

# Q1 2008

Responsible Investment

## Corporate Governance and SRI

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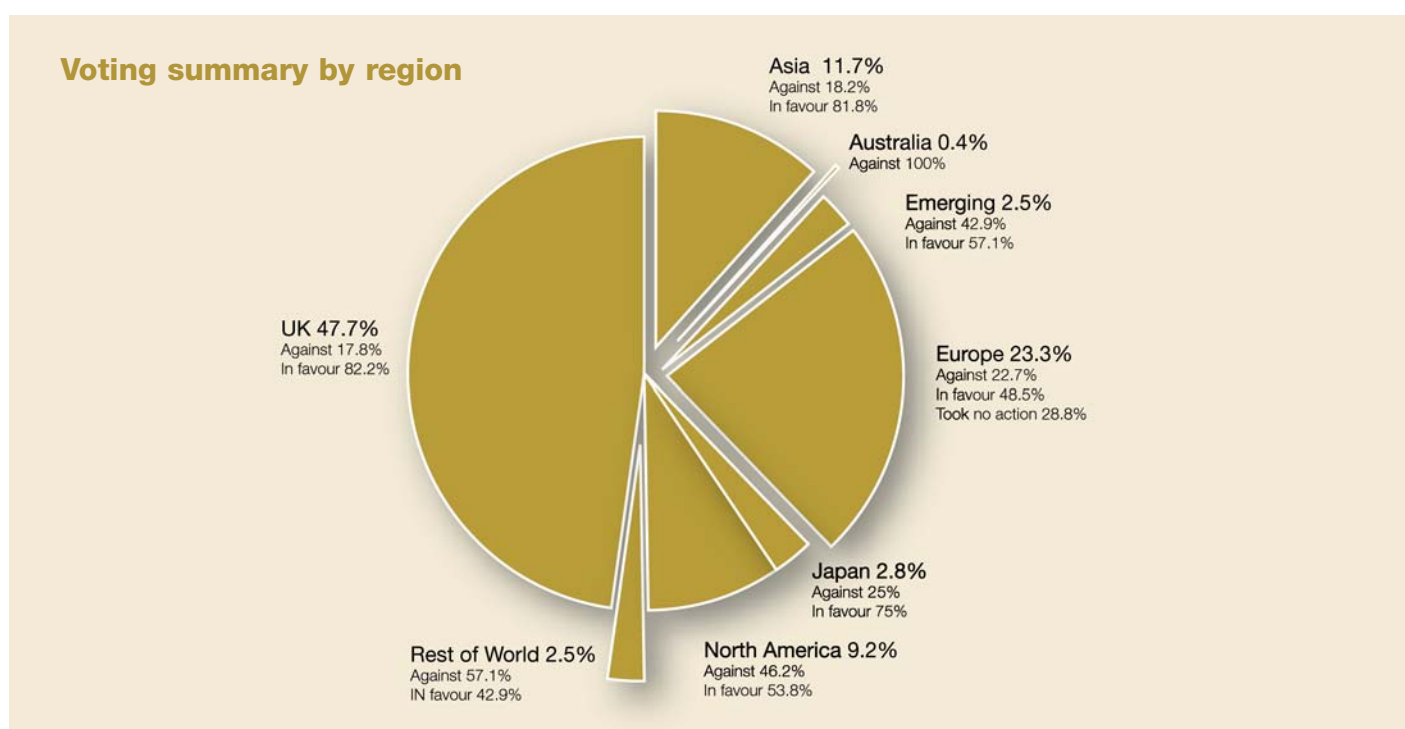
## Corporate Governance and SRI

### Voting Profile for Q1 2008

The table below summarises voting activity during the quarter. Of the 283 meetings, Newton instructed votes against one or more resolutions at 67. Of the 1,957 resolutions proposed, votes were

instructed against 208. The table and the pie chart below illustrate, in aggregate, the voting activity undertaken by Newton on behalf of its clients during the quarter.

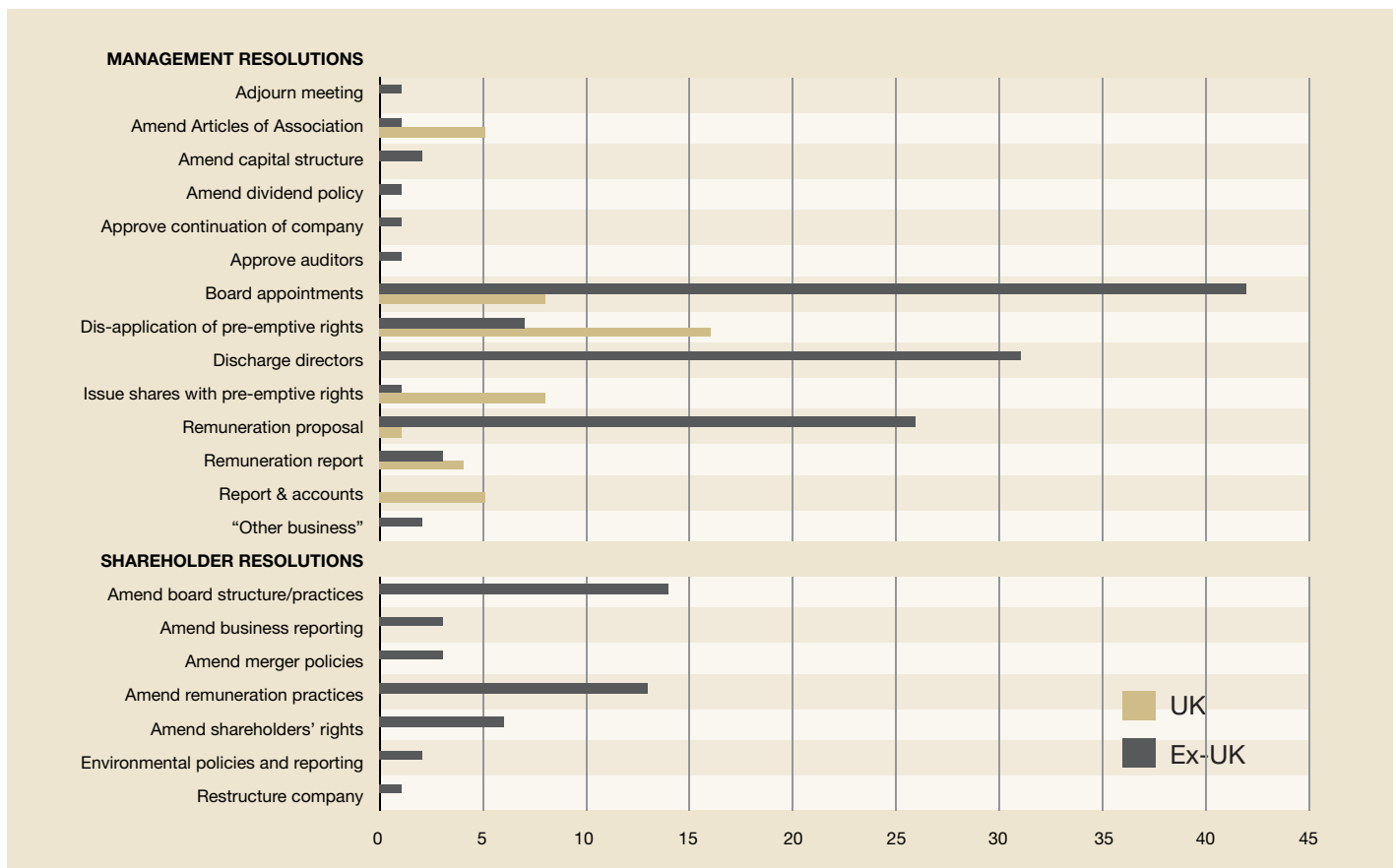
<b>Complete voting summary – Q1 2008</b>	<b>Total</b>	<b>UK</b>	<b>Ex-UK</b>
<b>AGMs</b>	<b>176</b>	<b>72</b>	<b>104</b>
Voted in favour of all resolutions	107	51	56
Voted against one or more resolutions	56	21	35
Took no action	13	0	13
Abstained	0	0	0
<b>EGMs</b>	<b>94</b>	<b>50</b>	<b>44</b>
Voted in favour of all resolutions	77	47	30
Voted against one or more resolutions	11	3	8
Took no action	6	0	6
Abstained	0	0	0
<b>Court Meetings</b>	<b>13</b>	<b>13</b>	<b>0</b>
Voted in favour of all resolutions	13	13	0
Voted against one or more resolutions	0	0	0
Took no action	0	0	0
Abstained	0	0	0
<b>Totals</b>	<b>283</b>	<b>135</b>	<b>148</b>
<b>Voted in favour</b>	<b>197</b>	<b>111</b>	<b>86</b>
<b>Voted against</b>	<b>67</b>	<b>24</b>	<b>43</b>
<b>Took no action</b>	<b>19</b>	<b>0</b>	<b>19</b>
<b>Abstained</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>283</b>	<b>135</b>	<b>148</b>



## Breakdown of resolutions where votes against were instructed during Q1 2008

The quarter saw a large number of shareholder proposed resolutions at the Annual General Meetings of Canadian banks. 24 of the 29 shareholder resolutions that Newton voted against were proposed at such meetings. Shareholders' rights in Canada differ considerably to those in the UK; shareholders cannot make directors pursue any particular course of action. Even if a majority of votes are cast in favour of a shareholder resolution, Canadian

companies are not bound to introduce such proposals. The non-binding nature of these resolutions has led to a climate where it is common for investors to bring concerns to the attention of companies by way of a resolution and the resulting public debate at a General Meeting. A full breakdown of the types of issues voted against follows in the chart below. The issues are described in more detail in the subsequent text.



