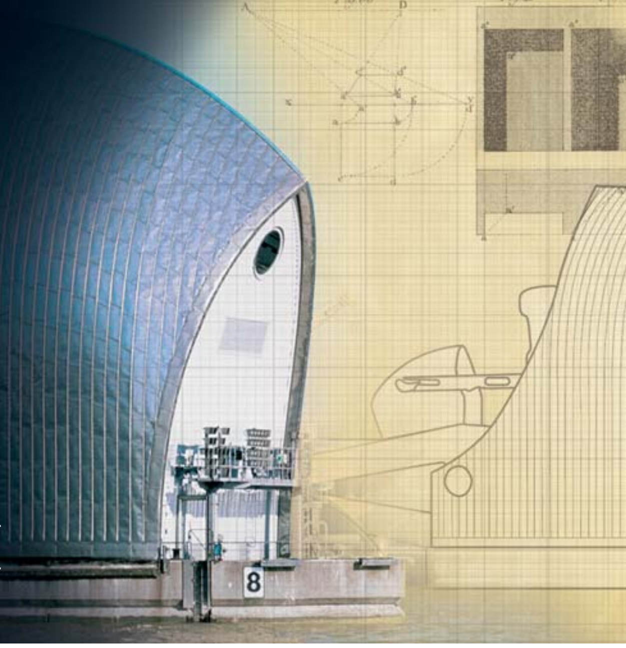
Q3 2007



Responsible Investment

Corporate Governance and SRI

Contents

BNY MELLON
ASSET MANAGEMENT

NEWTON
The Power of Ideas

Corporate Governance and SRI Voting Profile for Q3 2007

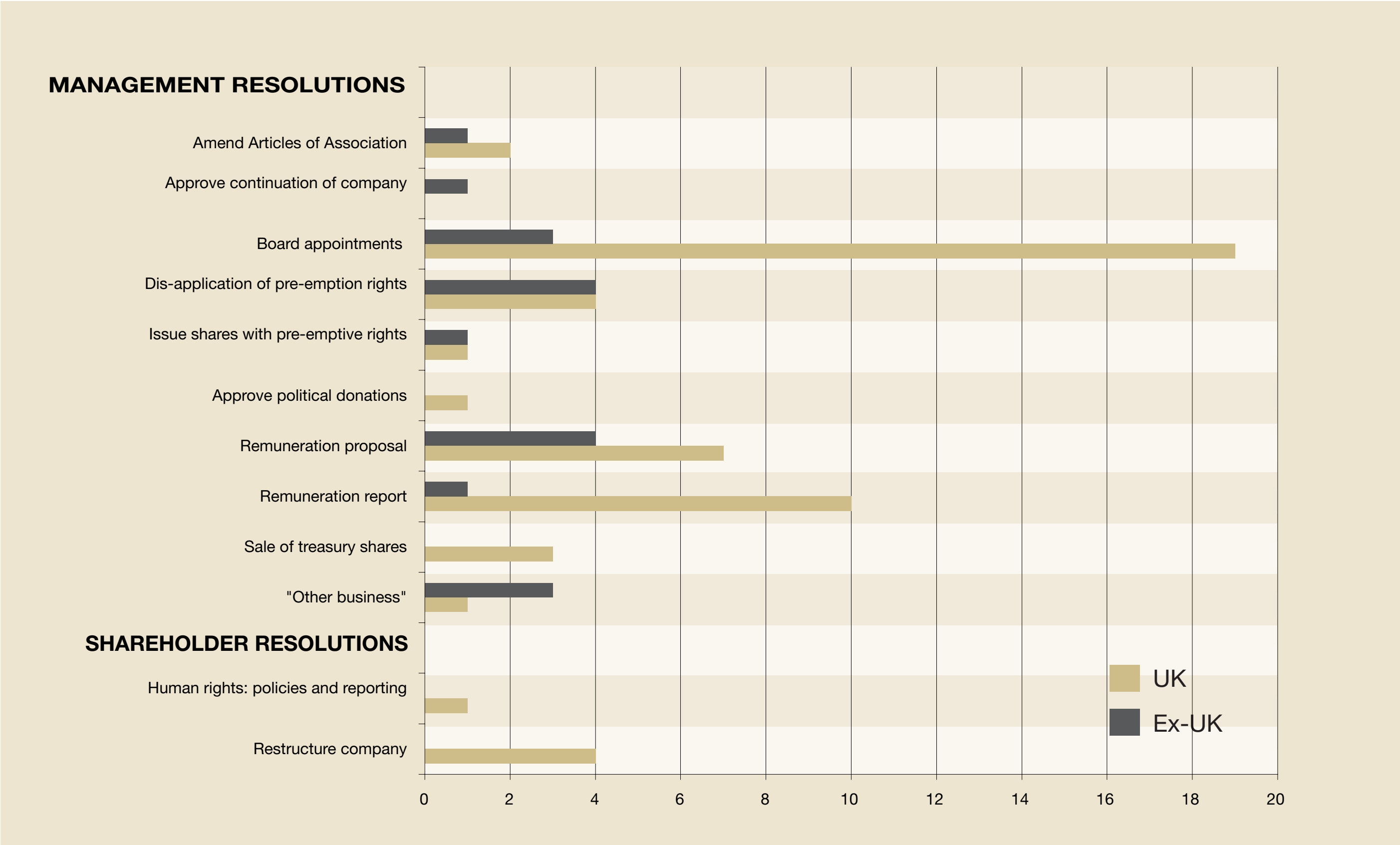
The third quarter of the calendar year is the quietest period in terms of the number of companies holding general meetings. However, it is often a time when investors' views are sought on various public policy issues. In the UK, the Financial Reporting Council consulted on the effectiveness of the Combined Code on corporate governance, while the European Council furthered its work on the Shareholders' Rights Directive. Many other jurisdictions, such as the US, Australia and Japan, were also involved in establishing or amending practices, policies, regulations and codes relating to corporate governance.

