Q1 2007

Responsible Investment

Corporate Governance and SRI

Contents

NEWTON
The Power of Ideas

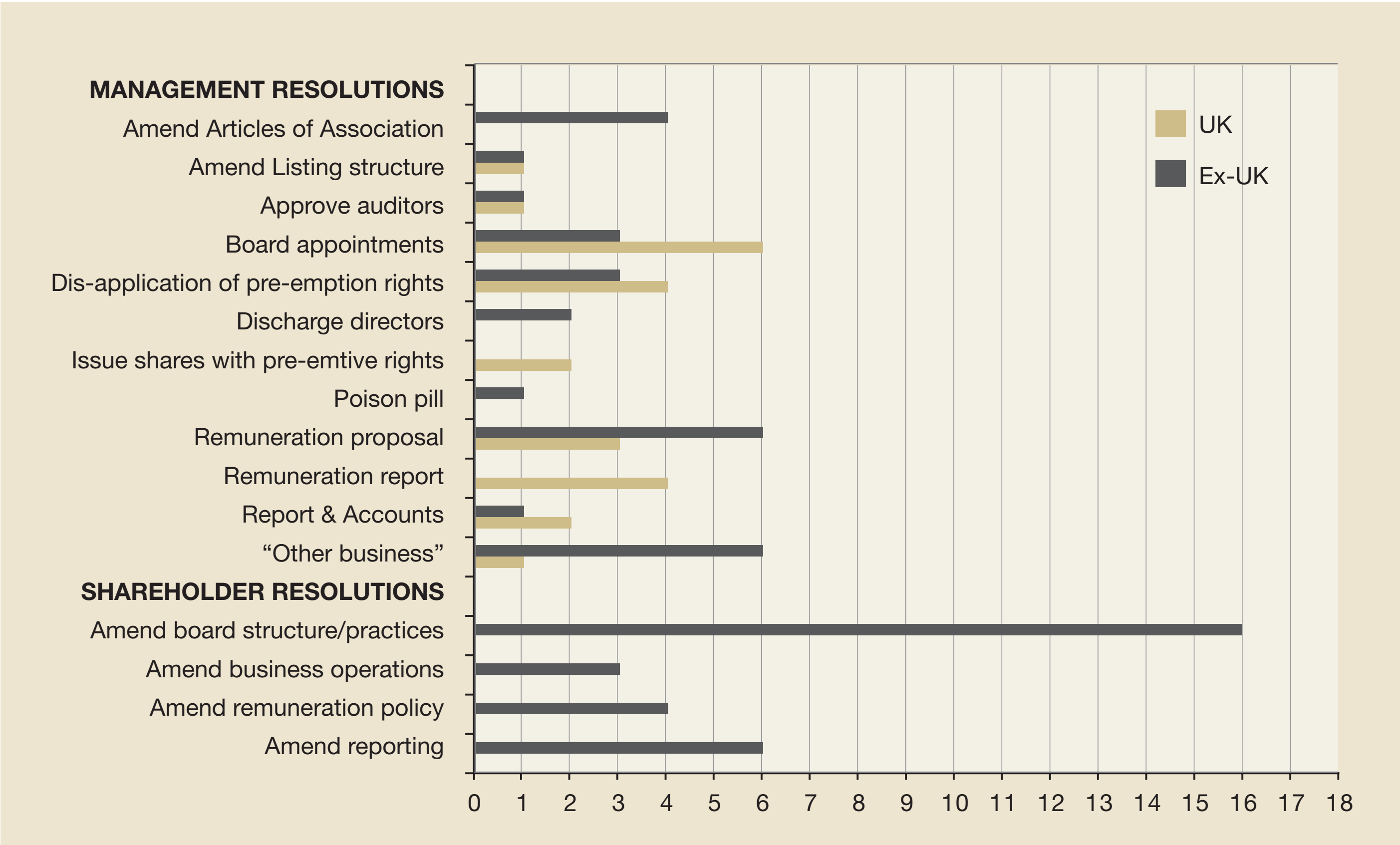
Voting profile for Q1 2007

The table below summarises voting activity during the quarter. Newton instructed votes against one or more resolutions at 17% of the 242 meetings or at 5% of the 1,629 resolutions proposed.

The quarter saw a large number of shareholder proposed resolutions at Canadian banks. 24 of the 29 shareholder resolutions that Newton voted against were proposed at such meetings. Shareholders' rights in Canada differ considerably to those in the UK; Shareholders cannot make directors pursue any particular course of action. Even if a majority of votes are cast in favour of a shareholder resolution, Canadian companies are not bound to introduce such proposals. The non-binding nature of these resolutions has led to a climate where it is common for investors to bring concerns to the attention of companies by way of a resolution and the resulting public debate at General Meetings.

Complete voting summary – Q1 2007	Total	UK	Ex-UK
AGMs			
Voted in favour of all resolutions	114	64	50
Voted against one or more resolutions	33	10	23
Took no action	3	0	3
Abstained	0	0	0
	150	**74**	**76**
EGMs			
Voted in favour of all resolutions	76	47	29
Voted against one or more resolutions	7	3	4
Took no action	4	0	4
Abstained	0	0	0
	87	**50**	**37**
Court Meetings			
Voted in favour of all resolutions	5	5	0
Voted against one or more resolutions	0	0	0
Took no action	0	0	0
Abstained	0	0	0
	5	**5**	**0**
Totals	**242**	**129**	**113**
Voted in favour	**195**	**116**	**79**
Voted against	**40**	**13**	**27**
Took no action	**7**	**0**	**7**
Abstained	**0**	**0**	**0**
Totals	**242**	**129**	**113**

Breakdown of resolutions where votes against were instructed during Q1 2007



UK Companies

Arla Foods UK PLC – AGM – 27 Feb 2007
Newton instructed votes against the resolution seeking approval of the company's remuneration report. Newton was disappointed that the 67% increase in the potential maximum annual bonus would not require a corresponding increase in the performance conditions that govern the payment of annual bonuses. Newton was surprised that executives' salaries are benchmarked against the constituent companies of the FTSE 250 index. The company's market capitalisation is not large enough for it to be included in this index.

CMR Fuel Cells PLC – AGM – 12 Mar 2007
Newton instructed votes against a resolution that sought approval of "Other Business". The unknown content of this resolution meant that Newton had to exercise a level of prudence by voting against its approval.

Daily Mail & General Trust PLC – AGM – 7 Feb 2007
The non-audit fees payable to the company's auditor during 2006 was in excess of three times the fees paid to the same auditor for audit related work. Whilst the company briefly explained that the fees were related to corporate tax advice, a strategic review and a cost reduction project; Newton felt that the ratio of audit fees versus non-audit fees undermined a requirement for auditors to be impartial in their conduct of auditing the company. Newton instructed votes against the resolutions asking shareholders to adopt the company's report and accounts, to re-appoint the auditors and against two members of the audit committee, who were seeking re-election to the board.

Further concern centred on the structure of the company's Long-Term Incentive Plan. This allows for performance conditions to be re-tested should they not be achieved after the initial assessment period. An executive director has a two-year service contract and the three members of the remuneration committee are not considered independent. Votes were instructed against the remuneration report.

Domino Printing Services PLC – AGM – 22 Mar 2007
Newton voted against the re-election of the company's senior non-executive director, who was a member of the remuneration committee and the audit committee. It was felt that 21 years on the company's board compromised his independence.

Fishworks PLC – AGM – 28 Feb 2007
Votes were instructed against the resolution seeking shareholders' acceptance of the company's financial statements and statutory reports. The company had failed to disclose the necessary statements and reports in time for the AGM.

The company also sought to issue shares, equivalent to 10% of its share capital, whilst dis-applying existing shareholders pre-emption rights. Without a clear and justified explanation from the company, this level of dis-application is against established best practice. Newton instructed votes against this resolution.

Jarvis Porter Group PLC – EGM – 9 Jan 2007
The company requested shareholder approval to allow it to de-list from the Alternative Investment Market of the London Stock Exchange. Newton considered that shareholders would be unnecessarily disadvantaged if the company was to de-list from a recognised trading exchange. Therefore, votes were instructed against the proposed resolution.

Lonmin PLC – AGM – 25 Jan 2007
A long-term incentive award to the company's CEO exceeded the normal limit. In exceptional circumstances, the rules of the plan allow for awards to be made in excess of the normal limit. However, the company failed to explain the circumstances that led to this exceptional level of award. Newton instructed votes against the resolution that sought shareholder approval of the remuneration report.

A further resolution sought shareholder approval of amendments to the company's Shareholder Value Incentive Plan. The Plan would allow awards of up to 167% of an individual's salary to vest for merely remaining in employment, irrespective of performance. Votes were instructed against this resolution and against two members of the remuneration committee, who were seeking re-election to the board.

Misys PLC – EGM – 29 Mar 2007
At a separate EGM, the company raised two resolutions that sought to establish and make awards under a proposed Transformation Incentive Plan. Newton instructed votes against both of these resolutions. The plan would allow for significant awards of nil-cost options to vest for reaching certain share price performance targets. Newton felt that 100% of awards vesting for achieving a c.50% growth in the company's share price over three years was not a sufficiently challenging. Newton was also concerned that, should the performance conditions not be met at the end of the three-year performance period, awards could be re-tested against the performance condition for a further two years.

W H Smith PLC – AGM – 1 Feb 2007
Last year, following the demerger, the company was greatly reduced in size and complexity. However, within the company's remuneration report, it was stated that the maximum size of annual bonuses would be increased. There was also a modest increase in base salaries. Given the reduced size of the company and the company's failure to justify adequately the increased bonus potential, Newton instructed votes against the resolution seeking shareholder approval of the remuneration report. A member of the remuneration committee, who sought re-election to the board, was also voted against.

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

Company	Meeting type	Date	Issue without Pre-emption Rights	Issue with Pre-emption Rights
Firestone Diamonds PLC	AGM	29 Jan 2007	18%	45%
GW Pharmaceuticals PLC	AGM	20 Mar 2007	10%	
Mercator Gold PLC	EGM	28 Feb 2007	19%	
Northern Aim VCT PLC	AGM	19 Feb 2007	10%	121.7%

Ex-UK Companies

Alpha Pyrenees Trust Ltd – EGM – 5 Feb 2007
The Trust sought to re-classify its share listing from Chapter 15 to Chapter 14, as defined by the UK Listing Rules. This change would allow the Trust to be quoted on the Official List by way of a secondary listing, without the need to have a primary listing in any other jurisdiction. In addition, the Trust's obligations, under Chapter 14, would be significantly less than under a Chapter 15 listing. Newton felt that, if passed, the resolution could lead to a reduction in the Trust's commitment to corporate governance and, therefore, its shareholders. Votes were instructed against the proposal.

Asahi Breweries Ltd – AGM – 27 March 2007
An employee, since 1955, and subsequently a senior advisor to a major shareholder of the company, was seeking appointment to the company's board. The board had proposed this candidate as an independent internal statutory auditor. Newton felt that he was not a suitable candidate for this role due to his long-term connection with the company. Votes were instructed against the resolution seeking shareholder approval of his appointment. Newton instructed votes against a second resolution. The company requested shareholders to approve the adoption of an anti-takeover defence mechanism. However, Newton felt that the reasons given by the company, for the introduction of such a mechanism, did not provide enough assurances that the board would always act in shareholders' best interests.

