MARCH 2013

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THE GUIDE
to Ownership

"SHAREHOLDERS HAVE THE RIGHT AND OBLIGATION TO SET THE PARAMETERS OF CORPORATE BEHAVIOUR WITHIN WHICH MANAGEMENT PURSUES PROFIT" - AMERICAN LAWMAKER ELIOT SPITZER

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BLUE & GREEN TOMORROW

- **Essential intelligence on sustainable investing and living**
  Blue & Green Tomorrow wants to support innovative businesses that balance the needs of the planet, its people and our prosperity.

- We aim to provide our readers with the knowledge they need to make informed choices without prejudice, scaremongering or greenwash.

- **We want the world to be as blue and green tomorrow as it was yesterday.**

- We believe that everyone can play a part and anyone can make a difference. Not by going back through misplaced nostalgia to some bygone age, but by striding out to a bright new future in which we take advantage of the new approaches that can improve our quality of life, the food we eat, the air we breathe, the water we drink and the land we live on.

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LIFE IS FOR LIVING WITHOUT COSTING THE EARTH. THERE IS NO PLAN (ET) B.

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FOREWORD

Active ownership is one of the most crucial parts of investment and long-term wealth creation. And communicating that very fact is the reason we've published this Guide to Ownership – in the same week that the UK Sustainable Investment and Finance Association (UKSIF) co-ordinated the UK's first Ownership Day.

A parliamentary reception took place to celebrate the inaugural event, which aims to raise awareness of the benefits of encouraging financial professionals to use your money to enforce real change within the businesses that you might invest in through voting and engaging with them.

UKSIF says over £800 billion of assets are invested in this way in the UK, adding that there is "clear evidence that it encourages more long-term sustainable behaviour by companies, which in turn leads to better value for investors".

While not overtly related to sustainable, responsible or ethical investment – it's relevant across the whole investment universe – active ownership chimes very well among investors who look to use their money for social or environmental gains, as well as a financial return. The long-term benefits reaped from adopting the technique are a natural fit with the long-termism attached to investing responsibly.

I recently spoke to James Gifford, executive director of the UN-backed Principles for Responsible Investment (PRI), whose excellent summary of active ownership you can find on page 10.

Number two in the PRI's six responsible investment principles relates directly to active ownership, stating that signatories "will be active owners and incorporate environmental, social and governance (ESG) issues into ștheirț ownership policies and practices."

Gifford explained that there was a collective action problem – mostly caused by the fact the vast majority of investors own less than 0.1% of any one company. When that 0.1% is trying to get the firm in question to, let's say, publically report its carbon emissions, any work to get this to happen is instantly diluted by the remaining 99.9% of shareholders.

Ways around this – and one thing the PRI does brilliantly – is to get groups of shareholders together, in order for them to share the burden of engaging with these companies. This builds networks of investors that represent 5%, 10%, sometimes even 20% of the firm's total shareholders.

While the voices of the 0.1% are often unlikely to be heard, top-level executives would struggle to ignore 20% of their shareholders –that is one in every five shareholders – calling them out on an issue.

Barclays witnessed the full brunt of shareholder action last April, when 26.9% of its shareholders voted against its executive pay package and a further 21% saying "no" to the re-election of remuneration committee chairman Alison Carnwath.

"There is a significant minority of shareholders who feel that we got some of these șremunerationț judgements wrong for 2011 and that we have not sufficiently taken their views on board", chairman Marcus Agius, who resigned amid the Libor scandal a few months later, said at the time.

"For this I apologise and I assure you that in the future we will be engaging differently and more purposefully with shareholders in order to ensure that we obtain a broader level of support on remuneration policy and practice."

It's no coincidence that after 12 months to forget for Barclays, the bank updated its ethical code at the beginning of this year, and has its sights set on acting more responsibly and sustainably – which will only benefit its shareholders in the long-term. This is no doubt down to, in part, active ownership displayed by its shareholders.

I'll leave the authenticity of its promises for you to decide.

All that's left to do is to pass on our congratulations to UKSIF for a fantastic event, which we hope will be a fixture in the financial calendar for years to come. Ownership Day might have only lasted for 24 hours, but adopting active ownership strategies will benefit investors no end.

Alex Blackburne

EDITOR, BLUE & GREEN TOMORROW

James Gifford, executive director of the Principles for Responsible Investment, on the meaning of ownership

"OWNERSHIP, OR STEWARDSHIP,

IS REALLY SHAREHOLDERS RECOGNISING THAT THEY ARE PART-OWNERS OF A RUNNING ENTERPRISE, AND THAT THEY TAKE THAT OWNERSHIP RESPONSIBILITY SERIOUSLY.

WHAT I MEAN BY THAT IS INVESTORS ARE NOT JUST THERE TO SET A PRICE FOR THE SHARES; THEY'RE NOT JUST THERE TO BUY AND SELL WHEN THE PRICE IS GOOD OR BAD. THEY ARE THERE TO MONITOR MANAGERS, AND ENSURE THAT MANAGERS ARE ACTING IN THE LONG-TERM INTERESTS OF THE OWNERS OF THAT COMPANY.

AND THAT TAKES SOME ***proactivity.***

FOR CAPITALISM TO FUNCTION PROPERLY, THE AGENCY CHAIN NEEDS TO WORK. AGENCY THEORY TELLS US THAT THE CEO IS ACCOUNTABLE TO A BOARD OF DIRECTORS, AND THE BOARD OF DIRECTORS IS ACCOUNTABLE TO THE SHAREHOLDERS. AND THE BOARD OF DIRECTORS ARE SIMPLY AGENTS FOR THE SHAREHOLDERS, AND THE CEO IS SIMPLY AN AGENT FOR THE BOARD OF DIRECTORS, AND SO ON DOWN THE CHAIN.

WHAT HAPPENS IS WHEN ***the investors are not stewards*** **OR ACTIVE OWNERS,** ***the agency chain*** **BREAKS DOWN.**

AND WHEN AGENTS ARE NOT MONITORED, THEY ACT IN THEIR OWN BEST INTERESTS, NOT IN THE INTERESTS OF THOSE WHO THEY ARE PURPORTEDLY THERE TO SERVE.

AND SO YOU END UP WITH RUNAWAY EXECUTIVE REMUNERATION, CEOS WHO ARE UNACCOUNTABLE AND DESTRUCTION OF SHAREHOLDER VALUE. AND YOU OFTEN END UP WITH MANAGERS TAKING SHORTCUTS TO SECURE BONUSES IN THE SHORT-TERM, WHEN THEY SHOULD BE THINKING ABOUT THE LONG-TERM INTERESTS OF THAT COMPANY.

OWNERSHIP DAY: PARLIAMENTARY EVENT OUTLINED LONG-TERM BENEFITS OF ACTIVE OWNERSHIP

BY ALEX BLACKBURNE

INVESTORS, FUND MANAGERS AND BUSINESS LEADERS GATHERED AT THE HOUSE OF COMMONS YESTERDAY TO CELEBRATE THE UK'S FIRST OWNERSHIP DAY – AN EVENT TO PROMOTE ACTIVE OWNERSHIP AND STEWARDSHIP IN THE INVESTMENT COMMUNITY.

Co-ordinated by the UK Sustainable Investment and Finance Association (UKSIF), the inaugural gathering aimed to highlight the long-term benefits of adopting such strategies.

"Active ownership is ultimately about creating financial value, and delivering value for society through the company's corporate activity", said UKSIF chief executive Penny Shepherd, speaking at the event.

"But also, looking through an investment lens, ṣit's aboutṭ providing end investors and end savers with superior risk-adjusted returns over the long-term. So that's what we're trying to achieve."

Also giving a short address was John Kay, the British economist who last year produced a report – at the request of the government – into equity markets and long-term decision-making.

The Kay review, as it's known, criticises the financial services industry for its short-term outlook, and says that a lack of long-term sustainability was damaging to the economy.

With regards to ownership, the report suggested that the UK's fund management industry had been at fault when trying to match long-term capital with long-term opportunities.

In his Ownership Day speech, Kay said emphasised the importance of maintaining strong relationships between companies and investors, saying that these were crucial in bringing about prosperity for the business and thus, the returns necessary to enable investors to take long-term views.

He added, "The central purpose of companies is to produce goods and services that people want. That seems obvious, but we tend to forget that.

"It's not to create shareholder value; it's not to make profits – these are a proper and necessary part of business activity – but in the end, the social, business and economic purpose is to

LIBERAL DEMOCRAT MP MARTIN HORWOOD, VICE-CHAIR OF THE ALL-PARTY PARLIAMENTARY GROUP FOR RESPONSIBLE INVESTMENT

produce goods and services that people want, and to do so in a manner that gives satisfying employment to the people who work for these organisations; in a manner that contributes to the communities in which they operate and in a manner that pays an appropriate share of tax.

"A successful company that does all of these things, and what we're trying to do through Ownership Day is to create an environment in which the link between the saver and the company facilitates the building of great companies to do all of these things."

Lib Dem MP Martin Horwood, vice-chair of the all-party parliamentary group for responsible investment, had provided remarks at the beginning event, and at one point, labelled the fact that the parliamentary pension fund hadn't yet signed the UK Stewardship Code as "pretty pathetic".

UKSIF hopes Ownership Day will become an annual event, and given the encouraging support shown for this year's inaugural gathering, there's no reason why it can't do just that.

