

NEWTON

Investment
Management

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September 2024

Stewardship at Newton

2023 engagement, advocacy and voting highlights

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The Newton Investment Management Group also consists of a third entity, Newton Investment Management Japan Limited (NIMJ), which joined the Newton Investment Management Group from a BNY Mellon affiliate in March 2023. The policies and practices described in this report are not intended to cover NIMJ.

This report relates to the activities of Newton (excluding NIMJ) during 2023. The processes described in this document may be subject to change over time.

Please read the important disclosure at the end of the document.

Unlock opportunity



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Stewardship at Newton

We are active stewards of our clients' capital. We exercise our ownership responsibilities, where possible, through engagement and proxy voting with companies, with the aim of protecting and enhancing the value of our clients' investments.



STEWARDSHIP CODE

The UK Financial Reporting Council has confirmed that Newton Investment Management has met the standards of reporting required under the UK Stewardship Code, which sets high stewardship standards for asset owners and asset managers.

In this document we provide a summary of our stewardship activity during 2023 and demonstrate how we have been an active steward for our clients, engaging with issuers to progress towards clear outcomes, voting to hold company leadership teams accountable to their shareholders, and working with the wider market to seek policy outcomes that we believe to be in the best interests of our clients.

For more information on our approach to stewardship, the various initiatives we have undertaken in 2023, and how we strive to meet the UK Stewardship Code's 12 principles, you can read our full sustainability and stewardship 2023 annual report, available at: newtonim.com/responsibleinvestment



Our approach to stewardship

We use three main stewardship tools to help us: engagement with issuers, voting at shareholder meetings, and advocacy within the wider marketplace.

Our stewardship activities are applied to equities and fixed income (both corporate and sovereign bonds). Derivatives and cash instruments are not included in our stewardship approach.

Engagement

We engage with issuers to constructively challenge management and boards around financially material aspects of their decision making where we believe it can result in improved long-term financial outcomes for our clients.

We invest for the long-term economic interests of our clients and, accordingly, set clear and outcome-focused objectives which can be evaluated over a suitable time horizon and can be linked back to a relevant investment thesis.

Engagement may also inform our voting decisions for those clients that have given us authority to vote on their behalf.

As part of the investment life cycle, our investment teams have regular dialogue with issuers, allowing them to better understand how material risks and opportunities to the business are being managed. Above and beyond this, the stewardship and investment teams work in partnership on engagement where there is a concern over certain aspects. Engagements may be conducted by the investment team, as those making the capital-allocation decisions are sometimes best placed to drive successful engagement outcomes, while at other times the stewardship team leads our efforts, depending on the issue.

Engagements can be strategic, thematic or routine in nature.

- **Strategic** – focus on issues presenting a risk to the investment case (e.g. fraud allegations or even business decisions that we as investors believe will be negative, strategically, over time).
- **Thematic** – focus on issues that are financially material through a more systemic lens, and which may crystallise into idiosyncratic risks/opportunities over time (often these are environmental in nature, where policy and regulations are continuously pushing for the costs to be internalised by companies).
- **Routine** – pursue smaller improvements by companies, likely to be achievable over the near term and which in many cases seek to align companies with peers (e.g. improved disclosures).

Each engagement has objectives set, guided by the stewardship team. As we focus on achieving outcomes for clients, we tailor each objective to the specific action the issuer can take to address the matter of concern. The objective status is updated after each engagement or relevant company reporting event.

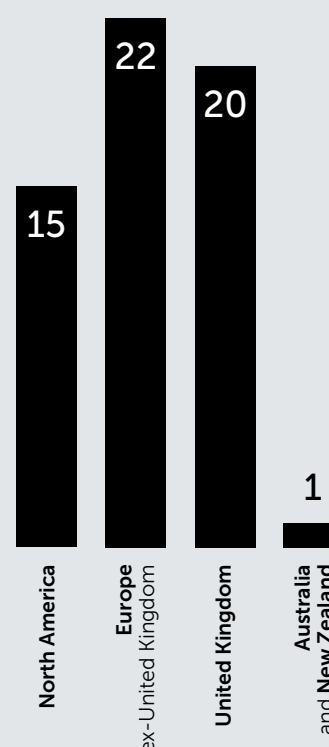
Further information on how Newton handles engagements can be found in the document *Our approach to engagement*, available at: newtonim.com/responsibleinvestment

¹ From time to time, we may carefully join some collective engagements. Typically, collective engagements focus on broader systemic or market issues that are longer term in nature. When acting collectively on a specific issue of concern with an issuer, we always exercise caution in order to avoid situations of being unintentionally in receipt of material non-public information or breaching concert party or competition rules, or other relevant legislation.

