NEWTON
Investment Management

March 2018

INPERSPECTIVE

VIEWPOINT

Rational exuberance or irrational complacency?

Brendan Mulhern explains why he believes investors should be more wary in 2018.

NEWTON NEWS

The first launch within our sustainable fund range

Newton Sustainable Global Equity launch

SPOTLIGHT

View from the top

BBC journalist **Emily Maitlis** interviews Newton's CEO **Hanneke Smits**

SURVEY

Let the good times roll

The 2017 Newton Charity Investment Survey

INSIDE OUT

Thoughts from our investment team

Extracts from some of our recent investment-related articles

Part of BNY MELLON

MARK THE DATE
SATURDAY 24 MARCH 2018

THE CANCER RESEARCH UK
BOAT RACE
OXFORD CAMBRIDGE
DONATED BY BNY MELLON & NEWTON INVESTMENT MANAGEMENT

The 2018 Cancer Research UK Boat Race

Supporting
CANCER RESEARCH UK

4.30pm The Cancer Research UK Women's Boat Race
5.30pm The Cancer Research UK Men's Boat Race

BNY Mellon and Newton Investment Management's sponsorship of the Oxford and Cambridge Boat Race has seen some ground-breaking firsts. In 2015 it brought equality to the Boat Race by bringing the Women's Race to the Championship Course in London, and a year later, in a world first, the title rights of the sponsorship were donated to Cancer Research UK.

Our 2017 #PullTogether campaign called for the City to join forces to support Cancer Research UK through a year-long series of fundraising initiatives called CASCAID, which together raised an incredible £2.5 million.

This year, BNY Mellon and Newton Investment Management are proud to be launching 'Future Blues' – a community outreach project that will create a rowing club within every one of the 52 state schools within the four 'Boat Race Boroughs'.

Future Blues will provide a lasting legacy, in terms of generating real change, both in the lives of the young people it touches and also for the sport of rowing.

THE BOAT RACE
FUTURE BLUES
SUPPORTED BY BNY MELLON & NEWTON INVESTMENT MANAGEMENT

#PullTogether

CONTENTS

EDITORIAL TEAM

Ed Gore Browne
Head of communications

Matthew Goodburn
Investment communications

Tom Honer
Investment communications

Ellie Hopgood
Investment communications

WELCOME

Welcome to the March 2018 edition of *inPerspective*, Newton's newsletter for the charity sector.

In some ways it feels as if little has changed in markets over the last year. Some of the optimism that fuelled the almost inexorable rise of equity markets throughout 2017 may have dissipated somewhat in the current volatility, but we believe a range of structural headwinds may continue to impede global growth.

With many asset classes remaining at historically elevated valuations, albeit not at the levels they began the year with, our main article analyses the current backdrop to determine how these potential headwinds might manifest themselves in 2018. Global strategist Brendan Mulhern also reveals why he has continuing concerns over China, an economy that has become a crucial cog in the global growth engine.

Brendan looks at how human behaviour seeks ways to rationalise extraordinary events (in this case, the stratospheric recent run of markets), but often fails to view them within an historical context. The phrase 'rational exuberance' entered the investment lexicon in 2017, and it served as a handy rebuttal to those suggesting that the recent surge in market optimism was akin to the 'irrational exuberance' that Robert Shiller first identified months ahead of the technology bust at the turn of the millennium. With markets currently displaying some of the same traits noticeable ahead of the bursting of that particular bubble, Brendan places a number of other asset bubbles and their respective aftermaths within a historical context.

We also have an outlook for 2018 from Simon Nichols, lead manager of the Newton Growth and Income Fund for Charities.

Our second main feature puts our chief executive Hanneke Smits in the spotlight. At our annual institutional investment conference on 30 November 2017, Hanneke was interviewed by BBC journalist Emily Maitlis and asked to take stock of her first full year at Newton's helm. Hanneke answers a range of questions, from what her business priorities were over those first 12 months, to how Newton is evolving its investment range to meet clients' changing requirements, to the influence of family upon her career to date.

Along with showcasing some of the findings from our 2017 Charity Investment Survey, we conclude with a selection of recent articles from our investment team, on a variety of subjects including China's new 'silk road', trends in environmental, social and governance (ESG) investing and Blockchain.

We hope you enjoy this edition of *inPerspective*.

THE FIRST LAUNCH WITHIN OUR SUSTAINABLE FUND RANGE

Newton Sustainable Global Equity launch

We had some encouraging news late last year from the United Reformed Church Ministers' Pension Trust (URC), which has agreed to seed our new Sustainable Global Equity Fund.

URC's assets have long been with us in an ethical segregated portfolio. However, the client told us that for reasons of administration and governance, it had decided to move to a pooled fund investment with a sustainable investment focus.

At our institutional investment conference on 30 November, our CEO Hanneke Smits referred to our ambitions to launch a range of sustainable funds (see 'Spotlight' on page 11) building on the success of our US sustainable equity capability, and the Sustainable Global Equity Fund is the first such mandate to launch.

Sustainable investing is in its relative infancy in the institutional marketplace, but is clearly gathering significant interest within many parts of our client base, including local government pension schemes, university endowments and pension schemes, as well as the charity and foundation sector. Being an early mover in an area that is attracting genuine interest from so many serious investors is exciting.

Globally, investors are increasingly recognising the importance of sustainable investing, not just for the positive impact it has on the environment and society, but also as a consideration for positive long-term returns.

Long track record

Responsible investment has been core to our approach at Newton for 40 years, being grounded in our belief that responsibly managed companies are best placed to achieve a sustainable competitive advantage and strong long-term investment opportunities.

Our integrated approach to responsible investment relies on an understanding of material environmental, social and governance (ESG) issues.

Our global analysts and responsible investment team consider these ESG issues when assessing the risk and reward profile of each company they evaluate. In our opinion, intrinsic to the understanding of an investment's potential is an appreciation of the quality of the company's management structure, the appropriateness of its internal controls, and the assurance that ESG issues are managed to the benefit of long-term investors.

“Sustainable investing is in its relative infancy in the institutional marketplace, but is clearly gathering significant interest within many parts of our client base.”

Our sustainable strategies are an extension of our existing integrated approach to responsible investment, and we have plans for further launches in this area, including, initially, Sustainable Real Return and Sustainable Sterling Bond strategies.

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.

“The sustainable process incorporates ‘red lines’ to ensure that the companies that we choose to invest in do not violate the UN Global Compact Principles of sustainable corporate performance, or have characteristics which make them incompatible with the aim of limiting global warming to 2°C.”

Our process

Our sustainable strategies will seek to invest in companies that positively manage the material impacts of their operations and products on the environment and society. In addition, they will not invest in companies that we have identified as having material unresolvable ESG risks.

Furthermore, the sustainable process incorporates ‘red lines’ to ensure that the companies that we choose to invest in do not violate the UN Global Compact Principles of sustainable corporate performance, or have characteristics which make them incompatible with the aim of limiting global warming to 2°C. We also incorporate a tobacco exclusion policy.

The sustainable investment criteria are applied for as long as we hold the security, through continual appraisal of the ESG fundamentals, controversy monitoring, engagement with company management and, importantly, active voting.

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

HIGHLIGHTS OF OUR RECENT ACTIVITY IN RESPONSIBLE INVESTING

FROM Q4 2017

Examples of engagement with companies included matters such as:

- ☑ supply chain
- ☑ compensation
- ☑ culture
- ☑ safety and environmental solutions
- ☑ bribery and corruption
- ☑ shareholder rights
- ☑ cyber security

We voted at

48 **AGMs**

\+

22 **EGMs**

on behalf of our clients

We had one-on-one meetings with the management of

208

companies, institutions and sovereigns

We engaged with more than

15

companies **as a result of ESG concerns**

VIEWPOINT

Brendan Mulhern
Global strategist, Real Return team

Over the last year, markets appeared broadly immune to many of the potential dangers lurking in the background. Brendan Mulhern explains why he believes investors should be more wary in 2018.

RATIONAL EXUBERANCE OR IRRATIONAL COMPLACENCY?

Last quarter, we noted that complacency had returned to financial markets. Right on cue, the phrase 'rational exuberance' has entered the lexicon of the investment community.[1] Over the final three months of 2017, the phrase found favour among economists and investment strategists alike. It served as a handy rebuttal to those suggesting that the recent surge in optimism for financial assets trading at the upper end of historical valuation ranges was akin to the 'irrational exuberance' that Robert Shiller first identified months ahead of the technology bust at the turn of the millennium.

Shiller's point was a simple one – avoid overpaying for assets. An examination of financial-market history shows that, when unusual or extraordinary price advances take place, there is a natural tendency among market participants to rationalise why valuation measures that have historically provided a remarkably helpful guide to future returns are no longer relevant.

The lessons of history are readily dismissed in favour of explanations as to why 'this time it's different'. To this end, we believe 'rational exuberance' is nothing but the most recent attempt to ignore the lessons of history – that high valuations have a well-practised habit of turning into poor returns.

