Responsible Investment

Guidelines and procedures

NEWTON
The Power of Ideas

➢ A BNY MELLON ASSET MANAGEMENT COMPANY℠

“The country’s economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain’s competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability.”

The Cadbury Report – 1992

“As business leaders, we believe that business cannot succeed in societies that fail. We believe that globalisation can be made to be inclusive and that the leading global companies of the future will be those that do business in ways that address, openly and transparently, the world’s major challenges, including poverty and inequity, climate change, pollution, resource depletion, globalisation and demographic shifts.”

World Business Council for Sustainable Development – (www.wbcsd.org)

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Protecting value

Newton is committed to outstanding performance. This is achieved through investment expertise in the selection of securities and in the construction of portfolios. Intrinsic to the understanding of the potential of an investment is an appreciation of the quality of the company's management structure, the appropriateness of its internal controls and the assurance that Social, Environmental and Ethical (SEE) matters are managed to the benefit of long-term shareholder value.

Having undertaken the investment, Newton must continue to protect and enhance the value of its clients' holdings. This is achieved not only through the monitoring of trading, strategy and markets but also through awareness of changes in management, its structure and incentives. Engagement attempts to ensure that change is beneficial to the shareholders.

In formulating a Responsible Investment policy, Newton must take into account its responsibilities towards its clients, in terms of investment and performance, as well as its position as agents on behalf of these clients. Newton's role as agent demands that it is not only conscious of the highest standards in corporate governance and SEE matters, but also of the individual requirements of its clients and the challenges posed by the proxy voting process.

Acting responsibly

Participating in the development of good standards in responsible investment

The sphere of responsible investment includes corporate governance, SEE considerations and shareholder engagement and activism.

Responsible investment is not a science. Standards change and develop. This reflects both circumstances and views on the most appropriate or effective means of ensuring that managements act in the best interests of shareholders. Adopting a prescriptive or 'box ticking' approach towards responsible investment is, generally, inappropriate. Newton's clients are not best served by ensuring that the letter of a code is met, while the substance or spirit is ignored or misunderstood.

Active involvement

Newton believes it is important to be involved in the debate over the development of good standards in responsible investment and to understand, as fully as possible, the issues or problems faced.

Corporate Governance Forum – Newton is active in the Corporate Governance Forum, a group of major institutional shareholders, which meets regularly to discuss matters of corporate governance. Through these meetings and the Forum's involvement with other interested parties, the members of the Forum can share in a wider understanding of the issues involved in good corporate governance.

PPG – The Performance Pay Group was formed out of the Corporate Governance Forum. The Group concentrates on achieving agreement amongst the participants on standards of best practice in remuneration, as well as discussing specific remuneration issues.

International Corporate Governance Network – Newton is a member of the ICGN. This body brings together corporate governance professionals from around the world. It provides an international forum for discussion of recent developments and initiatives in corporate governance.

IVIS – Newton subscribes to the Association of British Insurers' Institutional Voting Information Service. This service covers the UK FTSE All Share index. Reports are prepared by the ABI on the resolutions at UK company meetings. The reports review all of the voting resolutions and comment on aspects that could be considered 'contentious' or which merit special attention. 'Contentious' issues are usually those where the proposed resolution breaches some generally accepted guidance or standard of 'best practice', such as the Combined Code on Corporate Governance or guidelines published by the investor protection agencies (ABI, NAPF, IMA etc).

ISS – For companies outside the UK, Newton subscribes to Institutional Shareholder Services, a US based global proxy advisory service. Similar to IVIS, ISS provides its subscribers with proxy research reports on meeting resolutions. These reports highlight areas of possible contention. When producing reports, ISS will take into account the appropriate local laws, codes and guidelines.

ICSA – Newton's Corporate Governance Officer is a member and an advisor to the Institute of Chartered Secretaries and Administrators. The Institute, as the trade body for company secretaries, provides guidance notes and influences public policies on matters relating to corporate governance.

IMA – Newton is a member of the Investment Management Association and is represented on the board and asset management committee of the IMA. As a representative of the IMA, Newton was involved in the creation of the Institutional Shareholders' Committee's statement of principles, 'The Responsibilities of Institutional Shareholders and Agents'.

NAPF – Newton is a member of the National Association of Pension Funds. The NAPF is active in the development of good corporate governance and provides guidance on best practice to the fund management industry.

Collaborations – Ad hoc and informal meetings are held with other institutional investors, trade associations and government bodies. Company specific and industry generic matters on corporate governance and SEE matters may be addressed. These meetings may deal with specific company issues, industry concerns and regulatory matters.

Dialogue – Regular meetings with the managements of current or potential investments are invaluable in ensuring that the requirements of both a management and its shareholders are understood and aligned. Newton engages with these managements not only on matters of trading performance but also on corporate governance and SEE issues.

Newton's Responsible Investment Strategy Group – This group meets regularly and acts as an overseer of Newton's approach to corporate governance and socially responsible investment. Its members include Newton's Leader Investment Process, Leader Global Research and Chief Investment Officer, together with representatives from institutional fund management, private client fund management, charities fund management and client services areas. The Corporate Governance Officer and SRI Officer are also members of this group.

Principal guidelines

The corporate governance guidelines used by Newton, with regard to UK companies, are those outlined in the Combined Code on Corporate Governance, by the wider comments in the Cadbury, Greenbury, Hampel, Higgs and Smith reports that underpin the Combined Code and by the guidelines published by the ABI, IMA and NAPF. Globally, Newton applies these standards, while also taking into account factors such as local company law, local best practice and appropriate global principles. These may be modified, in exceptional circumstances, to safeguard the best interests of Newton's clients.

The board

It is important that the board has an effective structure, access to adequate training, undertakes suitable recruitment to ensure the maintenance of appropriate skills and breadth of experience, and has planned succession. There should be a balance between executive and independent non-executive directors (NEDs). The board should be supplied with all the necessary information in a timely manner. It should undertake its own annual evaluation. The board should review, at least annually, the effectiveness of the company's internal controls.

The number of external positions an individual board member may hold with different companies cannot be prescribed. However, it is important that the director is able to give sufficient or generous attention to each position held, especially at times of corporate turbulence.

Terms of election – Newton agrees with the Combined Code recommendation that all board directors should submit themselves for re-election by rotation. This should occur at least once every three years. Newton encourages the annual re-election of non-executive directors where their independence may be in question.

Chairman/chief executive – Newton agrees that it is in the best interests of shareholders for these roles to be separate. The division of chairman and chief executive should "ensure a balance of power and authority, such that no one individual has unfettered powers of decision". Newton, generally, is opposed to a chief executive becoming the chairman of the same company.

Non-executive directors – NEDs play a vital role of counsel and oversight of executive management, safeguarding the interests of shareholders. Excluding the chairman, the board should consist of a majority of independent non-executive directors. For larger companies, there should be a minimum of three independent non-executive directors and two in the case of smaller companies.

The main factors to take into account when reviewing the independence of a NED are highlighted in the Combined Code. In particular, Newton looks unfavourably on NEDs receiving share options, participating in performance related pay schemes or having links with the company's advisors.