Bank of Montreal – AGM – 1 Mar 2007
A total of 13 resolutions at the company's AGM were proposed by shareholders. Six resolutions were proposed by the Movement for the Education and Defence of Shareholders and seven resolutions were proposed by a single shareholder (J Robert Verdun). Newton voted against a total of ten of these resolutions. This was due to the company either having policies already in place that, Newton felt, adequately addressed the proponent's concern or Newton felt that the resolution related to operational matters that should be at management's discretion. The previous table highlights these ten resolutions.

The concern is already addressed	Should be at management's discretion
Disclose terms of engagement information relating to the compensation consultant.	Cease certain practices in relation to registered accounts.
Executives' compensation should be linked to average wages, costs and financial performance.	Provide a 24hr service for credit card and investment customers.
Increase the number of female directors on the board.	Disclose margin status of stocks and changes in margin policies.
Disclose information on any interest in hedge funds.	
Executive compensation should follow the STAR (Simplified, Transparent, Allocated and Retractable) principles.	
Adopt and adhere to industry-leading standards of corporate governance.	
Encourage and protect whistleblowers.	

Bank of Nova Scotia – AGM – 6 Mar 2007
Of the eight shareholder resolutions proposed at the company's AGM, Newton voted against a total of three. Two of the three were in relation to matters that the company had already addressed. These were requests for the company to increase the number of female directors on the board and to disclose the company's participation in hedge funds. The third shareholder proposed resolution that Newton voted against was in relation to a shareholder's concern over the company's operation of employee pensions. Newton took comfort in the company's statement that its employee pension scheme was being operated in accordance with the Scotiabank Pension Plan and that benefits were being provided in a fair and economically sustainable manner.

Canadian Imperial Bank of Commerce – AGM – 1 Mar 2007
A shareholder proposed resolution requested that the bank increase the number of female directors on its board. The proponent stated that female directors should represent at least one third of the board and that this should be achieved within three years. Given that female representation on the company's board was c.28%, Newton considered that the proponents concerns were not justified at this company. The same shareholder group also proposed a second resolution. This sought for the company to disclose its participation in hedge funds. Newton took comfort in the company's statement that its exposure to such speculative instruments is not significant. Votes were instructed against both of these resolutions.

Close Man Hedge Fund Ltd – AGM – 22 Mar 2007
Newton considered that a member of the Fund's audit committee was not independent. It was felt that a significant conflict of interest existed due to his position as a director of a holding company, whose subsidiary is the administrator for the Fund. Votes were instructed against the resolution that sought shareholder acceptance of the Financial Statements and Statutory Reports.

European Asset Value Fund – EGM – 12 Feb 2007
The Fund requested shareholder approval to amend its Articles of Association. Newton voted against this resolution. The proposal would provide the board of directors with the discretion to force shareholders to redeem their shareholding.

Fortum Oyj – AGM – 28 Mar 2007
As at last year's AGM, the same shareholder requisitioned the same two resolutions. These were to create a unitary board structure and amalgamate the nomination committee and remuneration committee. Newton voted against these resolutions for the same reasons as last year:

There's little empirical evidence to suggest that one board structure is superior to the other. Also, Finnish company law does not dictate the approach that companies should take. Therefore, Newton did not support the resolution.

The proponent of the second resolution stipulated that the new committee, which would replace the nomination committee and remuneration committee, should be made of representatives of three major shareholders, together with the company's chairman. Newton believes that it is not in shareholders' best interests to delegate such authority to shareholders, given that they do not owe a fiduciary duty to the other shareholders. Also, it is felt that the appointment of executive board members and key executives should be, in part, the responsibility of the company's CEO.

Gafisa SA – EGM – 10 Mar 2007
The company sought to amend its Articles of Association to enable it to create a reserve account. No further information was supplied to shareholders as to the nature or size of the reserve account. Newton voted against this resolution.

Investec Capital Accumulator Trust Ltd – AGM – 7 Feb 2007
A member of the audit committee was seeking re-election to the board. Newton did not feel that he was a suitable member of the audit committee due to his position as a paid consultant to a sister company of the Trust. Votes were instructed against this candidate's re-election.

Kirin Brewery Co – AGM – 28 Mar 2007
Newton voted against the resolution seeking to appoint an independent internal statutory auditor. The candidate had been an employee and, later, a senior advisor to the company's main bankers since 1959. As such, Newton felt that he wouldn't satisfy the need for the person fulfiling this role to be independent.

Newton also voted against a resolution, which if approved, would allow retirement bonuses to be paid to three independent internal statutory auditors. The inherent conflict of interest that this generates was sufficient to warrant Newton voting against the resolution.

National Australia Bank Limited – AGM – 31 Jan 2007
Companies in Australia are required to gain shareholder approval for the award of share incentives to its directors. In this case, Newton felt that the proposed award could result in a reward for failure given that no performance conditions would govern the vesting of the award. Newton instructed votes against the proposed award.

National Bank of Canada – AGM – 7 Mar 2007
The Movement for the Education and Defence of Shareholders requisitioned six resolutions at the company's AGM. A further four resolutions were proposed by another shareholder. Newton instructed votes against six of these shareholder proposed resolutions.

Newton felt that the company's policies and procedures negated the need for shareholder support of three resolutions. These resolutions requested the company increase the number of female board directors, establish an independent board committee on shareholder proposals and to eliminate "unofficial" discriminatory language in the selection of a chief executive.

Another resolution, which Newton voted against, sought for the company to disclose its participation in hedge funds. The company stated that all trading is monitored daily by the company's risk management systems and that hedge fund exposure presents a low risk.

Two further shareholder proposed resolutions were voted against due to Newton believing that they were matters that should be at the discretion of the board. These resolutions asked the company to alternate between English and French at General Meetings and to rotate the location of the Annual General Meeting.

Neste Oil – AGM – 21 Mar 2007
Newton instructed votes against two resolutions proposed by shareholders.

The first sought for the company to establish a nomination committee that would be comprised of three shareholder representatives, together with the chairman of the board of directors. The committee would elect its chairman from among its members. Newton was concerned that this proposal would allow for non-board members, who are not accountable to shareholders, to take effective control of the company. The proposal is also contrary to the Finnish Corporate Governance Code and market Practice.

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

Paramount Resources Ltd – EGM – 11 Jan 2007
Votes were instructed against two resolutions that sought Shareholder approval of a stock option plan and for the company to make grants under the proposed plan. The terms of the plan would give the board a high level of discretion, including the extension or acceleration of the vesting of awards. Non-executive directors would also be allowed to participate in the plan. It was also proposed that a member of the remuneration committee, who controls 47.52% of the company's issued shares, be granted an award of 200,000 shares under the plan.

Pico Far East Holdings – AGM – 28 Feb 2007
If passed, two separately proposed resolutions would allow the company to issue up to 30% of its issued share capital, whilst dis-applying existing shareholders' pre-emption rights. As the company did not provide any comfort as to why shareholders should accept such a level of dilution or at what price shares could be issued, Newton voted against the two resolutions.

Rofin-Sinar Technologies Inc – AGM – 15 Mar 2007
A resolution sought shareholder approval of a new Incentive Stock Plan. Resulting from which, Newton felt that the potential dilution to shareholders was excessive at 16%. Concern centred on this dilution potential and the company's history of making high awards under share incentive arrangements. Over the past three years, on average 2.1% of the company's share capital has been awarded annually by way of share incentive arrangements. These two concerns were heightened by the fact that 20% of awards would vest annually and would not necessarily by subject to the achievement of any performance targets. Newton instructed votes against the proposed Incentive Stock Plan.

Siemens AG – AGM – 25 Jan 2007
At the time of the company's AGM, there were allegations of bribery against the company and an investigation was being conducted by the Office of the Munich State Attorney. A public prosecution case had also been initiated. In its normal reporting cycle, the company disclosed that it had discovered material weaknesses in its internal controls over financial reporting. Whilst the company had initiated an independent audit of its internal compliance and control systems, Newton felt it appropriate to vote against the resolutions seeking shareholder approval to discharge the management board and the supervisory board.

Suramericana De inversions SA – AGM – 29 Mar 2007
Votes were instructed against two resolutions due to the company failing to provide any information. These resolutions sought shareholder approval to amend the company's Articles of Association and to issue new shares.

In addition, Newton voted against a resolution entitled "Other Business". Concern centred on the potential for matters to be raised and approved at the time of the AGM, which may not be in the best interest of shareholders.

Terna Participacoes SA – AGM – 19 Mar 2007
The company failed to provide shareholders with sufficient information relating to two resolutions, for which it sought shareholder approval. The first of these resolutions asked for approval of directors' and executive officers' remuneration. The second resolution sought to amend the company's Articles of Association in connection with a secondary offer that could dilute existing shareholders by 25%. Newton voted against both of these resolutions.

Toronto Dominion Bank – AGM – 29 Mar 2007
Newton considered that the company's policies and procedures addressed the key concerns underlying three of the eight resolutions requisitioned by shareholders. Newton voted against the resolutions that requested executive compensation be relative to average wages, costs and financial performance of the company; to increase the number of female directors on the company's board and to disclose the bank's participation in hedge funds.

Walt Disney Company (The) – AGM – 8 Mar 2007
A shareholder proposed resolution requested the board take any necessary steps to avoid making greenmail payments. This was the third consecutive year that this resolution had been proposed by a shareholder. In 2005, the first time it was proposed, Newton, along with a majority of voting shareholders, supported this proposal. In response to this majority vote, the company amended its Bylaws. According to its Bylaws, the company is now prohibited from purchasing shares at a premium to their market price from any shareholder controlling more than two percent of the issued share capital. Newton considered that the amendments, already undertaken by the company, offered sufficient protection to shareholders in potential greenmail situations. Newton voted against this resolution at this year's AGM.

Other Business
The companies below all included a resolution at their meetings entitled "other business". For each company below, this was the only resolution that Newton considered to be sufficiently against shareholders' best interests to warrant voting against. Open-ended resolutions of this type, with no additional supporting information or shareholder protection measures, are generally considered to be unhelpful by institutional investors and other shareholders who vote by way of proxy. No explanation of this resolution or the motivation behind the proposal was disclosed.

Company	Meeting	Date
Barclays Investment Funds – Sterling Bond	AGM	8 Mar 2007
Gartmore Sicav – Sterling Money Fund	AGM	8 Mar 2007
Gartmore Sicav – Continental European Fund	AGM	8 Mar 2007
Invista European Real Estate Fund	AGM	18 Jan 2007
Lions Gate Energy Inc	AGM	15 Jan 2007

Examples of engagement – Q1 2007

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

UK Equity Investment company – January 2007
Contact: Company Secretary

Newton contacted the company in relation to two resolutions proposed at its AGM. These resolutions sought shareholder approval for the company to issue new shares. The first would respect existing shareholders' pre-emption rights, whilst the second resolution would dis-apply these rights. The percentage of its share capital that the company sought to issue was c.120% with pre-emptive rights and 10% without pre-emptive rights. Newton sought comfort that, for each resolution, shareholder value would not be diluted through the issuing of new shares at a discount to their trading price. The company stated that it was not currently its intention to utilise any authority to issue new shares and should new shares be issued at a later date, it would not be the intention to dilute existing shareholders. The company appreciated Newton's suggestion of altering the wording of future resolutions to avoid the interpretation that shareholders' value could be unnecessarily diluted.

