

Q3 2008

Responsible Investment

Corporate Governance and SRI



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30 years
1978-2008

NEWTON
The Power of Ideas

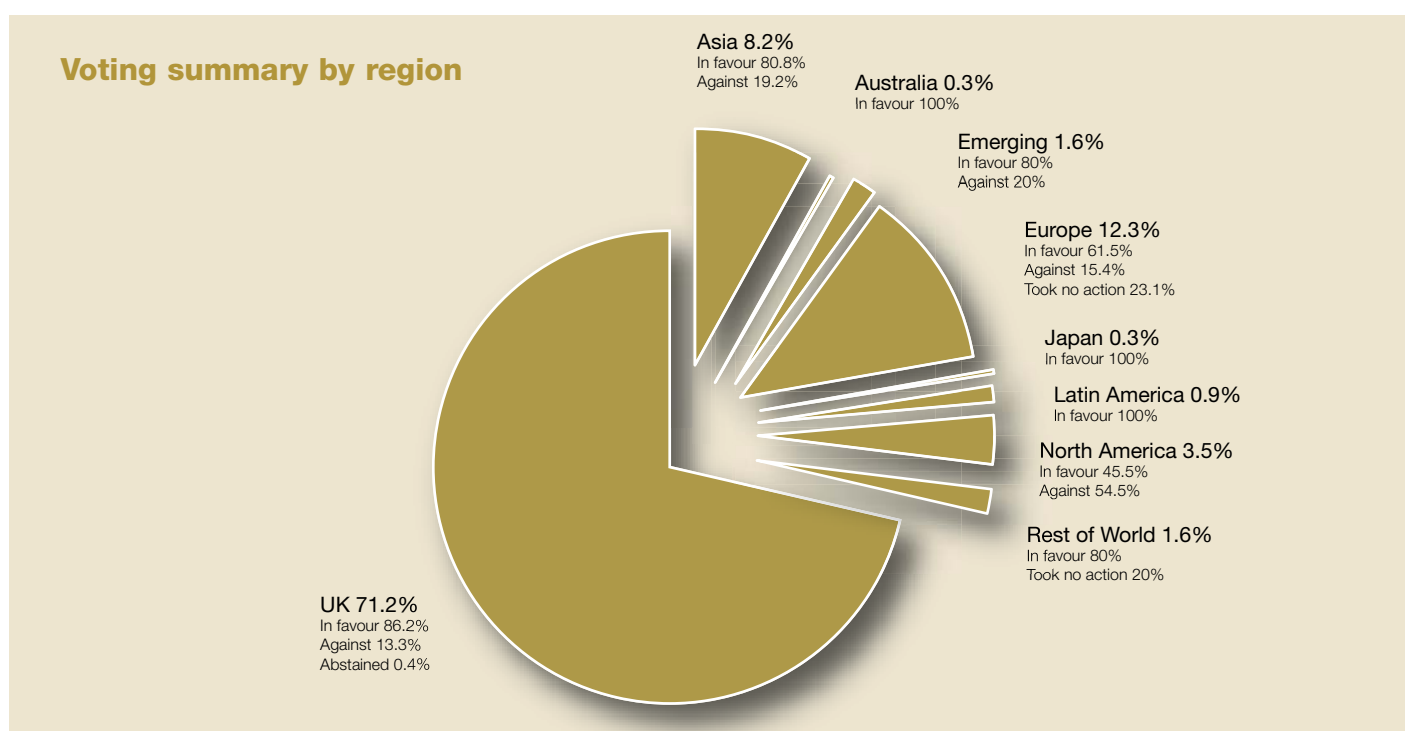
Corporate Governance and SRI

Voting Profile for Q3 2008

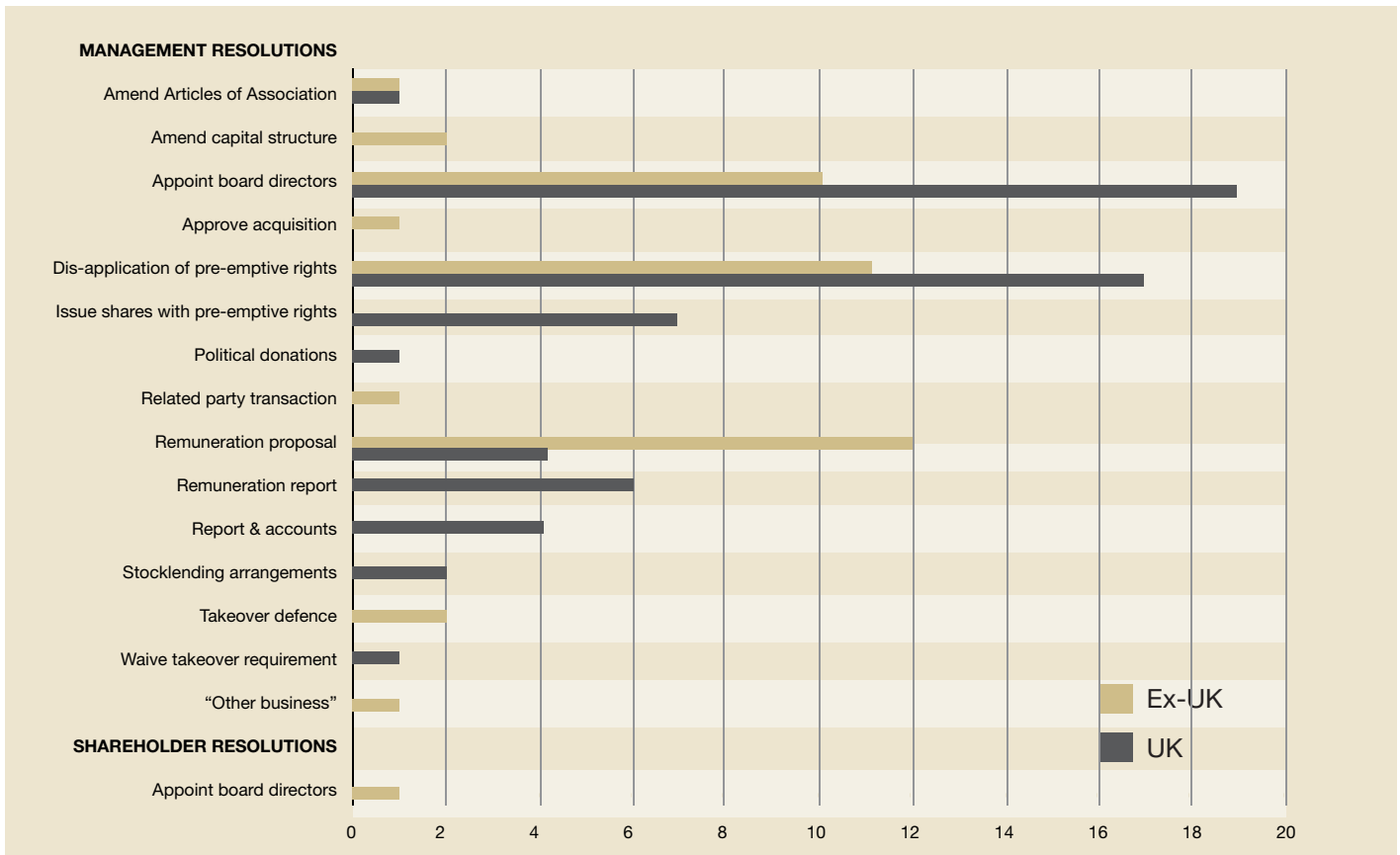
Over the course of the quarter, Newton exercised its clients' voting rights at 316 General Meetings. Votes were instructed against one or more resolutions at 13.3% of UK meetings and at 28.6% of meetings held outside of the UK. 60 separate

resolutions were voted against at meetings in the UK. Outside the UK, 42 resolutions were voted against. A summary of all voting activity during the quarter, including a regional summary, is illustrated in the preceding table and charts.

Complete voting summary – Q3 2008	Total	UK	Ex-UK
AGMs	209	164	45
Voted in favour of all resolutions	161	135	26
Voted against one or more resolutions	41	28	13
Took no action	6	0	6
Abstention registered	1	1	0
EGMs	104	58	46
Voted in favour of all resolutions	93	56	37
Voted against one or more resolutions	7	2	5
Took no action	4	0	4
Abstention registered	0	0	0
Court Meetings	3	3	0
Voted in favour of all resolutions	3	3	0
Voted against one or more resolutions	0	0	0
Took no action	0	0	0
Abstention registered	0	0	0
Total	316	225	91
Voted in favour	257	194	63
Voted against	48	30	18
Took no action	10	0	10
Abstained	1	1	0



Breakdown of resolutions where votes against were instructed during Q3 2008



Companies

Berkeley Group Holdings PLC – AGM – 28th Aug 2008

