

NEWTON

Investment
Management

WHY SUSTAINABLE INVESTING IS THE FUTURE

Victoria Barron & Raj Shant

March 2018

Please read the important information at the back of this material.

Newton team



Victoria Barron
Responsible Investment Analyst

Victoria is a Responsible Investment Analyst within the Responsible Investment team and undertakes research and engagement on environmental, social and governance issues with global companies, as well as voting and reporting to clients.

She sits on the 30% Club Investor Group and prior to joining Newton, worked for Hermes Equity Ownership Services, the FTSE Group and CCLA Investment Management.

She has an International Management BSc from Manchester University and an Environmental Technology MSc from Imperial College.

3 years at Newton
9 years' investment experience

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.

Source: Newton, 31 January 2018.



Raj Shant
Portfolio manager, Global Equity team

Rajesh is a portfolio manager in the Global Equity team with a focus on a range of global equity portfolios, having previously specialised in managing European mandates.

Rajesh joined Newton in 2002 after acquiring a range of investment experience working in high-level roles at Credit Suisse Asset Management and Royal Insurance Management. Rajesh is a member of the UK Society of Investment Professionals (UKSIP).

15 years at Newton
27 years' investment experience

Environmental, Social and Governance talking points

- What is Sustainable Investing?
- Why is Sustainable investment and ESG important?
- How can you invest in a Responsible & Sustainable way?
- Choosing an investment while thinking Responsibly – A case study
- Why combining financial returns with sustainable considerations is so powerful


**WHAT IS
SUSTAINABLE
INVESTING?**

A show of hands please?

- What does sustainable investment mean to you?
 1. A low carbon portfolio / climate change investing
 2. Ethical restrictions e.g. tobacco, alcohol, armaments
 3. Divesting from companies who breach norms or standards, or after unfruitful engagement
 4. Companies that are contributing to the sustainable development goals
 5. Impact investing

Types of responsible investment approaches

EXCLUSIONS & SCREENING 'Traditional SRI'



SCREENING

- + Proactive application of investor's values
- Reduction of investment opportunity set

INTEGRATED ESG¹ 'Active Ownership'




INTEGRATION


- + Maximal opportunity set; no specific values applied
- May invest in companies with ESG risks

SUSTAINABLE

THEMATIC



IMPACT



- + Explicit allocation toward defined themes
- + Investments focus on specific projects/initiatives
- Single themes narrow the opportunity set

Note: ¹ Environmental, Social and Governance.

We interpret sustainability in two ways

“...meets the needs of the present without compromising the ability of future generations to meet their own needs”

UN Brundtland Commission on Sustainable Development (1987)

1

We consider, in an economic sense, the durability of a company's strategy, operations and finances.

2

We ensure that companies take appropriate account of the material externalities caused by or affecting their business.

At Newton, sustainability means durable business models and accounting for externalities

**WHY IS IT SO
IMPORTANT?**

What should asset managers be focusing on?

ENVIRONMENT

Climate change



Pollution



Water stress



SOCIAL

Diversity



Equal rights



Human rights



GOVERNANCE

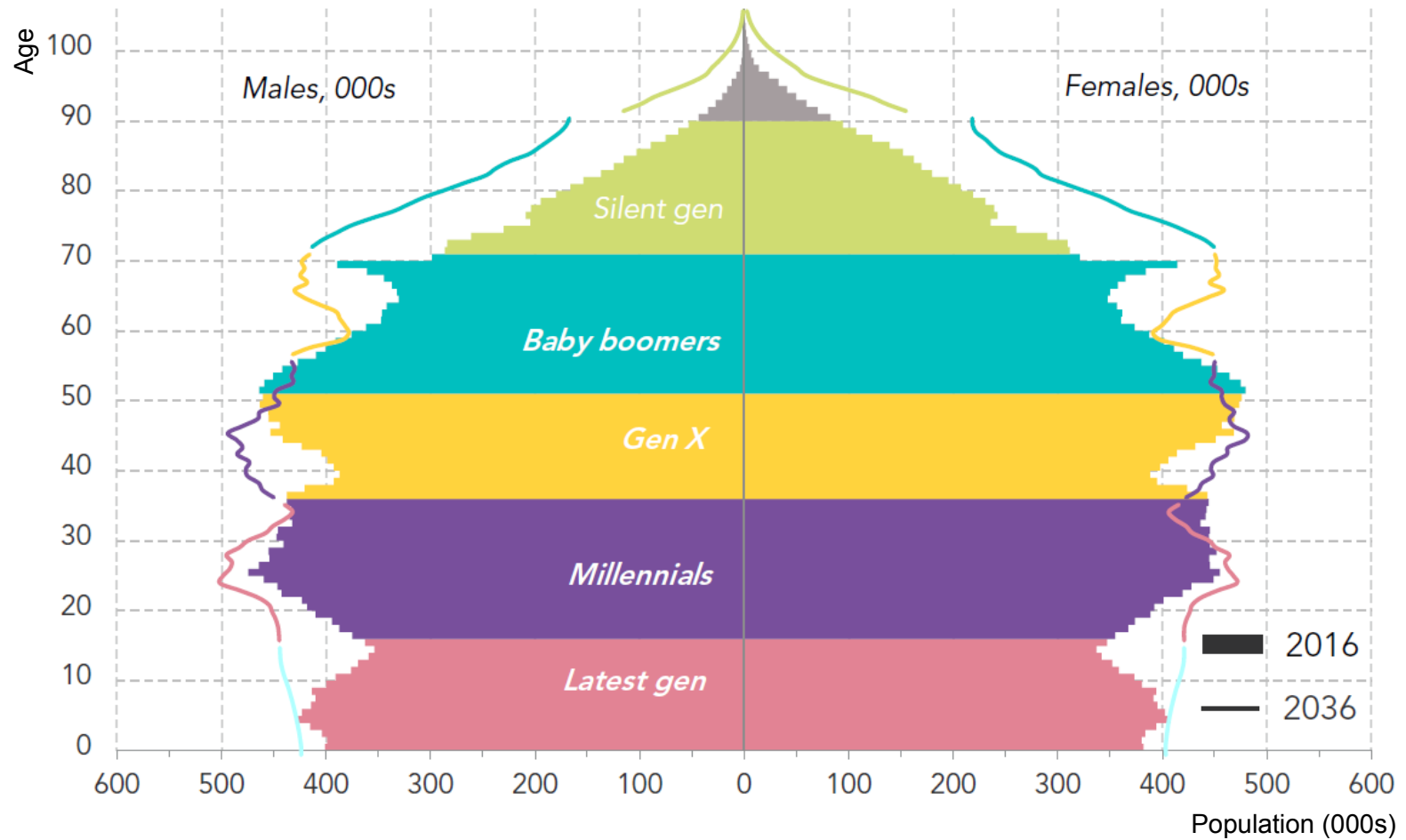
Oversight, alignment of interests and pay for performance



Many such issues are keenly felt by society, customers, beneficiaries, trustees, donors

Growing importance of millennials and generation Y

Age structure of the population by generation: UK, 2016 and 2036²



For illustrative purposes only.

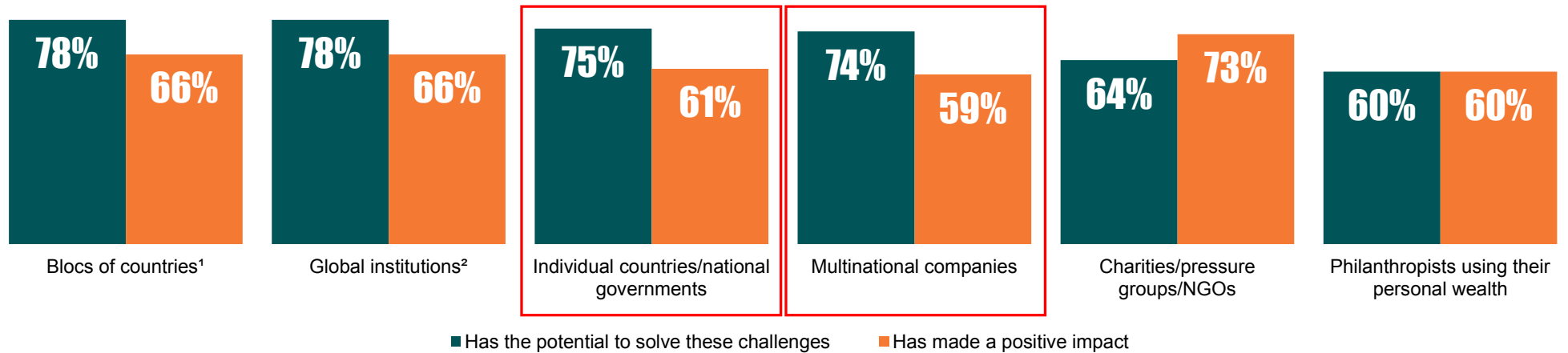
Sources: ¹BoAML, "Generation Next – Millennials Primer", July 2015; ²Resolution Foundation, "Stagnation Generation: the case for renewing the intergenerational contract", July 2016 - RF analysis of ONS, Mid-year population estimates; ONS, 2014-based UK population projections.