Korean Technology & Hardware Equipment company – January 2007
Contact: Investor Relations

The company's process for seeking shareholder approval for the election of directors consists of a single "bundled" resolution being proposed at its AGM. Whilst Newton did not have any major concerns with the company's board structure, it was requested that, in future, shareholders be given the opportunity to separately elect/re-elect members of the company's board. Newton felt that this would provide shareholders with greater confidence in the company's commitment to good corporate governance practices. The company stated that this issue would be raised at a board meeting of the company.

UK Travel & Leisure company – January 2007
Contact: Senior Independent Director

In a meeting with the company's Senior Independent Director (SID), Newton sought to gain further insight into the attitude and aspirations of the company's controlling shareholder. Discussion centred on this shareholder's influence over the company strategy, the likelihood of this shareholder wishing to alter its holding and its commitment for the company to maintain a full UK listing on the London Stock Exchange. Newton also raised questions over the board's ability to protect the interests of minority shareholders.

The policies and procedures of the company's board were also discussed. Newton raised concerns over the relatively high level of turnover of executive directors and the time taken to appoint successors. The company stated that the time taken to appoint a new CEO was due to the unexpected resignation of the previous CEO and a desire to appoint the right person for the job, which required each board member separately interviewing potential candidates. It was also stated that the company is in the process of appointing a Finance Director. Furthermore, the board is seeking to appoint an additional non-executive director who is strong-minded, candid, opinionated and independent of management.

UK Support Services company – February 2007
Contacts: Chair of the Remuneration Committee
Remuneration Consultant

Newton made a number of suggestions and highlighted areas of concern in relation to the company's proposed changes to it remuneration arrangements. Newton felt that the proposal to increase the maximum potential annual bonus was an unnecessary shift that would place undue management focus on the short-term. Newton was also concerned with a proposed change in the performance condition that would govern the vesting of Long-Term Incentive awards. It was considered inappropriate for the management of this company to be rewarded purely for increasing the company's earnings per share. Newton felt that management should be focused on enhancing the company's cash position and improving its dividend policy. Newton was of the view that too much focus on earnings growth could damage shareholder value.

UK Equity Investment company – February 2007
Contact: Investment Manager

Discussions were had with the company relating to its proposal to adjust the performance fee it receives on this fund. It was proposed that the outperformance hurdle rate be reduced and that the NAV be rebased. It was also proposed that the performance payment, expressed as a percentage of outperformance, be reduced by half. The company provided a full and detailed explanation behind the proposal, which would bring its performance fee arrangement in line with its peers and provide sufficient incentive for future outperformance. Newton questioned why this change had not occurred earlier and at the time when its other funds changed. The company felt an earlier change would not have been appropriate given its mediocre performance. Newton also received confirmation that the new arrangement would be for prospective performance and would not be applied retrospectively. Newton expressed its concern that shareholders should not have to pay the expense associated with raising a separate EGM for this proposed change, which, for a minimal cost, could have been incorporated in the company's next AGM. The company stated that the cost of the EGM would be borne by the company by way of an appropriate reduction in any future performance fee payable as a result of the company's outperformance.

UK Support Services company – February 2007
Contact: Chair of the Remuneration Committee

The company proposed to alter the performance conditions that govern the vesting of its Long-term incentive Plan (LTIP) awards. 50% of any LTIP award would retain a performance condition of relative Total Shareholder Return, whilst the remaining 50% would be subject to achieving certain levels of earnings growth. Given that vesting of share options and part of any bonus awards is conditional on achieving earnings targets, Newton felt that the proposal would place too much emphasis on achieving earnings growth and that this could be to the detriment of the company's balance sheet. Newton suggested that the LTIP remain unchanged and that vesting of share option awards should be subject to the earnings targets proposed for the LTIP. Given that no concerns were raised by any other parties, who were consulted on the proposal, the company would be incorporating the plan as proposed.

UK Mobile Telecommunications company – February 2007
Contacts: Group HR Director & Chief of Staff
Group Reward and Recognition Director

In a meeting with the company, the appropriateness of the remuneration policy was discussed in depth. Newton understood and was supportive of the proposals that would more closely align the business strategy with that of executive remuneration. In determining the robustness of the earnings per share growth targets, Newton requested clarification as to the intended method of calculation. Newton also requested the remuneration committee's policies on claw-backs, hedging of awards and directors' exercising voting rights on remuneration matters.

UK Electronic & Electrical Equipment company – February 2007
Contacts: Chief Executive Officer
Company Secretary

Newton was concerned with a resolution proposed at the company's first AGM since listing on the Alternative Investment Market in September 2005. The resolution requested shareholders to approve "other business" that may be raised at the AGM. The company didn't expect other business to be raised under this item but it accepted Newton's view that it would not be appropriate for shareholders, voting via proxy, to approve such a resolution. The company stated that, at it next AGM, it would not be including such a resolution as a voting item.

UK Media Company – March 2007
Contacts: Chair of Remuneration Committee
Remuneration Consultant

The company sought feedback from its shareholders in relation to a proposed a new long-term remuneration arrangement. Newton appreciated that certain amendments needed to be made to the company's existing remuneration structure. However, Newton questioned the appropriateness of the proposed Total Shareholder Return (TSR) vesting methodology. In order for awards to vest in full, it was stated that the companies TSR would need to exceed the index by a set percentage. Newton felt that this was not an appropriate method and that a 100% relative measure would be more suitable. Newton further stated that the TSR element should be underpinned by an internal financial metric and not just at the remuneration committee's discretion relating to "improvements in the underlying financial performance of the company". In addition, Newton requested assurances relating to the incorporation of claw-back provisions, recipients hedging against their own rewards and directors exercising their own voting rights on matters of remuneration.

UK Health Care Equipment & Services company – March 2007
Contact: Corporate Broker

The company sought Newton's views on a proposal for it to amend its Articles of Association. It was suggested that the company's borrowing powers be limited to a fixed amount, as opposed to a multiple of its Net Asset Value. Given that the company is embarking on a large share buy-back programme, which would lead to a considerable reduction in net assets, the company didn't want to potentially hinder its ability to carry-out its acquisition strategy. In the course of achieving its stated strategy, it was stated that the company would not expect to reach the proposed borrowing limits. Newton raised concerns over the potential high gearing position and the effects of this on shareholder value, including the possible re-rating of the company's debt capital to below investment grade. Newton received the necessary assurances that the company would not unnecessarily reduce shareholder value by way of increasing its gearing. It was noted that a number of the company's competitors do not have formal limits on their borrowing powers.

SRI Focus: Integrating climate change implications into Newton's research process

A) Introduction

This report aims to highlight actions that Newton is taking to ensure that companies it is invested in, on behalf of its clients, are responsibly managing the risks and opportunities created by climate change.

The report looks at the issues surrounding climate change, including the challenge of meeting increasing energy demand, while avoiding the threats posed by rising fossil-fuel use. The responses of consumers, governments and business to this global issue are highlighted. Risk and opportunities provided to companies are also highlighted. The report ends with Newton's assessment of the environmental policies of ten of its significant holdings.

B) Climate change

Gaining scientific consensus

There is a significant amount of evidence to suggest that climate change is occurring. On 2 February 2007, the Intergovernmental Panel on Climate Change (IPCC)[1] released its Fourth Assessment Report, which states:

"Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level".

Recent climatic trends and forecasts are also showing evidence that the climate and weather patterns are changing (see Figure 1: Recent Climate Trends and Forecasts).

The main cause

There is a growing body of evidence to suggest that human activity is contributing to the increase in greenhouse gases[2] in the atmosphere mainly as the result of the burning of fossil fuels (see Figure 2: Major Sources of Greenhouse Gas Emissions). These increasing levels of greenhouse gases are thought to be leading to warmer climatic temperatures and greater unpredictability in weather patterns. Floods, storms and droughts in the UK and across the world show how vulnerable the planet is to climate extremes and how high the human, environmental and economic costs can be.

Figure 1: Recent Climate Trends and Forecasts

Temperature	Up 0.76ºC over the last 150 years. High latitude areas such as Canada, Russia and the Arctic are warming more rapidly than the tropics. The IPCC calculates a rise of 2.0-4.5ºC in global surface temperature over the rest of this century.
Precipitation	Increases in the level of precipitation are expected in high latitudes, while decreases are likely in most subtropical land regions. Within each land mass it is generally expected that the West Coast will see lower levels of precipitation while the East Coast will be wetter.
Snow Cover	Projected to contract. Thaw depth over most permafrost regions is projected to increase. Melting glaciers increase flood risk and then reduce water supplies. Areas particularly at risk are in the Indian subcontinent, China and the Andes.
Sea-ice	Projected to shrink in both the Arctic and Antarctic under all scenarios. In some projections, Arctic late-summer sea ice disappears entirely by the end of 21st Century.
Hurricanes & tropical storms	Intensity and frequency of hurricanes appears to have increased in the Gulf of Mexico (although the data is not conclusive). The IPCC predict storms are likely to become more intense with higher wind speeds and heavier precipitation.
Vegetation	Crop yields in subtropical regions look set to decline. Worst affected may be Africa and parts of Southern Europe. (Crop yields in S Europe are expected to decline by 20% with a 2ºC increase in temperatures.) At high latitudes, crop yields may increase with moderate temperature rises. Beyond 4.5ºC, all crop yields will look set to suffer.
Eco systems	Around 15-40% of species face long-term negative effects after only 2ºC in warming.
Ocean acidification	Increasing CO_2 concentrations leads to increasing acidification of the ocean. Since the start of the 20th Century, ocean pH has decreased by 0.1 units. Forecasts suggest a further fall in ocean pH of 0.14 and 0.35 units over the 21st century. This is likely to have major effects on marine life, with adverse effects on fishing stocks.

Source: Alternative/Renewable Energy, Credit Suisse, 14 March 2007

1 IPCC: The Intergovernmental Panel on Climate Change was set up by the United Nations Environment Programme in 1988 to advise policy makers on the state of knowledge regarding climate change. The panel is comprised on independent climatology experts and seeks to draw together a consensus of scientific opinion.

2 Greenhouse gases are the main gases thought to contribute to global warming and climate change. There are six main greenhouse gases:
- Carbon dioxide is released to the atmosphere when solid waste, fossil fuels (oil, natural gas, and coal), and wood and wood products are burned.
- Methane is emitted during the production and transport of coal, natural gas, and oil. Methane emissions also result from the decomposition of organic wastes in municipal solid waste landfills, and the raising of livestock.
- Nitrous oxide is emitted during agricultural and industrial activities, as well as during combustion of solid waste and fossil fuels.
- Very powerful greenhouse gases that are not naturally occurring include hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6), which are generated in a variety of industrial processes.

