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Press Release

Strictly Embargoed until: 00.01 Friday 2 July 2010

Stewardship Code gives the opportunity for the UK market to reduce short-termism and focus on the long term, comments Hermes

- Hermes EOS encouraged by this important step towards active investor engagement
- New code gives pension funds the opportunity to call fund managers to account
- But it could be strengthened by giving fund managers more voting control

Paul Lee, Director of Hermes Equity Ownership Services commented on the new Stewardship Code from the FRC:

A major step forwards

“The publication of this Stewardship Code for investors is a major step forwards for the UK market. There have long been concerns that the process of ‘comply or explain’ in the Corporate Governance Code for companies only works where there are active and engaged investors to hear the explanations and respond where they have concerns. The Stewardship Code sets out the standards for investors to measure up to in this respect, and should over time, lead to more engaged investors, better dialogue between them and the companies in which they invest, and through that engagement process, more valuable companies.”

Move towards long-term value and greater accountability

“It is an opportunity for the UK market to reduce its tendency to short-termism and refocus on long-term value. That will help companies avoid pressures to think in a short-term way, and should generate greater long-term value for pension funds and their millions of underlying beneficiaries.”

“We welcome the inclusion of the strictures from the Corporate Governance Code into the ISC Principles. In particular, we believe it is important that the aims of the Stewardship Code are incorporated into fund manager mandates. This is the key step forward which the Code represents: it provides a basis for pension funds to call their fund managers to

account over stewardship matters. It gives a foundation for pension fund expectations of long-term behaviour by their fund managers, and a set of principles which can be debated between these underlying owners and their agents.”

Opportunities for strengthening

“But we do believe that the Stewardship Code could be stronger, and hope it will be strengthened over future years. One particular area where we would welcome this is for fund managers of pooled accounts to allow their clients to vote the shares attributable to them held within those accounts. We regard this as a basic expectation of fund managers which are keen to recognise their role as stewards of other people's assets - to freely enable them to have control and influence over their own assets. Enabling them to have voting control is a basic building block for beneficial owners to act as good stewards and fulfil their role under the Stewardship Code.”

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Hermes Equity Ownership Services (Hermes EOS)

Hermes EOS is a substantial, multi-national, multi-skilled global resource that advises and represents pension funds and other long-term investors as good corporate owners. It is dedicated to representing its clients in engagements with companies on issues relating to their long-term value and on public policy and best practice internationally. Hermes EOS also helps its clients to develop and implement policies and strategies on corporate governance and responsible asset management and to vote their shares intelligently.

Hermes

Hermes is a multi-boutique asset manager comprising a series of specialist investment partnerships with a truly long-term and responsible approach to delivering investment returns. We offer our clients the best combination of specialist investment teams and products along with a robust operating platform from which to operate.

Our investment solutions range from alternative assets, including commodities; fund of hedge funds; 'clean tech' focused private equity; and real estate, through to specialist equity strategies in Emerging Markets; Global Equities; Small Cap equities; Europe and Japan, as well as expertise in bonds, covering inflation-linked, investment grade and high yield mandates. Hermes invests assets on behalf of around 180 clients* across these product areas and has £26.8bn* under management. Additionally, we help pension funds meet the highest standards of responsible long term ownership through our innovative Equity Ownership Service, which has over £60 billion* of assets under stewardship.

Hermes is the advisor and principle investment manager for the BT Pension Scheme (BTPS) and BTPS is also the 100% owner of Hermes. This unique relationship gives us a long-term parent whose requirement for investment excellence is perfectly aligned with that of all of our other clients and provides a privileged insight which informs our product development.

* As at 31 March 2010