

**NEWTON**

Investment  
Management

August 2018

# NEWTON GLOBAL EQUITY INCOME STRATEGY

This document is for professional investors only.  
Newton claims compliance with the Global Investment  
Performance Standards (GIPS®). Please read the important  
disclosure on the last page.

Part of  BNY MELLON

# Newton Global Equity Income strategy

## Performance aim

To outperform the FTSE World Index by over 2% per annum over rolling five-year periods<sup>1</sup>

## Investment policy

- All new holdings must have a prospective yield 25% greater than the FTSE World Index yield
- Any holding whose prospective yield falls below the FTSE World Index yield will be sold
- Portfolio of 40-70 stocks, not constrained by any country, regional, sector or industry restrictions

## Inception date

1 January 2006

## Strategy size

£8.2 billion as at 30 June 2018

In a world of financial repression, investors may be compelled to migrate away from their comfort zone, thereby increasing their risks. In a low-growth environment where risk is prevalent, pursuing an asymmetric return profile within equities may be desirable. By its nature, a global equity income strategy should be able to generate such a return profile, especially when it is actively managed and focuses on companies with durable and robust business models.

## Dividends – the biggest driver of equity returns

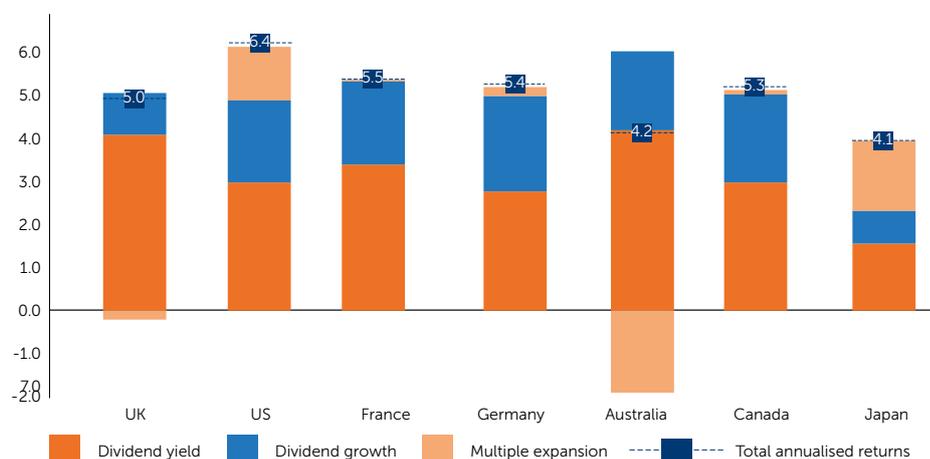
By investing over the long term in income-generating equities, our Global Equity Income strategy aims to provide returns that remain relatively stable, even in down markets, as well as the prospect of attractive long-term capital growth.

- Investing in cash-generative companies, with a valuation screen to help achieve a dividend yield above that of the comparative index
- A global investment universe offers investors an opportunity to diversify their equity-income investments. Active stock selection is guided by our investment themes, and by appraisal of fundamentals and valuation
- A focus on sustainable dividends has given the strategy notable resilience in difficult market conditions

# Unleash the power of dividends

To the long-term investor, attractive equity returns come not simply from the receipt of dividends, but from the accumulation of shares as a result of reinvestment of those dividends. The compounding of investment returns via income reinvestment is a powerful driver of equity returns over the long term.