2023 engagement summary

Number of engagements by Newton's stewardship team	58
Of which were collaborative ¹	20
Number of entities engaged	41
Of which were collaborative ¹	17

2023 engagement summary by location



Engagement topics

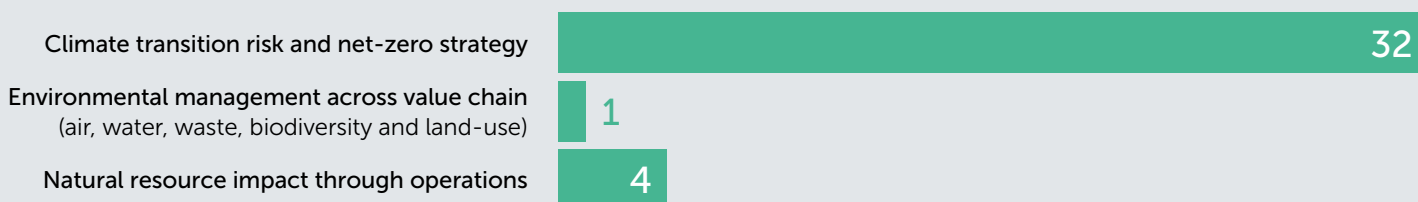
Working in partnership with our investment teams and taking into consideration clients' evolving priorities, each year we jointly identify some topics that can potentially be relevant to investment analysis and our clients' investments over varying timescales. Ultimately, engagements are prioritised when the objectives we set are considered to be financially material over relevant time horizons.

The topics that we identified for engagement in 2023 were:

Climate and net zero | Biodiversity | Workforce engagement | Supply-chain oversight and human rights | Board accountability

Breakdown of engagements by E, S and G and their sub-themes

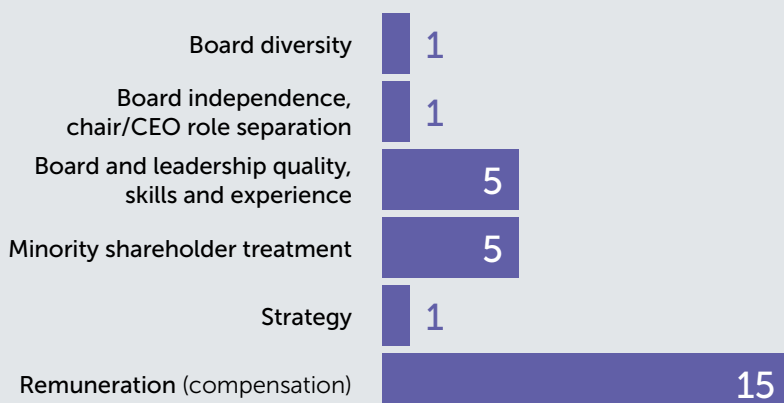
37 Environmental engagements



9 Social engagements



28 Governance engagements



Examples of engagement

Nestlé

Engagement focus area

- **Social:**
 - Opportunities in/access to socially sustainable products or services

S

Engagement objective(s)

For the company to set health-based sales targets across its product portfolio and for it to commit to increasing the sales of healthy product ranges, as part of our support of ShareAction’s Healthy Markets initiative.

Investment relevance

The impact of unhealthy foods and drinks is increasingly resulting in shifts in consumer behaviour and new regulation.

We believe that it is important for companies to manage these risks and opportunities and to ensure that their business models and strategies are resilient as well as well-positioned to benefit from the expected changes in this area.

Engagement outcome

Nestlé has publicly committed to report on product portfolio level healthiness and agreed to set a target for healthy sales.

Our engagement objectives have been achieved. We will continue to monitor the company’s progress towards its stated targets.

SCOR

Engagement focus area

- **Governance:**
 - Board accountability

G

Engagement objective(s)

For the reinsurance company to give a public commitment on refreshing the board to have optimal levels of leadership, skills and experience.

Investment relevance

The sudden departure of the CEO raised concerns that the board chair may be overly involved in day-to-day operations and that this was manifesting negatively on management’s vision.