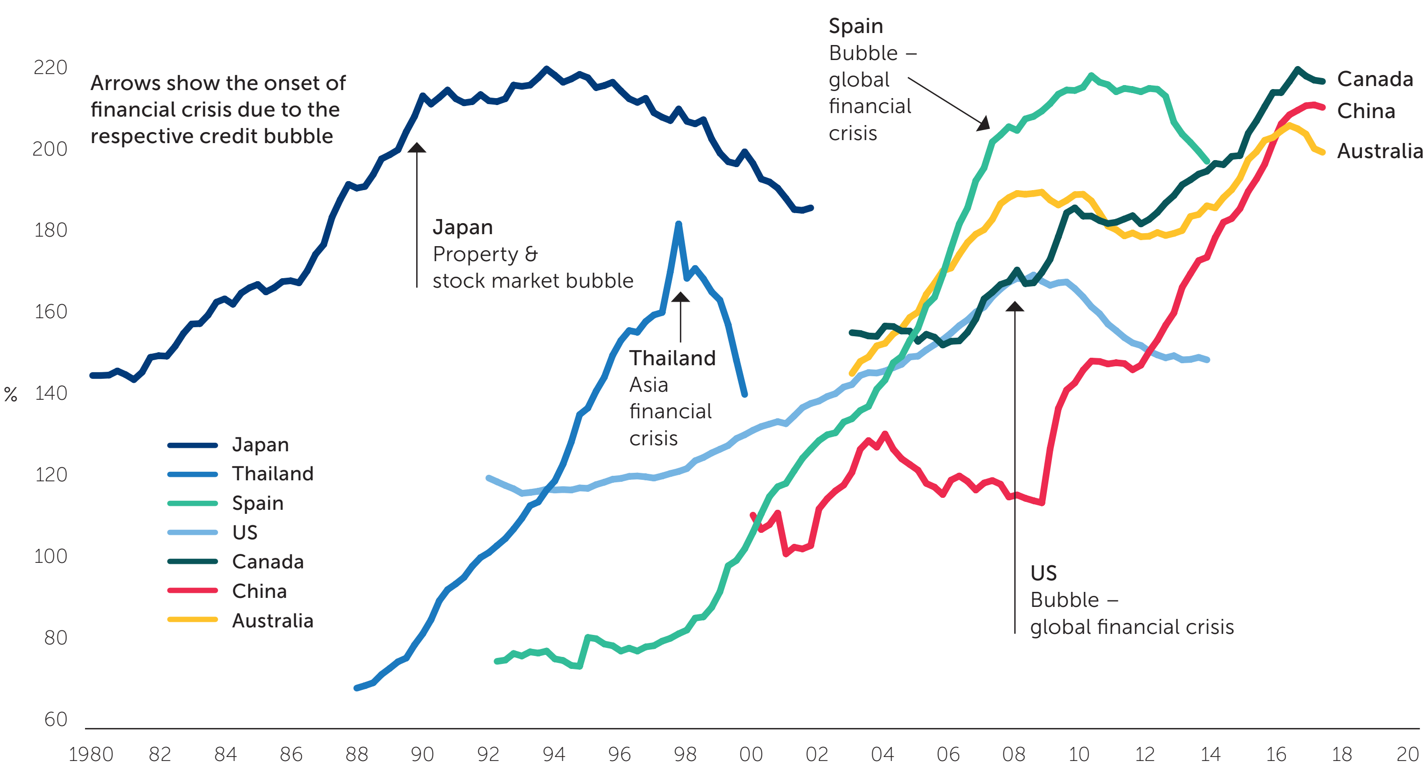
1 https://www.forbes.com/sites/robertlenzner/2017/12/11/goldman-sachs-says-rational-exuberance-could-prolong-bull-market-through-2020/#692fa35a1346

The bullish narrative

In many quarters, however, and despite the more volatile start to February, the positive macro story remains intact and reads as follows: with the global economy growing at the fastest pace since 2010, the first synchronised global acceleration since the financial crisis will continue. As such, the risk of recession is minimal, at least in the near term. Inflation will remain low, ensuring 'gradualism' will still be the order of the day when it comes to monetary policy tightening, and central banks will remain the benefactors of growth and, importantly, financial market participants. Fiscal policy is set to become more supportive, starting with tax cuts in the US. China is once again considered to be a bastion of macroeconomic stability, and a fulcrum for global growth, but our concerns remain.

> "China is once again considered to be a bastion of macroeconomic stability, and a fulcrum for global growth, but our concerns remain."

Chart 1: **Historical evidence: how asset bubbles always burst...**



For illustrative purposes only.
Source: Bank for International Settlements to 30 June 2017.

VIEWPOINT

> “If we are too optimistic when things go smoothly, tensions build up, which could lead to a sharp correction, what we call a ‘Minsky moment’. That’s what we should particularly defend against.”
>
> **Zhou Xiaochuan**
> Governor of the People’s Bank of China
> October 2017

Penny for your thoughts

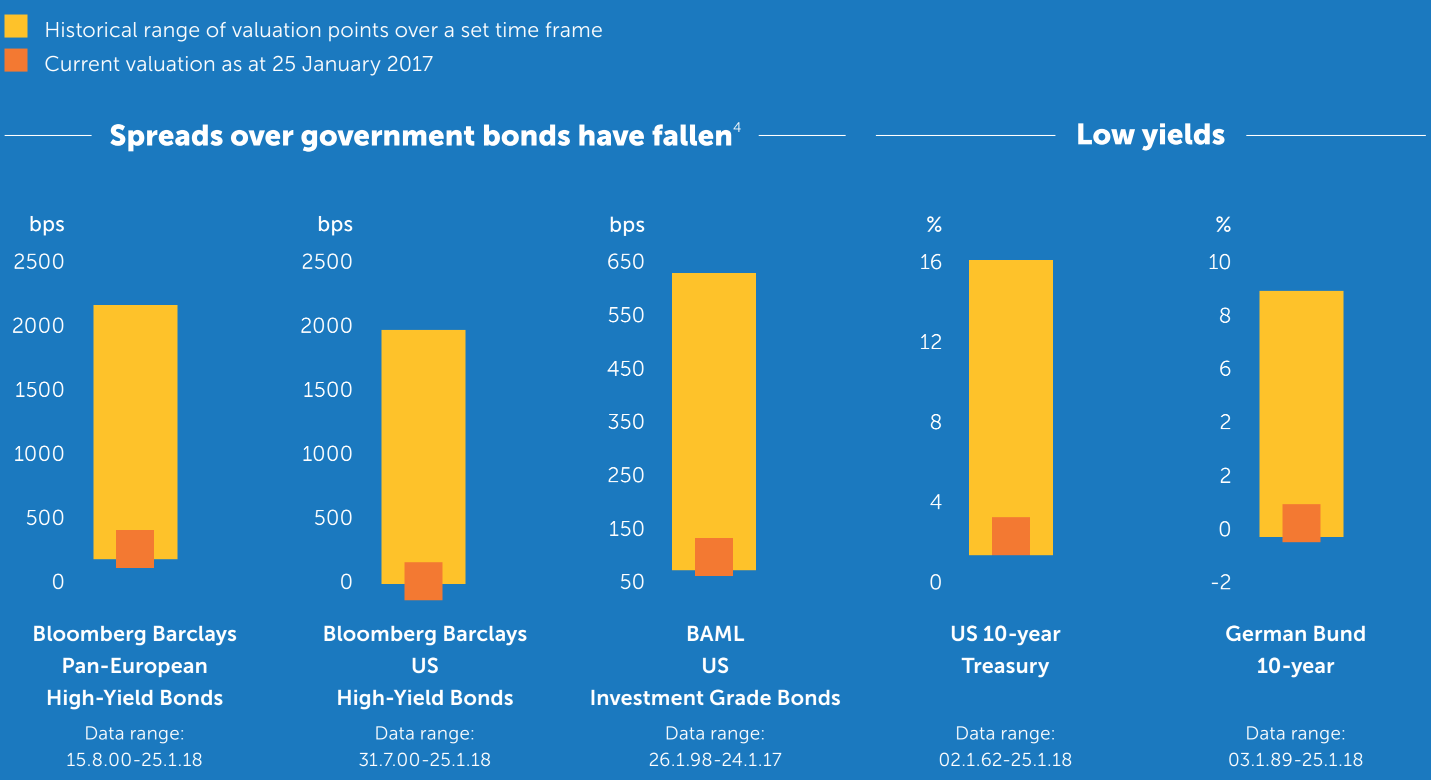
China is perhaps our key concern, and the greatest source of uncertainty for 2018. While there is renewed faith that the Chinese authorities are successfully orchestrating a rebalancing of the economy from an investment-led, export-dependent growth model to one driven by innovation and consumption, it is only by allowing debt to surge that the authorities have been able to meet their gross domestic product (GDP) growth targets since the financial crisis.