## UK Companies

### Albany Capital PLC – AGM – 27th Feb 2008

Neither of the members of the company's two-man audit committee or the two-man remuneration committee were deemed to be independent. Newton agrees with the UK's Combined Code on corporate governance, in that, members of an audit committee and remuneration committee should be independent. Votes were instructed against two non-executive directors, who were seeking re-election to the board. One was a member of the audit committee, whilst the other was a member of both the audit committee and the remuneration committee. These non-executive directors were not considered independent due to their significant shareholdings in the company.

Votes were also instructed against two further resolutions. These sought shareholder authorisation to increase the company's share capital. Newton considered that the proposed share issuance was not sufficiently well structured or adequately explained to warrant the level of the proposed issuance. The company sought to issue 153% and 10% of shares whilst, respectively, applying and dis-applying shareholders' pre-emption rights.

### ATH Resources PLC – AGM – 15th Jan 2008

Votes were instructed against the resolution seeking shareholder approval of the company's remuneration report. Newton did not consider it appropriate for the company's CEO to be able to orchestrate his own remuneration by way of his membership of the remuneration committee.

#### **Baring Emerging Europe PLC – EGM – 15th Jan 2008**

Two resolutions were proposed that sought shareholder approval of certain amendments to the company's Articles of Association and for these to be adopted by the company. One of the proposed amendments could limit the ability of shareholders to exercising their voting rights should they appoint a representative to physically attend a General Meeting and vote on their behalf. Newton felt that the proposal was not in shareholders' best interests and instructed votes against the proposed amendments and against the adoption of the company's new Articles of Association.

#### **Baronsmead VCT 3 PLC – AGM – 19th Mar 2008**

Newton instructed votes against two non-executive directors (NEDs), who were seeking re-election to the board and its audit and remuneration committees. One of the NEDs was a director of the Trust's parent company and the other was a director of an associated Trust. Newton did not consider either of these non-executive directors to be sufficiently independent to warrant membership of the audit and remuneration committees.

Additionally, Newton voted against a resolution that sought shareholder authorisation for the Trust to issue shares, whilst dis-applying existing shareholders' pre-emption rights. The terms of the issuance would allow shares to be issued at a discount to their Net Asset Value.

#### **Bellway PLC – AGM – 11th Jan 2008**

At General Meetings, shareholders are able to appoint representatives to attend and vote on their behalf. By way of a resolution to amend its Articles of Association, the company made a proposal that could limit the ability of these representatives to exercise voting rights on behalf of the shareholder. Votes were instructed against the resolution seeking shareholder approval for the company to adopt its new Articles of Association.

#### **Care UK PLC – AGM – 6th Feb 2008**

During 2007, it was considered that the company poorly executed an acquisition and lost significant business contracts. Despite these events, the CEO and Finance Director saw their salaries, which were high relative to UK peers, increase by c.15% and c.10%, respectively. Also, bonuses were paid at 80% of the maximum amount. Newton considered that this constituted payment for poor performance and voted against the remuneration report and a member of the remuneration committee, who was seeking re-election to the board.

#### **Charter European Trust PLC – AGM – 18th Mar 2008**

Votes were instructed against two resolutions that related to the issuance of shares. Newton considered that the first of these resolutions, which would respect shareholders' pre-emption rights, sought an excessive level of issuance at almost 10 times the Trust's issued share capital. The second of these resolutions, if approved, would enable the Trust to issue shares at a discount to their Net Asset Value. Newton noted that shareholders' pre-emption rights would not necessarily be respected.

#### **Daily Mail & General Trust PLC – AGM – 6th Feb 2008**

Newton remained concerned over the company's remuneration structure and the membership of the remuneration committee. Against established best practice, the company still operates a two-year service contract for its highest paid director and a core part of the Long Term Incentive awards vest for simply remaining in employment. In addition, and as recognised by the company, none of the three members of the remuneration committee were considered independent.

Votes were instructed against the remuneration report, the Long-Term Incentive Plan and two members of the remuneration committee, who were seeking re-election to the board.

A further non-executive director, who was seeking re-election to the board and the audit committee, was voted against. Neither, the company or Newton considered this nominee to be independent. This was due to him acting as an advisor to the company and being a board member for 30 years.

Finally, the company failed to provide the necessary assurances relating to proposed amendments to its Articles of Association. Newton interpreted the amendments to mean that corporate representatives, appointed by shareholders to attend and exercise their voting rights at General Meetings, may not be able to properly represent the underlying shareholders. Newton voted against the resolution to amend the company's Articles of Association.

#### **Finsbury Growth & Income Trust PLC – AGM – 30th Jan 2008**

The Trust sought shareholder authority to re-issue shares at a discount to their Net Asset Value, whilst dis-applying existing shareholders' pre-emption rights. Newton considered that this method of issuance could unnecessarily dilute shareholders' value and instructed votes against the proposed share re-issuance.

#### **Firestone Diamonds PLC – AGM – 31st Jan 2008**

Newton instructed votes against the resolution that sought shareholders' acceptance of the company's Financial Statements and Statutory reports. This was due to the company's failure to establish a formal audit committee.

Additionally, votes were instructed against two further resolutions. These requested shareholder authority for the company to issue new shares. The requests were for new shares to be issued equating to 72% and 36% of the company's existing share capital, whilst, respectively, respecting and dis-applying shareholders' pre-emption rights. Without any justification provided from the company, Newton felt that the level of each request was excessive.

#### **Gartmore European Growth Investment Trust – AGM – 1st Feb 2008**

At this AGM, the company raised a resolution that sought shareholder approval for it to issue shares from its treasury account at a discount to their Net Asset Value. It was proposed that the method of issuance would be to dis-apply existing shareholders' pre-emption rights. Newton did not consider the proposal to be in shareholders' best interests given the potential dilution. Votes were instructed against this resolution.

### **Gooch & Housego PLC – AGM – 13th Feb 2008**

In terms of corporate governance practices, Newton believes that companies listed on the Alternative Investment Market should be granted greater flexibility than those with a full listing on the London Stock Exchange. Having said this, Newton still expects AIM listed companies to satisfy certain investor expectations in relation to good corporate governance practices. For this company, Newton noted that, of the four members of the remuneration committee, only two could be considered independent. Of the two non-independent members, one was the company's CEO and the other provided consultancy services to the company. Unlike companies listed on the main index of the London Stock Exchange, AIM listed companies are not required to provide their remuneration report for shareholder approval. It was, therefore, decided to vote against the company's Financial Statements and Statutory Reports.

### **Inspired Gaming Group PLC – AGM – 19th Mar 2008**

The company requested shareholder authorisation to issue equity or equity-linked securities, whilst dis-applying existing shareholders' pre-emption rights. The level of issuance sought was 10% of the company's outstanding shares. In line with Newton's view on this method of raising capital, together with the guidelines from the Pre-emption Group, it was felt that, without any justification from the company, the level of issuance sought was excessive. Votes were instructed against this resolution.

Following the new UK Companies Act, the company sought to adopt new Articles of Association. Two areas of the new Articles of Association provided Newton with enough concern to warrant voting against their adoption. First, whilst seeking to indemnify directors, the company failed to clearly exclude its ability to indemnify its appointed auditors. Secondly, the new Articles of Association could limit the ability for shareholders to attend and vote in person at future General Meetings.

### **Rights and Issues Investment Trust PLC – AGM – 27th Mar 2008**

Newton instructed votes against the resolution that sought shareholders' acceptance of the company's Financial Statements

and Statutory reports. Concerns centred on the fact that the whole board acted as the remuneration committee and the audit committee. Thereby, the executive director and non-independent chairman were members of these two committees. It is Newton's belief that these two key committees should only consist of independent non-executive directors.