A senior independent director should act as a conduit between the NEDs and the shareholders and should ensure that the views of the independent NEDs play a prominent role in the deliberations of the board.

For NEDs, the overall length of service should be judged against the requirement for independence and, in some cases, the desirability of a regular introduction to the board of fresh experience and judgement.

Board committees – It is important that there is a transparent and rigorous process for appointing directors. This should be the responsibility of the nomination committee. A majority of the members of the committee should be independent NEDs. The vital role of a well constituted nominations committee is to ensure there exists an effective succession planning policy for board members and key employees. The company and its shareholders should never be overly dependent on a single person or group of people.

An audit committee should also be established to review financial controls and reporting, and relationships with the external auditors. This committee should consist only of independent NEDs.

A remuneration committee should take responsibility for setting the remuneration of all executive directors and the chairman. As with the audit committee, the remuneration committee should consist only of independent NEDs.

Role of the company secretary – The company secretary should be the main advisor to a board on matters of corporate governance. The company secretary should also play a pivotal role in aiding communication within and between various interested parties, including shareholders, executive directors and non-executive directors. Only with board agreement should a company secretary be appointed or dismissed.

Remuneration

Levels of remuneration should be appropriate to attract and retain suitable staff. A significant proportion of this reward should be linked to both corporate and individual performance. Newton, broadly, subscribes to the Shareholders' International Principles on Remuneration, drawn up by the Performance Pay Group, of which Newton is a member. These principles are shown in Appendix I. In addition, Newton supports the joint statement on executive contracts and severance issued by the ABI and NAPF.

Options and LTIPs – Newton is in agreement with the statements made in both the Cadbury and Greenbury Reports with regard to directors' share options. Both reports accepted that such schemes can play an important role in aligning director and shareholder interest and in providing long-term incentives for directors. The drawbacks of the traditional form of these schemes is, however, also highlighted by Greenbury. The benefit received by the director may have more to do with exercise price discounts, price inflation and stock market movement than any particular effort by the director on behalf of the shareholders. In addition, the need to sell shares, in order to finance the exercise of the options, has rarely led to directors being able to build substantial holdings in the companies they manage. Such a development, where directors retained meaningful holdings, would help to ensure a commonality of interest between directors and shareholders.

Newton is strongly opposed to the granting of share options at a discount to the market price and to the re-granting of surrendered options at a lower price.

The Greenbury Report suggested that the replacement of share option schemes with Long-Term Incentive Plans (LTIPs) could be as effective, or more so, in linking management rewards to performance.

Unfortunately, some schemes appear to be subject to performance criteria that are far from challenging. Newton favours clear schemes providing good rewards for exceptional performance, as measured against a relevant peer group together with a relevant financial goal. Such targets are also appropriate for share option schemes.

Contracts – On length of executives' service contracts, Newton is in general agreement with the Greenbury Report on the desirability of reducing the standard length of service contracts. Newton also believes that Greenbury is correct to identify the need for flexibility. Newton would, however, prefer notice periods of no more than a year.

Terminations – In cases of early termination, there should be an intention not to reward for poor performance. Should the contract contain compensation commitments, these should be no more than one year's basic salary. A robust approach to mitigating losses might suggest that they should be considerably shorter than this period.

Change of control – Rewards from early vesting of incentive arrangements, as a result of a change of control, should remain subject to performance criteria and be in proportion to the period elapsed of the arrangement.

Alterations – Newton expects that any major alterations to a company's remuneration structure be the subject of a separate and binding resolution at a general meeting. The remuneration report, which is merely advisory, is not an appropriate vehicle for communicating major changes in remuneration to the shareholders.

Auditors

The independence of auditors plays a crucial role in protecting shareholders. Remuneration of auditors for non-audit services should be, as required by the Combined Code, kept under review by the audit committee. Best practice requires that non-audit fees be disclosed within auditors' remuneration in the annual report and accounts. Where non-audit fees appear excessive, Newton will seek clarification or justification from the company.

On the matter of limiting auditors' liability, Newton would be concerned about companies accepting a monetary cap on auditors' liability. Also, Newton would expect to see a detailed explanation for the adoption of any other type of liability limitation.

Shareholder rights

Pre-emption rights – In order to avoid dilution to existing shareholders on the issue of new shares, it has been the practise in various markets, including the UK, to observe pre-emption rights. This ensures that new shares are offered to existing shareholders in proportion to their holdings. Newton subscribes to the principles of the Pre-emption Group (these principles can be found in Appendix II). Generally, Newton is against the dis-application of pre-emption rights if the level of dis-application sought is in excess of 5% of a company's issued shares.

Poison pills/anti-takeover mechanisms – Newton rarely appreciates the arguments for approving the introduction or continuation of an anti-takeover mechanism. Such devices can lead to the entrenchment of a poorly performing management and frustrate the realisation of shareholder value.

Political donations

In order not to fall foul of the Political Parties, Elections and Referendums Act 2000, UK companies may seek approval at their AGM for a nominal amount to be indirectly donated to political bodies. While approving these resolutions, Newton votes against any company attempting to make direct donations to any political party or organisation.

General meetings

Companies should make information on votes available to the public, including the level of votes for, against or registered as an abstention, on each resolution. The proxy voting process remains complex and fraught with difficulties. Electronic proxy voting has not, in itself, proved to be a solution to the problems. A voting register date, assuming no trading restrictions, could solve the problem of the high number of proxy instructions invalidated by movements in holdings.

Interaction

Activism

The Myners' Review suggested that all pension fund trustees should incorporate the principle of the US Department of Labor Interpretive Bulletin on Activism into fund management mandates. This bulletin highlights the responsibility to vote proxies on issues that may affect the value of a plan's investment. In addition, it suggests that activism, in areas such as mergers and acquisitions, compensation and training is appropriate where there is a reasonable expectation that such activity will lead to enhancement of the value of the plan. This recommendation in the Myners' Review was supported in the Government's response of October 2001.

Institutional Shareholders' Committee

A Statement of Principles, with regard to shareholder engagement, was issued by the Institutional Shareholders' Committee (ISC). This way updated in July 2007. The ISC included representatives from the Association of British Insurers, the Association of Investment Trust Companies, the National Association of Pension Funds and the Investment Management Association.

The statement from the ISC highlighted various requirements of institutional shareholders and their agents in relation to their responsibilities to their investee companies with regard to engagement. Institutional shareholders or their agents should:

- set out their policy on how they will discharge their responsibilities – clarifying the priorities attached to particular issues and when they will take action;
- monitor the performance of, and establish, where necessary, a regular dialogue with investee companies;
- intervene where necessary;
- evaluate the impact of their engagement; and
- report back to clients/beneficial owners.

Newton's response to the ISC's Principles:
Newton is an active fund manager with a focus on high performance mandates. Its investment process is rooted in the selection of securities aligned with a global thematic backdrop. Fundamental research on stocks and bonds is crucial to the investment process, as are regular meetings with company representatives. In addition, Newton has global proxy voting procedures and pursues contentious issues. In-house expertise is provided by Newton's global research department, regional specialists, Corporate Governance Officer and SRI Officer.