In 2004, the company introduced a controversial Long-Term Incentive Plan (LTIP), which Newton voted against. The LTIP would provide the four executive directors with 15% of the company's shares should they manage to return an aggregated dividend per share of £12 by 31st Jan 2011. This year, it was proposed that the terms of the LTIP be amended. If approved, the amendments would allow for 75% of the awards to vest early and the performance period, together with the performance target for the remaining 25% of the award, be extended by three years. Despite certain deferral periods being in place before the shares would be delivered to the beneficiaries, Newton remained concerned with the structure of the plan and considered that the extended performance period was tantamount to re-testing. Given that Newton, in 2004, did not believe the LTIP was in shareholders' best interests and that the 2008 amendments further weakened the scheme, votes were instructed against the remuneration report, against the proposed amendments to the LTIP and against two members of the remuneration committee, who were seeking re-election to the board.

BNB Recruitment Solutions PLC – AGM – 23rd Jul 2008

By way of two resolutions, the company sought shareholder approval to issue equity or equity-linked securities. If passed, the resolutions would allow the company to issue shares representing nearly 100% of its issued share capital. Newton felt that the company did not provide sufficient explanation detailing the benefits to shareholders from the proposed increase in share capital. Votes were instructed against both of these resolutions.

In addition, the re-election of a non-executive director to the company's board was also voted against. The nominee was chairman of the remuneration committee, a member of the audit committee and had a beneficial interest over 16.7% of the company's shares. Newton did not consider the nominee to be sufficiently independent to warrant membership of these committees.