It's clear there is a genuine market demand for good, active ownership among shareholders. The next step – and what Ownership Day was created for – is to highlight the long-term financial benefits of such strategies to both companies and investors.

PROFESSOR JOHN KAY, ECONOMIST AND AUTHOR OF THE KAY REVIEW INTO EQUITY MARKETS AND LONG-TERM DECISION-MAKING

YOUR MONEY, YOUR VOICE: ACTIVE OWNERSHIP

BY SIMON LEADBETTER

IN THE BEGINNING, OWNER-MANAGERS RAN THEIR OWN BUSINESSES USING THEIR OWN MONEY. THEN A GROUP OF PERSUASIVE ENTREPRENEURS SOLD SHARES TO PEOPLE THEY KNEW. THIS ALLOWED THEM TO RAISE FUNDS SO THEY COULD INVEST IN MORE CAPITAL. IN TURN, THIS MEANT THAT THEY COULD AFFORD TO GROW THEIR BUSINESSES FASTER THAN THEY COULD GROW ON THEIR OWN.

Over time, the business-owner-investor relationship became more distant as owners delegated the running of their organisations to a managerial bureaucracy and allowed those managers to run their investments and businesses.

Finally, they spread their risk over multiple ventures in multiple sectors across multiple territories through multiple money managers. This meant their 'ownership' of any one organisation was reduced to fraction of a decimal of a per cent, often held for a short fair weather period and with no interest in the actual function of the company.

For the time being, the active owner was dead, apart from in small- to medium-sized enterprises (SMEs) and some very rare large ones. Business strategy and management was devolved to a managerial bureaucracy whose own tenure was often short-term and whose sole goal was to maximise profit by all means necessary, in the time they had.

This model seemed to serve society tolerably well as our own economy grew: shareholders earned dividends and saw the value of portfolios rise; households became more affluent and there was plenty of stuff to go around.

Then in 2007, the system failed catastrophically, as it had failed with remarkable regularity over the previous 80 years.

Prudent checks and balances in the system had been abandoned in the 1970s and 1980s. Capital had become hypermobile across industries and borders. Financial speculation became an end in itself, rather than a means of creating real investment in real businesses.

In the pursuit of profit, any remaining responsibilities to the environment and societies from which these companies emerged were forgotten. Costs like environmental protection, expensive home-grown employees or the taxes that housed, educated or healed them had to be avoided.

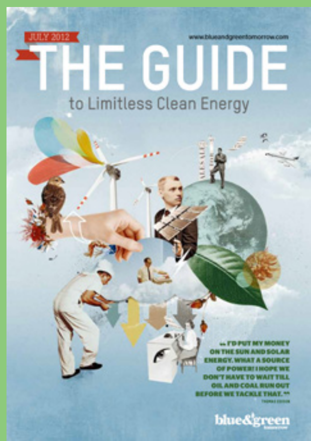
There were to be no limits to growth. Institutional investors and the managerial bureaucracy conspired to game the system to their advantage. They sat on each other's remuneration committees,

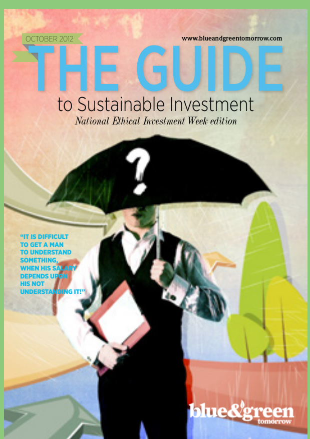
owning stakes in each other as a cosy cartel. This allowed them to guarantee escalating rewards regardless of business or share performance. The owner or individual investor was sidelined, alongside the home-grown employee and customer, as their stakes in the businesses became irrelevant against the scale of financial speculation.
By 2010, for every $1 of real trade, $26 was speculated financially.
There are some who would argue that this failure of capitalism is systemic and inevitable. To a certain extent they are right: markets are unregulated and if shareholders can or wish to, they can exert no influence over their holdings. If management bureaucracies are free to ignore shareholder votes, they will.
However, those who see the failure of capitalism as a good thing tend not to live in the countries that been recent beneficiaries of free trade, or have a very weak grasp of history and the downsides of alternative systems.
But capitalism and the foundation of equity investment both need to return to their mercantile and innovator roots. Owners of companies, the majority of whom are institutional investors, need to exert greater influence over, and engage with, their holdings' managerial bureaucracies.
They should demand higher performance, environmental, social and governance (ESG) standards. If for no other moral or ethical reason it will protect their investment in a resource scarce, polluted, less stable world.

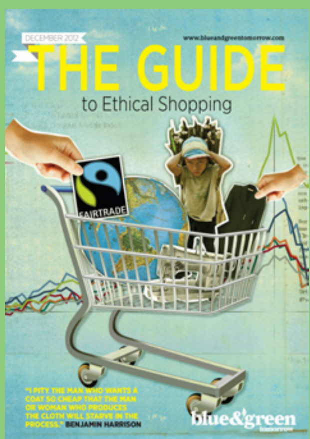
"AS INDIVIDUAL INVESTORS, WE CAN DEMAND THAT THOSE FUNDS WE INVEST IN EXERT THIS INFLUENCE, OR NOT INVEST IN THEM

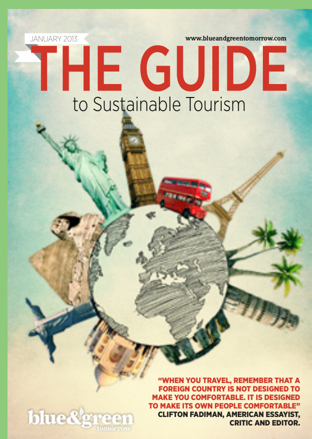
As individual investors, we can demand that those funds we invest in exert this influence, or not invest in them. We have regularly argued that we live in an incredible time of limitless information and connectivity.
If you are lucky enough to have a portfolio, you have three votes in our economy compared to most people's two – as a voter (every five years or so), as a consumer (every day) and as an investor (at least every March), whether directly or through a proxy. It's up to you to make all three count.

PREVIOUS *reports*









The Guide to Ownership is the third Blue & Green Tomorrow guide of the year, and our 10th overall - the most recent of which was The Guide to Sustainable Investment 2013. Click on the respective cover to read each one.

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ACTIVE OWNERSHIP: PROTECTING AND GROWING ASSETS FOR THE LONG-TERM

THE UK'S FIRST OWNERSHIP DAY TOOK PLACE ON MARCH 12, AND WAS CELEBRATED WITH A RECEPTION AT THE HOUSE OF COMMONS [SEE PAGE 6]. THE IDEA FOR SUCH AN EVENT CAME FROM THE UK SUSTAINABLE INVESTMENT AND FINANCE ASSOCIATION (UKSIF), WHO RECEIVED BACKING FROM FUND MANAGERS, FINANCIAL ADVISERS AND FINANCIAL INSTITUTIONS.

Active ownership, according to UKSIF, is about creating financial value and providing investors with superior risk-adjusted returns over the long-term. The event's creation was heavily influenced by the government-commissioned Kay review, which accused the financial services industry of short-termism when published last year.

A few weeks before Ownership Day, Penny Shepherd, chief executive of UKSIF, took some time out to answer a few questions about all things ownership from Blue & Green Tomorrow.

> "ACTIVE OWNERSHIP IS IN THE INTERESTS OF INVESTORS, COMPANIES AND SOCIETY BECAUSE IT ENCOURAGES A GREATER FOCUS ON EFFECTIVE LONG-TERM WEALTH CREATION

> **BY UNDERSTANDING AND DEMANDING HIGH-QUALITY OWNERSHIP, YOU ENCOURAGE INVESTMENT MANAGERS TO COMPETE ON THAT, RATHER THAN COMPETING ON THEIR ABILITY TO OUTPERFORM AN ARBITRARY INDEX**

What does ‘ownership’ mean to you?

The purpose of Ownership Day is to raise awareness of the value of active ownership strategies by investment professionals. These protect and grow the value of investments by ensuring that companies and other investments focus on long-term wealth creation. This includes active ownership on environmental, social and governance (ESG) issues, but is not restricted to it.

Government and regulators are encouraging active ownership. Last year has seen a new version of the Stewardship Code with a stronger focus on the role of asset owners in increasing demand. And also the Kay review, with its analysis of the pressures towards short-termism in the investment chain.

What role does ownership have in protecting the value of assets?

It’s about investors overseeing how companies are managed to achieve that aim, and countering the pressures on company management from others within the investment chain to focus inappropriately on short-term returns at the expense of long-term value.

What would be the key benefit of private and institutional investors being more engaged with their financial intermediaries and asset managers?

By understanding and demanding high-quality ownership, you encourage investment managers to compete on that, rather than competing on their ability to outperform an arbitrary index over, say, the next three months.

That focus on long-term value is more in the interests of private investors that are saving for the long-term than a focus only on short-term return.

Indeed, some would say that good ownership is even more relevant alongside passive management than active management. If you are investing in a passive index, you are obliged to hold particular shares and therefore it makes sense that your fund manager engages with companies to protect the value of those shares, because they don’t have the option of selling them. But, of course, it also makes sense for active managers as well.

What will ownership look like in 10 years’ time?

I hope private investors and their advisers will be selecting investment managers based on their skills in holding companies to account, as well as or instead of their skills in stock selection.

Any final comments about ownership?

