks should be priced in. This clearly demonstrates an awareness and appetite for ESG which is larger than many of us perhaps thought.

"This is one of many important pieces of research proving the value of ESG investing. Research from our Global Equities team, published in January this year, found that well-governed companies outperformed their poorly-governed counterparts by an average of over 30 basis points per month

1 Hermes' Responsible Capitalism survey was carried out between 2nd and 14th September, among 108 European institutional investors.

since the beginning of 2009[2]. Companies with strong ESG credentials are looking increasingly attractive to institutional investors."

The *Responsible Capitalism Survey* aims to identify the most prevalent corporate governance issues for investors for the next three years. All of those surveyed highlighted diversity of experience at the Board director level as the greatest corporate governance concern.

- Board director diversity – experience – 86%
- Independent Board – 85%
- Independent Chairman and CEO – 78%
- Remuneration policy – 71%
- Board director diversity – gender – 27%

Saker Nusseibeh says: "The *Responsible Capitalism Survey* is not just a warning to companies that they will potentially lose out on investment capital, it is also a word of warning for the fund management industry. Our clients are clearly telling us that we need to 'up our game' in terms of how we assess the corporate governance of our investments. Investment managers should engage with companies and analyse their governance structure, attitude to risk and systems for accountability. This is due to the importance of considering an investment's ESG risk profile."

The Hermes *Responsible Capitalism Survey* aims to benchmark institutional investors' views on responsible investment on an annual basis.

-ENDS-

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Notes to Editors:

Hermes Investment Management
Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

Hermes manages assets on behalf of more than 200 clients* across equities, fixed income, alternatives and real estate, with £27.4 billion* assets under management. In Hermes Equity Ownership Services, we have the industry's leading engagement resource, advising on more than £108.6 billion* of assets.

We believe in **Excellence**, **Responsibility** and **Innovation**

- **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.

- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.

[2] *ESG Investing - Does it make you feel good, or is it actually good for your portfolio?*

- **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.

Our structure gives clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:
- **Equities**: Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan
- **Fixed Income**: Inflation-Linked, Government Bonds, Investment Grade, High Yield, Multi Strategy
- **Real Estate**: Segregated, Unitised, Debt, UK, US Residential, European
- **Alternatives**: Commodities, Hedge Fund Solutions, Infrastructure, Private Equity

*Please note the total AuM figure includes £3.6bn 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. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 30 June 2014.