The Fourth Assessment Report by the IPCC indicates there is increasing scientific consensus that greenhouse gas emissions are most likely the main cause of warming temperatures.

"Most of the observed increase in globally averaged temperatures since the mid-20th century is very likely due to the observed increase in anthropogenic greenhouse concentrations. This is an advance since the Third Assessment Report's conclusion that "most of the observed warming over the last fifty years is likely to have been due to the increase in greenhouse gas concentrations." Discernible human influences now extend to other aspects of climate, including ocean warming, continental-average temperature, temperature extremes and wind patterns."

Energy and climate change

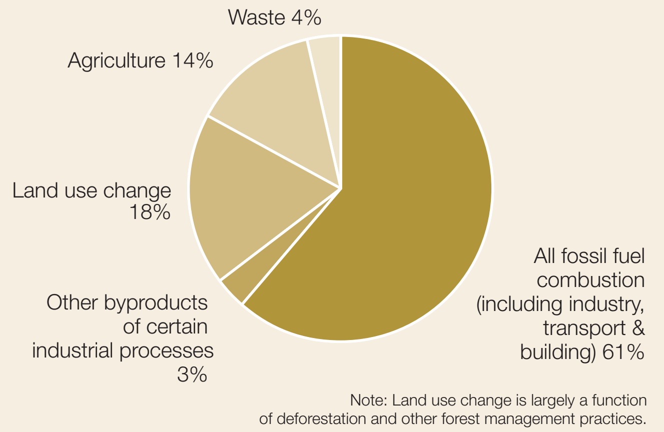
The link with fossil fuels means that energy is at the heart of the climate change debate. Energy is essential for economic growth and social development. By 2030, the International Energy Agency (IEA) estimates that energy demand could be 60% higher than today (see Figure 3: World Primary Energy Demand). This is due to a growing population and the expanding economies of developing countries. If current trends continue, fossil fuels will provide most of the world's energy for the majority of this century, leading to a considerable rise in greenhouse gas emissions such as carbon dioxide (CO_2) (see Fig 4: Carbon Emissions). Meeting the increasing demand for energy, while avoiding the threat posed by growing fossil-fuel use, is a serious sustainability challenge.

Urgency to act

The majority of people now accept that climate change is happening. The urgency to take action to minimise the impacts of climate change is beginning to be understood by society. Political debate has moved from the validity of the science behind climate change to focussing on improving energy efficiency and reducing the greenhouse gas intensity of energy. This change in focus has been helped along by reports such as the Stern Review (see Figure 5 overleaf: The Stern Review), which attempts to quantify the economics of climate change.

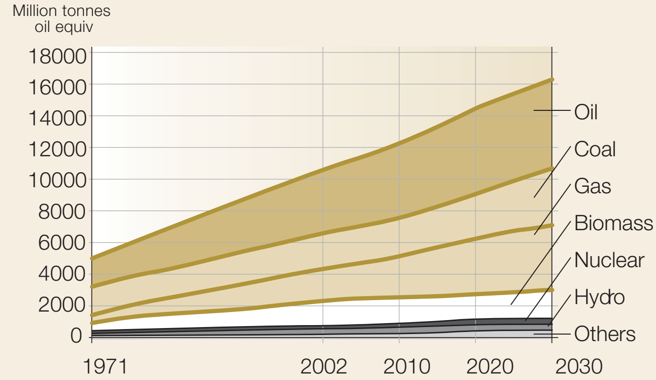
Ongoing research is increasingly highlighting the potential of climate change to impact future economic output and inflict damage on infrastructure, as well as human and physical capital. Thus, the issue of climate change is increasingly manifesting itself in financial markets.

Figure 2: Major Sources of Greenhouse Gas Emissions



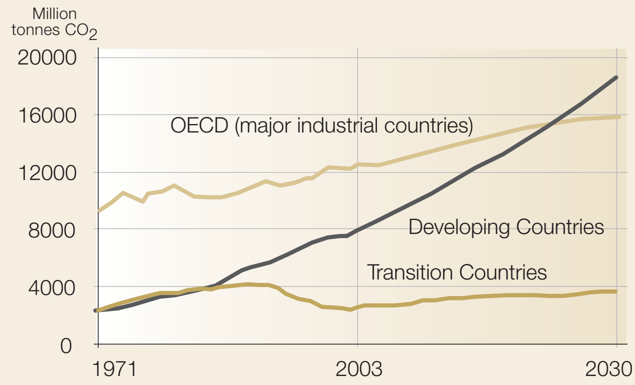
Source: Climate Change: Beyond Whether, UBS, January 2007

Figure 3: World Primary Energy Demand



Source: IEA 2004

Figure 4: Carbon Emissions



Source: IEA 2004

Extent of actions required

Stern estimated in his review that stabilisation of the climate requires that annual emissions be brought down to more than 80% below current levels. However, emissions will continue to move higher without reductions in energy demand, improving energy efficiency, developing low carbon technologies and improving the productivity with which we use natural resources. All countries will be affected by climate change. Each country, no matter what its size, is part of the problem. Therefore, minimising the impact of climate change demands an international response. Such a response would need to be based on a shared understanding of long-term goals and agreement on frameworks for action.

Figure 5: The Stern Review

Estimating the likely economic cost of climate change brings a host of empirical difficulties not least because the calculations must take, as their starting point, projections extending many decades into the future. The Stern Review on the Economics of Climate Change, released in October 2006, discusses the effect of climate change on the world economy. The review was sponsored by the British government. The main conclusions of the review were:

- If no action is taken, the overall costs and risks of climate change will be equivalent to losing at least 5% of global GDP per annum. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20% of GDP or more.
- In contrast, the costs of taking action by reducing greenhouse gas emissions to avoid the worst impacts of climate change, can be limited to around 1% of global GDP per annum.
- Action on climate change will also create significant business opportunities, as new markets are created in low-carbon technologies and other low-carbon goods and services.

The review warned that failure to control climate change “could create risks of major disruption to economic and social activity, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century.” Stern estimated the cost of acting now is much less than the cost of not acting.

The Stern Review, though highly criticised, does clearly outline that an insurance policy in the form of spending to mitigate the effects of climate change is increasingly justifiable, given the potential cost of doing nothing.

Source: Newton Investment Management

C) Responding to climate change

Triggering the changes required to minimise the impacts of climate change will require concerted and sustained action by consumers, governments and policy and business.

• Consumers

Everyday choices across all facets of society have a major influence on emissions. Consumption drives economic activity. Therefore, consumer choice is crucial in the move towards increasing energy efficiency and reducing emissions. Individuals can contribute significantly to emissions through transport choices, consumption of goods and services, the way households are run and though lifestyles. However, consumers tend not to alter consumption habits purely for environmental reasons. Therefore, to encourage behavioural change that favours a lower carbon lifestyle, financial and product innovation incentives are required.

• Governments and policy

Effective government support mechanisms are required to encourage change. To be a force for change, governments need to reduce uncertainty for investments in higher cost, lower emitting systems. Providing usage mandates or targets, support for research and development (R&D) and support for market deployment of technologies signals a future in which energy efficiency and a cleaner energy mix are valuable to companies and societies. This allows business to justify investment in this area. To achieve the required reduction in emissions that is necessary, a broad and efficient mix of policies and programmes will be required.

Types of governmental and policy support include:

Support for R&D

The development phase of a new technology can be lengthy, risky and costly. Governments need to establish clear priorities for the focus of research and development and provide support for new technologies during the critical early stages of development such as tax and/or financial incentives.

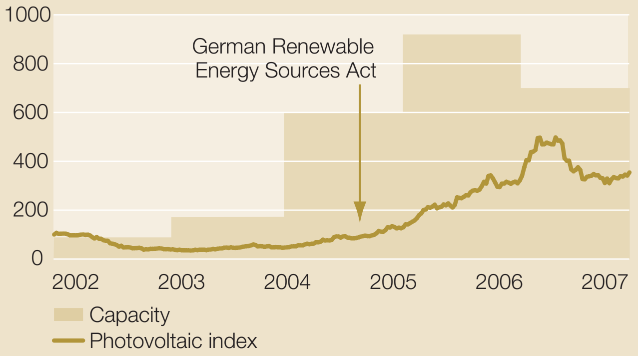
For example:
At the end of February 2007, the US government announced grants of up to US$385 million for six biorefinery projects to be undertaken over the next four years. The announcement was part of the administration’s pledge to support commercialisation of breakthrough technologies in biofuels, such as cellulosic ethanol.

Marketing deployment support
Emerging technologies: Once a technology has been proven, rapid deployment, potentially on a global scale, becomes important. For emerging technologies, support such as subsidies, tax credits, and/or tariffs may be required.

For example:
The adapted German Renewable Energy Sources Act came into force in 2004. Subsidies for solar installations were a key focus of the act. This policy sparked a significant increase in newly installed photovoltaic capacity as well as boosting the share price of solar stocks (see Figure 6: Photovoltaic Capacity and Share Price Index).

Figure 6: Photovoltaic Capacity & Share Price Index

Newly installed capacity in Germany (in megawatt) and photovoltaic share price index



Source: Climate Change: Beyond Weather, UBS, January 2007

Cost effective technologies: For technologies that are already cost effective, policies will need to focus on barriers to investment or restrictions to market entry. One example is the implementation of performance standards. Performance standards help to limit energy demand, encourage the removal of energy inefficient products from the market, and accelerate their replacement by more efficient solutions. Encouraging the take-up of new technologies may also require policy action.

For example:
The European directive on energy efficiency requirements for household electric refrigerators, freezers and combinations thereof, requires that minimum energy efficiency standards apply to domestic refrigeration appliances. In addition, conformity marking is required on the label to guarantee that the appliance meets these standards.

Usage mandates or targets
A usage mandate is generally imposed by local or national governments and backed up by fines for non-compliance. A target tends to be favoured more by bodies such as the European Union.

For example:
During the quarter, the EU published a draft "Integrated Energy and Climate Change Package to Cut Emissions for the 21st Century". Proposed targets included:

- Producing 20% of electricity from renewable sources by 2020. Currently less than 5% of electricity is produced from renewable energy sources.
- Biofuels to contribute 10% of vehicle fuels by 2020. Currently less than 1% of vehicle fuel is sourced from biofuels.
- A 20% saving of primary energy consumption by 2020.
- To cut greenhouse gas emissions by 20% from 1990 levels by 2020 and by 30% if other industrialised nations take action.
- To back collective cuts in greenhouse gas emissions of 60-80% by 2050 compared with 1990 levels.

The EU Emissions Trading Scheme (EUETS)
A mechanism to help implement targets, such as those set in the EU Integrated Energy and Climate Change Package to Cut Emissions for the 21st Century, is an emissions trading scheme. The EUETS was introduced in 2005 to incentivise industry to reduce carbon emissions. Under the 'cap-and-trade' system, facilities with a combustion capacity over 20MW are allocated carbon emission limits. Emissions over these limits must be covered by purchased allowances, while emitting less than the cap earns allowances that can be sold.