### **The Independent Investment Trust PLC – AGM – 27th Mar 2008**

The Chairman of the company was not considered independent due to him controlling 12% of the company's shares and being in possession of share option awards. Given this affiliation with the company, Newton did not consider it appropriate for the Chairman to retain his membership of the audit committee or the remuneration committee. In addition, Newton was concerned that the company's managing director was a member of the audit committee. Votes were instructed against two resolutions; the acceptance of the remuneration report and the company's Financial Statement and Statutory Reports.

### **Your Space PLC – AGM – 28th Jan 2008**

The company stated that its Finance Director was a member of the audit committee. Due to the clear conflicts of interest that this structure creates, Newton instructed votes against the resolution seeking shareholder acceptance of the company's Financial Statements and Statutory Reports.

Two further resolutions were also voted against. These requested shareholder authority to issue new shares in the company at a level equal to its existing share capital. In the event of new shares being issued, the company would be able to either apply or dis-apply existing shareholders' pre-emption rights. The company stated that any share issuance would be in connection with a rights issue or similar offers. Newton did not consider this statement sufficient to allay concerns over the possibility of the company to significantly dilute shareholder value.

## **Dis-application of Pre-emption Rights at UK Companies**

At the meetings listed in the table below, Newton voted against resolutions seeking shareholder authority to issue new shares, whilst either applying or dis-applying existing shareholders' pre-emption rights. Newton considered that, without adequate justification, the proposed level of issuance was excessive. The guidance from The Pre-emption Group suggests that a company should provide justification to shareholders should it wish to dis-apply pre-emption rights above 5% of its issued share capital.

<b>Company</b>	<b>Meeting type</b>	<b>Date</b>	<b>Issue without pre-emption rights</b>	<b>Issue with pre-emption rights</b>
Civica PLC	AGM	27th Feb 2008	10%	–
Elderstreet VCT PLC	EGM	6th Mar 2008	10%	69%
GW Pharmaceuticals PLC	AGM	18th Mar 2008	20%	–
Harrier Group PLC	EGM	14th Jan 2008	60%	199%
Innovise PLC	AGM	30th Jan 2008	22.5%	81%
Mediterranean Oil & Gas PLC	AGM	17th Jan 2008	32%	–
Northern AIM VCT PLC	AGM	27th Jan 2008	10%	134%
Ultrasis PLC	AGM	26th Feb 2008	10%	–

## Ex-UK Companies

### Anglo Irish Bank Corp PLC – AGM – 1st Feb 2008

Newton voted against the re-election of a non-executive director who had been a board member for 20 years and was a member of the audit committee. Given his 20-year tenure, Newton did not consider him to be sufficiently independent to justify membership of the audit committee. Newton recognised and was comforted that this nominee's financial expertise was matched by the committee's chairman.

Two further resolutions were voted against. These sought shareholder approval of a new Performance Share Award Plan and for amendments to the company's existing Share Option Scheme. Newton's concern centred on a provision incorporated in both of these arrangements that would allow for share awards to be re-priced. Newton believes that the re-pricing of share incentive awards undermines the principal of pay for performance.

### Anglo Platinum Ltd – AGM – 31st Mar 2008

A resolution was proposed for shareholder approval that would provide directors with the discretion to issue new shares in the company. The proposed level would be up to 75% of the company's existing share capital. Newton considered that this could lead to excessive dilution of existing shareholders' value and instructed votes against the resolution.

### Apple Inc – AGM – 4th Mar 2008

A shareholder submitted a resolution requesting that the company amend its Bylaws to establish a board committee on sustainability. Newton is generally supportive of relevant corporate sustainability initiatives and reporting on these activities. However, in this instance, Newton instructed votes against the resolution. Newton considered that the company's existing reporting on sustainability issues addressed the proponent's concerns. The environmental segment of the company's corporate website provides details relating to its environmental policies and initiatives, including performance metrics. Additionally, Apple's Supplier Code of Conduct aims to ensure safe and fair working conditions in its supply chain, as well as environmentally responsible manufacturing processes.

### Axfood AB – AGM – 5th Mar 2008

By way of a single resolution, the company sought shareholder approval for its directors' remuneration and also the remuneration of the company's auditors. Whilst the aggregate remuneration paid to directors was disclosed, the company failed to disclose the monies paid to its auditors. Given the lack of information, Newton instructed votes against this resolution.

Of the 11 non-executive directors on the company's board, Newton considered only three to be independent. No independent non-executive directors were members of the remuneration committee and the board had not established an audit committee. The company sought shareholder approval for

the election or re-election of eight non-executive directors, which would be achieved by the passing of a single resolution. Newton is fundamentally against this method of bundling resolutions, where it is felt that shareholders should have the opportunity to separately elect board members. Votes were instructed against this resolution.

Votes were also instructed against the resolution to appoint the company's Chairman. This was due to the nominee being the husband of a non-executive director and that this non-executive director chairs a company that has a controlling stake in Axfood.

Finally, Newton instructed votes against the approval of the company's remuneration policy. Whilst Newton welcomes the opportunity to vote on such matters, concern was had over company's failure to disclose the necessary information relating to the remuneration policy. Also, the remuneration committee did not consist of any independent members.

### Bank of Montreal – AGM – 4th Mar 2008

Newton instructed votes against a total of eleven shareholder proposed resolutions. Nine of these resolutions were proposed by the MEDAC (the shareholder education and advocacy movement) and two resolutions were proposed by a single shareholder (J Robert Verdun). Newton's rationale for instructing votes against nine of the eleven resolutions was due to the company either having policies and practices already in place that, Newton felt, adequately addressed the proponent's concern or Newton felt that the resolution related to operational matters that would be best left to the discretion of the board. These resolutions are highlighted in the table below.

The remaining two resolutions, which Newton voted against, sought for the company to increase the dividend paid to long-term shareholders and to limit the voting rights of short-term shareholders. A long-term shareholder was defined as a holder of two or more years and a short-term shareholder as being invested for less than one year. Newton considered that these resolutions could discourage investment by long-term shareholders and act to entrench management by way of introducing a pseudo anti-takeover device.

The concern is already addressed	Should be at board's discretion
Executives' compensation should be linked to average wages, costs and financial performance.	Provide payment into the employee pension fund in the event of a merger or acquisition.
Obtain binding shareholder approval for executive compensation and directors' fees.	Half the board members should be female.
Disclose participation in hedge funds and high risk mortgage loans.	Cease awards of share options to executives and directors.
Provide for cumulative voting.	Direct the largest part of senior executives' compensation to charitable funds.
Make resignation unconditional in the event a director fails to receive a majority of votes for.	

### Bank of Nova Scotia – AGM – 4th Mar 2008

Newton instructed votes against a total of thirteen shareholder proposed resolutions. Nine of these resolutions were proposed by the MEDAC (the shareholder education and advocacy movement) and four resolutions were proposed by a single shareholder (J Robert Verdun). Newton's rationale for instructing votes against eleven of the thirteen resolutions was due to the company either having policies and practices already in place that, Newton felt, adequately addressed the proponent's concern or Newton felt that the resolution related to operational matters that would be best left to the discretion of the board. These resolutions are highlighted in the table below.

Two further resolutions, which Newton voted against, sought for the company to increase the dividend paid to long-term shareholders and to limit the voting rights of short-term shareholders. A long-term shareholder was defined as a holder of two or more years and a short-term shareholder as being invested for less than one year. Newton considered that these resolutions could discourage investment by long-term shareholders and act to entrench management by way of introducing a pseudo anti-takeover device.

The concern is already addressed	Should be at board's discretion
Executives' compensation should be linked to average wages, costs and financial performance.	Provide payment into the employee pension fund in the event of a merger or acquisition.
Obtain binding shareholder approval for executive compensation and directors' fees.	Half the board members should be female.
Disclose participation in hedge funds and high risk mortgage loans.	Cease awards of share options to executives and directors.
Provide for cumulative voting.	Direct the largest part of senior executives' compensation to charitable funds.
Make resignation unconditional in the event a director fails to receive a majority of votes for.	
Amend the nominating committee's director election criteria.	
Ensure remuneration structure complies with the regulations of the Ontario Securities Commission.	

### Bookham Inc – EGM – 25th Jan 2008

Three areas of concern led to Newton instructing votes against the proposed amendments to the company's Stock Incentive Plan. First, a provision in the plan provides for full vesting of awards in the event of a change of control. Secondly, non-executive directors receive substantial awards on an annual basis. Lastly, on average over the past three years, the company has awarded 6.5% of its share capital annually to facilitate share awards. Newton felt that the remuneration arrangements were not sufficiently well structured to warrant such a generous use of shareholders' funds.

