July 2019

NEWTON
Investment Management

NEWTON SUSTAINABLE INVESTMENT STRATEGIES

BNY MELLON | INVESTMENT MANAGEMENT

Please read the important disclosure on the last page.

Newton sustainable investment strategies

Responsible investing is something we have been doing at Newton since our inception in 1978, but it has become particularly important over the last 15 years, as we have progressively focused on fully integrating environmental, social and governance (ESG) analysis into our core investment process.

Our approach to responsible investment is grounded in the belief that responsible investment is better investment. It is our view that thinking seriously about ESG factors helps companies to achieve sustainable competitive advantage and can lead to a better capital allocation. Indeed, we believe that companies that operate in a sustainable manner and optimise their resources will ultimately benefit shareholders and bondholders over the long term. This thinking is backed up by numerous studies; recent research by Harvard Business School, for example, has found that firms making investments and improving their performance on ESG issues exhibit better future stock market performance and profitability.[1]

In recent years, as topics such as climate change – and the considerable risks that it presents to humanity – have risen up the agenda, there has been a growing global focus on environmental and sustainability issues and their impact on investments. Against this backdrop, there has been increasing interest in 'sustainable' investing, which takes ESG integration a step further by putting more emphasis on areas such as positive societal and environmental outcomes. Such strategies may exclude otherwise financially strong companies if their ESG profile is negative.

A long-term, sustainable focus

Newton's sustainable strategies adopt the fundamental principles captured by our integrated ESG approach, and then amplify the responsible investment requirements.

- Using ESG analysis in order to positively identify companies with robust business models which effectively incorporate sustainability into their core business and strategy. We also seek out and support those companies that are making the positive transition to more sustainable activities.
- 'Red lines' ensure that the companies that we choose to invest in do not violate the UN Global Compact's ten principles that promote responsible corporate citizenship, or have characteristics which make them incompatible with the aim of limiting global warming to 2°C. Holdings which breach these red lines will be sold within three months.
- An important differentiator from many other investment managers is that, where a company has material and unresolvable ESG issues, our responsible investment team has the power to veto the stock idea from the strategy. We do not expect the veto to be needed – but it is a powerful signal of what matters on this strategy both internally and externally.
- Sustainable investment criteria are applied for as long as we hold a security, through continual appraisal of the ESG fundamentals, controversy monitoring, engagement with company management and, importantly, active voting.
- We incorporate a tobacco exclusion as we do not view tobacco businesses as compatible with our commitment to sustainable investment.

Newton has been a PRI (UN Principles of Responsible Investment) signatory since 2007. We have consistently received top rankings for our signatory annual assessment report, including the A+ ranking (the highest available) across all equity and fixed-income categories in 2019.

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

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

Multi-decade pedigree in responsible investing

We aim to optimise performance returns for our clients by investing in well-managed companies. Our investment approach is tried and tested, and our commitment to investing responsibly consists of five key elements:

1. Integrated environmental, social and governance (ESG) research
We aim to identify ESG-related risks and opportunities faced by companies to ensure that challenges are well managed. Our dedicated responsible investment team is an integral part of the investment decision-making process. Where we cannot gain clarity over an issue, we engage with the company concerned.

