NEWTON
Investment Management

BNY MELLON | INVESTMENT MANAGEMENT

April 2023

2022 annual report

SUSTAINABILITY AND STEWARDSHIP

Any investment policies, processes or activities described in this document relate to investment strategies managed by Newton Investment Management Limited ('NIM') and Newton Investment Management North America LLC ('NIMNA'), hereafter 'Newton' or 'Newton Investment Management'.

This report relates to the activities of Newton during 2022.

The processes described in this document may be subject to change over time. The Newton Investment Management Group ('Newton Group') describes a group of affiliated companies including NIM, registered in the UK, and NIMNA, registered in the US, and both are indirect subsidiaries of The Bank of New York Mellon Corporation ('BNY Mellon').

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

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We encourage and appreciate feedback on this report.

Please provide any comments to:

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FOREWORD

Euan Munro
Chief executive officer

The saying *"there are decades where nothing happens; and there are weeks where decades happen"* seems fitting in respect of the impact that a world event as profound as the war in Ukraine is having on responsible investment and the management of environmental, social and governance (ESG) risks.

As an asset management CEO for almost a decade (two of these years at Newton), I have followed the development of responsible stewardship in my industry, and have been encouraged by progress.

I have seen the evolution of investment capabilities embracing the relevance of ESG-type issues which, when done properly (and by that I mean addressing the material financial risks that emerge when these matters are poorly managed) can make us better investors.

Unfortunately, the war in Ukraine exposed some deep fractures that have been exploited by some who perhaps have never regarded it as the responsibility of asset managers to worry about ESG matters. The war exposed the dependence of Europe on Russian fossil fuels, and the resulting spike in energy prices exacerbated a post-Covid cost-of-living crisis in many economies. It demonstrated how unprepared our economies were to run at full capacity (after the Covid hiatus) without access to affordable energy. Sadly, it has led some to reject the very concept of managing ESG risks. These differences of view are even deeper geographically.

As a CEO for a business with meaningful footholds in the US as well as Europe, it has never been more important to be clear about what we do.

The future into which we must invest our clients' capital is extremely uncertain. The 'certainties' of the last 15 years or so appear to be behind us; during this time, economic wobbles were mollified with reassuring interest-rate cuts from central banks, latterly supplemented by prodigious amounts of public spending in response to the pandemic. Those policies do not work in the presence of inflation.

This uncertainty means we have to assume that not every bad event can be smoothed away, and companies that mismanage risks – including ESG risks – are much more likely to go bust. For example, a chemical or utility firm that pollutes a river, and suffers significant litigation claims, may not survive. As investors, we therefore need to know how seriously companies take these risks.

Our approach is not rooted in any belief that we have a 'better' set of values than anyone else, as perhaps some critics of ESG integration assume. Rather, we are guided by the analysis of the financial costs of falling foul of meeting society's expectations in navigating these issues.

In some cases, this analysis may also help us identify businesses that may be well placed to offer, and benefit financially from, solutions that society needs, such as cheap low-carbon energy.

Part of the confusion in this arena surrounds the matter of exclusion versus engagement. When the exclusion of energy majors led some portfolios to underperform significantly, especially during the early stages of the Ukraine war, some started to question this approach.

Our core approach to investing is about engagement rather than exclusion. We believe that, from both practical and social-justice perspectives, our economies are not ready to switch off oil and gas. But we also absolutely want to encourage the major energy producers to be part of the solution as we transition to a zero-carbon world at a sensible pace.

This requires engagement rather than exclusion, and is how we can make a real-world impact.

However, we respect the fact that some clients will want to orient their portfolios more exclusively towards companies that are 'best in class' or solution providers in sustainable matters, and we are therefore also glad to run sustainable portfolios on that basis. At Newton, we never forget that it is not our money that we manage and that we need to work in partnership with our clients.

Newton has a lot of energy at the moment. Integrating two businesses, even if part of the same wider organisation, does take some time. But we have reached the stage where we have an agreed global responsible investment strategy that we call RI 2.0, and rather than retreat in light of the scepticism fostered by the impact of the war in Ukraine, we intend to build on Newton's already established reputation in this area.

To conclude, we are committed as part of our core process to assiduously manage financially material ESG risks and engage with companies that we feel are mismanaging them, and we are also delighted to work with our clients to develop sustainable strategies that align more fully with their values.

Therese Niklasson
Global head of sustainable investment

2022 was a defining year for Newton in many ways. We had just undertaken the integration of Mellon Investments Corporation's (Mellon) active equity and multi-asset businesses, and were navigating very tough market conditions following the Russian invasion of Ukraine.

Taking on the role of head of sustainable investment in February 2022, I was excited to join a firm I had admired for many years in terms of its work around responsible investment. I was excited that the firm had invested in a strong responsible investment team and that I was joining an executive team that already understood what this was about.

The tone from the top could not have been clearer and more inspiring:

we were building a business for the future.

> "My focus was to ensure we could support our clients in the right way and deliver on their mandates relating to both risk-adjusted returns and specialist products that would aim to address some of the most pressing sustainability issues."

Having undergone such dramatic changes over the previous year through the Mellon integration, I knew this presented an opportunity to set the direction of travel for true ESG integration and sustainable strategies that seek to deliver real outcomes.

I was convinced that the way the industry had approached stewardship and ESG integration over the last decade and a bit was changing rapidly, and that it was time for a transformation.

This became our strategy – **Responsible Investment (RI) 2.0** – which is about taking integration to the next level, emphasising robust sustainability propositions, having a focused approach to stewardship, and being thoughtful about our industry without getting distracted by the noise. In an ever more polarising US market, this became incredibly important, as we were seeking to navigate what has become an increasingly political topic.

We will remain analytical and keep our conviction around what is the right way to invest as an active manager in a rapidly changing and uncertain future.

My focus was to ensure we could support our clients in the right way and deliver on their mandates relating to both risk-adjusted returns and specialist products that would aim to address some of the most pressing sustainability issues.

Having worked with emerging markets for many years, I had seen first-hand the impact that the allocation of capital can have, and appreciated the importance of not building an industry that would only invest in the purest of companies in order to achieve change and progress. Having a real-world impact is as much about investing behind solution providers as transformation, and this will continue to feature at the core of our conversations around sustainability strategy.

> "I appreciated the importance of not building an industry that would only invest in the purest of companies in order to achieve change and progress."

Newton's investment teams were already well-versed in understanding ESG risks, which meant that fully transferring that analysis into their work was a process that landed quickly and was welcomed by the research team. As expected, we have work to do, but our approach is setting us up with a model that we believe will help us achieve good risk-adjusted returns as we move into a future where we are up against planetary boundaries and changing social conditions.

I hope that this report distils and does justice to all the hard work that has been done at Newton over 2022. I am excited to continue sharing our journey with our clients, and to see my colleagues across Newton live the commitment to bring sustainability to the core of our business.

NEWTON AT A GLANCE

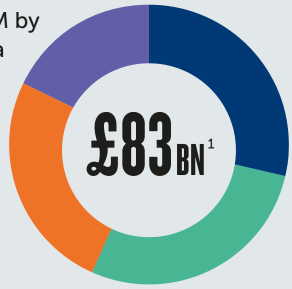
Our client base consists of institutional pension clients (defined benefit and defined contribution schemes), government entities, charities and foundations, insurance companies, financial intermediaries, and sovereign wealth funds. We classify all our assets under management (AUM) as institutional.

We have a global footprint, with 51% of our total AUM being managed for US clients, 34% being managed for UK clients, and the remainder being managed for clients across Canada, Japan, EMEA (ex UK) and the Asia-Pacific (ex Japan) region.

We believe that in a rapidly changing world, investors require strategies that will evolve to meet the challenges that they face. Therefore, we work in partnership with our clients, understanding their requirements and building investment strategies that aim to deliver our clients' desired investment outcomes.

Enabling us to deliver these investment solutions to our clients is our c.130-member investment team, which consists of active equity and multi-asset portfolio managers, and a multi-dimensional global research capability that includes fundamental equity, quantitative equity, quantitative multi-asset, credit, private markets, thematic, investigative and responsible investment research.

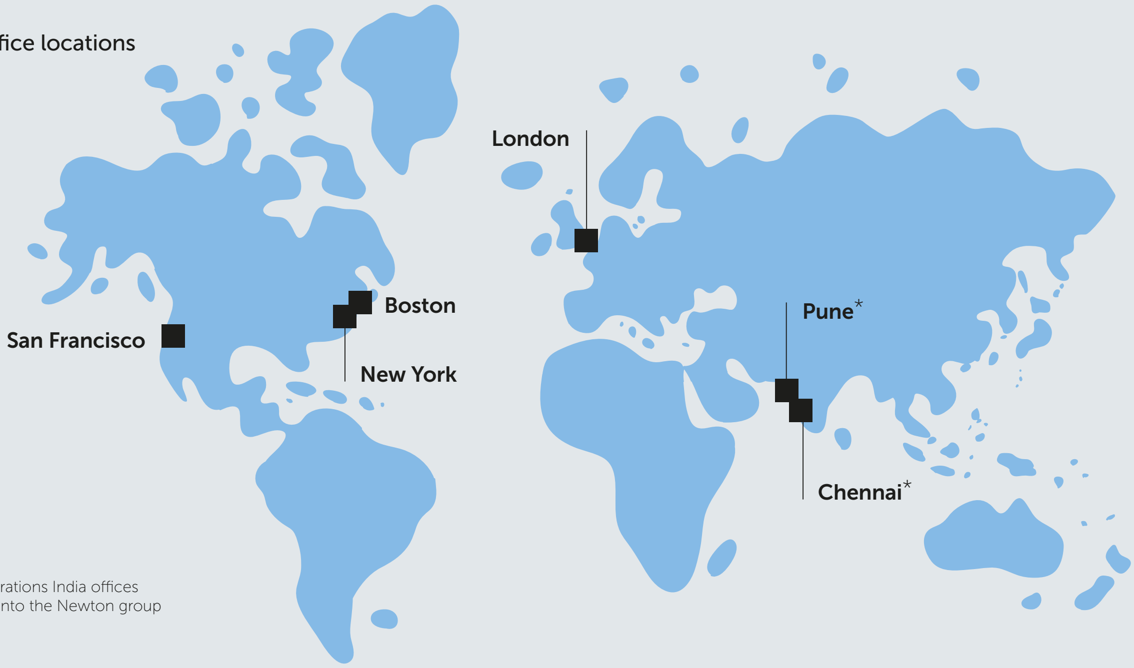
Newton's AUM by client key area of focus



Income	£24.1bn
Active equities	£23.3bn
Multi-asset	£21.3bn
Absolute return	£14.8bn

Newton's AUM by geography

Newton's office locations



*BNY Mellon Operations India offices provide support into the Newton group of companies.