The establishment of the EUETS has created a broad market for carbon. Now that emitting carbon has a cost attached to it, a clear connection between emissions abatement and a financial return exists. This connection has made it easier for companies to justify abatement projects.

Support in the US for a cap and trade system is growing
During the quarter, a group of 65 US institutional investors and asset managers, representing $4 trillion of assets under management, issued a "Climate Call to Action" to the US government. The statement called for the government to implement mandatory caps on carbon emissions, potentially through a cap and trade scheme. Although the statement did not endorse a specific reduction target, signatories did call for a 60-90% reduction in greenhouse gases by 2050.

A global approach is needed

The targets being set by governments provide some certainty for the future business environment. They also create new opportunities and risks for companies to manage. However, the absence of a truly global mechanism for dealing with energy and climate has prompted fragmentation in national approaches to the management of climate change. Currently, businesses face a complex web of national schemes and industry standards, voluntary and mandatory targets and regulatory compliance obligations that vary around the world. Such an inconsistent approach creates environmental and economic inefficiencies, investment uncertainty and distortions to international competitiveness.

Stern stated in his review on the Economics of Climate Change:

"Because climate change is a global problem, the response to it must be international. It must be based on a shared vision of long-term goals and agreement on frameworks that will accelerate action over the next decade, and it must build on mutually reinforcing approaches at national, regional and international level."

In Newton's view, until the US Federal government formalises a legally binding plan to reduce greenhouse gas emissions, it is unlikely that countries such as India and China will commit to serious efforts to reduce emissions. However, there are signs that the necessity to act on climate change is being considered seriously in the US. Currently there are six proposals for climate change legislation in the US Congress. (See figure 7: Climate Change Legislation in the US.)

Figure 7: Climate Change Legislation in the US Congress

Title and sponsors	Reduction target and timeframe	Important attributes
Climate Stewardship and Innovation Act Senators Lieberman and McCain	Bring emissions to 2004 levels by 2012, to 1990 levels by 2020, to 22% below 1990 levels by 2050.	Caps electric power, industrial, commercial, and transport sectors; includes provision for clean development mechanism through which US companies gain credits for emission reductions sponsored in developing countries.
Global Warming Pollution Reduction Act Senators Sanders and Leahy	Stabilise global greenhouse gas concentrations below 450 parts per million: US reductions to 1990 levels by 2020 and 80% below that by 2050.	Besides economy-wide caps, bill provides for national renewable energy quotas and energy efficiency goals with credits trading programmes.
Electric Utility Cap-and-Trade Act Senators Carper and Feinstein	Caps current emissions through 2011, then at 2001 levels by 2012, thereafter cap lowers a further 1% each year through 2020, subject to Environmental Protection Agency (EPA) review.	Electric generation sector only; specifies auctioning of credits, use of offsets; establishes independent scientific panel to make recommendations to the EPA every four years on the reduction rate required.
Climate Stewardship Act House Reps. Olver and Gilchrest	Bring emissions to 2004 levels by 2012, to 1990 levels by 2020, to 22% below 1990 levels by 2030, and to 60% below 1990 levels by 2050.	Same as Lieberman and McCain's, except offset credits may account for only 15% of emissions reductions, and "early action" credits limited to 20% of cap.
Global Warming Reduction Act Senators Kerry and Snowe	Reduce emissions to 60 per cent below 1990 levels by 2050, through increasing annual reductions starting at 1.5% a year for the first ten years.	Besides economy-wide caps, bill includes nationwide renewable fuels standard, and national renewable energy quota of 20% by 2020.
Safe Climate Act Rep. Henry Waxman	Emissions freeze at 2009 level in 2010. Beginning in 2011, emissions cut ~ 2% per year, falling to 1990 levels by 2020. Beginning in 2021, annual cuts of ~ 5%, falling to 80% below 1990 levels by 2050.	EPA authorised to make additional reductions. National renewable energy standard of 20% by 2020. Energy efficiency targets increase gradually from 0.25% of electricity sales in 2010 to 1% of sales in 2012 and each following year through 2020.

Source: Carbon Market North America, Point Carbon, 28 March 2007

Fig 8: Sector Summary of Greenhouse Gas Emissions

Sector	Share of global greenhouse gas emissions in %
Electricity & Heat	24.6
Transport	13.5
Motor Vehicles	*9.9*
Aviation	*1.6*
Industry	21.1
Chemicals	*4.8*
Clement	*3.8*
Steel	*3.2*
Aluminium	*0.8*
Buildings	15.4
Agriculture	14.9
Land-use change & Forestry	18.2
Waste	3.6

Note: Sectors shown do not comprise 100% of global emissions, nor are all sectors mutually exclusive.

Source: Climate Change: Beyond Weather, UBS, January 2007

Carbon Disclosure Project

CARBON DISCLOSURE PROJECT
MEMBER 2007

Companies are coming under increasing amounts of pressure to disclose information that is relevant to climate change and emissions.

The Carbon Disclosure Project (CDP) provides a coordinating secretariat for institutional investor collaboration on the business implications of climate change. Its aim is two-fold: to inform investors of the significant risks and opportunities presented by climate change and to inform companies of shareholders concerns relating to the impacts of these issues on company value.

The project involves sending a request for information to leading global businesses and analysing the responses. 2007 was the fifth year that information was requested. The information request was sent to 2,400 companies across the globe. The responses will be made available on the CDP web site in September 2007 (www.cdproject.net).

280 institutional investors, with assets under management of more than $41 trillion, now support the initiative. Newton is a signatory to the CDP and has been so since it began in 2000. To further show its support for this initiative, in 2007, Newton committed to becoming a paying “Member” of the CDP.

• Business

Stern, in his Review on the Economics of Climate Change, states *“the investment that takes place in the next 10-20 years will have a profound effect on the climate in the second half of this century and in the next”*. Prompt and strong action is required. Business has a key role to play in slowing and eventually reversing the rise in emissions. Business also has a key role to play in adapting to the unavoidable impacts of climate change, taking steps to build resilience and minimise costs.

The main industries being targeted for legislation relating to climate change are the high emitting industries (see Fig 8: Sector Summary of Greenhouse Gas Emissions). These include electricity generation, manufacturing, transport and buildings. These industries will play a key role in the transition towards a low greenhouse gas emissions economy.

Businesses need to respond by:

– Adhering to new regulations;
– Producing more efficient energy;
– Investing in infrastructure;
– Reducing energy consumption;
– Offering more energy efficient products and services;
– Investing in new and innovative technologies;
– Taking action to mitigate potential physical threats of climate change. For example, taking measures to strengthen flood defenses;
– Understanding changing expectations and adapting business models to reflect changing consumer demands;
– Planning for the long-term.

Risks and opportunities

Regions, industries and companies will be affected differently, resulting in winners and losers. Companies that survive are those that will quickly adapt to changing circumstances and that are open to innovative technologies and new business models. The following table (Figure 9 overleaf: Climate Change – Risks and Opportunities) outlines risks and opportunities that may impact a company’s finances and therefore should be considered as part of a company’s business strategy.

Figure 9: Climate Change – Risks and Opportunities

	Risks	Opportunities
Regulatory	• Carbon-reducing regulation can impose costs on a company by requiring: – Behavioural change to enable compliance with the new regulations; – Investment in emissions reduction equipment; – Fines, if in breach of regulations. • Future changes in regulations, particularly if a reduction in subsidies is imposed. • Potential new tax liabilities.	• Governmental policy can create new needs and new markets from which companies can benefit. • Government policy can provide subsidisation for new needs and new markets from which companies can benefit. • Companies need to adapt to operating within environmental limits. A behavioural change is required creating an opportunity to become a leader in the area/industry.
Physical	• Extreme weather events such as floods, droughts, storms can cause damage to assets leading to operational risk. For example, oil rigs located in the Gulf of Mexico. • Potential shortages of water supply due to the impacts of climate change. For example, Coca Cola studies the linkages between climate change and water availability and how this will impact the location of its new bottling facilities. • Some industries are more exposed to physical risk than others. The insurance, agricultural, fisheries, forestry, real estate and tourism industries are particularly exposed due to dependence on the physical environment and the elements.	• Early management of potential physical impacts caused by climate change. For example, taking measures to strengthen flood defences. • Building of facilities for the manufacture of products designed to reduce climate risk.
Reputational	• Perceptions of inaction relating to climate change by customers and investors. • Selling or using products, processes or practices that have a negative impact on the environment.	• Opportunity to show leadership by reducing own greenhouse gas emissions and enhancing environmental capabilities. • Quantifying a company's carbon footprint[3] sends a strong signal that a company recognises climate change as a business risk and an opportunity and is taking efforts to minimise impacts. • Consumers are taking into account a company's environmental record when making purchasing decisions.
Technological/ product	• Companies may experience a decline in demand for energy intensive products. • The nature of research and development makes embarking on a lengthy and costly programme of development of unproven technologies risky.	• Economic opportunities for businesses that invest in goods and services that save energy improve energy efficiency and reduce greenhouse gas emissions. • Potentially large markets if a company can design a technology or product that can contribute towards a partial or full solution to the issue of climate change.
Competition		• Companies that manage and mitigate their exposure to climate change risks while seeking new opportunities for profit will generate a competitive advantage over rivals in a carbon-constrained world.
Litigation	• (US) Companies that generate significant carbon emissions may face the threat of lawsuits similar to those common in the tobacco and pharmaceutical industries. • (US) Companies that do not adequately address the issue of climate change may create liabilities for directors who may become targets of shareholder-related litigation.	
Financial	• Companies may be required to pay higher insurance premiums for assets located in at-risk areas (e.g. the Gulf Coast). For example, Munich Re raised its rates for insuring oil rigs located in the Gulf of Mexico by 400% in the days following Hurricane Katrina. • Challenges for the insurance and reinsurance industries. According to the United Nations Environment Programme Finance Initiative, disaster loses could reach US $1tr annually by 2040. • Investing capital in low-carbon assets as mandated by regulations adds a cost to the business.	• Cost savings through improvements in energy efficiency.
Supply Chain	• Vulnerability of suppliers due to risks associated with climate change. • Suppliers may pass on carbon-related costs to their customers (including higher energy costs). • Transportation costs to deliver products may rise in a carbon-constrained economy.	• Early assessment of the vulnerability of suppliers to the impacts of climate change can help manage potential impacts.

Source: Newton Investment Management

[3] Carbon Footprint: A measure of the amount of CO_2 emitted through the combustion of fossil fuels; in the case of an organisation, business or enterprise, as part of their everyday operations; in the case of an individual or household, as part of their daily lives; or a product or commodity in reaching market. (Source: Wikipedia)

Sector focus: Transport

Today the transport sector depends almost entirely on petroleum products as the primary energy source. As a result of this and growing mobility, emissions from vehicles are rising in most parts of the world. Though vehicle efficiency and hydrocarbon fuel formulations are continuously advancing, these improvements are being overwhelmed by the growing number of vehicles, the increasing distance each vehicle is driven per year, the additional weight of safety and convenience equipment, and, in many regions, consumer preference for sport utility vehicles. Therefore, there is an urgent need for change within the global transport sector.