## Compounding effects of dividend yield dominates real returns in the long term (1970-Q1 2018)



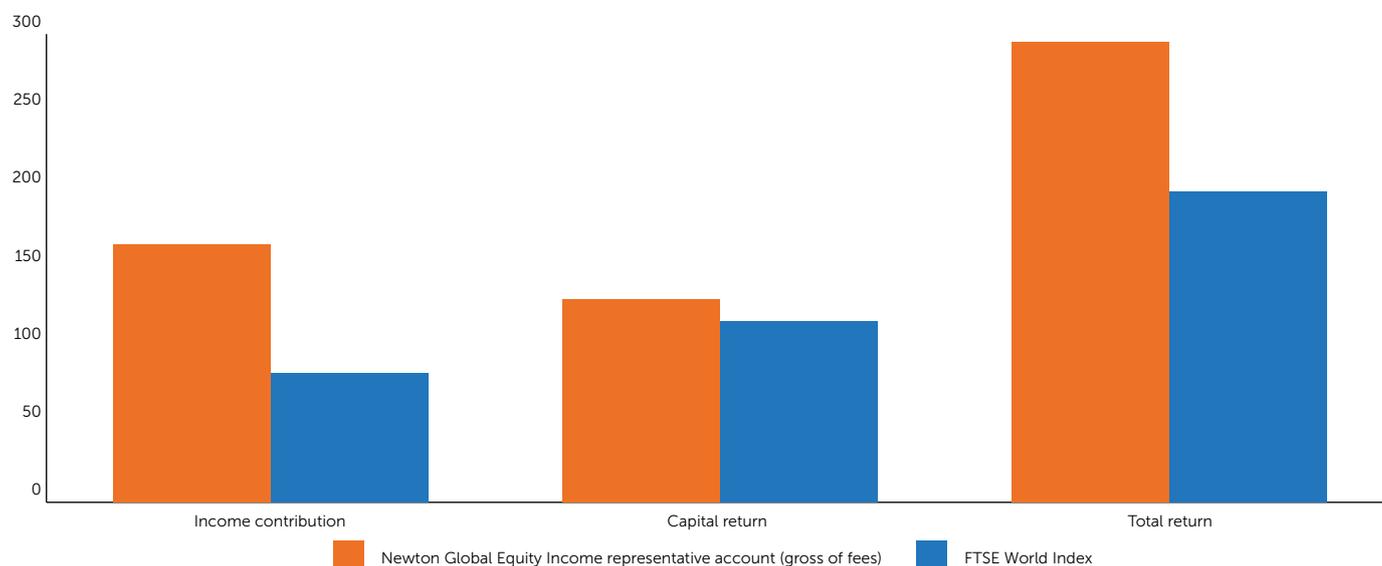
<sup>1</sup> The FTSE World index is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index.

For illustrative purposes only. Source: Thomson Reuters Datastream, total annualised real return in local currency, to 31 March 2018.

# How can dividends help performance?

Even during periods in which capital returns fall, dividend income tends to be relatively stable. Therefore, by concentrating on the income received, investors may be better equipped to withstand volatility in the economy and in the capital value of portfolios. We believe that dividend-paying companies are also likely to demonstrate certain beneficial qualities – notably alignment of company and shareholder interests.

## Newton Global Equity Income representative account: Income contribution, capital return and total return (1 January 2006 to 30 June 2018)



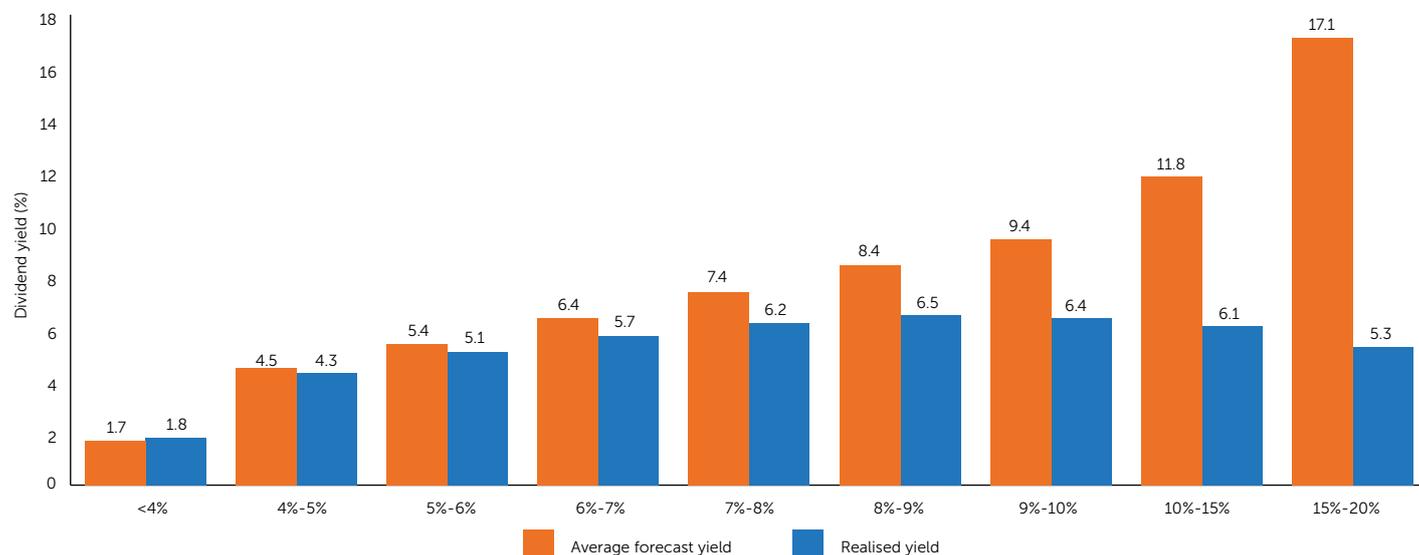
Source: Newton, 30 June 2018, gross of fees.

Performance is stated gross of management fees. The impact of management fees can be material. A fee schedule providing further detail is available on request. This data is from a representative portfolio and is for illustrative purposes only. The representative portfolio adheres to the same investment approach as the Newton Global Equity Income strategy. The FTSE World Index is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index.

