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## Press Release

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### **Hermes Initiates Strategic Review Of Its Index Tracking Capability**

Hermes Pensions Management confirms that it is conducting a strategic review of its Index Tracking capability within Hermes Assured Limited (HAL) and its segregated client portfolios in this area.

Hermes has a long track record of successful, low-cost index tracking for its clients in a market place where the major index trackers have been scaling up aggressively over the last few years.

Against this background, Hermes is exploring a number of options which will allow it to continue to increase the competitive position of its index-tracking offering. These options include actively investing in and growing its passive business and/or seeking to partner with another leading passive provider.

Whatever the outcome of this review, Hermes will continue to grow its active investment management activities and its market-leading Corporate Governance Stewardship programme. Hermes' position as investment adviser to all BTPS's assets, with responsibility for overall asset allocation, will also remain unchanged.

The review is expected to be completed in around July and, in the meantime, existing Index Tracking activities continue unaffected.

Ends

Notes to editors attached

# Hermes Pensions Management Ltd.

## Press briefing note

### Issued Quarter One 2007

Hermes is a leading pension fund investment manager, independent of any broader financial services organisation. With assets of over £69 billion\* Hermes is the third largest UK pension fund manager\*\*. Being 100% owned by the BT Pension Scheme (BTPS) – the UK's largest, we are uniquely placed to understand the issues faced by pension funds and other long term investors.

Hermes currently invests assets on behalf of around 240 clients including pension funds, insurance companies, government entities and financial institutions, as well as charities and endowments. Some of Hermes' other major clients include the pension funds of Royal Mail, Unilever, British Coal, Nippon Life (Japan), CalPERS (USA), PGGM (Netherlands) and 39 UK Local Authorities.

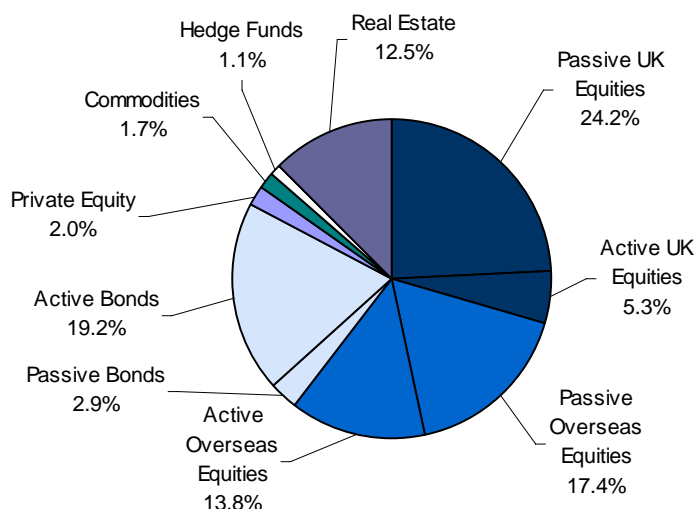
Recognised as a pioneer of core / satellite investment and its evolution into beta and alpha separation, we are at the forefront of delivering long term investment solutions. As the investment advisor and manager of the BTPS, our approach is reflected in the strong returns we have delivered.

We offer a full investment solution or just component parts, including alternative strategies such as commodities, hedge funds, our engagement focus funds, real estate or private equity. Additionally, we help pension funds meet the highest standards of responsible long term ownership through our innovative Equity Ownership Service (EOS).

\* As at 31<sup>st</sup> December 2006

\*\* Source FTFM Survey June 2006

### Assets Under Management as at 31 December 2006



Through extensive coverage of equities and fixed interest investments, investing in global equity and bond markets to establish a broad knowledge of business sectors, which enables it to make high profile investments in direct private equity, as well as private equity funds. Hermes has widened its range of alternative asset products through the Hermes Absolute Return Fund (HARF), a hedge fund of fund investment strategy designed specifically for pension funds, and the Hermes Commodity Index Fund, which gives pension schemes exposure to commodity prices via futures. In addition, Hermes operates an integrated portfolio management and research-based approach to real estate investment, ensuring that only high quality properties, which are well located and highly competitive in their local market places, are targeted for acquisition. As well as offering segregated investment, it also offers pooled real estate investment through the Hermes Property Unit Trust.

Hermes places great emphasis on exercising stewardship rights in all the companies in which it invests, particularly because it has long-term holdings in equities. As a result, it is at the forefront of the corporate governance movement in the UK. Hermes is the first major investment institution in the world to have established shareholder engagement funds - the Focus Funds. Having identified companies underperforming their indices, Hermes' intervention and involvement as long-term shareholders aims to unlock the latent value that exists within the companies in which it invests.

Hermes has developed its governance service even further by offering the Hermes Equity Ownership Service (EOS). EOS offers pension funds the highest level of equity stewardship by providing a single integrated stewardship overlay across a scheme's equity holdings, regardless of who is the underlying fund manager. It is particularly appropriate for schemes with large equity holdings, and those who recognise the value of good stewardship in adding value to their equity investments.

Hermes has a long history of innovative long-term fund management. Originally known as PosTel, the in-house manager of the Royal Mail (previously the Post Office) and British Telecommunications superannuation pension funds, Hermes was created in 1995 when it became wholly owned by BTPS. A continuing aim to generate value for BTPS remains central to Hermes' activities; however, its expertise has attracted many other major investors from all areas of the economy.

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