Newton's aim is to find companies that have an ability to invest for growth, have strong managements, a sustainable strategy and financial viability.

Monitoring – The monitoring of investee companies is principally undertaken by Newton's research analysts. These analysts come from a variety of backgrounds, including industry, consultancy and stockbroking, and have, on average, relevant experience of 12 years. A bespoke intranet-based research database maintains financial ratios and forecasts on key holdings, whilst also capturing analysts' comments on these stocks. A log of meetings with the managements of companies, both internal and external, is maintained, as is a log of meeting notes (the log of one-to-one meetings is available in Newton's Responsible Investment Quarterly reports). Over the last 12 months, Newton has met with over 1,000 companies. Dialogue with companies is essential to the selection of securities and meetings with companies generally concentrate on areas such as the appropriateness or viability of a strategy, product positioning and management structure.

Escalation – Despite a commitment to investing in well-positioned companies, the process of monitoring, voting and dialogue will occasionally highlight areas of concern. Assuming that it is not in the best interests of Newton's clients to dispose of the security, the initial response would be to approach the company, its executive or non-executive directors as appropriate, or, occasionally, its advisors. Assuming there is no resolution of Newton's concerns, further meetings with the company or its advisors would be organised. Newton might also seek additional support from other investors. As a last resort, the tabling of resolutions at a general meeting would be considered.

Circumstances of intervention – The wide range of circumstances surrounding the decision to intervene is highlighted by the log of engagement available to Newton's clients and published in the Responsible Investment Quarterly reports. Concerns over remuneration packages are a regular feature in the log, as are board structure and management succession issues. Other situations include loss of confidence in a management, in its strategy or veracity. Acquisitions or disposals may also be an area for discussion, as are concerns over the quality of internal controls or the approach to environmental matters.

Voting – Newton aims to exercise all proxy voting rights in the UK and, where practicable, outside of the UK. Newton's voting procedures take note of investee companies' compliance with the core standards of the Combined Code and other guidelines outlined in this document. On any potential conflicts of interest between Newton, the investee company and/or a client, the advice of the voting services used will take precedence.

Evaluating engagement – Engagement must be about the maintenance or enhancement of value for Newton's clients. In its more routine aspect, such as voting on non-contentious issues, the value of the exercise may be difficult to assess. It may, however, express support for a management and its strategy, backing for a structure, which protects shareholders rights, or approbation of a report that maintains or enhances good standards of behaviour.

In the escalation of engagement, the benefits may become more tangible. In arguing or voting against an inappropriate remuneration package, the immediate benefits to the company, its profit & loss account and shareholders may not be material in themselves. Cumulatively, however, failure to control this area is likely to have a serious impact on management cultures and lead to escalating industry costs.

The most tangible areas of benefit from engagement is likely to be in those situations where there is concern over strategy, an acquisition, the financial positioning of the company, the failure to tackle management problems or the like. In these situations, the decision to intervene, if selling the security is not appropriate, is likely to be driven by a concern over the potential loss of value to Newton's clients should the issue not be addressed. In these situations, calculation of value is likely to be similar to that undertaken for any other investment decision. However, like most investment decisions, the calculation of cost saving or value enhancement is likely to be, at least in part, subjective.

Reporting on engagement – Newton issues a log of proxy voting, with narrative, and a log highlighting examples of engagement. This is published in Newton's Responsible Investment Quarterly report. Newton's Responsible Investment Statement and the Responsible Investment Quarterly reports are also available on www.newton.co.uk.

Socially Responsible Investment (SRI)

Newton aims to optimise performance returns for its clients through investments in well-managed companies. In Newton's view, responsibly managed companies are best placed to achieve sustainable competitive advantage and provide superior long-term investment opportunities.

Companies should ensure that internal practices and procedures observe all legal requirements and conform to best practice. This should help to protect the company and its shareholders from harmful publicity. Newton's research into companies encapsulates both corporate governance and social, ethical and environmental (SEE) considerations, as well as fundamental matters.

Trustee requirements

The Pensions Act 1995 requires pension fund trustees to prepare a Statement of Investment Principles (SIP). This statement should cover the nature of, and balance between, different kinds of investments to be held, attitude to risk, expected return and realisation of investments.

The Occupational Pension Schemes Amendments Regulations 1999 insists that trustees disclose in their Statement of Investment Principles the extent to which "social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments".

Charities are also required, under The Trustee Act 2000, to have an investment policy statement. This may include an ethical or socially responsible investment policy in line with the charitable objectives of the organisation.

Active involvement

Newton adopts the same stance for SRI as it does for corporate governance. Newton believes it is important to be involved in the debate over the development of good standards in SRI and to understand, as fully as possible, the issues or problems faced.

SRI Forum – Newton chaired the Socially Responsible Investment Forum. This group, which included institutional shareholders, companies and consultants, drafted guidelines for the corporate reporting of SEE matters. These guidelines were adopted by the Association of British Insurers (ABI). The guidelines have since been developed into the ABI Guidelines on Responsible Investment Disclosure and are shown in Appendix III. These guidelines still form the basis for Newton's assessment of SEE disclosure by UK companies listed on the FTSE All Share.

RIN – The SRI Forum was succeeded by the Responsible Investors' Network. Newton was a founding member of this group. The RIN brought together institutions interested in SEE matters. Apart from providing a forum for discussion, the group was involved in initiatives such as the Extractive Industries Transparency Initiative and the Carbon Disclosure Project.

UKSIF – Newton is a member of the UK Social Investment Forum. UKSIF is a membership network for organisations involved in SRI. UKSIF aims to promote the development of sustainable practices within the financial sector.

UN PRI – Newton is a signatory to the UN Principles of Responsible Investment. The PRI provide a standardised framework for investors in recognising their commitment to Environmental, Social and Governance (ESG) matters. (Newton's response to the UN's PRI can be found in Appendix IV).

EIRiS – Newton subscribes to the Ethical Investment Research Service. EIRiS is noted for its ability to screen for both positive and negative aspects pertaining to SEE considerations. In addition, it provides comprehensive reports on companies' SEE positions and publishes in-depth analyses on companies' responses to its detailed questionnaire.

Global sector analysts – SEE considerations are part of the fundamental research undertaken by Newton's global sector analysts. These global sector analysts have access to the ABI's reports on responsible investment disclosure and to the research reports prepared by EIRiS. In addition, Newton's SRI Officer undertakes research into specific companies and SEE issues and provides specialist input to the global sector analysts. This combination of fundamental analysis, complemented by specialist SEE knowledge, is a powerful tool in the selection of companies with sustainable advantage.

Initiatives – Newton is a member of the Carbon Disclosure Project and has been a signatory to the project since its launch in 2000. Newton is also a supporter of the Extractive Industries Transparency Initiative. Additionally, Newton encourages companies to support the OECD Guidelines for Multi-National Enterprises, the Global Reporting Initiative and the 10 Principles of the UN Global Compact.

Engagement

Socially Responsible Investment is not about exclusion. Rather, it is about engagement with companies on Social, Environmental and Ethical matters in order to achieve a better understanding or to seek an improvement in the behaviour of the investee company. This, in turn, should lead to either protection or enhancement of shareholder value.