Newton group of companies, 31 December 2022. Newton global AUM is the combined total AUM of Newton Investment Management Limited ('NIM') and Newton Investment Management North America LLC ('NIMNA') as calculated as at 31 December 2022. In addition, Newton's global AUM includes assets of bank-maintained collective investment funds for which Newton has been appointed sub-advisor, where Newton personnel act as dual officers of affiliated companies and assets of wrap fee account(s) for which Newton provides sub-advisory services to the primary manager of the wrap programme. 1 Newton's global AUM is adjusted lower to factor in any double counting of affiliate fund or fund-of-fund assets which can occur when a Newton multi-asset strategy invests in a BNY Mellon fund, that is sub-advised by Newton. At end December 2022, total assets invested by Newton multi-asset strategies on this basis was £2.9bn. To avoid double counting we extract these assets from Newton's global AUM, which results in a total global AUM of £83.4bn for Newton. Mixed Assets and Charities team assets of £10.5bn includes £1.7bn of this form of double-counted assets. Multi-Asset Solutions team assets of £15.0bn includes £1.2bn of this form of double-counted assets.

THE 2020 UK STEWARDSHIP CODE'S PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS

Throughout this report, we link, where appropriate, particular topics to an applicable Principle from the Code's set of 12 'apply and explain' Principles, as set out below.

PURPOSE AND GOVERNANCE	
1	Purpose, strategy and culture
2	Governance, resources and incentives
3	Conflicts of interest
4	Promoting well-functioning markets
5	Review and assurance

INVESTMENT APPROACH	
6	Client and beneficiary needs
7	Stewardship, investment and ESG integration
8	Monitoring managers and service providers

ENGAGEMENT	
9	Engagement
10	Collaboration
11	Escalation

EXERCISING RIGHTS AND RESPONSIBILITIES	
12	Exercising rights and responsibilities

The UK Stewardship Code 2020
can be downloaded at:

https://www.frc.org.uk/investors/uk-stewardship-code

2022 HIGHLIGHTS

£3.4BN
Newton's sustainable AUM[1] as at 31 December 2022

193 issuer engagements discussing ESG

2,872 meetings voted

JANUARY 2022
- Launch of ESG quantitative score
- Launch of Responsible Investment Reviews App

JUNE 2022
- Newton's Net Zero Asset Manager initiative targets disclosed

JULY 2022
- Launch of RI 2.0 strategy
- First meeting of Newton Sustainability Committee[3]
- Launch of Newton's Sustainable Investment Forum

SEPTEMBER 2022
- Update of Newton sustainable investment framework

OCTOBER 2022
- Launch of Stewardship App

NOVEMBER 2022
- Launch of quantitative net-zero assessment tool

DECEMBER 2022
- Launch of SDG (Sustainable Development Goal) revenue alignment tool

Newton Investment Management Limited (NIM) – signatory of:

UK STEWARDSHIP CODE

Newton Investment Management Limited (NIM) – signatory of:[2]

PRI Principles for Responsible Investment

Investment and stewardship policy	UNIVERSE MEDIAN : 60%	5/5 & 94%
Listed equity active fundamental incorporation	UNIVERSE MEDIAN : 71%	4/5 & 88%
Fixed income SSA	UNIVERSE MEDIAN : 50%	5/5 & 100%
Listed equity active fundamental voting	UNIVERSE MEDIAN : 54%	4/5 & 78%
Fixed income corporate	UNIVERSE MEDIAN : 62%	5/5 & 100%

PRINCIPLES APPLIED AND EXPLAINED IN SECTION 1

PURPOSE AND GOVERNANCE

5	Review and assurance

INVESTMENT APPROACH

7	Stewardship, investment and ESG integration

1 Sustainable AUM is derived using the BNY Mellon Investment Management framework and the definition of 'Sustainable and/or Impact AUM'.
2 2021 PRI assessment for Newton Investment Management Limited (NIM).
3 Newton's Sustainability Committee is a new committee. It replaced the Responsible and Ethical Investment Oversight Group which was Newton's previous primary responsible investment forum, as disclosed in our 2021 stewardship report.

> The driving force behind our focused approach to stewardship is prioritising outcomes.

Evolving responsible investment as a strategic priority

Following the Mellon integration in 2021, our leadership team launched a new strategic blueprint to integrate our purpose with our strategy and culture. Continuing to deepen and enhance our multidimensional research platform as well as developing an innovation ecosystem are key pillars of the blueprint, and ones which are at the heart of RI 2.0.

The integration provided us with the opportunity to harmonise our approach as to how we think about different aspects of investment, including responsible investment. Both legacy firms had been active in responsible investment, but all firms have their nuances and the US business had not been subject to the UK Stewardship Code. In this context, three projects under our strategic blueprint focused on responsible investment:

ESG in core strategies –
the fundamental analysts undertake the ESG analysis and the portfolios managers can talk deeply about their holdings and sustainability

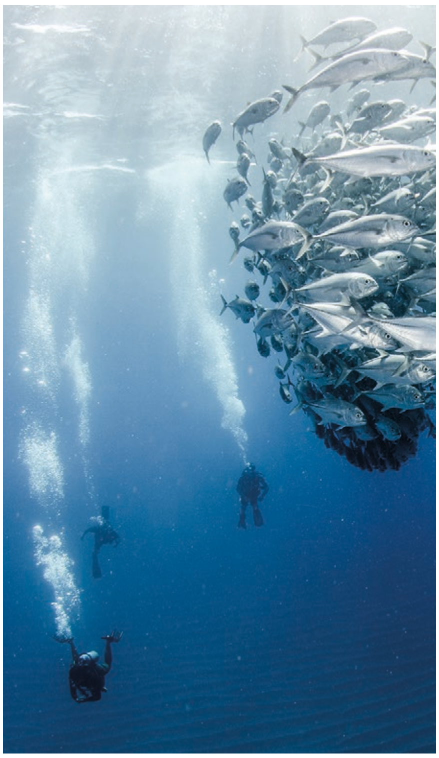
Stewardship –
a focused approach to stewardship where we prioritise strategic engagements that seek to reduce risk or unlock value, reflecting an ecosystem of responsible ownership

Refine our voice in the market on ESG-related topics –
thought leadership that helps move the needle in the market and reflects how our sustainability efforts are rooted in research and an evidenced approach

A deeper view of the stewardship project

We believe it is our duty to be responsible stewards of our clients' capital, and it was important for us to develop a new and focused approach to stewardship which prioritises outcomes. More explicitly, we wanted to shift the way we do things in order to prioritise strategic engagements that are critical to the underlying investment case, and to reflect an ecosystem of responsible ownership. We believe that by concentrating our efforts on achieving real-world change, we can create meaningful progress for clients.

The project group was formed of individuals from our stewardship, equity investment, fixed-income investment and business strategy teams. Four workstreams were launched under this project to overhaul how we use our three stewardship tools – engagement, advocacy, and voting – as well as how we report on our stewardship activities. Work is continuing in 2023, but we outline significant achievements from 2022 below.



Engagement

The driving force behind our focused approach to stewardship is prioritising outcomes. In line with this, we have been working towards redefining engagement for Newton as the purposeful dialogue we have with companies to add value or reduce risk. From 2023, clear objectives requiring actionable change by the company will be set for each of our engagements, against which we can track and measure progress.

Our focused engagements will be distinct from investment research and information gathering, although the latter remains a principal element of our active investment approach.

In order to unlock our ability to pursue this focused engagement, we had first to implement the substantial efficiencies described below for our approach to voting, monitoring and reporting, including building new infrastructure and technology solutions.

From 2023 onwards, our new approach to engagement will be implemented, meaning our engagement tracking criteria will be different from prior years. In our view, there is a tendency to equate higher numbers of engagements with better stewardship, but we feel engagement for numbers does not necessarily achieve the progress or change that we are striving for.

Voting

Following the integration of the former Mellon capabilities, Newton's voting universe expanded in terms of volume, footprint, and geographic exposure. The blueprint project delivered a harmonised voting philosophy drawing from the voting polices of both legacy entities which, while inspired by the same guidance established by internationally recognised governance principles, reflected a practical application that recognised the nuances and focus areas of their respective home markets.

The stewardship team conducted focus sessions with a number of the investment research areas to ensure Newton's approach on key topics was discussed and understood.

> We believe that reporting should go beyond simply presenting numbers and statistics. Instead, it should tell a comprehensive story of our stewardship activities and their impact on the companies we invest in and the broader society.

A significant output was the development of explicit global voting guidelines which put into writing Newton's approach to voting, outline our principles, and lay out our expectations of companies on key governance considerations commonly seen at shareholder meetings. These were distributed more widely to all our research analysts and portfolio managers, as the main owners of the equity investments and the corporate governance risk they entail, to allow for feedback and comments.

Another objective of the blueprint project was to drive efficiencies in proxy voting to enable us to allocate resources to those activities that will add value. We translated our voting guidelines into explicit voting actions which form a bespoke voting policy for Newton.

This policy will be applied to all our votable holdings, enabling a universal approach to our voting while allowing us to deploy in-depth analysis from the stewardship team for those issuers and/or proposals which merit greater focus owing to the materiality of our investment or the importance of the issue at hand (shareholder resolution, corporate action, related-party transactions). In these instances, communication with or input from the wider investment team may be sought, as well as, if relevant, engagement with the company.

In this way we take an active approach to voting, which mirrors our active and engaged approach to investing. This approach to voting will be implemented as of the 2023 voting season.

