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By Sarah Spikes

## Hermes to stop index-tracking

Hermes, which manages the UK's largest pension fund and was a pioneer of passive index-tracking fund management more than 20 years ago, has decided to stop managing such funds and instead outsource their management to Legal & General.

The company, which manages the £39bn BT pension fund, £17.5bn of which is in passive management, first said it was considering finding a partner to handle its index-tracking unit in February.

Hermes will continue to be responsible for asset allocation for the whole £39bn.

Its decision to abandon the field is partly because competition from big low-cost index-tracking specialists was denting profitability.

Hermes, which manages £70bn in total, has a five-person team managing about £29bn in index-tracking assets for about 60 clients.

L&G, as the UK's largest provider of index trackers, and manager of part or all of the pension funds of half of all FTSE 100 companies, has enough scale to drive down costs and manage trackers more profitably. L&G manages £168bn in index funds out of a total of £239.6bn under management.

It is not thought that L&G made any upfront payment to acquire management of the tracker funds.

While the final fee structure is not yet clear, Mark Anson, Hermes chief executive, said it will likely result in clients paying separate fees to L&G and Hermes. He declined to comment on whether clients would pay more than they are now.

"From our perspective our clients will see no difference - the transition will be smooth and our clients will be happy with the arrangement and the fee structure will be very competitive."

Hermes will continue to provide corporate governance oversight for the funds, including voting proxies for investors, attending annual meetings and defending shareholder rights when necessary, said Mr Anson, who joined the company last year from Calpers, the largest US pension fund.

"The partnership with L&G will allow them to do what they do best, which is index tracking, and will allow us to continue to provide what we do best which is corporate governance."

He pointed to two recent examples of Hermes's defence of shareholders, including its retrieving rights for News Corp investors who would have lost some of their influence when News Corp transferred its headquarters from Australia to the US state of Delaware.

In the case of Volkswagen, Hermes is in the process of fighting for better representation of shareholders' interests on the board.

Hawkpoint advised Hermes and [Fenchurch Advisory](#) advised L&G.