

NEWTON INVESTMENT MANAGEMENT LIMITED

Notes to the financial statements

For the year ended 31 December 2023

Under section 414 of the UK 2006 Companies Act (the “Act”), the Company is required to include a section 172 statement, describing how it has had regard to those matters set out in section 172 of the Act during the period in question. In addressing these matters, we would like to expand on the following

Business relationships with suppliers, customers and others

- Since transitioning colleagues, clients and assets from Mellon Investments Corporation’s multi asset and equities business into the Company during 2021 (involving the creation of a new legal entity in the US, Newton Investment Management North America LLC (“NIMNA LLC”)), good progress has been made during 2022 and 2023 in integrating the teams and businesses together. On 1 March 2023, the Japanese equity management division of BNY Mellon Investment Management Japan Limited (“IMJ”) transferred to the newly established Newton Investment Management Japan Ltd (“NIMJ”) to align with the BNYM global strategy and to establish the Newton Investment Management Group operating presence in Japan. This transfer has expanded Newton’s capabilities as a global investment business and contributed further resources to a global research team which provides highly valuable multi- dimensional input to the portfolio management teams of all our investment strategies. The newly established NIMJ, whilst not being a direct subsidiary of the Company nor NIMNA LLC, will fall within Newton’s governance structure and will provide reports and business updates to the NIM and NIMNA LLC Executive Management Committee. The expectations of key stakeholders, including clients, employees and regulators, were taken into account when the restructuring plans were developed, with a particular focus placed on ensuring that stakeholders’ interests were fully considered.
The Board annually approves the financial plan and strategic plan and receives updates on key milestones and progress. The Company has a strategy ‘blueprint’ with four strategic drivers that support it.
- The Board oversees the functioning of the Company’s operations including any operational services provided by third parties or affiliates. The Board’s oversight includes any strategic considerations regarding potential outsourcing opportunities, and specifically whether they may bring efficiencies, cost or otherwise, to the business and benefit to its shareholders. Material outsourcing during 2023 included the preparation for outsourcing of the Company’s technology employees (which was effective from 1 Jan 2024) to its parent entity BNY Mellon and the continued delivery of the change project to upgrade the Company’s technology systems including transitioning various functions to the BlackRock Aladdin systems.
- As part of the Company’s governance framework, an Outsourcing Oversight Group generally meets monthly to ensure that all Newton outsourcing relationships are appropriately managed, that all regulatory requirements in relation to outsourcing are adhered to, and that the wider Newton vendor management process is robust and effective.
- During 2023 the Company has increasingly partnered with its parent entity BNY Mellon in the delivery of products for clients. This partnership enables the Company to deliver meaningful progress to its clients through innovative investment solutions.
- The Company’s strategy blueprint identifies three behaviours expected of employees which are ‘listen and adapt’, ‘make the call’ and ‘make it better’. The Company considers these important in order to emphasise to colleagues the value of providing good outcomes to its clients and improve internal efficiency and effectiveness. For example, by listening to its customers, the Company can support them, or ‘adapt’, to enable them to pursue their objectives.
- The Company undertakes a Greenwich Associates survey with clients and consultants (alternating years) to obtain feedback from clients and/or key intermediaries. Results and associated action plans are discussed at the Newton Executive Management Committee.
- The Company conducts a regular client conference (including during 2023), in person and virtually, with a number of speakers from the business speaking directly with clients, customers and intermediaries on topical industry subjects.

- The BNY Mellon Accounts Payable team ensures payments are made on behalf of the Company to suppliers in a controlled manner and on a timely basis. The Company publishes data in line with the Reporting on Payment Practices and Performance UK Regulations.
- The Company implemented the FCA Consumer Duty by the deadline of July 2023. The implementation included making updates to processes, governance structures and management information as necessary. The Company is impacted since it is an investment manager to a range of products that are ultimately sold to UK retail investors. Periodic updates continue to be presented to the Newton Board Risk Committee, with the first annual Consumer Duty Board Report scheduled for July 2024.
- The Company is committed to a culture of “doing the right thing”. Examples of initiatives in this space include policies to cover conflicts of interest and also stringent conditions around personal account trading. The Company's modern slavery statement is available on its website, outlining expectations of standards that all suppliers should adhere to.