Millennials – what matters and who should address it?

On the big issues, millennials feel more accountable than influential



Impact of business and national governments falling short of potential



Notes: ¹ e.g., EU, Assoc. of Southeast Asian nations, UN; ² e.g., WTO, World Bank, IMF.
Source: The 2017 Deloitte Millennial Survey.

Corporates expected to solve big challenges

**HOW CAN YOU
INVEST IN A
RESPONSIBLE &
SUSTAINABLE WAY?**

TRANSPARENT CLIENT REPORTING AND DISCLOSURE



Integrated
research and
analysis



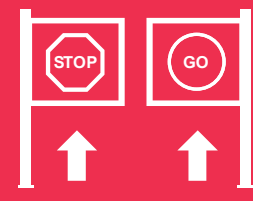
Engagement
&
stewardship
including
UN GC
principles



Active proxy
voting¹



Policy &
regulation



Red lines

Note: ¹ Where we retain voting authority.

Sustainable fund red lines

Violation of UN Global Compact Principles of sustainable corporate performance



This ensures the poorest performing companies are not eligible for investment

Sustainable fund red lines

Climate change and the Paris agreement (2 degree world)

1

HEAVY EMITTING SECTOR

IEA's 450 ppm heavy industry target sectors for 450ppm scenario globally

AND

2

UNPROFITABLE WITH 2° C WORLD POLICY

Internalised cost of carbon at \$140/tonne produces negative net income
(calculated as 5yr average net income – (5yr average scope 1&2 emissions x \$140))

AND

3

NO/WEAK EMISSION REDUCTION TARGETS VS. SECTOR

MSCI carbon emissions reduction target rated as “No target” or “Weak target from medium to high base”

IS

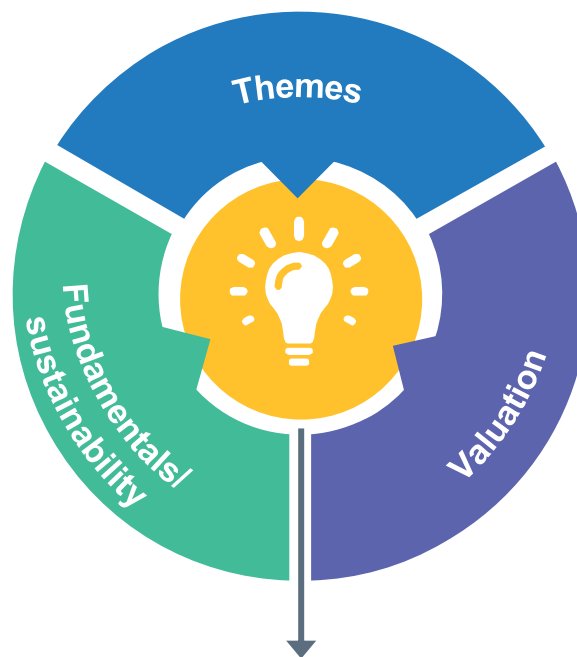
X

UNINVESTABLE

Security selection process

THEMES:

identifying drivers of change, providing a framework for idea generation



FUNDAMENTALS:

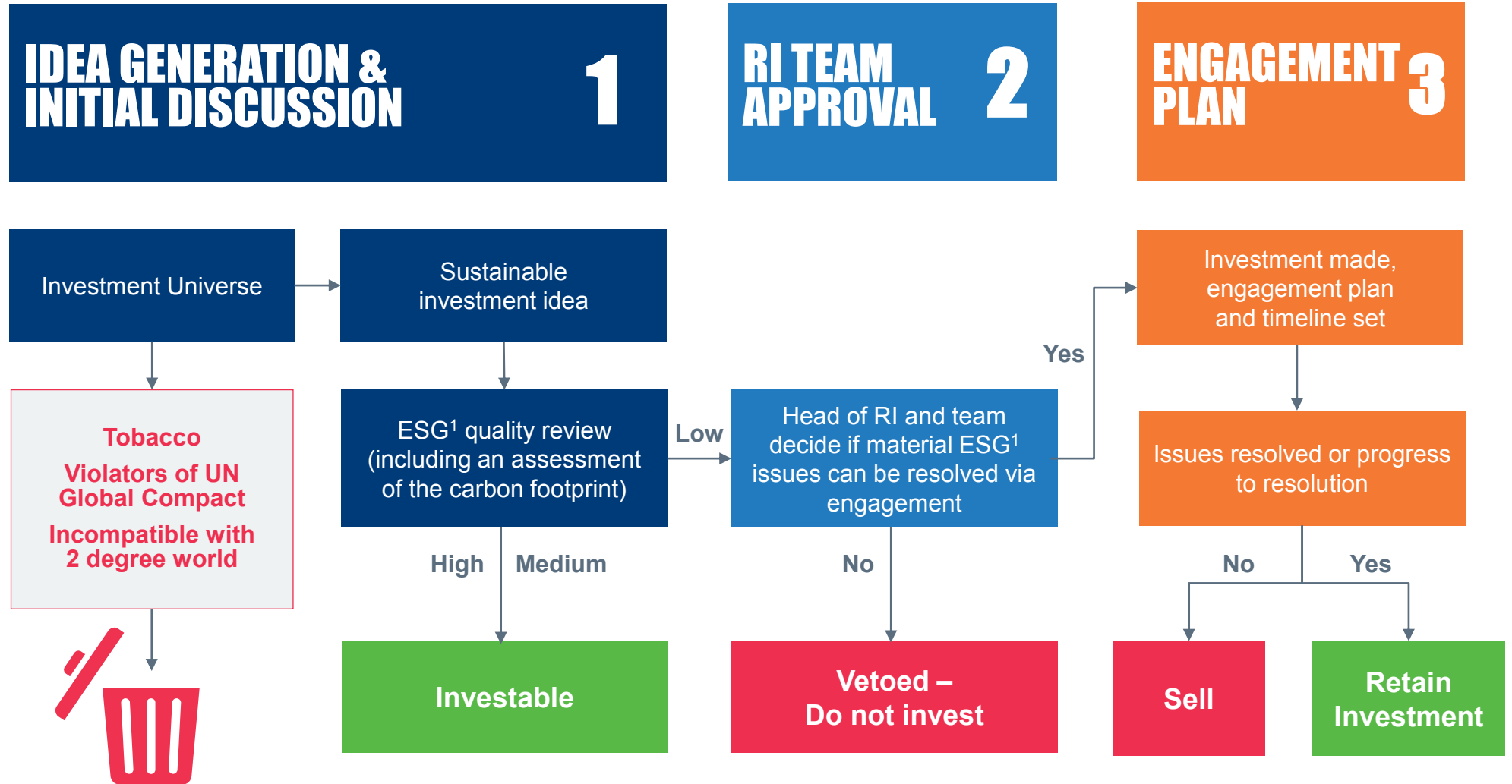
- Sustainability analysis nature, scope and magnitude of externalities
- Unrecognised business quality: lowest cost; unique assets
- Position in capital cycle
- Competitive position
- Runway for growth at high ROIC – compounders

VALUATION:

- Comparison to global peers, wider market and own history
- Scenario analysis and downside protection
- Cash flow and balance sheet analysis
- Margin of safety

IDEAL CANDIDATE

Sustainable Investment Process



Note: 1 Environmental, Social and Governance.

