The Value of Active Engagement Case Study

What’s the Issue?

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 behavior, but cynics suggest that it’s largely a talking shop, which leads to limited change and maintains a cozy 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 lead to better outcomes for shareholders and companies, though others are less convinced.

What Work Has Been Done?

It has been pleasing to see our partners at the Centre for Endowment Asset Management in the University of Cambridge adding some academic rigor to this debate. Their 2015 research paper 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.

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 behavior 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 behavior 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.
What Next?

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.

Your capital may be at risk. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.

1 Active Ownership', Elroy Dimson, Oğuzhan Karakaş, Xi Li; https://academic.oup.com/rfs/article/28/12/3225/1573572
2 Dimson, Li and Karakaş, 2018
Case Study

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IMPORTANT INFORMATION

Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. Contact a financial advisor or visit im.bnymellon.com to obtain a prospectus, or summary prospectus, that contains this and other information about the fund, and read it carefully before investing.

All investments involve risk including loss of principal. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Asset allocation and diversification cannot ensure a profit or protect against loss.

Risks:

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees.

Currencies are can decline in value relative to a local currency, or, in the case of hedged positions, the local currency will decline relative to the currency being hedged. These risks may increase fund volatility.

Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values-based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

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