### Canadian Imperial Bank of Commerce – AGM – 28th Feb 2008

Similar to other major Canadian banks, the Canadian Imperial Bank of Commerce's AGM saw a significant number of shareholder proposed resolutions, which were requisitioned by the same people or organisations. Of the 14 resolutions proposed by shareholders, Newton instructed votes against a total of 11. This was due to Newton believing that the company had already addressed the proponents' concerns or that the nature of the resolution meant that it would be tantamount to shareholders micromanaging the company. The table below highlights nine of these resolutions.

The further two resolutions, that Newton voted against, sought for the company to discriminate between long-term and short-term shareholders. It was proposed that long-term shareholders receive an increased dividend and greater voting rights than short-term shareholders. Newton felt that adopting such a policy could act against the proponent's desire to create long-term shareholder value, given that the proposal could discourage potential long-term investors from investing in the first instance and encourage the entrenchment of management by way of effecting an anti-takeover mechanism.

The concern is already addressed	Should be at board's discretion
Executives' compensation should be linked to average wages, costs and financial performance.	Provide payment into the employee pension fund in the event of a merger or acquisition.
Disclose participation in hedge funds and high risk mortgage loans.	Half the board members should be female.
Provide for cumulative voting.	Cease awards of share options to executives and directors.
Re-examine remuneration structure.	Direct the largest part of senior executives' compensation to charitable funds.
Make resignation unconditional in the event a director fails to receive a majority of votes for.	

### Canadian Western Bank – AGM – 6th Mar 2008

The company bundled together the re-election of board members into a single resolution. Newton expects to be able to vote, by way of separate resolutions, for the election and re-election of each board nominee. Newton was also concerned by the lack of refreshment amongst the company's non-executive directors. At the time of the AGM, the average tenure of a non-executive director was c.17 years. Votes were instructed against the resolution to re-elect the slate of directors.

Newton also instructed votes against the proposed amendments to the Share Incentive Plan. It was felt that the award levels were not sustainable or in shareholders' best interests. Historically, almost 2% of the companies share capital had been awarded annually by way of share incentive arrangements. Newton also noted that the company had failed to provide sufficient

information relating to the performance conditions governing the vesting of share incentive awards.

#### **Close Man Hedge Fund Ltd – AGM – 28th Feb 2008**

A non-executive director was seeking re-election to the board, the remuneration committee and the audit committee. Newton did not consider this nominee to be suitably independent to represent the Fund's shareholders due to his role as a director of the Fund's appointed administrator and secretary. Votes were instructed against this nominees re-election.

#### **Credicorp Ltd – AGM – 28th Mar 2008**

By way of two separate resolutions, it was requested that shareholders elect the board of directors for a three-year period and agree the remuneration of the board of directors. Basic information, such as the names of the nominees and the level of the proposed remuneration, was not provided. Newton exercised a level of prudence and instructed votes against these resolutions.

#### **Defined Capital Return Fund Ltd – AGM – 31st Mar 2008**

Two of the non-executive directors, who were seeking re-election to the board, were not considered independent by the company. Due to the whole board acting as the remuneration committee and the audit committee, Newton instructed votes against the re-election of these non-executive directors.

#### **Desarrolladora Homex S.A.B. de C.V. – AGM – 10th Mar 2008**

A proposed resolution sought shareholder approval for the company to establish a new share incentive plan. However, the company did not disclose the detail of the plan ahead of the AGM. Given that insufficient information was provided for shareholders to make an informed voting decision, Newton instructed votes against the company's proposed share incentive plan.

#### **Dexion Alpha Strategies Ltd – EGM – 22nd Feb 2008**

Prior to the EGM, Newton had expressed its concerns to the Trust relating to the steep discount at which it had been trading relative to its Net Asset Value. In an effort to fully divest its clients' interest in the Trust's shares, Newton instructed votes against the single EGM resolution that sought for the continuation of the Trust.

#### **Diagnosticos da America SA – AGM – 25th Mar 2008**

By way of a single resolution, the company sought shareholder approval of the aggregate remuneration of its executive and non-executive directors. The proposed level of remuneration was not disclosed and Newton noted that, in 2006, aggregate remuneration amongst the board members had increased by 56%. No explanation was provided to justify this rapid rise in remuneration. Newton exercised a degree of caution and instructed votes against this resolution.

#### **Elisa Corp – EGM – 21st Jan 2008**

The three resolutions proposed at this EGM were requisitioned by a shareholder, Novator Finland Oy. The first two resolutions requested shareholder support to remove all existing directors

and elect a new board. The third resolution sought to amend the company's purpose by way of splitting the company into a holding company and an operating company. Newton instructed votes against all three of the proposed resolutions. This decision was largely due to the lack of supporting information from the proponent as to the rationale for the proposals and the likely benefits to Elisa's shareholders. The names of the proposed board members were not disclosed and the amendments to the company's purpose appeared to be an attempt to micromanage the company to the benefit of Novator and not the wider shareholder base.

#### **Elisa Corp – AGM – 18th Mar 2008**

Shareholder approval was sought to issue additional shares in the company, equivalent to 30% of its existing share capital. Newton noted that the proposed method of issuance would not respect the pre-emption rights enjoyed by the company's existing shareholders. Without the necessary rationale from the company for why shareholders should accept such dilution to their value or parameters stating the price of new shares, Newton considered the proposal to be excessive and instructed votes against the resolution.

#### **Enterprise Products Partners L.P. – EGM – 29th Jan 2008**

Votes were instructed against the single resolution, which sought shareholders' approval of a new share-based remuneration arrangement. Newton was concerned that independent non-executive directors would be able to participate and the vesting of awards to executive directors would not be subject to the achievement of performance conditions. In addition, excessive dilution to shareholders' value was highlighted as a potential risk of the proposal. However, it was not possible to determine the extent of this risk given the company's lack of disclosure on this matter.

#### **Funai Zasan Consultans Co Ltd – AGM – 23rd Mar 2008**

The company proposed a number of amendments to its Articles of Association. Amongst the amendments were proposals to establish rules governing the exercise of shareholders' rights. One such proposal could allow the company to limit the information made available by the company should a shareholder propose a resolution. Newton did not feel that all the proposed changes to the Articles of Association would be in shareholders' best interests. Votes against the proposed amendments, were instructed.

#### **GAM Diversity Inc – AGM – 13th Mar 2008**

By way of a single resolution, shareholders were asked to elect an anonymous board of directors. No information was made available as to the names of the nominees or the existing board structure. Due to the bundled nature of the resolution and the lack of disclosure, votes were instructed against this resolution.

#### **GFI Group Inc – EGM – 11th Jan 2008**

The company sought to increase its authorised share capital by 300%. It was stated that the company intended to use the additional authorised share capital to facilitate a four-for-one stock

split. However, having taken the stock split into account, Newton felt that the resulting level of authorised common stock would be excessive at twice that of the company's issued shares. The issuance would be at the board's discretion and not necessarily respect shareholders' pre-emption rights. Votes were instructed against this resolution.

#### **Hologic Inc – AGM – 11th Mar 2008**

At the time of the company's merger, all share-based remuneration arrangements automatically vested in full, irrespective of performance and elapsed time. This provided significant rewards to the company's executive directors. The continuing executives and new executives from the merged company were then given new service contracts and share-based awards. Whilst it was appreciated that remuneration incentives were required following the merger, Newton did not believe that the service contracts or share-based remuneration arrangements were in shareholders' best interests.

Newton considered that the remuneration arrangements were designed in such a way that could reward recipients even if the company performed poorly. Significant awards of shares were made that would not be subject to the achievement of performance conditions. Service contracts would provide for excessive reward in the event of a change of control. In the first instance, all share-based awards vest in full and an amount equivalent to salary, plus three times the highest bonus awarded in the past three years, would be paid. Should an executive remain employed for a full year following a change of control, an amount is paid equivalent to their salary plus the highest bonus of the last three years. Newton considered these remuneration arrangements to be unnecessarily excessive and failing to align the interests of executives with those of the company's shareholders. Votes were instructed against the approval of the company's 2008 Equity Incentive Plan and also against six members of the remuneration committee, who were seeking re-election to the board.

A further resolution was voted against. If approved, this resolution would allow the company's directors to adjourn or postpone the meeting and allow the solicitation of additional votes from shareholders. Newton considered that adjourning or postponing the meeting would be an unnecessary use of shareholders' funds.