Robust selection and engagement process

**WHY COMBINING
FINANCIAL RETURNS
WITH SUSTAINABLE
FACTORS IS SO
POWERFUL**

Why the Newton approach to Sustainability is positive

1. **Raising the cost of capital for ‘bad actors’**
2. **Reducing the cost of capital for ‘good actors’** that are better aligned with the way society wants to move
3. **Spotting and supporting companies making positive transitions**, should benefit society and the company’s own valuation
4. **Boosting ESG¹ issues up the corporate agenda:** through engagement
5. **Ultimate sanction** if desired improvements don’t materialize: **we can sell to zero**

1. We have a long track record in global equity investing
2. Responsible investing has been central to our approach since 1978
3. We believe our approach holds the best elements of both:

**DEDICATED & DIFFERENTIATED
ESG¹ CAPABILITIES**



STRONG INVESTMENT FOCUS

“...the world is in the early stages of a sustainability revolution that has the scope and scale of the industrial revolution with the speed of the digital revolution.”²

Just as the industrial revolution multiplied the productive power of labour, so we now have the technology to revolutionise the productive power of the carbon atom or the water molecule. New technologies, new tools and new processes can help us seize the day...

REFERENCES

Academic research supports Newton's approach

Corporate Sustainability: First Evidence on Materiality *Harvard Business School Working Paper, 2015 (Khan, Serafeim & Yoon)*

- Firms making investments and improving their performance on environmental, social, and governance (ESG) issues exhibit better stock market performance and profitability in the future.
- For companies, this suggests that their efforts to do good are rewarded. For investors, this suggests that there is substantial value from analyzing non-financial data and incorporating it into their decisions
- Not all such initiatives are equally beneficial. Companies should stick to social and environmental issues that are strategically important for their business if they want such efforts to contribute to the valuation.

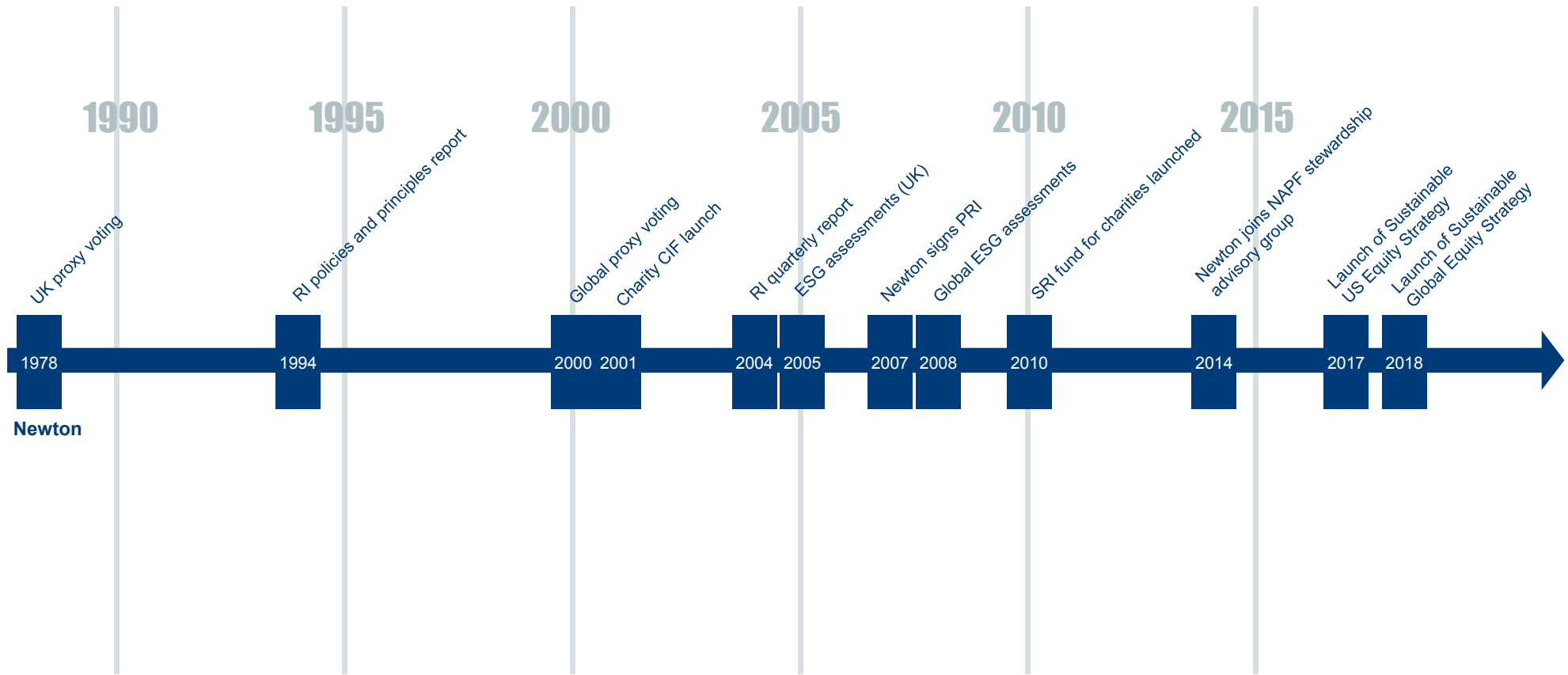
A Tale of Values-Driven and Profit-Seeking Social Investors: *Journal of Banking and Finance vol 35, 2011 (Derwall, Koedijk & Ter Horst)*

- Performance very much depends on the type of SI strategy. They distinguish ethical or values oriented strategies, which tend to underperform, and profit-oriented SI strategies. The latter use ESG information for better decision making, and in fact outperform mainstream strategies.

The Economic Value of Corporate Eco-Efficiency: *Kellogg School of Business 2010 (Guenster, Derwall, Bauer & Koedijk)*

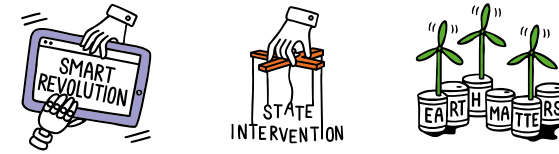
- Results suggest that the market's valuation of environmental performance has been time variant, which may indicate that the market incorporates environmental information with a drift. Our results have implications for company managers, who evidently do not have to overcome a trade-off between eco-efficiency and financial performance, and for investors, who can exploit environmental information for investment decisions.

