

NEWTON

Investment
Management

July 2018

NEWTON GLOBAL EMERGING MARKETS STRATEGY

For institutional investors only. Not for distribution outside the U.S. or to individual investors. Compared to more established economies, the value of investments in emerging markets may be subject to greater volatility owing to differences in generally accepted accounting principles or from economic or political instability or less developed market practices. A fall in global emerging markets may have a significant impact on the value of the strategy because it primarily invests in these markets. Please read the important disclosures at the end of this document.

Newton Global Emerging Markets Strategy

Performance Aim

To outperform the MSCI Emerging Markets Index (NDR) by in excess of 3% p.a. over a rolling five-year period¹.

Inception Date

May 2011.

Number of Equity Holdings

Approximately 40-70.

Emerging markets, by their very nature, provide exposure to high growth potential, but are often characterized by short-term volatility and diverging performances at regional, industrial and company levels. In such an environment, we think that ensuring you are invested in the best possible stocks is essential. We seek to invest in companies that generate real value from their growth and reinvest it for the benefit of all shareholders. We believe investors in emerging markets can capture growth potential and minimize risks with an investment approach which is truly active and incorporates environmental, social and governance (ESG) analysis in the investment process from the outset.

Finding Real Value in Emerging Markets

- High-conviction strategy seeking to benefit from strong fundamentals, attractive valuations and long-term thematic support
- Unconstrained by index composition
- Long-term investment horizon
- Emphasis on growth, quality, return on capital employed and governance

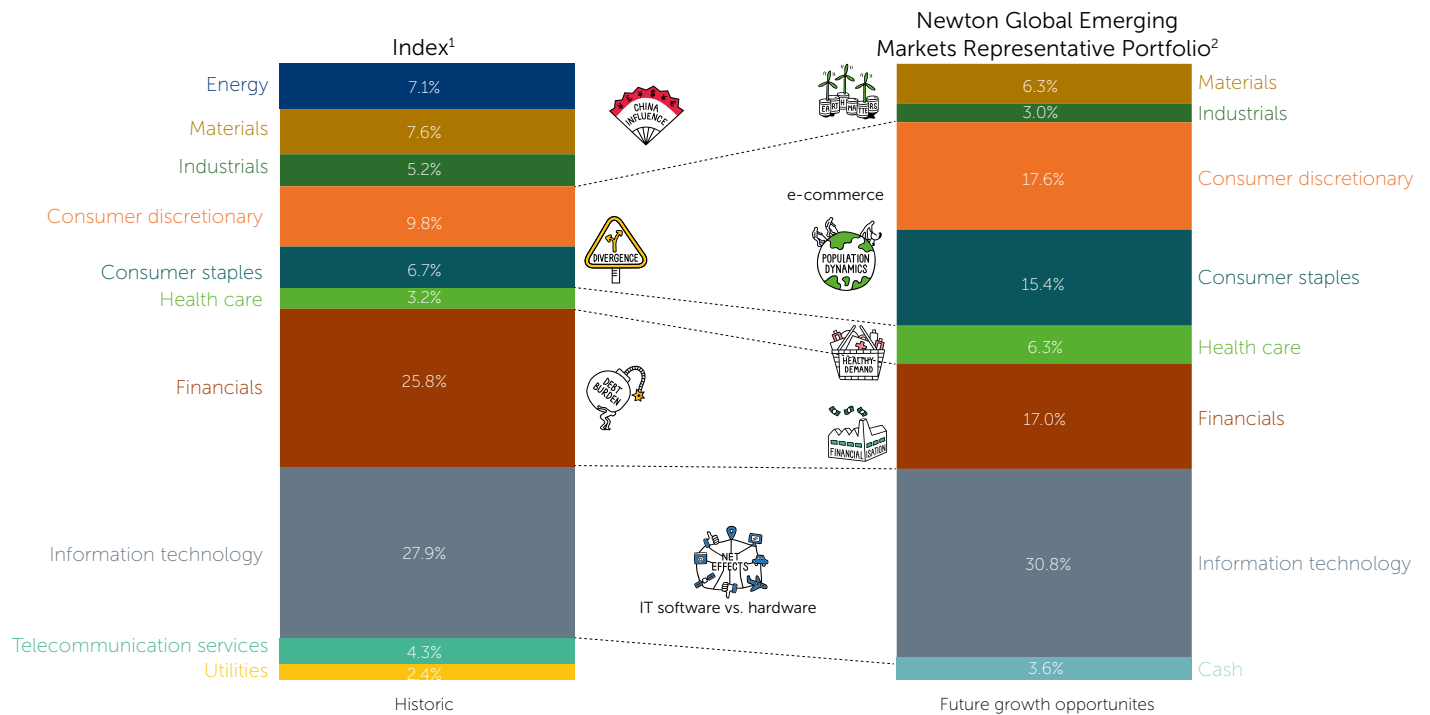
¹ The MSCI Emerging Markets Index (NDR) is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index. The outperformance target stated is for indicative purposes only, may be changed without notice and is not a guarantee of future returns.