The table below illustrates that, during this quarter, Newton exercised its clients' voting rights at 362 separate general meetings. Votes were instructed against one or more resolutions at 9.6% of all meeting in the UK and at 11.5% of meetings held outside the UK

Complete voting summary – Q3 2007	Total	UK	Ex-UK
AGMs	**252**	**191**	**61**
Voted in favour of all resolutions	209	167	42
Voted against one or more resolutions	34	24	10
Took no action	9	0	9
Abstained	0	0	0
EGMs	**102**	**51**	**51**
Voted in favour of all resolutions	86	51	35
Voted against one or more resolutions	3	0	3
Took no action	13	0	13
Abstained	0	0	0
Court Meetings	**8**	**7**	**1**
Voted in favour of all resolutions	8	7	1
Voted against one or more resolutions	0	0	0
Took no action	0	0	0
Abstained	0	0	0
Totals	**362**	**249**	**113**
Voted in favour	**303**	**225**	**78**
Voted against	**37**	**24**	**13**
Took no action	**22**	**0**	**22**
Abstained	**0**	**0**	**0**
Totals	**362**	**249**	**113**

Breakdown of resolutions where votes against were instructed during Q3 2007

Newton instructed votes against a total of 71 individual resolutions during the period. 31% of these resolutions related to companies operating unacceptable remuneration practices or proposing ill-structured remuneration proposals. Newton's policy of voting against the re-election of remuneration committee members, if they can be held responsible for poor remuneration practices, accounted for half the votes instructed against board appointments.



UK Companies

Albany Investment Trust PLC – AGM – 10th July 2007
Unusually, for a UK company, a voting resolution was put to shareholders that requested approval for "other business" to be transacted at the AGM. Given that Newton did not know the content of any issues that may be raised, votes were instructed against this resolution.

Berkeley Group PLC – AGM – 5th September 2007
Votes were instructed against a total of seven resolutions at the Berkeley Group's AGM. These were all in connection with the company's existing and proposed remuneration arrangements.

In 2004, the company proposed a scheme of arrangement, which Newton felt to be in the best interest of shareholders. However, a unique requirement was placed on the scheme of arrangement. In order for it to be passed, a Long-Term Incentive Plan (LTIP) also had to be approved. The LTIP would see 15% of the company being awarded between four executive directors. The only performance requirement was the return of £12 per share to shareholders and for this to be achieved by 31st January 2011. Newton felt that this was not sufficiently challenging or well structured to warrant such awards.

At this year's AGM, the company sought shareholder approval to accelerate the full vesting of the 2004 LTIP awards and introduce a new 2007 LTIP. The performance condition for the 2007 LTIP would be set at the date of grant. The structure would be similar to that of the 2004 LTIP, albeit for a lower return of cash to shareholders. c.6% of the company's issued shares would be made available for awards under the 2007 LTIP. Over half of these would be reserved for the four executive directors that received substantial awards under the 2004 LTIP. Newton's primary concern with the performance condition is that recipients of awards are incentivised to radically cut costs and sell assets in the short-term, which may be to the detriment of the long-term performance of the company.

Votes were instructed against the resolution seeking shareholder approval of the remuneration report and five further resolutions concerning the alteration of the 2004 LTIP and introduction of the new LTIP. In addition, votes were instructed against a member of the remuneration committee, who was seeking re-election to the board.

British Land PLC – AGM – 13th July 2007
It was proposed, for shareholder approval, that the level of awards under the company's Long-Term Incentive Plan and Executive Share Option Plan be increased by 66.6%. The company argued that this would enable recipients to achieve upper quartile levels of remuneration. However, the underlying performance conditions, that govern the vesting of awards, would not be commensurately increased with the level of awards. Newton instructed votes against the proposed amendment to the company's incentive arrangements.

Burberry Group PLC – AGM – 12th July 2007
Newton was concerned that all the company's incentive arrangements were based on the achievement of profit growth. This was not felt to be sustainable, given that it could encourage drastic cost cutting, which may not be in the best long-term interests of the company.

A separate resolution proposed a one-off Exceptional Performance Share Plan. Significant levels of awards would vest for the achievement of Total Shareholder Return (TSR) and profit growth. In effect, this would constitute two awards, one subject to the achievement of TSR and one to the achievement of profit growth. This aggravated Newton's concerns over the use of profit growth as a stand alone performance condition.

Votes were instructed against the one-off remuneration arrangement, the remuneration report and two members of the remuneration committee, who were seeking re-election to the board.

Caledonia Investments PLC – AGM – 19th July 2007
In the UK, it is widely accepted that remuneration committees and audit committees should be constituted of independent non-executive directors. In this instance, a member of the company's audit and remuneration committees was seeking re-election to the board. The company did not regard the individual as independent. Given this assertion from the company, Newton instructed votes against this individual's re-election.

A further resolution was voted against. Shareholders were asked to authorise a payment of £60,000 to the Conservative Party. The company stated that it had concerns over increasing public sector spending and the rising burden of additional legislation resulting from the incumbent government. Newton felt that the company's shareholders should not be funding such a cause and that it should be a matter for individuals to decide on the personal level of support that they want to provide to political parties.

Dana Petroleum PLC – AGM – 25th July 2007
In compensation for the CEO's contract being reduced from 24 months to 12 months notice, the remuneration committee made him an award of 155,531 shares, equivalent to £1.76m at the time of award. The remuneration committee calculated the payment based on the CEO's total compensation in 2005 of £1,069,000 and the average share price in 2005 of £6.86 (the share price at the time of the AGM was £10.85). Irrespective of the dubious method of calculating this arrangement, providing compensation for a reduction in the notice period of a service contract is in stark contrast to best practice in this area. Votes were instructed against the remuneration report and against a member of the remuneration committee, who was seeking re-election to the board.

Electrocomponents PLC – AGM – 13th July 2007
Votes were instructed against the resolution that sought shareholder approval of the company's remuneration report and against a member of the remuneration committee, who was seeking re-election to the board. Newton's dissatisfaction with the company's remuneration policy centred on the use of absolute profit targets that would govern the vesting of awards made under the Executive Incentive Plan. Newton does not consider profit targets alone to be an acceptable performance condition that should govern the vesting of restricted share awards.