This engagement objective was crucial for enhancing the board’s corporate governance profile and reassuring the markets amid the unexpected leadership change. Continued governance uncertainty would be detrimental to the company and would result in us including a governance risk premium in our valuation.

Engagement outcome

The board chair publicly recommitted to not extending his term beyond 2024, which is seen as beneficial for corporate governance and for reassuring investors.

The engagement objective was achieved.

Greencoat UK Wind

Engagement focus area

- **Governance:**
 - Board accountability
 - Strategy



Engagement objective(s)

For improved alignment of management and board interests with those of existing long-term shareholders by:

- Adjusting net asset value (NAV) used for share issuances to be more reflective of prevailing market conditions.
- Maintaining a one-year rolling management contract, rather than adopting a long-term fixed contract.

For the share price discount to NAV to be addressed, potentially through a share repurchase plan.

Investment relevance

The company is an investment trust that invests in onshore wind farms. It is the board's responsibility to represent the views of all shareholders, particularly in cases where management's incentives may create a misalignment of interests. We believed that the board's actions had caused a misalignment between the trust and its shareholders.

Related to this, Greencoat UK Wind's shares were trading at a discount to its net asset value for some time and we believed that the discount did not reflect the true value of the assets. Share buybacks are an efficient way to address this issue and reduce the discount.

Engagement outcome

The trust announced a £100m share buyback programme and investors were pleased with this outcome as it reaffirmed the trust's operational strength. We think our engagement contributed to this decision.

We continue to monitor the NAV calculations and share issuances and we may reinitiate our engagement on alignment of management and board interests with shareholders in the case of renewed concerns.

Anglian Water Services Financing

Engagement focus area

- **Environmental:**
 - Natural resource impact through operations



Engagement objective(s)

For improved classification in the regulator's peer tables.

Investment relevance

UK water companies that do not meet the regulator's targets can face fines.

To improve their asset base, they may also be forced to take on capital-expenditure projects which do not result in a corresponding uplift in revenue.

If the capital expenditure undertaken by a company exceeds the positive outcomes or if the progress is outweighed by adverse conditions, it could weaken the financial profile of the company and have an impact on its bond and share valuations.

Engagement outcome

The management of Anglian Water Services Financing was aware of the company's weakening peer ranking and was focused on improving it. A key reason for the company's poor performance relative to peers was the age and quality of its water pipes.

The management announced an investment of around £3bn in capital expenditure between 2020-2025 to upgrade the infrastructure. However, it flagged that the upgrade process would take time and any positive progress could be outweighed by adverse weather conditions.

For now, we do not see financial penalties affecting the credit risk of the company. Additionally, we believe that the management team is committed to improving the company's performance against its targets.

Goldman Sachs

Engagement focus area

- Environmental:
 - Climate and net zero



Engagement objective(s):

For the introduction of targets for high-emitting sectors.
 For improved disclosures on client transition framework including engagement and escalation strategy.

Investment relevance

As Goldman Sachs has considerable exposure to the fossil-fuel industry, encouraging it to strengthen its climate transition plan (including its client transition framework and setting targets for additional sectors) and monitoring its progress is important to ensure that the company remains on track to achieve its overall net-zero targets.

We believe that it is important for companies to manage their climate and transition risk and to ensure that their business models and strategies are both resilient to and positioned to benefit from the impacts of climate risk.

Progress to date

Following our engagement with Goldman Sachs, we were pleased with its response, notably enhanced reporting and the introduction of intensity-based targets for key sectors in 2022. We believe that our multi-year engagement efforts with it to solidify its net-zero approach and to set interim targets contributed to this progress.

While we recognise these positive developments, we conveyed to Goldman Sachs the need for more transparency and for concrete commitments on its client transition framework, notably around its engagement and escalation approach.

Amazon

Engagement focus area

- Social:
 - Board accountability
- Governance:
 - Workforce engagement



Engagement objective(s)

For the company to bolster human capital experience on its board and for it to report on how the board oversees human capital-related issues.

For the company to undertake an independent assessment/audit of human rights/health and safety issues and report the key findings, as well as the plan to address the findings.

We engaged with Amazon on human capital management issues owing to concerns about employee relations and the company's ability to attract sufficient workers.

These concerns pose significant risks to the investment case, including reputational risks and operational disruptions.

Investment relevance

The effective management of employee relations is crucial for the operational continuity and financial stability of a business and directly affects investor interests.

Acknowledgement and action on human capital-management risks is essential to mitigate potential reputational and operational risks.