Caledonia Investments PLC – AGM – 29th Jul 2008

Two non-executive directors, who were seeking re-election to the board, were voted against. One was the CEO of a company controlling 4.3% of Caledonia Investments' shares. The other had been a board member for 13 years and sought membership of the remuneration and audit committees

The company has a significant concert party shareholder controlling 46.33% of the company's share capital. Should this shareholder's interest in the company's shares increase, the UK takeover code would require that the concert party make a mandatory offer to the remaining shareholders. With the company seeking to buy back 10% of its issued share capital, in which the concert party would not participate, a resolution was proposed that would waive the requirement for the concert party to make a mandatory offer to the other shareholders (a Rule 9 waiver). By not participating in the buy back, the concert party's shareholding would increase to 51.48%. Given the potential for the concert party to gain effective control of the company, without paying an appropriate takeover premium, Newton instructed votes against the resolution seeking a Rule 9 waiver.

A further resolution was voted against. Shareholders were asked to authorise a political donation of £75,000 to the Conservative Party. The company stated that it had concerns over increases in public sector spending and the rising burden of additional legislation resulting from the incumbent government. Newton felt that the company's shareholders should not be funding such a donation.

Carrefour – AGM – 15th Jul 2008

The company bundled together four separate matters within a single resolution, which Newton felt should have been presented as four individual voting items on the company's AGM agenda. In voting on this resolution shareholders would be approving awards under the company's restricted share plan and its stock option plan. Votes were instructed against this resolution due to the lack of information being made available relating to these remuneration awards.

It was requested that shareholders provide the board with an authority to enter into a share repurchase programme. Newton noted that share repurchases could be made during a takeover period. Newton disagrees with such anti-takeover mechanisms and instructed votes against this resolution.

A former executive director of the company sought election to the board as a non-executive director. Newton does not look favourably on such appointments, especially where there is already a dearth of independence. Votes were instructed against the election of this non-independent board nominee.

The election to the board of a shareholder representative was also voted against. This particular shareholder already had two representatives on the company's board and Newton did not consider it necessary for this shareholder to extend its influence.

China Eastsea Business Software Limited – AGM – 15th Aug 2008

The company stated that its finance director was a member of the audit committee. Given Newton's belief that audit committee's should consist of independent non-executive directors, votes were instructed against the resolution seeking shareholder acceptance of the company's financial statements and statutory reports.

It was requested that shareholders approve the issuance of new shares in the company. The proposed method of issuance would see the dis-application of existing shareholders' pre-emption rights. Due to the company failing to disclose the amount of shares it sought to issue and, therefore, the potential dilution to existing shareholders, Newton instructed votes against this resolution.

Dawson International PLC – AGM – 29th Jul 2008

The company proposed a new Executive Share Option Scheme (ESOS) for which separate shareholder approval was sought. Unfortunately, the company failed to disclose enough information relating to the operation of the scheme, such as the number of shares that could be awarded and the performance conditions that would govern the vesting of awards. Newton instructed votes against the new ESOS and also against the remuneration report.

Electronic Arts Inc – AGM – 9th Jul 2008

Newton had a number of concerns with certain aspects of the company's remuneration policy. These included the automatic award of share-based incentives to the board's non-executive directors, excessive awards to the company's CEO and unacceptable levels of dilution stemming from the award of share-based remuneration arrangements. Due to these concerns, votes were instructed against a resolution that sought to reserve additional shares for making awards under the company's Equity Incentive Plan. Additionally, three members of the compensation committee, who were seeking re-election to the board, were also voted against.

Experian PLC – AGM – 16th Jul 2008

The company's CEO receives an annual expatriate allowance equivalent to 70% of his basic salary. During the year, the CEO also received c.14% of his salary as a one-off relocation allowance. The company failed to provide any explanation or justification for these substantial payments. Votes were instructed against the remuneration report and two members of the remuneration committee, who were seeking re-election to the board.

Fabian Romania Property Fund – AGM – 23rd Jul 2008

Amongst the seven resolutions proposed at the company's AGM, two sought shareholder approval for the re-election of two non-executive directors. Neither of these nominees were considered independent, given that they were directors of the parent company of the Fund's administrators. Votes were instructed against the re-election to the board of these two nominees.

Finsbury Worldwide Pharmaceutical Trust – AGM – 23rd Jul 2008

The company sought shareholder authority to dis-apply existing shareholders pre-emption rights. If passed, this authority would allow the company to re-issue shares, held in its treasury account, at a discount to their Net Asset Value. Whilst the company had incorporated certain safeguards for shareholders, Newton did not consider the resolution to be in shareholders' best interests and instructed votes against its approval.

Fording Canadian Coal Trust – EGM – 30th Sept 2008

A single resolution sought shareholder approval for the company to be acquired. The acquisition was proposed to be structured in such a way that would provide significant tax advantages to the acquirer, whilst, at the same time, providing significant tax burdens to the company's shareholders. Bearing this in mind, Newton felt that the proposed acquisition price was not attractive to the company's shareholders. Votes were instructed against this resolution.

Gas de France – AGM – 16th Jul 2008

Two remuneration related resolutions were voted against. These requested shareholders' authority to make awards under the company's Restricted Stock Plan and Stock Option Plan. Concerns centred on the fact no details of these plans were disclosed while the management board both sets the terms of the plans and determines the performance conditions, if any, that govern the vesting of the awards.