Filtronic PLC – AGM – 21st September 2007
Under the terms of the CEO's service contract, he was awarded 200,000 share options, which would automatically vest should he remain employed at the company until 14th December 2006. The CEO also had the right to exchange these options for 85,000 shares or £200,000. Other than remaining employed at the company, no performance conditions governed the vesting of the share option awards. During the year, the CEO exchanged his shares for £200,000, which meant that he no longer had any exposure to the company's share price. Newton noted that at the end of the company's financial year, its share price was c.35% below the exercise price of the CEO's share options. In addition to this arrangement, the company made a number of exceptional payments to senior employees who were either resigning or retiring. The company failed to adequately justify any of these arrangements, which, taken at face value, Newton felt to be unacceptable. Votes were instructed against the remuneration report and against two members of the remuneration committee, who were seeking re-election to the board.

First Group PLC – AGM – 12th July 2007
Newton voted against the shareholder resolution proposed at the AGM of First Group. See Newton's SRI activity log for a description of the voting rationale.

Hansa Trust PLC – AGM – 31st July 2007
A senior partner at the Trust's investment manager, a beneficial owner of 26.4% of the Trust, sought re-election to the board. Given that Newton did not consider any members of the board to be independent, votes were instructed against this individual's re-election.

Hornby PLC – AGM – 26th July 2007
Shareholder approval was sought for a new Share Option Plan. However, the remuneration committee failed to disclose the performance conditions that would govern the vesting of such awards. Votes were instructed against the resolution proposing the new Share Option Plan. Votes were also instructed against the remuneration report due to free matching shares being awarded under the company's deferred bonus arrangement.

InterQuest Group – AGM – 12th July 2007
Newton felt that two members of the company's audit and remuneration committees were not sufficiently independent to warrant these roles. The first was a founder of the company and controls 13.3% of the issued share capital, whilst the second provided consulting services to the company and is in receipt of share options. Votes were instructed against each of these individual's election to the board as non-executive directors.

John David Group PLC – AGM – 26th July 2007
The company determined to award one-off bonuses to three executive directors. The awards were based on each individual's historic performance. The company stated that the awards would help executives focus on growing shareholder value. Without the inclusion of forward looking performance targets, Newton failed to appreciate this argument and instructed votes against the resolution seeking shareholder approval of the company's remuneration report.

JPMorgan European Investment Trust – AGM – 18th July 2007
The Trust sought shareholder authority to re-issue shares at a discount to their Net Asset Value and to dis-apply existing shareholders pre-emption rights when re-issuing these shares. Newton instructed votes against the two resolutions relating to these concerns, which could unnecessarily dilute shareholders' value.

JPMorgan Fleming Japanese Smaller Cos Investment Trust – AGM – 18th July 2007
At the same time as seeking shareholders' authority to re-issue shares at a discount to their Net Asset Value, the trust also sought to dis-apply existing shareholders pre-emption rights when re-issuing these shares. Newton instructed votes against the two resolutions that, combined, would provide the company with the ability to carryout these unacceptable policies.

JPMorgan European Fledgling Investment Trust – AGM – 13th July 2007
Shareholder authority was sought for the Trust to re-issue shares from its treasury account at a discount to their Net Asset Value (NAV), whilst dis-applying existing shareholders' pre-emption rights. The Trust did make a commitment that, in aggregate, any re-issuance would be limited to diluting NAV by 0.5%. Despite this reassurance, the proposal fundamentally breaches guidelines for investment trusts issuing shares. In making the voting decision, Newton noted the Trust's repeated use of such arrangements and the consistency of its price being at a significant discount to its NAV. Votes were instructed against the proposed issuance authority and against the re-election of the Chairman of the Trust.

JZ Equity Partners PLC – AGM – 17th July 2007
The company's board consisted of five non-executive directors, three of which Newton did not consider to be independent. Each of these three non-executive directors were members of the audit committee. One member had been on the board for 21 years, another was associated through the company's bankers, whilst the third was a connected financial advisor and controlled 8% of the company's share capital. Newton was concerned with the board's performance and inability to refresh its membership. Votes were instructed against the three affiliated non-executive directors, who were seeking re-election to the board.

Lawrence PLC – AGM – 20th September 2007
The company failed to provide any information relating to a resolution seeking shareholders' authority for the company to adopt new Articles of Association. In addition, the company failed to disclose the intended purpose for a further resolution. This requested shareholders' authority to issue 133% of the company's issued share capital. Newton exercised a degree of prudence by instructing votes against each of these resolutions.

Luminar PLC – AGM – 20th July 2007
Newton instructed votes against the resolution seeking shareholders' approval of the company's remuneration report. Concern centred on an award of restricted shares to the company's Finance Director. This award would vest purely on the Finance Director remaining in the company's employment for two years, irrespective of his performance in the role.

Misys PLC – AGM – 19th September 2007
The resolution seeking shareholder approval of the remuneration report was voted against. This decision reflected concerns relating to the low performance conditions governing the vesting of various share-based incentive awards. This was aggravated by the ability to re-test performance conditions for certain awards, should they not be achieved at the initial vesting point.

Ten Alps PLC – AGM – 10th September 2007
No rationale was provided by the company for its intention to issue 25% of its issued share capital, whilst dis-applying existing shareholders' pre-emption rights. Without any assurance relating to the intended use of such an issuance of shares, Newton instructed votes against the resolution seeking shareholder authority to issue these shares.

Vodafone Group PLC – AGM – 24th July 2007
A shareholder requisitioned four resolutions at the company's AGM. Newton instructed votes against all of these resolutions, which sought to:

i) require directors of the company to act in accordance with directions given to them by ordinary resolution (51% majority) at any general meeting;

ii) separate out the company's 45% interest in Verizon Wireless;

iii) increase the company's debt levels by issuing corporate bonds directly to shareholders; and

iv) require the passing of a special resolution (75% majority) if the company sought to make an acquisition in excess of £1bn.