#### **Investec Capital Accumulator Trust Limited – AGM – 20th Feb 2008**

The Trust requested shareholders to support the re-election of a member of its audit committee, who was seeking re-election to the board. The Trust did not consider this nominee to be independent due to his position as a consultant to the Trust's sister company. Newton agreed that the nominee was not independent and, additionally, felt that his proposed membership of the audit committee was inappropriate. Votes were instructed against his re-election.

#### **Kirin Holdings Co Ltd – AGM – 26th Mar 2008**

A nominee was proposed for appointment as an independent internal statutory auditor. The candidate had been a partner at the company's auditor and was a non-executive director of the company's main bank. Newton felt that these relationships meant that the nominee was not suitable to undertake the position as an independent internal statutory auditor. Votes were instructed against his appointment.

#### **LaFarge – AGM – 18th Jan 2008**

Newton instructed votes against the election of three nominees, who were seeking to become non-executive directors on the company's board. Despite being supported by management, Newton felt that the three nominees were not appropriate candidates. Each nominee would act as a representative of a significant shareholder in the company. In addition, the election of the three nominees would shift the board's balance so that it would no longer consist of a majority of independent non-executive directors.

#### **Lotte Shopping Co – 7th Mar 2008**

Two separate resolutions sought to re-elect six non-executive directors to the company's board and to appoint three non-executive directors as members of the company's audit committee. Generally, Newton is against the bundling of resolutions, especially for the election of non-executive directors, whose role is to protect shareholders' interests. In addition to the bundled nature of these resolutions, the company failed to explain why one of the proposed nominees, under each of these resolutions, attended less than 75% of the scheduled board meetings. Votes were instructed against these two resolutions.

#### **Makhteshim Agan Industries Ltd – EGM – 17th Feb 2008**

A request for Shareholder approval was made for the company to amend the terms of service relating to a management agreement involving a company controlled by the Chairman/CEO of Makhteshim Agan Industries. The amended terms would provide the Chairman/CEO with a guaranteed bonus of \$250,000 irrespective of performance. Newton did not consider this to be appropriate and instructed votes against this resolution.

#### **Monsanto Co – AGM – 16th Jan 2008**

A shareholder submitted a resolution requesting the company to amend its Bylaws. It was stated that the company should not indemnify any director for any liability resulting from alleged harm to the natural environment, public health or human rights. Newton instructed votes against the resolution. Indemnity insurance is often necessary to attract and retain corporate officers and directors. It also provides a degree of latitude to enable entrepreneurial behaviour. However, despite indemnity insurance being provided, shareholders can still hold officers and directors accountable should their actions be deemed illegal.

### **MW TOPS Ltd – AGM – 31st Mar 2008**

Votes were instructed against two resolutions, which related to the issuance of additional shares in the company. The first of these resolutions sought shareholders' authority for the company to issue new shares, with pre-emptive rights, up to 100% of its share capital. The second of these resolutions sought to issue 20% of the company's issued share capital, whilst dis-applying existing shareholders' pre-emption rights. Unless clearly explained, Newton disapproves of companies issuing more than 5% of their share capital on a non-pre-emptive basis. The company provided no rationale for these proposed issuances.

### **National Australia Bank Ltd – AGM – 7th Feb 2008**

Newton instructed votes against a total of six resolutions, all of which were connected with the remuneration arrangements and the granting of share-based awards.

Newton's concerns centred on the structure of the companies long-term incentive arrangements. Awards are split into three tranches and begin vesting after just two years, rather than accepted best practice of three years. Vesting of awards under tranche 1 are subject to the achievement of Total Shareholder Return (TSR). However, awards begin vesting for below median performance. For the second tranche of awards, Return On Equity (ROE) is used as the performance benchmark but the targets were not disclosed. If, after the initial vesting period, these performance conditions are not met, they may be re-tested. Finally, the vesting of the third tranche of the award would be subject to performance conditions that Newton felt to be unsuitable. The targets included CEO succession and cultural & management development. Whilst Newton appreciates that these are very important areas for the success of the company, Newton believes that these should be used to underpin more tangible performance measurements.

Votes were instructed against three resolutions that sought shareholder approval to grant long-term incentive awards to three executive directors. Two members of the remuneration committee, who were seeking re-election to the board, were also voted against. Finally, Newton instructed votes against the resolution seeking approval of the company's remuneration report.

### **Neste Oil – AGM – 14th Mar 2008**

The company failed to disclose adequate information relating to two resolutions. This included the names of the nominees proposed for election as supervisory board members and the level of remuneration paid to the company's auditors and directors, for which shareholder support was requested. Given this lack of disclosure, Newton instructed votes against these two resolutions.

In addition, votes were instructed against two shareholder proposed resolutions.

The first of these resolutions sought for the company to establish a nomination committee comprising of three shareholder representatives, together with the chairman of the board of

directors. The committee would elect its chairman from among its members. Newton was concerned that this proposal would allow for non-board members, who are not accountable to shareholders, to take effective control of the company.

The second shareholder resolution proposed that the company abolish its supervisory board and adopt a unitary structure. Finnish company law does not dictate the structure of a company's board and Newton believes that a company's directors should use their discretion as to the most appropriate structure for the board.

### **Pico Far East Holdings – AGM – 28th Feb 2008**

By way of two resolutions, it was proposed that shareholders approve the issuance of shares equivalent to 30% of the companies outstanding share capital. The method of issuance would not respect existing shareholders' pre-emption rights. No adequate justification was provided as to why shareholders should accept the potential destruction of existing shareholders' value. Votes were instructed against these two resolutions.

### **Porto Seguro SA – AGM – 28th Mar 2008**

Shareholders were asked to approve the date for payment of dividends and interest on capital stock. Brazilian company law states that dividends have to be paid within 60 days of it being declared, unless shareholder approval is received to the contrary. Since the company did not disclose when it intended to pay its dividend, Newton felt it prudent to vote against the proposed resolution.

Similar concerns relating to the inadequacies of disclosed information led to Newton instructing voting rights against two further resolutions. These sought for the election of board members and for the approval of their remuneration.

### **PT International Nickel Indonesia Tbk – AGM – 26th Mar 2008**

The lack of any information relating to four resolutions led to Newton instructing votes against their approval. The first two resolutions bundled together the election of directors and the election of commissioners to the company's board. The latter two sought shareholders' approval of the remuneration of the board directors and the commissioners.

Votes were also instructed against a resolution entitled "other business". This item would allow other issues, not specified in the company's official meeting agenda, to be raised at the AGM. Shareholders, voting by way of proxy, would not be able to review the details ahead of the meeting. Therefore, this resolution could provide an opportunity for matters to be approved that may not be in shareholders' best interests.

### **Qualcomm Inc – AGM – 11th Mar 2008**

Newton instructed votes against the proposed amendments to the company's Long-Term Incentive Plan (LTIP). Whilst the LTIP plan retained some positive features, such as an explicit prohibition on the re-pricing of awards, Newton felt that the

proposed dilution to shareholder value was too high at c.18%. In addition, Newton was concerned that the independence of non-executive directors would be compromised by the provision of significant levels of share-based incentive awards.

#### **Raffles Education Corp Ltd – EGM – 5th Mar 2008**

The company failed to provide adequate information relating to its Performance Share Plan, for which it sought shareholder approval. From the detail provided, it was stated that up to 15% of the company's share capital could be awarded under the proposed plan. The combination of limited information and potentially excessive dilution suggested that it was appropriate to instruct votes against the proposed plan.

#### **Royal Philips Electronics NV – AGM – 27th Mar 2008**

The company operates a non-executive director election process, whereby, shareholders vote for the election of a candidate from two proposed nominees. For the two non-executive director positions available, Newton voted in favour of its two preferred candidates from the four proposed nominees. Votes were then instructed against the two least preferred nominees.

At the time of the AGM, a number of competition authorities in several jurisdictions were conducting investigations into possible anti-competitive activities by the company. There was also two pending litigation actions and an investigation by the SEC relating to one of the company's subsidiaries. Given these outstanding actions against the company, Newton voted against the two resolutions that sought shareholder approval to discharge both the management board and supervisory board.

Further, the company proposed that its share option scheme be amended so that the vesting of share options would only be subject to time. This proposal was contrary to the recommendations of the Dutch code on corporate governance. Newton was also concerned with the operation of the restricted share plan, due to the ability for awards to vest for the company underperforming its peers. Votes were instructed against the proposed amendment to the share option plan and also against the approval of the remuneration report.

Finally, in the event of a takeover or merger, the company sought the authority from its shareholders to issue 10% of its share capital, whilst dis-applying existing shareholders' pre-emption rights. Newton failed to appreciate why shareholders should accept such potential destruction to their value and instructed votes against two resolutions that would enable this proposal to be enacted.