Active ownership is in the interests of investors, companies and society because it encourages a greater focus on effective long-term wealth creation. But ultimately, the benefits will be achieved only if it is demanded and valued by the pension funds, insurance companies, financial advisers and private investors that drive investment management. That is why we have launched Ownership Day to highlight good practice and support increased demand.

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UKSIF
UK Sustainable Investment and Finance Association

Write for us....

Whether anonymously, under a pseudonym, or with your name published loud and clear.

Journalism is changing rapidly through a digital and social media revolution. It is no longer the preserve of press barons and elite groups; journalism is now democratic and everyone has a voice.

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The role of media has changed. We still write stories every day about the amazing people and organisations that make a positive difference to the world in which we live, but we also promote and publish the most relevant blogs, tweets and articles from our readers.

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Essential intelligence on sustainable investing and living

EQUITY, SHARES AND THE STOCK MARKET: A GUIDE

BY NICK SLAWICZ

HISTORY

The importance of stock trading to the development of European finance in the Middle Ages is difficult to overstate.

Prior to the large-scale adoption of shared equity practices, large investments – such as that needed to, for example, build a merchant trading ship – were only available to very wealthy families or individuals. In essence, this meant that only those who were already extremely rich had access to investments that would further increase their wealth, while those who had limited funds were locked out of businesses that would help them increase their status: in effect, a case of feudalism by the back door.

The emergence of stock markets and shared capital investments served as a great leveller, allowing many more people the opportunity to boost their livelihoods, resulting in the rise of the mercantile classes and wealthier nations overall: more individual wealth produced greater tax revenues, and (coupled with an increased demand for skilled labourers such as shipbuilders) allowed nations that adopted stock trading practices to prosper on the global stage.

It is no coincidence that the Netherlands, home of the Amsterdam Stock Exchange (considered to be the oldest in the world), became a maritime superpower in the hundred years after its formation.

However, this period also saw the first stock bubble, in the form of Amsterdam's 'tulip mania'. In the early part of the 17th century, newly-introduced tulips became a marker of conspicuous consumption, allowing prices to skyrocket: thanks to the creation and importance of the stock exchange, trading in tulip bulb futures allowed people to invest without even seeing the bulbs they were buying and with no physical assets ever trading hands.

The result was that fortunes were made and lost within days as speculation ran riot, and that when the bubble eventually collapsed in February 1637, tulip bulb prices fell dramatically, sometimes to as low as 1% of their highest value. The effect was so severe that the phrase 'tulip mania' is now often used for any situation where intrinsic value and asset prices diverge dramatically.

The 19th and 20th centuries saw the increasing domination of the stock market in the field of international finance, with the New York Stock Exchange on Wall Street taking the lion's share of trading with a market capitalisation of over $14 trillion (by comparison, the London Stock Exchange has a market capitalisation of just under $3.4 trillion).

However, there were distinct downturns in the power of the stock market during this period. One of the most important was the dotcom bubble of the late 1990s. As can be seen in the NASDAQ 100 Index chart (traditionally a very tech-heavy index) ȿFigure 1ț, the downturn in stock prices was significant, and prices are still nowhere near as high as they were just over a decade ago, when the novelty of internet start-ups resulted in another example of tulip mania: a situation where services such as Amazon (although extremely profitable) could not match the extraordinary expectations being placed upon them.

Several high-profile companies folded as a result of the crash in their share price (including boo.com), and others took heavy losses from which they never recovered. That said, there were individual winners: Mark Cuban, founder of Broadcast.com, sold his company to Yahoo! before the bubble burst for $5.9 billion in stock, and Amazon (who had seen its stock fall from $107 to $7 per share as a result of the downturn) later more than doubled its previous highest stock price.

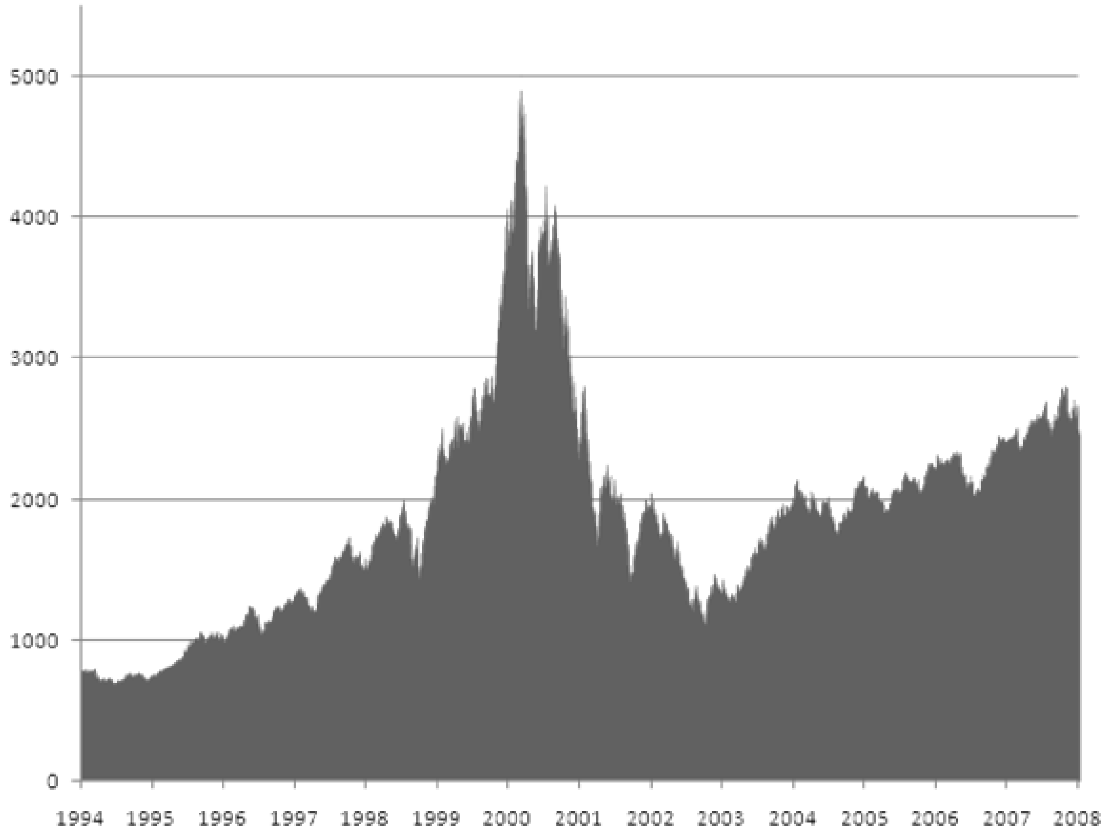


FIGURE 1: EFFECT OF THE DOTCOM BUBBLE ON THE NASDAQ 100 INDEX

Despite the dotcom bubble and other periods of recession (for example, the Wall Street Crash of 1929, Black Tuesday in 1987 and as a result of the 2008 global debt crisis), there has been a general upwards trend in the stock market as a whole: the Dow Jones Industrial Average (an index that shows how 30 large publicly owned companies based in the US have traded during a standard trading session in the stock market, widely considered to be one of the best measures of stock market activity) is currently at one of its highest points ever.

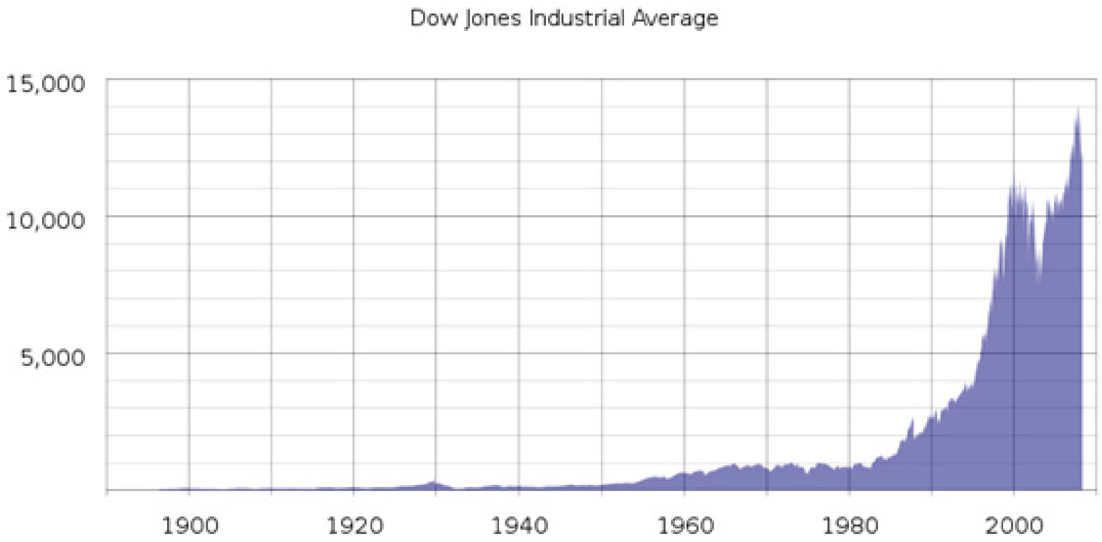


FIGURE 2: DOW JONES INDUSTRIAL AVERAGE (HISTORICAL)