Responsible Investment

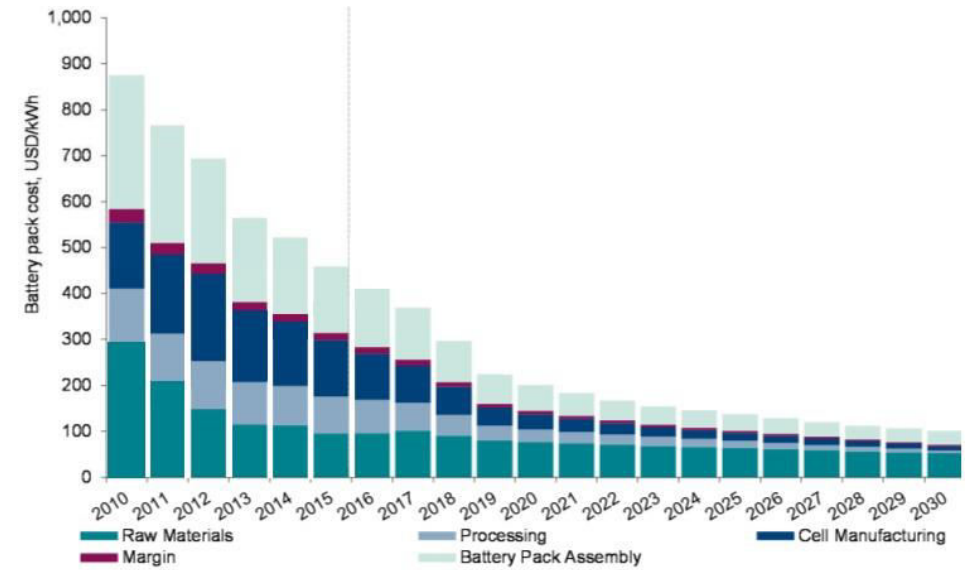


Core to our approach since 1978

ELECTRIC VEHICLES

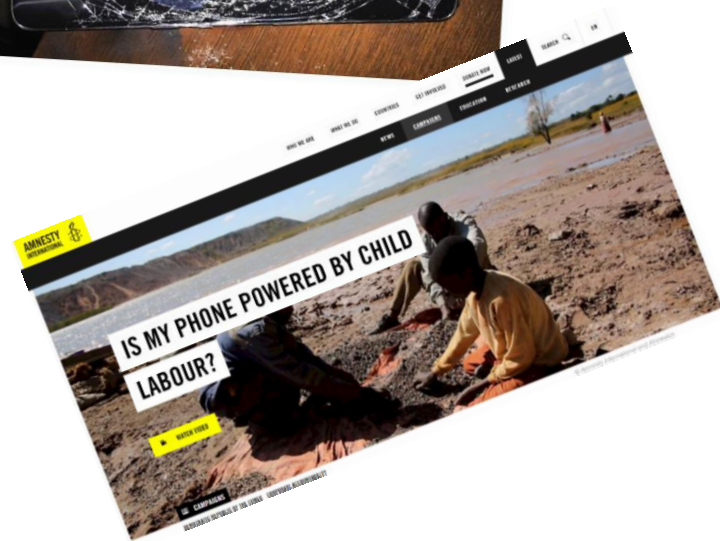
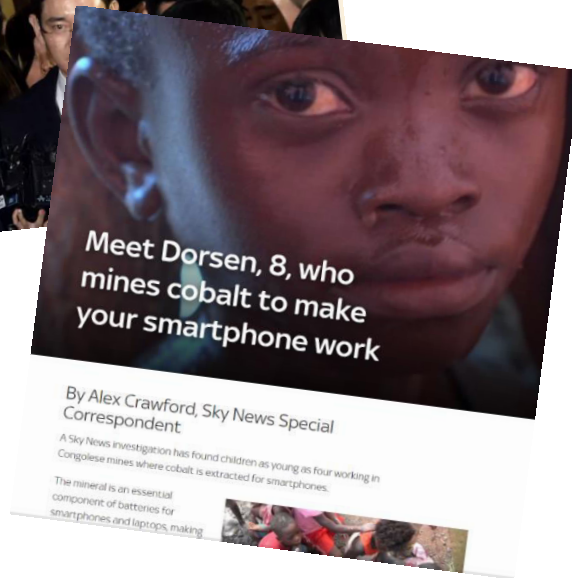


Battery pack cost (USD/kWh, LHS) by cost component



Source: Shutterstock.

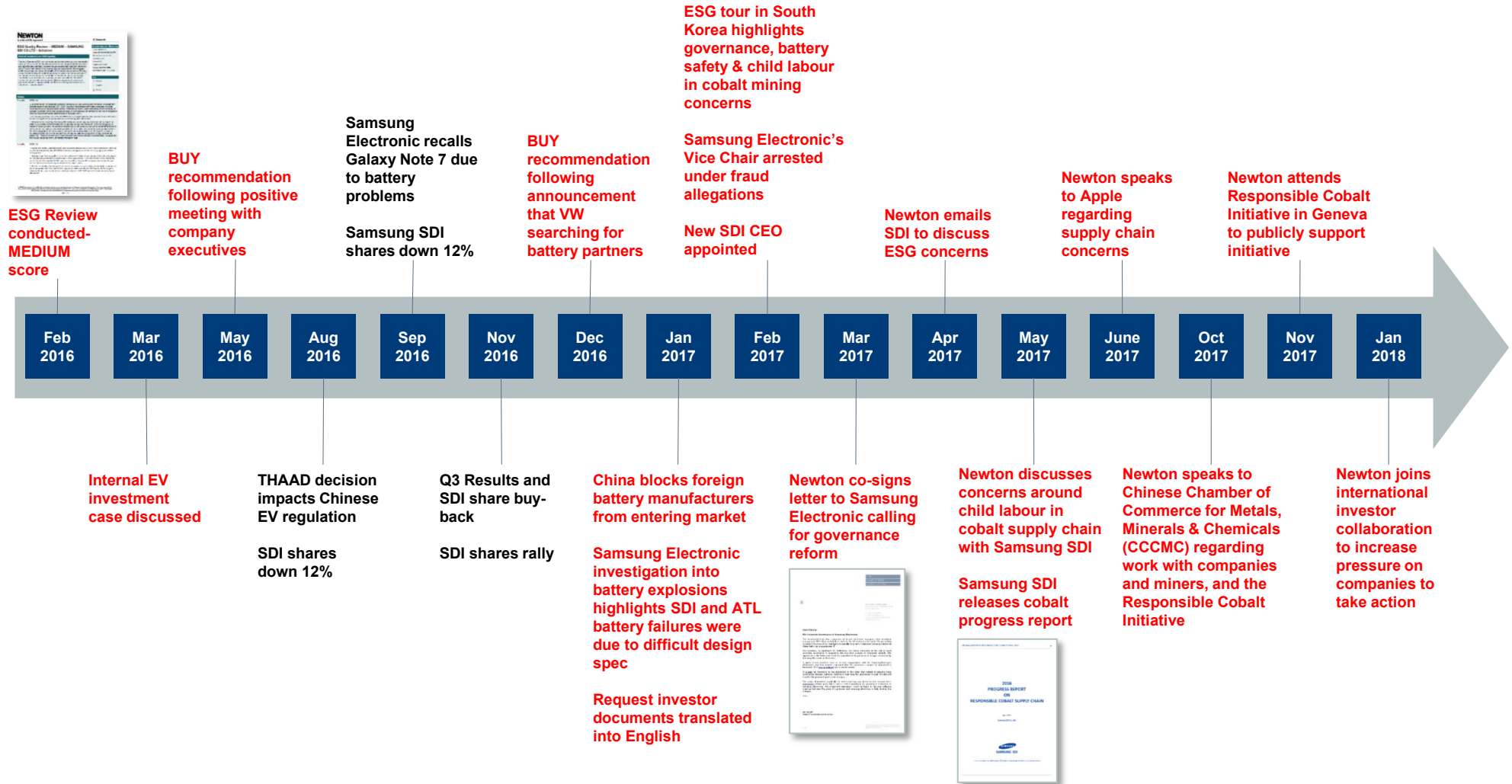
ESG¹ risks in lithium-ion batteries



Note: ¹ Environmental, Social and Governance.

