

## Flash Notes – On Hold Status

### Hermes Impact Opportunities Equity



We downgrade the rating of the **Hermes Impact Opportunities Equity fund** to “**On Hold**” from “Selected” in our Global Master List. The decision applies to all share classes of the fund and it means that we advise not to add fresh money into this fund until its status has been reassessed and the situation cleared.

#### **Rationale: The Impact investing team is leaving Hermes IM**

Tim Crockford, lead Portfolio Manager (PM) of the Hermes Impact Opportunities fund, Head of Impact Investing and all members of the of the Impact Investing team have left Hermes IM. Tim Crockford and Maxine Wille have already left the office, while Mohsin Ahmad and Maxime Le Floch, both analysts in the team, are serving their notice period and will remain for an interim period.

During this transitioning phase, Martin Todd, European Equities PM / Lead PM of Hermes Sustainable Europe strategy, and Mark Sherlock, Head of US Equities/ Lead PM of Hermes US Small and Mid Cap Fund, will assume co-management responsibilities for Hermes Impact Opportunities Fund for an interim period while Hermes IM finalizes a successor for Tim Crockford.

Both Martin and Mark have been contributors of investment ideas to the fund and know its philosophy and strategy well, which will remain unchanged. Mohsin Ahmad and Maxime Le Floch will support Mark and Martin during their notice period. The portfolio management decisions will be made by this new duo of co-PMs.

This news comes after Andrew Perry, former Head of Sustainable investing from 2017 to 2019 at Hermes, also left the company in September 2019 to join Newton. His responsibilities were transferred to Leon Kamhi. Andrew Perry was not involved in Hermes Impact Opportunities Equity’s portfolio management, but his departure was already a negative signal regarding the recent turnover.

#### **WS Partners Opinion**

Even if we acknowledge that Hermes investment teams operate with a collegial approach and that the Asset Manager has a strong bench of talents internally, we think the turnover in the team is very material. Hermes IM is losing most of its Sustainable Global Equity / Impact platform resources with the departure of the fund’s lead PM and the whole team of dedicated analysts.

We will closely monitor the AUMs of the fund to track any significant outflows that could impact the strategy, as well as any impact on the portfolio’s performance. However, it is fair to highlight that for existing investors, they are protected by the swing pricing, so in case there are large redemptions, investors who decide to stay in the fund will be protected. In addition, we have been informed that Hermes IM will be introducing fee reduction on the fund’s F and R share classes (the main retail and clean fee share classes clients are invested in) for the interim period until they recruit the new Impact team. We will keep you posted once we have the detailed information.

The interim duo of PMs, i.e Mark Sherlock and Martin Todd share the high conviction, low turnover and long holding periods approach followed by Impact fund. This year the fund has only had 2.5% of turnover, with one new position added and no divestments.

All the fund positions have passed through the Impact validation test and Martin and Mark do not intend on making any significant portfolio changes except rebalancing, monitoring the news, earnings, to ensure there is no deviation from the original thesis.

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We remain in close contact with Hermes IM to have first-hand information on the new investment professionals that will join, and the timeframe needed to have a new investment team in place. Hermes IM has a long track record of success across their sustainable investing franchise, and we are expecting a strong commitment coupled with significant new resources to maintain leadership and expertise in that space.

We will reassess the rating of the fund once we have more details on this transitioning period and after thorough assessment of the new set-up in the coming days or week. We will keep you informed if any change in the status of the fund occurs.

#### Biographies

Martin Todd joined Hermes as a senior analyst on the European Equities team in March 2013 and is now lead Portfolio Manager of the Hermes Sustainable Europe strategy and co-Portfolio Manager of the Hermes European Alpha Fund. Prior to this he was an investment director at Scottish Widows Investment Partnership. Martin joined SWIP as a graduate covering US equity before spending two years covering the Japanese equity market. In 2007 he joined the UK equity team, where he was a Portfolio Manager and analyst within a 10-person team managing more than £20bn in AUM. Martin graduated from the University of St Andrews with an MA in Economics & Modern History and is a CFA charterholder. In 2015, Martin featured in Financial News's '40 Under 40 Rising Stars of Asset Management', an editorial selection of the brightest up-and-coming men and women in the industry.

Mark Sherlock joined the Hermes US Equities team in February 2009 as co-Manager of the Hermes US SMID Cap strategy and became lead manager in October 2013. He was appointed as Head of US Equities in October 2017. Mark initially joined Hermes in 2005 as an analyst and Fund Manager on the UK Focus Fund. Prior to this, he was an investment analyst at Rio Tinto Pension Fund, where he had responsibility for the small- and mid-cap portion of the portfolio. Mark qualified as a Chartered Accountant with PricewaterhouseCoopers in 2002. He has a degree in Politics from Durham University, is a CFA charterholder and a Fellow of ICAEW.