Reporting

Examples of Newton's engagement with companies on SEE matters is communicated to clients on a quarterly basis and is contained within the Responsible Investment Quarterly report. Additionally, Newton produces thematic SRI Focus Reports. These reports focus on a single issue and highlight how this issue could impact on investee companies.

Voting policy and procedure

Voting – The level of institutional voting has received considerable attention, being highlighted in the Myners' Review, and having also attracted considerable interest from the Government and other interested parties. Newton believes it is important that institutions, as agents for their clients, participate in company meetings through the exercise of voting rights.

For resolutions proposed by a company, voting in favour expresses support for a management entrusted with the creation of value for Newton's clients. Voting against a resolution is the ultimate sanction of the shareholder or agent, short of selling the holding. Newton rarely registers abstentions. These, Newton believes, can give a confusing message to management or may be interpreted inappropriately.

Newton's approach to responsible investment is firmly embedded in its investment process. As an active manager, it is Newton's intention to support or enhance its investment rationale for a company through appropriate levels of engagement or activism and the exercise of its clients' voting rights.

Newton's voting policy and procedures have been formulated by investment directors of Newton Investment Management. The operation of the policy and procedures is overseen by the Corporate Governance Officer and the SRI Officer, reporting to the Leader Investment Process. Implementation of the voting policy and procedures involves the Corporate Governance Officer and SRI Officer in collaboration with the global sector analysts.

Procedure – All voting notifications are communicated to Newton's corporate actions team by way of an electronic voting platform. This, along with relevant information, such as combined holdings, is passed to the Corporate Governance Officer. The Corporate Governance Officer reviews all resolutions for contentious issues, aided by advice from the relevant proxy research service provider. Any contentious issues are referred to the appropriate analyst for comment. The Corporate Governance Officer may also confer with the company or other interested parties should further clarification be required. The decision to vote against a resolution will be taken by the Corporate Governance Officer, ratified by either the Leader Investment Process, Leader Global Research or Chief Investment Officer.

The SRI Officer reviews the SEE disclosure of investee companies in the FTSE All Share Index. Inadequate disclosure may lead to discussions with the company and, if there is no satisfactory explanation, a vote against the approval of the report and accounts. This requires the same internal ratification as any other vote being cast against a resolution.

On any potential conflicts of interest between Newton, the investee company and/or a client, the advice of the voting services used will take precedence.

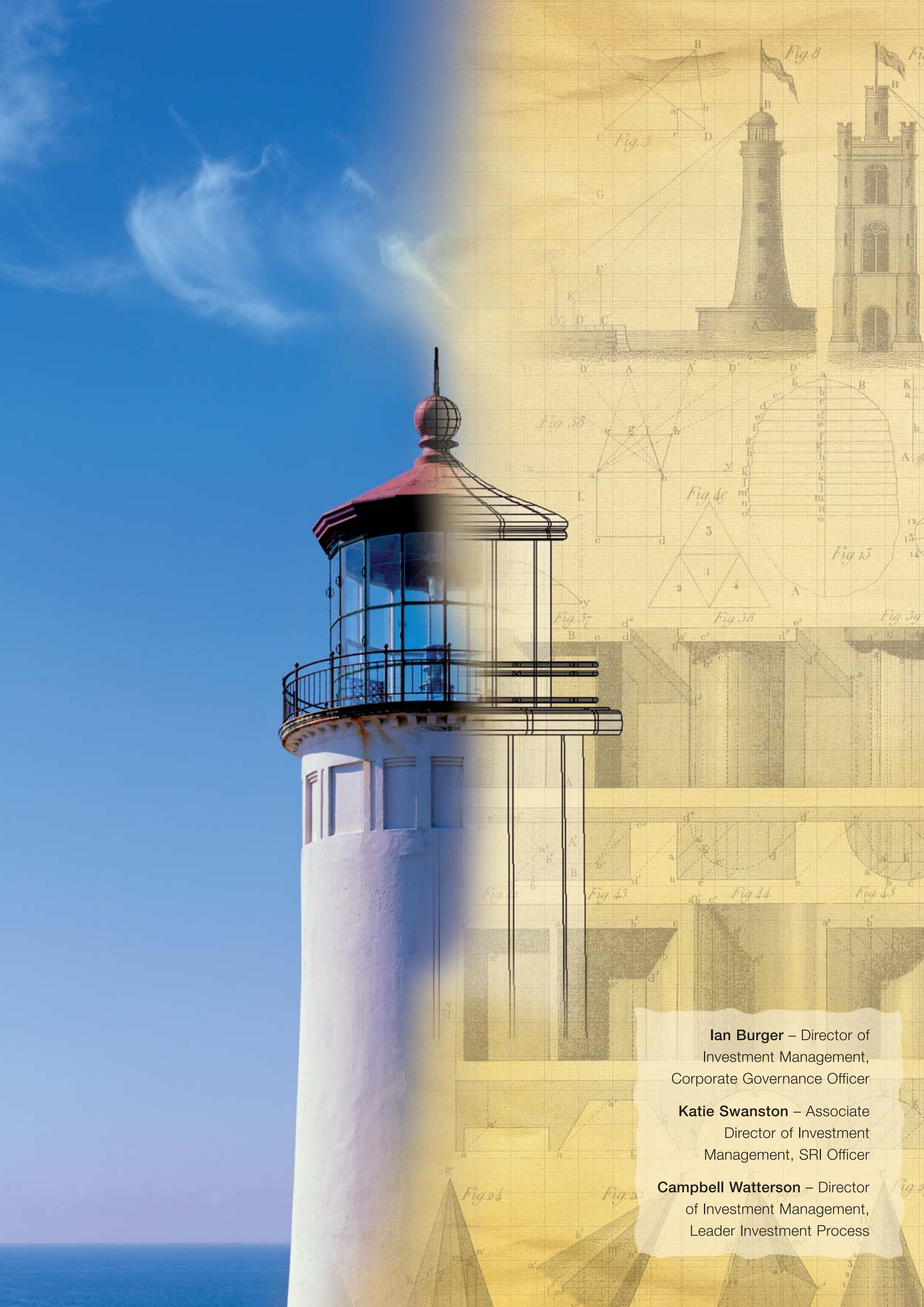
All voting decisions are communicated back to the corporate actions team, where the electronic voting service is employed to lodge Newton's voting instructions.

Practice – It is the intention of Newton to exercise voting rights in all markets. However, this may be hindered by various practical considerations. For instance, in certain markets, shares are required to be 'blocked' before the exercise of voting rights. Blocking consists of placing the stock on a register for a period of a number of days spanning the meeting. During the period of blocking, it is not possible to trade freely the shares. Where share blocking is required, voting will only be undertaken when the resolution is not in the shareholders' best interests and where restricting the ability to trade in the shares will not raise the danger of affecting, adversely, the value of Newton's clients' holdings.

Securities Lending – Newton does not undertake securities lending arrangements on behalf of its clients.

Reporting to clients – Newton publishes a Responsible Investment Quarterly report. This covers both corporate governance and SRI matters. Voting activity and examples of engagement are included. A detailed log of all voting by Newton, on behalf of its clients, is also maintained.