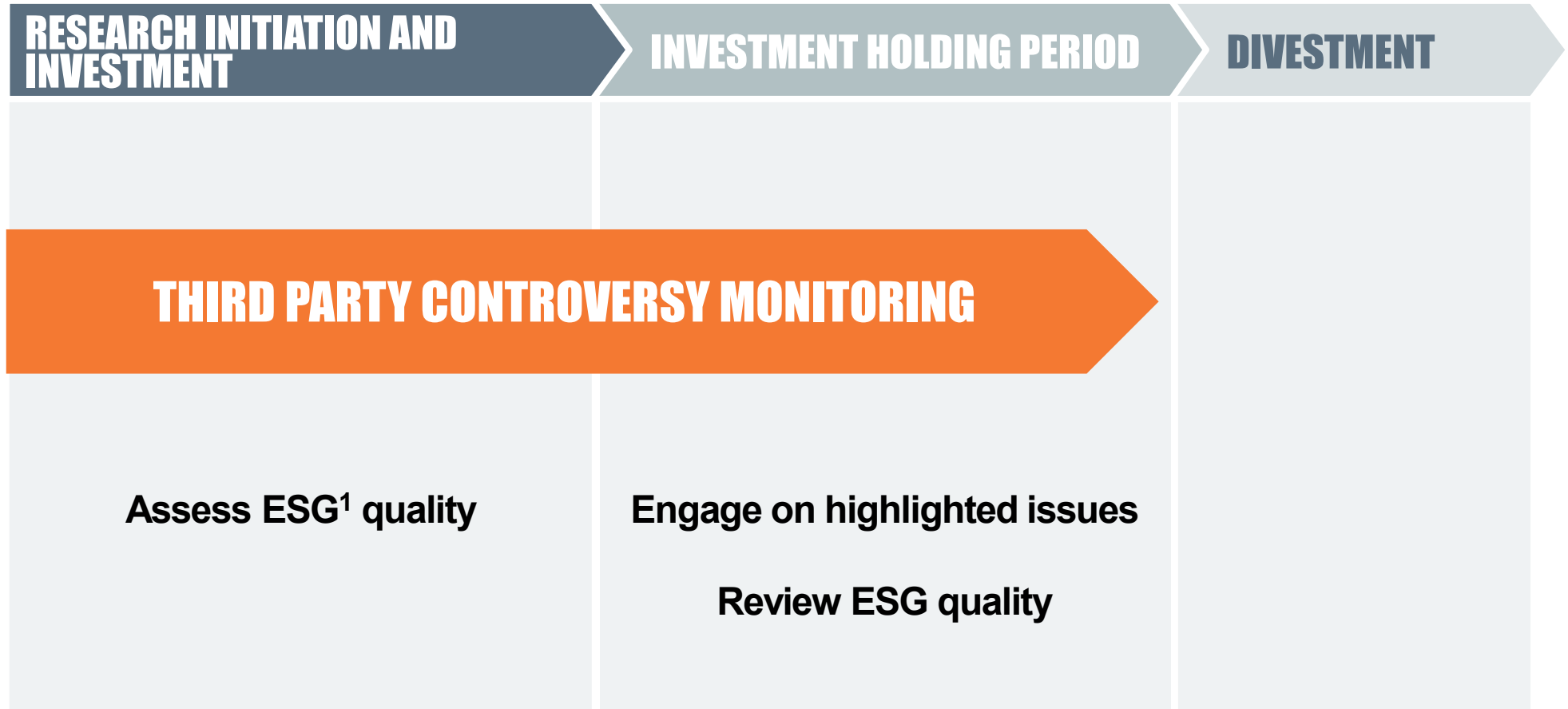
ESG¹ in active management

Samsung SDI



Note: ¹ Environmental, Social and Governance.

Ongoing controversy monitoring



Note: 1 Environmental, Social and Governance.

Controversy monitoring ensures we maintain full portfolio coverage

Our climate change approach

MEMBERSHIP OF KEY INVESTOR GROUPS



Led by Mike Bloomberg and Mark Carney, and supported by 237 global companies with a combined market capitalization of over \$6.3trn, the taskforce provides recommendations on climate-related disclosure for companies. A member of our team sits on the UN Principles for Responsible Investment TCFD advisory group which aims to establish recommendations for company engagement on this topic for investors.

www.fsb-tcfid.org



Institutional Investors Group on Climate Change

A group of 150 investors representing over £19trn in AUM aiming to mobilise capital for the low carbon future. The forum provides us with access to international policymakers, collaborative engagement groups and discussions at the forefront of climate policy and investment practice.

www.iigcc.org



A five-year investor-led initiative (with a combined AUM of £20trn) which works to engage with the world's 100 largest corporate greenhouse gas emitters on climate change matters.

www.climateaction100.org

USE OF LEADING DATA PROVIDERS



A market-leading provider of data, analytics and advisory services related to climate change risk and its impact on investments across all asset classes. Importantly, they offer the ability to carbon footprint portfolios.

www.issgovernance.com/esg/climate-solutions



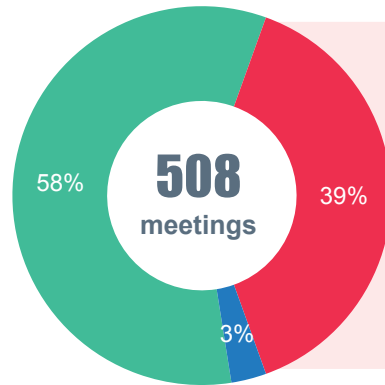
MSCI ESG provides high quality quantitative and qualitative research on key risks and opportunities (including climate-related factors) for around 6,400 companies in the MSCI ACWI, from 160 ESG analysts based around the world.

www.msci.com/research/esg-research

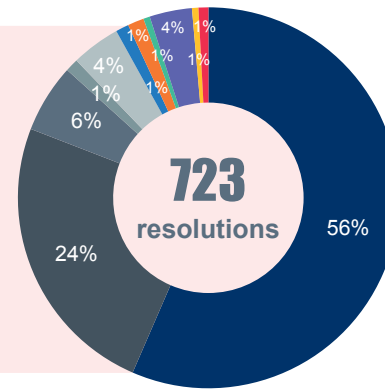
We have an active engagement and voting record with our investments that is independent of and more critical than third party advisors

2017 global voting summary

- Voted in favour of management on all resolutions
- Voted against management on one or more resolutions
- Took no action owing to shareblocking

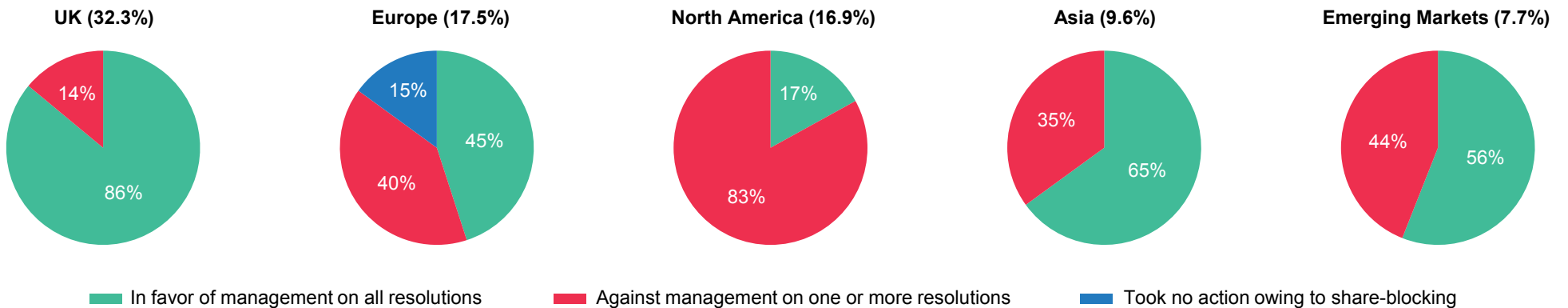


Resolutions voted against management



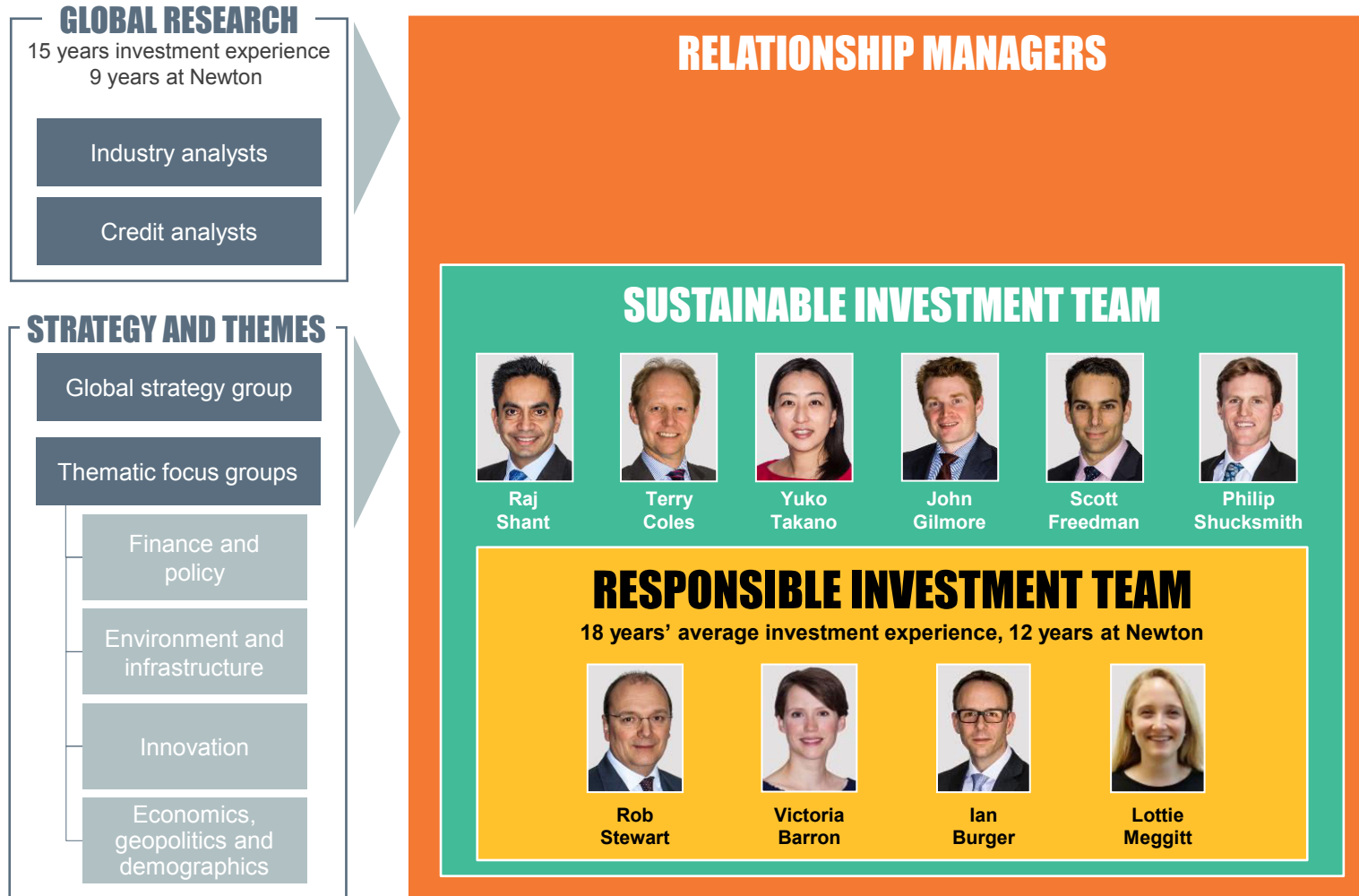
- Management proposed resolutions**
- Articles / bylaws
 - Audit related
 - Board structure
 - Remuneration policy
 - Share capital
 - Transaction-related
 - Other, including AOB
- Shareholder proposed resolutions**
- Shareholder rights
 - Board structure
 - Remuneration structure
 - Environmental / social