Monitoring and reporting

We worked in partnership with our responsible investment technology team through a large part of 2022 to develop and launch our **stewardship app** – a technology-based solution (database) that allows us to centralise and better track progress on our engagement objectives, as well as outcomes from our engagement and voting activities. This streamlines the various tracking tools across multiple platforms we previously relied on; in addition, within the app, we are able to set clear and actionable objectives for focused engagements and track progress towards them.

Our database captures information on the issuers we engage with, our overall engagement objectives, the issues raised, key takeaways, outcomes and next steps. In addition, the database will enable us more systematically to identify where we took voting action to escalate concerns from our engagements, and conversely where a vote led to an engagement.

We can track any impact on the investment case from an engagement or a voting action, which will be critical for us readily to demonstrate outcomes from our stewardship efforts and the integration of ESG into the investment process.

The app is designed to facilitate collaboration and knowledge sharing with our investment team and other internal stakeholders, which is based on our broader vision of RI 2.0. Relevant internal stakeholders are kept up to date on all engagement and voting activities, and can readily see progress achieved. The app also allows us to respond more effectively to client requests for stewardship information.

Another significant enhancement was the separation of our voting disclosures from our quarterly responsible investment reporting in order to provide our full voting record online on a quarterly basis for enhanced transparency. We continue to provide voting rationales on resolutions where we did not support management and for all shareholder proposals. This change is part of how we are evolving our approach to reporting to provide more meaningful disclosures to clients on our stewardship outcomes.

As an asset management firm, we recognise the importance of transparent and effective communication with our stakeholders. We understand that reporting plays a critical role in conveying our stewardship activities and ensuring accountability to our clients, shareholders, and the wider community. We believe that reporting should go beyond simply presenting numbers and statistics. Instead, it should tell a comprehensive story of our stewardship activities and their impact on the companies we invest in and the broader society.

In order to take ESG integration within our investment process to the next level, we also released an RI app in 2022 and rolled it out to the whole investment team. The app centralises a variety of research providers' data and our own internal data, helping to identify material ESG and sustainability issues for a single company. This provides an easy reference tool for analysts and portfolio managers to get a high-level view of the RI profile of a company, highlighting our internal scores and conclusions and some external metrics.

A key priority for the responsible investment technology team during 2023 is to further expand the data and suite of tools available to the investment team, both at the company and portfolio level, under the RI 2.0 project. In addition to this, all investment staff have direct access to the platform of one of our primary ESG vendors. The investment team also uses Bloomberg for accessing ESG data and research.

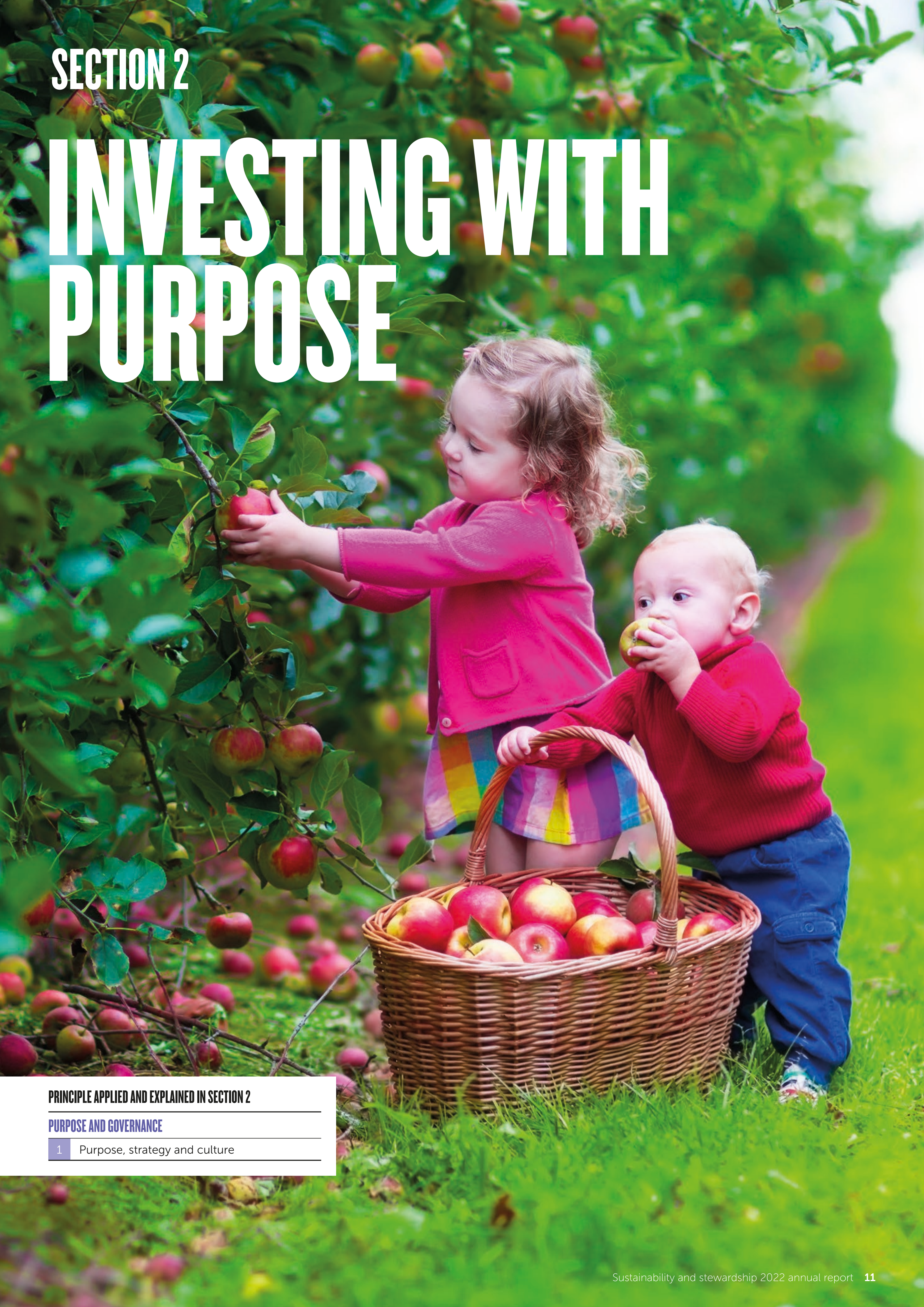
The responsible investment data integration team also develops tools through its 'RI data lab'. This is an internal quantitative research environment (a database and dashboard toolset) from which the team creates, shares and develops new frameworks and solutions in partnership with investment teams. One example is our quantitative net-zero assessment tool to further support our analysis of company transition plans.

There are three primary components to our net-zero score: target strength, past performance, and climate products and governance. This tool enables us to better analyse the credibility of a company's transition plan, identify potential transition risks, and assess portfolio risks. Access to this toolset is being rolled out to the investment team during 2023.

See table on page 10 for an outline of our proprietary tools.

Newton's proprietary tools

Proprietary tool	Description	Scope of analysis	Outputs	Primary use cases
Stewardship app	An application for tracking and monitoring progress of stewardship activities, including engagement objectives and outcomes.	Issuer data Portfolio data	Ability to measure progress against engagement objectives and investment impact of stewardship activities (voting and engagement). Ad-hoc client stewardship reports.	Storing and viewing voting and engagement activities, and tracking progress against objectives Providing ad-hoc stewardship reporting.
RI reviews app	An application for displaying key external and internal responsible investment data points and publishing and viewing sustainability reviews.	Issuer data	Fixed-income ESG and sustainable reviews for issuers; equity sustainable reviews for issuers; responsible investment data grid.	Storing and viewing sustainability analysis; downloading responsible investment data points across investible universe.
Sovereign matrix	A quantitative sovereign model drawing on inputs from multiple sources.	Issuer data	Momentum scores, overall scores and investment suitability categories for countries.	Integrated into sustainable sovereign process; can also be used in core strategies.
Net-zero assessment	A data tool and dataset that assesses the credibility of company transition plans and aligns this to climate scenarios.	Issuer data Portfolio data	Predicted emissions pathway for companies and portfolios relative to climate scenarios; Newton net-zero score.	Expected to support ESG research and sustainable assessments; responsible investment team access with wider rollout underway; portfolio monitoring.
SDG revenue alignment	A data tool and dataset that quantitively estimates revenue alignment with UN Sustainable Development Goals (SDGs) based on an internal mapping of revenue data to SDG targets.	Issuer data Portfolio data	Revenue alignment to each SDG for portfolio holdings and individual names; lists of companies aligned to each SDG.	Portfolio assessments; idea generation. Responsible investment team access with wider rollout under way.
ESG quantitative score	A quantitative ESG score driven by Newton's materiality matrix and predominantly raw data from a range of sources.	Issuer data Portfolio data	ESG score, pillar scores and individual factor scores.	Available to the investment team as an input to the ESG research process; portfolio monitoring for sustainable strategies.
Sustainable fund monitor	A data tool for monitoring key responsible investment data points.	Portfolio data	Principal adverse impact threshold analysis; sustainability and ESG monitoring.	Portfolio monitoring. Responsible investment team access with wider rollout under way.



SECTION 2

INVESTING WITH PURPOSE

PRINCIPLE APPLIED AND EXPLAINED IN SECTION 2

PURPOSE AND GOVERNANCE

1	Purpose, strategy and culture

The fortunes of our clients and other stakeholders are increasingly being shaped by the reality of 'a big world on a small planet'.

"As a steward of capital, we are committed to delivering attractive outcomes to our clients, and to helping foster a healthy and vibrant world for all. We do that by taking an active, multidimensional and engaged investment approach."

This is Newton's purpose and is centred on the responsible allocation, management and oversight of capital to create long-term value for beneficiaries and other stakeholders.

We continue to evolve our investment philosophy while upholding our key behaviours. We continue to focus on building on our multidimensional research platform where the best insights come together from our proprietary research capabilities which include fundamental equity, fixed income, responsible investment, quantitative and alternatives research.

This holistic approach helps us to look at investment prospects from all relevant angles, contributes to the development of our thematic research, and helps us ensure that our investment process continues to be collaborative.

As at 31 December 2022, Newton managed £83 billion in assets.

We seek to invest responsibly: active management is a dynamic process where the aim is to navigate client portfolios through an ever-evolving landscape of opportunity and risk.