Additionally Newton produces thematic SRI Focus Reports which are available to clients.



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Appendix I

Performance Pay Group

Shareholders' International Principles on Remuneration

Introduction

The structure of how directors and employees are rewarded for their efforts is of considerable interest to investors. It gives insights into the methods of incentive being used to reward the operators of a company. It is also important for investors to understand the cost and potential costs to their company associated with reward mechanisms that may be in operation.

These principles identify the key components that investors believe should be the core areas addressed within the formulation and operation of any company's remuneration policy, irrespective of industry or location.

Shareholders wish to be able to support the remuneration arrangements of companies in which they invest and will take into account explanations offered by a company. However, where the explanations do not appear to be reasonable, institutional investors owe a duty to their clients to express their concern. Consequently, it is helpful to investors when a company's statement of its remuneration policy is comprehensive, transparent and easily understood.

These principles have been drawn up to encourage dialogue between companies and their shareholders on the rewards given to executives and board members, to ensure that:

- the correct alignments are set between executives and shareholders to deliver the company strategy that provides the best return to shareholders;
- conflicts of interest are appropriately managed.

In assessing the appropriateness of a company's remuneration policy, investors will take into account:

- the basis and explanation of company policy;
- the process by which remuneration is set;
- the individual components of remuneration;
- contractual arrangements with senior executives;
- the overall total value and structure of remuneration;
- the disclosure process for remuneration and arrangements for accountability to shareholders.

Philosophy

In formulating policies and overseeing their implementation, companies should:

- avoid paying more than is necessary;
- use company comparisons with caution given the risk of ratcheting up pay with no corresponding improvement in performance;
- be sensitive to pay and employment conditions elsewhere in the group;
- avoid rewarding departing directors for poor performance.

Investors expect companies to give a transparent, succinct and easily understood statement of the objectives of their remuneration policies. Factors that will be taken into account when forming a judgement include whether the policy is able to:

- align the interests of senior employees with shareholders to create value in implementing the company's business strategy;
- recognise good performance by the company and individual;
- encourage the right behaviours to achieve good performance;
- recruit and retain successful employees by being commercially competitive.

The alignment of interests between executive directors and shareholders is greater where senior management have made a significant financial investment in the equity.

Except for fixed pay, no element of pay such as bonuses or share awards should be guaranteed.

Well designed remuneration arrangements allow for both incentivisation and retention of executives. Investors are likely to look unfavourably on special one-off arrangements as indicative of poor planning.

Process of setting director and senior executive remuneration

The pay of senior executives is generally set by the board, of which the executive may be a member. This can give rise to a conflict of interest. A well explained transparent process of setting the remuneration of senior executives should be established. International best practice is that a remuneration committee constituted of experienced independent non-executive directors taking objective professional advice, where necessary, should examine executive pay and the mechanisms linking it to the company's success. Members of the committee should be expected to declare, in a remuneration report, any conflicts of interest.

The remuneration committee should explain, within its annual report, how it undertakes its activities. The explanation should demonstrate the steps taken in arriving at pay policy, including advice received, and the evidence that shows it takes account of the nature and development of the company's business strategy.

Remuneration committees are expected to undertake an annual review of the appropriateness, structure and scale of pay for senior executives.

The appointment of a remuneration consultant should be at the discretion of the company's independent remuneration committee. The remuneration consultancy should be able to demonstrate its independence of any conflict of interest in the provision of services to the remuneration committee. Factors that would militate against such independence would include the provision of remuneration services to the executives or other parts of the company or the provision of services to the company by associates of the consultancy.

Components of pay for executives

In formulating proposals, remuneration committees should be sensitive to:

- the need for an appropriate balance between long- and short-term elements of pay;
- the need for an appropriate balance between performance and non-performance related elements of pay, with a particular emphasis on the former.

Benchmarking: Remuneration committees will inevitably benchmark the pay of executives to what is paid in companies with whom they compete for talent. Disclosure of the benchmark group and target positioning will help investors understand the policy. Benchmarks should be used with caution. Benchmarking has been a factor behind the upward ratchet of executive pay.

Fixed Pay: Institutional investors will scrutinise year-on-year increases in fixed pay. These need careful and considered justification within the remuneration report, particularly as salary often forms the base on which bonus and incentive schemes are awarded.

Annual Bonus: Institutional investors expect companies to set out the performance criteria that govern the payment of annual bonuses. Where these targets can truly be deemed as commercially sensitive, retrospective disclosure is expected. Any increase in bonus potential should be justified in the remuneration report and the levels of bonus awarded should be justified against the targets set.

Long-Term Incentive Schemes: Companies wishing to align the interests of executives with the long-term interests of shareholders generally do so through share schemes. In examining schemes, which give options or restricted stock to executives, shareholders take into account the following factors:

- Individual limits should be disclosed.
- The vesting awards should be subject to the achievement of challenging levels of performance, which are appropriate to the company and linked to its strategic objectives. The performance criteria and targets for any proposed scheme should be disclosed and be set for a minimum of three years.
- Performance targets should not depend on historic performance at grant.
- Pro-rata performance hurdles and awards should apply on a change of control or other equivalent corporate ‘event’. No special vesting should result from corporate re-organisations.
- Performance conditions should be structured as sliding scales.
- There should be no re-testing of performance criteria governing the vesting of any incentive scheme award.
- Grants of share options and conditional awards under long-term incentive schemes should be phased over time. This should remove any need for the re-pricing of share options.
- Share option awards should not be granted at a discount to market price.
- Shares issued and commitments to issue new shares under all employee share schemes should not exceed 10% of the issued ordinary share capital of the company in any rolling 10-year period. Best practice is that this dilution covers all shares used for remuneration, howsoever sourced.
- Within their annual reports, companies should report on the cumulative issue of shares to date and the potential or actual dilution of shareholders’ interest under incentive arrangements.
- Companies should clearly disclose the amount of shares re-purchased, per annum, in the market to satisfy any share schemes. The use of Treasury Shares should be counted against the dilution limit.
- Companies should immediately disclose the dates on which awards are made.

Pensions: Investors expect pension arrangements for senior executives to be similar to those of other employees of the company. Any other pension provision should be explained in terms of its alignment with the interests of shareholders. The cost of providing pensions can be substantial and shareholders expect this to be taken into account when the remuneration committee is negotiating remuneration arrangements. The cost, including related contingent commitments, should be shown clearly in the remuneration report.

Contracts and severance

Institutional investors believe that employment contracts for executives should:

- set out, clearly, the duties and responsibilities of the executive to the company;
- give adequate security of tenure to the executive;
- limit the cost to the company of dismissing an executive.

Severance arrangements at companies remain a public concern as they have resulted in windfall gains and rewards for poor performance. Best practice is to limit severance to one year’s basic salary paid on a monthly basis and subject to mitigation. Companies should state clearly (including any associated costs):

- if contracts require any payments to be made in excess of one year’s basic salary;
- how pension arrangements will be impacted;
- what arrangements, if any, are made for continued access to share incentive awards.