Having a director with human capital management experience on the board can provide effective oversight and accountability for employee-related strategies, benefiting long-term investment outcomes.

Progress to date

We have been in dialogue with Amazon for several years on these matters to bolster our understanding of how it is tackling the issue.

As the company has not provided satisfactory responses, we launched a formal outcomes-based engagement in September 2023.

Advocacy

and helping shape best practice

Newton takes an active role in promoting well-functioning financial markets, with the ultimate aim of providing our clients with greater confidence in financial markets, and to help foster financial institutions that are accountable and responsible to investors. We recognise that as an intermediary in the financial system, we play an important role in providing investors with access to investment solutions. With this comes an inherent responsibility to do what is right on behalf of our clients, as well as wider asset owners and stakeholders in the financial system.

Examples of advocacy

Governance standards and stewardship

The Financial Reporting Council's (FRC) UK Corporate Governance Code Consultation

Background

The consultation proposes revisions to the UK Corporate Governance Code that are intended to enhance the transparency and accountability of UK companies and help support the growth and competitiveness of the UK and its attractiveness as a place to invest. The revisions seek to:

- i. improve a company's ability to report on, and evidence effectiveness of, its risk management and internal controls;
- ii. reflect on wider responsibilities of the board and audit committee for expanded environmental, social and governance reporting, including appropriate assurance;
- iii. strengthen the Board's approach to its composition, including diversity and inclusion; and
- iv. improve transparency on 'malus' and clawback (remuneration).

Relevance	Outcome	Implementation
<p>The proposed revisions aim to meet enhanced investor and stakeholder expectations for better governance reporting around risk management and internal controls, while minimising reporting burdens on businesses.</p> <p>The UK-based Newton entity provided its feedback via the UK Investment Association.</p>	<p>The main substantive change introduced asks boards to explain, through a declaration in companies' annual reports, how they have carried out their monitoring of the company's risk management and internal control framework, as well as an annual review of board effectiveness. Any conclusions from these reviews should be presented.</p> <p>A small number of minor changes have also been made, with the aim of better streamlining the expectations or clarifying the language. These relate to the Code's provisions on malus and clawback and audit committee minimum standards. Importantly, the well-established principle of boards having the flexibility to 'comply or explain' will remain.</p> <p>The FRC encourages boards, investors and their advisors to actively support the flexibility within the 'comply or explain' approach to ensure that governance expectations are better tailored to the specific circumstances of each company.</p>	<p>The new Code expectation for the board declaration will come into effect from 1 January 2026, one year after the rest of the updated Code comes into effect.</p>

Climate and stewardship

Global Investor Commission on Mining 2030 (GMC)

Background

The GMC is a collaborative investor-led initiative seeking to define a vision for a socially and environmentally responsible mining sector. Newton was part of the first group of investors extending their support to the GMC. The GMC has more than 80 investor supporters representing US\$11 trillion in assets.

Relevance

The mining sector is a critical enabler of the transition to a low-carbon world, and it is a sector that produces significant externalities on both the social and environmental fronts. These elements contribute to the materiality of this initiative.

The management of tailings, and operations in conflict zones, are two examples of how these material externalities crystallise.

Implementation

The GMC aims to work with the mining sector in defining socially and environmentally responsible practice by 2030. It also aims to develop the role of finance in realising this vision.

Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) Project

Background

The ASCOR Project is a project led by asset owners, asset managers and investor networks to develop a free, publicly available, independent tool that assesses countries on climate change.

We responded to a public consultation launched by the ASCOR Project to contribute to developing the framework further and to ensure that it is fit for purpose.

Relevance

A one-size-fits-all approach can be challenging when assessing countries. We are supportive of the intent to develop a standard framework in this space.

Outcome

In November 2023, the ASCOR Project released a methodology note on its framework incorporating feedback from the consultation to which Newton was a contributor.

In December 2023, the Project published a report presenting the results of the first assessment of countries' climate risks for sovereign bond holders.

Gender and stewardship

Asian Corporate Governance Association (ACGA) gender diversity letter to Tokyo Stock Exchange

Background

In 2022, Newton added its support to a letter sent by the ACGA to the Tokyo Stock Exchange addressing gender diversity on Japanese boards and management teams.

The subject of the letter was a push to require Japan's top 100 issuers to have 30% female representation by 2030, and for the country's Corporate Governance Code to be updated to encourage companies to voluntarily achieve this threshold before 2030.