In our view, this includes taking account of material ESG considerations, where relevant and appropriate. This report seeks to demonstrate how we deliver on these aspirations by reporting on ESG integration, stewardship efforts, and systems of governance.

We appreciate that some markets are having a challenging time when it comes to the term 'ESG' and we believe much of the divergence of perspectives stems from a lack of a harmonised definition. To us, taking account of ESG considerations is about the importance of understanding the full picture of risks.

It is not about giving up performance for some other good that we impose on our clients. As stewards of our clients' capital, we believe it is our fiduciary duty to do so and to act as active owners on our clients' behalf. That is what we have built our investment model around.

£83BN

Newton's assets under management as at 31 December 2022

SECTION 3

HOLDING OURSELVES TO ACCOUNT

As investors, we understand the value of effective leadership and accountability. This is closely linked to the culture of our business, and leadership and accountability have equal importance in Newton's governance.

Newton has two operating legal entity boards, Newton Investment Management Limited (NIM – UK) and Newton Investment Management North America LLC (NIMNA – US). Both boards are chaired by an independent non-executive director. In 2022 Judy Marlinski stepped into this role, replacing Susan Noble who stepped down after serving eight years as a member of the NIM board and five years as chair of the board.

Judy's appointment as chair of Newton's UK and US boards supports the expansion of Newton's US business following the integration of Mellon's equity and multi-asset capabilities in September 2021. Judy has 35 years of experience in financial services across a number of organisations.

Last year three key governance initiatives were formed in relation to stewardship and responsible investment for Newton.

1. Newton Sustainability Committee (SC)
2. Newton Sustainable Investment Forum (SIF)
3. Newton Sustainable Products and Commercial Advisory Forum (SPCAF)

Together, these groups replaced the previous Responsible and Ethical Investment Oversight Group (REIOG) which provided oversight of our responsible investment process, as described in our 2021 report.

PRINCIPLES APPLIED AND EXPLAINED IN SECTION 3

PURPOSE AND GOVERNANCE	
2	Governance, resources and incentives
5	Review and assurance

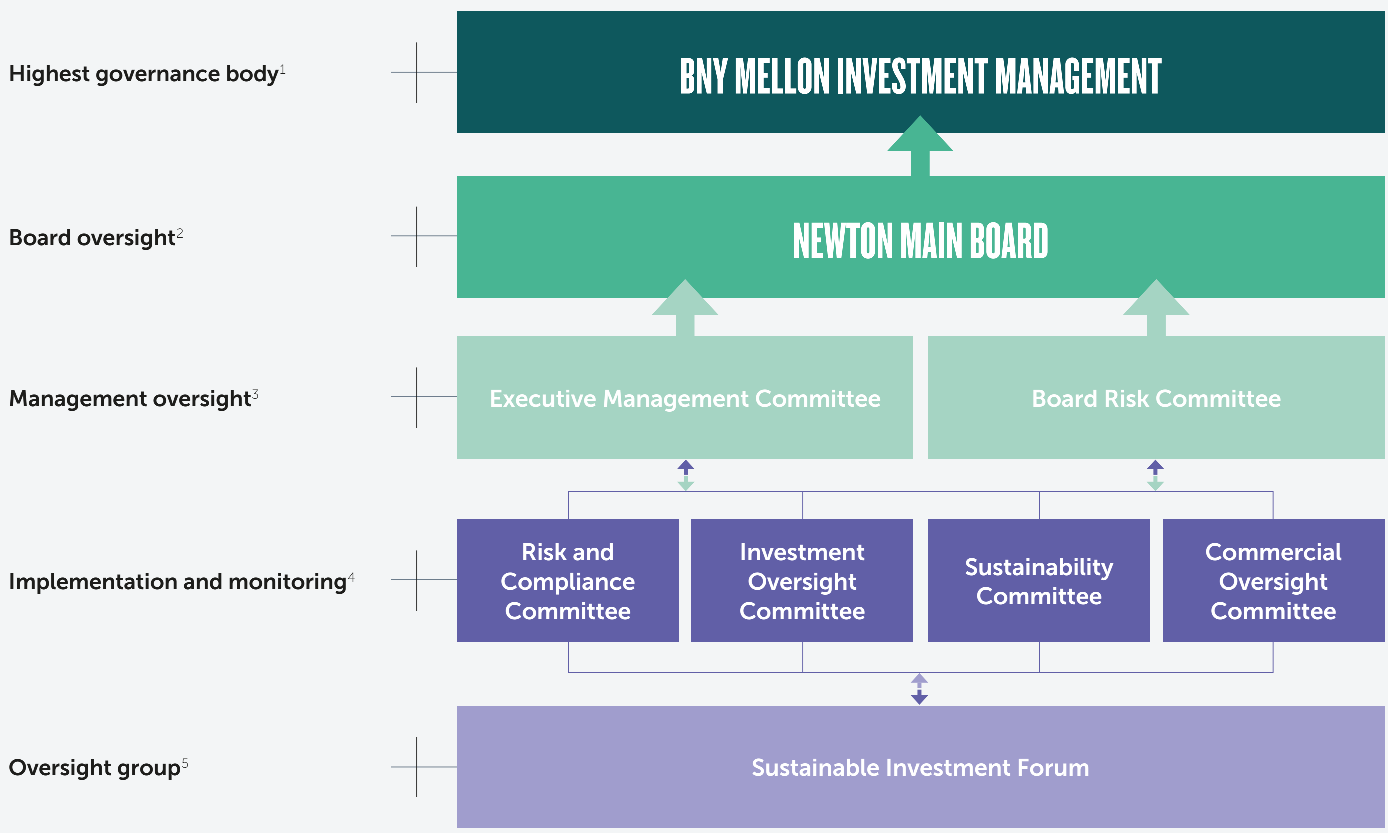
The board is supported by:

- **Newton Executive Management Committee (NEMC)** – The purpose of the NEMC is to ensure the effective operational and strategic management of Newton. Newton's Global Head of Sustainable Investment, Therese Niklasson, is a member of this committee and submits a formal update each month to the committee. The committee provides formal approval of Newton's annual sustainability and stewardship report.

Reporting to the board and the NEMC are Newton's operating committees, some of which below play varying roles in relation to Newton's stewardship efforts.

- **Newton Sustainability Committee** – oversees all aspects relating to sustainability at Newton, including Newton's investments, direct impacts and engagement with communities, and engagement with financial markets (advocacy) regarding sustainability and stewardship matters. The committee seeks to oversee and ensure that the wider sustainability strategy, which includes stewardship of our clients' assets, is delivered by Newton. It also reviews our strategy and progress around diversity, equity and inclusion (DE&I). The committee meets quarterly and monitors Newton's net-zero progress, among other matters. This committee is chaired by Newton's Global Head of Sustainable Investment, and also includes members of the Newton Executive Management Committee as well as representatives from the investment team, risk and compliance.
- **Newton Risk and Compliance Committee** – which is supported by the **Newton Conflicts of Interest Committee**. These committees deal with various stewardship and responsible investment aspects on an-hoc basis, including any relevant internal audit findings and actions as well as climate risk updates. Newton's Conflicts of Interest Committee is in place to support the monitoring of matters in relation to the identification, reporting and controls relating to the management of conflicts of interest, including around proxy voting.
- **Newton Investment Oversight Committee** – oversees the management and strategic planning of all aspects of our investment philosophy, process, people, performance and risk. Newton's Global Head of Sustainable Investment is a member of this committee, and the committee is an escalation point for any process-related issues stemming from our sustainable Investment process and its application.

Governing Newton's responsible investment approach



Notes: The simplified structure illustrated above removes some intemediate affiliates and groups.
1. BNY Mellon Investment Management sets standards relating to ESG across BNY Mellon Investment Management boutiques through overarching ESG framework policy.
2. Relates to the boards of Newton Investment Management Limited and Newton Investment Management North America LLC.
3. Board committees.
4. Primary committees.
5. The ESG Data and Reporting working group, which does not form part of Newton's formal governance structure. The Sustainable Investment Forum provides oversight of sustainability strategies.

A fresh take on sustainable investment governance

In 2022, as part of a wider new strategy for responsible investment at Newton, we reassessed how best to oversee and monitor our sustainable strategies.

For existing strategies following our sustainable investment process, we set up the Sustainable Investment Forum (SIF). The role of the SIF, chaired by our Head of Sustainable Equities, is to:

- **Review** existing and new holdings against portfolio objectives, our sustainable investment framework and any regulatory standards, most typically the European Sustainable Finance Disclosure Regulation (SFDR)
- **Debate** by bringing together a wider set of sustainability experts within the business
- **Support** by educating, training and sharing knowledge and insights among the group

It is not a decision-making body but reports into the Investment Oversight Committee (IOC) as well as the Sustainability Committee (SC), depending on the issue. The IOC looks at process-oriented issues and the SC looks at framework and policy-related aspects stemming from the SIF.

The SIF meets regularly and alternates between generic meetings and strategy-specific meetings that reflect different areas of sustainability focus (from sustainable to more impact-aligned products).

Finally, the Sustainable Products and Commercial Advisory Forum (SPCAF) meets on an ad-hoc basis when new strategies are being planned with a sustainability proposition.

This forum brings together members from the SIF and is intended as a peer review of the proposals in order to make sure Newton launches robust and thoughtful sustainability propositions. The group provides advice back to the Newton Product and Commercial Committee.

Effectiveness of the new governance initiatives

All three initiatives are still in their early days but have already proven to be effective in helping to ensure clear communication around continuing responsible investment and stewardship efforts, deeper participation and ownership through the business, and the surfacing of risks and inconsistencies.

Examples of this include presentations on sustainable finance developments, updates of proposed changes to our internal frameworks, and discussions around various securities and whether they pass the Newton and/or any relevant external regulatory test.

Improvements to the SC will be to expand membership to include non-investment parts of the business, to make it a truly holistic committee that also seeks to process Newton's own footprint and the wider impact from our operations.

Improvements to the SIF will be to sharpen the focus of the discussions and to make sure we see an increase in the investment team's understanding of the wider ecosystem including regulation and evolving definitions around sustainable investment.