There should be no special arrangements conveying a privileged position to executives in the case of a change of control of the company. The costs of such arrangements can provide unhealthy incentives to executives to facilitate or to frustrate takeovers in their own interests rather than those of investors.

In addition to any statement in the annual accounts, companies are encouraged to publish the key terms and conditions of any director recruited at the time of recruitment. The key terms of any settlement with a departing director should be provided to shareowners as soon as they have been concluded.

Details of contracts should be freely available on request by shareholders and displayed on the company’s website.

Remuneration of non-executives

The remuneration arrangements for the chair of the company and for non-executive directors should reflect the time spent and their contribution to the activities of the company. However, the remuneration of non-executive directors should not be set so high that it compromises their independence. The use of incentive plans such as options would interfere with the independent oversight that these directors are expected to undertake. The use of shares instead of all or part of the remuneration is welcomed where the shares are granted at market value and held throughout the period of office.

Transparency and accountability

Disclosure

The remuneration committee should provide a report to shareholders, explaining how it undertakes its activities. The explanation should demonstrate the steps taken in arriving at pay policy, including advice received, and the evidence that shows it takes account of the nature and development of the company's business strategy.

Membership of the remuneration committee should be disclosed in the annual report and on the company website.

In the remuneration report, the company is expected to explain and justify:

- the benchmarks by which pay is set;
- the use of any advisors in pay setting;
- the range for any bonus together with details of the basis on which bonus levels are decided;
- the costs and liabilities to the company associated with pension arrangements;
- any arrangements made for recruitment of new executives;
- whether there are any other arrangements that might be deemed by shareholders to be part of remuneration or benefits;
- how any incentive arrangements align the interests of executives with shareholders;
- how the company limits the overall value of share awards;
- the policy on the size of share based awards;
- how the company encourages direct personal shareholdings for executives;
- the total cost to the company of the remuneration of each director and member of the executive committee.

Disclosure should be made through the company's annual report and through the use of the company website. Publication should be made sufficiently ahead of the company general meeting to allow shareholders to form a judgement on the pay arrangements for senior executives.

Accountability

Shareholders expect the remuneration committee to be accountable for their work to investors. Committee members, and in particular the chairman of the committee, should be available to answer questions at the company's Annual General Meeting and members of the committee should be required to stand for regular re-election.

Institutional investors expect companies to consult well in advance, with interested shareholders, when proposing to make significant changes to remuneration arrangements. The best consultations allow sufficient time for feedback from shareholders.

Incentive arrangements involving the issue of company securities should be subject to approval by shareholders at a company's General Meeting.

The remuneration report should be subject to approval by shareholders at a company's Annual General Meeting.

Directors and other senior executives should not vote on remuneration arrangements as this represents a conflict of interest.

Appendix II

Pre-Emption Group

Disapplying Pre-emption Rights – A Statement of Principles

Overarching principles

1. Pre-emption rights are a cornerstone of UK company law and provide shareholders with protection against inappropriate dilution of their investments. They are enshrined in law by the 2nd Company Law Directive and the Companies Act 1985, which provides that they may be disapplied only by a special resolution of shareholders at a general meeting of the company.

2. Whilst not undermining the importance of pre-emption rights, a degree of flexibility is appropriate in circumstances where new equity issuance on a non-pre-emptive basis would be in the interests of companies and their owners.

3. The principles set out in this paper aim to provide clarity on the circumstances in which flexibility might be appropriate and the factors to be taken into account when considering the case for disapplying pre-emption rights and making use of an agreed authority for a non-pre-emptive share issue.

4. Companies, institutional investors and voting advisory services all have an important role to play in ensuring the effective and flexible application of this guidance:

   - Companies have a responsibility to signal an intention to seek a non-pre-emptive issue at the earliest opportunity and to establish a dialogue with the company's shareholders. They should keep shareholders informed of issues related to an application to disapply their pre-emption rights.

   - Shareholders have a responsibility to engage with companies to help them understand the specific factors that might inform their view on a non-pre-emptive issue by the company. They should review the case made by companies on its merits and decide on each case individually using the usual investment criteria. Where a shareholder does intend to vote against a resolution to disapply preemption rights, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders makes clear that it is best practice to explain in advance the reasons for the decision.

   - While companies should in any case consult their main shareholders, advisory services should be prepared to receive representations from companies. In such circumstances the advisory services should explain any recommendations made in light of the reasons provided. This should involve setting out the pros and cons of the proposal so that the ultimate decision maker can take an informed view.

Application of the principles

5. The principles set out here relate to issues of equity securities for cash other than on a pre-emptive basis pro rata to existing shareholders by all UK companies which are primary listed on the Main Market of the London Stock Exchange. Companies quoted on AIM are encouraged to apply these guidelines but investors recognise that greater flexibility is likely to be justified in the case of such companies.

6. These principles are supported by the ABI, NAPF and IMA as representatives of owners and investment managers. These associations hope that the guidance they contain will be helpful to companies in approaching requests for disapplication and in gauging the likely reaction of shareholders to proposals they may wish to make.

Routine disapplications

7. In a significant number of situations a request for disapplication is likely to be considered non-controversial by shareholders. While this does not reduce the importance of effective dialogue and timely notification, routine requests are less likely to need in-depth discussion and shareholders will be more inclined in principle to support them.

8. Requests are more likely to be routine in nature when the company is seeking authority to issue non-pre-emptively

no more than 5% of ordinary share capital in any one year.

9. This principle applies whatever the structure of the proposed issue. For example, an issue of shares which contains both a pre-emptive and non-pre-emptive element ("combination issues") would normally be considered routine provided that the non-preemptive element met the criteria specified for routine applications within these guidelines. This would include issues that comprised a placing of shares with a partial clawback by existing shareholders.

10. In the absence of (a) suitable advance consultation and explanation or (b) the matter having been specifically highlighted at the time at which the request for disapplication was made, companies should not issue more than 7.5% of the company's ordinary share capital for cash other than to existing shareholders in any rolling three year period.

11. Where a request is made for the disapplication of pre-emption rights in respect of a specific issue of shares, the price at which the shares are proposed to be issued will also be relevant. Shareholders' approach to the pricing of non-pre-emptive issues is set out in paragraphs 18 and 19 below. Companies should note that a discount of greater than 5% is not likely to be regarded as routine.

12. Treasury shares issued for cash will be counted within the guideline levels set out in paragraph 8, but not those in paragraph 10.

13. These principles are intended to ease the granting of authority below those figures, not to rule out approvals above them. Requests which, if granted, would exceed these levels should be considered by shareholders on a case by case basis. In these instances it is particularly important that there is early and effective dialogue, and that the company is able to communicate to shareholders the information they need in order to reach an informed decision. The considerations set out in the following section are critical to making a decision.

Critical considerations relating to non-routine requests for disapplication

14. It is neither possible nor desirable to define all the circumstances in which shareholders might be willing to agree to disapply pre-emption rights above the level set out in paragraphs 8 and 10 above. Nevertheless, there are some general considerations that are likely to be relevant in the majority of cases; these are set out below. Companies should ensure they are in a position to communicate such information to shareholders to help them make an informed decision.