A further resolution was also voted against. This was for a share repurchase agreement that would allow the company to buy back up to 10% of its issued share capital. Managed correctly, Newton believes that share repurchases are a useful mechanism for a company to realise value for shareholders. However, in this instance, the company would be able to buy back shares during a takeover period, which could be used as an anti-takeover mechanism. This would, therefore, potentially inhibit the realisation of shareholder value.

Hansa Trust PLC – AGM – 31st Jul 2008

A senior partner of the company's investment manager, and controller of 26% of the company's shares, sought re-election to the board. He had been a member of the audit committee. Given these affiliations and Newton's expectations that audit committee members should be independent, votes were instructed against the re-election of this nominee.

Investec Fund Series ii – EGM – 21st Aug 2008

– European Fund – Global Energy Fund

A single resolution was proposed that requested shareholders' permission for the company to enter into a stock lending agreement. In Newton's view, for stock lending to be an acceptable and worthwhile practice, the lender of the stock needs to diligently manage the process. The company's rationale for stock lending failed to allay some of Newton's concerns. Votes were instructed against this resolution.

IQE PLC – AGM – 21st Jul 2008

Votes were instructed against two resolutions that requested shareholder authority for the company to issue new shares. The requests were for new shares to be issued equal to 44% and 10% 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.

Amendments to the company's Executive Share Option Scheme (ESOS) were proposed for shareholder approval. One of the amendments sought for an increase in the number of shares that may be awarded under the scheme from 10% to 15% of the company's issued share capital. Newton subscribes to best practice on this matter that share usage should be limited to 10% of a company's issued share capital. In this instance, the scheme was not considered sufficiently well structured to warrant variance from this standard. Votes were instructed against the proposed amendments to the ESOS.

James Latham PLC – AGM – 21st Aug 2008

Newton had a number of key corporate governance concerns with the structure of the company's board. These included one person holding the position of chair and CEO, a lack of any independent directors on the board and the founding family controlling 50% of the board seats. It was Newton's belief that such fundamental concerns warranted the instruction of votes against the company's Financial Statement and Statutory reports, and against two nominees seeking re-election to the board.

JPMorgan European Investment Trust PLC – AGM – 17th Jul 2008

The company sought shareholder authority to re-issue its treasury shares. It was proposed that these shares could be issued at a discount to their Net Asset Value and that existing shareholders' pre-emption rights would be dis-applied. Newton instructed votes against this resolution, which could unnecessarily dilute shareholders' value.

JPMorgan Fleming Japanese Smaller Companies Investment Trust – AGM – 24th Jul 2008

At the company's AGM, a resolution was proposed that sought permission for the company to issue shares from its treasury account, whilst dis-applying existing shareholders' pre-emption rights. The company failed to provide sufficient justification as to why shareholders should accept the dilution in value of their holdings resulting from the issue of treasury shares. Newton instructed votes against this resolution.

Kewill Systems PLC – AGM – 22nd Jul 2008

Within the company's proposed new Articles of Association it was not stated that the company's auditors would be excluded from indemnity. In addition, the proposal did not follow best practice in relation to shareholders appointing corporate representatives to vote in person at General Meetings. As a result, Newton instructed votes against the company's proposed new Articles of Association.

London and Stamford Property LTD – AGM – 18th Sept 2008

The managing director of the company's appointed administrator was seeking re-election to the company's board and its audit committee. Due to the nominee's lack of independence, Newton did not believe he should be a member of the audit committee. Votes were instructed against this individual's re-election to the board.

Makhteshim – Agan Industries Ltd – AGM – 20th Jul 2008

As result of no information being disclosed relating to three separate resolutions, Newton instructed votes against their approval. These resolutions related to the compensation arrangements for various company directors.

Marks & Spencer PLC – AGM – 9th Jul 2008

Under the terms of the company's Performance Share Plan (PSP), maximum awards are capped at 200% of salary, with 400% being available in exceptional circumstances. For awards in financial year 2007/08, the remuneration committee decided that exceptional circumstances had existed and that they were justified in making awards in excess of 200% of salary. It was stated that the exceptional circumstance was an issue of retention following the withholding of annual bonuses. Newton did not appreciate this argument and instructed votes against the resolutions seeking shareholder approval of the remuneration report.

In addition, Newton registered an abstention in relation to the resolution to elect the company's chairman as executive chairman. Combining the roles of chairman and CEO is not considered an appropriate structure given that it concentrates

too much control in the hands of one individual. The company made some concessions to allay shareholders' concerns and provided some limited justification for its actions. Newton did not consider the company's concessions or justifications as adequate. Newton registered an abstention on the election of the executive chairman but did not vote against his election as he was viewed as being valuable to the board. However, at the next AGM, Newton intends to vote against the re-election of the Executive Chairman if concerns remain over the structure of the company's board.

National City Corp – EGM – 15th Sept 2008

The company requisitioned an EGM, where proposals were made to re-organise its capital structure. By way of two resolutions, shareholders could see the value of their shareholdings decline to c.30% of their original value. Newton considered that the company should have re-organised its capital structure in such a way as to limit the destruction of its existing shareholders' value. Votes were instructed against the proposed resolutions.

Nordic Land LTD – AGM – 16th Sept 2008

The company's non-independent chairman, a member of the audit committee, was seeking re-election to the board. Newton believes that a company's audit committee should consist of only independent non-executive directors. Votes were instructed against the re-election to the board of the company's chairman.