Relevance	Outcome	Implementation
<p>We considered this as an opportunity to take our concerns on the systemic nature of low gender diversity on Japanese boards further than simple voting action at individual companies, to urge an incremental approach to setting gender diversity targets at market level.</p>	<p>In June 2023, Japan's government announced a target for women to occupy 30% of executive positions in the country's prime market-listed companies by 2030.</p> <p>In July 2023, the Tokyo Stock Exchange issued revised listing rules which mirrored this.</p>	<p>By 2030.</p>



Voting

We also seek to add value through voting over the long term. In general, ours is an active approach to voting that seeks to:

- Align the interests of a company's management and board of directors with those of the company's shareholders.
- Promote the accountability of a company's management to its board of directors, as well as the accountability of the board of directors to the company's shareholders.
- Uphold the rights of a company's shareholders to effect change by voting on those matters submitted to shareholders for approval.
- Promote adequate disclosure about a company's business operations and financial activity.

Our stewardship team is responsible for executing the voting rights of our clients invested in equities, where they have authorised us to do so on their behalf.

In 2023, we published a refreshed standalone set of our governance principles and voting guidelines on our website at: newtonim.com/responsibleinvestment

We also publish our full voting record, including rationale for votes against management and on all shareholder proposals, on our website at: newtonim.com/responsibleinvestment

During 2023, we exercised our clients' voting rights at 2,624 separate meetings. Across all regions, votes were instructed against management recommendations on 4,291 separate resolutions, which equated to 56% of the 2,624 meetings.

Global voting summary for meetings held in 2023



56%

In favour of management on all resolutions.

43%

Against management on one or more resolutions. Including abstentions and withhold votes where there was no option to vote against.

1%

Took no action owing to share blocking or sanctions considerations.

Votes against management

In 2023, we instructed votes against management recommendations in relation to a total of 4,291 separate resolutions. Individual rationale for each of these voting decisions is shared in our vote disclosures on our website.

In 2023, we most frequently voted against management recommendations in relation to a director's re-election and for issues involving board independence, diversity, executive pay, and excessive time commitments. This is reflective of the fundamental accountability to shareholders we place on directors.

Our next greatest concern was on pay-related proposals. Where we had concerns about a company's remuneration arrangements, along with voting against the remuneration arrangements, we continued our approach of voting against the re-election of remuneration committee members.

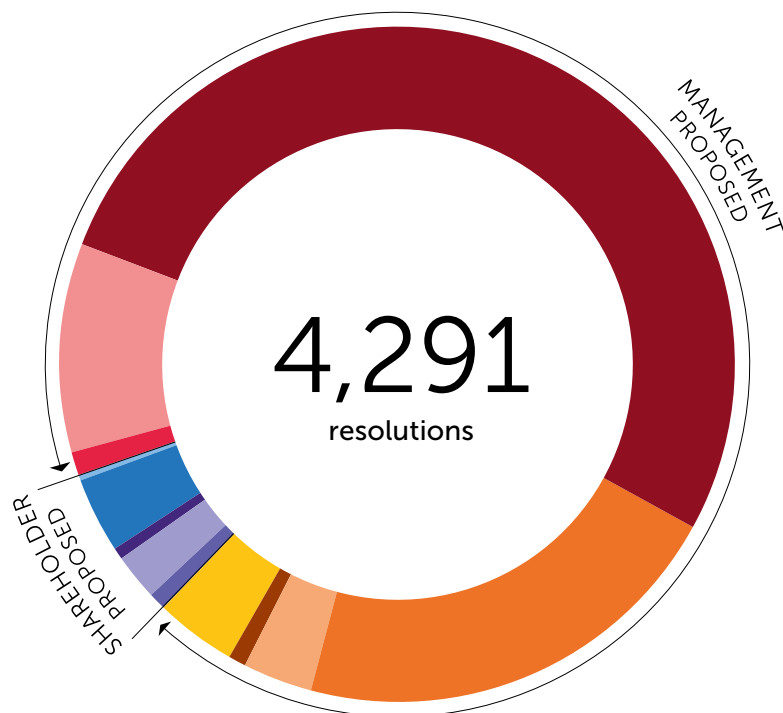
Other notable areas where we voted against the recommendations of management included resolutions related to audit, transactions, and shareholder dilution (when companies sought to issue shares without first offering them to the existing shareholders).

Shareholder proposals

Like all our voting decisions, we take each decision on shareholder-proposed resolutions on a case-by-case basis.

