

# NEWTON INVESTMENT MANAGEMENT LIMITED

## Notes to the financial statements

### For the year ended 31 December 2020

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

#### ***Business relationships with suppliers, customers and others***

- As part of the Company’s governance framework, a Vendor Management Oversight Group meets monthly with the aim to provide oversight of the management of all the Company vendor relationships, escalating any material issues as required.
- BNY Mellon Accounts payable team ensure payments are made on behalf of the Company to suppliers on a timely basis and in a controlled manner. The Company publishes data in line with the Reporting on Payment Practices and Performance Regulations.
- The Board receives quarterly updates on key milestones and progress against plan underpinning the delivery on the agreed strategy.
- A new corporate purpose statement was adopted, which sets not only the key role the Company performs in helping clients address their challenges and meet their investment objectives, but also the Company’s role as active investors in helping to foster a healthy and vibrant world for all.
- Since the start of January 2020, COVID 19 has created significant disruption to global markets and economies. Management recognises that the pandemic presents risks to the Company’s clients and suppliers, and has put in place procedures to monitor and mitigate those risks. The Company has also enhanced its monitoring of operational and financial resilience during this period and will continue to do so.
- In light of the evolving commercial, economic and regulatory environment, the Company took a strategic review of the structure of its group and as a result of this review the Board decided to simplify the legal structure of Newton. The Board approved the novation of NIMNA client contracts to the Company; clients were contacted accordingly with the novation effective 1 January 2020. NIMNA was placed into liquidation in December 2020.
- In February 2021, BNY Mellon Investment Management, in partnership with the Newton business and Mellon Investments Corporation, announced its restructuring plans which will commence during Q3 2021. The restructuring plans are intended to enhance the business’s capabilities by bringing the equity and multi-asset divisions of Mellon together with Newton and will result in the creation of a new Newton legal entity in the US, Newton Investment Management North America LLC (NIMNA LLC). This new legal entity, whilst not being a direct subsidiary of any Newton UK legal entity, will operate under combined management. In addition, the Newton business will be integrating the expertise of the equity team from BNY Mellon Investment Management Japan (IMJ).
- The Board acknowledged the strategic and emerging risks impacting the Company’s business, in particular Brexit. The Board delegated oversight of Brexit preparations to the Board Risk Committee, as part of BNY Mellon’s Brexit Programme and was provided regular updates on the Company’s risk assessment, internal preparations and scenario planning of Brexit.

- The Board received updates and sought assurance from the Company in relation to the implementation and embedding of regulatory change initiatives and compliance with ongoing regulatory requirements. This includes staff training on relevant legal and compliance matters and an annual attestation from staff to confirm compliance with the BNY Mellon Code of Conduct.
- The Company undertakes a Greenwich Associates survey with clients and consultants (alternating years) to obtain feedback. Results and associated action plans are discussed at the Newton Board Risk Committee
- The Company publishes data in line with the Modern Slavery Act, which is approved by the Board Risk Committee.