Payzone PLC – EGM – 13th Aug 2008

Two of the company's shareholders requisitioned this EGM and proposed a single resolution to remove one of the company's non-executive directors. Newton was unable to make an informed voting decision. The proponents failed to provide any information as to why they believed that this non-executive director should be dismissed from the company's board. Votes were instructed against the proposed resolution.

Redstar Gold Corp – AGM – 25th Sept 2008

Two resolutions were proposed that sought shareholder approval to provide the board with the discretion and authority to re-price any outstanding share option awards and for the terms of the company's Stock Option Plan be amended to facilitate this proposal. Newton believes that re-pricing share option awards undermines their purpose and can reward individuals for poor performance. Newton instructed votes against these two resolutions.

A further resolution was also voted against. This requested shareholder approval for 'other business' to be raised and approved at the AGM. Due to the potential for 'other business' to include matters that may not be in shareholders' best interests, Newton did not support the proposal.

RIT Capital Partners PLC – AGM – 17th Jul 2008

This equity investment company sought shareholder approval to renew its single long-term remuneration plan, being its Share Appreciation Rights Plan. Newton did not feel comfortable supporting the plan given that the performance conditions, that would govern the vesting of awards, were not aligned with the company's stated investment benchmarks. Additionally, Newton was concerned that awards would vest in the event of a re-organisation of the company or in the event of a change in control. Votes were instructed against the renewal of the Share Appreciation Rights Plan and against the resolution seeking shareholder approval of the remuneration report. Finally, Newton voted against three members of the remuneration committee, who were seeking re-election to the board.

Singapore Airlines Limited – AGM – 29th Jul 2008

It was requested that shareholders approve the re-election of a non-executive director, who was a senior advisor to the company's controlling shareholder. Given that the company's chairman was connected to this majority shareholder, Newton did not consider it appropriate for this shareholder to have further representation on the company's board. Newton instructed votes against the re-election of this nominee, who was also proposed as a member of the company's audit committee.

Further, the company requested approval for the issuance of new shares in the company, which would represent 10% of its existing share capital. The proposed method of issuance would dis-apply the pre-emption rights enjoyed by the company's existing shareholders. Without sufficient rationale as to how shareholders' value would be protected, Newton voted against this resolution.

Finally, excessive potential dilution of shareholder value, coupled with undisclosed performance conditions, led to Newton instructing voting rights against the issue of shares for the company's share-based remuneration arrangements.

SVM UK Active Fund PLC – AGM – 9th Jul 2008

Approval was sought for the company to re-issue up to 10% of its share capital, which were held in its treasury account. Whilst not stated this year, historically the company has declared that such issuances may be done at a price below the Net Asset Value of the shares. Given that the proposed method of issuance would see existing shareholders' pre-emption being dis-applied and could result in the unnecessary dilution of shareholder value, Newton instructed votes against this proposal.

Symantec Corporation – AGM – 22nd Sept 2008

By way of a resolution to amend the company's 2004 Equity Incentive Plan, shareholders were asked to approve the use of an additional 5% of the company's share capital for making awards. Newton had four fundamental concerns with the Plan. First, non-executive directors are included as recipients of awards, thereby, jeopardising the need for them to act independently of management. Secondly, awards of restricted stock units vest in full if the company were to go through a change of control. Thirdly, awards to executive directors may not necessarily be subject to the achievement of performance conditions. Lastly, Newton considered that the potential dilution to existing shareholders of c.17% was excessive. Votes were instructed against the amendments to the company's 2004 Equity Incentive Plan and against four members of the remuneration committee, who were seeking re-election to the board.

Ten Alps PLC – AGM – 19th Aug 2008

The company's audit committee consisted of three members. One was the co-founder of the company and controlled 7% of the company's issued shares and another was the chairman/CEO of a company controlling 4% of Ten Alps' shares. Additionally, no member of the audit committee was deemed a financial expert. Given the structure of the audit committee, Newton voted against the resolution seeking shareholder acceptance of the company's Financial Statements and Statutory Reports.

Further, the company sought shareholder approval to issue up to 50% and 15% of its share capital, whilst, respectively, applying and dis-applying existing shareholders' pre-emption rights. No immediate investment opportunities were apparent to justify this request and no safeguards were offered. Newton considered the potential level of issuances requested to be excessive and, therefore, instructed votes against this resolution.

Thames River Multi Hedge PCC Limited – AGM – 23rd Jul 2008

Shareholders were asked to approve a resolution that would allow the company to issue shares whilst dis-applying existing shareholders' pre-emption rights. It was proposed that no limit be applied as to the number of shares that could be issued by his method. Newton noted that this authority would last for five years, as opposed to accepted best practice of 12 months, or until the time of the next AGM. Whilst, historically, the company has only issued shares at a premium to their Net Asset Value, no commitment of his kind was provided under this resolution. Newton voted against this proposal.

The Clapham House Group PLC – AGM – 22nd Sept 2008

Membership of the company's audit and remuneration committees consisted of two non-independent non-executive directors and an executive director. Newton considered these committees were not structured in a way that would best serve the company's shareholders and instructed votes against the remuneration report and against the resolution seeking shareholder acceptance of the company's Financial Statements and Statutory Reports.