## The need to be active

Greater forecast income levels may initially appear attractive, but they can in many cases be indicative of heightened risks, and in the longer term may lead to disappointment through cuts in dividends as highlighted below. We think that careful analysis of how companies allocate their capital is critical in order to identify real value.

### Comparing forecast and realised dividend yields – end-1995 to 31 December 2017



For illustrative purposes only. Source: SG Quantitative Research, Factset, 31 December 2017.

# A disciplined, repeatable investment process

Our investment approach involves a combination of top-down themes and bottom-up fundamental analysis. Our Global Equity Income strategy sits within this broader philosophy, using the additional income disciplines to drive a focus on what we believe to be an attractive subset of the global equity market.



# Strong long-term performance

Performance since inception<sup>1</sup>

# 11.6%

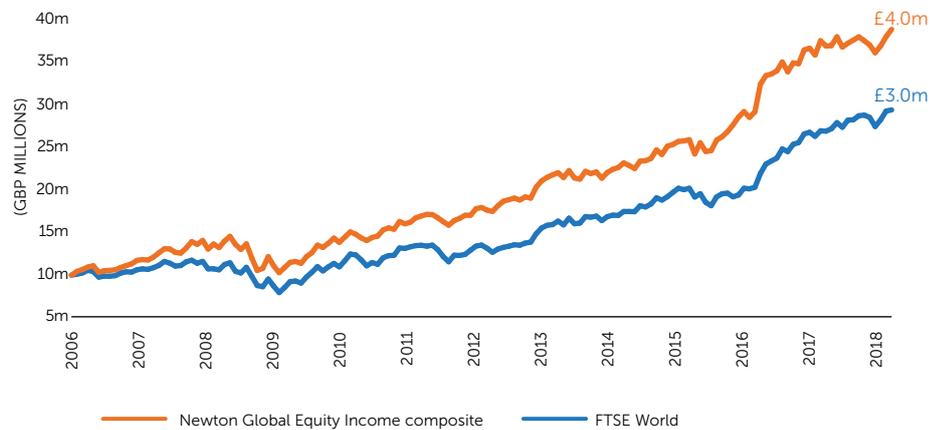
annualised return (gross of fees) versus the index return of 9.2%

Growing a £1.0 million investment into

# £4.0m

The Newton Global Equity Income strategy is one of the longest established, truly global equity income strategies, and it allows investors to benefit from expertise developed over many years.

**Newton Global Equity Income composite vs. FTSE World – £1,000,000 invested in December 2005**



## Annualised returns to 30 June 2018

	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
Newton Global Equity Income composite (gross of fees)	5.3	17.2	12.7	11.2	11.7
FTSE World (comparative index)	9.3	15.5	13.2	11.1	9.2

Performance is stated gross of management fees. The impact of management fees can be material. A fee schedule providing further detail is available on request. Please see composite information at the end of this document. This is supplemental information to the GIPS® compliant information. The FTSE World Index is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index.

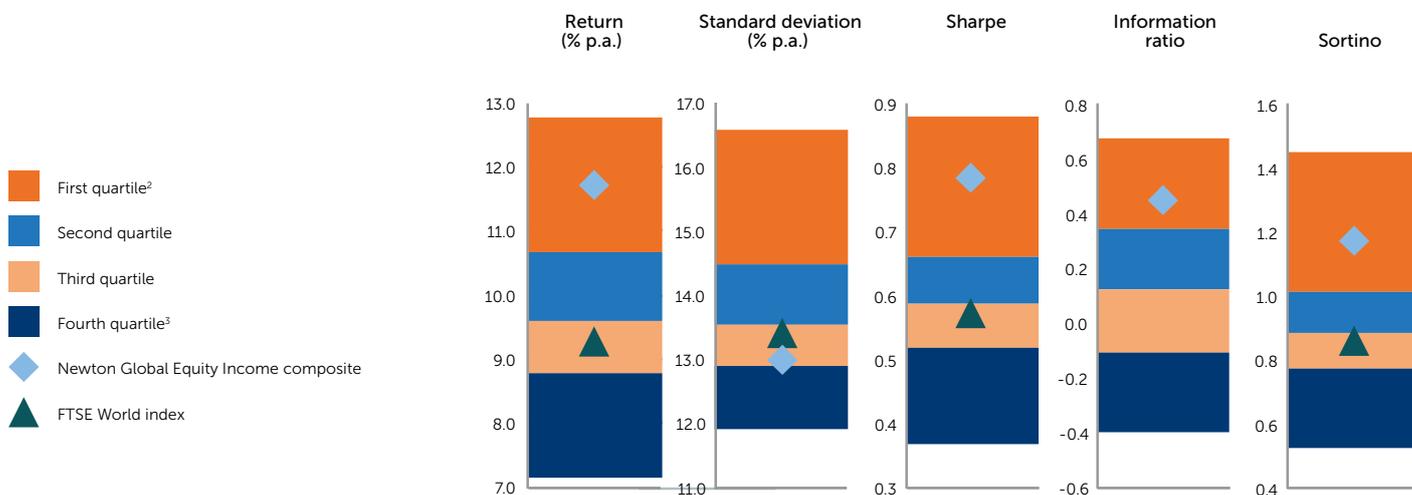
<sup>1</sup> Inception 1 January 2006.