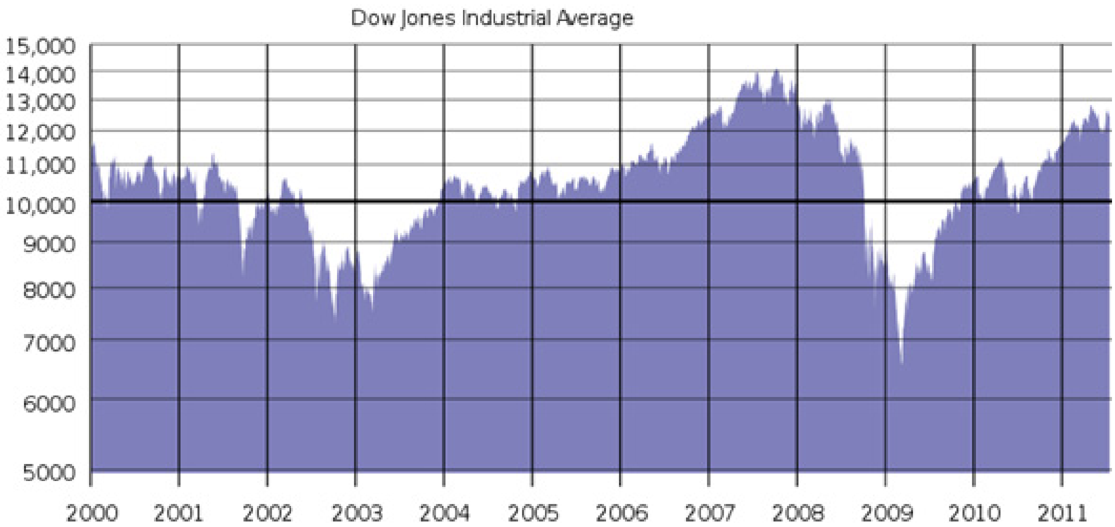


FIGURE 3: DOW JONES INDUSTRIAL AVERAGE (2000-2011)

As can be seen from the colossal dip in early 2009, it is clear that the global debt crisis – which resulted in the loss of several of the US' oldest financial institutions and shook the world's faith in the security of large-scale financial investments – had a severe impact on the stock market (the Dow lost a third of its value in six months).

However, this downturn was relatively short-lived, and in recent years prices have rebounded almost to pre-crisis levels. The FTSE 100 (the rough UK equivalent of the Dow, based on the 100 companies listed on the London Stock Exchange with the highest market capitalisation) shows similar improvements, and in early March 2013 peaked at its highest rate in five years.

This rebirth is, in part, due to a renewed confidence in investment practices a whole, but also partly due to a perceived toxicity in the housing market: thanks to high prices and the scandal surrounding subprime mortgages in America, many investors have switched from real estate investing to stocks and shares, impacting prices all over the globe.

As if to prove the cyclical nature of stock investments, once again we see a situation where unfeasibly high prices for assets such as housing are increasingly forcing middle-class investors to use the stock market in order to make a profit.

THE ROLE OF THE INVESTOR

As stock markets – like any other – are driven by supply and demand, the first role of the investor is whether or not to invest in a given stock. Buying a share of a company and receiving its dividends supports the organisation and its business practices, and as such it is often a serious consideration for potential buyers – sometimes even over and above the size of the profit the stock is expected to generate.

Surveys reported by the Josephson Institute Centre for Business Ethics found that 80% of people in one study said they decide to buy a firm's goods or services partly on their perception of its ethics, and 74% said their perception of a firm's honesty directly affects their decision about whether to buy its stock.

However, owning stock in a company allows an investor at least some say in how the company is run. Buying shares provides the revenue that allows the company to continue; by investing money, you own not just a share of the profits, but a share of the company itself, and the company is beholden to act in the best interests of its shareholders. This generally implies that, even if a company would likely profit less from changing its business practices, if a majority of shareholders demanded it, then the organisation in question would have to at the very least seriously consider the proposal.

As an average investor, this influence is likely to be extremely small (although a single share is enough to get an investor into the company's shareholder meetings), but it is not unheard of for individuals to band together in a hedge fund in order to hold greater clout in the financial arena.

Groups such as Karmabanque have actively sought to manipulate the stock market in order to bring about social change, punishing companies that they feel are not acting in an ethical manner. The result – a 'socially responsible' investment market valued in the trillions of dollars – increasingly demonstrates the importance of the stock investor in dictating company policy.

THE FUTURE OF THE STOCK MARKET

While speculations on the future of the stock market are often considered to be unreliable due to its generally volatile nature and the increasing rapidity with which changes can occur, there are some points of interest worth noting.

Tech stocks

In the late 1990s, penny stocks in tech companies

were widely believed to be the way to make a fortune on the market. Nowadays, the biggest value in tech stocks appears to be in the stable giants: an MSN Money feature recently listed the 'big four' as being Amazon, eBay, Cisco Systems and Oracle, all of which have now been around for years.
However, it is important to note that the very biggest names – Apple, Google and Facebook – do not feature, due to their monolithic nature making initial investment too expensive, as well as (in the latter case, given Facebook's plunge from its IPO) doubts about long-term sustainability.
Instead, hope for the future of tech stocks seems to largely be in future technologies rather than provision of new services or websites – for example, some estimates state that global cloud computing traffic will make up 64% of total data centre traffic by 2016, up from 29% in 2011, prompting suggestions from some quarters that companies working towards technological innovations in this field might be worth watching out for. This also opens the market up for advancements in sustainable technology such as solar power and other renewable, which have yet to have a significant impact.

Equity crowdfunding

Equity crowdfunding is a relatively recent development in investing, with the first FSA-approved system becoming available only in Spring of 2012. The Abundance Group, described as being "like a building society for low-carbon technology", works as a combination of a hedge fund, a building society and a microfinance website such as Kiva, which historically has done a lot of its work in third world or developing countries.
Equity crowdfunding allows users to bypass the route of the traditional stock market, instead allowing for investment in companies that need the money most (often start-ups, as – assuming they become successful – they generally have a higher rate of return than more established companies).
In return for an investment in a small share of the company, the investor receives an equivalent share of assets, profits and debt accrued by the organisation.

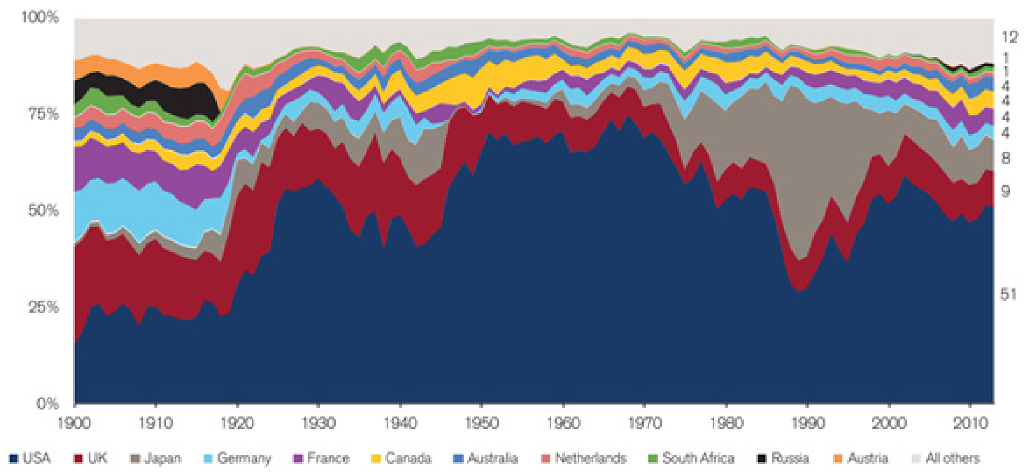
This has several advantages:

- Buying shares after their IPO does not benefit the company directly, but instead provides profit for the person who previously held the stock. Investment in an organisation through equity crowdfunding provides direct support for the company in question
- There are generally significantly fewer costs involved (for example, the 8-10% brokerage cost of stock market investment)
- It provides an increasing democratisation of investment in much the same way the earliest stock markets did, allowing investors with little initial capital to use their money, rather than relying on low bank interest rates

National splitting

Country equity capitalization proportions in the 22-country world equity index, 1900–2012

Source: Elroy Dimson, Paul Marsh, and Mike Staunton, DMS database



Since around 2005, the relative equity capitalisation proportions of countries around the world have stayed relatively stable, suggesting that the economic downturn has truly affected the entire globe. Canada has made slight gains over the past five or so years, but ultimately it seems that the markets have entered into a period of stability relative to each other, with the United States making up approximately half of global equity capitalisation, down from a peak of approximately 70% in the 1960s, but up from approximately 30% during the Japan-oriented tech boom of the 1990s.

WITH STEVE WAYGOOD, CHIEF RESPONSIBLE INVESTMENT OFFICER

AVIVA INVESTORS

What does 'ownership' mean to you?

In the context of investment, ownership means being engaged with the companies that you own, understanding the management's vision, strategy, plans and forecasts. It includes ensuring that the board sets clear values and standards, and ensures that they are understood and well met.
It also includes supporting good practices and, equally, challenges poor performance when necessary, using annual general meeting (AGM) votes as appropriate to the issue – and integrating a deep understanding of all of these elements into the valuation work conducted on the company.

WHAT ROLE DOES OWNERSHIP, IN THE SENSE YOU DESCRIBE, HAVE IN PROTECTING THE VALUE OF ASSETS?