Truly Active Management

Emerging economies present divergent opportunities and risks to investors. This is why Newton's Global Emerging Markets strategy employs rigorous analysis to try to identify those companies which have the potential to generate strong cash flows and reinvest these in growth opportunities on a continuing basis.

While a passive investor is compelled to buy more of those areas which have already performed well (and which therefore have a higher index weighting), and where much of the growth may already have happened, an active investor aims to identify areas of future good performance and growth, and take higher conviction positions in these.

Actively Positioning for Future Growth Opportunities



1 The MSCI Emerging Markets Index (NDR) 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.

2 The representative portfolio adheres to the same investment approach as the Newton Global Emerging Markets strategy.

Fundamental Bottom-Up Analysis Drives Capital Appreciation

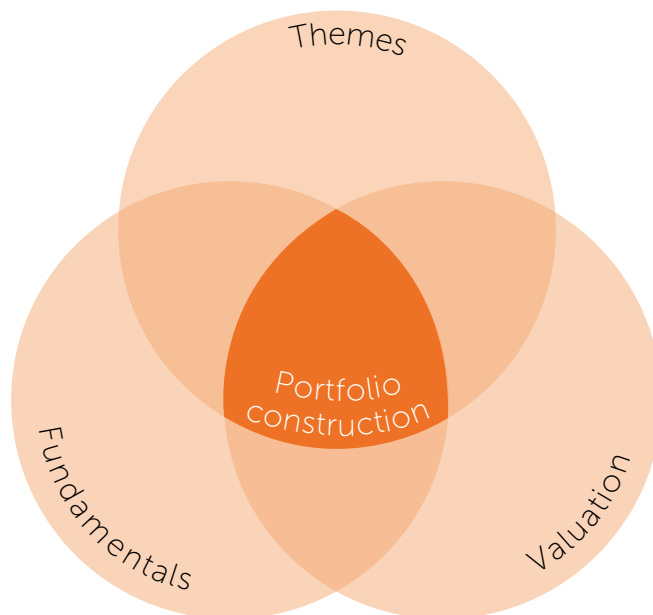
Environmental, Social and Governance (ESG) Focus

We believe that responsibly managed companies are best placed to achieve sustainable competitive advantage and provide strong long-term investment opportunities. However, the governance structures of many emerging-market companies tend to be less clean than those of their developed-market counterparts. Our dedicated responsible investment team, which is an integral part of our investment decision-making process:

- conducts ESG quality reviews of companies considered for investment
- aims to provide the investment team with an overview of the material ESG risks and opportunities facing a company, and details of how the company addresses and reports on these issues

The Newton Global Emerging Markets strategy aims to capture value creation available from growth in emerging markets, with a reasonable level of risk.

- Emphasis on **active management**: fundamental bottom-up security selection
- Seeking **compounders** (high returns reinvested in growth)
- Aiming to harness **under-recognized earnings** from strong franchises, brands, barriers to entry, etc
- Exposure to **thematic tailwinds**
- Seeking **robust fundamentals** through a downturn
- **Not chasing the market**, nor relying on momentum
- **Tight watch list** of potential investments



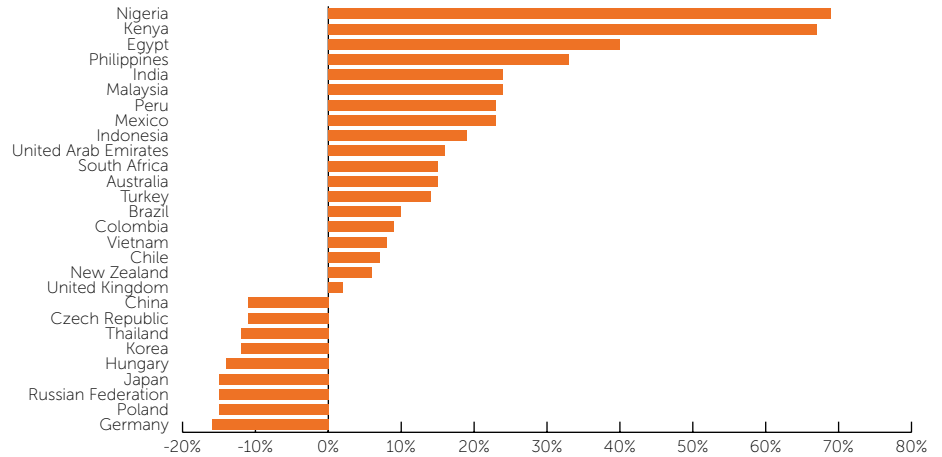
Themes Help Identify Opportunities and Challenges

Against a differentiated emerging-market backdrop, we use investment themes to focus on areas of growth and avoid areas of risk.