Source: Newton. Composite performance from 1 January 2006 to 30 June 2018. Returns include reinvested income and are quoted in GBP, gross of fees.

# Compelling performance characteristics

We construct our Global Equity Income portfolios holistically, using our research-driven, bottom-up investment process, and concentrate on investing in attractively valued stocks of companies which we believe have good prospects and strong fundamentals. This approach has resulted in strong long-term performance with lower volatility and downside capture statistics.

**Newton Global Equity Income composite: Performance characteristics vs. FTSE World in GBP (before fees) since inception,<sup>1</sup> ending 30 June 2018 (monthly calculations). Comparison with the Mercer Global Equity Universe (actual ranking)**



Newton Global Equity Income	11.64	12.90	0.78	0.43	1.17
Comparative index return	9.15	13.29	0.57	-	0.84
Upper quartile	10.64	14.49	0.66	0.34	1.01
Median	9.56	13.55	0.59	0.12	0.88
Lower quartile	8.77	12.89	0.52	-0.11	0.77
Newton Global Equity Income ranking	17	115	15	27	21
Comparative index ranking	99	91	95	-	93
Number in universe	157	156	156	156	156

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<sup>1</sup> Inception 1 January 2006.

<sup>2</sup> To fifth percentile (in order to exclude outlying data points).

<sup>3</sup> To 95th percentile (in order to exclude outlying data points).

Source: MercerInsight MPA, 30 June 2018. The risk-free rate used for these calculations is the ICE BofAML LIBID 1-month average UK. This output should be read in conjunction with, and is subject to, MercerInsight MPA™: Important notices and Third-party data attributions. See [www.mercerinsight.com/importantnotices.aspx](http://www.mercerinsight.com/importantnotices.aspx) for details. Copyright 2018 Mercer LLC. All rights reserved.

# Global Equity Income team

Our organisational structure encourages lateral thinking, fluid communication and the swift implementation of ideas. Our analysts and investment managers are located on a single investment floor in London, which helps to ensure that the investment process is flexible and opportunistic. The entire investment team is responsible for generating investment ideas, with teams of portfolio managers leading on specific investment strategies. The Global Equity Income team comprises Nick Clay, Raj Shant, Robert Canepa-Anson and Colin Rutter, who form part of our wider ten-strong Global Equity team.

## Global Equity Income team



Nick Clay



Colin Rutter



Raj Shant



Robert Canepa-Anson

Average

22

years' investment experience

15

years at Newton

### Global research

14 years' investment experience  
8 years at Newton

Industry analysts

Responsible investment analysts

Credit analysts

### Portfolio managers

20 years' investment experience  
15 years at Newton

Global equity

Multi-asset & UK

Real Return

Emerging & Asian equity

Fixed income

## Why Newton?

- Managing £50.8 billion of assets (as at 30 June 2018) on behalf of clients including pension funds, corporations and charities around the world
- 30-year track record of managing income strategies, which represent 23% of our total assets under management
- Global thematic framework ensures long-term investment perspective
- Integrated environmental, social and governance (ESG) analysis

## Key strengths of the Newton Global Equity Income strategy

- An established strategy focusing on sustainable and growing dividends
- Using time and consistency to harness the full potential of compounding
- A transparent, disciplined and repeatable process with buy and sell disciplines based on valuation
- Has generated a compelling risk and return profile for investors over the long term

## Want to find out more?

Please contact our consultant relations and business development team:

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 Newton Investment Management

Past performance is not a guide to future performance. 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

- There is no guarantee that the strategy will achieve its objective.
- This strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the strategy.
- The strategy may use derivatives to generate returns as well as to reduce costs and/or the overall risk of the strategy. 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 strategy invests 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 strategy because it typically invests in a limited number of investments.
- 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.

### Investment performance

	30 Jun 17- 30 Jun 18	30 Jun 16- 30 Jun 17	30 Jun 15- 30 Jun 16	30 Jun 14- 30 Jun 15	30 Jun 13- 30 Jun 14
Newton Global Equity Income Composite	5.3	13.9	34.2	6.0	6.6
FTSE World Index	9.3	22.9	14.6	9.9	10.0

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Source: Newton, total return, income reinvested, gross of fees, in GBP, 30 June 2018.

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