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

21 JANUARY 2014

Hermes Fund Managers: Good governance adds an average of 30bps per month to performance

Well-governed companies have outperformed poorly-governed counterparts by an average of over 30 basis points per month since the beginning of 2009, research[1] from Hermes Fund Managers has found.

The report, entitled *ESG Investing - Does it make you feel good, or is it actually good for your portfolio?* examines the impact of environmental, social and governance (ESG) factors on equity returns. On average, companies rated in the top decile in terms of governance have outperformed those rated in the bottom decile by over 30bps per month. The research also highlights that it is the companies with the lowest-ranked governance scores which have tended to underperform the average, rather than the higher-scoring companies outperforming the average.

Geir Lode, Head of Hermes Quantitative Equities, said: "Our results suggest that it is poor governance that leads to underperformance, rather than good governance leading to outperformance. Furthermore, our research shows that companies with a poor standard of corporate governance underperformed in 61% of the months during the time period".

In terms of sectors and regions, using governance as an indicator of shareholder returns is more useful in Asia and Europe. North American markets are subject to more robust regulation and companies are at higher risk of litigation, which has led to a generally better standard of governance across companies making the measure less effective in North America.

Lode continued: "This distortion in returns is also apparent by sector. If we turn to IT companies, there appears to be a negative relationship between governance scores and shareholder returns. The IT sector is dominated by a small number of companies whose performance over the past five years has been stellar despite a lower focus on their governance structure".

However, despite the positive impact of companies with strong ESG characteristics, the impact of environmental and social factors was negligible. Despite increasing suggestions that companies seeking to tackle environmental and social challenges are more likely to achieve a lower cost of capital, better risk-adjusted returns and are therefore more resistant to share price volatility, there was no evidence to support this assertion over the same time period.

[1] Hermes used internal sources as well as external providers such as Trucost, Sustainalytics, Bloomberg and FactSet. We analysed companies in the MSCI World index from the end of2008 to end of November 2013.

Lode concluded: "Overall, we found a strong link between underperforming companies and poor corporate governance. Yet, we did not see either a statistically significant relationship between shareholder return and environmental or social metrics. As more data becomes available, and more asset owners focus on environmental or social considerations, this may change. For now, we conclude that favouring well-governed companies can enhance the return of equity strategies".

-ENDS-

For further information, please contact:

Hermes Fund Managers

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

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

Notes to Editors:

Hermes Fund Managers
Hermes is a unique fund manager – we have been an industry leader in Responsible Investing for over thirty years and offer clients the unparalleled combination of:

- Our **Multi-Boutique Structure** gives 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.
- Our **Investment Office** is a crucial function, acting as a performance risk 'radar' for all boutiques' investment activity and is central to our mission to deliver Sustainable Risk-Adjusted Alpha to all our clients.
- Our commitment to behaving as a **Responsible Asset Manager**, not merely by being a 'Responsible Investor' in quoted companies but also by applying these principles across all asset classes and by behaving as a 'good fiduciary' on behalf of our clients.

Hermes' investment solutions include:

- **Bonds**: Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives**: Commodities, Hedge Fund Solutions, Real Estate, Private Equity, Infrastructure
- **Equities**: Global, Emerging Markets, Small & Mid Cap, Europe, Japan

Hermes manages assets on behalf of more than 170 clients* across these investment areas with £26.1 billion* assets under management. Additionally, we support pension funds and other global institutional investors worldwide in meeting their ESG responsibilities through our market leading Hermes Equity Ownership Services, which takes on a stewardship role engaging globally on more than £129 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. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 30 September 2013.