



Lloyds Chambers 1 Portsoken Street
London E1 8HZ
Tel: 020 7702 0888 Fax: 020 7702 9452
www.hermes.co.uk

Press Release

29 APRIL 2014

Hermes: Seeking scale as Obamacare takes effect

US healthcare providers and hospitals will need scale to be competitive as the reform becomes effective, says Andrey Kuznetsov, Analyst at Hermes Credit

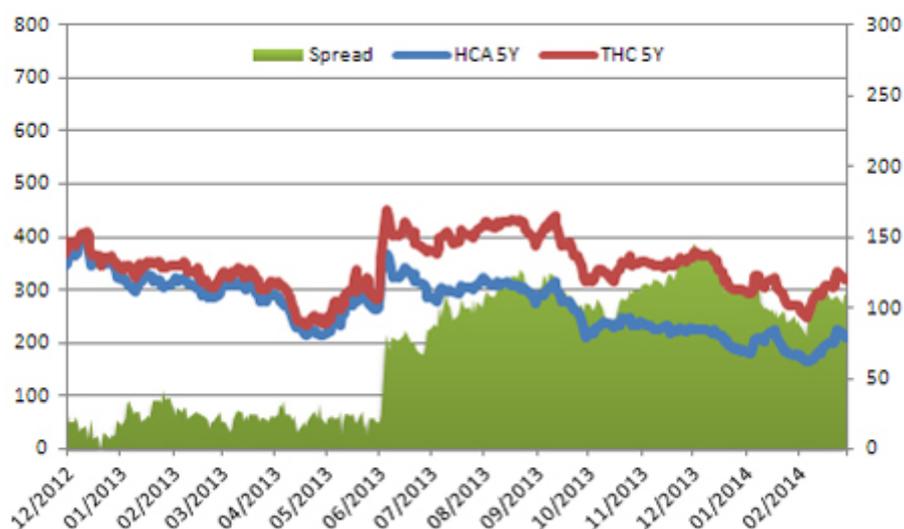
Supersize me: Obamacare, the single largest US health bill for almost 50 years, is reshaping the nation's healthcare industry. For hospitals, which need to negotiate healthcare services contracts with managed care organisations (MCOs) in charge of structuring policies, greater scale will help them strike more advantageous deals.

Little room to move: Near-universal coverage will benefit hospitals by reducing their exposure to uninsured patients. Longer term, however, they will also need bargaining power as MCOs, seeking to suppress costs, provide so-called narrow networks that restrict the range of doctors and hospitals available to people. Hospitals will be keen to sign these deals in order to guarantee patients, and size will be crucial as they compete against other players.

Scaling up: Last year we reckoned that hospital operator Tenet Healthcare would need bigger scale in order to compete with bigger rivals such as HCA. Using credit default swaps (CDSs), we expressed this view in a pair trade. Anticipating that Tenet would make a debt-fuelled acquisition of a competitor, we bought CDS on the company and sold CDS on HCA. When Tenet bought Vanguard Health Systems, we benefited when its spread widened.

Pick of the pair: Investors paid higher premiums for protection against default as Tenet used debt to purchase Vanguard

HCA inc and Tenet Healthcare CDS 5Y



Source: Bloomberg

Approach: Amid the uncertainty created by Obamacare, combined with record-low premiums across the market for moving from higher to lower-rated securities, we search for issuers with better credit

quality and attractive idiosyncratic risks – particularly those with large capital structures providing opportunities to exploit the relative value between their bonds and derivatives.

The Hermes Global High Yield Bond Fund returned a net annualised 10.1% against its benchmark's 6.7% in the one-year period ending 31 March 2014, and 10.3% compared to 9.8% since its May 2010 inception. Returns are in euros.

Past performance is not a reliable guide to future performance.

Performance shown is the F share class Euro Accum net of 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 Hermes Credit, and may not necessarily represent views expressed or reflected in other Hermes communications, strategies or products.

-Ends-

For further information, please contact:

Hermes Fund Managers

Jeannie Dumas
+44 (0)20 7680 2152
j.dumas@hermes.co.uk

Melanie Shelley
+44 (0) 20 7680 2110
m.shelley@hermes.co.uk

Katie Sunderland
+44 (0)20 7680 2315
k.sunderland@hermes.co.uk

Notes to Editors:

Hermes Fund Managers

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

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 provides wholesale, institutional and pension fund 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:

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

Hermes manages assets on behalf of more than 200 clients* across these investment areas with £26.3 billion* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £98 billion* of assets.

*Please note the total AuM figure includes £3.4bn 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 31 December 2013.