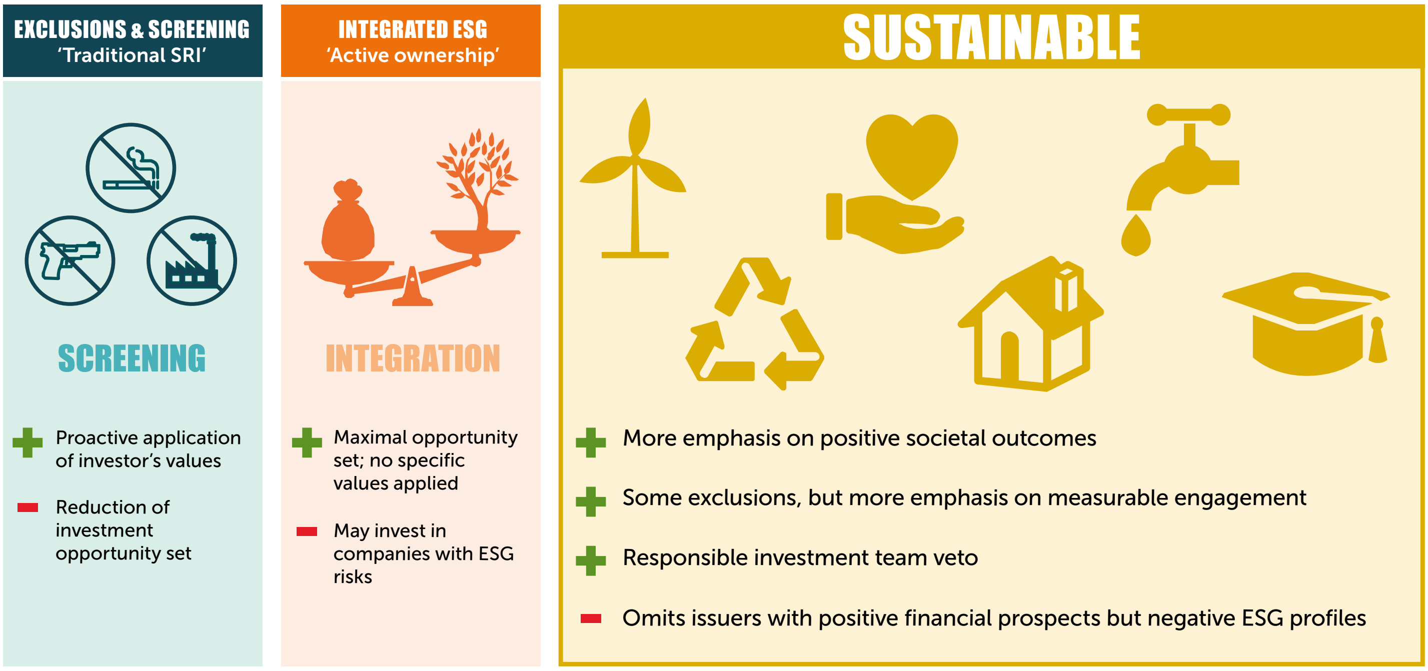
2. Engagement and active stewardship
We have a rigorous approach to corporate governance and proxy voting, and take our stewardship responsibilities to our clients very seriously. Our approach reflects the Investor Stewardship Group best practice, as well as the International Corporate Governance Network's Global Corporate Governance Principles, the UK Stewardship Code and UK Corporate Governance Code.

3. Active proxy voting
We always vote actively, which means we either provide or withhold support from management, and generally only abstain where a conflict of interest exists.

4. Involvement in policy and regulation
We take an active role in the policy and regulation landscape. We have board positions on, or membership of, a wide range of key regulatory and advisory bodies and networks.

5. Transparent client reporting
A transparent approach to sustainable investment enables clients to see the positive impacts of engagement activities. We believe in being as transparent with our clients as we would wish the companies we invest in to be with us, so we publish detailed quarterly reports of all our engagement activities.

Types of responsible investment approach at Newton



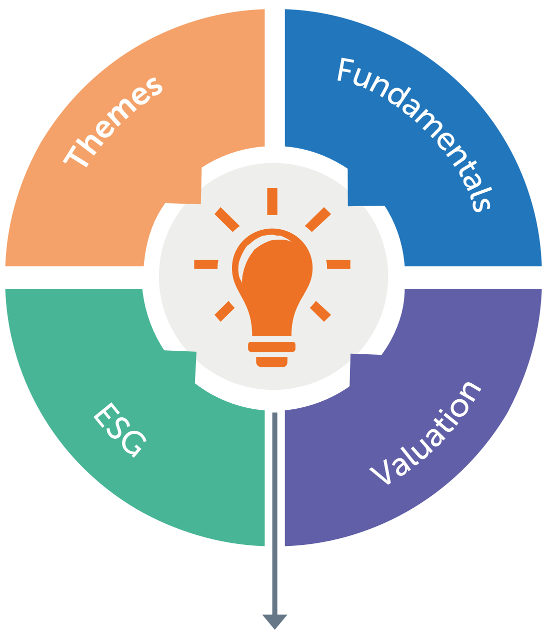
Security selection in Newton's sustainable strategies

Security selection in our sustainable strategies is guided by our investment themes, which help us formulate our views about long-term trends across the investment landscape. The themes help us to distinguish between short-term noise and meaningful drivers of change.

Within this framework, our research team use fundamental analysis to identify investment opportunities and risks, and, in conjunction with our responsible investment analysts, assess each business's sustainability. From their recommendations, our investment team constructs the portfolio.

