ENHANCED ANALYTICS INITIATIVE

NEWSLETTER – *April*, 2007

NYCERS BECOMES THE ENHANCED ANALYTICS INITIATIVE'S 25th MEMBER
-North American members now represent a fifth of total membership

The EAI announced this month that the New York City Employees' Retirement System (NYCERS), the largest municipal employee retirement system in the United States with $46 billion in assets, has joined the EAI as an Associate Member. The Initiative's assets under management now total approximately €1.85 trillion (c. US$2.4 trillion).

NYCERS provides pension benefits to over 300,000 employees and retirees of the City of New York including civilian employees, such as clerical workers, accountants, and social workers, and uniformed employees such as New York City Correction Officers and Sanitation workers.

Commenting on the news, NYCERS' released the following statement:
"The decision to join the EAI demonstrates a commitment by the NYCERS' Board of Trustees to engage in the kind of forward thinking necessary to maximize the performance of the pension fund. The EAI offers a fresh perspective on the impact of long-term issues on fund performance that will prove to be invaluable for fiduciaries in their decision-making."

To view the full press release please visit: www.enhanced-analytics.com

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MARATHON CLUB PUBLISHES GUIDANCE NOTE ON LONG-TERM INVESTMENT
The Marathon Club, a collaboration of investment organisations representing combined assets under management of over £170bn, has published a guidance note providing practical guidelines to trustees and their advisers on the implementation of a long-term investment approach. Responses to an industry-wide consultation paper issued in March 2006 have been used by the Club to address how the financial industry might overcome the apparent barriers to long-term investing, particularly in an environment where pension funds face funding deficits.

Peter Scales, chairman of the Marathon Club, commented:
"The financial community's interest in this project demonstrates its desire to develop a long-term investment solution. Given the nature of their obligations, the long-term approach serves the interest of pension schemes, but importantly also benefits broader economic growth. However, the change in mindset required is significant and will not be achieved without the cooperation of all participants in the investment decision chain – trustees, investment managers and investment advisors. We would encourage the industry as a whole to use this framework as a way to radically re-consider the way it invests."

The guidance note provides practical tips for six key components of an investment mandate:

- Trustees' investment beliefs should be articulated clearly and explicitly
- Clear objectives for risk and return should be set, based on those beliefs and long-term goals
- Selection of fund managers should be directly linked to the trustees' long-term investment beliefs and objectives and clear parameters should be established for each mandate
- Alignment of trustee and manager objectives is best achieved through individual managers owning a stake in their business. Appropriately structured performance fees should also be introduced and maintained
- It is important to place greater emphasis on the content rather than the frequency of review meetings
- Implementation requires strong governance and leadership.

To view the full press release please visit: www.marathonclub.co.uk

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RESPONSIBLE INVESTMENT IN FOCUS: HOW LEADING PUBLIC PENSION FUNDS ARE MEETING THE CHALLENGE
UNEP FI's Asset Management Working Group (AMWG) and the UKSIF Sustainable Pensions Project (SPP) have produced a report focusing on practical, concrete strategies being employed by some of the world's leading public pension funds. The UNEP FI AMWG is an alliance of 14 investment managers from Brazil, Canada, France, Italy, Japan, the US and the UK. The UKSIF SPP assists and encourages UK pension funds to adopt more sustainable and responsible investment strategies. It believes that this will protect and enhance long-term shareholder value and financial returns for beneficiaries.

Over 25 public pension funds were initially surveyed, and 15 of these were selected for inclusion in this report, ranging from the California Public Employees Retirement System (CalPERS) to the employees' pension fund of Banco do Brasil (PREVI) and the French Fonds de Réserve pour les Retraites (FRR). The diversity of approaches to responsible investment is wide, as is the degree of advancement in implementation. While some funds are still developing policies, others have introduced approaches to integration across their entire portfolios and multiple asset classes.

Institutional investors are becoming aware of the need to take into account ESG issues, particularly pension funds. Many investors are grappling with these issues, and there can be both hesitation and confusion as to how to reconcile the integration of ESG issues with the thorny question of fiduciary responsibility. Ironically, as one of the primary providers of the capital fuelling the international markets, pension funds are in a unique position to influence market participants, principally their fund managers, to value ESG factors appropriately and integrate them into the investment process.

To access the full report please visit: http://www.unepfi.org/fileadmin/documents/infocus.pdf

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If you are an asset owner or fund manager who would like to see investment research that better addresses extra-financial issues or are otherwise interested in EAI, we would like to hear from you. To receive more information please contact Jennifer Walmsley at j.walmsley@hermes.co.uk or +44 (0) 20 7680 2847.