Whilst Newton had sympathy with certain aspects of the sponsors concerns, it was felt that each of the requests should be strategic decisions taken by management. It could be argued that the proponents were attempting to micro-manage the company and also limiting its ability to create shareholder value. Newton believes that management is best placed to make such decisions.

Warner Estate Holdings PLC – AGM – 12th Sept 2007
In contrast to the Combined Code on corporate governance, the company operates with one individual holding the two positions of Chairman and CEO. This, coupled with only one of the seven board members being independent, was felt to be an unacceptable structure for the company's board. Newton instructed votes against three non-executive directors, who were seeking re-election to the board and were members of the company's audit and remuneration committees. All three of these directors had been board members for more than nine years, one of which was the brother of the company's Chairman/CEO and son of the company's largest shareholder.

Yell Group PLC – AGM – 19th July 2007
Newton instructed votes against the resolution seeking shareholder approval of the company's remuneration report and against two members of the remuneration committee, who were seeking re-election to the board. During its operating year, the company made a number of significant changes to its remuneration arrangements for executive directors. These included an 80% increase in bonus maximum, a 25% increase in share option awards and a 50% increase in long-term incentive awards. Newton was not convinced that the performance targets governing remuneration arrangements were either appropriate or sufficiently challenging to warrant the increased level of awards.

Ex-UK Companies

Bank of Ayudhya Co Ltd – EGM – 26th September 2007
Shareholder approval was sought for the company to conduct "other business" that may arise at its General Meeting. 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. Therefore, Newton instructed votes against the resolution.

Celtic Resources Holdings PLC – AGM – 13th September 2007
By way of two resolutions, the company sought to raise capital through the issuance of new shares. Without providing any rationale for the intended use of the new capital, the company sought to issue 169% of its share capital on a pre-emptive basis to existing shareholders and 10% on a non-pre-emptive basis. Newton felt that, in both instances, the level of share issuance was excessive and instructed votes against these resolutions.

CSR Ltd – AGM – 5th July 2007
Newton had two fundamental concerns with the structure of the company's Long-Term Incentive Plan (LTIP). First, performance conditions may be re-tested should they not be achieved after the initial vesting period. Secondly, in the event of a change in control of the company, all LTIP awards vest irrespective of any performance achieved. This is against accepted market practice in Australia. Newton instructed votes against the remuneration report and two members of the remuneration committee, who were seeking re-election to the board.

Dawnay Day Carpathian PLC – AGM – 10th September 2007
Shareholder authority was sought for the company to issue 10% of its share capital, whilst dis-applying existing shareholders' pre-emption rights. Despite giving the company an opportunity to provide shareholders with comfort over the proposed level of dilution, no response was forthcoming. Votes were instructed against this resolution.

Electronic Arts Inc – AGM – 26th July 2007
Amendments to the company's Share Option Plan were proposed for shareholder approval. If passed, a further 2.4% of the company's shares would be reserved for share option awards, which would result in a total dilution to shareholders of 17% by way of share option grants. In addition to this level of dilution being unacceptable, also of concern were the automatic grants of share options made to non-executive directors. Votes were instructed against the proposed amendments.

F & C Commercial Property Trust Ltd – EGM – 28th September 2007
At this EGM, the company raised one resolution item that sought shareholder approval for the continuation of the trust. Newton instructed votes against this resolution. It was Newton's opinion that the Trust's management had failed to appropriately manage and reduce the discount to Net Asset Value at which the Trust trades. Newton felt that the Trust's trading discount, being consistently greater than 5%, was excessive and indicative of poor management.

Fabian Romania Property Fund – AGM – 31st July 2007
The Fund sought shareholder approval to re-elect a non-executive director, who held the position of Finance Director of the Fund Administrator's parent company. Given that only two out of seven board members were independent, Newton felt that shareholders were not sufficiently protected. Votes were instructed against the re-election of this affiliated non-executive director.

Kimberley Diamond Company NL – EGM – 9th July 2007
A resolution was proposed that requested shareholder approval for the company to grant three million share options to an executive director. Other than the exercise price being at premium to the share price (c.12%), no performance conditions or time constraints would govern the executive director's ability to exercise this proposed award. Newton instructed votes against this resolution.

Matrix European Real Estate Investment Trust Ltd – AGM – 10th August 2007
An amendment to the company's Articles of Association was proposed, which would remove the existing limitations on the Trust's borrowing powers. Newton would be uncomfortable if the Trust was to increase its level of gearing. Therefore, votes were instructed against the amendment.

Modern Beauty Salon Holdings Ltd – AGM – 22nd August 2007
The company proposed to increase the number of its shares in issue by 20%, while dis-applying existing shareholders' pre-emption rights. Given that the company failed to provide any explanation as to why shareholders should accept such a level of dilution, Newton instructed votes against the proposal.

Newton also voted against a further resolution. This sought shareholder approval for the company to issue repurchased shares at a level of up to 30% of its issued share capital. Pre-emption rights, enjoyed by existing shareholders, would not be applied. Again, the company failed to provide the necessary information to allay shareholders' concerns, including the price at which such an issuance could be made.

Redstar Gold Corp – AGM – 25th September 2007
The company's board sought its shareholders' approval for it to be given the discretion to amend the exercise price of any outstanding share option awards. Newton considered that re-pricing share option awards undermines the nature for such awards, which is to incentivise recipients for the long-term success of the company. Votes were instructed against this proposed resolution.

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.

Singapore Airlines Ltd – AGM – 31st July 2007
Shareholder approval was sought for the company to conduct "other business" that may arise at its General Meeting. 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. Newton instructed votes against the resolution seeking shareholder approval of "other business".

Singapore Exchange Ltd – AGM – 28th September 2007
The company's proposed awards of share incentives that would begin vesting after just one year and would vest irrespective of the company's performance. Newton felt that these arrangements were not sufficiently well-structured to warrant the proposed dilution of shareholders value of 10%. Votes were instructed against the resolution requesting shareholder approval of share incentive awards

Examples of Corporate Governance Engagement – Q3 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.