IT IS OBVIOUS THAT A BETTER UNDERSTANDING OF THE PLANS AND QUALITY OF THE MANAGEMENT HELPS PLACE A BETTER VALUE ON THE COMPANY. WE ARE EQUALLY CLEAR THAT GOOD GOVERNANCE AND RESPONSIBLE BUSINESS CONDUCT ADDS VALUE TO SHAREHOLDERS IN THE LONG-TERM.

> "IT IS OBVIOUS THAT A BETTER UNDERSTANDING OF THE PLANS AND QUALITY OF THE MANAGEMENT HELPS PLACE A BETTER VALUE ON THE COMPANY

Is high-quality ownership mainstream? And if not, how could it become so?

At the moment, high-quality ownership is the exception rather than the norm, but this is becoming less true as individual and institutional investors are asking more questions. The key issue, though, remains the free rider problem, i.e. if we engage with a company as owners and are successful in advocating, for example, value enhancing governance changes, then all investors benefit, regardless of whether they contributed towards the costs of engagement. This free rider problem is a market failure.
To use economics jargon, ownership engagement is a non-excludable public good – and it is the role of governments to correct market failures. This is why it is so important that the government continues to focus on correcting the ownership market failure via measures such as the Stewardship Code, as it is beginning to work.

WHAT WOULD BE THE KEY BENEFIT OF PRIVATE AND INSTITUTIONAL INVESTORS BEING MORE ENGAGED WITH THEIR FINANCIAL INTERMEDIARIES AND ASSET MANAGERS ABOUT WHAT IS BEING DONE TO PROTECT THE LONG-TERM VALUE OF THEIR INVESTMENT?

FUND MANAGERS WOULD BE HELD PROPERLY TO ACCOUNT BY THEIR CLIENTS FOR GOOD PERFORMANCE IN THIS AREA.

IF IT WERE TO BECOME A COMPETITIVE ISSUE, I.E. WITH CLIENTS PREFERRING RESPONSIBLE, ENGAGED FUND MANAGERS TO RUN THEIR PORTFOLIOS AND SIGNALLING THIS CLEARLY VIA THEIR CHOICES OF MANAGER - THEN THE MARKET WOULD DELIVER FAR MORE OWNERSHIP THAN IT DOES AT THE MOMENT.

> "OWNERSHIP MEANS BEING ENGAGED WITH THE COMPANIES THAT YOU OWN, UNDERSTANDING THE MANAGEMENT'S VISION, STRATEGY, PLANS AND FORECASTS

Looking into the future, what will ownership ideally look like in 10 years' time?

Responsible ownership would be a fiduciary duty for trustees; there would be a requirement on investment consultants to assess performance in this area and introduce it proactively into their advice; fund managers would be measured on their performance in this area, with good performance rewarded, and poor performance sanctioned; end investors would be able to see how their votes had been cast at AGMs, and would also have a good understanding of how their fund manager performs; and the national curriculum would include ownership as a core part of financial literacy.

The government has a clear role in a number of these areas.

All this would have led to far more responsible long-term investors in the market, supporting a far greater number of long term business decisions by the directors of the companies that investors elect to represent their interests.

WITH JAMES BEVAN, CHIEF INVESTMENT OFFICER

CCLA

WHAT DOES ‘OWNERSHIP’ MEAN TO YOU?

Ownership involves the provision of capital and the taking of risks, and carries both rights and responsibilities.

“OWNERSHIP INVOLVES THE PROVISION OF CAPITAL AND THE TAKING OF RISKS, AND CARRIES BOTH RIGHTS AND RESPONSIBILITIES

WHAT ROLE DOES OWNERSHIP, IN THE SENSE YOU DESCRIBE, HAVE IN PROTECTING THE VALUE OF ASSETS?

OWNERSHIP HAS A PROFOUND ROLE IN PROTECTING THE VALUE OF ASSETS, REQUIRING AND ENGAGING WITH MANAGERS TO ADDRESS FINANCIAL AND NON-FINANCIAL RISKS AND OPPORTUNITIES, INCLUDING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS.

Is high-quality ownership mainstream? And if not, how could it become so?

Alas, high-quality ownership, by which we mean informed, engaged and active participation in determining the practices and activities that will be applied to concerns and assets, is all too rare.

There have been steps forward in recent years to address the shortfall, with new corporate regulations, fresh voluntary codes, and a ground swell of owner recognition that leaving managers to their own devices is not appropriate or acceptable.

Looking forward, it is critical that owners recognise and actively discharge their responsibilities, and this can be encouraged through the raising of awareness of what is required and what can and must be achieved, the building of collaborate groups to share agendas.

An ongoing commitment by corporate boards to best practice checks and balances and diversity is also key, as the board provides the focal point for owners to engage with management.

What would be the key benefit of private and institutional investors being more engaged with their financial intermediaries and asset managers about what is being done to protect the long-term value of their investment?

Disintermediation of the providers of capital and the management of concerns though the employment of third parties charged only with delivering financial returns to the asset owners, has led to short termism and a reduced focus on the responsibilities of ownership.

This inherent problem has been exacerbated by consideration of financial returns relative to benchmark indices or composites that assume a capital allocation without consideration as to whether such an allocation is prudent and responsible, and in particular the rise of passive investing, where allocations are made purely on the basis of valuations in markets.

Engagement by asset owners with their managers on the issues of long-term value would serve two purposes.

First, it would lead to a much more reasoned and prudent approach to considering capital allocation, stewardship and the true nature of management skill and effort, than can ever be achieved with focus on short time frame financial returns alone. This would lead to alignment between owners and their asset managers with points of common focus, clearly designed to maximise long-term sustainable shareholder value and returns.

Secondly, it would lead to more and higher quality engagement between asset managers and business managers of the underlying investments, focused on the rights and responsibilities of the asset owners. By extension we should expect improved management oversight and the benefits of active ownership, as if the owners were engaged directly with the underlying companies.

Looking into the future, what will ownership ideally look like in 10 years' time?

We may hope that in 10 years' time, ownership is active, informed and engaged with focus on achieving sustainable long-term value, fully recognising and addressing risks and opportunities in the context of both the individual enterprise but also the broader societal, economic and natural environments.

In contemplating what ideal ownership will look like in 10 years' time, we must recognise that we will need to see board structures and functions evolve to provide appropriate governance control and challenge, and we may expect that there will be a requirement for coalitions of active owners to be strengthened and extended so that the ownership voice can be heard loudly and clearly.

> "WE MAY HOPE THAT IN 10 YEARS' TIME, OWNERSHIP IS ACTIVE, INFORMED AND ENGAGED WITH FOCUS ON ACHIEVING SUSTAINABLE LONG-TERM VALUE

F&C

WHAT DOES 'OWNERSHIP' MEAN TO YOU?

For F&C, ownership means using investor influence wisely to ensure companies we invest in take account of environmental, social and governance (ESG) risks to protect and enhance long-term value creation.

"THE GREATEST THING THAT WOULD ASSIST IN MAKING ACTIVE OWNERSHIP MAINSTREAM WOULD BE INCREASED PRESSURE AND SUPPORT FOR OWNERSHIP BY ASSET OWNERS SUCH AS PENSION FUNDS

What role does ownership, in the sense you describe, have in protecting the value of assets?

Ownership is vital for protecting the value of assets. For F&C, the main way that we can exercise ownership is through using our votes and our voice to encourage companies to manage ESG risks and capitalise on sustainability-linked opportunities. Our responsible engagement overlay service, Reo, is a global engagement and proxy voting service that can be applied across equities and corporate credit.

Through Reo, we seek to drive change in corporate ESG behaviour, policy and practice to create sustainable alpha through enhanced business performance.

We have exercised our ownership to protect the value of assets in our longstanding engagement of the banking sector, for example, encouraging banks to apply a credit quality underpin to bonuses, with the aim of incentivising strong risk management at banks following the financial crisis.

We have also exercised our ownership in our recent engagement of the food sector on food commodity price volatility and food safety, with the aim of encouraging food companies to effectively manage and protect their supply chains.

Is high-quality ownership mainstream? And if not, how could it become so?

High-quality ownership could be embedded further within the pension and investment industries, with more investors exercising ownership through engagement and proxy voting, and integration of ESG analysis into the investment process.

The greatest thing that would assist in making active ownership mainstream would be increased pressure and support for ownership by asset owners such as pension funds, alongside development of clear responsible investment policies.

Such investment policies would inform manager selection and investment management agreement clauses covering engagement, proxy voting and integration of ESG factors, including regular reporting to asset owners on these.

What would be the key benefit of private and institutional investors being more engaged with their financial intermediaries and asset managers about what is being done to protect the long-term value of their investment?

The key benefit would be that private and institutional investors would better protect the long-term value of their investments; encouraging intermediaries and asset managers to take account of ESG factors would help spot potential situations and events which might have an adverse impact on performance.

It is not always possible to spot these, but companies can be encouraged to align their ESG practices with global good practice, and to report transparently so that investors can scrutinise their approach.

Looking into the future, what will ownership ideally look like in 10 years' time?

Ideally in 10 years' time, the world's major investment institutions would all have responsible investment policies outlining their commitment to ownership and clear reporting on how they implement this.

They may have very different approaches ranging from infrastructure investment and sustainability theme-based investment to exclusions or ESG integration, but they would all have adopted a clear approach to ownership.

In other words, consideration of ESG-related risks and opportunities in investment decisions will be the norm.

"OWNERSHIP IS VITAL FOR PROTECTING THE VALUE OF ASSETS

F&C Investments

WWW.FANDC.COM

F&C IS AN INDEPENDENT INVESTMENT MANAGER.