Shareholder proposals must be credible and applicable, and we expect proponents to provide robust rationale for why the proposed action of these resolutions is in the best interests of all shareholders. We analyse each issue using our voting guidelines, weighing the positives of the proposal against the negatives, and examining whether the outcome would be beneficial for our investment case and material for the company.

We have published a blog explaining why our approach to shareholder resolutions is to judge each one on its individual merits.²



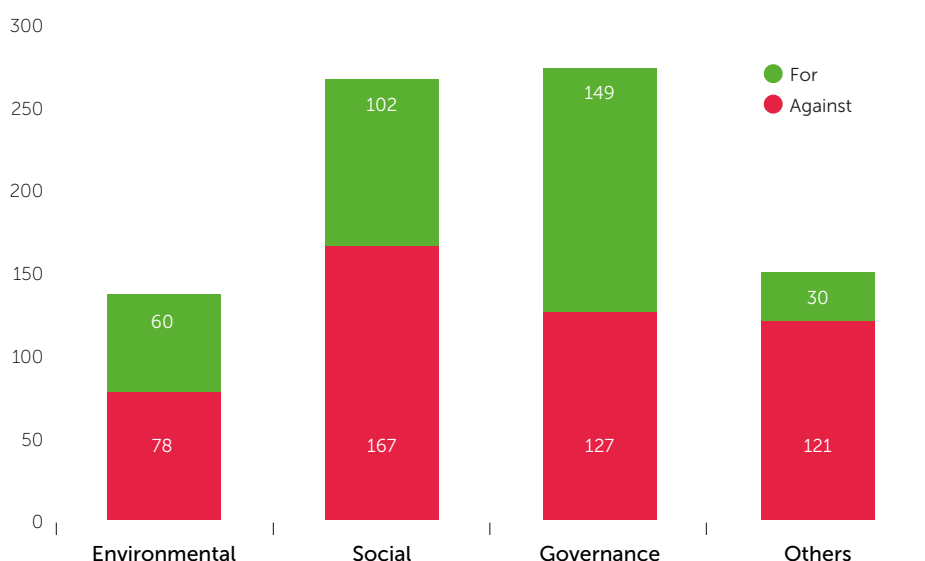
Votes against management-proposed resolutions

Articles/bylaws	1.2%
Audit related	10.1%
Board structure	52.3%
Remuneration policy/proposal	21.0%
Share capital	3.2%
Transaction related	0.9%
Other, including AOB	3.9%

Votes in favour of shareholder-proposed resolutions against the recommendations of management

Shareholder rights	1.0%
Board structure	2.0%
Remuneration structure	0.7%
Environmental/social proposal	3.5%
Other	0.2%

Voting activity on shareholder proposals – 2023



² UK professional investors: <https://www.newtonim.com/uk-institutional/insights/blog/shareholder-resolutions-defining-newtons-approach/>
 Australian wholesale investors: <https://www.newtonim.com/australia/insights/blog/shareholder-resolutions-defining-newtons-approach/>

Examples of voting

CME Group	
Successive say-on-pay votes	
Overview	Voting action
<p>The company's executive pay structure continues to raise concerns, owing to problematic discretionary cash bonuses, and considerable salary hikes for the CEO, which affected the variable pay.</p> <p>We had voted against pay and the re-election of compensation committee members at the previous two AGMs.</p> <p>The majority of shareholders voted against the say-on-pay proposal at the 2022 AGM, and yet sufficient steps were not taken to improve the proposal put forth to shareholders for the 2023 AGM.</p>	<p>We voted against the say-on-pay proposal and the re-election of compensation committee members.</p>
	Vote result
	<p>The company's say-on-pay proposal failed for a second consecutive year.</p>
	Company dialogue (following the vote)
	<p>We engaged with the board asking it to better align executive pay with performance, suggesting thoughtful salary increases; a strengthened median target for the relative total shareholder return (TSR) metric; a cap on the vesting of TSR-based performance shares if absolute TSR is negative; a more strict annual bonus target; and no discretionary cash bonuses.</p> <p>Board members were receptive to the feedback and we are hopeful that some positive changes will be introduced before the 2024 AGM.</p>