Isle of Man Real Estate Investment Trust – August 2007
Contact: Investor Relations

Newton contacted this Real Estate Investment Trust company to ascertain the parameters in place with respect to the company's intention of issuing shares. The proposed issuance would dis-apply existing shareholders' pre-emption rights. It was Newton's understanding that existing shareholders' value may be unnecessarily diluted. Despite raising concerns with the company, no satisfactory response was forthcoming. Newton is hopeful that this matter will not be an area of concern going forward.

Swiss Pharmaceutical company – August 2007
Contacts: Chief Financial Officer
Corporate Secretary

Newton met with the CFO and Corporate Secretary to discuss board composition, its operational effectiveness and performance monitoring. In particular, Newton discussed the continuation of a combined role of CEO and Chairman at the company. The company noted that whilst its competitors were splitting the combined role of CEO and Chairman, it did not currently consider it appropriate for the company. It is the company's view that the combined role provides the best strategic/operational continuity, although it was indicated that it would be unlikely that a similar joint role would be held by the CEO/Chairman's eventual successor.

In an effort to understand the balance of power on the company's board, Newton discussed the roles played by the two Vice Chairman, both of which have extensive experience and are regarded as highly capable of maintaining the Board's independence. Newton took some comfort that one of the Vice Chairmen also led the Chairman's Audit & Compliance and Corporate Governance committees.

Despite these discussions, concerns remained over a few aspects relating to board balance and control. This is an area where Newton will continue to monitor the company's performance.

Argentinean Electrical company – August 2007
Contacts: Corporate Broker
CEO

The company was proposing a share issuance, which would enable it to make a substantial acquisition. In addition, a number of amendments were proposed to an agreement between the company and its controlling group of shareholders. Newton requested clarification over three of the proposed amendments. These would reduce the number of business opportunities that the controlling group would have to provide to the company, weaken the non-compete agreement between the controlling shareholders and the company but would eliminate the control group's preferential subscription rights over any new capital raising.

Further, Newton sought comfort surrounding the protection of minority shareholders in the event of a third party bid for the company. The company was able to clarify the methodology that would be used to value the business and how minority shareholders would be given "tag-along" rights in the event of any third party bid.

Newton continued to be somewhat concerned over the issuance of convertible warrants to the controlling group, given that shareholder dilution could be as much as c.20%. In addition, the convertible warrants were issued at a discount to the shares trading price.

UK Equity Investment Trust – August 2007
Contact: Investor Relations

Shareholders' authority was sought for the Trust to issue up to 50% of its issued capital. Pre-emption rights enjoyed by shareholders could be dis-applied. Newton requested clarification over the rationale and pricing of such proposed issuances. It was explained to Newton that any issuance would only be carried out if it were in the best interests of shareholders and the Trust. Various scenarios were described where it may be beneficial for the Trust to issue shares. Irrespective of the rationale, the Trust stated that shares would only be issued if the existing shares were trading at a premium to their Net Asset Value. It was also stated that any issuance would be at the market price of the trading shares. Newton felt reassured that any future issuance would be in existing shareholders' best interests.

Combined Code consultation – July 2007
Contact: Financial Reporting Council

In a consultation exercise, the Financial Reporting Council requested views on the effectiveness and appropriateness of the UK's Combined Code on corporate governance. In brief, Newton's response was largely supportive of the Combined Code but a number of ideas were put forward. It was suggested that companies should disclose, on their corporate websites, information pertaining to any rationale for unusual or technical resolutions proposed at General Meetings. It was also considered that the Combined Code should be more explicit on the importance of companies having effective succession planning policies in place.

Within the consultation, specific responses were requested in relation to smaller companies and their adherence to the Combined Code. Whilst Newton was sympathetic with a need to minimise costly regulatory burdens on smaller companies, it was felt that such companies should adopt the "comply or explain" approach in relation to the Combined Code. Newton felt that this would allow smaller companies to keep compliance costs to an appropriate level and create an appropriate mindset towards good corporate governance.

EC 3rd consultation on Shareholders' Rights Directive – July 2007
Contact: Investment Management Association

As part of the EC's 3rd consultation on its Shareholders' Rights Directive, views were sought on many areas relating to the adoption of an appropriate regime for protecting shareholders' rights. One of these areas concerned the practice of stock lending and views were specifically sought relating to an EC proposal that lendees should not exercise the voting rights attached to their borrowed shares, unless instructed to do so by the lender. Newton requested that the Investment Management Association, Newton's representative trade body, support this proposal. In adopting such a proposal, it would not be possible for a party to exercise control over a company without the party having a full financial interest. In addition to minimising potential market abuses, Newton also sighted that the proposal would aid the effectiveness of exercising voting rights by reducing the number of "lost" votes.

UK Investment Trust – July 2007
Contacts: Chairman
Non-executive Director
Fund Manager

Newton contacted the company to highlight a concern with the company's proposal to issue shares from its treasury account. The proposal would allow shares to be issued at a discount to their trading price, whilst dis-applying existing shareholders' pre-emption rights. The Trust's Fund Manager stated that it would be the Trust's view to issue shares at market price. Newton suggested that it would be appropriate for the Trust to include wording to this effect in future requests for shareholders' authorisation on this matter. It is expected that this will be raised at a future meeting of the board.

UK Media company – July 2007
Contact: Company Secretary

Newton contacted the company to explain its unease with the proposed new Long-Term Incentive Plan (LTIP) and general ratcheting-up of remuneration levels at the company. In relation to the new LTIP, it was proposed that the performance conditions governing the vesting of awards be changed. The amendment would, in effect, result in two separate LTIP awards being made, one subject to the achievement of Earnings targets and the other subject to relative Total Shareholder Return (TSR). Newton believed the proposal to be a regressive step by the company versus existing arrangements, which provides for the whole of an LTIP award to vest for achieving relative TSR. Newton's concerns were heightened by the proposed low EPS performance conditions that would govern the vesting of half the proposed new LTIP awards. The company noted Newton's concerns.