Comment from Newton's Transport analyst: Jeremy Stuber

Motor vehicles are a significant source of greenhouse gases, representing 10% of global emissions. Therefore, as the number of cars in the world increases, there is an increased urgency to reduce the emissions per vehicle. I will briefly discuss three ways in which emissions can be reduced: driving fewer miles, driving a lighter car and driving a more efficient car.

Driving fewer miles is often not an option in areas where society has grown up around the car. However, behaviour can change, as we have seen in London with the introduction of the congestion charge and with more people using public transport or even cycling. The opposite trend exists in emerging markets where travelling in a large car still confers considerable social status. In some Chinese cities, bicycles have actually been banished as they were deemed to look old fashioned.

Driving a lighter car means driving a smaller car or using new materials. Over the last few decades, cars have increased in size necessitating larger engines which emit more greenhouse gases. This is not only due to the popularity of sports utility vehicles, but also the fact that small cars are not so small anymore. For example, the newest Volkswagen Polo is now larger than the first Volkswagen Golf. Tastes are beginning to change as smaller models now feature air conditioning, air bags and high quality interior trims. In some parts of the world, regulation influences choice of size. Japan, concerned about its reliance on imported oil, introduced a category of smaller vehicles called minivans (actually very small cars), which attract lower insurance premiums and cheaper parking rates. Minivans now account for around a half of all cars in Japan. Using new materials is another way to reduce weight. Alternatives to steel have been employed, for example, plastic body panels in the Mercedes Smart car, the aluminium bodywork of the Audi A2 and carbon fibre parts in some higher end sports cars. Widespread use has been inhibited by the higher costs of parts and the difficulties in repairing some of these parts. From an emissions perspective it is also necessary to consider the entire life cycle. For example, aluminium smelting and fabrication is considerably more energy and emissions intensive than steel manufacturing, offsetting some of the weight benefits.

Driving a more efficient car could mean changing the type of engine. An electric or hydrogen powered car is often cited as ideal because it has zero emissions. However, it is important to remember that the battery or fuel cell is only an energy store not an energy source. These solutions effectively shift the problems of emissions upstream, away from transportation and back to power generation, rather than solving the problem itself. Hybrid vehicles, such as the Toyota Prius, which have both an electric and petrol engine, have become remarkably popular, following the endorsement of several Hollywood glitterati. Whilst their intentions are admirable, there is significant evidence that driving a hybrid can actually be less efficient, because of the increased weight burden of carrying around two engines. There are other ways to improve efficiency for all cars utilising existing technologies which are much more promising. Regenerative braking, which captures the energy wasted as heat in stop-start driving, and improving air conditioning, which can consume over 10% of the fuel for a small car, are two illustrations.

In summary, the automotive sector has the potential to significantly reduce emissions through the use of existing technologies. These developments, in concert with changing consumer tastes and government emissions targets, will hopefully mean that cars of the future will be less of a burden on the environment. From an investment perspective, all these changes are profound. The trend toward smaller cars tends to benefit the Asian manufacturers. The need for newer engines leads to mergers and alliances between manufacturers because the cost of development is so huge. Finally, suppliers of more efficient engine parts or those that use innovative materials should have good prospects.

D) Company involvement

Climate change is a highly complex force that will have a myriad of investment implications, some of which are apparent now, but many of which may not be apparent for decades. Companies which are responsive to the changing economic, social and environmental landscape, brought about by trends related to climate change, will face challenges but may also see major opportunities to grow their businesses.

From an investment perspective, environmental factors and opportunities have to be weighed against other business fundamentals when determining whether a company's share price offers an attractive risk/reward opportunity.

Newton expects companies, in which it is invested on behalf of its clients, to take action to minimise the impacts caused by business activities that contribute towards climate change. Newton also expects its investee companies to manage the risks and take advantage of the opportunities provided by climate change.

As part its research process, Newton assessed the environmental policies of ten of its significant holdings in an effort to ensure climate change strategies were integrated into business strategy. In some instances, this led to engagement. Details are outlined below.

Company	Sector	Contribution to climate change	Actions to reduce emissions*	Action to respond to climate change effects
Anglo American (UK)	Mining	• Significant emission of greenhouse gases as part of mining operations. • Energy-intensive products are produced.	• Anglo American is now into the 4th year of a 10-year programme designed to increase energy efficiency, reduce carbon and energy intensity, as well as address energy procurement issues. The Group has a target to reduce carbon intensity by 10% over the period 2005 to 2014, against a 2004 baseline. Energy efficiency will be the critical success factor. The company is investing in the design of cost-effective systems to improve energy efficiency by reducing energy usage without decreasing production. A range of technologies is being and have been employed to reduce emissions. • The company is also looking at longer-term projects to facilitate change in energy sources, use and technologies. These include the implementation of clean coal combustion technologies that will significantly increase the thermal efficiency of coal-fired power generation, the deployment of carbon capture and storage technologies, improved and more extensive coal gasification and the production of liquid fuels and chemicals. • Anglo American is working with key suppliers to further increase its exposure to sustainable development. The company aims to ensure that a commitment to sustainable development is made throughout its value chain.	• The company's mining facilities, in general, are engineered to withstand 1 in 100 year extreme events such as a flood. However, extra precaution is taken should a risk assessment indicate an elevated threat. Anglo American states that it will review the adequacy of this standard going forward, keeping a particular eye on any evidence to suggest an increasing frequency of such events.
Diageo (UK)	Beverages	• Emission of greenhouse gases as part of manufacturing operations.	• Diageo states that reducing its contribution to climate change is a central objective of environmental management. The company's response to the situation is focused on reducing carbon emissions, primarily through energy efficiency measures. • The company's energy strategy aims to reduce its carbon footprint, factor the cost of carbon into business decisions, explore renewable sources of energy, raise awareness of the issue among relevant employees and manage the company's response to regulatory measures such as EUETS. The company also aims to improve practices to require fewer resources and generate less waste. • The company's 'Supplier Policy' encourages environmental responsibility among supply chain partners. However, the practical outcome of this, in terms of reduced impacts, is not currently measured.	• All of Diageo's businesses have crisis management plans to respond to risks that have been assessed as relevant to their geographical locations. Buildings, utilities, supplies, logistics and customer facilities could be damaged, affecting the company's ability to manufacture or distribute its products. The capabilities of the businesses to respond to possible risks are closely monitored.
Microsoft (US)	Software & Computer Services	• Except for CO_2 emitted due to electricity and fuel use, Microsoft's emissions of greenhouse gases are minimal.	• Microsoft is committed to reducing its contribution to climate change through various initiatives/programmes. For example, the company has replaced nearly half of its fleet of passenger vans with fuel-efficient hybrid cars. • The company is proactively working to improve the energy performance of its core products and services. For example, through the creation of productivity and communication software that can contribute to reducing greenhouse gas emissions by reducing the need for business travel. Operating systems can also be designed with features that can decrease PC energy use. • In February 2006, Microsoft adopted 6 Environmental Principles. These principles formalised the company's commitment to protect the environment and natural resources or the earth, as well as the health and safety of employees, customers and local communities. • Microsoft aims to incorporate the Environmental Principles into its business relationships by seeking similar commitments to the environment from its major suppliers. The company proactively works with suppliers to improve the energy efficiency of products.	• Microsoft, as a primarily office-based organisation, believes it is well placed to adapt to climate change. However, the company continues to monitor the potential impacts that could be caused by climate change to its business and surrounding communities.

Company	Sector	Contribution to climate change	Actions to reduce emissions*	Action to respond to climate change effects
Nestlé **(Switzer-land)**	Food Producers	• Emission of greenhouse gases as part of manufacturing operations and transportation.	• In line with the United Nations Global Compact, Nestlé states it supports a precautionary approach to environmental challenges, it undertakes initiatives to promote greater environmental responsibility and encourages the development and diffusion of environmentally friendly technologies. • Nestlé has focused on energy reduction in its manufacturing operations, transportation & logistics and administration. Positive results on reducing overall air emissions have consistently been reported. • Energy management initiatives undertaken by the company include: – Converting heating units from heavy fuel to natural gas; – Use of co-generation technology resulting in reductions of CO_2 as well as SOx and NOx; – Reducing emissions of ozone depleting substances. Such emissions have been reduced by 99% since a programme to replace refrigerants began in 1986; – Actions to reduce transport-related environmental impacts by giving consideration to the types of vehicle used, distances driven, fuel type used. • Nestlé is committed to realising further savings in energy consumption and has set internal targets for continuous improvement. • Guidelines for reducing the environmental impact of the company's supply chain are in place and regularly updated. For example, practical information is provided on reducing energy consumption in warehouses through use and maintenance of appropriate insulation and through better operating practices.	• Nestlé investigates possible climate change impacts on its operations on a case-by-case basis. For example, when conducting risk assessments and/or investigations into insurance claims for extreme events. In addition, Nestlé has developed an exposure related database where floods and other natural hazard occurrences are documented and continuously updated.
Procter & Gamble (P&G) **(US)**	Household Goods	• P&G is not an energy intensive company. However, the company accepts a responsibility to understand the potential contributions of greenhouse gases from its business and to take prudent and cost effective actions to improve energy conservation and efficiency in all of its operations.	*Please note, Newton is assessing the ability of P&G to minimise its contribution to climate change through reducing greenhouse gas emissions and energy use. The use of chemicals, which could potentially impact the environment, is not assessed in this report.* • P&G has been working to reduce energy usage and green-house gas emissions for some years. As a result, CO_2 emissions are over 226% more efficient, per unit of production, compared to emissions in 1990. • P&G is an active participant in Climate R.E.S.O.L.V.E. (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts). This initiative is a voluntary initiative, which aims to reduce overall greenhouse gas emissions by 18 percent by 2012. • P&G states that it continuously strives to improve the environmental quality of its products, packaging and operations throughout the world. The company states it will continue to seek ways to improve the design and performance of products so that fewer raw materials are consumed during manufacture and energy consumption is reduced during use. For example, P&G have recently developed a technology that enables consumers to effectively wash their laundry at much lower temperatures. • P&G states that it will actively seek business relationships with suppliers who share the company's values and promote the application of high standards among those with whom they do business. Specifically, P&G seeks to do business with suppliers who share the group's concerns for and commitment to preserving the environment. At a minimum, suppliers must meet all current, applicable environmental rules, regulations and laws in their countries.	• P&G's Global Business Continuity Programme ensures that all business critical sites and work processes are evaluated to assess potential exposure to catastrophic events and the business impact of such events. Site and business unit leaders develop contingency plans to minimise business interruption if a disabling event should occur.