#### **Siam Cement PLC – AGM – 26th Mar 2008**

A single resolution sought shareholder approval for the election of four directors to the company's board. One of the nominees was proposed as a member of the company's remuneration committee. Newton did not consider this individual to be an appropriate member of the remuneration committee given that he was an executive director of a company that owned 31% of Siam Cement. Votes were instructed against this resolution.

Newton also voted against a further resolution. This was entitled "other business" and could allow the board and shareholders to raise other issues at the AGM. Under this resolution, there is a possibility that certain items may be raised and approved that may not be in shareholders' best interests.

#### **Siemens AG – AGM – 24th Jan 2008**

During 2007, the Munich district court fined the company €201 million for 77 acts of bribery. Two former employees received suspended prison sentences for bribery and embezzlement, and the company was ordered to disgorge profits equating to €38 million. The company and former employees have appealed against these decisions.

Further, in January 2007, the European commission ordered the company to pay a fine of €397 million relating to its role in a price fixing cartel. In its own internal investigations, the company highlighted €1.3 billion of suspicious transactions. This related to world-wide transactions spanning the years 2000 to 2006.

In addition, at the time of its AGM, the company was under investigation for separate allegations of corruption. Prosecutors included China, Hungary, Indonesia, Israel, Italy, Nigeria, Norway, Switzerland, Greece, USA and Russia.

Whilst the company had taken certain corrective steps, Newton considered it appropriate to vote against a total of 33 separate resolutions.

Routinely, in Germany, resolutions are proposed for shareholder approval to discharge the management and supervisory board members from liabilities for their acts or omissions. By approving such discharge resolutions at German companies, shareholders are not precluded from bringing a claim against a director. Rather, it is a vote of confidence in the individual board members. Newton instructed votes against the discharge of 29 separate board directors and former board members who were directors of the board during the time covering the legal proceedings and investigations into the company's actions. For this same reason, votes were instructed against the re-election of three directors and against the re-appointment of the auditors.

#### **Telekom Malaysia Bhd – EGM – 6th Mar 2008**

If passed, a proposed resolution would allow the company to issue up to 10% of its issued share capital, whilst dis-applying existing shareholders' pre-emption rights. Due to the company not providing any comfort as to why shareholders should accept such a level of dilution or at what price shares could be issued, Newton voted against the resolution.

A further three resolutions were also voted against. These concerned the approval of a share option scheme and the granting of these share options to two executive directors. Newton's concern centred on the ability for the share options to be awarded at a discount to their market price and that vesting would not be subject to the achievement of performance targets.

**Terna Participacoes S.A. – AGM – 10th Mar 2008**

Terna Participacoes is registered as a level II company on Brazil's Bovespa Stock Exchange, which means that it is committed to the exchange's highest standards of corporate governance. Despite this, the company did not disclose any information pertaining to two resolutions. The first resolution, being a "bundled" resolution, sought to elect a slate of directors to the company's board. The second of these resolutions sought shareholder approval of the global remuneration of directors for 2008. Votes were instructed against these two resolutions.

Also, Newton voted against the company's remuneration arrangements. This decision was based on the ability for share options to be awarded at an undisclosed discount to the trading price of the shares and poor disclosure of information relating to the vesting schedule and performance conditions.

**Tyco Electronics Ltd – AGM – 10th Mar 2008**

Newton voted against the election of a non-executive director. During his limited time on the board, this non-executive director had only attended half the board and audit committee meetings. No explanation was provided for this individual's poor attendance record.

**Walt Disney Company (The) – AGM – 6th Mar 2008**

The company's non-executive directors receive substantial awards of share options and deferred shares, annually. Newton felt this undermined shareholders' needs and expectations for the company to maintain a majority independent board. Given the company's financial position, Newton failed to appreciate the rationale for making substantial incentive awards to the company's non-executive directors. Votes were instructed against the resolution proposing an amendment to the company's share incentive plan. In addition, Newton voted against the members of the remuneration committee, who were seeking re-election to the board.

# Examples of Corporate Governance Engagement – Q1 2008

*Where clients provide Newton with discretion over the exercise of their voting rights, Newton undertakes corporate governance engagement activity in relation to their underlying investments. Below are examples of corporate governance engagement carried out during the quarter. This is not an exhaustive list of engagement activity.*

## **UK Healthcare & Equipment Services company – January 2008**

**Contact:** Director of Human Resources

During the year, the company made a number of acquisitions, which, at the time, were taken favourably by the market. However, it became increasingly evident that the company was not handling the integration of the acquisitions well. In addition, in the latter half of its financial year, the company lost significant operating contracts. In consideration of these issues, Newton queried the remuneration committee's decision to award executive directors with bonuses at 80% of their maximum. The company stated that 68% of the total bonus paid was a direct calculation from profit growth, whilst the remuneration committee exercised its discretion and awarded the remaining 32%. It was stated that the remuneration committee wanted to recognise the executive directors' contribution to the material development of the company during the year and for certain acquisitions undertaken. Newton agreed that, part way through the company's financial year, this reasoning would have been appropriate. However, Newton suggested that the bonus payment did not reflect the company's overall performance or reflect the share price decline seen by investors during the final quarter of the company's financial year. Newton expressed further concern in connection with the remuneration committee's decision to award significant salary increases to the company's CEO and Finance Director and also to increase the maximum bonus potential by 50%. The company also failed to provide the actual calculation methodology used for determining the size of bonuses paid. Newton will continue to monitor the company's performance and remuneration policy.

## **Australian Telecommunications company – January 2008**

**Contact:** Chairman

In 2007, following the introduction of a new remuneration policy, the company's remuneration report received a majority of votes against its approval. Whilst the vote was not binding on the company to amend its remuneration practices, Newton met with the company's chairman to gauge his reaction to the vote and hear about his plans going forward following this significant event. Newton was also very interested to know if the new remuneration structure had helped the company in its transitional stage, particularly in relation to the motivation and management of a culture change, which the new structure was designed to achieve. Succession planning for the company's CEO, board members and key employees was also discussed.

The chairman agreed that the introduction of the new remuneration structure could have been dealt with better, especially in terms of engagement with shareholders and public

disclosure of the details of the structure. Going forward, in order to avoid any unnecessary distraction for the company and its investors, it was Newton's understanding that the company will manage better the communication of its remuneration policy. The chairman stated that he felt that some shareholders were uncomfortable with the complexity of the company's remuneration structure and that it was his intention to simplify this as the company works through its transitional stage.

In relation to the effects on recipients' behaviour, both cultural and motivational, it was stated that the desired effects of the remuneration structure supported the company's key strategic goals. Newton was very encouraged by this, which was considered to be of significant importance and a direct result of incentivising c.260 of the company's key employees under this remuneration structure.

In October last year, Newton detailed its concerns relating to the apparent lack of succession planning for the company's CEO, executives and key employees. The chairman was able to provide assurances that this matter had been a priority for the board and one that he felt was under control. The chairman was confident in the company's ability to avoid any unnecessary disturbances to its operational effectiveness that could result from succession planning issues. The chairman also described the additional characteristics, knowledge and experience that he would like to bring to the company's non-executive board.

## **UK Food & Beverages company – January 2008**

**Contact:** Company Secretary

Newton contacted the company to gain assurances relating to various amendments to its Articles of Association. All of the proposed amendments were in line with various requirements of the UK's 2006 Companies Act. Specifically, Newton requested further information on one of the proposed changes. An interpretation of certain sections of the Companies Act, together with this proposed change, could give the company the right to dismiss votes cast by corporate representatives, who are appointed by shareholders and physically attend general meetings to exercise voting rights. The company stated that it had taken general legal advice relating to all the proposed amendments and, specifically, on this controversial change. The company further stated that, in practice, it would not be its intention to disadvantage corporate representatives. Pending clarification and establishment of best practice in this area, the company stated that it would make any necessary changes required to provide corporate representatives with the rights they previously enjoyed.

At the time of this discussion with the company, guidance was awaited from the Institute of Chartered Secretaries and Administrators' (ICSA). Newton was encouraged by the

company's commitment to operate within the ethos that corporate representatives should be unencumbered in their duties.

#### **French Utilities company – February 2008**

**Contacts:** Director of Investor Relations  
VP of Legal Corporate Securities

In a meeting with the company, discussions centred on the upcoming AGM and the resolutions expected to be proposed for shareholder approval.

Newton detailed its concerns over the potential to dis-apply existing shareholders' pre-emption rights by 20% and stated that this level was not acceptable. Ideally, 5% should be sufficient for a company of its size and stage in its life cycle.

The company's commitment to offer an all-employee share option plan was taken positively and Newton accepted the company's commitment that any resulting dilution to shareholders' value would be kept to an acceptable level.

