

PRESS RELEASE

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**HERMES RESPONSIBLE CAPITALISM SURVEY: INSTITUTIONAL INVESTORS
FEEL DRIVEN TO 'SHORT TERMISM'**

- **44% of institutional investors believe that modern portfolio thinking, regulation and short-term valuation reporting are driving pensions schemes to think in short-term nominal returns**

Regulators' insistence on FRS17 valuations; the triennial cycle of valuation and modern portfolio theory are driving pension schemes to think in short-term nominal returns, according to 44% of institutional investors surveyed as part of Hermes Investment Management's inaugural *Responsible Capitalism Survey*.

The growth in passive management was also cited as a cause for concern; with 61% of institutional respondents believing that large shareholders are likely to 'become unaware' of the companies they invest in, forgoing voting rights and thereby losing influence.

Other findings from Hermes' *Responsible Capitalism Survey*, conducted with over 100 institutional investors from across the UK and Europe¹, found that:

- Only 32% of institutional investors believe pension funds should look at the overall quality of life experienced by their beneficiaries, rather than maximising retirement incomes for their members
- 37% of institutional investors believe pension schemes focus on investment performance to the extent that they disconnect from their responsibilities as owners of actual companies.
- 44% of institutional investors believe quarterly results should cease in favour of more long-view reporting

Saker Nusseibeh, Chief Executive, Hermes Investment Management, said: "The short-term factors driving the management of pension schemes require detailed attention. Schemes need to have the freedom to act and focus on longer term considerations to best serve their end beneficiaries, savers. As asset managers, we have a responsibility to manage savers' money as best we can, and that is often not achieved when short-term constraints are applied."

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

“I am stunned that less than one third of investors believe that pension funds should look at the overall quality of life experienced by their beneficiaries, rather than maximising retirement incomes for their members. Surely everyone saving for their retirement is doing so with the goal of the best quality of life they can hope for in retirement. A staggering 49% of investors disagreed with this, 17 percentage points more than those who agreed.”

Other findings looked at the areas in which investors wanted to see innovation. Not surprisingly, disclosure of investment costs was the area in which institutional investors most want to see greater innovation:

- 56% wish for greater innovation around disclosure of costs
- 42% wish for greater innovation around shareholder stewardship
- 42% wish for greater innovation around outcome-focused investing
- 32% wish for greater innovation towards reducing volatility
- 21% want innovation that will enhance liquidity

Nusseibeh continued: “Innovation in our industry is critical, as long as the interests of those we serve remain paramount. The desire for innovation around disclosure of costs is of benefit to all as transparency serves everyone and complexity no one.”

-ENDS-

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Notes to Editors:

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

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 £27.9 billion* assets under management. In Hermes Equity Ownership Services, we have the industry's leading engagement resource, advising on more than £120.3 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.

- **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, Greater China
- **Fixed Income:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Real Estate:** Segregated, Unitised, Debt, UK, US Residential, European, UK PRS
- **Alternatives:** Multi Asset, 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 September 2014.