

Statement on Socially Responsible Investment

Socially Responsible Investment (SRI) issues are important aspects of investment management for various clients. Nearly half, by market value, of the charity assets managed by Newton are managed with a defined SRI policy.

For some charities, the SRI restrictions are imposed by their governing documents but more commonly it will be the trustees who decide an ethical policy that they reasonably believe will provide the best balance of risk and reward for their charity.

Although it is not required by law, the "Private Action: Public Benefit" report published by the Cabinet Office's Strategy Unit in 2002 recommended that the trustees of larger charities should be required to disclose their ethical policy in their annual reports and for all other charities a similar disclosure would be good practice. These disclosures could cover "the extent (if any) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments", and "their policy (if any) in relation to the exercise of rights (including voting rights) attaching to investments". Further guidance is also available from the Charity Commission.

Fund managers at Newton have many years' experience of client's approaches to SRI criteria and are able to assist trustees in fully understanding how the implications of their charity's policy may impact on their investments and potential returns.

SRI and corporate governance issues are an integrated part of Newton's in-house company research and along with specialist external expertise we can identify stocks with sustainable advantage and screen companies according to both negative and positive criteria.

Newton Investment Approach

In Newton's view, responsibly managed companies are best placed to achieve sustainable competitive advantage and provide superior long-term investment opportunities.

The basis of Newton's investment philosophy of global thematic investing is based on the principle that no industry, market or economy should be considered in isolation. Only by understanding events, trends and competitive pressures worldwide, can prospects for international and domestic investments be properly evaluated. Newton identifies the trends or themes which are likely to change the prospects for businesses and aims to identify those companies that will be able to benefit from them.

Newton's dedicated research team conducts fundamental research on individual companies, across markets and in each of the world's major industries. Analysts hold regular meetings with the management of companies and these are invaluable in ensuring that management understands the requirements of our clients – their company's shareholders.

SRI Research

For many of Newton's charity clients, the SRI approach adopted is based on precluding investment in companies whose products or services are at odds with the charity's objectives or the interests of their beneficiaries. After reviewing the research team's stock recommendations we can screen and avoid investment in companies involved in tobacco, alcohol, military production and sales, gambling and pornography. We can screen for companies that have operations in countries that have no evidence of a policy addressing human rights issues or companies that have a poor environmental record be that in water pollution, greenhouse gases, timber logging or manufacture or supply of ozone depleting gasses.

Positive screening attempts to include companies that have good corporate governance and working practices. This can be customised to clients' individual policies.

The screening database we use at Newton is provided by EIRIS (the Ethical Investment Research Information Service). EIRIS, which was set up in 1983 with the help of churches and charities, provides independent research into corporate behaviour, concentrating purely on ethical and SRI matters. The EIRIS Ethical Portfolio Manager (EPM) software provides an extended capability for negative and positive screening and in-depth information. It enables the portfolio manager to monitor each client's portfolio to ensure continued compliance with that client's declared policy.

Newton Engagement and Corporate Governance

Newton believes in responsible corporate governance. Our research team engages actively with companies on issues of corporate governance to determine the extent to which management protects and advances the interests of shareholders. This is a key factor in the assessment of investment opportunities.

Newton is committed to socially responsible investing and chaired the Socially Responsible Investment Forum, which comprised institutional shareholders, companies and consultants. The Forum was succeeded by the Responsible Investors Network (RIN), of which Newton is a founder member. The RIN meets at regular intervals to discuss relevant company and industry specific, social, environmental and ethical matters. Initiatives supported have included the Carbon Disclosure Project and transparency of payments to foreign governments by the extractive industries (EITI). Newton is also a signatory to the UN's Principles of Responsible Investment.

For further information on Newton's socially responsible capabilities and detailed information on the thinking behind the SRI criteria mentioned above please contact us.

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Notes: Rather than use the term ethical, SRI or SEE (Social, Environmental and Ethical) in this document we will simply refer to SRI where practicable.

References to 'we' and 'our' throughout this document refer to the Newton Ethical Working Group. This group includes fund managers who manage the assets of private, charitable and other clients with an SRI policy.