THEMES: identifying drivers of change, providing a framework for idea generation

FUNDAMENTALS: analysis of operating trends, quality of business model and competitive landscape



ESG: integrated assessment of financially material ESG risks and opportunities

VALUATION: investing in strong businesses at the right price

IDEAL CANDIDATE

What we look for in a sustainable investment

In our view, sustainable investments exhibit many of the following characteristics:

Sustainability & quality	Valuation & value creation	Long-term perspective	Managed externalities
Robust business models with compelling fundamentals, balance-sheet flexibility, sustainable cash flows, clean accounting, disciplined capital allocation and appropriate long-term business incentives.	We favour investments where we think cash flow justifies the valuation on both an absolute and relative basis. We emphasise securities with a high and sustainable return on capital over the long term.	Our thematic framework assists us in capturing areas of opportunity globally. This ensures the portfolio maintains a long-term investment horizon. We expect the management of companies we invest in to share a similar long-term horizon rather than exhibiting behaviour that emphasises short-term performance.	We look for companies with a limited, well-managed environmental and social impact, which take a forward-thinking approach to managing the external consequences of their business.

Sustainable strategy 'red lines'

Our sustainable investment process incorporates some 'red lines' in order to ensure the poorest-performing companies are not eligible for investment.

1. Violation of UN Global Compact Principles of sustainable corporate performance

We monitor compliance with the UN Global Compact Principles. The UN Global Compact is a United Nations initiative to encourage organisations worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

2. Climate change and the Paris agreement

At the COP (Conference of Parties) 21 Paris Climate Conference in 2015, participants agreed to reduce carbon dioxide (CO_2) emissions and to limit global warming to well below 2°C. We do not invest in companies which fail the following test and are therefore deemed incompatible with this '2-degree' world.

1 **Heavy emitting sector**
Sectors affected by International Energy Agency's atmospheric CO_2 target of 450 parts per million (ppm) globally

AND

2 **Unprofitable with 2°C world policy**
Internalised cost of carbon at $140/tonne produces negative net income
(calculated as 5-year average net income – (5-year average scope 1&2 emissions x $140))

AND

3 **No/weak emission reduction targets vs. sector**
MSCI carbon emissions reduction target rated as 'No target' or 'Weak target from medium to high base'

IS

X **UNINVESTABLE**

Our sustainable investment strategies

Sustainable Global Equity strategy

Our Sustainable Global Equity strategy is an actively managed global equity strategy which aims to achieve capital growth and income. It seeks to achieve this by investing in a small number of well-run businesses that both have durable financial and competitive positions and manage positively the material impacts of their operations and products on the environment and society.

It avoids companies with material unresolvable ESG risks which are likely to negatively affect future performance, and does not invest in any company that derives more than 10% of its turnover from the production and sale of tobacco.

Sustainable Global Equity Income strategy

Our Sustainable Global Equity Income strategy seeks to generate income, together with some capital growth, by investing in global companies which demonstrate attractive investment attributes and sustainable business practices.

It avoids companies with material unresolvable ESG risks which are likely to negatively affect future performance, and does not invest in any company that derives more than 10% of its turnover from the production and sale of tobacco.

Sustainable Real Return strategy

Our Sustainable Real Return strategy is an actively managed, unconstrained, global multi-asset strategy which aims to deliver a minimum return of LIBOR[2] +4% per annum over five years before fees. In doing so, it aims to achieve a positive return on a rolling three-year basis. However, a positive return is not guaranteed and a capital loss may occur.

The strategy seeks to achieve its objective with reduced volatility through security selection, asset-type flexibility and an emphasis on capital preservation. It invests in securities that both have durable financial and competitive positions and manage positively the material impacts of their operations and products on the environment and society.

The strategy avoids securities with material unresolvable ESG risks which are likely to negatively affect future performance, and does not invest in the securities of any company that derives more than 10% of its turnover from the production and sale of tobacco.

Sustainable Global Dynamic Bond strategy

Our Sustainable Global Dynamic Bond strategy is a fixed-income strategy with an absolute-return approach, which aims to deliver a minimum return of LIBOR[2] +2% per annum over five years before fees. In doing so, it aims to achieve a positive return on a rolling three-year basis. However, a positive return is not guaranteed and a capital loss may occur.

The strategy seeks to achieve its objective by following an unconstrained, highly dynamic asset-allocation approach within a broad universe of global bonds. It has the flexibility to use stabilising assets and hedging positions to provide downside protection.