## **Employees**

- In recognition that improving diversity in decision-making increases innovation, provides better feedback from key market segments, improves outcomes and drives employee engagement, the Company has an Inclusion and Diversity Council, which is chaired by the Company's Chief Investment Officer ("CIO").
- The Company participates in non-traditional employee talent sources, including a Returning Military Programme, Vocational Trainee Programme and an Emerging Leaders programme. The Company also attracts diverse talent through programs such as Investment 2020, 100 Black Interns, The Diversity Project Cross Company Returners, and the FDM Technology Training scheme.
- The Company undertakes regular Chief Executive Officer ("CEO") all staff briefings focussing on the financial and economic factors affecting the performance of the company, The Company undertakes CEO and CIO lunches with employees consulting employees on decisions likely to affect their interests.
- The Company undertakes an employee share scheme- 'LTIP for all award', where each employee is awarded a sum with a three year vesting period. In order to align employee outcomes with those of the Company's clients, a new LTIP scheme was introduced during 2020 and links a proportion of employee deferred incentives to the performance of a basket of Newton funds (See note 6 for further details).
- The Company has a 'Get Involved Committee', which facilitates the organisation of sports, social, and charitable events for Newton employees.
- The Board acknowledges the importance of driving a more diverse culture and the positive impact diversity has on the long-term success of the business. In November 2019, the Board approved a corporate-wide diversity statement and the Newton Board Nomination Committee supports the Company in achieving the goals set out in the statement. The Company is also a member of the UK diversity project, as part of a wider initiative aimed at driving a more diverse and inclusive culture across the investment industry.
- The Company set diversity and inclusion goals for 2020, which seek to (i) increase the diversity of profiles being hired at a team level (global focus on women and ethnic minority groups) to create a well-balanced diverse organisational profile; (ii) improve retention rates of diverse employee population; and (iii) improve access to opportunities for growth and career progression for diverse talents aspiring for a diverse succession bench for key positions.
- The Company adapted quickly to the fast evolving Coronavirus situation. A Coronavirus working group was established at an early stage, and employee wellbeing has remained a key focus. Various initiatives were launched, including an enhanced Employee Assistance Programme, online personal resilience tools and a wellbeing newsletter highlighting available support services. Mental health awareness training was also made mandatory for all managers to increase the social support network for employees. The Company also benefits overall from the wider BNY Mellon Group COVID 19 Response Programme, with periodic strategic direction from BNY Mellon Group Executive Committee.
- A culture assessment (involving virtual workshops as well as an employee survey) was undertaken in order to review the Company's culture from its employees' perspective. Feedback was consolidated and assessed, and ultimately a set of recommendations prepared in order to support the continued enhancement of the Company's culture in line with its stated values.

- In March 2020 the Company released its 2019 Gender Pay Gap Report. The Company is determined to reduce its gender pay gap going forward, and while it is making progress, it is aware more work needs to be done. The Company has put in place a number of specific actions and initiatives that aim to improve its gender balance and act as a positive influence on its gender pay gap over time.

### ***Impact on the Community and Environment***

- The Company has been a signatory to the Principles for Responsible Investment (“PRI”) since 2007. As part of this commitment to the PRI, it is required to report annually on its approach to, and implementation of environmental, social and governance (“ESG”) integration throughout its investment process. During 2020, the Company was awarded an A+ rating overall for the fourth consecutive year.

- The Company runs a broad range of equity, fixed-income and multi-asset strategies, with a particular expertise in sustainable investing. The Company considers ESG issues in relation to every company in which it invests.

- During 2020, in line with the Company’s strategic priorities, the Company launched sustainable versions of existing flagship products, and worked towards building out its sustainable fund ranges. Thematic strategies were also launched, which enable clients to ultimately access the Company’s long-standing thematic research framework in specific thematic aligned investment strategies.

- The Company recognises climate change as a material investment issue and discloses its efforts on this through their TCFD Reporting process, which they began in 2018.

- During 2020, the Company donated over £35,000 to its selected charities, supporting causes such as social mobility, mental health and equality.

### ***High Standards of Business Conduct***

- The Company is regulated by The Financial Conduct Authority (the “FCA”) and is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940. It operates within the rules of the FCA and the restrictions as defined within its regulatory licence.

- All Senior Managers, Certified Persons and Conduct Rules (SMCR) staff undertake ongoing SMCR training sessions. The Company is classified as an Enhanced Firm. The aim of SMCR is to reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold individuals to account. SMCR aims to: (i) Encourage staff to take personal responsibility for their actions; (ii) Improve conduct at all levels; and (iii) Make sure firms and staff clearly understand and can demonstrate the roles and responsibilities of all relevant staff.

- Company employees’ activities, are carried out in accordance with applicable process and procedures and where issues arise from liaisons with clients, market practice, regulators or vendors that require senior level consideration, they are addressed through the escalation mechanisms that are built into the robust, Board approved governance framework.

- The Board promotes a high performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. The Board Remuneration Committee supports the Board to achieve this goal.

- The Board recognises the importance of having greater representation of women on the Board and in senior management positions. During 2020 there were seven Board members (reduced to six in October 2020), two of which were female.

- The Board recognises the importance of risk management in the execution of its strategy and the Board has defined the levels of risk acceptable to the Company. This is formalised and monitored through a risk appetite statement.

- The Board retains overall responsibility for approval of Newton's risk appetite and strategy, including capital adequacy and liquidity of financial resources. The Board Risk Committee is responsible for ensuring that frameworks exist to identify, assess, manage and monitor risk; and for considering the material outputs from these frameworks

***Acting fairly between members of the Company***

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