Our commitment to responsible investment

We believe that effective stewardship is about approaching responsible investment and sustainability as a firmwide ecosystem where various parts of the business play important roles. This means that the skillset needs to evolve and improve beyond any dedicated responsible investment team.

Under RI 2.0, there is a focus on the importance of having individual(s) on different teams that work directly and dedicatedly with responsible investment-related matters. This includes the risk team where the skillset is being developed to better identify and monitor responsible investment-related risks.

In addition, within the investment team the Heads of Equity Research have taken on the role of ensuring that material ESG risks and opportunities are considered in a proportionate and effective way.

This model still requires an effective central capability to guide the business and bring the ecosystem together.

NEWTON'S THREE PILLARS OF RESPONSIBLE INVESTMENT EXPERTISE

STEWARDSHIP TEAM

Centralised team of governance experts, providing guidance for the investment team on governance risks and evolving expectations. The team oversees the firm's engagement framework and advocacy initiatives, focusing our efforts on meaningful outcomes for clients, and also undertakes the firm's proxy voting activities.

ESG RESEARCH TEAM

Consultative subject-matter experts to the investment and research teams, driving deep insights on sustainability-related subjects. The team manages Newton's sustainability standards, definitions and frameworks.

RESPONSIBLE INVESTMENT DATA INTEGRATION TEAM

Provides ESG data analysis, creating and managing responsible investment data models, frameworks and tools that support ESG integration and sustainable investing. The team maintains and develops the responsible investment data infrastructure at Newton, working closely with technology teams.

This is provided by the responsible investment team at Newton, headed by Therese Niklasson who has 19 years of experience in the industry.

This team, as you can see below, is global and diverse, and brings important insights from an emerging-markets perspective, with part of the team based in Pune, India. The team is organised into three pillars of expertise – stewardship, ESG research and responsible investment data integration – which enables us to bring further depth and expertise to each of these activities, while still operating as one team and meeting frequently with various agendas.

The role of the responsible investment team is to be a support function to the investment teams, to set standards around sustainable investment, and to coordinate and ensure effectiveness around our stewardship efforts. It guides the business around policies and direction of travel for sustainability and stewardship more broadly.

The responsible investment team also owns and manages the overall governance systems to ensure we deliver against key codes and commitments such as stewardship codes, industry principles such as the UN Principles for Responsible Investment, and industry

NEWTON'S RESPONSIBLE INVESTMENT TEAM

Global head of sustainable investment

Therese Niklasson

Head of stewardship

Jennifer Law

Co-heads of responsible investment data integration

Niall Brennan

Alex Parkinson

Stewardship analysts

Diya Choudhury*

Antoine Najm

Anchit Sharma*

Responsible investment data analysts

Shalin Vora*

Harish Venkatachalam*

ESG research analysts

Sakshi Bahl*

Onkar Jagtap*

Amit Khandelwal*

Ragi Khimasia

Parag Saxena*

Rebecca White

*BNY Mellon India – outsourced service provider to Newton Investment Management.

pledges such as the Net Zero Asset Managers Initiative. Please see page 48 for a full list of industry bodies and initiatives which Newton supports and/or of which NIM/NIMNA is a member.

Supporting the team, and the wider business, are various external organisations and vendors including ESG service providers, memberships, and internal systems for monitoring and reporting.

Training is a continuing process by which the responsible investment team facilitates sessions to help the wider investment team gain a better understanding of key ESG matters and provides transparency over the responsible investment research process. This is either through formal group sessions or smaller informal updates. Examples of topics discussed are engagement stories and outcomes, the UN Framework Convention on Climate Change, the circular economy, climate physical risk, and internal tools.

As part of RI 2.0 and the integration into investment processes, we evolved our responsible investment research process, making the equity-focused research analysts directly responsible for assessing ESG risks. We believe this deepens our research insights and further widens the investment team skill base.

Along similar lines, for the management of our sustainable suite of strategies, the sustainability portfolio managers became responsible for applying our sustainable investment framework, closely supported by the responsible investment team.

To ensure research analysts and portfolio managers were guided and empowered to integrate ESG risk metrics into fundamental assessments, and adequately address sustainability considerations, the responsible investment team provided several training sessions that focused on Newton's approach to ESG integration and the sustainable investment process.

In terms of ESG integration, the training focused on: key terminologies; investment philosophy of ESG research and how it fits into enterprise and portfolio value creation; methods of ESG analysis and integration with sector-specific materiality exercises to cover environmental and social issues; sound corporate governance structures, governance principles and best practices on minority shareholder rights; and regional nuances.

The research analysts continue to be supported by a dedicated global team of responsible investment subject-matter experts, and have been introduced to a variety of information sources, industry guides and academic research pieces, and provided with tools for accessing ESG information.

It was equally important that sustainability portfolio managers were similarly supported on how to think about our sustainable investment proposition as we improved the accountability and ownership of portfolio-level sustainability decisions. To this end, we have been leveraging focused group discussions to build a common understanding of what sustainability means in the context of investments, and key definitions around Newton's sustainable classifications and 'red lines' (exclusions where we seek to avoid significant social or environmental harm).

As part of continuing support to portfolio managers of sustainable strategies, we are focusing on specific topics around net zero and climate change, biodiversity, modern slavery, and emerging sustainable finance regulation across geographies.

Additional resources for our sustainable and responsible investment approach include a dedicated and sizeable technology product support team who work in an agile fashion and whose role it is to develop tools and systems according to business priorities. These priorities are set by the Co-Head of Responsible Investment Data Integration in close collaboration with the Head of Stewardship.

The responsible investment technology team built an internal stewardship app that went live in 2022, which is described in further detail on page 9.

The responsible investment technology roadmap has a dedicated lane to service continuing developments for the stewardship function.

Incentives

In addition to the dedicated responsible investment team which is naturally motivated and evaluated around the contribution it makes to Newton's ability to be an effective steward of its clients' capital, the other team that has explicit reference to ESG-type aspects in its objectives is our equity research team; one of the six key performance indicators (KPIs) that our analysts are evaluated on and which influences their remuneration is ESG and the "integration of relevant and material factors into your investment process".

Personal goals ensure that individuals who show proactive steps around ESG training, including completing the CFA Institute's ESG course, are rewarded.

More broadly, our overarching view is that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

This philosophy is reflected in the annual long-term compensation awards granted to each Newton employee, providing long-term alignment across the firm.

Review and assurance

As part of our management of risks, we have established individual key risk indicators (KRIs). One of these KRIs captures explicitly any missed proxy voting opportunities. Our diligence in the administration and reconciliation of proxy voting has led to zero voting opportunities being missed during 2022.

Specific areas of our approach to stewardship are also subject to internal controls and periodic compliance monitoring. We regularly engage with internal compliance and legal teams to ensure our approach to stewardship and responsible investment is aligned with regulatory expectations. In addition, an external auditor reviews specific processes within our stewardship approach.

We have refrained from seeking further external assurance of our approach to stewardship owing to the robustness of our internal processes and scrutiny by our compliance, risk and internal audit teams. This report has been reviewed and approved by the NEMC for its fairness and accuracy.

SECTION 4

NEWTON'S CULTURE AND VALUES

We are committed to being trusted stewards, seeking above all to enhance our clients' financial wellbeing. The investments we make can have far-reaching influence – not just on the financial prospects of our clients, but on environmental and social factors (such as climate change, human rights in supply chains, and diversity and fairness across workforces) that will, in turn, shape the prospects of those investments. We believe the interests of our clients and of society more widely are mutually supportive.

At Newton, we want the way in which we invest globally to be shaped by this belief, and in seeking to honour it we look to be active, engaged owners of financial assets in a manner that meets our responsibilities to our clients and society as a whole. We believe we can only achieve this if we have a culture where:

- We have diverse perspectives and are able to listen to those, give evidence and adjust our views when hearing from experts in the business
- We can make decisions quickly, not having to wade through bureaucracy but taking calculated risks with just the right amount of information
- We are always looking to improve and evolve the way we do things, striving for better throughout our work.

PRINCIPLE APPLIED AND EXPLAINED IN SECTION 4

PURPOSE AND GOVERNANCE

1	Purpose, strategy and culture

As part of our strategic blueprint, we have defined three key behaviours that set out how Newton employees need to operate in order to deliver our purpose and strategy. These apply to all our employees in the same way, regardless of their position in the business.

Listen and adapt	Make the call	Make it better
Actively engaging with clients and their changing needs, being open and acting on new information.	**Acting** quickly and decisively when you have enough information, owning the decision when you have the expertise to make it, and trusting others in your team when they have the expertise to make it.	**Finding** more effective ways to do things, everyday small improvements not just the big changes.

Diversity, equity and inclusion

As investors, we hold our investee companies to high standards when it comes to diversity, equity and inclusion policies and practices, and we have seen first-hand how companies can reap the benefits of strong performance in this area through bringing together a wider set of ideas and perspectives. We have increasingly turned this lens on ourselves and we recognise that it is crucial that we play our part in making efforts to tackle the diversity challenge facing the asset management industry, and within our workplace.

We believe that embracing a broad range of perspectives can improve decision-making, cultivate innovation and encourage better understanding of our clients, as well as make Newton a company that employees are proud to work for. In this context, our Diversity, Equity and Inclusion (DE&I) Council is sponsored by two executive management committee members: our Chief Investment Officer of Multi-Asset, and our Head of North America. The Council promotes diversity of thought, background and experience within Newton.

During 2022, a number of workstreams were under way to support the achievement of Newton's DE&I strategy, including data collection and measurement, recruitment, retention and mentorship, policy and partnerships, and diversity education.

Against the backdrop of the Covid-19 pandemic, a recent priority has been to increase mental health support to employees. A dedicated mental health and wellbeing website launched at the start of 2022, containing numerous resources available to all staff.

We have also hosted guest-speaker events and launched a 'Human@Newton' podcast interview series, in which colleagues share their personal experiences in areas such as mental health, resilience and trauma. A programme of resilience training is being rolled out across the company and will result in the training of all staff on resilience for change.

Newton continues to strive to create a more diverse workforce. This includes diverse interview panels; an emphasis on female hires for EMEA; diversity and inclusion questions in interview guides; final candidate slates for all open positions including female and/or ethnically/racially diverse individuals; unconscious bias training for managers; investment in a platform which champions women and broader diversity in the workplace to support and enhance our sourcing of diverse talent; and self-identification campaigns for new joiners to help track our diversity measures and progress.