Company	Sector	Contribution to climate change	Actions to reduce emissions*	Action to respond to climate change effects
Scottish & Southern Energy (SSE) **(UK)**	Electricity	• Emission of greenhouse gases as part of electricity generation.	• SSE is the UK's largest generator of electricity from renewable sources. The company aims to further increase the amount of renewable energy it generates. It is also investing in the research, development and marketing of new renewable energy technologies, for example, offshore and deep-water wind energy, tidal energy, and a range of micro generation technologies. • SSE has committed significant funds to the development of renewable generation. One example is the company's pledge to invest up to £2.4m in a fund to support renewable energy projects and technologies being developed by companies in the East of Scotland. • SSE is also involved in the development of low carbon generation technologies, both for gas and coal. • SSE is a major investor in the UK's energy infrastructure. During 2005/06 it invested over £500m in projects designed to contribute towards the UK's key objectives of reliable and low carbon energy supplies. • The company is taking steps to reduce its own emissions by, for example, reducing energy and water consumption in operational buildings and reducing fuel used in transport. • SSE promotes energy efficiency measures to its customers. • SSE has produced guidance for suppliers on its approach to and policy on environmental performance and responsible business practices within its overall procurement strategy. As an example, SSE expects companies, seeking to supply it with goods and services, to provide a summary description outlining how aspects of the goods or services demonstrate a practical commitment to minimising environmental impacts. • SSE has subscribed to Verify, a system which assesses, amongst other things, the environmental commitment of major potential suppliers and contractors.	• The company stated in its most recent response to the CDP that it is to conduct a full assessment of its operations to mitigate any risks there may be to operational activity in the short, medium and long term in relation to climate change.
Siemens **(Germany)**	Electronic & Electrical Equipment	• Compared to other industries, Siemens does not face considerable risk due to climate change, as most of the company's products and services are not energy intensive.	*Please note, Newton is assessing the ability of the company to minimise its contribution to climate change through reducing greenhouse gas emissions and energy use. The analysis looks at the company's actions in this area as entirely separate to the corruption allegations currently faced by Siemens.* • For its own business operations, Siemens states it will continue to strengthen efforts to optimise energy consumption at sites and within processes. • The official Climate Policy of Siemens is: – Siemens supports market mechanisms and technology innovation as the most effective approaches to reducing the emissions of greenhouse gases. – Siemens fosters all technical possibilities of power generation in order to reduce greenhouse gases in an economic way. – Siemens will contribute in improving the efficiency of fossil power generation and power distribution. – Siemens strongly supports up-grading to modern technologies to reduce greenhouse gas emissions. – Siemens supports customers in enhancing building performance and energy efficiency for the lifetime of buildings. – Siemens continues to focus on efficient energy use from the extraction of primary energy sources, power generation and distribution down to the end user. • Due to increasing demand for energy efficiency and renewable energies, Siemens is adapting its product range for climate related issues in order to help customers to fulfil greenhouse gas emission regulations requirements. • Siemens requires an annual declaration by suppliers to confirm commitment to protection of the environment and the basic values and personal rights of the international community. Auditors are increasingly checking observance of these standards.	• Siemens states that it is aware of the risks arising from environmental changes like extreme weather events, rising/falling temperatures or other related phenomena. Therefore, the company conducts and continuously updates risk analyses of its locations and business processes. Internal guidelines to manage potential risks are derived from the findings and implemented throughout the organisation. Self-assessments to evaluate the group's capability to mitigate risks are regularly performed.

Company	Sector	Contribution to climate change	Actions to reduce emissions*	Action to respond to climate change effects
Singapore Airlines **(Singapore)**	Transport	• Emission of greenhouse gases in flight and ground operations.	• A key challenge for the aviation industry is to improve fuel usage within aircraft. Singapore Airlines pledges to continuously renew its fleet. New and modern aircraft which embraces the latest technology will improve fuel efficiency, lower fuel burn per passenger carried or tonnes of cargo transported and lower noise levels. • The company's energy efficiency programme for buildings and equipment incorporates a comprehensive maintenance and refurbishment programme as well as conservation measures. Singapore Airlines has also established an on-going programme to explore opportunities for changes to operational procedures and equipment to enhance efficiency. • The company works with its suppliers, particularly those involved in fleet renewal, to seek carbon management improvements through higher fuel productivity. Singapore Airlines also states it gives "due consideration" to equipment suppliers who are able to deliver products that reduce energy consumption.	• Information not disclosed.
Toyota Industries **(Japan)**	Automobiles & Parts	• Emission of greenhouse gases as part of manufacturing operations. Energy-intensive products are produced.	• Toyota's main products discharge greenhouse gas emissions throughout their lifecycle. There are 3 main methods by which the company aims to reduce greenhouse gas emissions: – Through the development of products that emit fewer greenhouse gases; – By reducing energy use during production processes; – By reducing CO_2 emissions in logistics operations • Since 2002, Toyota has been conducting "Life Cycle Assessments" for its major products. These assessments estimate the greenhouse gas emissions from manufacturing materials, production, product use, recycling, and disposal. The company plans to set targets for greenhouse gas emissions at the beginning of product development. It will then aim to reduce emissions throughout the life cycle of a product. • Toyota also recognises that it is presented with business opportunities through the development of fuel-efficient products and is seeking to exploit these opportunities. • Suppliers involved in the emissions intensive stages of Toyota's operations are asked to submit data on environmental performance management.	• Information not disclosed.
Vodafone **(UK)**	Mobile Telecomm-unications	• The most significant environmental impact for Vodafone is energy use associated with the operation of its network.	• Vodafone includes energy efficiency and climate change as one of three key areas of focus for Corporate Responsibility. • The company aims to reduce CO_2 emissions related to its network by 40% by 2011. This is against baseline data from 2006. • The company aims to increase efficiency of its network by 25% by March 2008. A 25% improvement in the energy efficiency of all of Vodafone's current equipment would save around 300,000 tonnes of CO_2 emissions. • The company is also working on a number of initiatives to reduce energy use in base stations and to cool the network. Network cooling helps to extend the life of batteries and reduce the chance of network failure. Cooling accounts for an estimated 25% of energy used in Vodafone's network. • Mobile communications offer a significant opportunity to avoid emissions by reducing vehicle transport as a result of further flexi-working, tele-conferencing and other applications. With increasing demand for energy efficiency and a drive for business to reduce greenhouse gas emissions, Vodafone expects a significant increase in demand for such products. • Vodafone sources 10% of its total network energy use from renewables. Energy sourced from renewables increased by 22% in 2005/06. • Vodafone has developed an 'Ethical Code of Purchasing' to encourage suppliers to address social and environmental issues. • Vodafone is looking to utilise its global scope and scale to work with suppliers to produce more efficient equipment, products and services. The company also has a strategy to work with suppliers to improve energy efficiency of network equipment.	• Vodafone does not believe the physical risks associated with climate change present a significant threat to its technology and equipment. Extreme storm conditions may have an effect on individual sites, however, this is unlikely to have a significant impact on the network as a whole. Vodafone believes the greatest physical risk to its network would come from rising temperatures. This would require the company to increase cooling mechanisms for the network equipment, which would lead to an increase in energy requirements and the associated financial costs. Vodafone is already taking steps to work with its network equipment suppliers to reduce the energy demand of network equipment and to increase the temperature ranges within which the equipment can work.

*Excluding those required by legislation, for example, involvement in the EUETS.
Source: Newton Investment Management Research, 2006 Carbon Disclosure Project Responses.

E) Conclusion

The scientific consensus is that climate change is occurring and the increasing intensity of greenhouse gas emissions in the atmosphere is a significant contributor. The International Energy Agency estimates that energy demand could be 60% higher than today, by 2030. As the burning of fossil fuels mostly causes the rise in greenhouse gas emissions, this raises a serious energy and sustainability challenge.

Consumers, governments and business all have a role to play in taking action to minimise emissions, improve energy efficiency, reduce demand for energy and develop low carbon technologies. All countries will be affected by climate change. Therefore, an international response, based on a shared understanding of long-term goals and agreement on frameworks for action, is required.

Many companies are demonstrating a genuine commitment to address climate change. Many more are recognising that there are opportunities to reduce costs and find new sources of profit.

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SRI Activity

Please note that this activity log shows examples of SRI activity and engagement undertaken over 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.

• GlaxoSmithKline (GSK)
Subject: Seroxat investigation
January 2007

Newton contacted GSK regarding allegations made by the BBC Panorama documentary shown on January 29th. The documentary accused GSK of withholding information relating to clinical trials undertaken on children to test the effectiveness of Seroxat, a drug approved for the treatment of depression in adults.

The company explained that nine clinical trials were undertaken over eight years. The effects of the drug in children with various psychiatric conditions, such as anxiety and depression, were studied. Approximately 1,000 patients were involved in the trials. The company stated that no suicides were reported in any of the nine trials conducted by GSK. When reviewed individually, none of the trials were considered by GSK, or independent investigators, to show a clinically meaningful increase in the rate of suicidal thinking or attempted suicide. It was only when all data was analysed together that an increased rate of suicidal thinking or attempted suicide was revealed.

The results of the studies were documented and submitted to regulators in accordance with regulatory requirements. It was then concluded that the drug should no longer be prescribed to children as the risks associated with taking the drug were greater than the benefits. GSK maintains that it acted appropriately and inline with all regulations.

Seroxat has never been approved by EU or US regulators as a medicine for those under 18 years of age. GSK's product labelling has been consistent with this position stating that "the use of Seroxat in children is not recommended, as safety and efficacy have not been established in this population". Any decision to prescribe a medicine outside its authorised indications, in the EU or the US, is made by a doctor on the basis of his/her clinical judgement and the interests of their patient.

Many of the social and ethical issues that the pharmaceutical industry faces were highlighted in the BBC documentary. Newton believes that a key issue was the late detection of suicidal indicators during the clinical trial process. When questioned about this, the company stated that each clinical trial tested the effectiveness of the drug on different psychiatric conditions. This meant that an aggregated outcome of the trials was not necessarily obvious with like for like comparisons being difficult to make.

Detection of signals that may indicate an adverse reaction to a drug has improved significantly, over recent years, as the pharmaceutical industry has focused on improving signal detection methodologies. In Newton's view, GSK has emerged as a leader in this area and the company is sharing its knowledge with regulators and industry peers to help improve signal detection processes.

A further issue that arose in the BBC documentary was the lack of transparency concerning information collected during the clinical trial process. Significant improvement has been made in this area. Since 2004, GSK has provided a clinical trial register where all information relating to ongoing clinical trials can be accessed. The register contains results and protocol information regarding GSK-sponsored trials of marketed medicines. The register is publicly accessible via the website www.ctr.gsk.co.uk/welcome.asp.

Regulation of the pharmaceutical industry, particularly in relation to drug development, has tightened over recent years. Activity by the sales and marketing departments and disclosure of information to physicians are two further areas that have faced increasing regulation. After discussing GSK's governance mechanisms for ensuring compliance to industry regulations, as well as improvements made in transparency and signal detection methodologies, Newton was satisfied with the progress made by the company.

• Novartis
Subject: Glivec patent challenge in India
February 2007

In February, Novartis challenged a decision by the Indian Patent Office not to grant a patent for its cancer drug, Glivec. The patent was rejected under a section of the Indian Patent Act that stipulates that patents should only be granted on medicines that are truly new and innovative. Novartis alleged that this section of the Indian Patent Act was not in compliance with the World Trade Organisation's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) rules. A court hearing took place in mid February. However, by the end of March, a verdict had not been reached by the court.

