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Newton advances the science of investment

A thematic approach to socially responsible investment paid off for Newton Investment Management last year when financial stocks suffered in the credit crunch, writes Mike Scott.

The benefits of 'responsible investment' as an integral part of the investment process are abundantly clear to Newton.

The firm, which has £38billion (\$75bn) of assets under management, uses broad themes to identify investment opportunities, among them Earth matters, Energy supply, Networked world, Population dynamics, and Security.

Jeff Munroe, chief investment officer, says: 'Our Debt and credit theme led us to be interested in banking opportunities in the developing world versus more consumer indebted areas in the developed world. Our Becalmed theme was built on the behaviour of borrowers believing that the economic cycle ceased to exist, encouraging excessive risk taking. These two themes led us to hold underweight positions in the banking sector, with little exposure to UK banks and none in the US.' As a result, 2007 saw one of Newton's best performances ever.

Ian Burger, corporate governance officer, and Katie Swanston, SRI officer, work closely with analysts to ensure that all relevant responsible investment issues surrounding a stock are taken into account. 'We see these issues as risks to be managed and opportunities to exploit,' says Burger. 'Good governance is massively important. The quality of management is a key factor in buying into a stock.'

Newton, the Bank of New York Mellon subsidiary, votes at every AGM and EGM for all the stock in its ownership and publishes a quarterly report detailing all the resolutions it voted against and why. Companies are far less defensive and more willing to engage than in the past, Burger says, but there is still a long way to go. 'In emerging markets, there are a lot of really basic governance issues. You have to fight to protect shareholder value - there is a lot of potential disenfranchisement going on. However, even in developed markets such as the US, Europe and Japan, the rights of shareholders can be limited.'

The firm also outlines its engagement activity on both corporate governance and SRI matters during the quarter. In the last quarter of 2007, for example, it assisted in the formation of a working group on supply chain issues, engaged with companies operating in Sudan, and joined forces with ten other institutional investors to write to the Tokyo Stock Exchange requesting that companies listed on the TSE disclose proxy voting results.

Burger says this combination of engagement and pro-active voting gets results. An example of this was Hanson, the building materials company, whose reporting on management of non-financial issues had dropped off, Newton felt. It asked the company why this had happened, but a year later had seen no improvement. As a result Newton voted against accepting the company's annual report in 2006 and in April 2007 Hanson included a lot more information about its actions and policies in the annual report.

'Most of our engagement success has been outside the public domain - we would rather not engage publicly unless a situation really deserves it. We find it does not really help them or us,' Burger concludes.

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