A further resolution was also voted against. This resolution sought authorisation from shareholders for the company to issue new shares, whilst dis-applying existing shareholders' pre-emption rights. Without adequate explanation, Newton considered the proposed issuance of 10% of the company's share capital could be excessively dilutive to the company's shareholders.

Walker Crips Group PLC – AGM – 18th Jul 2008

An individual, seeking re-election to the board as a non-executive director, was not considered independent. The nominee was a partner and chairman of the company's solicitors. Newton did not consider this level of affiliation warranted the candidate's proposed roles as chairman of the remuneration committee or as a member of the audit committee.

Wimm-Bill-Dann Foods OJSC – EGM – 4th Sept 2008

Two resolutions were proposed at the company's EGM. The first sought shareholder approval of related-party transactions and the second requested approval for the company to adopt a new business Charter. Newton instructed votes against both of these resolutions due to the company failing to provide any supporting information.

Zambia Copper Investments Ltd – AGM – 24th Sept 2008

Despite requesting shareholder approval for directors' remuneration, no information was provided. Newton instructed votes against this resolution.

Issuance of new shares

At the meetings listed in the table below, Newton voted against resolutions seeking shareholder authority to issue new shares. This reflected either the dis-application of pre-emption rights or excessive level of issue, accompanied by insufficient explanation. 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.

Company	Meeting type	Date	Issue without pre-emption rights	Issue with pre-emption rights
Accsys Technologies PLC	AGM	14th Aug 2008	10%	54%
Artemis Alpha Trust PLC	AGM	11th Sept 2008	50%	
China Grand Forestry Resources Group Ltd	AGM	29th Aug 2008	30%	
Hightex Group PLC	AGM	15th Aug 2008	24%	40%
Huabao International Holdings Limited	AGM	1st Aug 2008	30%	
Mapletree Logistics Trust	EGM	18th Jul 2008	20%	
Maxima Holdings PLC	AGM	19th Sept 2008	40%	40%
MediGene AG	AGM	16th Jul 2008	60%	
Modern Beauty Salon Holdings	AGM	22nd Aug 2008	30%	
Strategic Natural Resources	AGM	28th Aug 2008	10%	
Tanfield Gold PLC	AGM	26th Sept 2008	10%	
Vantis PLC	AGM	25th Sept 2008	10%	

Corporate Governance Engagement – Q3 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 all engagement activity.

UK Equity Investment company – July 2008

Engagement subject: Capital structure

Contacts: **Chairman**
Corporate Advisor

At its AGM, the company sought shareholder approval to issue shares from its treasury account. Newton was concerned that the proposed methodology for issuing these shares could unnecessarily dilute shareholder value. It was proposed that treasury shares could be issued at a discount to their Net Asset Value (NAV) and that existing shareholders' pre-emption rights may not be respected. In discussions with the company's advisors, it was ascertained that certain safeguards would be employed in the issuance of treasury shares. However, Newton's concerns remained and a meeting with the company's chairman was requested.

The chairman explained that there were four key reasons behind the proposed method of issuing shares from the company's treasury account. First, extra demand for the company's shares could be satisfied. Secondly, it would allow shares to be issued without the buyer incurring stamp duty charges. Thirdly, it would enhance the company's gearing. Fourthly, the company's running costs could be spread across a greater number of shares. Whilst Newton appreciated the second, third and fourth points, it was considered that all these could be achieved by issuing treasury shares at their Net Asset Value. In relation to the first reason, to satisfy market demand, Newton stated that extra demand for the company's shares should either be used to improve the trading price of the existing shares or for the treasury shares to be issued at NAV, or higher.

UK Software & Services company – July 2008

Engagement subject: Remuneration

Contacts: **Chairman**
Remuneration Committee Chair
Investor Relations

The Chair of the Remuneration Committee wrote to Newton in order to gain views on proposed changes to the company's long-term incentive arrangements. Newton felt that the documentation provided by the company did not adequately explain the motivations and intentions of the proposals. A meeting with the Chair of the Remuneration Committee was requested.

As a result of the meeting, it was clear that the remuneration committee had given the company's remuneration structure much thought. It was explained that the company intended to align senior employees and executive directors (c. 300 people) to the new CEO's business plan and to aid the company's career progression policy.

The proposed incentive arrangements would vest subject to the achievement of Group profit growth and enhanced Earnings Per Share (EPS). Newton welcomed the provision that any awards based on profit growth would be paid in shares and deferred for three years. This would help to prevent management making radical cost savings at the expense of the long-term success of the company.

In general, Newton felt the proposed structure would better align the interests of senior employees with the creation of shareholder value. However, the structure of the proposal would mean that its success would rely on the remuneration committee diligently using the discretion which it had been afforded. Whilst Newton had confidence in the members of the remuneration committee at the time of consultation, it was explained that this level of confidence may falter should the remuneration committee members change in the future. Newton also stated its preference for the EPS performance conditions to be underpinned by a relative Total Shareholder Return target.

UK Equity Investment company – July 2008

Engagement subject: Board structure and capital structure

Contacts: Fund Manager
Non-Executive Director

Newton entered into discussions with the company's fund manager and one of its non-executive directors. Newton requested further information relating to two separate matters. The first concerned the company's policy on issuing shares from its treasury account, whilst the second related to the presence of an affiliated director being designated as the Senior Independent Director.