Prior to the hearing, Novartis came under pressure from several Non-Governmental Organisations (NGOs) lobbying the company to cease its challenge. Pressure groups were fearful that a legal reversal of the decision not to grant a patent for Glivec would open the door for more widespread patenting of affordable life-saving drugs. Of particular was the risk to the millions of people who have gained access to HIV/AIDS drugs that have been made more affordable by generic manufacturing in India. The lifting of any patent protections allows generic versions of a drug to be manufactured by other companies within the industry.

In this specific case, Newton believed that Novartis aimed only to safeguard its intellectual property position for an important and innovative drug in a significantly developing market. This was not seen as an access issue. Currently, Novartis supplies 99% of Glivec prescriptions at no cost to Indian patients who are prescribed the drug. Furthermore, if Novartis wins the appeal and obtains an Indian patent for Glivec, the current provisions contained within Indian law provide the government with multiple options for ensuring public access to this and other life-saving drugs.

Newton thought it important that the hearing did proceed. Regardless of the outcome, clarity will be provided on the definition of Indian patent law in this area. This should enable both Indian society and the pharmaceutical industry to better understand the government's stance on approving patents going forward.

Newton is comfortable with the efforts Novartis has taken to protect its reputation. The company has provided significant amounts of information enabling interested stakeholders to understand its position in relation to this legal challenge.

• BAE
Subject: Serious Fraud Office (SFO) investigation
February 2007

Newton met with the management of BAE following the company's announcement of strong results for 2006. Alongside a discussion of the results and plans for the business going forward, there was the opportunity to discuss the reputational damage experienced by the company due to the ongoing Serious Fraud Office investigations.

The management firmly believe all the allegations to be unsubstantiated and stated that there is no evidence to support any suggestions that the company has participated in anything illegal. The company stressed that it adheres to strict internal and external policies that are specifically designed to prevent bribery and corruption. Adherence to such policies is audited.

• Barclays
Subject: Operations in Zimbabwe
February 2007

Newton contacted Barclays to discuss its operations in Zimbabwe. The company had been subject to allegations that it was supporting President Mugabe's regime by lending money directly to the Zimbabwean government. Barclays has been operating in Zimbabwe for nearly 100 years and is locally listed on the Zimbabwean stock exchange. The company's responsibility to its c.1000 employees and 150,000 customers in this region is the main reason for maintaining this exposure.

The contribution of the operations in Zimbabwe to Barclays turnover is negligible. Barclays earned £7.1bn profit before tax in the last financial year. Of that, Africa contributed £126m. Zimbabwe, at best, contributed a net zero if not a slight loss towards overall profit before tax.

Barclays also stated that it does not support any political party or government. However, the Reserve Bank of Zimbabwe does stipulate that banks operating in the country must participate in the occasional purchase of treasury bills or government bonds. Companies must comply with these rules. This is normal practice for many governments across Africa.

• Initiatives and memberships
UK Social Investment Forum (UKSIF)
During the quarter, Newton became a member of UKSIF. UKSIF is the UK's membership network for the socially responsible investment (SRI) industry. The main purpose of the Forum is to promote and encourage the development of SRI strategies amongst UK based investors.

Carbon Disclosure Project (CDP)
The CDP is a coordinating secretariat for institutional investor collaboration on climate change. Its aim is two-fold: to inform investors of the significant risks and opportunities presented by climate change and to inform companies of shareholders' concerns relating to the impacts of these issues on company value.

The project involves sending a request for information relating to climate change to some of the largest corporations in the world. In 2007, the questionnaire was sent to 2,400 companies. Including Newton, the CDP now has the support of 260 signatories, representing over $36 trillion in assets under management.

Newton has been a signatory to the CDP since its inception in 2000. 2007 is the first year that signatories have been given the option to become a paying "Member" of the project. Newton continues to support this ongoing initiative and is now an official Member of the CDP.

United Nations Principles of Responsible Investment (PRI)
Newton signed up to the United Nation's PRI. The aim of the PRI is to encourage integration of Environmental, Social and Governance (ESG) considerations into investment decision-making and ownership practices. The aim of such integration is to improve long-term returns to beneficiaries. In signing up to the PRI, there are six voluntary and aspirational principles that signatories are expected to incorporate. The six Principles are:

1. We will incorporate ESG issues into investment analysis and decision-making process.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the Principles.

• Attendance at corporate responsibility updates
Subject: Investor updates
During the quarter, Newton attended investor updates on corporate responsibility by Carrefour, Natura, Microsoft and Shell.

Company Meeting Log: Q1 2007

During the quarter, Newton analysts and fund managers had individual meetings with the management of 366 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:

3i Insfrastructure Fund
3SBio
Accident Exchange
Actelion
Advanced Medical Solutions
Agfa-Gevaert
Air Liquide
Ajisen (China)
Aker Kvaerner
Alpha Systems
Alphameric
Amdocs
American Electric Power
Amplifon
Anglo American
Anritsu
Antofagasta
Aozora Bank
ARM
Asia Optical
ASTRA International
AstraZeneca
ATEN
Atlas Estates
Atos Origin
AXA
Axfood
Axtel
BAE Systems
Bank of Communications
Bank of East Asia
Banpu
Barclays
Barrick Gold
Basilea Pharmaceutica
BBA Aviation
Banque de Commerce et de Placements
Belgravium Technologies
Bespak
BHP Billiton
Bio-Rad Laboratories
Biovitrum
BKN International
Boart Longyear
Bovis Homes
BP
Bradford & Bingley
Bumiputra-Commerce
Bunzl
Bursa Malaysia
Cadbury Schweppes
Cairn Energy
Canadian Natural Resources
Capgemini
Capita
Cardiome
Carlsberg
Carpetright
Carphone Warehouse
Carrefour
Catlin
Celanese
CEMEX
Centaur Media
Centrica
Champion Enterprises
Chesapeake Energy
China Merchants
CITIC 1616
CNP Assurances
Cobham
CODA
Cogent Communications
Colruyt
COMSYS
Consolidated Minerals
Corning
COSMOTE
Crew Gold
CRH
Croda
CSL
Cumerio
Curalogic
Daewoo Engineering & Construction
Daiwa Securities
Dana Petroleum
Danske Bank
Datamonitor
Davis Service Group
Debenhams
Dechra Pharmaceuticals
Dentsu
Deutsche Boerse
Deutsche Postbank
Deutsche Wohnen
Diebold
Dignity
Dominion Resources
Domino's Pizza
Drax
DSG International
Duke Energy
EADS
Eaga
Ecolab
EFG Eurobank Ergasias
EFG International
EganaGoldpfeil
Electric Word
Electromagnetic Geoservices
Elisa
Embraer
Endo Pharmaceuticals
Eniro
Enova Systems
EQuest
Ericsson
Euler Hermes
eXpansys
FASTWEB
Ferrovial
Finmeccanica
First Choice
First Quantum Minerals
FKI
Florida Power & Light
Fortress Investment
FTD
Fujitsu
Future
G2R
Gallery Media
Game Group
Gamuda
Gaz de France
GlaxoSmithKline
Go-Ahead
GoIndustry x 2
GRD
Greene King
GRENKELEASING
H.I.S.
Hanson
Harbin Power Equipment x 2
HelpHire
High Tech Computer
Hikma
HMV x 2
Hokuriku Electric Power
Holcim
Hopewell Highway Infrastructure
Hopson Development
HSBC
IG
Iluka Resources
IMI
Inchcape
India Media Fund
Indra Sistemas
Informa
Inmarsat
Inovio Biomedical
Inspicio
Inspired Gaming
Intercell
International Game Tech
Interserve
Intertek
Irish Life & Permanent
Isetan
Jardine Lloyd Thompson
JKX Oil & Gas
Johnson Matthey
JSW Steel
Just Retirement
K + S
Kansai Electric Power
KBC
Kimberley Diamond
Kingston Communications
KONAMI
Korea Electric Power
KT & G
KV Pharmaceutical
Lindex

Localiza
Logica
London Capital
Lonza
MacarthurCook Industrial REIT
Makhteshim-Agan Industries
Mapletree Logistics Trust
Maxima
McBride
McGraw-Hill
Medco Health Solutions
Medivance
Meggitt
Meredith
Methanex
Metro
Michelin
Millennium & Copthorne Hotels
Millicom International Cellular
Mindray Medical International
Minerva
Mitsubishi Chemical
Mitsubishi UFJ Financial
Mitsui Chemicals
Mizuho Financial
Mizuno
MLP
Modetour Network
Modine
Motor Oil
Myhome x 2
NagaCorp
National Express
National Oilwell Varco
National Thermal Power
Nationwide Accident Repair Services
NCC
NEC Tokin
Neste Oil
Neuropharm
Newfield Exploration
Newport Networks
Nikko Cordial
Nokia
Nomura
Northern Foods
Novo Nordisk
NRG Energy
NSD
NTT DATA
Numico
Offshore Hydrocarbon Mapping
Oilexco
OpSec Security
Pacific Gas & Electricity
Panalpina
PARK24
Pearson
Penn West Energy Trust
Phatra Securities
Pico Far East
Pigeon
Premier Farnell
Premier Foods
Primary Health Properties
Promise
Provident Financial
PTT
PuriCore
QIAGEN
Raffles Education
Range Resources
Rathbone Brothers
RC Group
Red Electrica
Reed Elsevier
Renishaw
Rentokil Initial
Resona
Restaurant Group
Reuters
Revenue Assurance Services
Rexam
Rhodia
Richemont
Richtek Technology
Rotork
Royal Bank of Canada
Royal Dutch Shell
RPS
Samling Global
Samsung Electronics
Sanofi-aventis
Scott Wilson
Scottish & Newcastle
SDL International
Serco
Shandong Weigao
Sharp
Shinhan Financial
Shinko Securities
Shinsei Bank
Siam Commercial Bank
Sibir Energy
Siemens
SIG
SIMPLO Technology
Sims
Singamas
SITRONICS Telecom Solutions
SK Telecom
Sky City Entertainment
Smith & Nephew
Smiths x 2
Smurfit Kappa
Societe Generale
Software
Solomon Systech
Solvay
Sony
Standard Chartered
Statoil
Subex Azure
Subsea 7
Sumitomo Bakelite
Sumitomo Chemical
Sumitomo Mitsui Financial
Sumitomo Trust & Banking
Synenco Energy
Synexus
Tanfield
Tate & Lyle
Taylor Woodrow
TDK
Technip
Teijin
Telefonica
Telstra
Tenon
Thales
Thermo Fisher Scientific
Thomson Intermedia
TietoEnator
Tokyo Star Bank
Tomkins
Toppan Forms
Total
TOTO
Toyota Motor
Trading Emissions
Transgene
Trinity Mirror x 2
UCB
Ultra Electronics
Umicore
Unicharm
UniCredit
Unilever
Unipol
Valspar
Vectura
Veidekke
Verbund
VeriFone
VINCI
Vodafone
Wavefield Inseis
Weatherford International
Whatman
Wichford
WILEX
Woodside Petroleum
WPP
Wuji Pharmaceutical
Xaar
Xstrata
YBM Sisa.com
Zentiva
Zinifex
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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