Additionally, we participate in external schemes which provide opportunities to increase the diversity of our workforce. These include a vocational trainee programme which takes talented A-level students from London state schools and offers them the chance to study for a degree alongside a full-time job opportunity at Newton, as well as an industry-led initiative to offer a range of investment internships to black students and recent graduates.

We also sponsor a return-to-work programme for those who have been out of work for some time, and we have run a successful returning-military programme, both from which several individuals have gone on to full-time employment with us.

DIVERSITY PROJECT

BUILDING INCLUSION IN INVESTMENTS & SAVINGS

We have worked with the Diversity Project and other investment firms to develop best practices to help address the impact that the loss of performance continuity through a leave of absence can have on an investment career.

We support working parents through family-friendly policies, an online parental leave toolkit, a parental buddy programme, and a programme that supports parents currently on, or recently returned from, parental leave.

We also enable employees to work flexibly in most roles. We leverage technology to improve connectivity and digital collaboration with clients and colleagues and believe this is key to attracting talent to our company.

We support a network of affinity groups coordinated by our parent company, BNY Mellon, which is open to all employees.

The network includes:

GENEDGE – Shares the knowledge capital, energy and range of talents within our diverse, multigenerational workforce to solve business challenges

HEART – Promotes awareness of the requirements of those with disabilities

IMPACT – Brings together people from multi-cultural backgrounds

PRISM – Promotes an open and supportive environment for all gay, lesbian, bisexual and transgender (LGBT+) employees

VETNET – Serves as a resource for the recruitment, retention, professional development and advancement of those in the military as they move to new careers and civilian life

WIN – Promotes a culture of leadership and sponsorship to recognise and support the professional development and advancement of women

Our employees are fundamental to the achievement of our purpose, and we are committed to treating them with respect, dignity and fairness.

The wider community

We place sustainability, education and diversity at the core of the projects we sponsor within the wider community.

Newton is a founding supporter of the charity The Centre for Financial Capability, and is a founding member of its ground-breaking collaborative project KickStart Money, which aims to take financial education to almost 20,000 UK primary school children, catalysing a movement to build a savings culture for the future.

We also support various organisations and activities that advance the quality of life where our employees work and live. Under BNY Mellon's Community Impact Programme, our employees are entitled to three paid days of volunteering every year. We have a matching policy for individual donations and fundraising.

The environment and climate change

Newton is committed to addressing environmental and climate-related risks and opportunities through a comprehensive approach that encompasses all aspects of our business.

Newton was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, providing voluntary disclosures in line with these since 2019, prior to them becoming a regulatory requirement. The climate disclosures made in our TCFD reports are a board matter overseen by our chair.[4]

Newton is a signatory to the Net Zero Asset Managers initiative, an international group of asset managers committed to supporting the goal of net-zero greenhouse-gas emissions by 2050 or sooner.

We have also taken various steps to reduce our own carbon footprint. Via our parent company, BNY Mellon, we use a three-part approach to achieving carbon neutrality: reducing energy use and related greenhouse-gas emissions; procuring renewable electricity; and using carbon offsets to compensate for the remaining emissions in our footprint.

BNY Mellon has committed to maintain carbon neutrality in its operations through to 2025, and has also set a greenhouse-gas emissions reduction target in line with a well-below 2 degrees Celsius science-based target methodology.

Further information is available in our TCFD report at:

https://www.newtonim.com/info/tcfd-report

4 Newton's TCFD reports for periods up to 2021 have covered NIM only. Our upcoming report covering 2022 will cover NIM and NIMNA, following the integration of NIMNA on 1 September 2021.

SECTION 5

HELPING SHAPE BEST PRACTICE

PRINCIPLE APPLIED AND EXPLAINED IN SECTION 5

PURPOSE AND GOVERNANCE

4	Promoting well-functioning markets

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, and that 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.

We work closely with our parent company, BNY Mellon, and the other investment management companies within BNY Mellon Investment Management, to influence and be active participants in the debate around enhancements to financial systems. This can be through helping to steer responses to industry consultations or helping to advance efforts to coordinate thought leadership and perspectives across the BNY Mellon investment management companies.

In addition to our partnership with our parent company, Newton dedicates the resources of our executives and investment professionals to furthering best practices and regulations. Additionally, our Chief Investment Officer of Multi-Asset, Mitesh Sheth, is a passionate champion for diversity, and in 2022 he received an MBE (Member of the Order of the British Empire) for services to diversity and inclusion within the financial services sector. Mitesh and Newton's DE&I Council launched a refreshed strategy in 2022, as discussed above.

Through our advocacy efforts, we participate in market and/or industry-level initiatives to influence the landscape to help shape the framework that companies operate in in a way which we believe to be in the best interests of our clients. These will often link to the themes on which we are engaging with companies, and on which we believe progress will help address market-wide or systemic risks, such as the following examples in relation to climate and diversity.

Climate and stewardship

At Newton we recognise that climate change will present two main types of critical risk to financial markets: physical risk and transition risk. As active stewards of our clients' capital, we are committed to allocating that capital in a way that takes these risks into consideration, as well as to engaging with the issuers of the securities in which we invest to seek to ensure companies have long-term strategic plans for dealing with these risks.

Our commitment to the Net Zero Asset Managers initiative is focused on these principles and is harnessing a robust system of stewardship. In relation to proxy voting, recent years have seen the proliferation of shareholder resolutions around environmental issues, and management-backed resolutions that ask shareholders to have a say on corporate net-zero transition plans.

This has led to a surge in demand from both asset managers and asset owners for comparable transition plan data and a standardised net-zero voting policy for proxy advisors that takes into consideration Climate Action 100+'s benchmark and other widely recognised assessments. This would allow investors to tackle the increasing volume of climate-related proposals and offer some comparability of the analysis of those transition plans.

IIGCC
The Institutional Investors Group on Climate Change

Newton has an active approach to voting, and we review transition plan votes and shareholder resolutions in the context of each company's unique circumstances and any input we might have from one-to-one or collaborative engagements; however, we acknowledge the influential role of proxy advisors for the wider industry and recognise the benefit that net-zero voting policies would bring by offering standardisation of data and helping shareholders significantly reduce the amount of time needed to comb through climate transition plans in the peak of the proxy voting season.

In this overall context, in 2022 we joined the Institutional Investors Group

World Benchmarking Alliance

on Climate Change (IIGCC) Proxy Advisor Working Group. The working group engages with proxy advisors on a bilateral basis and publishes yearly expectation letters. The working group also discusses investors' own proxy voting policies, aiming to help investors develop and implement their own net-zero voting policies.

Participation in this group is also valuable from our point of view as it gives us a seat at the table and an important sounding board on how different investors are attempting to solve the challenge of integrating material environmental issues in their voting guidelines. It also provides support as we seek to integrate the Net-Zero Stewardship Toolkit launched by the IIGCC in our internal stewardship framework.

In our work pushing for more practical and robust net-zero voting data and policies, we also responded to our vote service provider ISS' yearly policy consultation.

This consultation gathers views on a select number of governance and voting policy-related questions and, where there is consensus, serves as an update to ISS' benchmark policy in accordance with the consensus. We stressed via this consultation the need to include medium-term greenhouse-gas reduction goals in the way ISS assesses climate votes and transition plans.

> “We cannot push for companies to accelerate their transition without encouraging them, together with governments, to address the societal risk as well.”

We consider it a responsibility we have to our clients and the market to respond to ISS' annual surveys and to convey to ISS' research teams our

remarks on its voting policies and applications, as this dialogue is necessary to ensure the highest governance standards are applied by both proxy advisors and institutional investors on their voting procedures. These interactions with ISS are also important in monitoring third-party service providers. The survey's results are available on ISS's website.[5]

Finally, Newton recognises the social impact of the transition to the low-carbon economy and the need for climate risk to be considered holistically. We cannot push for companies to accelerate their transition without encouraging them, together with governments, to address the societal risk as well.

This is why in 2022 Newton joined the World Benchmarking Alliance's initiative on the just transition, becoming one of two founding investors for its Collective Impact Coalition (CIC).

Over the last year the CIC wrote letters to 100 oil and gas companies to urge them to engage with the feedback from the Just Transition Benchmark and begin a dialogue with investors.

The CIC will next launch collaborative engagements with companies within this universe.

Diversity and stewardship

As stewards of the investments we make on behalf of our clients, we believe boards that embrace diversity, as manifested through appropriate gender and racial representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for our clients as they are likely to reduce groupthink and bring a wider set of ideas and perspectives. We also view diversity as integral to sound decision-making, and we believe that companies with an inclusive culture and diversity of skills, experiences, and perspectives at all levels of the organisation should be better managed and better able to adapt to change, and thus create long-term value.

As a member of the Asian Corporate Governance Association (ACGA), a leading network of investment professionals and pension funds active on the Asian corporate governance scene, we were invited to add our support to a letter[6] sent to the Tokyo Stock Exchange addressing gender diversity on Japanese boards and management teams. 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.

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.

5 https://www.issgovernance.com/file/policy/2022/2022-ISS-Benchmark-Survey-Summary.pdf
6 https://www.acga-asia.org/advocacy-detail.php?id=461&sk=&sa=

30% Club
GROWTH THROUGH DIVERSITY

We will be monitoring the Japanese regulatory environment, alongside continuing to apply our voting approach on diversity which recommends at least 10% female presence on Japanese boards. While recognising that change can be slow to materialise, our integrated stewardship approach allows us to make sure our views are heard, and increases the chances that systemic change materialises in the medium to long term.

Diversity is not a new focus area for Newton. We have been a member of the 30% Club Investor Group since the founding of the organisation in 2010 by our then CEO Helena Morrissey. The 30% Club, which now has chapters around the globe, has been encouraging improved gender diversity on company boards and among wider workforces. Its work has since broadened out to consider racial diversity as well.

As members of the 30% Club's Race Equity Working Group, we previously supported a public statement by the organisation on race equity.[7]

In 2022, the group started engaging with FTSE 250 companies which do not appear to be on track to fulfil the Parker Review recommendations[8] of having at least one minority-ethnic director by 2024, through letters co-signed on behalf of the members. The letters have been addressed to the chairs of the boards, encouraging progress ahead of 2024, and inviting the companies to engage with the working group.