The last two years have been no different. Against a backdrop of rapidly rising debt, the outgoing governor of the People’s Bank of China, Zhou Xiaochuan, warned in October that China faces the risk of its own Minsky Moment.[2] “If we are too optimistic when things go smoothly, tensions build up, which could lead to a sharp correction, what we call a ‘Minsky moment’. That’s what we should particularly defend against.”[3] This may be why President Xi has been eager to stress objectives other than economic growth, with the GDP growth target absent from his recent Political Report.

With the 19th Party Congress successfully navigated and President Xi’s consolidation of power complete, affirmed with the enshrining of “Xi Jinping Thought” in the Party Constitution, the policy brakes are being applied to the Coronation Boom. The ongoing fiscal and monetary tightening is sufficient to slow the Chinese economy and to take the wind out of the sails of what have been extremely buoyant Chinese asset prices for the last year or two. The continuing slowdown in the property market suggests this is already playing out.

With China the largest contributor to global growth since the financial crisis (at 40%, versus the US at 16% in 2016), the credit-fuelled economic acceleration of the last two years has been central to the revival of global trade and economic activity around the world. As such, any slowdown in China is unlikely to have only domestic implications.

Chart 2: **How quantitative easing has distorted markets**



For illustrative purposes only. Source: Bloomberg, Datastream, 25 January 2018.

2 A ‘Minsky Moment’ is a sudden collapse in asset prices after a long period of growth, named after economist Hyman Minsky.
3 https://www.bloomberg.com/news/articles/2017-10-19/-minsky-moment-talk-reaches-china-two-decades-since-first-used
4 Spreads represent the difference between the yields of two bonds with differing credit ratings. Here, we show the difference between the yields on two high-yield indices and their government equivalents. The bond spread will show the additional yield that could be earned from a bond which has a higher risk.

“Some commentators point to how risk assets have taken recent monetary policy tightening in their stride as a vindication of the strength of the global economy.”

A paradoxical tightening

The final quarter of the year saw further tightening from the world's major central banks. The Federal Reserve (the Fed) began its programme of balance-sheet normalisation – 'quantitative tightening' – last October, and increased interest rates in December. After ten years of quantitative easing (QE) policy, the Bank of England raised base rates by 0.25% to 0.5% at its November meeting – Mark Carney's first rate hike of his central-banking career. In October, the European Central Bank (ECB) announced an extension of its Asset Purchase Programme until at least September 2018, but with monthly purchases halved to €30bn as of January 2018. Sweden's Riksbank announced the end of its own QE programme in December.

Some commentators point to how risk assets have taken recent monetary policy tightening in their stride as a vindication of the strength of the global economy. Can we even call this a 'tightening', given that central bankers have gone to extraordinary lengths to reassure markets that tightening will be 'gradual', coddling investors with transparency and forward guidance? This gradualism has contributed to a paradoxical tightening – despite rate hikes, financial conditions have actually eased.

However, while this continued easing in the face of interest-rate hikes is remarkable, central-bank asset purchases have arguably relegated policy rates into second place when it comes to influencing financial conditions, especially when framed in terms of financial asset prices.

While the Fed began reducing its balance sheet in October, aggregate central-bank balance sheets have continued to expand over the course of 2017, ensuring a steady flow of liquidity into financial markets. In this sense, tightening has not yet begun.

All good things must come to an end

As we head into 2018, central banks are set to become much less generous. When it comes to QE, the evidence suggests it is the flow rather than the stock that dominates. Changes in the size of central-bank balance sheets look most influential in determining changes in financial-market prices. While market participants may take succour from the fact that the Fed began tapering to the tune of $10bn a month, the central bank will increase the pace by $10bn every three months until it reduces the monthly rate to $50bn. With the ECB now purchasing only half the volume of bonds it was in 2017, central-bank liquidity provisions are set to decline significantly.

With the flow set to steadily fall, eventually turning negative, there are obvious threats to risk assets trading at rarefied levels. If the central banks follow their schedules, what recently equated to $3bn of daily asset purchases will have fallen to at least zero by the second half of this year.

“If the central banks follow their schedules, what recently equated to $3bn of daily asset purchases will have fallen to at least zero by the second half of this year.”

Congratulations Professor Thaler

As we head into 2018, the year of 'rational exuberance', we think it is fitting that Professor Richard Thaler has been awarded the 2017 Nobel Prize in Economics. One of the fathers of behavioural economics, Thaler showed that assuming human beings are predictably irrational is the most rational approach to studying their behaviour.

It is easy to be lulled into complacency by a picture of synchronised global growth, easy financial conditions and multi-decade low levels of financial-market volatility. Yet, while the current macro environment and outlook appear better than at any point in ten years, the last time a similar combination prevailed (2007) proved not to be an opportune time to invest. In places, there is an uncomfortable sense of déjà vu of the complacency that pervaded economic and financial-market thinking a decade ago. The International Monetary Fund's (IMF) words from April 2007 provide a particularly cautionary tale: "Favourable global economic prospects, particularly strong momentum in the euro area and in emerging markets led by China and India, continue to serve as a strong foundation for global financial stability".[5]

Then, as now, when the macroeconomic environment is as good as it gets, valuations are rich, and policy is being tightened, we believe it is the time to emphasise caution, with an eye fixed firmly on capital preservation.

Rather than 'rational exuberance', we see 'irrational complacency' as a more fitting title for the enthusiasm that has pervaded markets.

5 IMF Global Financial Stability Report, April 2007.

Market outlook

Simon Nichols
Lead manager, Newton Growth and Income Fund for Charities

As we look ahead, one of the key issues financial markets must contend with is the sustainability of financial-asset prices as central banks first taper, and then reverse, the stimulatory policy measures of the last decade. Authorities must walk the tightrope of balancing economic growth with reduced liquidity, while companies balance potentially higher funding costs against the risks and returns on their potential investment opportunities. These paths are inevitably intertwined, and volatility could increase from the historically low levels witnessed over the recent past.

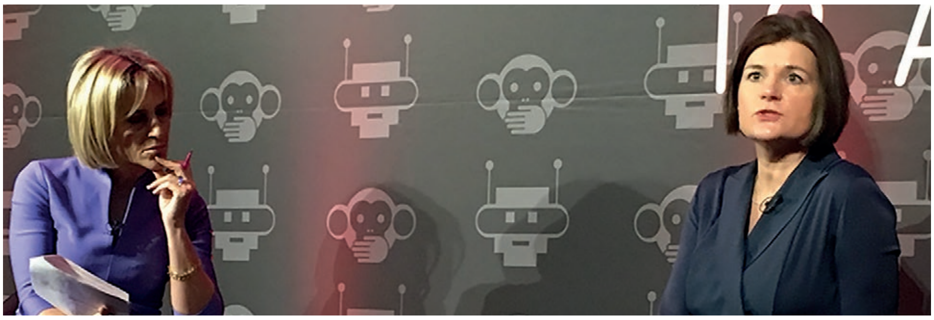
Indeed, having seen heightened volatility in equity markets in the first few days of February, the biggest question facing all investors is whether the favourable conditions witnessed over the last quarter of 2017 and the first month of 2018 can continue. In the US, measures to gradually reduce the size of the Federal Reserve's balance sheet are underway and interest rates were increased again last December. The nomination of Jay Powell as new chair of the US Federal Reserve Board, and a further three rate increases anticipated over the course of 2018, have done little to strengthen the US dollar, however, as the currency has continued to weaken, as it did for much of last year.

The European Central Bank (ECB) announced it would slow the rate of its asset purchases over the course of 2018, which on current estimates is likely to see net withdrawals at some point in 2019. In the UK, inflation exceeded 3% once again and, with the effect on economic growth of 2016's Brexit referendum less severe in the short term than had been expected, the Bank of England raised interest rates for the first time in over a decade, reversing the emergency cut put in place in 2016. However, the yield on a 10-year UK government bond ended the year at much the same level as it had started it.

Brexit negotiations moved onto the next stage following broad agreement on citizens' rights, 'divorce' payments and the Irish border. However, further negotiations are likely to prove just as difficult, and pressure remains on the UK government to provide some certainty to businesses in 2018. We will continue to assess the growth outlook and valuation of the companies within the portfolio, and strive to hold those assets we believe are best placed to weather this environment.

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.

SPOTLIGHT



In a wide-ranging interview at Newton's annual investment conference, BBC journalist **Emily Maitlis** asked CEO **Hanneke Smits** to take stock after a busy first full year at Newton's helm. At a time of significant change for the asset management industry, Hanneke explained why her changes equate to 'evolution rather than revolution' and discussed continuing initiatives designed to 'future-proof' the company. In emphasising the partnership between Newton and its clients, Hanneke also spoke about how she sees the firm's role as a leading active asset manager developing, her first impressions of Newton, and the influence of her family on her life and career.

VIEW FROM THE TOP

Emily Maitlis (EM): You've been at Newton for over a year now. How would you summarise what you've been doing?