Population dynamics are key drivers of GDP growth and asset prices, but vary hugely between emerging markets. Such dynamics may create favorable investment opportunities, for example where they are associated with strong working-age population growth, but they may also entail risks which reduce the appeal of some markets.

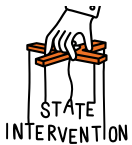
Working Age Population Growth (2015-2035, UN Estimates)



For illustrative purposes only. Source: Newton, UN Population Information Network – World Population Prospects: The 2015 Revision, April 2016.

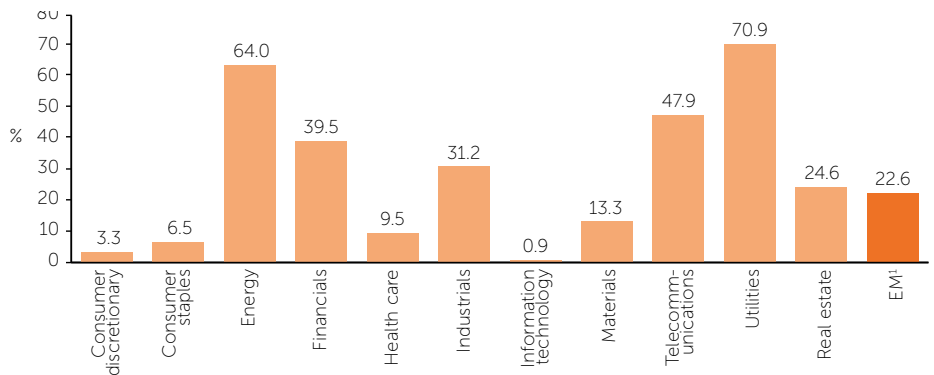


Expanding incomes and changing lifestyles in emerging markets have created a growing demand for health care, but government provision is often lacking. This creates a big private sector opportunity.



Some emerging markets have a high level of state control, which can distort the investment outlook and reduce returns. Sectors with higher state ownership include the utilities, energy, telecommunications and financials sectors. Conversely, IT, consumer and health-care sectors are relatively free from state control. The strategy is most overweight in the sectors with the lowest proportion of state-owned enterprises.

MSCI Emerging Market Sectors – % Estimated State Control



For illustrative purposes only. Source: Newton, CLSA, May 31, 2018. Note: 1 Estimate for the proportion of state-controlled companies in the whole MSCI Emerging Markets Index is calculated by defining each constituent in the index as state or privately controlled (a very small proportion as 'unclassified' or 'majority foreign ownership') – then summing the index weights for all the constituents considered to be state controlled.



The mobile internet is booming in many emerging markets as more consumers get reliable 3G and 4G access. Companies which can harness the resulting e-commerce opportunities are set to benefit.

Global Emerging Markets Investment Management Team

- The Global Emerging Markets team is made up of seven investment professionals with an average of 13 years' investment experience.
- The team benefits from strong and fruitful collaboration with our wider investment team. This is invaluable in providing a broad perspective.

Emerging and Asian Equity Team



Robert Marshall-Lee



Sophia Whitbread



Caroline Keen



Zoe Kan



Naomi Waistell



Amy Leung¹



Douglas Reed

Average

13

years' investment experience

12

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

¹Based in Hong Kong (contract via BNY Mellon Investment Management Hong Kong) since April 1, 2018. Source: Newton, June 30, 2018. Years' investment experience and tenure at Newton are team average numbers.

About Newton

Newton is a global investment management firm, founded in 1978 and owned by BNY Mellon.

We use bottom-up security selection tied with a thematic framework to create and manage strategies that help secure our clients' futures.

Assets Under Management

We manage \$67.1 billion¹ of assets for clients based around the world, including public and private-sector pension plans, corporations and endowments and, via our parent company, individuals.

Proprietary Global Research

Newton's career global research analysts provide investment ideas based on bottom-up fundamental research. Our investment professionals are based in a single London location, which allows for efficient idea generation and implementation.

Responsible Investment

We aim to optimise performance returns for our clients by investing in well-managed companies. Our dedicated responsible investment team is part of our global research team and an integral part of the investment process. The team conducts formal environmental, social and governance (ESG) quality reviews of all companies considered for investment.

Investment Capabilities

We run a broad range of equity, fixed-income and multi-asset strategies, and have particular expertise in absolute-return, income-focused, unconstrained and sustainable investing.

Key Strengths of the Newton Global Emerging Markets Strategy

- High-conviction strategy seeking to capture the growth premium associated with emerging markets
- Global thematic approach to investing targets future profitability rather than historic profitability
- Stock selection driven by bottom-up proprietary research incorporating ESG analysis
- Focus on 'compounders' aims to limit downside risk when markets become less certain

¹ As at June 30, 2018.

Contact


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 [Newton Investment Management](https://www.linkedin.com/company/newton-investment-management)

Key Investment Risks

- 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.
- This strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the strategy.
- A fall in global emerging markets may have a significant impact on the value of the strategy because it primarily invests in these markets.
- 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.

Important Information

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