From the company's disclosures, it was discovered that shareholders' value could be unnecessarily diluted by the company's policy of issuing shares from its treasury account. Following detailed conversations on this matter, together with written assurances from the board, Newton took comfort that treasury shares would only be issued at their market price, subject to this being in excess of the price at which the shares were originally bought into the treasury account. Newton requested that, in order to avoid confusion on this matter, in the future it would be helpful if the company stated this in its disclosures.

The company admitted that its appointed Senior Independent Director had other affiliations, being a director of a further investment company that was managed by the same manager. However, following extensive discussions surrounding the board's evaluation process and this individual's conduct, it was concluded that he was an appropriate appointment as Senior Independent Director.

Further discussion was also had on the wider operational matters of the board and the roles and responsibilities of the individual board members. Newton took comfort in the board's apparent proactive approach.

UK Travel & Leisure company – August 2008

Engagement subject: Remuneration

Contacts: Chairman
Company Secretary

In a consultation letter sent to Newton, the chairman of the remuneration committee detailed proposed changes to the company's Long-Term Incentive Plan. Newton felt that the proposed changes were reasonable but registered its disappointment that a relative Total Shareholder Return measure did not underpin the vesting of awards subject to Earnings Per Share performance targets. The company argued that its executive directors did not feel that they were in control of the company's Total Shareholder Return.

Newton raised further queries that included the calculation methodology of the stated performance conditions, the extent of the discretion afforded to the remuneration committee, the treatment of capital re-organisations, changes to other remuneration components and the ability for executive directors to hedge against their exposure to the company's shares. The company provided satisfactory answers to these queries.

UK Support Services company – September 2008

Engagement subject: Remuneration

Contact: Remuneration Committee Chair

Last year, at the time of its first public AGM, the company had in place but had not made any awards under its Management Incentive Plan (MIP). It was stated that, should the company anticipate making awards under the plan, the underlying performance conditions would be disclosed, publicly.

Following the remuneration committee's decision to make awards under the Management Incentive Plan, Newton was consulted on the proposed awards and the underlying performance conditions that would govern any vesting. Newton was encouraged by the structure of the MIP, which would make awards based on three separate tiers of recipients. General discussions were had over the calculation methodologies for the proposed performance conditions, the timeliness of awards and also the potential dilution to existing shareholders' value.

The significant levels of shareholdings by each of the four executive directors led them individually electing to not receive awards under the MIP. This led to Newton querying the company's policy relating to the ability of these executive directors to enter into hedging contracts that could limit their exposure to falls in the company's share price. Newton awaits a response from the remuneration committee.

SRI Activity – Q3 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.

Supply Chain Performance Reporting – July 2008

Reporting procedures

Despite the progress companies have made in recent years to address labour standards in their supply chains, allegations of worker abuse continue to mar the clothing industry. Investors have been concerned as to whether the efforts taken by companies to responsibly manage working conditions in supply chains are really making a difference. This prompted Newton to assist in the formation of a working group. Largely consisting of UK institutional investors, the group aims to address the issue of performance reporting on supply chain labour standards.

At the beginning of 2008, the working group met with the secretariat of the Ethical Trading Initiative as well as with the NGO, Traidcraft. The objective of these meetings was to gain a greater insight into the recent challenges faced by companies when it comes to responsible sourcing. In July and August, the working group met with Tesco, Home Retail Group, Marks & Spencer, Debenhams, NEXT and Associated British Foods, which own Primark. The purpose of these individual meetings was to gain a better understanding of each company's sourcing policies and practices and to have open discussions about the challenges that they face when sourcing from the developing world. Newton found the exercise to be a very useful.

Going forward, the group will consolidate its findings with an intention to develop relevant Key Performance Indicators (KPIs) that companies can report on in an accurate and meaningful way.

Extractive Industries Transparency Initiative (EITI) – July 2008

Update

Since its launch in 2002, Newton has been a supporter of the EITI, a voluntary initiative that encourages developing countries' governments to increase transparency and accountability of revenues generated from oil, gas and mining activities. The intended outcome of the initiative is to mitigate the potential negative impacts of mismanaged revenues. It is hoped that by providing transparency in this area, revenues gained from oil, gas and mining activities can become an important engine for long-term economic growth that contributes to sustainable development and poverty reduction. The EITI seeks to initiate a process whereby a country's citizens can hold their governments to account for the use of such revenues.

The EITI has continued to evolve over the years as lessons learnt from implementation have emerged. In July, Newton attended the launch of the initiative's new business guide. The guide was designed to provide clear directions for implementation of the EITI's principles and criteria. Additionally, Newton became a signatory to a letter that was sent to companies within countries that had committed to the EITI, encouraging them to meet the requirements of the initiative.

Child Labour in Uzbekistan – August 2008

Collaborative initiative

Newton recognises that human rights violations, such as the use of child labour, impose unacceptable costs to individuals and society. Such violations also pose legal, operational and reputational risks to companies.

Newton joined a collaborative initiative that wrote to the President of Uzbekistan and the Director General of the International Labour Organisation (ILO) in relation to allegations of forced child labour in Uzbekistan. Institutional investors and NGOs requested that the Government of Uzbekistan take decisive and immediate actions to end the use of child labour within its cotton fields. Specifically, the letter requested that the government immediately implement two ILO conventions committing it to prohibiting forced labour.