Employees

- The Board acknowledges the importance of driving a more diverse, equitable and inclusive culture and the positive impact diversity has on the long-term success of the business.
- The Company has a Diversity, Equity and Inclusion Council (“DE&I”) which is sponsored by two of the Newton. Executive Management Committee members, to support the attainment of the diversity and inclusion objectives for 2023. The Company and DE&I council set the objective to focus on supporting diverse talent, particularly those from lower socio-economic backgrounds, to progress within the Company into more senior roles (including leadership), whilst continuing to increase the Company’s DE&I data capture and reporting (internally and externally); and working with employees and their managers to foster a more resilient, generous and inclusive integrated culture across the Company and NIMNA LLC. DE&I also facilitates the organisation of sports, social, and charitable events for all Company employees.
- The Company participates in non-traditional employee talent sourcing and development routes, including a Returning Military Programme, Vocational Trainee Programme, and an Emerging Leaders Programme. The Company also attracts and supports diverse talent through engagement with programs such as Investment 2020, 10000 Black Interns, The Diversity Project, Women Returners, The Return Hub, HM Treasury’s Women in Finance Charter and the Armed Forces Covenant.
- The Company undertakes an employee engagement plan. This includes regular Chief Executive Officer (“CEO”) all employee town halls focusing on the financial and economic factors affecting the performance of the Company. The Company also undertakes regular CEO and executive sessions, explaining to employees decisions likely to affect their interests, in addition to weekly Friday all employee emails to provide updates on relevant topics.
- Regular employee surveys continued during 2023 to review the Company’s culture from its employees’ perspective. Feedback was consolidated and assessed, and ultimately a set of recommendations prepared to support the continued enhancement of the Company’s culture in line with its stated values. In addition, skip level employee meetings were conducted to provide employees with a further opportunity to share their thoughts about working at the Company.
- The Company is committed to its employees’ career development and provides training and development opportunities to employees, including manager workshops, where: (i) results from the staff surveys may be highlighted; (ii) manager priorities/focus areas are agreed; and (iii) managers share best practices. There are also periodic brown bag lunch forums where individuals can share their personal experiences and professional story with colleagues, for example sharing their journey of how they came to work in the financial-services industry, and really demonstrating that there is no ‘one way’ or ‘right way’ to build a professional career.
- During 2023 a new Leadership Development Programme was established providing a rigorous two-year programme designed to provide opportunities for those employees who have demonstrated both the potential and ambition to develop their skills and capabilities further with the potential to take on expanded leadership roles at Newton in the future.
- A Senior Leadership Team (‘SLT’) was established as a forum for the senior leaders in the business to discuss important business matters, including strategic objectives and how the firm will achieve its business plan. The SLT also acts as an important communication channel, receiving information from the Executive Team, cascading that to employees and escalating matters as appropriate. During 2023 the SLT were challenged to consider innovative ideas across the Company’s business that required multi-functional teams and/or development resource to implement.

- The Company held inaugural ‘blueprint awards’ during 2023 to recognise the efforts and achievements of employees who upheld and demonstrated the three blueprint behaviours (as previously set out). Awards were employee nominated. Additionally, the Company participates in the BNY Mellon VIP (values in practice) awards which is an employee recognition programme.
- The Company undertakes an employee share scheme - ‘LTIP for all award’, (subject to annual approval by the Newton Remuneration Committee) where each employee is awarded a cash sum which tracks the value of the Newton business over a three-year vesting period. For the 2022 compensation awards paid in 2023, all permanent employees received an LTIP for all award.
- To further align employee outcomes with those of the Company’s clients, where an employee’s incentive is subject to deferral it is linked to the performance of a basket of Newton-managed portfolios. By giving our employees an economic stake in the business and the products that we provide to clients we are aligning their interests with those of other stakeholders.
- The Company provides tools, policies and guides that support employee wellbeing, mental health and resilience, including manager training guides, training courses, tips and an Employee Assistance Programme.
- In 2023, the Company released its 2022 Gender Pay Gap Report, covering the year to 5 April 2022. The Company is determined to reduce its gender pay gap going forward and is aware that more work needs to be done. The Company has put in place a number of specific actions and initiatives that aim to improve its gender balance and act as a positive influence on its gender pay gap over time.