UK Non-Equity Investment Trust – September 2007
Contact: Chairman

Since March, Newton has been in contact with the company by way of meetings and letters. These communications have been in connection with the company making efforts to improve the liquidity of its shares, reduce the discount to Net Asset Value (NAV) at which the shares trade and amend the structure of the performance fees. If the company failed to improve the liquidity of the shares and reduce the trading discount, Newton stated that it would seek to exercise its right to redeem its clients' shares at NAV. Resulting from this engagement, the company successfully carried-out an aggressive marketing campaign to increase the number of shareholders in the company. This had a positive effect of increasing liquidity and improving the shares trading price relative to their NAV. In addition, the company amended it's performance fee structure to one more closely aligned with its competitors. At Newton's suggestion, a greater portion of the performance fee earned would be directed away from the company's managers and towards the company's investment manager.

SRI Activity – Q3 2007

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

First Group – July 2007

Shareholder resolution

A group of shareholders requisitioned a resolution at First Group's AGM, which sought for the Board to adopt certain human rights policies. The resolution also required the Board of First Group to report, annually, on the implementation of the policies.

The resolution was similar to one raised at First Group's AGM in 2006. Newton voted against the 2006 resolution due to the company's stated commitment to address the issues raised in the resolution. In 2007, Newton found that First Group had made significant progress in implementing its commitments. The company's 2007 annual Corporate Social Responsibility (CSR) Report outlines the group's restructured CSR policy. The new CSR policy incorporates the areas of Business Ethics, Safety & Security, Employment, Customer & Community and Environment. Performance targets and measurements, in relation to these areas, were disclosed within the report. The report also discusses the company's support for the principles of the UN Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work, the recognising of which was one of the key motivations behind the requisitioning of the resolution. CSRNetwork Ltd, an independent CSR assurance provider, gave verification on the validity and accuracy of the information included in the report.

Newton believes that First Group has fulfilled the commitments it made in 2006. Therefore, the decision was taken to support management by instructing votes against the shareholder requisitioned resolution.

Anglo American – July 2007

Company visit

Newton visited two of Anglo American's operating mines in South Africa and met with various members of the company's senior management team. It was Newton's intention to gain a better understanding behind the company's recent poor performance in relation to employee safety. Newton also sought to gain comfort on the management of wider Social, Environmental and Ethical (SEE) matters affecting the company. Specifically, Newton visited the company's Goedehoop colliery, the newly constructed SACE water treatment plant, the Bafokeng Rasimone Platinum mine and a recent joint venture, which resulted in the building of a local community health clinic.

One of the key areas of discussion was the company's heightened focus on employee safety and the subsequent policy changes to reflect this. It was clear that managing employee safety is a high priority for the company's recently appointed CEO. Historically, the management of SEE matters, including employee safety, was very fragmented. Each of the company's operations had been responsible for managing its own performance. However, work is being carried-out to centralise the company's approach.

Other areas discussed included the work carried out to regenerate land following the closure of mining operations, the sensitivities and work conducted to relocate townships, management of HIV and AIDS and support provided to employees and their families.

Newton was reassured that the company was aware of the key SEE considerations that it needs to manage, effectively. Comfort was taken in the company's appreciation of the business case for managing such considerations and its strong desire to achieve a high level of performance. However, the key SEE considerations were in various stages of being managed, with some fundamental considerations, such as safety, being in the relatively early stages of effective management.

BHP Billiton – August 2007

Mining operations in Indonesia

Newton is concerned that de-forestation, as a result of logging, plantation development, mineral extraction and trade, combined with the fragmentation of forests, is having a detrimental effect on the global environment and local biodiversity. Potentially significant reputational risks exist for companies operating or contributing to such activities.

Currently, BHP Billiton does not undertake mining operations in Indonesia. However, a Sunday Times article, on July 15th, 2007, suggested that the company had lobbied for the lifting of the protected status of some of Borneo's tropical rainforest to enable mining operations. The article also stated that conservation experts were concerned that BHP Billiton's plans would cause damage to Borneo's wildlife and ecological systems.

Newton, on behalf of its clients, has been a long-term investor in BHP Billiton. Newton, in the past, has been encouraged by the company's understanding of the importance of managing social, ethical and environmental (SEE) matters relating to its operations. BHP Billiton's Biodiversity Policy commits the company to mining only in permitted zones using sustainable practices.

Newton contacted the company to specifically discuss the various allegations surrounding its intention to operate in Indonesia. A number of reassurances were provided. The areas of Indonesia in which BHP Billiton is interested are currently "Production Forest", not "Protected Forest". These areas have either been logged or are mandated for timber production by the Indonesian Government. The company is not currently mining in these areas but, subject to Environmental Impact Studies as well as feasibility studies, it may do so in the future. The company made a considerable effort to assure Newton that, as with all its mining operations, the company aims to demonstrate that its presence can have a substantial net positive impact on conservation in the region. It also aims to ensure that biodiversity conservation is enhanced as a result of its activities.

GlaxoSmithKline (GSK) – September 2007

Clinical trials outside of US and Europe

In December 2005, GSK publicly stated that, within two years, it would perform 50% of all clinical trials outside of North America and Western Europe. This would increase from the level of 30%. Newton attended a meeting with the company to discuss the rationale and management of the strategy.

GSK highlighted that over 80% of the world's population lives outside of the US and Europe. Disease patterns and standards of care in many developing countries are now quite closely aligned to those in the developed world. Further, chronic diseases are becoming increasingly prevalent in the developing world. GSK estimates that by 2020, 70% of all cancer cases will occur in the developing world. Therefore, the company believes it is appropriate to develop medicines outside of the US and Western Europe. Additionally, such a strategy can help to accelerate access to medicines, while increasing understanding of drug safety in different ethnicities.

Previously, a lack of infrastructure and technology has ruled out many areas of the developing world as possible sites for clinical trials. However, there is no longer such a definitive gap. Infrastructure in some regions of the developing world has progressed to a level where it is now on par with that in the developed world. Many of the newly built hospitals in the developing world offer the latest technology in medical services and infrastructure.