United Nations Global Compact – September 2008

Collaboration with signatories

In January 2008, Newton joined a collaborative initiative to engage with a sample of 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. 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 principles are based on various international treaties and agreements that have been translated into a business context.

Letters were sent to 113 signatories to either congratulate them for particularly progressive practices or to challenge those companies that were not meeting the requirements of the initiative, despite being a signatory. As a result of the initiative, 17 companies re-engaged with the Global Compact by providing details of the progress they had made in implementing the ten principles into their business activities.

In September, Newton supported a further initiative. This aimed to encourage more companies to become participants in the UN Global Compact. Letters were sent to all global companies in the MSCI World, FTSE All-World and IFC Emerging Markets indices, which were not already Global Compact participants.

Company Meeting Log – Q3 2008

During the quarter, Newton analysts and fund managers had individual meetings with the management of 242 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:

Accor	Chugai Pharmaceutical	Hargreaves Services
Adecco	Cia Distrib De Gas Do Rio De Janeiro	Hikma Pharmaceuticals
Admiral	Cobham	Horiba
Aker Solutions	Companhia de Energetica de Minas Gerais	Huabao International
Amazon.com	Companhia de Saneamento	IG Group
Amdocs	de Minas Gerais	IMI
AMEC	Constellation Energy	Inchcape
Amlin	Cranswick	International Personal Finance
Anadarko Petroleum	CRH	Interserve
APA Group	CSL	Intertek
Aracruz Cellulose	CSR	Isuzu Motors
Arriva	CVS Caremark	ITT Education
Arrow Energy	CVS Group	James Fisher & Son
Asahi Kasei	Damas	Jardine Lloyd Thompson
Askul	Dana Petroleum	JKX Oil & Gas
asos	Danone	K + S
Autonomy	Davis Service Group	KBC
Aviva	Dechra Pharmaceuticals	Keller
Axtel	Diageo	Konami
Babcock & Brown Wind Partners	Don Quijote	Kroton Educacional
BAE Systems	Dong-A Pharmaceutical	Liberty Media
Balfour Beatty	Dragon Oil	Lipoxen
Bangkok Bank	Doutor Nichires	Liz Clairborne
Bauer	Dubar India	Lonza
BBA Aviation	eaga x 2	Lundbeck
BHP Billiton x 2	Elisa	Makhteshim-Agan Industries
Bloomsbury Publishing	Energias de Portugal	Marshalls
BlueScope Steel	Energy Solutions	Mecom
Bodycote International	Energy World	Medi-Clinic
Bombardier	Eros International	Melrose
Borg Warner	Esprit	Merck KGaA
Bovis Homes	Exelon	Mitsubishi Corporation
BPP Holdings	Experian	Mitsubishi Materials
British American Tobacco	First Gen	Mitsubishi UFJ
BSS Group	Fujitsu	Mitsui Chemicals
Bunzl	Funai Zaisan Consultants	Mobistar
Cadbury Schweppes	Fuyo General Lease	Modern Times
Cadogan Petroleum	G4S	Monsanto
Cairn India	Gasol	MSCI
Canon	Genus	MTN
Care UK	Gildan Activewear	Murata Manufacturing
Carluccio's	Givaudan	Nabtesco
Celanese	GlaxoSmithKline	NagaCorp
Carnival	Go-Ahead	Natco
Catlin	Goals Soccer Centres	National Express
Centrica	GRD	Net Servicios
China Netcom	Greene King	Newcrest Mining
China Oilfield Services	Greggs	Nihon Nohyaku
China Unicom	Hallwood Energy	Nippon Oil
Chiyoda	Hamamatsu Photonics	Nippon Yusen

Noble Energy	Razgulyai	SUEZ Environnement
Noreco	Renishaw	Swissquote
Northern Trust	Restaurant Group	Symrise
Northrop Grumman	Rexam	Synergy Health
Novartis	Rohm	Syngenta
Novo Nordisk	Rotork	Synnex Technology International
NTT Urban Development	Rightmove	Taiyo Nippon Sanso
Oil Search	Royal Dutch Shell	Takeda
Old Mutual	RSA Insurance	Talisman Energy
Olympus	Sanofi-aventis	Tele2
Omniture	Savills	Telephone and Data Services
Opera Software	Scottish & Southern Energy	Telstra
OptionsXpress	SDL	Temple-Inland
Orix	Sekisui Chemical	Thales
Paddy Power	Serco	Tokyo Electron
Paladin Energy	SGL	Topdanmark
Pantaloon Retail (India)	Sharp	Torishima Pump Manufacturing
Parkson	Shibaura	TF1
Peace Mark	Shin-Etsu Chemical	True Corp
Pearson	Showa Denko	Tsumura
Pennon	SIG	Ultra Electronics
Petroleo Brasileiro	Smith & Nephew	United Business Media
Petroleum Geo-Services	Songa Offshore	Venture Production
PNC Financial Services	Southern Company	Westpac Banking
PPL	Sparx	Wolseley
Praktiker	Spectris	Wood (John) Group
Premier Farnell	Spirax Sarco	WSP
Premier Foods	Sprint	Xaar
ProSiebenSat.1 Media	St. James's Place	XING
Prudential Financial Inc	Standard Chartered	Xstrata
PTT Exploration & Production	StatoilHydro	Zurich Financial Services

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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