Hanneke Smits (HS): Firstly, I have been doing a lot of listening: to our clients, our staff, our BNY Mellon distribution partners, and industry bodies, to understand what we were doing well and what we were not doing so well, and in particular to understand our clients' evolving requirements. There were two areas of immediate focus: addressing governance issues and developing a strategic plan.

This led to a plan which comprised a number of initiatives, such as reducing complexity within the business and emphasising our commitment to grow our international footprint outside the UK while maintaining our strong presence within it. Meanwhile, we will continue to focus on a number of key areas, such as outcome (absolute-return) and income-orientated strategies, and we will look to grow our sustainable fund range. Finally, it involves investing in technology tools and (human) resources to help us better articulate our investment process, and specifically how themes are used within our strategies.

EM: In many ways, Newton is remarkably stable. Next year is the firm's 40th anniversary, and you are only the third CEO. Can you really hope to introduce change?

HS: I view change as the one constant in all our lives. In the case of changes at Newton, from my perspective it is very much about 'evolution' rather than 'revolution'. I am not changing the investment process or idea-generation engine, but I have made some changes after listening to staff and clients, which I believe will be in the best interests of our clients. I have simplified the management structure and have brought in a chief investment officer, Curt Custard, who, unusually for Newton, is an external hire. He will help to articulate the investment process and quantify the impact of themes on that process. Overall, however, his role is to enhance the investment process rather than re-engineer it.

"I am not changing the investment process or idea-generation engine, but I have made some changes after listening to staff and clients, which I believe will be in the best interests of our clients."

Similarly, Julian Lyne, our chief commercial officer, has been given oversight of our client partnerships, to help ensure that we are equipped to deliver the appropriate investment outcomes for our clients, and also that we are ready to meet our regulatory responsibilities. For example, in preparing for MiFID II (new financial services regulations), we announced in July 2017 that we would absorb external research costs because it is the right thing to do for our clients. Research is our engine; it is important to augment our strong internal research team with external research which Newton will pay for.

EM: What are some of the obstacles you've faced in implementing changes?

HS: Some of our obstacles were internal ones because change can often be difficult. It is about bringing your staff with you on the journey. Alongside listening to clients, I also listened to staff. I asked what was working, what was not working, and what should be our priorities for 2017. I summarised the feedback at the end of 2016, which then led to the development of 2017 objectives for the firm.

EM: You've spent your career in private equity, which is the most active form of investment there is. What lessons can it bring to active investment management to prove its relevance?

HS: There are two ways to think about the relevance of private equity in the context of Newton: first, from the investment perspective, and secondly from the ownership perspective. In both areas, private equity shares the same values as Newton. The investment perspective in private equity is similar to Newton in that it takes the long-term view and understands the importance of investing in research. From the ownership perspective, private-equity investors are active stewards of capital (as Newton is). Newton also believes in active engagement and good governance. For example, over the last year, Newton has voted at 510 Annual General Meetings or Extraordinary General Meetings,[1] voting with the company management on 55% of occasions and against on 39% of occasions. This shows that we take active engagement and ownership very seriously.

> "Ownership also means reviewing our governance at all times, and, as with private equity, aligning our teams' incentives with our clients by creating better links between investment performance, business results and compensation."

Ownership also means reviewing our governance at all times, and, as with private equity, aligning our teams' incentives with our clients by creating better links between investment performance, business results and compensation. In terms of staff turnover, planned turnover is normal and healthy, while unplanned turnover is undesirable. Our most recent changes – with Iain Stewart reducing his time on the Real Return strategy and Christopher Metcalfe retiring – were planned, and it was part of my initial objectives that we clarify these time horizons.

EM: What matters to you professionally and personally? What do you care about?

HS: Having grown up in the Netherlands, there are a number of things that were ingrained in me by my parents and grandparents. My father's parents were farmers who went bankrupt in the 1930s. They were bailed out by their siblings, who helped them to repay their debts. My paternal grandfather went to agricultural college, which eventually led him to get a job at the ministry of agriculture, and to retire on a civil service pension. He was determined that his children should be well educated and understand the importance of savings and pensions. My mother's father died in the Far East at the end of the Second World War, leaving my grandmother with a wartime pension, which she invested in her daughters' education. Both of my parents have always instilled in me the importance of education and savings, which is clearly a crucial area of focus at Newton.

My parents also stressed the importance of treating girls and boys equally in terms of giving them access to education. Thinking about diversity more broadly, I believe that it is very important for an investment firm to employ a varied workforce because diversity (by gender, social and economic background, nationality, etc.) leads to different perspectives, better discussions and, ultimately, better decisions.

> "Diversity (by gender, social and economic background, nationality, etc.) leads to different perspectives, better discussions and, ultimately, better decisions."

To nurture greater diversity, we have a number of schemes and training programmes in place. Our vocational placement programme has delivered four graduates, with a further eight currently participating. We also use unconscious bias training, and have a returning military programme, while around 6% of Newton staff are taking advantage of flexible working. I believe these initiatives are helping us to bring in a diverse and motivated workforce to achieve better investment outcomes and a positive client experience.

1 As of 30 September 2017.

> "We hope to be leading in the responsible investing space, and we are enhancing our environmental, social and governance (ESG) capabilities through the launches of sustainable fixed income, global equity and Real Return funds."

Of course, being part of a leading asset-management group means giving something back too, both to the industry and to society. In our joint initiatives with BNY Mellon, such as the Cancer Research UK Boat Races, and as part of CASCAID, we have generated more than £2.5 million for Cancer Research UK. We are also a founding member of KickStart Money, a programme which aims to make financial education a core part of the national primary curriculum.

With respect to me, I am a trustee of the charity Impetus-PEF, which aims to keep 11-24 year-olds from disadvantaged backgrounds in education and help them enter the work environment, and I sit on the advisory council of the Investment Association, as well as on the steering committee of Level 20, a group which I co-founded and was the first chair of, which aims to deliver greater representation for women across all levels in senior roles in private equity.

EM: What do you think will be the biggest themes and trends driving investment choices over the next 12 months? In a year's time, what will we be discussing?

HS: We will probably still be discussing Brexit, but I hope not! I would rather be talking about how we are leading in the responsible investing space, and how we have enhanced our environmental, social and governance (ESG) capabilities through the successful launches of sustainable fixed income, global equity and Real Return funds. And I hope we will also be able to look back on some excellent investment performance.

The interview was conducted at Newton's annual institutional investment conference at County Hall in London on 30 November 2017.

> "Being part of a leading asset-management group means giving something back too, both to the industry and to society."

A YEAR OF ANNIVERSARIES

Newton will be 40 years old on 6 June this year, and we will be marking this milestone in a number of ways that we hope will engage with our communities and enable us to look forward with confidence to the next 40 years. We will be unveiling some initiatives around the event shortly.

Diversity

Newton is also a proud sponsor of the Vote 100 campaign, the UK Parliament-led initiative which celebrates the centenary of the first group of British women being given the right to vote.

As part of the wider BNY Mellon group, we have a highly engaged Women's Initiative Network that serves as a catalyst for change, bringing female and male allies from all over the organisation together for the advancement of women. Last year, we also became a founding member of KickStart Money, a programme aiming to make financial education a core part of the national primary school curriculum.

We are also striving to nurture greater diversity within our business, and have developed a number of schemes and training programmes to aid us. Our vocational placement programme has so far delivered four graduates, with a further eight currently participating. We also undertake unconscious bias training, and use a returning military programme, while more than 6% of Newton's staff have taken advantage of flexible working. We believe these initiatives can help us to achieve better investment outcomes.

Future Blues

Our joint initiative with BNY Mellon in delivering equality of funding and stature to the men's and women's Oxford and Cambridge University Boat Races not only levels the sporting playing field but ensures that women are provided the same networks later in life as their male counterparts. In 2018, BNY Mellon and Newton IM are immensely proud to launch Future Blues, which aims to build a lasting legacy in areas such as upward social mobility, diversity and education. Future Blues is a community outreach project which will support state school participation in rowing in the four London boroughs that border the Boat Race Championship Course. The project will provide state school students, who wouldn't otherwise have had the chance, an opportunity to get involved in the sport. The aim is to increase the total number of school rowing clubs in the UK by 50% with the support of BNY Mellon and Newton.

SURVEY

Jeremy Wells
Client director

LET THE GOOD TIMES ROLL: THE 2017 NEWTON CHARITY INVESTMENT SURVEY

For a fourth consecutive year, we conducted a survey of a cross-section of leaders and decision makers in the UK charity sector. In spite of political challenges, charities appear to be broadly optimistic about the future, having enjoyed strong performance from their investment portfolios. Charities also continue to make progress on diversity, and ethical investment issues remain important.

Between mid-May and the end of July 2017, we surveyed a total of 93 charities, representing some £10 billion of investment assets, with a record date for data responses of 31 March 2017.

The survey covers diverse aspects of the management of charitable portfolios, from investment returns achieved, to the setting of targets, developments in ethical policies, and the stewardship of portfolios. For many of the questions in the survey, we now have four years of answers, so can identify evolving trends in charity thinking on particular issues, as well as changes of direction over the last year.

