

# AP1 appoints Hermes in Global HY diversification

Stockholm (NordSIP) – AP1 (Första AP-Fonden), the first of the five buffer funds in the Swedish national income pension scheme, has appointed U.K. institutional asset manager Hermes Investment Management to manage a \$400mn Global High Yield credit investment mandate as part of its drive to improve diversification and ESG integration into its global high yield investments, it announced in a press release Friday (October 20).

The SEK323bn AP1 fund launched the mandate in part through a desire to improve the geographical diversification of its high yield exposure. The appointment of Hermes, a manager with £30.1bn in AUM (as of June 30 2017), to the Global High Yield mandate reflects Hermes' global approach to high yield, its commitment to delivering long-term strong and holistic returns for investors, and its assessment of ESG risk to credit valuations, returns and society as a fundamental part of its investment process when scrutinising issuers.

"The appointment of Hermes is a result of a tender process we initiated in December 2016 when we decided to broaden our High Yield exposure from U.S. High Yield only to Global High Yield," AP1 Portfolio Manager Tina Rönnholm told NordSIP. "We have in our procurement process now approved managers for the following categories: EU High Yield, U.S. High Yield and Global High Yield. We will fund only a handful of Global High Yield managers at this stage, of which Hermes is one."

Ms Rönnholm and AP1 Head of External Management Majdi Chammas (*both pictured*), who together are responsible for external High Yield investments, elsewhere expressed their satisfaction at the appointment of Hermes IM, considering the companies' respective commitments to the "duty of delivering strong returns to stakeholders, including considering the impact of society as a whole." The Hermes team is "very advanced in the way they integrate ESG issues in their core investment process," with an "innovative approach of pricing ESG risks in terms of spread in their fundamental credit analysis" which makes them among the leading in the industry, they said.

Hermes, which enjoys an A+ rating from the UN PRI and participates in the UN Global Compact, draws upon multiple sources of information, including its own proprietary ESG Dashboard reports on listed companies and insights gained by corporate engagement specialists in Hermes EOS (Equity Owner Services).

"We are delighted to be partnering with AP1 on this mandate," commented Hermes IM Co-Heads of Credit Fraser Lundie and Mitch Reznick. "AP1 are one of the most innovative and forward-thinking pension funds. Our credit offering sits at the confluence of industry-leading credit management and a pioneering approach to ESG integration, which includes the pricing of ESG risks as well as analysis. Clearly they, like us, believe that creditors have as much interest as shareholders in seeing companies' ESG practices improve and that active engagement can facilitate those improvements."

Alongside Hermes IM, AP1 has approved, in its procurement for External Management of High Yield Credits: Brigade Capital Management LP, Capital Four Fondmæglerkskab A/S, Legal & General Investment Management, M&G Investment Management Ltd, MacKay Shields LLC, Morgan Stanley IM Ltd, Neuberger Berman Group LLC, Nomura Corporate Research and Asset Management Inc., Shenkman Capital Management Inc., TOBAM and Wellington Management International Ltd. Only TOBAM and Hermes IM have so far been picked for the GHY mandate.

The decision to approve these managers was motivated by their contributions to giving AP1 good flexibility and portfolio diversification, alongside high expected risk-adjusted return net of costs. The managers were also chosen on the basis of being able to complement each other well in terms of investment styles, regional expertise and risk profiles, thereby contributing to the diversification of the fund's portfolio.

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