September 2018

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Why we believe that active engagement results in better outcomes for both investors and society.

THE VALUE OF ACTIVE ENGAGEMENT

Rob Stewart
Head of Responsible and Charity Investment

The value of investors engaging with the companies they hold is often a subject of debate. One side of the argument suggests that engagement can drive substantial improvements in performance and behaviour, but cynics suggest that it's largely a talking shop, which leads to limited change and maintains a cosy relationship between institutional asset managers and large companies. Newton has firmly backed the view that it is an integral part of the capitalist process and that effective engagement can led to better outcomes for shareholders and companies.

It has been pleasing to see our partners at the Newton Centre for Endowment Asset Management adding some academic rigour to this debate. Their 2015 research paper[1] looked at the success of engagements from a single asset manager with 613 public US companies over a 10-year period. The study concluded that successful engagements lead to meaningfully improved financial and share price performance, alongside better governance, over the 18 months following activity. They have followed this work up with a more global study in which the preliminary results indicate similar trends[2].

We believe these findings provide compelling academic evidence that quantifies the impact of engagement. The studies back up what one might expect given the nature of share ownership and capitalism. The financial crisis highlighted several cases where both management and shareholders had been working on the basis that "while the music is still playing we're still dancing". While at Newton we are active investors, and obviously we may sell shares where we see deteriorating conditions, we do look to encourage positive long-term behaviour while we are owners, and our investment time frame is generally long. With average holding periods of over four years, it is in the interests of our clients for us to encourage long-term sustainable behaviour in the companies in which we invest on their behalves. Over time, we see these efforts result in better management, which can lead to better returns for clients and improved outcomes for society in general.

We therefore remain committed to continuing with active engagement and also to voting actively on the shares we hold for our clients as a core part of our investment process. We have seen a number of areas where we have been able to help drive corporate change, from better disclosure to pushing for corporate reform and engaging actively on the details of many corporate incentive packages. We think that all of these play a part in ensuring better outcomes for the companies we invest in. For 2018, our thematic priorities for engagement are climate change and diversity but, as always, we look to engage with individual companies as appropriate across a wide range of issues.

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[1] https://academic.oup.com/rfs/article/28/12/3225/1573572
[2] Dimson, Li and Karakas, 2018

Want to find out more?

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