The average charity in the 2017 survey has investment assets of £112 million, making respondents to the Newton Charity Investment Survey typical of larger charities in the UK. Respondents were well spread across size and type of charity organisation.

Among other things, we asked charities:

- how their portfolios performed over the last year, and what returns they expect to see over the coming years
- how they allocate their portfolios between different asset classes, including alternative assets
- whether they are investing ethically, including whether they have discussed or implemented a fossil-fuel exclusion
- how they expect the UK's decision to leave the European Union (EU) to affect both their investment portfolios and their charitable work
- about the gender and diversity of their trustee boards

The results of the survey are presented in aggregate to maintain the confidentiality of individual survey participants' data. The key findings of the survey include:

Charity trustee boards have a better gender balance than is seen in the UK corporate sector

Women make up 33.8% of the average charity trustee board. This represents an incremental increase from two years ago, and compares favourably with the percentage of women on FTSE 100 boards (27.6%). However, 41% of charities still believe there is more to be done in terms of diversity.

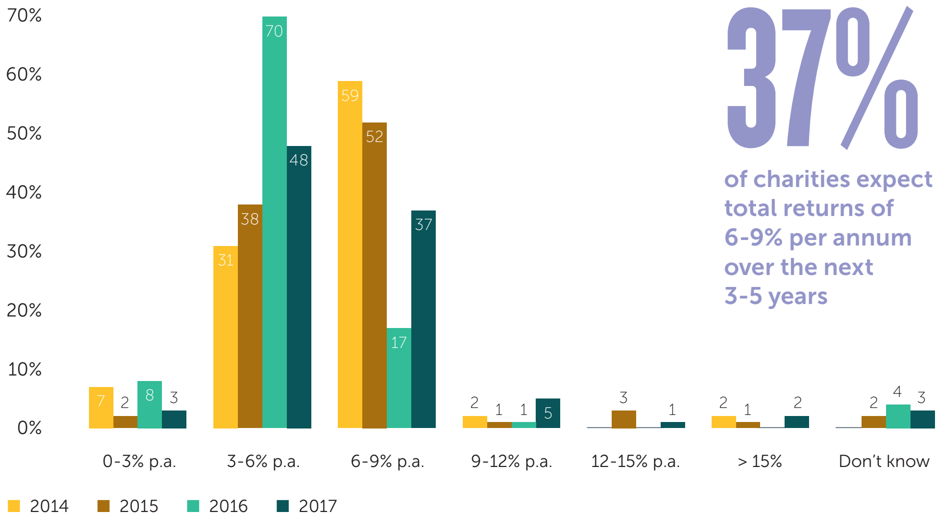
27.6%
of board members of FTSE 100 companies are women

33.8%
of trustees of the average charity board are women

Charities have enjoyed strong performance from their investment portfolios, and are relatively optimistic about future prospects

50% of respondents reported a total gain of 12% or more during the 12 months to 31 March 2017. Looking ahead, 37% of charities expect total returns of 6-9% per annum over the next 3-5 years (rebounding from 17% in 2016), while 8% expect annual returns of 9% or more, a response approximately twice as optimistic as any previous survey.

Expected annual total return over the next 3-5 years



Data set: No. of respondents: 2014: 58; 2015: 94; 2016: 76; 2017: 92

37%
of charities expect total returns of 6-9% per annum over the next 3-5 years

22%

of charities are now withdrawing 4-4.9% of their portfolios

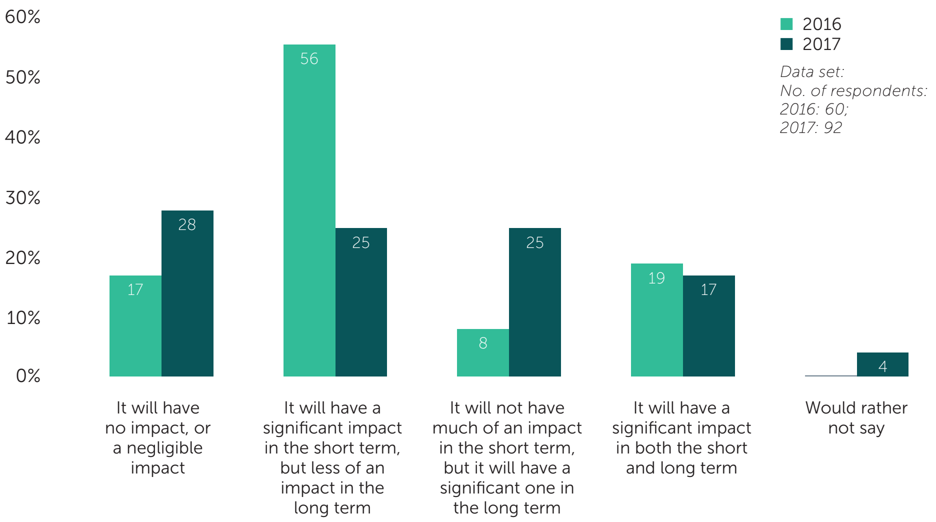
The amount charities are willing to take out of their investment portfolios to spend has edged higher, after the caution of 2016

Some 22% of charities are now withdrawing 4-4.9% of their portfolios, a jump from 16% in 2016. Charities also have heightened expectations of what represents a sustainable withdrawal rate, with a significant fall in responses indicating a rate of 2-2.9% and a corresponding rise in responses indicating a rate of 3-3.9%.

A clear majority of charities expect Brexit to affect their investments negatively, but a majority are less concerned, meanwhile, about its impact on their charitable work

Of the 68% of charities that believe Brexit will affect their portfolios, 73% believe it will have a negative impact on capital and 81% think it will adversely affect income. However, 60% of respondents feel that Brexit will have no or a negligible impact on their charitable works, with the negative impacts expected to be most damaging to the charities' beneficiaries.

Likely impact of the UK's vote to leave the EU on charity investment portfolios



Overall exposure to equities has increased compared to 2016, while allocation to bonds has been reduced

The strong equity returns that charities have enjoyed over the 2017 survey's reporting period will have contributed to the overall increase in equity allocation. The 2017 findings broadly support the trend we have seen over time of a declining allocation to UK equities and a corresponding rise in allocation to overseas equities. However, while larger charities reported their exposure to UK equities either flat or down in 2017, smaller charities reported an increased allocation.

Most charities are satisfied with the returns delivered by their alternative investments, but lack of knowledge remains an issue

88% of charities with alternative assets expressed satisfaction with the returns delivered by these investments. However, only 42% believe alternative investments offer value for money, with 47% saying they do not know. Furthermore, only 20% of those charities that do not currently use alternatives say they would consider using them in future.

68%

of charities believe Brexit will affect their portfolios

60%

of charities expect no, or negligible, impact from Brexit on their charitable work

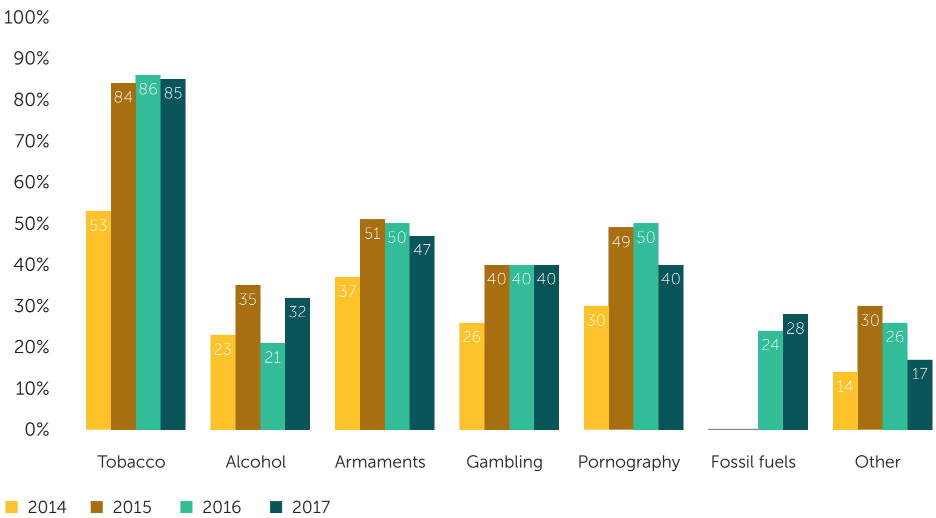
88%

expressed satisfaction with returns delivered by alternative investments

Ethical investment remains important for charities, and there is a growing desire to see ethical policies applied to investments held indirectly through pooled funds

Over half of respondents to the survey identified as ethical investors. During the last four years, the proportion of ethical charity investors applying their policies to indirect investments has risen from 53% in 2014 to 62% currently. The 2016 survey highlighted that there are now a 'big six' of ethical exclusion categories, including fossil fuels, and this has been reinforced by the 2017 survey results.