Illumina	
Acquisition leading to proxy contest with an activist investor	
Overview	Voting action
<p>In 2023, there was a proxy contest between Illumina, a US biotechnology firm, and Carl Icahn (activist investor), at the company's AGM. The contest was notable as it originated from the company's decision to proceed with its US\$7.1bn acquisition of cancer test developer, Grail, in August 2021 while antitrust and competition reviews by the US Federal Trade Commission (FTC) and the European Commission (EC) were still underway.</p> <p>The value of Illumina stock dropped following the closing of the Grail transaction. The opposing shareholders attributed this drop to the decision of the company's board to complete the transaction without determining whether it would get clearance from the regulators.</p> <p>At the date of voting in May 2023, Illumina's market capitalisation had declined by more than half from its level in August 2021, when it had acquired Grail.</p> <p>In December 2022, the EC ordered Illumina to divest Grail and planned to issue a fine worth up to US\$453m for 'gun jumping'. The US FTC has also ordered Illumina to divest Grail.</p>	<p>While we shared the view of the opposing shareholders on the poor handling of the Grail acquisition and the consequent value destruction, we chose to escalate our concerns on insufficient management accountability by voting against the re-election of the board chair, John Thompson, rather than supporting any of the dissident nominees.</p>
	Vote result
	<p>Illumina shareholders voted to remove the incumbent board chair and chose to replace him with Andrew Teno, a portfolio manager at Icahn Capital LP, who was one of three director nominees.</p> <p>The remaining eight incumbent directors were successfully reappointed by shareholders, resulting in the board of nine now being composed of eight incumbent directors and one dissident nominee.</p>

Starbucks

Shareholder support highlights employee relations as a material ESG issue

Overview

The company received a shareholder proposal requesting it to assess its policies on freedom of association and collective bargaining practices. Unionisation and employee relations are key ESG considerations for the company.

We met the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and a representative of Starbucks' labour union to gain better insight into the specific issues for workers at Starbucks and the company's response to unionisation efforts.

The issue seemed to stem from the company moving from providing above-average benefits, to benefits that were more in line with market practice. There also appeared to be a disconnect between management and retail employees. We also noted there have been allegations of dismissals and 'captive audience meetings' in relation to unionisation, both of which are serious allegations.

We believe that the company could do a better job of communicating on the market-wide controversies; however, there did not appear to be systematic poor treatment of workers as we have seen in some other companies at which there have been similar accusations.

Voting action

We supported the resolution asking the company to better communicate how it has been dealing with the unionisation efforts.

Vote result

The proposal received majority support.

Yum China

Supported non-standard executive remuneration decision

Overview

Mid-flight adjustments were made to the annual incentive as well as to the closing-cycle performance share unit (PSU) awards, resulting in annual bonuses paid out above rather than below target and PSUs vesting nearly at target rather than being forfeited.

Company dialogue

We met the management ahead of its 2023 AGM to discuss executive remuneration outcomes for 2022. The company's rationale for the in-flight changes was the extraordinary impact of Covid over the last three years. In contrast to the US market which had largely returned to normal in 2022, 2022 was instead the most volatile of the last three years for the Chinese restaurant sector given the sporadic Covid outbreaks, entire city lockdowns, and in December 2022, nationwide infections.

Despite these issues, the company believed that it had demonstrated robust performance and shareholder value through the previous three years. Additionally, the company believed that the earlier variable pay outcomes would not be a fair assessment of the management team and would lead to retention concerns for the entire leadership team.

We acknowledged the uniqueness of the Covid situation in China. We also recognised the execution and continuity at the business helmed by the CEO and that the pay changes were adequately designed to reflect shareholder value and the external circumstances. Additionally, we recognised that the overall CEO pay remained slightly less than the previous year.

Voting action

We decided to support the pay report in 2023. We will strictly monitor any further reliance on total shareholder returns ahead of the next AGMs and vote accordingly.

Vote result

The majority of shareholders voted in support of pay.

Want to find out more?

UK institutional investors

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Newton manages a variety of investment strategies. How ESG analysis is integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved. Newton does not currently view certain types of investments as presenting ESG risks and opportunities and believes it is not practicable to evaluate such risks and opportunities for certain other investments. Where ESG is considered, other attributes of an investment may outweigh ESG considerations when making investment decisions.

The use of engagement themes may vary depending on the asset class. Engagement themes have been identified to reflect the issues we believe to be most material to companies' risks and opportunity sets in the long term. However, other topics may be considered and have greater weighting when engaging with companies. Newton will make investment decisions that are not based on engagement themes and may conclude that other attributes of an investment outweigh Newton's engagement strategy.

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