WITH TOM ROTHERHAM, DIRECTOR AT HERMES EQUITY OWNERSHIP SERVICES

HERMES

WHAT DOES 'OWNERSHIP' MEAN TO YOU?

On the surface, ownership is the exercise of the rights granted to an investor to enable it to oversee and where necessary protect the use of its capital. However, an owner has more than a duty to protect as they bring a unique and necessary perspective to the process by which value is defined, created and protected.

Therefore, an owner has the ability to be an integral, although often unnoticed, part of the value creation process.

"A MARKET CANNOT EXIST WITH ONLY PASSIVE INVESTORS AND, BY THE SAME TOKEN, AN EFFICIENT MARKET CANNOT EXIST WITHOUT PASSIVE INVESTORS MAKING USE OF THEIR OWNERSHIP RIGHTS

What role does ownership, in the sense you describe, have in protecting the value of assets?

Capital markets are characterised by two factors: the agency dilemma and short-termism. Unaddressed, these characteristics can lead to sub-optimal decisions on strategy, capital allocation, and risk management – the cost of which is weaker value creation.

Agency and short-termism can be addressed, in part, through active ownership. In this sense, active ownership has two roles: it contributes over time to better decisions at the asset level and it can also contribute to more effective markets in the long-term.

Ownership has also taken on an additional role since the rise of passive, index-based investments products, which in effect 'rob' the market of the price signals provided by active buying and selling.

Voting and direct corporate engagement, the two primary mechanisms for the exercise by investors of ownership rights, are the only signal that a passive investor can send to the marketplace.

A market cannot exist with only passive investors and, by the same token, an efficient market cannot exist without passive investors making use of their ownership rights.

IS HIGH-QUALITY OWNERSHIP MAINSTREAM? AND IF NOT, HOW COULD IT BECOME SO?

We regard the ultimate fiduciary to be the body with ultimate responsibility for the exercise of ownership. In our context, this is most frequently the board of trustees of an asset owner, such as a pension fund.

As a result, high-quality ownership cannot be considered mainstream without it also being mainstream within the trustee community.

We believe that it is becoming more so, helped both by a clearer understanding amongst trustees of the investment rationale for ownership and by the codification of the expectations of owners in, for instance, Stewardship Codes.

There is one ultimate and one proximate cause for the mainstreaming of high-quality ownership. The ultimate cause is that asset owners develop the conviction that the long-term integrity of the capital markets requires a constant capacity and occasional exercise of owners' influence. Unfortunately, history suggests that this is unlikely in the absence of catastrophes – such as the global financial crisis, or the pending climate crisis – that make abundantly clear the risks that arise when agency and short-termism go unaddressed.

> **"AN OWNER HAS THE ABILITY TO BE AN INTEGRAL, ALTHOUGH OFTEN UNNOTICED, PART OF THE VALUE CREATION PROCESS**

HERMES

WWW.HERMES.CO.UK

HERMES IS A FUND MANAGER, SPECIALISING IN RESPONSIBLE INVESTMENT.

WHAT WOULD BE THE KEY BENEFIT OF PRIVATE AND INSTITUTIONAL INVESTORS BEING MORE ENGAGED WITH THEIR FINANCIAL INTERMEDIARIES AND ASSET MANAGERS ABOUT WHAT IS BEING DONE TO PROTECT THE LONG-TERM VALUE OF THEIR INVESTMENT?

BETTER LONG-TERM, RISK ADJUSTED RETURNS.

LOOKING INTO THE FUTURE, WHAT WILL OWNERSHIP IDEALLY LOOK LIKE IN 10 YEARS' TIME?

ON A CONCEPTUAL LEVEL, IN 10 YEARS' TIME WE HOPE THAT IT WILL BE RECOGNISED THAT MANAGERS WITH ACTIVE OWNERS PRODUCE BETTER LONG-TERM RISK-ADJUSTED RETURNS, AND SO OWNERSHIP WILL BE A FUNDAMENTAL PART OF FIDUCIARY DUTY. IT WILL ALSO BE RECOGNISED THAT A CAPITAL MARKET WITH ACTIVE OWNERS AS PARTICIPANTS IS A MORE EFFICIENT MECHANISM FOR CAPITAL ALLOCATION, AND SO PUBLIC POLICY WILL BETTER CREATE A MARKET ENVIRONMENT CONDUCIVE TO ACTIVE OWNERSHIP.

ON A PRACTICAL LEVEL, IT IS OUR HOPE THAT OWNERSHIP, AND THE INSIGHTS THAT ONE GAINS ABOUT A COMPANY THROUGH ACTING AS AN OWNER, IS MORE EFFECTIVELY INTEGRATED INTO BUY-SELL DECISIONS.

WITH EMMA HOWARD BOYD, SUSTAINABLE INVESTMENT AND GOVERNANCE DIRECTOR

JUPITER

What does 'ownership' mean to you?

In our view, active ownership is about fulfilling our stewardship responsibilities as shareholders. By this, we mean engaging with the companies that we invest in, and exercising our voting rights with care. Not only is this commensurate with good market practice, it goes hand in hand with ensuring the responsible investment of our clients' funds.

Ownership Day – which we hope will raise awareness of the benefits of active ownership strategies in investment management – is set in the context of continued attention on the role that shareholders play in promoting high standards of corporate governance.

Whereas shareholder rights were a focus of attention for many years, greater emphasis is now placed on shareholders' responsibilities. This is a welcome development that should help improve long-term returns for shareholders. In our view, shareholders have a vital role to play in encouraging a higher level of performance from the companies they invest in, by engaging with them on issues of significance to long-term performance.

What role does ownership, in the sense you describe, have in protecting the value of assets?

Our stewardship activities, including voting and engagement, have a vital role to play in enhancing the value of our client's investments.

As stated in our response to the UK Stewardship Code, we engage on any issue affecting the long-term value of a company in which it is invested, as appropriate.

Issues may include, but are not limited to, business strategy, acquisitions and disposals, capital raisings and financing operations, internal controls, risk management, board effectiveness and succession, shareholder rights, corporate responsibility, culture and values, and remuneration.

Is high-quality ownership mainstream? And if not, how could it become so?

The longer an investment horizon, the greater the incentive for investors to consider and engage with companies on the matters that affect their performance in the long-term.

In addition to our regular meetings with company management, we have an on-going programme of meetings with the chairmen of our core holdings to discuss their strategy, governance and approach to sustainability issues. These meetings form an important part of our routine engagement with companies, especially as a means of monitoring their progress against long-term strategies.

However, the Financial Reporting Council recently reported on the impact and implementation of the UK Corporate Governance and Stewardship Codes. They noted "a number of company chairmen said they were having more regular contact with shareholders and that the interest of the latter in discussing strategy had increased. However, the interest varied from institution to institution, and the consensus view was that, while those who had traditionally been involved in engagement had raised the standard of their engagement, there was little sign of greater numbers being involved."

WHAT WOULD BE THE KEY BENEFIT OF PRIVATE AND INSTITUTIONAL INVESTORS BEING MORE ENGAGED WITH THEIR FINANCIAL INTERMEDIARIES AND ASSET MANAGERS ABOUT WHAT IS BEING DONE TO PROTECT THE LONG-TERM VALUE OF THEIR INVESTMENT?

Reporting on the impact and implementation of the UK Corporate Governance and Stewardship Codes, the Financial Reporting Council recently noted, "The development of a stewardship culture among investors is not something that happens overnight… Stewardship needs to develop further."

A primary benefit of asset owners challenging their asset managers about what is being done to protect the long-term value of their investment would help to achieve this.

> **THE LONGER AN INVESTMENT HORIZON, THE GREATER THE INCENTIVE FOR INVESTORS TO CONSIDER AND ENGAGE WITH COMPANIES ON THE MATTERS THAT AFFECT THEIR PERFORMANCE IN THE LONG-TERM**

JUPITER

WWW.JUPITERONLINE.COM

JUPITER IS A FUND MANAGER, FOUNDED IN 1985.

Looking into the future, what will ownership ideally look like in 10 years' time?

Some investors will begin to consider stewardship capabilities of asset managers alongside their performance track records when choosing managers, with investment intermediaries supporting investors to do this. Greater transparency and reporting by asset managers will be key to this.

For us, attention will increasingly shift from quantity to quality. A survey by FairPensions in 2010 found that two in five UK investment managers made no information publicly available about stewardship activities. We expect improvement in this figure over time, thanks to initiatives such as the UK Stewardship Code, which specifically includes a principle that says, "Institutional investors should report periodically on their stewardship and voting activities".

However, we see Ownership Day as an opportunity for dialogue around how to improve the quality of information that asset managers provide asset owners with regarding their stewardship activity.

WITH SARAH WILSON, CHIEF EXECUTIVE

MANIFEST

WHAT DOES 'OWNERSHIP' MEAN TO YOU?

Ownership – or better still, stewardship – is the concept that separates trading from investing. Once an investor becomes an owner, they have an important part to play in monitoring, supporting and encouraging their investee companies to maximise their potential.

What role does ownership, in the sense you describe, have in protecting the value of assets?

Boards are responsible in law for the promotion of the success of their companies in the widest possible context with shareholders and stakeholders being part of their operating environment.

Shareholders have particularly important rights which they can exercise to support that success – active monitoring and oversight being just one of them, but voting at the shareholder meetings is the most obvious way of holding boards and auditors to account for their actions.