Within our investment process, our research team benefits from in-house geopolitical and macroeconomic expertise which helps us identify and protect against market-wide risks.

We also work with GLG, an external expert network, to gain specialised insights on key topics. We recognise that ESG factors such as climate change and social inequality are fast being recognised as posing systemic risk, both to our clients' interests in the long term and to society more widely. Our commitment to contribute to solutions is the essence of our purpose in fostering a healthy and vibrant world for all.

In addition, we continued our engagement efforts at policy level in relation to food sustainability:

FAIRR round table on portfolio diversification

We acted as one of three moderators for a FAIRR (Farm Animal Investment Risk & Return) round table including investors, companies and non-governmental organisations to discuss reporting on food portfolios regarding protein diversification. In essence, we sought to debate how companies should report on exposure to animal, plant-based and alternative proteins, and what the challenges and barriers are.

This was one of the first events on this topic and was welcomed both by investors, who struggle to compare and understand how overall food portfolios are evolving, and companies, who experience challenges in collating this data and articulating protein exposure to investors.

National Food Strategy (NFS) coalition meeting with DEFRA

We participated in a call with Minister Victoria Prentis of DEFRA (UK Department for Environment, Food and Rural Affairs) to advocate for mandatory nutritional reporting, and to have investors formally consulted on issues relating to food sustainability at the regulatory level.

We were one of four investors to speak on behalf of this coalition representing almost US$6 trillion in assets under management. This followed our support for the NFS recommendations expressed via letter to the UK government.

The call was positive, and the minister seemed keen use investor coalitions regarding issues around food sustainability to ensure that any regulation or recommendations made sense for UK industry.

It was acknowledged that some government intervention was required to address the impact of our current food system on public health.

7 30% Club UK Investor Group statement on addressing racial inequality and call to action, 1 March 2022. https://30percentclub.org/wp-content/uploads/2022/02/1-March-30-Club-Race-Equity-Investor-Statement.pdf
8 https://www.gov.uk/government/publications/ethnic-diversity-of-uk-boards-the-parker-review

SECTION 6

INVESTMENT PHILOSOPHY

PRINCIPLE APPLIED AND EXPLAINED IN SECTION 6

INVESTMENT APPROACH

7	Stewardship, investment and ESG integration

As responsible investors, we are committed to understanding how planetary boundary conditions are affecting our clients' capital.

We take an active and investment-led approach to sustainable investments and ESG considerations. It is important to share how we separate the two concepts.

We do not run ESG portfolios, and we do not seek ESG outcomes in our mainstream portfolios. Instead, we consider material ESG-related risks as part of our multidimensional research approach.

The aim is to deliver attractive risk-adjusted returns to our clients in a way that delivers against their mandates. We do not believe in giving up returns for any other value, but we believe that markets will seek to price ESG aspects in as investors start looking for long-term stakeholder value. In our mainstream portfolios there are no restrictions around business activities or companies with subpar ESG scores.

The questions we ask ourselves are whether we have understood the full risk picture of what we are placing our clients' capital in and whether the market has priced it in. It is not a static approach and is adjusted in line with the asset class, style of investing and time horizon. Taking account of ESG considerations has been a commitment by Newton for many years, going back to when NIM signed the UN Principles for Responsible Investment in 2007.

Sustainability, in relation to investments, is about building solutions with an intention to demonstrate both a financial return and an environmental and/or social contribution. These products can be a response to a client's values systems or are purposefully built around an investment thesis that seeks to benefit from some of the systemic changes that are taking place in response to the global sustainability challenges.

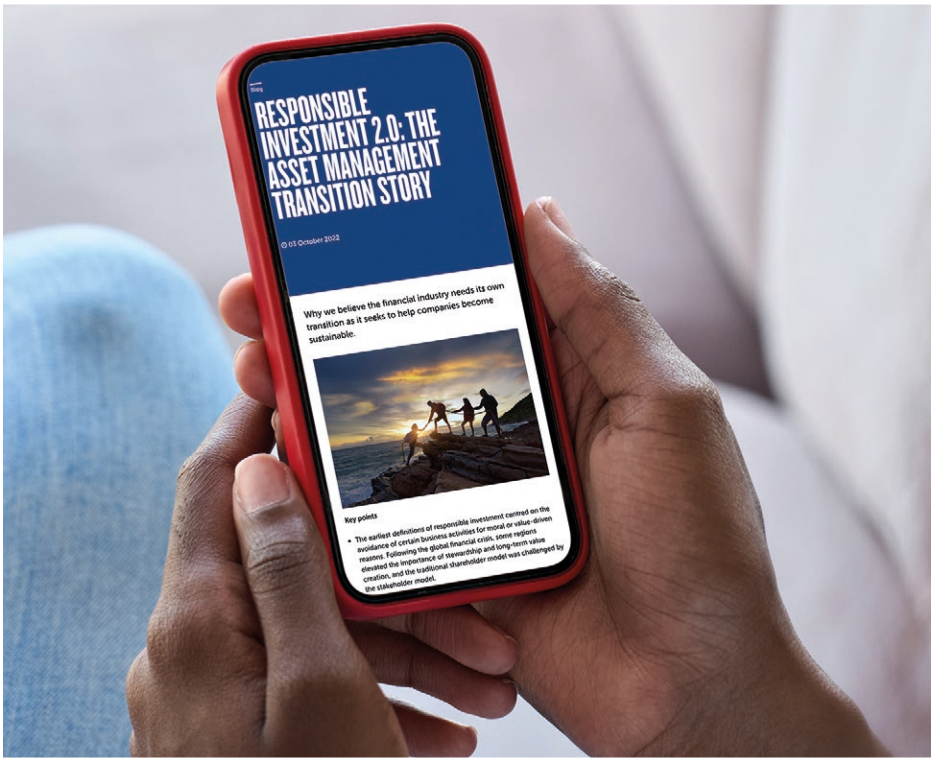
In 2022 we launched RI 2.0, a strategy aimed at taking responsible investment to the next level as part of Newton's transformation following the integration of the former Mellon capabilities.

We set out to take the integration of our ESG-related research with our fundamental research to the next level, build a robust sustainable investment framework and governance system, as well as focus our stewardship efforts and be thoughtful about how we engage with the market around these issues at a time when levels of scrutiny of them are at an all-time high.

A blog about our RI 2.0, written by our Global Head of Sustainable Investment, can be found on the 'Insights' section of our website.

We think this fresh approach strengthens our commitment to the fundamental stewardship principles around the world, especially in the UK, by emphasising the important of governance, sustainability outcomes and robust integration with investment team ownership.

"In 2022 we launched RI 2.0, a strategy aimed at taking responsible investment to the next level as part of Newton's transformation following the integration of the former Mellon capabilities."



RESPONSIBLE INVESTMENT 2.0 – THE VISION: FOUR ESSENTIAL PILLARS

1. ESG IN CORE STRATEGIES

- Elevation of ESG analysis[1] and insight within the research analysis and investment process.

2. SUSTAINABILITY SOLUTIONS

- Sustainable solutions are run by sustainability portfolio managers and supported by the responsible investment team.
- Evolve our sustainable investment framework, ensuring solutions are rooted in robust sustainable investment philosophies.
- Build on the partnership between the responsible investment team and the wider investment team.

3. STEWARDSHIP

- Focus our efforts to work on what matters.
- Have a strong proactive engagement framework.
- Make the investment teams stewards alongside the responsible investment team.

4. THOUGHT LEADERSHIP

- Explore the material ESG topics that matter to our investment teams and clients and guide the business.
- Produce and communicate internally / externally.
- Be at the forefront of issues and themes and 'be at the table' externally.

Note: 1. Where material and relevant information exists. Analysis may vary depending on the type of security, investment rationale and investment strategy. Newton does not currently view certain types of investments as presenting ESG risks, opportunities and/or issues, and believes it is not practicable to evaluate such risks, opportunities and/or issues for certain other investments. In addition, Newton will make investment decisions that are not based solely on ESG considerations. In some cases therefore, Newton may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.

In concrete terms, under RI 2.0 our responsible investment process has evolved as shown below:

ESG integration analysis became the responsibility of the investment teams. After a period of training the responsible investment team stepped away from writing the ESG analysis (previously called quality reviews) and instead acts as support when required as well as undertaking other topical research.

The responsible investment team conducts a quality control on a quarterly basis and identifies and provides training when needed. This aligns with Newton's multidimensional approach to research.

The subject matter is now firmly in the investment area and is no longer treated as a specialist responsible investment team subject. This fosters broader engagement with the issues, making them mainstream conversations.

The responsible investment team continues to train, share insights and provide support in terms of ESG integration analysis, as well as playing a key role in sustainable investing.

The responsible investment team continues to own Newton's sustainable investment framework, which determines what constitutes a 'sustainable investment' under our sustainability philosophy.

This framework is applied by the portfolio managers who manage sustainable strategies. They are supported by a responsible investment advisor. This fosters accountability and engagement with the subject matter directly from the investment teams.

This process is protected by a combination of an escalation process as well as checks and balances via the Sustainable Investment Forum.

