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Press Release

HERMES COMMITS TO \$1400 MILLION OVERSEAS REAL ESTATE PROGRAMME AND HIRES ADIA TEAM

On behalf of its shareholder and major client, the BT Pension Scheme, Hermes announces that it is to commence a \$1400 million investment programme in Overseas Real Estate. At the same time, Hermes also confirms that three of the principal Real Estate Investment Managers currently at the Abu Dhabi Investment Authority will be joining Hermes Real Estate to lead the overseas investment programme.

BTPS currently has around £4.2 billion net equity committed to UK Real Estate representing some 12% of total investments. The \$1400 million (c.2%) commitment will be funded out of the existing portfolio and from Overseas Equities and will be primarily focused on Continental European and Asian Real Estate opportunities.

The ADIA team of three, led by Mark Burton, current CIO of the ADIA global Real Estate programme, also includes Mark Gifford (responsible for ADIA's European Real Estate Investment activity) and Neil Ross (CFO for ADIA's Real Estate team). ADIA is widely recognised as one of the most active global Real Estate investors.

Commenting on the move, Mark Anson, CEO of Hermes said:

“Like the US, the UK real estate market currently feels relatively fully priced and we believe that now is a good time for BTPS to diversify its portfolio. Investing outside your home markets usually brings with it an additional element of risk and for this reason the acquisition of an existing experienced team with a proven track record was seen as a prerequisite for BTPS to widen its investment strategy into global Real Estate markets.”

Rupert Clarke, CEO of Hermes Real Estate said:

“The identification of an established and successful overseas investment management team is an important step in the growth of Hermes Real Estate's Investment Management business. The ADIA team has been well known to us for many years and we

had no hesitation in recommending them to BTPS as the focal point of a global Real Estate Investment programme.”

Mark Burton, current CIO of ADIA Real Estate, said:

“After many challenging and exciting years developing ADIA’s global Real Estate Investment portfolio, the team was looking to return to a UK base. Hermes Real Estate has developed its business significantly over the last few years and we are very pleased to be part of the team with the full support and commitment of BTPS to a global Real Estate Investment programme. The global real estate markets continue to expand and offer an attractive alternative investment opportunity for BTPS and other Hermes clients in the future.”

Ends

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HERMES PENSIONS MANAGEMENT LTD.

PRESS BRIEFING NOTE

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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.

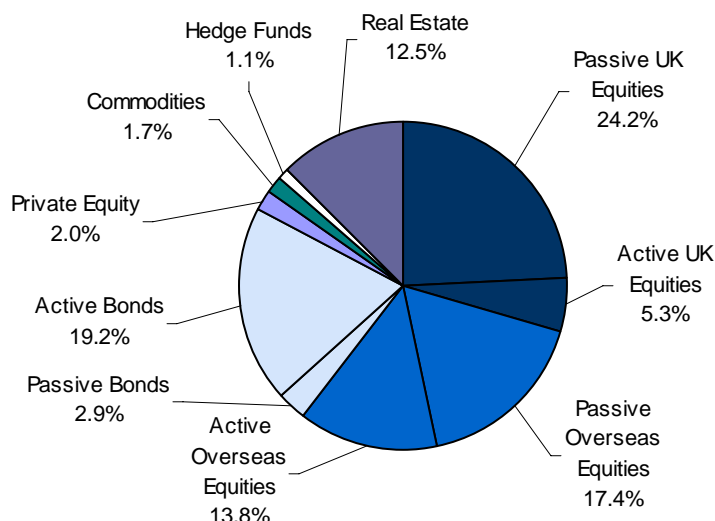
Recognised as a pioneer of core / satellite investment and its evolution into beta and alpha separation, we are at the forefront of delivering long term investment solutions. As the investment advisor and manager of the BTPS, our approach is reflected in the strong returns we have delivered.

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 31st 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.

Contacts

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Pictures are available from Hogarth upon request.

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