Detailed discussions were had over a proposed takeover defence mechanism, which would see the company's shares in issue increase by 25% should it be decided that a potential hostile bid was not recognising the true value of the company. Whilst, the company stated that it would be at the discretion of independent directors as to whether the defence mechanism was enacted, Newton was not supportive of the proposal. It was felt unnecessary to have such a mechanism as it could deter potential bidders from the outset and could provide management with a veil to hide behind. The company's main argument for a defence mechanism was to enable the board to negotiate a higher bid from the third party. Newton did not feel that such a mechanism should be necessary.

#### **Finnish Telecommunications company – March 2008**

**Contacts:** Senior Corporate Council  
Investor Relations

Newton contacted the company in order to gain clarification on two matters. The first was a proposal from one of the company's significant shareholders to replace the directors of the board. The second matter was in connection with the company's proposal to issue new shares, whilst dis-applying existing shareholders' pre-emption rights.

Newton valued the company's response to the shareholder's proposals. Whilst, the company could not provide any further information as to the proponent's intentions, Newton perceived the shareholder's proposal as an attempt to gain effective control over the company and that this may not be in shareholder's best interests.

The company proposed to issue new shares, without pre-emption rights, at a level of up to 30% of its issued share capital. Newton queried the company's intended use for such an issuance and the parameters in place in relation to protecting shareholders from

any unnecessary dilution. It was stated that this was a routine request for Finnish companies and that it had no immediate intention of using any authority that it may receive from its shareholders. The company stated further that it would not issue shares below their market price, except to facilitate share-based remuneration arrangements. Newton continued to believe that the level of issuance was excessive.

#### **Korean Telecommunications company – March 2008**

**Contact:** Head of Finance and Investor Relations

At the company's AGM, shareholder approval was sought for the company to amend its Articles of Association. If passed the resolution would allow the issuance of new shares in the company, whilst dis-applying existing shareholders pre-emption rights at up to 30% of its existing share capital. Newton queried why, for what purpose and how the company would raise the proposed capital increase. It was explained that the company's Articles of Association contained no limit on the dis-application of pre-emption rights and that the amended section of its Articles would clearly itemise and define the conditions for the issuance of further capital. Newton admitted that the proposal was better than existing arrangements. However, the amendments were still far from ideal. Further clarification was requested relating to the company's statement that the terms of any issuance are "clearly itemised and defined" within its Articles of Association. Unfortunately, the company failed to respond in time for this quarterly report.

#### **UK Telecommunications company – March 2008**

**Contacts:** Chair of the Remuneration Committee  
Group HR Director and Chief of Staff  
Group Reward & Recognition Director

A meeting was had with the company to discuss its proposed amendments to its remuneration structure. Given the existing arrangements were only introduced in 2007, Newton was surprised that the company was already amending its long-term incentive arrangement.

The company explained that, following an internal review of last year's long-term incentive plan, the plan lacked a clear line of sight for the recipients in terms of reward versus performance. In principal, Newton was supportive of the simplified proposal, which would see awards vesting for the achievement of relative Total Shareholder Return (TSR) performance and achieved Free-Cash-Flow. Newton had four key concerns that were clearly detailed to the company. First, the TSR comparator group did not include any pure play emerging market telecoms companies. It was suggested that at least one should be included, which would then reflect the company's strategy to expand its business within these markets. Secondly, and following lengthy discussion, Newton remained unconvinced over the exclusion of c.25% of the company's business operations from proposed Free-Cash-Flow performance measure. Thirdly, whilst a matrix approach would be used for assessing the level of vesting versus the two

performance conditions, the structure could provide for significant reward even if the company underperformed its peers. Finally, the company explained that it had sought legal advice and would not be putting the revised long-term-incentive arrangements to a separate and binding vote for shareholder approval. Newton stated that, due to historic controversies relating to the company's remuneration arrangements, it should demonstrate its commitment to the proposed structure and put it to a separate and binding shareholder vote. The company's poor planning, which led to a short timeframe between consulting shareholders and the desire to make awards, was not considered a sufficient argument against this suggestion.

### **UK Oil & Gas company – March 2008**

**Contact:** Chair of the Remuneration Committee

Following a difficult 2007 for this oil & gas company, Newton met with the chair of the remuneration committee to better understand the company's remuneration arrangements and processes undertaken over the last 12 months. It was confirmed that the company had employed remuneration consultants and engaged an academic consultant to review all aspects of the company's remuneration structure. The remuneration committee concluded that it considered little change needed to be made to its existing remuneration structure.

In terms of short-term incentive arrangements, the company stated that the remuneration committee retains a large degree of discretion over such payments given that quantifiable metrics are not heavily relied upon in the determination of the size of bonus awards. This highlighted the need for very high calibre and independent members of the remuneration committee.

In relation to the long-term incentive arrangements, Newton remained confident in the ability for the existing plan to retain and incentivise key personal. On Newton's questioning, the company confirmed that its director responsible for the company's renewable energy operations, who is situated at the level below the executive directors, was in receipt of sufficient long-term incentive arrangements. Given the company's commitment to expand its renewable energy operations, Newton considered this to be very positive.

# SRI Activity – Q1 2008

Please note that this activity log shows examples of SRI activity and engagement undertaken during the quarter. It is not an exhaustive list of all engagement. A complete list of how Newton voted on securities during the period is available upon request.

## United Nations Global Compact – January 2008

### Collaboration with signatories

Newton joined a collaborative initiative to engage with a sample of the companies that had signed up to the UN Global Compact. The UN Global Compact was launched in 2000 as a voluntary initiative to promote corporate responsibility. The initiative aims to encourage businesses to commit to being part of the solution to the challenges of globalisation. Participants in the Global Compact work to advance ten universal principles in order to foster a more sustainable and inclusive global economy. These principles cover human rights, labour standards, the environment and anti-corruption. The ten principles are based on various international treaties and agreements that have been translated into a business context.

Letters have been sent to 113 signatories either to congratulate participants for particularly good practice, or to challenge those companies that are not meeting the requirements of the initiative to regain full participating status. The companies contacted were domiciled in 21 different countries. Newton will receive feedback on the results when the Global Compact next evaluates the communications status of its signatories.

## British Energy (BE) – January 2008

### Site visit

On 8 January, 2008, UK Government Ministers supported plans to build a new generation of nuclear power stations. Newton recognises the role of nuclear power as part of a balanced energy mix that emits low levels of carbon and provides secure, long-term energy supplies. However, effective management of radioactive waste and the costs associated with the decommissioning of nuclear plants continue to be areas of concern for responsible investors.

Newton attended a site visit to Sizewell B Nuclear Power Station. Sizewell B is owned and operated by BE. The site visit provided the opportunity for Newton to gain insights into how the company is managing the social and environmental issues that surround the generation of nuclear power. Additionally, BE was able to provide information on the Government's plans to allocate costs for new nuclear waste and decommissioning.

### Nuclear Waste

In 2006, a report by the Committee on Radioactive Waste Management (CoRWM) stated that legacy waste should be kept, forever, in a specially built safe storage facility deep underground. Scientific consensus is emerging that this is the best option for the storage of nuclear waste which will be produced from new nuclear build. However, finding a site to store the waste is a difficult and lengthy process. The government has adopted a "voluntarism" process in order to find an appropriate site for a repository. This is a process where councils would apply to win the right to construct a repository at a suitable location within their jurisdiction. Clearly, gaining consensual agreement amongst

all stakeholders, in relation to an appropriate site, will be a significant challenge. Additionally, the planning and construction stages of the project will be lengthy. Therefore, BE anticipates that it could take decades for a repository to become available for new nuclear waste. To manage the issue of nuclear waste storage in the medium term, BE is planning to build on-site interim storage facilities. Though this is not an ideal situation, the site visit did provide some comfort that spent fuel is currently stored in a very safe and secure manner.

### Decommissioning costs

The Government was expected to announce, towards the end of March, the findings of its consultation on the financial provisions for waste and decommissioning costs associated with new nuclear build. BE outlined that the current proposed arrangements are for plant operators to bear the full risk and costs associated with decommissioning of any new nuclear power plant. Plant operators would determine an annual cost for decommissioning and deposit this amount into an independent ring-fenced fund. For waste disposal, costs would be covered by a fixed charge, set by the government, to span over the life of the plant. The fixed charge would be based according to either the amount of power produced or the amount of uranium used during production. Any shortfall would be paid by the government.

## Microsoft – January 2008

### Freedom of expression and human rights

Newton attended a briefing session, held by Microsoft, to update investors on the developments in its approach to Corporate Social Responsibility (CSR) practices referred to, by Microsoft, as Citizenship practices. The meeting gave Newton the opportunity to discuss Microsoft's response to the two shareholder resolutions raised at its AGM on 13 November 2007. The resolutions both related to the company's position on human rights and internet censorship.