The strategy invests in sustainable sovereign bonds, and bonds of companies that positively manage the material impacts of their operations and products on the environment and society. It avoids bonds with material unresolvable ESG risks which are likely to negatively affect future performance, and does not invest in the bonds of any company that derives more than 10% of its turnover from the production and sale of tobacco.

Sustainable Sterling Bond strategy

Our Sustainable Sterling Bond strategy is an actively managed fixed-income strategy which aims to achieve capital growth and income through investing predominantly in fixed-interest securities that are denominated in sterling or hedged back to sterling. It invests in securities issued or guaranteed by the UK government, and sterling-denominated fixed-interest securities of companies that both have durable financial and competitive positions and manage positively the material impacts of their operations and products on the environment and society.

The strategy avoids bonds with material unresolvable ESG risks which are likely to negatively affect future performance, and does not invest in the bonds of any company that derives more than 10% of its turnover from the production and sale of tobacco.

Sustainable US Equity strategy

Our Sustainable US Equity strategy is an actively managed US equity strategy which aims to achieve capital growth. It seeks to achieve this by investing in a small number of well-run US businesses that both have durable financial and competitive positions and manage positively the material impacts of their operations and products on the environment and society.

It avoids companies with material unresolvable ESG risks which are likely to negatively affect future performance, and has a tobacco exclusion.

2 LIBOR: London Interbank Offered Rate is the interest rate at which banks can borrow funds from other banks in the London interbank market.

Key strengths of Newton's sustainable investment approach

- Insightful and robust investment philosophy, with a focus on high-quality sustainable business models
- Differentiated and market-leading approach, harnessing our long track record in responsible investment
- Active stewardship, with engagement and global proxy voting to tackle material ESG issues
- No investment in companies with material unresolvable levels of ESG risk

Why Newton?

- Strong pedigree in responsible investing, managing £4.5 billion on a sustainable or ethical basis
- Long track record of embedding ESG considerations across investment strategies

Figures as at 30 June 2019.

- Managing £50.1 billion of assets on behalf of clients including pension funds, corporations and charities around the world
- Global thematic framework ensures long-term investment perspective

Want to find out more?

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Newton Investment Management

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.

Key investment risks

- **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 strategies may use derivatives to generate returns as well as to reduce costs and/or the overall risk of the strategies. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- The strategies follow a sustainable investment approach, which may cause them to perform differently to strategies that have similar objectives but which do not integrate sustainable investment criteria when selecting securities.

Newton Sustainable Global Equity strategy and Newton Sustainable Global Equity Income strategy

- There is no guarantee that the strategies will achieve their objectives.
- This strategies invest in international markets which means they are exposed to changes in currency rates which could affect the value of the strategy.
- These strategies may invest in emerging markets. These markets have additional risks due to less developed market practices.
- A fall in the value of a single investment may have a significant impact on the value of the strategies because they typically invest in a limited number of investments.
- The strategies may invest in small companies which may be riskier and less liquid (i.e. harder to sell) than large companies. This means that their share prices may have greater fluctuations.

Newton Sustainable Real Return strategy

- The performance aim is not a guarantee, may not be achieved and a capital loss may occur. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.
- This strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the strategy.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the strategy.
- The strategy holds bonds with a low credit rating that have a greater risk of default. These investments may affect the value of the strategy.
- The strategy may invest in emerging markets. These markets have additional risks due to less developed market practices.
- The strategy may invest in investments that are not traded regularly and are therefore subject to greater fluctuations in price.
- The strategy may invest in small companies which may be riskier and less liquid (i.e. harder to sell) than large companies. This means that their share prices may have greater fluctuations.

Newton Sustainable Global Dynamic Bond strategy

- The performance aim is not a guarantee, may not be achieved and a capital loss may occur.
- The strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the strategy.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the strategy.
- The strategy holds bonds with a low credit rating that have a greater risk of default. These investments may affect the value of the strategy.
- The strategy may invest in emerging markets. These markets have additional risks due to less developed market practices.

Newton Sustainable Sterling Bond strategy

- There is no guarantee that the strategy will achieve its objective.
- A fall in the UK market may have a significant impact on the value of the strategy because it primarily invests in this market.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the strategy.

Newton Sustainable US Equity strategy

- There is no guarantee that the strategy will achieve its objective.
- A fall in the US market may have a significant impact on the value of the strategy because it primarily invests in this market.
- The strategy may invest in international markets which means it is exposed to changes in currency rates which could affect the value of the strategy.
- The strategy may invest in emerging markets. These markets have additional risks due to less developed market practices.