Voting by region (% of total meetings voted)



Source: Unless otherwise stated, the source of all information is Newton, 31 December 2017.

Focused team of PMs, analysts and commercial



Formal and informal interaction:

- Monthly Sustainability meeting
- Every investment recommendation must have an ESG¹ review
- Collaboration on company contact
- Collaboration on ESG themes and education

Note: ¹ Environmental, Social and Governance.

Source: Newton, 1 January 2018.

Years' investment experience and tenure at Newton are team average numbers as at 31 December 2017.

Total number of investment personnel = 64 (some investment professionals are included in more than one category).

**Focused team, supported by
wider Newton process**

Newton Sustainable Global Equity strategy

Overview

STRATEGY TYPE	Focused global equity portfolio of sustainable, responsibly-managed companies. Typically fewer than 50 stocks; high active share.
STRATEGY OBJECTIVES	To seek long-term capital growth and income through investing in global companies that demonstrate attractive investment attributes and sustainable business practices and have no material unresolvable ESG ¹ issues
COMPARATIVE INDEX	MSCI AC World (NDR) index
MANAGERS	Lead Manager: Terry Coles Alternates: Raj Shant, Yuko Takano

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.

MSCI AC World NDR is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index.

Note: ¹ Environmental, Social and Governance.

The Newton Sustainable Real Return strategy



- Investment in companies that positively manage the **material** impacts of their operations and products on the environment and society
- No investment in:
 - Tobacco
 - Companies that violate UN Global Compact Principles
 - Companies deemed incompatible with the 2 degree world
- No investment in companies with material unresolvable ESG¹ issues, responsible investment team have power of veto

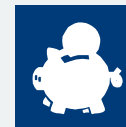
Seeking to deliver a real return with reduced volatility through:



Security selection



Asset type flexibility



Emphasis on capital preservation

The strategy aims to deliver a minimum return of cash (1 month LIBOR) +4% p.a. over five years before fees. In doing so, the strategy aims to achieve a positive return on a rolling three year basis. However, a positive return is not guaranteed and a capital loss may occur.

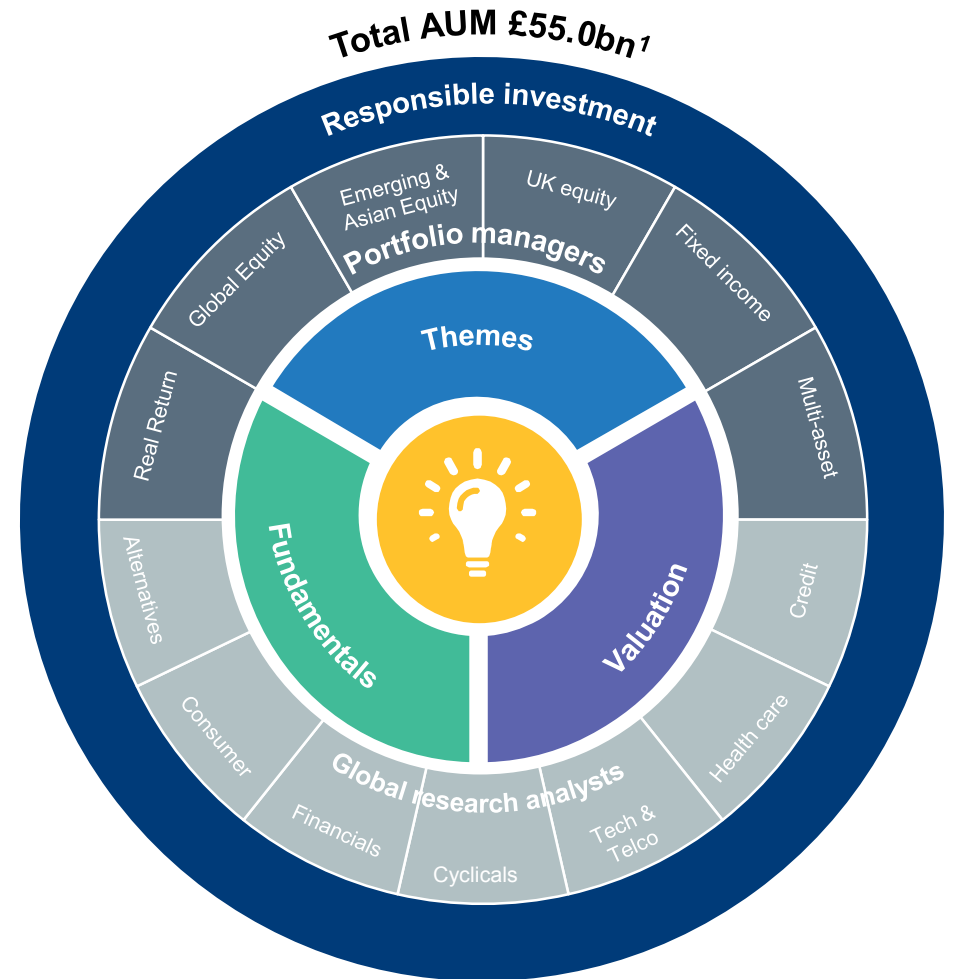
Note: ¹ Environmental, Social and Governance

Balancing participation with capital preservation

Newton Investment Management

Summary of mandates as at 31 December 2017

- ✓ Approaching 40 years in global investing
- ✓ £12.1bn in North American Equities across house
- ✓ Thematic framework
- ✓ Highly interactive: ideas are generated, challenged and refined
- ✓ Conviction ideas swiftly implemented
- ✓ Responsible Investment across all strategies



Note: ¹ AUM for Strategic Asset Allocation included in respective underlying asset class. Note effects of rounding.
Source: Newton, 31 December 2017.

Newton's sustainable investment philosophy...