Areas covered by ethical exclusion policy



Data set: 2014: 33; 2015: 43; 2016: 42; 2017: 47

Charities remain predominantly committed to active management strategies rather than passive (index-tracking) strategies

68% of charities in 2017 use only active portfolio management strategies, compared to 66% in 2014. Smaller charities are the most likely to use only passive strategies, perhaps because these have lower management costs and require less trustee oversight than active strategies. The largest charities are the most likely to use a combination of active and passive.

The regulatory environment has become tougher, most charities believe

The two most commonly cited areas were data security and the use of personal information (mentioned by 51% of respondents) and pension changes (auto enrolment).

Look out for further details of the 2018 Newton Charity Investment Survey which will be launching soon.

Want to find out more?

To download the full version of the survey report, visit:

newtonim.com/charitysurvey

For further information please contact:

jeremy.wells@newtonim.com

Jeremy Wells

Jeremy is a client director on the charities team.

Prior to joining Newton in 2012, he accumulated a range of high-level experience at leading investment institutions, including Scottish Amicable Investment Management, PDFM and Gartmore, and most recently as head of charities investments at JP Morgan.

Jeremy is an associate member of the UK Society of Investment Professionals, and holds an MA in Modern History from Oxford University.

INSIDE OUT

Sample some of the latest thinking from our portfolio managers.

The following pages contain a selection of recent investment output, including views on China's huge infrastructure spending plans, the latest trends in environmental, social and governance (ESG) investing, and the potential future consequences of the rapid rise of Blockchain technology.

THOUGHTS FROM OUR INVESTMENT TEAM

Naomi Waistell
Naomi is a portfolio manager on the emerging and Asian equity team.

ONE BELT, ONE ROAD AND THE $900BN DOLLAR QUESTION

China has a grand vision for its One Belt One Road project, but can it become a reality?

Grand designs

In May 2017, China's President Xi Jinping officiated at the largest event to take place in Beijing since the 2008 summer Olympics. Delegates from some 130 countries attended, as did 29 heads of state – including Russia's Vladimir Putin and Turkey's Recep Tayyip Erdoğan. The heads of the United Nations, the International Monetary Fund and the World Bank were also in attendance.

The agenda: the official launch of a latter-day Silk Road – a vast infrastructure project spanning three continents linking China with Europe, central Asia, the Middle East and Africa by road, rail, sea and air.

In his speech marking the launch, President Xi Jinping drew comparisons between the historic Silk Road (think camels laden with silks and spices winding their way through vast steppes and deserts) and the modern One Belt One Road (OBOR) project.

According to President Xi, the development will "unleash new economic forces for global growth, build new platforms for global development and rebalance economic globalisation so mankind can move closer to a community of common destiny".[1]

Rhetoric or reality?

The rhetoric is bold and ambitious, but the key question for investors is whether the hype can match the reality? Will the grand visions encompassing everything from power stations to gas pipelines, technology hubs to motorways reach fruition, or – like so many centrally mandated infrastructure grand projects of the past – fizzle out in the face of hard facts?

OBOR is stunning in its scope. With an estimated price tag of some US$900bn,[2] the scheme has rightly drawn comparisons with the Marshall Plan, the monumental US economic support effort that helped rebuild Western Europe at the end of the Second World War. It encompasses roughly 60% of the world's population and around 30% of global GDP,[3] and has the potential to create enormous prosperity for the people living in the countries it affects.

1 President Xi Jinping, May 2017.
2 Financial Times: *'One Belt, One Road – and many questions'*, 14 May 2017.
3 Fund Business Intelligence Centre: *'The Belt and Road Initiative: 65 Countries and Beyond'*, May 2016.

> There are still question marks over how much of what has already been announced will actually come to pass.

Mixed motives

Nevertheless, investors should not be dazzled by the project's scale but should take a considered view of the project and what it could achieve. For one thing, like the Marshall Plan before it, OBOR is about more than just economics: it also serves a set of wider geopolitical and strategic ends.

Crucially, OBOR should help to reduce China's dependence on the Straits of Malacca, the narrow sea lane separating the Malay Peninsula from Sumatra, through which most of its imports and exports flow. Around 80% of China's oil imports pass through this strategic choke point, which makes Chinese prosperity immensely vulnerable to any form of maritime embargo.

Therefore, a new port alongside rail and road links in Pakistan provides direct access to the Indian Ocean and the Gulf, while pipeline agreements such as the Central Asia-China natural gas pipeline, which runs from Turkmenistan through Uzbekistan and Kazakhstan to Western China, will allow unrestricted overland transhipment of oil and gas. Russian exports of coal, oil and energy to China are also expected to rise as rail links and pipelines between the two countries improve.

OBOR also fulfils another vital strategic goal: the soaking up of China's vast excess industrial capacity. Chinese companies are expected to dominate the construction phase of many of the larger infrastructure projects, with Chinese materials likely to be used. This should take the pressure off domestic overcapacity in sectors such as steel, cement and aluminium – and we would expect China's heavy industry sector to see direct benefits as a result.

Bumps in the road

While the strategic rationale of OBOR might make sense for China, there are still question marks over how much of what has already been announced will actually come to pass. In railways for example, high-speed projects associated with OBOR in Libya, Mexico, Myanmar, Venezuela and Indonesia have either been cancelled or are facing major delays. According to an investigation by the Financial Times, cancellations and delays account for at least 25% of the combined US$143bn value of overseas high-speed rail schemes initially announced as part of OBOR.[4]

The One Road maritime strategy has been far from plain sailing too. Even though China has secured contracts to build a port in Myanmar, a deal with Bangladesh fell through in 2016 when Dhaka opted for an offer from Japan instead. A US$1.1bn deal to construct Hambantota Port in Sri Lanka was scaled back after it sparked protests – and other projects from Europe to Africa have been met with differing degrees of suspicion as to China's true intentions.

This is an important sticking point. Neither Japan nor the US are directly involved in OBOR. India – a key regional player – was also notable by its absence from the May launch event in Beijing. Partly this was a response to China's involvement in the US$62bn China-Pakistan economic corridor, which exacerbated region tensions, not least because part of the development is in the disputed border region of Gilgit-Baltistan.

China has done an incredible job of moving from a predominantly agricultural economy to its current status as the manufacturing hub of the world, and further towards rebalancing to a consumer-driven model. But if it wants its grand vision of OBOR to be a success, part of its strategy will need to be about addressing the concerns of countries like India, the US and Japan, which can be said to be ambivalent about OBOR at best.

Deal or no deal

Notwithstanding these considerations, recent data highlights how at least some parts of OBOR seem to be gaining a head of steam. During the May launch event, for example, China signed 270 cooperation deals, covering telecommunications, infrastructure development, trade promotion and finance.[5] Year to date, Chinese acquisitions in the 68 countries officially linked to OBOR totalled US$33bn, surpassing the US$31bn tally for the whole of 2016. This rise is all the more remarkable given that it came against a 42% fall in overall outbound mergers and acquisitions (M&A) from China.

At first sight, the numbers are impressive, but here too other factors could be at play. We know China has cracked down on foreign investment, tightening capital controls and raising restrictions on foreign M&A – but this doesn't seem to have staunched the enthusiasm for investment in OBOR projects.

For us, this raises the question: is investment by Chinese firms in the New Silk Road simply capital flight by another name? If so, we could simply be looking at gross misallocation of capital.

> For us, this raises the question: is investment by Chinese firms in the New Silk Road simply capital flight by another name?

4 Financial Times: *'China's railway diplomacy hits the buffers'*, 17 July 2017.

5 Reuters: *'Exclusive: China's Belt and Road acquisitions surge despite outbound capital crackdown'*, 16 August 2017.

Rob Stewart
Rob leads the responsible investment team and charity investment at Newton. He also manages a number of portfolios which have an ethical/SRI mandate.

TREND SETTING: THE YEAR AHEAD IN ESG

We explore some of the key trends our responsible investment team will be looking at in 2018.

Through our work as a responsible investment team, we aim to achieve a thorough understanding of the environmental, social and governance (ESG) factors that might influence investment opportunities and risks, and we seek, where appropriate, to try to improve the behaviour of investee companies.

We publish reports quarterly on our responsible investment activities, which provide details of voting decisions and research and engagement undertaken by the team. In addition, we publish thematic reports on topical and relevant ESG issues.

Below we set out some of the key trends we'll be looking at over 2018.

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.

Trend 1: sustainable investing

Across the world, investors are becoming more interested in the integration of ESG considerations in their portfolios in pursuit of better risk management and sustainable, long-term return generation. This reflects a developing global interest in sustainability issues more generally, as well as a growing desire (especially among the millennial generation) to invest in companies which manage positively the material impacts of their operations and products on society.

We have seen notable client interest for sustainable products over the last year which we only expect to increase. In February, we launched a new Sustainable Global Equity Fund as part of our plans for a sustainable strategy range which builds on our work in responsible investing over the last 40 years. This range includes a Sustainable Real Return strategy and a Sustainable Sterling Bond strategy, as well as a Sustainable US Equity strategy which was launched for US investors in May 2017.