15. The critical considerations are likely to include:

- **the strength of the business case:** In order to make a reasoned assessment shareholders need to receive a clear explanation of the purpose to which the capital raised will be put and the benefits to be gained – for example in terms of product development or the opportunity cost of not raising new finance to exploit new commercial opportunities – and how the financing or proposed future financing fits in with the life-cycle and financial needs of the company.

- **the size and stage of development of the company and the sector within which it operates.** Different companies have different financing needs. For example, shareholders might be expected to be more sympathetic to a request from a small company with high growth potential than one from a larger, more established company.

- **the stewardship and governance of the company.** If the company has a track record of generating shareholder value, clear planning and good communications, this may give shareholders additional confidence in its judgement.

- **financing options.** A wide variety of financing options are now available to companies. Companies should explain why a non-pre-emptive issue of shares is the most appropriate means of raising capital, and why other financing methods have been rejected.

- **the level of dilution of value and control for existing shareholders.**

- **the proposed process following approval:** Companies should make clear the process they would follow if approval for a non-pre-emptive issue were to be granted, for example how dialogue
- **contingency plans:** Company managers should explain what contingency plans they have in place in case the request is not granted, and the implications of such a decision.

Timing of requests for disapplication

16. Companies should signal the possibility of their intention to seek a non-pre-emptive issue at the earliest opportunity. For example if, at the time of the initial public offering, a company is aware that it is likely to have a need relatively quickly for additional cash, it should alert potential investors to this in the prospectus. In other cases it might be appropriate for the company to signal a potential request in its annual report. In some cases it may be appropriate for companies to consult a small number of major shareholders before making any announcement. Companies and shareholders should be mindful of the possible legal and regulatory issues in doing this.

17. Authority to disapply pre-emption rights following a ‘routine’ request would normally be granted by shareholders’ approval of an appropriate resolution at an AGM. As discussed above, shareholders will not generally agree to a non-routine disapplication request without a sufficiently strong business case for this course of action. Thus, nonroutine requests would be made at an AGM only when the company is in a position to justify this approach by providing relevant information such as that set out in paragraph15; otherwise a specially convened EGM would be needed.

Other considerations relating to non pre-emptive issue

18. Companies should aim to ensure that they are raising capital on the best possible terms, particularly where the proposed issue is in the context of a transaction likely to enhance the share price. Any discount at which equity is issued for cash other than to existing shareholders will be of major concern. Companies should, in any event, seek to restrict the discount to a maximum of 5% of the middle of the best bid and offer prices for the company’s shares immediately prior to the announcement of an issue or proposed issue.

19. Where an issue is priced on a date after the announcement date, the level of discount should be assessed at the time of pricing rather than the time of announcement. Companies should also have regard to any adverse impact on the share price of the earlier announcement, which may create the potential for a significant loss or transfer of value, in deciding whether to proceed with an issue in such circumstances.

20. The principles and critical considerations set out above apply to requests for the disapplication of pre-emption rights. Once a request to disapply pre-emption rights has been approved, shareholders expect companies to discharge and account for this authority appropriately. It is recommended that the subsequent annual report should include relevant information such as the actual level of discount achieved, the amount raised and how it was used and the percentage amount of shares issued on a non-preemptive basis over the last year and three years.

Role of the Pre-Emption Group

21. The Pre-Emption Group will monitor the development of practice in relation to disapplying pre-emption rights. It expects that this Statement of Principles will inform the way in which all interested parties participate in this process. It will monitor and report annually on the application of these principles. The Pre-Emption Group will not express a view on or otherwise intervene in specific cases.

Appendix III

Association of British Insurers

Guidelines on Responsible Investment Disclosure

Background and introduction

Public debate on corporate responsibility and new legislation in both the EU and UK has furthered understanding of corporate responsibility to the point where it seems helpful for institutional shareholders to set out fresh disclosure principles, which will guide them in assessing narrative reporting and seeking to engage with companies in which they invest.

The guidelines below are a modification of the Socially Responsible Investment Guidelines launched by the ABI in 2001. They take account of the EU Accounts Modernisation Directive and the new UK Companies Act, as well as recent experience of narrative reporting and the clarification by the UK Government of directors' liability for narrative statements. They do not involve substantial change but aim to highlight aspects of responsibility reporting on which shareholders place particular value. This is narrative reporting which:

- sets environmental, social and governance (ESG) risks in the context of the whole range of risks and opportunities facing the company
- contains a forward looking perspective, and
- describes the actions of the Board in mitigating these risks.

Institutional shareholders are anxious to avoid unnecessary prescription or the imposition of costly burdens, which can restrict the ability of companies to generate returns. They do not intend that these modified guidelines should add to the reporting burden facing companies, but rather that they should help companies understand and respond to the needs of investors when they set out to comply with new reporting requirements under UK and European company law.

Investors continue to believe that, by focusing on the need to identify and manage ESG risks to the long and short-term value of the business, the guidelines highlight an opportunity to enhance value. They are grateful for the positive response of companies to the original guidelines. However, they believe it is desirable for reporting in connection with these risks to be set firmly in the context of the full range of strategic, financial and operational risks facing the business. They also value forward-looking assessment of risks in the annual reports of companies in which they invest.

ABI members recognise that it is also incumbent on institutional investors to consider these risks and opportunities in the context of their overarching objective of enhancing shareholder value. Addressing them should be an integral part of the investment process, rather than a separate "add-on" consideration.

It is not the intention of these guidelines to set a limit on the amount of information companies should provide on their response to environmental, social, and governance matters. Some shareholders with specific ethical investment objectives may seek more detailed information. Some companies may choose to make additional information available, for example through separate corporate responsibility reports, in order to enhance their appeal to investors.

The ABI hopes that these guidelines will provide a helpful basic benchmark for companies seeking to enhance best practice.

The disclosure guidelines

The guidelines take the form of disclosures, which institutions would expect to see included in the annual report of listed companies. Specifically they refer to disclosures relating to Board responsibilities and to policies, procedures and verification.

With regard to the Board, the company should state in its annual report whether:

1.1 As part of its regular risk assessment procedures, the Board takes account of the significance of environmental, social and governance (ESG) matters to the business of the company.

1.2 The Board has identified and assessed the significant ESG risks to the company's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response.

1.3 The Board has received adequate information to make this assessment and that account is taken of ESG matters in the training of directors.

1.4 The Board has ensured that the company has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

With regard to policies, procedures and verification, the annual report should:

2.1 Include information on ESG-related risks and opportunities that may significantly affect the company's short and long term value, and how they might impact on the future of the business.

2.2 Include in the description of the company's policies and procedures for managing risks, the possible impact on short and long term value arising from ESG matters. If the annual report and accounts states that the company has no such policies and procedures, the Board should provide reasons for their absence.

2.3 Include information, where appropriate using Key Performance Indicators (KPIs), about the extent to which the company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the Board in providing oversight.

2.4. Where performance falls short of the objectives, describe the measures the Board has taken to put it back on track.

2.5. Describe the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.

With regard to the Board, the company should state in its remuneration report:

3.1 Whether the remuneration committee is able to consider corporate performance on ESG issues when setting remuneration of executive directors. If the report states that the committee has no such discretion, then a reason should be provided for its absence.