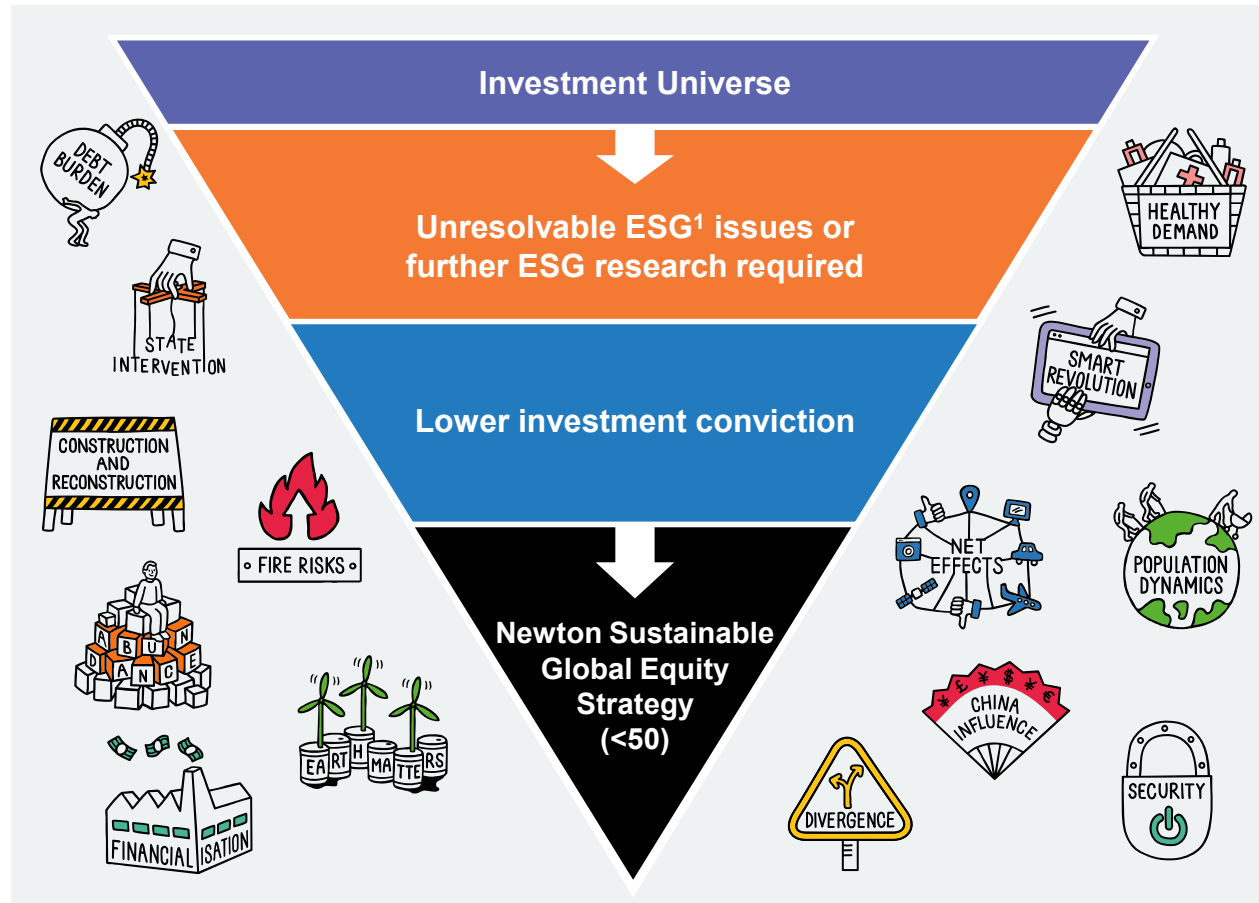
Global thematic investing since 1978

We believe in ...



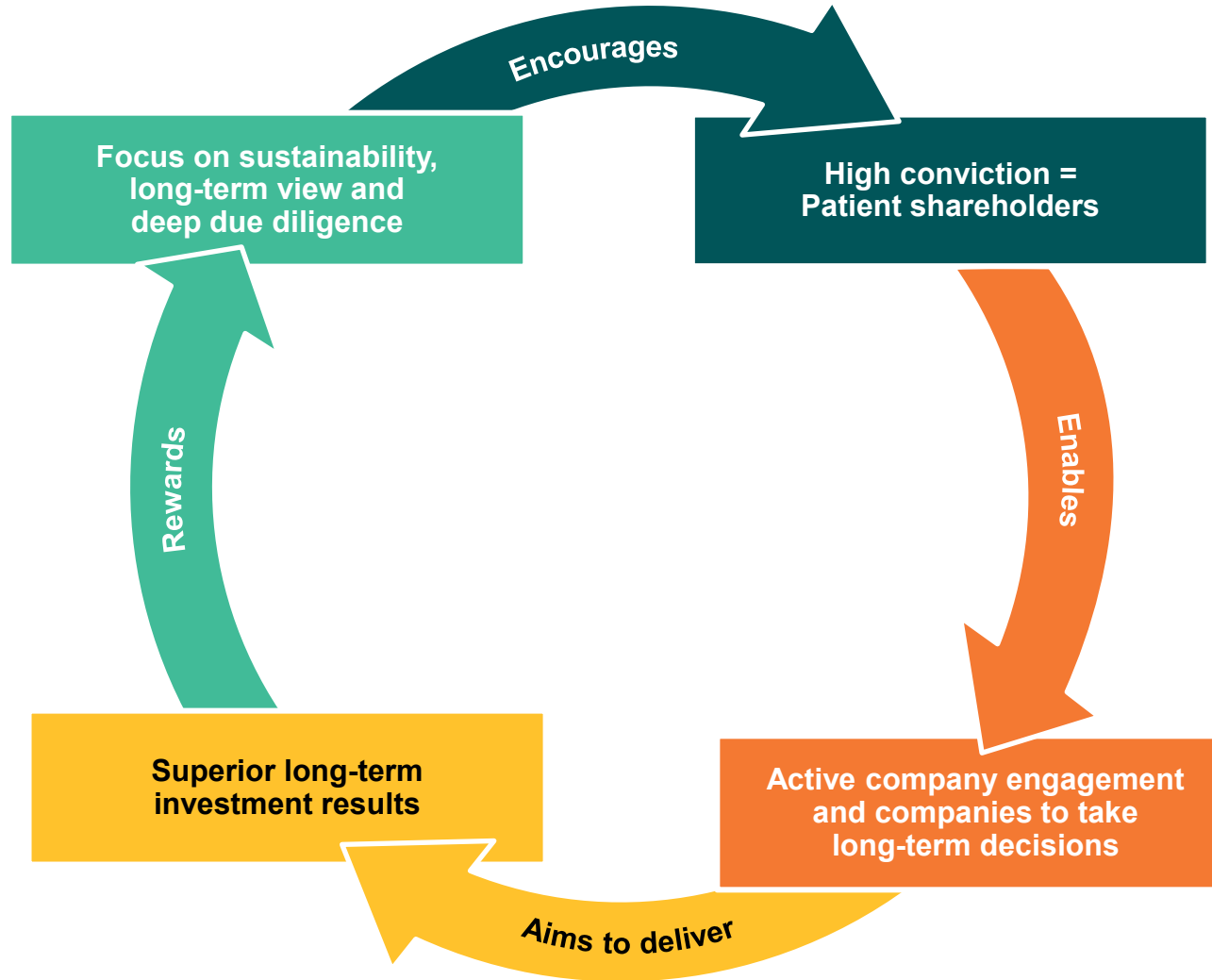
Note: ¹ Environmental, Social and Governance.

Portfolio construction in practice



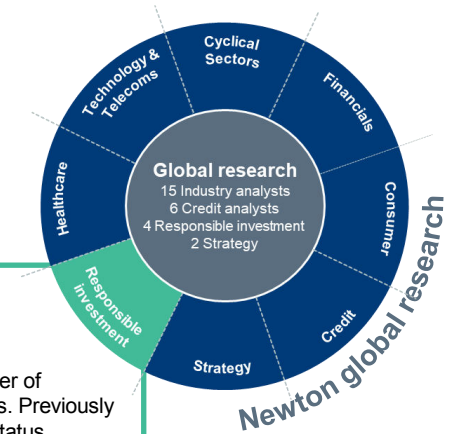
Notes: ¹ Environmental, social and governance.
Source: Bloomberg, Newton, 31 December 2017.

Sustainability, conviction and engagement create a virtuous cycle



Focused on long-term investment returns

Newton Responsible Investment team



Rob Stewart
Head of Responsible and Charity Investment
Portfolio manager, Multi-Asset team

Rob leads the Responsible Investment Team and also Charity Investment at Newton. Apart from these leadership roles he manages a number of portfolios which have an ethical/SRI mandate. He joined Newton in 2003, prior to which he acquired a range of experience at Goldman Sachs. Previously he worked at CIN Management as both a Japanese and UK portfolio manager. Rob is a Governor of a London school which has charitable status.

14 years at Newton, 28 years' investment experience



Ian Burger
Head of corporate governance

Ian is the head of corporate governance at Newton Investment Management. He is responsible for corporate governance considerations throughout Newton's investment process and also leads ESG analysis for certain sectors. Outside of Newton, Ian is involved in shaping the debate on ESG through his membership and participation in various groups such as co-chairing the GC100 and Investors Group, being a member of the ICGN's Finance Committee, a member of the PLSA's Stewardship Advisory Group, and deputy chair of the Corporate Governance Forum. Ian is a Fellow of the Chartered Institute of Secretaries, a trustee of its three charities and received the ICSA's President's medal at the institute's 125th anniversary in 2016.