GSK's strategy does present business opportunities for the company. Currently, the industry faces major cost and revenue pressures. Research and development productivity has been slowing, partly due to increasingly stringent regulations in the drug development area. However, it is also becoming more difficult to find suitable trial participants. Therefore, by increasing the number of trials that are undertaken outside of the US and Western Europe, the company will have access to new and larger populations of potential patients. Logistically, it is easier to undertake a trial when many of the participants are located in the same place. Additionally, by undertaking trials in developing countries, GSK can increase the speed at which drugs are taken to market in these economies. It should also be noted that the cost of conducting a trial in the developing world is less than that in the developed world. A further positive benefit is that by moving outside of the US and Europe, GSK gains exposure to an increased number of highly qualified investigators and scientists.

When assessing the potential impact on company reputation of such a strategy, Newton believes it is important to consider the increasing focus on drug safety by regulators. The safety of trial participants is always a key priority in clinical trials. A drug will only be approved if the clinical trials, undertaken within its development, have demonstrated compliance to strict ethical and scientific standards of best practice. Furthermore, there are country-specific regulatory requirements that must be met and companies often have additional internal standards.

Newton believes that GSK has an appropriate governance structure in place to ensure the safe and effective development of medicines. However, Newton also understands that there is a risk to company reputation if any examples of poor ethical conduct in clinical trials should arise. As part of its routine evaluation of investable companies, Newton will continue to monitor the progress being made in this area. For further information on this topic, please see Newton's Q4 2006 SRI Focus entitled: The development of safe and effective medicines and the ethical considerations of clinical trials. A copy of the report can be found at www.newton.co.uk.

Carbon Disclosure Project (CDP) – August / September 2007

Member involvement

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 315 signatories, representing over $41 trillion in assets under management. Newton has been a signatory to the CDP since its inception in 2000. In 2007, Newton became an official Member of the project.

The 2008 questionnaire is now being prepared. The CDP secretariat's priority is to maintain consistency between questionnaires, whilst eliciting high quality responses from companies. It is also committed to gaining maximum participation in the project. For the 2008 questionnaire, the secretariat plans to provide guidance on best practice for responses. This should give companies an indication of what level of information would satisfy minimum requirements for responses. A further change is that the 2008 questionnaire will request that companies report on emissions inline with requirements of the Greenhouse Gas Protocol (GHG Protocol). The GHG Protocol is an international accounting tool, which enables government and business leaders to understand, quantify, and manage greenhouse gas emissions.

Newton project – August / September 2007
Environmental policies

During the quarter, Newton began a project to assess the environmental policies of 147 of its preferred investments. The aim of the project was to ensure that these companies, in which Newton is invested on behalf of its clients, are taking action to ensure that their operations are undertaken in an environmentally responsible manner. Whilst it is recognised that environmental considerations are more pertinent to some industries than others, Newton believes that all companies should be managing the environmental risks and opportunities specific to them.

The first phase of the project involved the collection of information from various publicly available sources including company websites, Annual Reports and Corporate Social Responsibility Reports. The second phase of the project involved contacting the companies where Newton was unable to find sufficient information from the public sources. So far, 41 companies have been contacted. The project, even at this early stage, has created a platform for constructive engagement with companies. Newton will report on progress as the project evolves.

Climate Change update – September 2007
US Climate Change Policy

Newton attended a briefing session on US Climate Change Policy. There is a lot of discussion about climate change at the Federal level and a broad acceptance among politicians, both Democrats and Republicans, that action needs to be taken. Currently, two Bills have been introduced to the Senate and there is a general consensus that a "Cap and Trade" system is likely to be implemented. However, the details and design of the system are not yet agreed. Due to the diversity of states within the US, there are many regional differences that need to be worked through. This is going to take a significant amount of time and it is unlikely that a final decision will be made before the next election in 2008. Therefore, for the US to undertake significant action on climate change, it is key that the next President makes climate change a priority and provides strong leadership in this area. Whether this will happen is currently an unknown factor. Whilst all the announced candidates do support activities to protect the environment, climate change is not a strong feature within election campaigns. The main issues include Iraq, healthcare, social security and immigration.

It is unlikely that US legislation on climate change will be passed before 2010. However, it is encouraging to see that discussion is being taken seriously at the Federal level. 2007 is an important year for decision making on climate change. In the last week of September, the United Nations hosted a summit where c. 80 world leaders met to discuss global action on climate change. The summit aimed to build momentum for the climate treaty conference that is being held in December this year, in Indonesia. It is hoped that agreement will be reached regarding an emissions-reduction plan to succeed the Kyoto Protocol, which ends in 2012. For global action to take place, it is imperative that the US and China are highly involved in any Kyoto Protocol succession planning.

Attendance at corporate responsibility updates – Q3 2007
Investor updates

During the quarter, Newton attended investor updates on corporate responsibility by BAE and AstraZeneca.

Company Meeting Log – Q3 2007

During the quarter, Newton analysts and fund managers had individual meetings with the management of 267 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:

Aberdeen Asset Management
Activision
Admiral
Advanced Medical Solutions
Air Liquide
Aker Kvaerner
Allianz
Alphameric
Ambac Financial
AMMB
AMP
Amplifon
Anglo American
Anglo Platinum
Arena Pharmaceuticals
Arpida
ASOS
Atlas Estates
Autonomy Corp
AVerMedia Technologies
Aviva
Babcock & Brown Power
Bank of China
Bank of East Asia
Bavarian Nordic
Bayer
Belgravium Technologies
Belluna
BHP Billiton x 2
BowLeven
BP
Bradford & Bingley
Brit Insurance
British American Tobacco
Bunzl
Burren Energy
Cairn Energy
Canadian Pacific Railway x 2
Capita
Carrefour
Catlin
CEMEX
Centrica
Chemokine Therapeutics
China Flavours & Fragrances
China Properties
China Shipping Container Lines
China Water Affairs
Chugai Pharmaceutical
CipherLab
Cleveland-Cliffs
CME
CNOOC
Cobham
Comcast
comdirect bank
Companhia Energética de Minas Gerais
Connaught
Corinthian Colleges
CSL
CVS Caremark
CyberLink
Davis Service Group
Dechra Pharmaceuticals
Delta Electronics
Deutsche Boerse
Deutsche Post
Deutsche Postbank
Deutsche Wohnen
DICOM
Dignity
DnB NOR
Dolan Media
Doosan
Doosan Heavy Industries & Construction
Drax
Dyson
eaga
Electric Word
Emap
Enel
Energias do Brasil
Exelon
eXpansys
Far East Consortium International
First Gen
Fisher & Paykel Healthcare
Folli Follie
FormFactor
Fujitsu
Givaudan
GlaxoSmithKline
GMA Network
Go-Ahead
Goals Soccer Centres
GoIndustry
Gold Fields
Golden Eagle Retail
Goodpack
Green Dragon Gas
Greggs
Guaranty Trust Bank
Hang Lung Properties
Hang Seng Bank
Harbin Power Equipment
Hargreaves Lansdown
Hargreaves Services
HBOS
HDFC Bank
Heritage Oil
High Tech Computer
Hikma Pharmaceuticals
HKC
HMV
Hopson Development
HSBC
Imagination Technologies
IMI
Impala Platinum
Inchcape
Info Edge (India)
Informa
ING
Inovio Biomedical
Inspicio
Interactive World
International Power
Interserve
Intertek
Inversiones Aguas Metropolitanas
Irish Life & Permanent
Isotechnika
Isuzu Motors
J D Wetherspoon
Jardine Lloyd Thompson
Just Retirement
Kazkommertsbank
KBC
Kingspan
Kookmin Bank
Korea Exchange Bank
KPN
Ladbrokes
Lanco Infratech
Leaseway
LG Life Sciences
LIG Non-Life Insurance
Linde
Lindex
Lion Diversified
Macqurie Airports
Mah Sing
Mapletree Logistics Trust

Maxima
Mecom
Melorio
Millicom International Cellular
Mitsui Trust
Moody's
MTN
Muenchener Ruckversicherungs
Nan Ya PCB
National Express
Nationwide Accident Repair Services
NAVTEQ
Nexus Energy
NHN
Nidec
Nippon Mining
Norsk Hydro
OCZ Technology
Oil Search
Old Mutual
Omnicom
OMV
Opto Tech
Pampa
PARK24
Parkway
Parkway Life REIT
Peace Mark
Penta-Ocean Construction
Plasmon
PNC Financial Services
Ports Design
Potash Corporation of Saskatchewan
Praktiker
Premier Farnell
Premier Foods
Primary Health Properties
Principal Financial
Procter & Gamble
ProPharma
Provident Financial
PTT Exploration & Production
PuriCore
Quanta Computer
Radico Khaitan
Raffles Education
Rathbone Brothers
RC Group
Reed Elsevier
Renishaw
Resolution
Rexam
Rexel
Rightmove
Royal & Sun Alliance
RPM International
Russel Metals
S1
Scott Wilson
Serco
Severn Trent
Shionogi & Co
Sibir Energy
Siemens Medical Solutions Diagnostics
Sigma Pharmaceutical
Silicon Motion Technology
Silitech Technology
Silverjet
Sims
Singapore Airlines
Sky City Entertainment
Smith & Nephew
Sony
Standard Chartered
Suzano Papel e Celulose
Suzlon Energy
Symrise
Taiwan Mobile
Taiwan Semiconductor Mfrg
Take-Two Interactive Software
Taylor Wimpey
Telecom Argentina
Telecom Corporation of New Zealand
Telephone and Data Systems
Telstra
Thales
Thomson Intermedia
Tiangong International
Toho Titanium
Tomkins
Total
TransAlta
Transurban
Trinity Mirror
Tripod Technology
TrygVesta
UCBH
Ultra Electronics
Umicore
União de Bancos Brasileiros
Unipol
UTS Energy
Vedanta Resources
Verbund
Vivendi
Vodafone
VP Bank
Wellypower Optronics
Whatman
Woolworths x 2
Xaar
Yamaha
Yara International
ZymoGenetics

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

Ian Burger, Director of Investment Management, Corporate Goverance Officer
Katie Swanston, Associate Director of Investment Management, SRI Officer.

Tel: 020 7163 9000
Fax: 020 7163 5063

newton.co.uk

Issued and approved by Newton Investment Management Limited,
The Bank of New York Mellon Centre, 160 Queen Victoria Street,
London EC4V 4LA.

Registered in England No. 1371973.

Authorised and regulated by the Financial Services Authority
A member of the IMA

Please be advised that the companies named throughout this document are not indicative of current investments made by Newton on behalf of its clients.

Newton Investment Management Limited
This is a financial promotion and is not intended as investment advice. Past performance is not a guide to future performance. The value of investments, and income from them, is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment, you may get back less than you originally invested.

The information pertaining to individual securities contained within this document are purely for illustrative purposes and must not be construed as a recommendation to buy or sell. The opinions expressed in this document are those of Newton Investment Management Limited and should not be construed as investment advice.

Newton Investment Management Limited
The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Registered in England No. 1371973

Tel: 020 7163 9000
www.newton.co.uk

Registered office: As above
Authorised and regulated by the Financial Services Authority

Newton Capital Management Limited
'Newton' refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Capital Management Limited, Newton International Investment Management Limited, Newton Capital Management LLC and Newton Fund Managers (CI) Limited. Assets under management include assets managed by all of these companies except Newton Capital Management LLC, which provides marketing services in the U.S. for Newton Capital Management Limited. Except for Newton Capital Management LLC and Newton Capital Management Limited, none of the other Newton companies offer services in the U.S. Newton Capital Management Limited is an investment management firm authorized and regulated in the United Kingdom by the Financial Services Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Registered in England no: 2675952. Newton Capital Management Limited is registered in the United States as an investment adviser under the Investment Advisers Act of 1940.

The information pertaining to individual securities contained within this document are purely for illustrative purposes and must not be construed as a recommendation to buy or sell. The opinions expressed in this document are those of Newton and should not be construed as investment advice.

Tel: (516) 338 3521
www.newtoncapitalmanagement.com

Printed on think[4] warm 150 g/m²

FSC

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

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

15894R 03/09