> This year, for the first time, asset owners will be asked in the PRI's (Principles for Responsible Investment) annual survey to disclose how they are integrating climate thinking into their strategies.

Trend 2: climate change

Climate change is likely to remain at the forefront of financial market participants' minds in 2018 and beyond, and we expect investors to be challenged to disclose what they are doing in terms of identifying and taking action on climate-related risks and opportunities. We have received a number of client and prospect queries on this matter, and this year, for the first time, asset owners will be asked in the PRI's (Principles for Responsible Investment) annual survey to disclose how they are integrating climate thinking into their strategies.

Investors are increasingly joining together to collaborate on how to tackle the issues and take advantage of the opportunities. We believe this is an effective way for the industry to make progress in this area, and in November last year we signed up to the Institutional Investor's Group on Climate Change (IIGCC), a group of 150 members representing over £19 trillion of assets under management. The forum provides access to international policymakers, collaborative engagement groups and discussions at the forefront of climate policy and investment practice. We have also joined another collaborative investment group, Climate Action 100+, a five-year investor-led initiative (with combined assets under management of £20 trillion) which works to engage with the world's largest corporate greenhouse-gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Companies themselves are also increasingly being held to account on their commitments in this area. Take the Task Force on Climate-related Financial Disclosures (TCFD) for example. Spearheaded by Mike Bloomberg and Mark Carney, the organisation provides recommendations on the climate-related information that companies should disclose to help investors make sound financial decisions. We will continue to integrate the recommendations made by the group in our engagement with companies over the coming year, and a member of our team sits on the PRI TCFD advisory group, which aims to establish recommendations for company engagement on this topic.

Trend 3: cyber security

In 2017, there were a number of high-profile cases of computer hacking – most notably relating to the WannaCry software which hit over 10,000 organisations and 200,000 individuals, and the Equifax attack, which exposed the data of about 143 million Americans. The sheer scale of both these incidents was perhaps an insight into the quality of global corporate IT systems and the extent of the challenge to update and protect critical systems and sensitive data.

We suspect that many businesses are woefully unprepared for this risk; PwC's 2016 Global Economic Crime Survey found that only 37% of the organisations surveyed had a cyber-incident response plan.[6] Companies are unlikely to be able to stop attacks, so a well-planned response is vital. Compounding the issue is the fact that hackers are able to act much more quickly than companies.

Furthermore, it isn't just the risk posed by external threats which companies need to consider, but also the risk that intellectual property is subject to internal theft. While this may not be front of mind when evaluating security gaps, it is a serious consideration for companies that rely heavily on research and development.

Research suggests a significant need to improve board-level, strategic understanding of cyber risks at companies, with accounting firm EY, for example, revealing that 87% of board members and C-suite executives lack confidence in their organisation's level of cyber security.[7] As such, this is a key responsible investment research and engagement topic for us across all sectors.

Trend 4: holding individual directors to account

A number of corporate governance commentators are currently discussing the potential use of a currently underused section of the UK Companies Act as a means for shareholders to hold individual company directors to account. Section 172 of the Act states that 'duty to promote the success of the company' includes calls for directors to always act in the companies' best interests while having regard for its employees and the impact of the company's operations on the community and the environment.[8] We don't know yet exactly how this will play out as the legislation is quite open-ended, but we are watching this area with interest.

Trend 5: Brexit side-effects

As London fights to retain its position as the dominant financial centre in Europe, there is the potential for shareholder/investor protection to be reduced for the sake of short-term wins. There is a possibility, for example, that listing rules which protect minority investors will be relaxed in order to allow companies to list on the UK market. Again, this is an issue we are monitoring carefully.

6 http://www.pwc.com/gx/en/services/advisory/forensics/economic-crime-survey/cybercrime.html
7 http://www.ey.com/Publication/vwLUAssets/ey-global-information-security-survey-2016-pdf/%24FILE/GISS_2016_Report_Final.pdf
8 https://www.legislation.gov.uk/ukpga/2006/46/contents

Paul Markham
Paul is a portfolio manager on our global equity team, as well as co-leader of the innovation themes group, which explores investment opportunities across emerging technologies.

AROUND THE BLOCK

Blockchain technology could revolutionise financial services.

Does Blockchain represent the future of financial transactions? This question is being asked more and more frequently by global financial and business leaders who are exploring what many believe to be a revolutionary new approach to doing business.

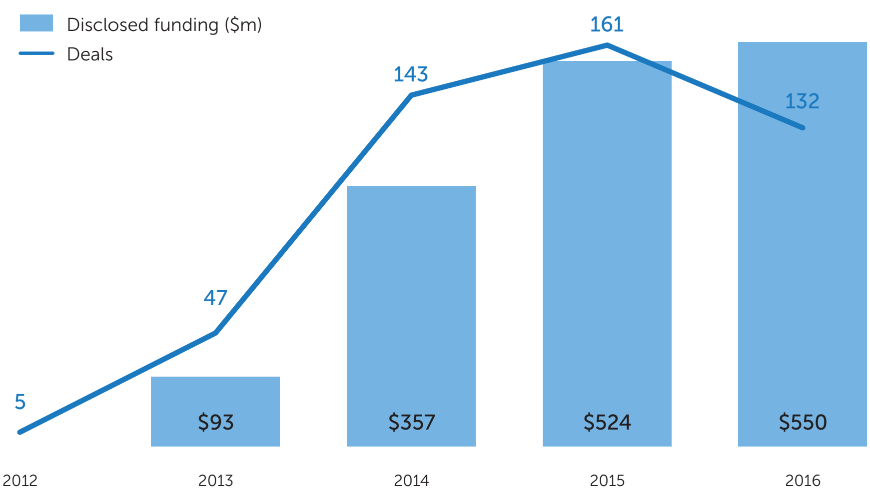
Blockchain first came to prominence as the platform for Bitcoin, the peer-to-peer electronic 'cryptocurrency'. The technology allows consumers and buyers to form online networks, and to transact directly without any requirement for intermediaries. Users can create permanent records of their transactions in what are, theoretically, secure chains of computer code. Importantly, assets cannot be replicated or sent to multiple recipients within the system.

Using a publicly available ledger system, Blockchain also offers a high degree of transparency, and the costs of the system are shared among those using it.

Banks and other financial institutions are currently looking at ways in which the technology can help their businesses. Potential has so far emerged in areas such as payments, clearing and settlement, syndicated loans and trade finance. Joint analysis by global management consultant Accenture and operations benchmarking specialist McLagan suggests that Blockchain technology could reduce investment banks' infrastructure costs by up to 30% – a potential saving of over US$8 billion.[9]

9 Accenture, Banking on Blockchain, January 2017.

Chart 1: Blockchain and Bitcoin annual global financing history 2012-2016

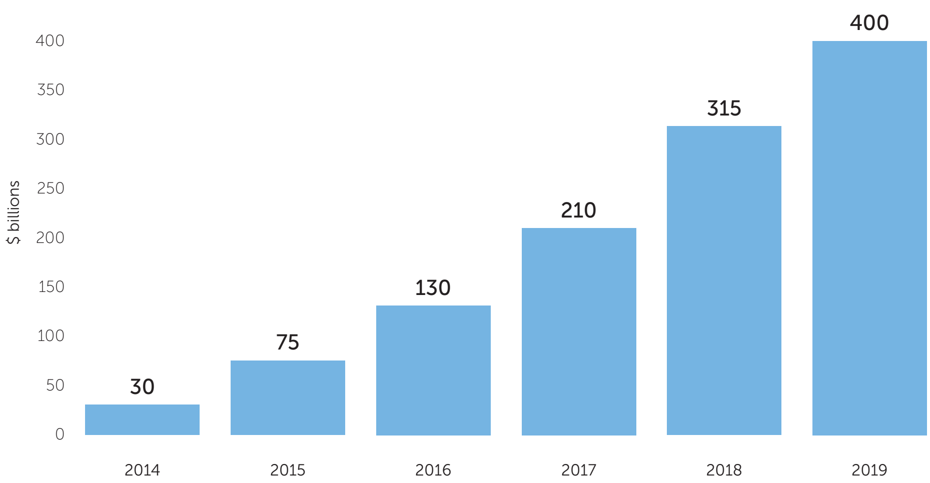


Source: CB Insights, as at 3 February 2017.

While there may be significant long-term investment potential in the various organisations and companies supporting Blockchain, the application of the technology within the asset management industry is, at this stage, limited. However, it seems likely to play an increasingly important role in some administrative activities.

One area where Blockchain is particularly useful is asset servicing; in relation to custody, there are enormous numbers of transactions taking place, and Blockchain technology can be applied relatively easily in this field. In the banking system, there might be other broader opportunities to harness the benefits of the technology.

Chart 2: Banking industry spending and forecast spend on Blockchain technology



Source: AITE Group as at 26 September 2017. 2017, 2018 and 2019 figures are estimated forecasts.

