



## Study Shows Corporate Governance Impacts Investment Performance

### *Uncovering Agency Problems Can Contribute to Alpha Generation*

FOR IMMEDIATE RELEASE

**Portland, Maine; April 22, 2010** – A [study of investment applications](#) for corporate governance ratings produced by The Corporate Library, an independent corporate governance research firm, showed outperformance of 275 annualized basis points in 2003-2010 for a hypothetical portfolio constructed using governance screens. Commissioned by The Corporate Library and conducted by Quantitative Services Group, the study backtested a model portfolio benchmarked to the Russell 1000 that excluded companies The Corporate Library rated “high” or “very high” risk in board, compensation and/or overall governance.

“Previous research on the relationship of governance ratings systems to investment performance has shown mixed results, and the significance of particular governance features to equity returns is widely debated,” said Kimberly Gladman, Director of Research and Risk Analytics at The Corporate Library. “This study, however, suggests that The Corporate Library’s ratings system—focused on the identification of agency problems rather than supposed best practices—can contribute significantly to alpha generation.”

Forty-four percent (121 bps) of the 275 bps of annualized outperformance was stock-specific and thus directly attributable to The Corporate Library’s [governance risk ratings](#). Another 74 annualized bps resulted from differential industry weights arising from the application of ratings standards to each company on an absolute (not “best-in-class”) basis. The portfolio outperformed in over 60 percent of test months, had a tracking error of 3.3 percent and an information ratio exceeding 0.8.

The study, titled “The Corporate Library’s Governance Ratings and Equity Returns” is [available as a free download](#) from The Corporate Library’s website.

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### **About The Corporate Library**

Since 1999, The Corporate Library has been the leading independent research firm providing corporate governance research, advisory and risk analysis solutions. The Corporate Library rates companies in the Russell 3000, S&P 1500 and TSX60 on a proprietary set of governance risk factors, allowing businesses to evaluate governance as an element of investment and other risk. Informed by this philosophy and armed with its extensive Board Analyst® database and other risk assessment tools, The Corporate Library also offers portfolio risk assessment and environmental, social and governance (ESG) research services. Additionally, The Corporate Library’s team of industry-leading corporate governance analysts provide shareholder proposal and engagement advisory services to institutional investors. An April 2010 study of investment applications for The Corporate Library’s governance risk ratings showed outperformance of 275 annualized basis points in 2003-2010 for a hypothetical portfolio constructed using governance screens. More information on The Corporate Library and its suite of corporate governance data and analysis products can be found at [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com).

**Contact:**

Cheri Grimmert

Media Relations, The Corporate Library

[media@thecorporatelibrary.com](mailto:media@thecorporatelibrary.com)

207 553-5604