We have seen too many case studies in the past of boards taking unnecessary short term risks to appease market demands when instead they would have fared better by focussing on their long term intrinsic owners the 'patient capital'.

Active, responsible ownership is key to understanding risks as well as identifying opportunity, and that means taking responsibility for acquiring good information and evaluating the best action to take.

Is high-quality ownership mainstream? And if not, how could it become so?

It's not as mainstream as it should or could be. We're dealing with some legacy issues from previous generations whose terms of reference just didn't include ownership; if you didn't like what a company was doing, you simply sold the shares.

Pension Trustees are under considerable pressure on a range of fronts and often ownership has fallen through the cracks. Difficult markets make informed stewardship even more important, though, and investors are looking for safe returns as much as anything else – but no amount of regulation will substitute for active monitoring.

Historically there was a trend to outsource ownership through collective bodies, which has limitations, particularly as ownership has become much more geographically dispersed. Issuers (companies) appreciate one to one dialogue with their owners rather than just a consensus view which may itself be a compromise.

Ownership can sometimes appear overwhelming and complicated with an alphabet soup of acronyms and initiatives. This is where the ownership debate could be more help and Ownership Day is a great way of getting down to the fundamental core issues and help asset owners get to grips with its potential.

With so much information so easily available in this multimedia age, there is a tremendous opportunity for responsible owners to demonstrate the value of their approach, not just in terms of the positive impact a well-informed, discerning long-term approach to investing can have, but also in contrast to the volatility that high speed and algorithmic trading fosters.

What would be the key benefit of private and institutional investors being more engaged with their financial intermediaries and asset managers about what is being done to protect the long-term value of their investment?

Just as boards respond to their investors monitoring, so fund managers respond to their clients monitoring of their delegated fiduciary acts. Very often, if fund managers don't know their clients want a better service they just won't know where to start. More often than not, once the subject is broached, discussed and understood, everyone is pleasantly pleased how painless the transition was and how much more the fund managers get from the process than they originally thought.

There is nothing better than competition for improving service, and competition is driven by clients using their influence as paying customers to demand the best. Better and more engagement by investors towards their fund managers is helping to spur new and more dynamic approaches to ownership.

"WE'RE DEALING WITH SOME LEGACY ISSUES FROM PREVIOUS GENERATIONS WHOSE TERMS OF REFERENCE JUST DIDN'T INCLUDE OWNERSHIP; IF YOU DIDN'T LIKE WHAT A COMPANY WAS DOING, YOU SIMPLY SOLD THE SHARES

LOOKING INTO THE FUTURE, WHAT WILL OWNERSHIP IDEALLY LOOK LIKE IN 10 YEARS' TIME?

In the first instance, we'd hope to see that companies have come to terms with the fact that shareholders, while supportive of management for the most part, are sometimes not going to agree with their boards (or each other). Instead of the sometimes fractious and antagonistic responses from boards we will see a much better dialogue with improved communication all round.

Closer integration between the governance teams and the fund management teams is going to be an essential part of that. Where in some jurisdictions we see environmental, social and governance (ESG) treated as a compliance function or a style, we'd like to see a fully integrated, holistic approach to investment.

We'd also hope that investors will have an eye on the long term, so that fund managers and issuers alike are able to focus less on the minutiae of the next quarterly report and more on sustainable returns.

WITH AMANDA YOUNG, SRI OFFICER

NEWTON

WHAT DOES 'OWNERSHIP' MEAN TO YOU?

AS AN INVESTMENT MANAGER, OWNERSHIP IS ABOUT BEING A GOOD STEWARD OF OUR CLIENTS' ASSETS. THAT INCLUDES UNDERSTANDING ALL THE SIGNIFICANT RISKS FOR THE BUSINESS, INCLUDING THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS. THROUGH DEDICATED ANALYSIS AND A PROACTIVE APPROACH TO ENGAGING WITH THE COMPANIES IN WHICH WE INVEST, THESE RISKS ARE UNDERSTOOD AND FACTORED INTO THE INVESTMENT RATIONALE.

NEWTON REGULARLY SPEAKS WITH ITS INVESTEE COMPANIES TO ENCOURAGE IMPROVEMENT OF DISCLOSURE AND MANAGEMENT OF ESG MATTERS. IN ADDITION, NEWTON'S RESPONSIBLE INVESTMENT TEAM IS CHARGED WITH EXERCISING VOTING RIGHTS.

WHAT ROLE DOES OWNERSHIP, IN THE SENSE YOU DESCRIBE, HAVE IN PROTECTING THE VALUE OF ASSETS?

Intrinsic to the understanding of the potential of an investment is an appreciation of the quality of the company's management structure, the appropriateness of its internal controls and the assurance that ESG matters are managed to the benefit of long-term shareholder value.

Newton believes that responsibly managed companies are best placed to achieve sustainable competitive advantage and provide long-term growth. By understanding how a company manages all aspects of its business, we believe clients' assets should be afforded a level of protection from an increase in regulation, reputational damage, litigation and environmental matters.

> **"BY UNDERSTANDING HOW A COMPANY MANAGES ALL ASPECTS OF ITS BUSINESS, CLIENTS' ASSETS SHOULD BE AFFORDED A LEVEL OF PROTECTION FROM AN INCREASE IN REGULATION, REPUTATIONAL DAMAGE, LITIGATION AND ENVIRONMENTAL MATTERS**

IS HIGH-QUALITY OWNERSHIP MAINSTREAM? AND IF NOT, HOW COULD IT BECOME SO?

HIGH-QUALITY OWNERSHIP IS ON ITS WAY TO BECOMING MAINSTREAM. OVER 1,000 ASSET OWNERS, ASSET MANAGERS AND RESEARCH PROVIDERS ARE NOW SIGNATORIES TO THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI). THE PRI IS NOW AN ACCEPTED INDUSTRY BODY THAT FACILITATES AND PROMOTES RESPONSIBLE INVESTMENT.

THROUGH THIS COMMITMENT, INVESTMENT PROFESSIONALS ARE RECONSIDERING THEIR INVESTMENT STRATEGIES AND OWNERSHIP RESPONSIBILITIES. A NUMBER OF CODES AND STANDARDS HAVE BEEN INTRODUCED WHICH PROMOTE GOOD OWNERSHIP PRACTICES, SUCH AS THE STEWARDSHIP CODE.

THE CONTINUED INTRODUCTION OF SUCH CODES BY INTERNATIONALLY RECOGNISED FINANCIAL REGULATORS AND OTHER BODIES WILL CONTINUE TO PROMOTE HIGH-QUALITY OWNERSHIP PRACTICES.

> **"IF CLIENTS ARE REQUESTING MORE EVIDENCE OF HOW RESPONSIBLE OWNERSHIP PRACTICES ARE ADOPTED AND IMPLEMENTED, THE INVESTMENT MANAGEMENT INDUSTRY WILL EVOLVE TO MEET ITS CLIENTS' NEEDS**

NEWTON
The Power of Ideas
WWW.NEWTON.CO.UK

NEWTON IS A GLOBAL INVESTMENT MANAGEMENT FIRM.

What would be the key benefit of private and institutional investors of being more engaged with their financial intermediaries and asset managers about what is being done to protect the long-term value of their investment?

The asset management industry should treat its customers fairly and take good care of its clients' assets. If clients are requesting more evidence of how responsible ownership practices are adopted and implemented, the investment management industry will evolve to meet its clients' needs.

Looking into the future, what will ownership ideally look like in 10 years' time?

In 10 years, ESG matters should be routinely factored into all investment decision making processes. All investment managers should be able to demonstrate how ownership practices are part of their decision making. Regular reporting should be an industry norm, whereby asset managers are able to demonstrate how their analysis and engagement has mitigated risk and encouraged good corporate behaviour.

VIGEO

WHAT DOES 'OWNERSHIP' MEAN TO YOU?

OWNERSHIP MEANS HAVING AN INVESTOR WHO KNOWS HIS OR HER ROLE AS A GUIDING FORCE FOR ASSET MANAGERS; AND GIVES GUIDANCE ON THE INFLUENCES WHICH THEY WISH TO IMPACT INVESTMENT DECISIONS RELATING TO THEIR ASSETS.

THE RESPONSIBLE INVESTOR ENGAGES IN A DIALOGUE WITH HIS MANAGERS, BUT ALSO WORKS TO GUIDE VOTING IN SHAREHOLDERS' GENERAL ASSEMBLIES.

VIGEO SUPPORTS ASSET OWNERS AND MANAGERS IN THE INTEGRATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO THEIR INVESTMENT RULES.

UNDERSTANDING THE POSSIBLE IMPACT OF THESE FACTORS IS FOR MANY INVESTORS A NECESSARY COMPLEMENT TO USING FINANCIAL DATA ALONE TO UNDERSTAND THE LIKELY FUTURE VALUE OF ASSETS OWNED, AND AN IMPORTANT PART OF BEING A RESPONSIBLE OWNER.

WE ADVISE AND GIVE OWNERS THE TOOLS NECESSARY TO MAKE EXPLICIT THE ESG EXPECTATIONS TO BE PLACED ON THEIR MANAGERS TO ENSURE INVESTMENTS ARE RELIABLY CARRIED OUT.

WHAT ROLE DOES OWNERSHIP, IN THE SENSE YOU DESCRIBE, HAVE IN PROTECTING THE VALUE OF ASSETS?