Impact on the Community and Environment

- Employees returned to the office in 2022. Those returning to the London office at Queen Victoria Street entered a building transformed by a BNY Mellon-led refurbishment undertaken throughout 2021. The environmental impact of the building was a key consideration for the rebuild, with the Leadership in Energy and Environmental Design (“LEED”) standard used to evaluate energy efficiency levels. The London office was awarded the LEED Gold rating in 2021 reflecting the materials and equipment used and the operation of the building.
- Newton has been a signatory to the UK Financial Reporting Council’s (“FRC”) Stewardship Code since its inception in 2010. The Code represents a set of stewardship principles that embed a high standard of engaged and responsible ownership. It places an expectation on being best-in-class across the full value chain – from ESG integration in the assessment of certain investment opportunities to active ownership and to reporting. The FRC started doing annual assessments in 2021 and Newton has maintained its signatory status. It is an achievement our clients expect from us, and one which we believe affirms the strength of our capabilities and the value of our approach. The assessment was based on our annual sustainability and stewardship report covering our 2022 activities. The Company has been a signatory of the UN Principles for Responsible Investment (“PRI”) since 2007.
- The Company currently runs a broad range of equity, fixed-income and multi-asset strategies, some with a particular focus on Sustainable Investment. Thematic strategies were also launched which enable clients to ultimately access the Company’s long-standing thematic research framework in specific thematic aligned investment strategies.
- A commitment has also been made by the Company to minimize the direct environmental footprint of the business and its contribution to the community and its wider stakeholder base.
- The Company recognises climate change can be a material issue and discloses its efforts on this through the TCFD Reporting process (which it began in 2018) and committed to the Net Zero Asset Management initiative in 2021.
- The Company organises its corporate philanthropic activity around financial education to embrace, educate and engage to achieve positive outcomes. The Company embraces and educates young people from all socio-economic backgrounds via its partnership with the Brokerage (a UK charity) donating £25,000 per year. The Brokerage’s mission is to help disadvantaged young people fulfil their potential through improved awareness and access to professional career opportunities. The Company also engages as a founding supporter of the charity The Centre for Financial Capability via a £20,000 annual donation, and as a founding member of its ground-breaking collaborative project KickStart Money which aims to take financial education to almost 20,000 UK primary school children, catalysing a movement to build a savings culture for the future.
- Company employees support a peer-nominated charity each year (2023 is Love Em) through fundraising initiatives and can leverage its parent entity BNY Mellon’s community impact programme matching scheme, which invites all employees to take up to three days of paid volunteer time per year and receive matching donations for their time.

Standards of Business Conduct

- The Company is regulated by the Financial Conduct Authority (“FCA”) and is registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser under the Investment Advisers Act of 1940. It operates within the rules of the FCA and the restrictions as defined within its regulatory licence.
- The Board conducted an externally facilitated effectiveness review during 2023 to assess how the Company’s governance arrangements compare to industry best practice and regulatory expectations, with no material findings identified.
- The Board received updates and sought assurance from the Company in relation to the implementation and embedding of regulatory change initiatives and compliance with ongoing regulatory requirements.
- The BNYM Code of Conduct questionnaire was sent to all employees in May 2023, it requires an attestation that an employee has complied with the BNYM Code of Conduct.
- Under the FCA’s Senior Managers & Certification Regime (“SM&CR”), the Company is classified as an Enhanced Firm. All Senior Managers, Certified Persons and Conduct Rules (“SMCR”) employees undertake ongoing SMCR training. The objective of SMCR is to reduce harm to consumers and strengthen market integrity, by making individuals more accountable for their conduct and competence. SMCR aims to encourage a culture that sees employees at all levels taking personal responsibility for their actions as well as ensuring that a firm and its employees clearly understand and can demonstrate where responsibility lies. During 2023 employees attended mandatory Conduct Rules training conducted by an external law firm.
- Company employees’ activities are carried out in accordance with applicable process and procedures and where issues arise from liaisons with clients, market practice, regulators or vendors that require senior level consideration, they are addressed through the escalation mechanisms that are built into the robust, Board approved governance framework.
- The Board promotes a high-performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. The Board Remuneration Committee supports the Board to achieve this goal.
- The Board recognises the importance of risk management in the execution of its strategy and the Board has defined the levels of risk acceptable to the Company. This is formalised and monitored through a risk appetite statement.
- The Board retains overall responsibility for approval of Newton’s risk appetite and strategy, including capital adequacy and liquidity of financial resources. The Board Risk Committee is responsible for ensuring that frameworks exist to identify, assess, manage and monitor risk; and for considering the material outputs from these frameworks.
- The Board is responsible for and committed to good corporate governance. In fulfilment of its responsibilities the Board delegates certain functions of oversight, risk mitigation, regulatory compliance, remuneration and other obligatory functions to its committees and, in certain instances, empowers them to make decisions on its behalf.

Acting fairly between members of the Company

- Newton is a wholly owned subsidiary within the BNY Mellon group governed by its Board. It maintains an open relationship with BNY Mellon where ideas and strategic objectives are exchanged and shared, ensuring the Board members remain aligned with the strategic objectives and corporate values of its shareholder whenever appropriate. Across all decisions, the Newton Board is fully committed at the same time to ensuring due regard to the interest of other stakeholders as described above.