3.2 Whether the remuneration committee has ensured that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

Towards best practice

Institutional shareholders consider that adherence to the principles outlined above will help companies to develop appropriate policies on corporate responsibility.

The principles should also provide a constructive basis for engagement between companies and their shareholders. Over time this will allow both parties to develop a clear joint understanding of best practice in the handling of environmental, social and governance matters that will help preserve and enhance value. Current understanding of best practice leads to the following conclusions and indications as to how the guidelines should operate:

1. The guidelines are intended to apply to all companies, including small and medium companies.
2. The cost of managing risks should be proportionate to their significance. Ideally, procedures should be integrated into existing management structures and systems.
3. Statements relating to significant risks should be made in the annual report as part of the Business Review or voluntary Operating and Financial Review, and not separately as part of the summary accounts or on a web site dedicated to social responsibility. This would not preclude a cross reference to other parts of the report where more detailed disclosure of the type of risks involved and systems for managing those risks may also fit with other content.

4. With regard to the implementation, shareholders are anxious to leave space for companies to establish their own systems best suited to their business. However, they believe that, with regard to clause 1.1, best practice would require the full Board to consider the issues on a regular basis, although some on-going detailed work might be delegated to a committee. Disclosure should include a brief description of the process undertaken by the Board for identifying significant risks and indicate which risks are the most significant in terms of their impact on the business.
5. Examples of initiatives for reducing and managing risks (see 1.4 and 2.2) include regular contact with stakeholders, mechanisms to ensure that appropriate standards are maintained in the supply chain, and a clear policy for mitigating environmental impact which is monitored by the Board through published KPIs. Evidence of such initiatives would be viewed positively by shareholders.
6. Reporting on performance over time in complying with policies to reduce risk will help shareholders monitor improvement in compliance.
7. Independent external verification of ESG disclosures would be regarded by shareholders as a significant advantage. Credible verification may also be achieved by other means, including internal audit. It would assist shareholders in their assessment of ESG policies if the reason for choosing a particular method of verification were explained in the annual report.

January 2007

Questions on environmental, social and governance matters.

Disclosure could be addressed by response, in the annual report to the following questions:

1. Has the company made any reference to each of environmental, social and governance (ESG) matters? If so, does the Board take these regularly into account?
2. Has the company identified and assessed significant risks and opportunities affecting its long and short term value arising from its handling of ESG matters?
3. Does the annual report contain a forward-looking assessment of ESG and other risks facing the company?
4. Does the annual report describe the role of the Board in overseeing risk management?
5. Does the company state that it has adequate information for identification and assessment?
6. Are systems in place to manage the ESG risks?
7. Does the Remuneration Committee take account of the handling of ESG risks when setting performance targets?
8. Does Directors' training include ESG matters?
9. Does the company disclose significant short and long term risks and opportunities arising from ESG issues? If so, how many different risks/opportunities are identified?
10. Are policies for managing risks to the company's value described?
11. Does the company state whether it has followed ASB guidance on narrative reporting?
12. Does the Company produce KPIs on material ESG risks?
13. Does the Company produce KPIs on material ESG risks for each business unit?
14. Does the Company report on the effectiveness of the ESG strategy through a review of these KPIs?
15. Are verification procedures described?

Questions for investment trusts

1. Has the company made reference to each of environmental, social and governance (ESG) matters?
2. Is the voting policy of the trust publicly available?
3. Does the voting policy make reference to ESG matters?
4. Is the manager encouraged actively to engage with companies to promote better ESG practice?

Appendix IV

UN PRI

Implementation by Newton Investment Management

In February 2007, Newton Investment Management became a signatory to the United Nations Principles of Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance (ESG) issues into mainstream investment decision-making and ownership practices. They are not prescriptive but instead provide options for investors.

The Principles are detailed below. Under each is an indication of the action being taken by Newton. Links to additional information are provided.

1. **We will incorporate ESG issues into investment analysis and decision making processes.**
   Newton's Responsible Investment Guidelines and Procedures document explains its commitment to incorporating corporate governance, social, environmental and ethical matters into investment analysis and decision-making processes. The document can be found at: http://www.newton.co.uk/institutional/literature/socially_responsible_investing.html
2. **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
   Newton's engagement and voting practices demonstrate commitment to active ownership that incorporates corporate governance, social, environmental and ethical matters. Examples of engagement and voting can be found in Newton's Responsible Investment Quarterly Reports. These can be found at: http://www.newton.co.uk/institutional/literature/socially_responsible_investing.html
3. **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
   Newton assesses disclosure of corporate governance matters relative to laws, codes and best practice. These may be from a local and/or a global perspective. Where it is considered that disclosure levels are inadequate, Newton may seek commitments from a company to future improvements and may also vote against relevant resolutions at a General Meeting of the company.

   In terms of environmental and social matters, Newton expects UK companies to comply with the Association of British Insurers' Guidelines on Responsible Investment. Non-UK companies should disclose, in their Annual Report, how they are managing key risks and opportunities linked to corporate governance, social, environmental and ethical issues. If the level of reporting is deemed to be insufficient, Newton will seek improvement by engaging with the company.
4. **We will promote acceptance and implementation of the Principles within the investment industry.**
   This is undertaken as and when required.
5. **We will work together to enhance our effectiveness in implementing the Principles.**
   Newton collaborates with others through involvement with various organisations and initiatives. Newton is a member of the Carbon Disclosure Project and has been a signatory to the project since its launch in 2000. Newton is a member of the UK Social Investment Forum and a supporter of the Extractive Industries Transparency Initiative. Further, Newton co-founded and remains a member of the Responsible Investors' Network. Newton is also a member of the Corporate Governance Forum, Performance Pay Group, the Asset Management Committee of the Investment Management Association and the Japanese Focus Group. Additionally:

   - Newton has been involved with various consultations regarding the 2006 Companies Act.

- Newton has been involved in establishing and maintaining various remuneration guidelines.
- Newton provided a response to consultations on the revised Combined Code, GRI3 and the ABI's Guidelines for Responsible Investing.
- Newton was involved in dialogue regarding the SEC's Access to Proxies.
- Newton was involved with the All Party Parliamentary Group for the OFR in 2005.
- Newton, on various occasions, has represented the Asset Management Committee of the IMA on the Institutional Shareholders' Committee.

6. **We will each report on our activities and progress towards implementing the Principles.**
   Newton's Responsible Investment Guidelines & Procedures document outlines policies for the implementation of the Principles of Responsible Investment. The Responsible Investment Quarterly Report outlines engagement and voting activities as examples of implementation of the Principles.
   These documents can be found at:
   http://www.newton.co.uk/institutional/literature/socially_responsible_investing.html

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Investors should be aware that past performance is not a guide to future performance and that the value of investments and the income derived from them can go down as well as up. Investors may not get back the full amount invested.

The opinions expressed are those of Newton Investment Management and should not be construed as investment advice. In addition the information contained in this document should not be construed as a recommendation to buy or sell a security.

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