VIGEO BELIEVES THAT RESPONSIBLE OWNERSHIP WILL RECONNECT A COMPANY WITH THE INVESTOR, WHICH IN TURN INCREASES THE LIKELIHOOD OF THE INVESTOR NEEDS BEING MET – IN PARTICULAR, THE LONG-TERM INVESTMENT NEEDS OF PENSION FUND INVESTORS.

THE INTEGRATION OF ESG IS INCREASINGLY CONSIDERED AS A NECESSARY STEP IN THE TRADITIONAL RISK-RETURN MODEL AS IT HIGHLIGHTS OTHER RISK FACTORS WHICH MAY IMPACT THE SECURITY AND PROFITABILITY OF A PORTFOLIO IN THE MEDIUM- AND LONG-TERM.

THESE CHANGING SENTIMENTS ARE REFLECTED IN A WIDESPREAD TREND IN THE REQUEST FOR PROPOSAL QUESTIONS RECEIVED BY ASSET MANAGERS, WHO ARE INCREASINGLY ASKED TO EXPLAIN HOW THEY CARRY OUT THE ROLE OF ASSET OWNER ON BEHALF OF THE BENEFICIARY, OFTEN INCLUDING THEIR APPROACH TO ESG FACTORS.

> "OWNERSHIP MEANS HAVING AN INVESTOR WHO KNOWS HIS OR HER ROLE AS A GUIDING FORCE FOR ASSET MANAGERS

INSTITUTIONAL INVESTORS ARE THOSE WHO MUST SERVE AS THE VANGUARD OF SUSTAINABLE PROFITABILITY IN THE NAME OF FUTURE RETIREES AND SAVERS

Is high-quality ownership mainstream? And if not, how could it become so?

It is a practice that has is not yet taken for granted. There are still investors who depend on managers to make the best choices on their behalf.

Institutional investors are however those who must serve as the vanguard of sustainable profitability in the name of future retirees and savers.

On-going work to improve dialogue, transparency and alignment of goals between managers and owners is critical to bring high-quality ownership to the mainstream.

What would be the key benefit of private and institutional investors of being more engaged with their financial intermediaries and asset managers about what is being done to protect the long-term value of their investment?

Investors today are confronted with new realities which acknowledge new territories of risk. Mutations in the traditional growth model cause them to question investment choices.

Better dialogue between owners and managers will enable an improved understanding and accountability of these new risks and ultimately better protection of investments.

Among these investors are some who solicit Vigeo to measure the level of ESG risk in their portfolio, with the aim of improving its composition and better engaging with their managers to encourage them to better master these risks.

vigeo

WWW.VIGEO.COM

VIGEO IS A EUROPEAN ENVIRONMENTAL, SOCIAL AND GOVERNANCE RATING AGENCY.

LOOKING INTO THE FUTURE, WHAT WILL OWNERSHIP IDEALLY LOOK LIKE IN 10 YEARS' TIME?

VIGEO HOPES OWNERSHIP BECOMES AN OPEN, TRANSPARENT AND EFFECTIVE DIALOGUE BETWEEN INVESTORS AND THEIR CLIENTS, AND BETWEEN INVESTORS AND COMPANIES.

WE ALSO HOPE THAT ESG FACTORS BECOME A MAINSTREAM RESPONSIBILITY UNDERTAKEN WITHIN OWNERSHIP. IN THE PAST 10 YEARS, MANY INVESTORS HAVE SIGNED UP TO THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) WITH THE GOAL OF PRACTICING MORE RESPONSIBLE INVESTMENT.

WHILE THE PACE AND STYLE OF ADOPTION IS VARIABLE ACROSS SIGNATORIES, WE WOULD HOPE TO SEE A CONTINUED INCREASE IN THE NUMBER OF SIGNATORIES AND THE PROFESSIONAL AND INSTITUTIONAL APPLICATION OF THE PRINCIPLES.

ETHICAL FINANCIAL ADVISER DIRECTORY

BLUE & GREEN TOMORROW WORKS WITH EXPERIENCED INDEPENDENT FINANCIAL ADVISERS WHO SPECIALISE IN ETHICAL INVESTMENT AND UNDERSTAND HOW MONEY CAN BE USED TO CREATE A SECURE FUTURE FOR YOU, FOR YOUR FAMILIES AND FOR OUR PLANET. GIVE ONE OF THEM A CALL AND TALK ABOUT YOUR PLANS – YOU MAY EVEN FIND YOU SLEEP EASIER AT NIGHT IF, LIKE US, YOU WANT A BETTER FUTURE FOR ALL. YOUR HARD-EARNED MONEY CAN DO SOME OF THE HARD WORK OF MAKING THAT HAPPEN WHILE YOU SLEEP.

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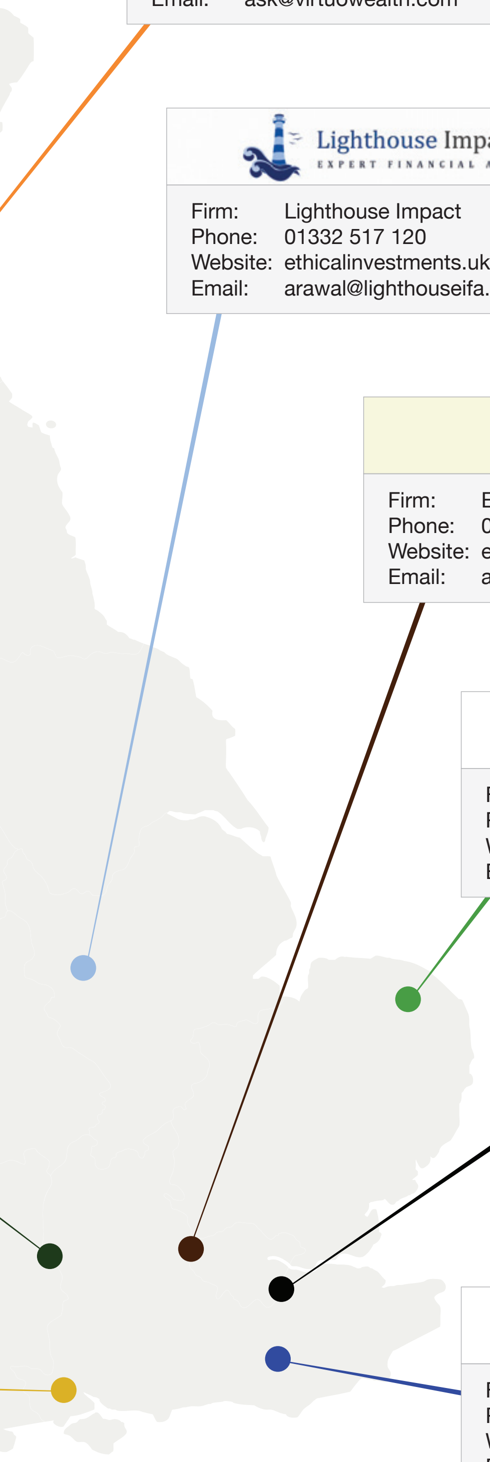

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Image: 5kW solar PV array
South Penquite Farm, Bodmin Moor, Cornwall

Imagine the perfect destination

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Cottages4you offer a great selection of holiday properties throughout the UK, Ireland, France and Italy.

A self-catering cottage holiday is a great way to escape the everyday and enjoy the freedom of doing what you want, when you want. From farmhouses and gites, thatched cottages and castles, the range of beautiful properties on offer means you are sure to find the perfect holiday retreat to suit your needs and budget. Choose from properties with great facilities - an open fire, a hot tub, an enclosed garden, a swimming pool, a great pub close by, a secluded location or walking from the door. Plus thousands of the properties on offer do accept pets!

Stay close to home and discover the countryside on your doorstep, or explore further afield with our great choice of destinations. Choose to take a short break of 2, 3 or 4 nights or getaway for longer and stay a week or more. All cottages4you properties are maintained to the highest standard, providing everything you require to ensure your holiday runs smoothly.

Visit **www.cottages-4-you.co.uk/blueandgreen** to start searching for your perfect break now. You can check availability, view more images, watch virtual tours and book securely on line. Alternatively call **0845 268 9416** to speak to one of the sales advisors.

UK GRL - Cornwall is one of the UK's most popular destinations with lots to offer. Visit the Eden project, the Lost Gardens of Heligan or watch a performance at the Minack theatre, and why not try a traditional Cornish pasty.

France – F6337 – Whether you prefer to stay in a popular town or in a remote rural location you will find a great selection of villas and gites. Visit this beautiful region of France where you will find many reasons why you will want to come back.

Italy – TA049 – Centrally located Tuscany is set within a gentle hilly region known for its vineyards and olive groves. Therefore stay in a rustic farmhouse or a cosmopolitan town house and enjoy the Mediterranean fayre and of course the wine.

YourEthicalMoney.org

The one-stop-shop for green and ethical finance

£ Learn about how and where your money is invested

£ Search for green and ethical financial products

£ Find out how you can help make finance more sustainable

Five easy tips on how to give your finances an ethical makeover

1. **Switch your current account** to an ethical bank that only finances business and organisations which benefit both people and planet
2. **Invest in a nicer ISA** which supports dynamic green technologies whilst generating a healthy return
3. **Swap your credit card** for one that raises money for good causes every time you spend
4. **Go for a greener mortgage or insurance policy** and offset some of the carbon emissions produced by your home
5. **Visit www.YourEthicalMoney.org** to find out how you can make a positive difference with your money

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