At the time of the AGM, Microsoft stated it was actively working with stakeholders to develop global principles and operating procedures relating to freedom of expression. The company clarified that the intention of the principles is to seek solutions to the freedom of expression and privacy challenges faced by technology and communications companies that are undertaking business internationally. A diverse group of bodies including, academics, investors, technology leaders and human rights organizations, are developing the principles. In addition to implementing the principles, the group aims to provide an environment for ongoing learning in order to progress management of this issue. The group is also aiming to report annually on trends relating to online censorship and privacy actions undertaken by governments. The principles are due to be released in summer 2008.

**Tesco, Marks & Spencer (M&S), Gildan Activewear  
(Gildan) – Jan / Feb 2008**

**Supply Chain Management**

2007 saw a number of high profile cases relating to difficulties in the management of supply chains. The abuse of workers rights figured at Bangladeshi factories producing garments for Tesco, Asda and Primark, while Gap faced allegations of child labour in a contracting supplier's factory in India. Also in 2007, Mattel was required to undertake several high profile product recalls. In one case, this was due to high levels of lead being discovered in the paint on certain products. In a second case, a product was recalled because it contained a small part that posed a choking danger to children. Alongside these incidents, the US Food & Drug Agency (FDA) warned consumers to avoid pet food and toothpaste that had been made in China after several brands were found to contain harmful substances. Combined together, these incidents have heightened concern about product safety and the integrity of supply chains.

It is Newton's view that the debate around supply chain management is currently evolving as companies, NGO's and governments recognise the inefficiencies in current efforts to improve working conditions. Additionally, there is concern over the ability of companies to manage downward pricing pressures while encouraging improvements in labour practices and ensuring integrity within the supply chains. Therefore, on behalf of its clients, Newton held discussions with three of its retail investee companies. Newton's objective was to find out how these companies are managing risks associated with working conditions in the supply chain. Further, Newton was aiming to discover what the companies are doing to drive improvement in the debate around supply chain management.

Newton found that these three companies all acknowledge that there are inefficiencies in the current system of monitoring and auditing suppliers. Going forward, companies will need to work collaboratively to improve the quality of audits. Further, harmonising Codes of Conduct, the audit process and corrective action plans will help to prevent duplication. Open collaboration amongst companies, suppliers, governments, trade unions and NGOs is required to develop a sustainable working environment. Additionally, companies need to make efforts to ensure that their buying practices do not exacerbate supply chain problems and to ensure that employees of suppliers are fairly paid. Tesco, M&S and Gildan all provided thoughtful responses to the questions Newton put to them. For more information, please see the SRI Focus Report entitled Supply Chain Management – an evolving debate. The report is available on [www.newton.co.uk](http://www.newton.co.uk).

**Attendance at corporate responsibility updates – Q1 2008  
Investor updates**

During the quarter, Newton attended investor updates on corporate responsibility by Total.

# Company Meeting Log – Q1 2008

During the quarter, Newton analysts and fund managers had individual meetings with the management of 290 companies to initiate or maintain dialogue around financial performance and/or responsible investment matters. The insights gained through this engagement are used when making investment decisions. Meetings were held with the following companies:

Acciona	Chemokine Therapeutics	Galiform
Accor	China National Building Material	Gamuda
Actelion	China Properties	Genus
Admiral x 2	Chugai Pharmaceutical	Gildan Activewear
Advanced Info Service	Cisco Systems	GKN
African Rainbow Minerals	CJ Home Shopping	GlaxoSmithKline x 2
AGL Energy	Cleveland-Cliffs	Globe Telecom
Air Liquide	Cobham	Go-Ahead
Aker Kvaerner	Coca-Cola	Goals Soccer Centres
Alapis	Commonwealth Bank of Australia	GRD
Alcatel-Lucent	Companhia de Saneamento Basico do Estado de Sao Paulo	Greenhill & Co
American Capital Strategies	Companhia de Saneamento de Minas Gerais	Hamamatsu Photonics
American Electric Power	Constellation Energy	Hargreaves Lansdown
Amgen	Cresud	Hargreaves Services
Amlin	CRH	HBOS
Anglo American	Croda	Heinz
ANTA Sports Products	CSL	Hertz
Arch Capital	CSR	Hikma Pharmaceuticals
Archer Daniels Midland	CVS	Hirco
ARDEPRO	Davis Service Group	Hiroshima Bank
ARM	Delcam	Hogy Medical
ASICS	Dell	HQ Bank
ASOS	Deutsche Boerse	HSBC
ASTRA International	Deutsche Post	Hunting
Atlas Estates	Diageo	Hundai Steel
Aurelian Oil & Gas	Dignity	Iberdrola Renovables
Aviva Plc	Domino's Pizza	IG Group
AXA	Dongbu Insurance	IMI
Axon	Downer EDI	Inchcape
Babcock & Brown Power	DSV	Interserve
Babcock & Brown Wind Partners	Duke Energy	Intertek
BAE Systems	DuPont	Irish Life & Permanent
Barclays	Dyson	J D Wetherspoon
BBA Aviation	eaga	James Fisher & Sons
Beckman Coulter	eBay	JKX Oil & Gas
BG Group	Elan	Just Retirement
BHP Billiton	Electric Word	Keller
Bodycote International	Elixir Pharmaceuticals	Kenedix Realty Investment
BP	Elpida Memory	Kingspan
BPP	Energy World	KONAMI
BPZ Energy	Eni	KT & G
British American Tobacco	Evergrande Real Estate	Laboratorios Almirall
Bunzl	Excelcomindo Pratama	Laird
Cadbury Schweppes	eXpansys	LG Display
Cameco	Filtrona	LG Telecom
Capita	First Gen	Liberty International
Carlsberg	Florida Power & Light	Lipoxen
Carrefour	Fresenius	Logica
Catlin		Lonza
Centrica		Lotte Shopping

Lynas Corporation	Prudential	Standard Chartered
Makhteshim-Agan Industries	PTT	StatoilHydro
Manganese Bronze	PTT Chemical	Sterling Resources
Marks & Spencer	PTT Exploration & Production	Straits Asia Resources
Maoye Department Stores	Public Services Enterprise Group	Subsea 7
MAPFRE	PureCircle	Sugi Pharmacy
Maxcom Telecomunicaciones	QBE Insurance	Sun Hung Kai Properties
Maybank	QIAGEN	SungKwang Bend
McBride x 2	Quanta Computer	Swire Pacific
Mecom	Rathbone Brothers	Swiss Re
Microsoft	Reed Elsevier	Symrise
Millicom International Cellular	Regal Petroleum	Syngenta
mixi	REI Agro	TAEWOONG
Modetour Network	Renishaw	Tata Power
Muenchener Ruckversicherungs	Rentokil Initial	Telstra
Myhome International x 2	Rexam	Terna Participacoes
N Brown	Rightmove	Tesco
National Express	Robert Walters	Thales
NCC	Rofin-Sinar Technologies	Thomson Intermedia
Netcare	Rolta India	TNK - BP
Nexans	Rotork	Tokuyama
NHN	Royal Dutch Shell x 3	Tomkins
Nidec	Royal Philips Electronics	Toshiba
Nidec Sankyo	RPS x 2	Toshiba
Nobel Biocare	RWE	Total
Noble Group	Samsung Fire & Marine Insurance	Travis Perkins
Novartis (Sandoz)	Samsung Techwin	Trinity Mirror
Novo Nordisk	Santos	Ultra Electronics
Novozymes	Savills	Umicore
Nyrstar	SCI Entertainment	Unilever
NYSE Euronext	Scott Wilson	Uniq
Origin Energy	Scottish & Southern Energy	United Overseas Bank
Panalpina	SDL International	VANTEC
Paragon	Senior	Venture Production
Parkson Retail	Serco	Veolia Environnement
Parkway	Shimadzu	Visa
PartyGaming	Shinsegae	Wacom
Peace Mark	Siam Commercial Bank	Wilmington
Penske Automotive	SIG	Wistron
Philip Morris International	Signet	Wolseley
Phorm	Smith & Nephew	Woodside Petroleum
Pioneer	Smiths	Woongjin ThinkBig
Plant Health Care	Solera	WPP
Playtech	Sony	Xaar
PLDT	Southern Cross Healthcare	Xstrata
Premier Farnell	Spirax-Sarco Engineering	YM BioSciences
Premier Foods	Spirent Communications	
Pronova BioPharma	St. James's Place	

In addition, the analysts and fund managers attended a large variety of external meetings arranged by the companies or by brokers and other research providers.

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