19 years at Newton, 19 years' investment experience



Victoria Barron
Responsible Investment analyst

Victoria joined Newton in 2015 and is a responsible investment analyst within the responsible investment team. Victoria undertakes research and engagement on environmental, social and governance issues with global companies, as well as voting and reporting to clients. She sits on the 30% Club Investor Group and has previously sat on a number of investor-related advisory bodies including the UK Sustainable Investment and Finance Association Analyst Committee and the QCA Corporate Governance Expert Group.

Prior to joining Newton, Victoria worked for Hermes equity ownership services as sector lead for utilities and CCLA Investment Management as stewardship project manager. Whilst at CCLA she also undertook a part-time, year long secondment to the FTSE Group. She graduated from Manchester university in international management BSc and has an environmental technology MSc from Imperial college. She speaks Brazilian Portuguese.

2 years at Newton, 8 years' investment experience



Lottie Meggitt
Global ESG¹ research analyst

Lottie is a Global ESG research analyst within the Responsible Investment (RI) team, undertaking research and engagement on environmental, social and governance issues, as well as voting and reporting to clients. Prior to joining the RI team, Lottie was a member of Newton's investment communications team. Lottie is a candidate for level 3 of the Chartered Financial Analyst (CFA)² qualification. Lottie has a BA in Classics from Cambridge.

3 years at Newton

3 years' investment experience

Notes: ¹ Environmental, Social and Governance.; ² CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Source: Newton, 31 December 2017.

Quarterly reporting

Transparency and accountability on all ESG¹ activities



VOTING RATIONALE Q1 2017

References to a specific security, country or sector should not be construed as a recommendation to buy or sell this security, country or sector. Please note that portfolio holdings and positioning are subject to change without notice.

The opinions expressed in this document are those of Newton and should not be construed as investment advice.

ESG ENGAGEMENT

The following pages describe examples of environmental, social and governance engagement we undertook on behalf of our clients during the quarter.

For certain engagements, we do not disclose the company's name. Instead, the country of incorporation and sector of operation are provided, such as 'UK bank'. By not identifying the company involved in the engagement activity, we encourage openness and the sharing of information by the company's representatives during discussions. In addition, we can report on the specific discussions undertaken during the engagement rather than providing a simple summary of the subject matters discussed.

Under each example of ESG engagement, the asset class (or classes) to which the engagement relates is indicated.

BAE Systems
UK aerospace and defence company
Equity holdings

Remuneration
Following a request for feedback on proposed changes to remuneration, we provided comments to the chair of the remuneration committee. We supported a large part of the proposed changes, but undertook our longstanding views on the company's international pay structure and encourages a focus on performance-based pay for all participants.

BHP Billiton
Australian metals and mining company
Equity and bond holdings

Environmentals
We attended two investor updates during the quarter covering a variety of topics including wider concerns over the physical resilience of assets and responsible oversight at joint ventures, and how the company is ensuring all new activities are prepared for extreme weather/climate change scenarios.

BT Group
UK telecommunications company
Equity holdings

Accounting controls
We had meetings with the company's chair and investor relations representatives to gain insights into the accounting issues in one of the regional businesses. According to the company's latest announcements, the accounting issues will result in significant financial adjustments due to several years of overstated earnings.

EXAMPLES OF ESG ENGAGEMENT

Newton is a global thematic investment manager with a well-established approach to responsible investment. This is integral to our investment process given our belief that responsibly managed companies are best placed to achieve sustainable competitive advantage and provide strong long-term investment opportunities. For this reason, we engage companies on a variety of environmental, social and governance matters.

This map provides a geographic breakdown of the companies included in the Q1 2017 responsible investment report.

Key

- Environmental
- Social
- Governance

North America

- Edwards Life - metals and mining company
- Equifax - technology company

Global voting summary

62 meetings

- 66% Voted in favour of management on all resolutions
- 34% Voted against management on one or more resolutions

Resolutions voted against management

64 resolutions

Management proposed resolutions	Shareholder proposed resolutions
Board structure: 56%	Board structure: 6%
Remuneration policy/proposal: 17%	Environmental/Social proposal: 8%
Share capital: 5%	
Other, including AOB: 8%	

Voting summary by region for meetings held in Q1 2017 (percentage of total meetings voted)

Region	In favour ¹	Against ²
United Kingdom (£5.5B)	87%	13%
Europe (£2.3B)	82%	18%
North America (\$1.3B)	100%	0%
Latin America (\$1.7B)	100%	0%
Japan (\$1.3B)	100%	0%
Asia (\$1.1B)	96%	4%
Emerging Markets (\$1.1B)	91%	9%

Note: ¹ Environmental, Social and Governance.

Key risks

Newton Sustainable Global Equity Strategy

Key investment risks

- There is no guarantee that the Strategy will achieve its objective.
- This Strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Strategy.
- The Strategy may invest in emerging markets. These markets have additional risks due to less developed market practices.
- The Strategy may use derivatives to generate returns as well as to reduce costs and/or the overall risk of the Strategy. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- A fall in the value of a single investment may have a significant impact on the value of the Strategy because it typically invests in a limited number of investments.
- The Strategy may invest in small companies which may be riskier and less liquid (i.e. harder to sell) than large companies. This means that their share prices may have greater fluctuations.

Proposed key risks

Newton Sustainable Real Return Strategy

Key investment risks

- Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.
- This Strategy invests in global markets which means it is exposed to changes in currency rates which could affect the value of the Strategy.
- The Strategy may use derivatives to generate returns as well as to reduce costs and/or the overall risk of the Strategy. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the Strategy.
- The Strategy holds bonds with a low credit rating that have a greater risk of default. These investments may affect the value of the Strategy.
- The Strategy may invest in emerging markets. These markets have additional risks due to less developed market practices.
- The Strategy may invest in investments that are not traded regularly and are therefore subject to greater fluctuations in price.
- The Strategy may invest in small companies which may be riskier and less liquid (i.e. harder to sell) than large companies. This means that their share prices may have greater fluctuations.
- The Strategy follows a sustainable investment approach, which may cause it to perform differently to strategies that have a similar objective but which do not integrate sustainable investment criteria when selecting securities.

Important information

This is a financial promotion. Issued in the UK by Newton Investment Management Limited.

Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell this security, country or sector.

Where an index is used as a comparative index, this strategy does not aim to replicate either the composition or the performance of the comparative index.

The value of overseas securities will be influenced by fluctuations in exchange rates.

Assets under management include assets managed by Newton Investment Management Ltd and Newton Investment Management (North America) Limited. In addition, AUM for New York Mellon and assets of wrap fee account(s) for which Newton Investment Management (North America) Limited provides sub-advisory services to the primary manager of the wrap program. Newton Investment Management (North America) Limited and Newton Investment Management Limited are authorised and regulated by the Financial Conduct Authority in the UK, and Newton Investment Management (North America) Limited is registered as an investment adviser with the SEC.

The enclosed material is confidential and may not be reproduced or redistributed without the prior written consent of Newton Investment Management Limited. Nothing herein

constitutes an offer to sell, or solicitation of an offer to purchase, any securities.

'Newton' refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Investment Management (North America) Limited and Newton Investment Management (North America) LLC. NIMNA LLC personnel are supervised persons of NIMNA Ltd and NIMNA LLC does not provide investment advice, all of which is conducted by NIMNA Ltd. Except for Newton Investment Management (North America) LLC and Newton Investment Management (North America) Limited, none of the other Newton companies offer services in the US.

The opinions expressed in this document are those of Newton and should not be construed as investment advice.

Newton claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions of Newton and/or a compliant presentation, contact the RFP Team at Newton-RFP-team@bnymellon.com or write to Newton Investment Management Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA, Tel: 020 7163 9000.

Newton Investment Management Limited

BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Tel: 020 7163 9000

Registered in England No. 01371973
www.newtonim.com

BNY Mellon Fund Managers Limited

BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Tel: 020 7163 9000

Registered in England No. 01998251

Registered office: as above.

Both firms are authorised and regulated by the Financial Conduct Authority, are members of the IA and are Bank of New York Mellon CompaniesSM