10 Harvard Business Review, *'Who Controls the Blockchain?'*, 19 April 2017.
11 The Economist, *'Blockchain of command'*, 14 January 2017.
12 CNBC, *'North Korean hackers' attempts to steal bitcoin are a huge wake-up call'*, 28 September 2017.

Just as online retailing brought a new level of pricing transparency, and empowered many consumers, so innovations surrounding Blockchain have the potential to transform many types of financial transactions.

However, for all Blockchain's potential advantages, question marks remain, not least in relation to who actually owns the technology which underpins the system, how it is policed, and how many of its components and innovations could be potentially patented, and by whom.

"For all Blockchain's potential advantages, question marks remain, not least in relation to who actually owns the technology which underpins the system, how it is policed, and how many of its components and innovations could be potentially patented, and by whom."

While the last two years have seen a surge in companies seeking to patent Blockchain-related technologies, some analysts point out that, in the final analysis, Blockchain networks are governed by everyone who uses them, but by no one in particular.[10] Some fear this is storing up the potential for major legal battles over intellectual property ownership within the Blockchain universe.[11]

In a world in which computer hacking has become increasingly sophisticated, some commentators also wonder about the potential vulnerability of new electronic banking and accounting systems. In its infancy, Bitcoin was dogged by scare stories of hacking. There is even evidence that some international governments, including North Korea, have attempted ambitious Bitcoin hack attacks.[12]

> "Exciting as the dynamics around cryptocurrencies and facilities such as Blockchain are, we have to remain cognisant that, as technology grows more sophisticated, so do hackers."

Security focus

Blockchain's proponents argue that the system is inherently more secure than electro-currencies like Bitcoin because it has benefitted from decades of research into cryptography and other security measures, and has successfully resisted cyber attacks for over eight years.[13] Such is its perceived security that both NATO and the Pentagon have reportedly been moving to develop military-related apps which exploit Blockchain technology.[14]

While some major steps have been taken to develop security within newer electronic finance networks, I would sound a note of caution about future developments. Exciting as the dynamics around cryptocurrencies and facilities such as Blockchain are, we have to remain cognisant that, as technology grows more sophisticated, so do hackers. We are already seeing data issues around 'cloud' technology, and Bitcoin itself has proved vulnerable in the past.

Much depends on how far Blockchain develops its ability to mask the identity of the final user, and on how encryption technology develops. The more secure it becomes, the more attraction it will hold as a tool for both investors and end users. In turn, the often symbiotic relation between Blockchain and Bitcoin could, in time, bring greater stability to financial markets if acceptance and usage of the cryptocurrency were to grow exponentially.

Despite initial controversy, more and more major companies and payments systems are starting to accept Bitcoin as a valid currency. The key advantages of Bitcoin are its finite nature, and its immunity from manipulation by central banks. It is tethered to a finite resource, as the ability to 'mine' it is designed to resemble a precious metal such as gold. In this regard, it seeks to replicate the approach to currency typified by the gold standard.

New applications

Beyond the finance sector, other businesses are already exploring ways in which Blockchain could be applied across a range of areas, such as oil and gas trading and even land registry and property rights. It could also be used to process and record transactions related to intellectual rights, film rights, copyrights and music royalties.

It will be interesting to see whether Blockchain is eventually adapted as a global standard, or if it is seen as much more of a national facility adopted by individual markets. For more technologically advanced markets, it should hold significant appeal, but it is worth remembering that some of the smaller, less developed markets are still dominated by cash, and that some areas of Latin America and Asia are still largely subsistence-driven.

Blockchain origins and development: the story so far

Blockchain is a type of computer network, which provides a complex 'digital ledger' system that can be programmed to record not just financial transactions, but almost anything of value. It is distributed across many computers around the globe, and relies on so-called 'open source' technology. The first Blockchain database was developed by an obscure individual or collective known only as Satoshi Nakamoto.

Records on Blockchain are secured via cryptography, and the system offers the promise of high levels of security and transparency. Since its launch in 2009, Blockchain has rapidly become big business. In the first six months of 2017 alone, firms active in this area attracted more than US$240m of venture capital money.[15]

New uses for Blockchain technology are constantly being discovered. Digital voting using Blockchain technology has been trialled in Denmark, and some believe it could revolutionise medical record-keeping in the health-care sector. In a separate development, energy giant BP recently announced it was experimenting with the system to improve the efficiency of oil and gas trading.[16]

13 Forbes, *'Three ways Blockchain is revolutionising cybersecurity'*, 21 August 2017.
14 The Washington Times, *'Pentagon eyes bitcoin blockchain technology as cybersecurity shield'*, 17 August 2017.
15 FT, *'Five ways banks are using Blockchain'*, 16 October 2017.
16 FT, *'BP experiments with blockchain for oil and gas trading'*, 3 October 2017.

GLOSSARY

Asset Purchase Programme
The European Central Bank's Asset Purchase Programme (APP) includes all purchase programmes under which private sector securities and public sector securities are purchased to address the risks of a too prolonged period of low inflation.

Bond yields
The amount of return an investor will realise on a bond.

Equities/stocks
Shares issued by a corporation which signify ownership in that corporation and represent a claim on part of the corporation's assets and earnings.

Fixed-interest/fixed-income investment/bonds
A loan of money by an investor to a company or government for a set period of time, in exchange for a fixed interest rate and the repayment of the initial amount invested at its conclusion.

Gross domestic product (GDP)
The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Inflation
A general and sustained increase in the general price level of goods and services in an economy over a period of time.

MiFID II
The Markets in Financial Instruments Directive (MiFID) II is European Union legislation which aims to improve the functioning of financial markets and strengthen investor protection.

Private equity
Injection of funds by specialised investors into private companies with the aim of achieving high rates of return.

Quantitative easing
An unconventional monetary policy where a central bank creates new money to buy financial assets.

Tapering
A gradual decrease in central bank activities designed to improve the conditions to support economic growth.

Volatility
The degree to which the price of an asset moves up and down.

CHARITY TEAM CONTACTS

Jon Bell
T: 020 7163 2448
E: jon.bell@newtonim.com

Alan Goodwin
T: 020 7163 4404
E: alan.goodwin@newtonim.com

Jeremy Wells
T: 020 7163 6179
E: jeremy.wells@newtonim.com

Rorie Evans
T: 020 7163 4977
E: rorie.evans@newtonim.com

Mark Hammond
T: 020 7163 3961
E: mark.hammond@newtonim.com

Oliver Larminie
T: 020 7163 2990
E: oliver.larminie@newtonim.com

Freeman Le Page
T: 020 7163 4424
E: freeman.lepage@newtonim.com

Hilary Meades
T: 020 7163 2632
E: hilary.meades@newtonim.com

Bhavin Shah
T: 020 7163 6065
E: bhavin.shah@newtonim.com

Rob Stewart
T: 020 7163 4376
E: rob.stewart@newtonim.com

Kelly Tran
T: 020 7163 2388
E: kelly.tran@newtonim.com

Newton Sustainable Global Equity Fund – key investment risks

- **Objective/performance risk:** There is no guarantee that the Fund will achieve its objectives.
- **Currency risk:** This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.
- **Emerging-markets risk:** Emerging markets have additional risks due to less developed market practices.
- **Derivatives risk:** Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of your investment to fluctuate. When using derivatives, the Fund can lose significantly more than the amount it has invested in derivatives.
- **Sustainable funds risk:** The Fund follows a sustainable investment approach, which may cause it to perform differently than funds that have a similar objective but which do not integrate sustainable investment criteria when selecting securities. The Fund will not engage in stock lending activities and, therefore, may forego any additional returns that may be produced through such activities.
- **Counterparty risk:** The insolvency of any institutions providing services such as custody of assets or acting as a counterparty to derivatives or other contractual arrangements, may expose the Fund to financial loss.
- **Charges to capital:** The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.

Newton Growth and Income Fund for Charities – key investment risks

- **Objective/performance risk:** There is no guarantee that the Fund will achieve its objectives.
- **Currency risk:** This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.
- **Derivatives risk:** Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of your investment to fluctuate. When using derivatives, the Fund can lose significantly more than the amount it has invested in derivatives.
- **Changes in interest rates & inflation risk:** Investments in bonds/money market securities are affected by interest rates and inflation trends which may negatively affect the value of the Fund.
- **Credit risk:** The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.
- **Charges to capital:** The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.
- **Counterparty risk:** The insolvency of any institutions providing services such as custody of assets or acting as a counterparty to derivatives or other contractual arrangements, may expose the Fund to financial loss.

Important information

This is a financial promotion. The opinions expressed in this document are those of Newton and should not be construed as investment advice. The Newton Growth and Income Fund for Charities is a unit trust authorised by the Financial Conduct Authority as a non-UCITS retail scheme and is operated by BNY Mellon Fund Managers Limited (BNY MFM).

Issued in the UK by:
Newton Investment Management Limited
The Bank of New York Mellon Centre,
160 Queen Victoria Street, London, EC4V 4LA

T: 020 7163 9000

Registered in England No. 01371973
Newton Investment Management is authorised and regulated by the Financial Conduct Authority.