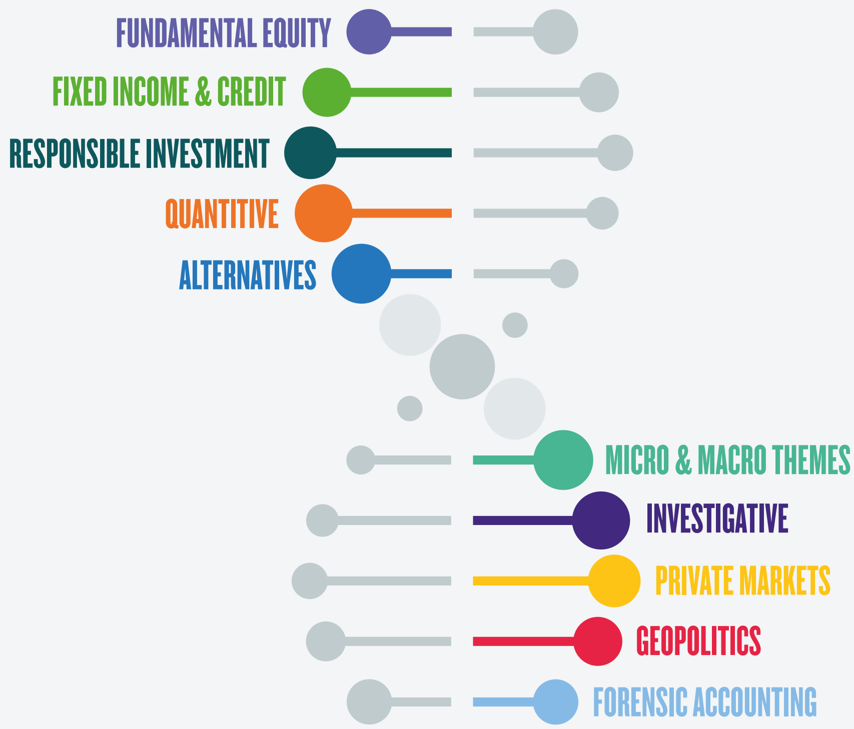
We have implemented a new sustainable governance structure through the Newton Sustainability Committee and the Newton Sustainable Investment Forum.

The Sustainability Committee is designed to oversee the delivery of Newton's responsible investment strategy as well as other high-level matters, while the Sustainable Investment Forum oversees the implementation of the sustainable investment process, escalating any issues through an established process.

> We believe this integrated approach enables our investment teams to identify companies for investment that benefit from long-term business advantages, and to avoid those where they believe the ESG risks outweigh the expected investment return.

How we integrate ESG factors into the investment decision-making process

Newton's multidimensional research platform delivers genuine insights that are key to navigating the fast-changing environment, and is designed to help generate better outcomes for clients.



As part of our RI 2.0 approach, ESG issues, where deemed by the analyst to be material and appropriate, are integrated within the broader fundamental equity research carried out by our equity analysts and portfolio managers.

We believe this integrated approach enables our investment teams to identify companies for investment that benefit from long-term business advantages, and to avoid those where they believe the ESG risks outweigh the expected investment return. As an active manager, we are not making investment decisions based on one factor alone.

Since July 2022, ESG analysis for new research ideas or recommendations has been undertaken by fundamental equity-focused research analysts. Following the introduction of the new process, we have conducted two rounds of feedback on the first two rounds of analyses (in September 2022 and January 2023) and have seen clear improvements and quality in the overall process. Feedback for further improvements included more emphasis on bringing the ESG analysis back to the investment case and providing more detail for some of the more ESG-exposed sectors.

The responsible investment team continues to work closely with the Heads of Equity Research to ensure the process and insights improve. The integration of ESG factors is also one of the six KPIs for each analyst. To us, this is what true integration should look like.

Our approach for integrating ESG into the fixed-income research process has not changed with RI 2.0 as the process was already owned by our fixed-income investment team. ESG factors are an important consideration when investing in fixed-income securities given investors in this asset class do not share the same upside potential as equity investors, but face the same downside risk should a company default or a security be rerated. ESG factors can affect the ability of companies and governments to fulfil the obligation to pay the coupon and principal to which investors are entitled.

Credit investments are monitored in regular and ad-hoc meetings between our fixed-income and responsible investment teams. Continuing credit analysis incorporates ESG considerations when assessing the quarterly reports and daily news flow on our portfolio companies and sectors.

We may engage with the boards or management of these companies, as reported in our quarterly reports. The teams assess how these companies identify and manage their ESG risks as well as their ESG disclosures. In line with our voting policy, we exercise votes at formal bondholder meetings.

In relation to sovereign investments, Newton takes a long-term view of sovereign sustainability, which focuses on the effectiveness of government bodies and subsequent real-world outcomes of regulations and policies and the enactment of these, rather than short-term political noise.

Since we believe the sustainability of a sovereign bond relates to a number of factors, we seek to gain a holistic view of a country, taking into account various positive and negative factors.

Sovereign debt positions are reviewed prior to purchase against our sustainable sovereign matrix, which is updated quarterly by our responsible investment and fixed-income teams. We make intra-meeting changes on an ad-hoc basis if new information comes to light.

This matrix is based in part on two sovereign sustainability ratings that we have developed: a quality score and a momentum score. The process uses a range of external data sources as inputs to an in-house framework that assesses ESG factors and provides an aggregate view of the issuer. Using quality and momentum scores, issuers are assigned a rating according to the issuer's current positioning.

These ratings are then reviewed and an overall qualitative determination is made as to the eligibility of the issuer, taking into account potential issues with external data inputs, including but not limited to delays in the underlying quantitative inputs, and external data providers not taking into account recent developments affecting a sovereign issuer.

Data sources include those such as the World Bank, Transparency International's Corruption Perception Index, and Yale University's Environmental Performance Index. We consider factors such as political stability, voice and accountability, regulatory quality, rule of law, and control of corruption, among others.

Our responsible investment team supports the continuing enhancement of the investment team's understanding of ESG factors in multiple ways.

Our ESG research analysts' coverage is aligned to Newton's proprietary fundamental equity research framework, which is split into five research 'pods': interest rate sensitive/stable, true cyclical, growth cyclical, secular, and research and development.

The ESG research analysts participate in the pod discussions, and informal learning, debate and discussion takes place in these groups to deepen knowledge and understanding of ESG.An example of this includes a discussion on the environmental and social impacts of digitisation, where key points from the research were:

- As the usage of digital devices and digital services increases, so does the demand for energy. Specifically, these technologies rely upon traditional energy resources, which can increase carbon emissions and cause negative health outcomes. Switching to renewable-energy sources can mitigate the negative environmental effects of the growing digital world.
- We believe the European Union has a very well-developed electronic waste management infrastructure, and other countries have an opportunity to follow a similar regulatory blueprint, enabling better recycling of e-waste.
- Traditional data-centre cooling mechanisms require huge amounts of water. Currently, there are no effective alternatives, and as data centres continue to grow, water usage is expected to rise significantly.

The pods are also used as a platform for all investment analysts to receive ESG integration training as part of RI 2.0. ESG deep dives are undertaken to provide insights on specific topics such as sustainable fashion and its compatibility with economic growth, labour risk in the gig economy, and the below example on carbon offsets.

Additionally, the ESG research team sits on the micro theme oversight committee. The purpose of the committee is to review the existing thematic research framework, add emerging themes or retire themes where we believe they have run their course.

Responsible investment team representation enables the team to provide input into the investment process from the top down, and enables the team to highlight emerging risks and opportunities that it sees as affecting companies. For example, in 2022 we discussed biodiversity and mental health.

Further training is planned for the future to continually develop and enhance ESG knowledge.

CARBON OFFSETS RESEARCH

We conducted in-depth research to better understand carbon offsets. A key takeaway from this research is that carbon offsets can be an important tool to enable net zero, if done properly.

They are one of the few mechanisms currently available for funding the wide-scale conservation of natural carbon sinks (areas or ecosystems that absorb more carbon than they release) and wider climate solutions. Offsets cannot be a substitute to rigorous decarbonisation measures but should be used in addition to them.

Companies are wary of the criticism and reputational risk that comes with purchasing offsets, as reflected in weak offset demand numbers in 2022. Efforts are underway to develop a formalised carbon offset market.

Related initiatives, which include the Integrity Council for the Voluntary Carbon Market (ICVCM) launching its core carbon principles to outline the criteria for high-quality offsets, could go a long way in standardising offsets.

Rating agencies like BeZero and Sylvera Rate independently rate projects on their quality, providing an additional level of scrutiny.

Forecasting supply, demand and prices for carbon offsets is a complex exercise with a number of hard-to-predict outcomes. Market participants agree that better transparency and a universal definition of quality is needed for offset demand to grow.

In addition, we develop thought leadership pieces which are shared internally and also published to the Insights section on our website. The following are two highlights from 2022.

DEFENCE STOCKS AND ESG

Following the onset of the war in Ukraine, what had previously been considered an obvious exclusion of defence companies in sustainable investment strategies became open for debate again across the industry.

We felt it was essential to review our approach to ensure it remained appropriate and robust, and we subsequently published an outline of the key ESG issues related to defence and how we integrate these in our investment approach.

Key points:

- The war in Ukraine has led investors to review defence holdings and has prompted a wider discussion around how these stocks are considered from a responsible investment point of view.
- There are a number of key ESG issues that we look at in relation to defence companies, in particular around bribery and corruption, as well as weak transparency.
- We engage with defence companies where relevant to influence and improve behaviours, on topics such as human rights, environmental responsibility and governance issues.

NUTRITION AND HEALTH: WHAT ARE THE INVESTMENT IMPLICATIONS?

Our current global food system is clearly unsustainable, and the Covid pandemic has highlighted the urgency of improving the nutritional health of society.

We think about this not purely as being a good steward of our clients' assets; as regulation increases and consumer preferences change, companies will be forced to adapt and this will present risks and opportunities for investors.

We published a paper exploring the social impacts of our food system and considering the key investment implications. It also outlines how Newton is engaging with companies to improve nutritional content and access to food.

Key points:

- We believe some companies have thus far under-appreciated the need to focus on health nutrition as a risk, instead focusing on the environmental impact of their businesses.
- An important area for progress is for companies to define and report on what 'healthy' is at a product and portfolio level.
- Given the technical nature of this issue, and the fact it is not yet mainstream, we believe there is benefit to collaborative action while a consensus emerges.

ESG INTEGRATION EXAMPLES

A POSITIVE ESG VIEW – THAT LED TO EITHER ADDING TO OR BUYING A NEW INVESTMENT

THEMATIC EQUITY PORTFOLIOS

2022 CASE STUDY

SUZUKI MOTOR

Suzuki Motor is a passenger vehicle manufacturer that we purchased as we believe its ESG credentials will be improving over the medium term specifically in relation to the environment as the company increases electrification of its products, including hybrids and full battery electric vehicles globally.

The company outlined a medium-term plan to have its own electric-vehicle platform as well as local battery supply.

Suzuki owns 56.5% of the leading vehicle original equipment manufacturer in India, Maruti Suzuki, and we see India as a relatively attractive market owing to low penetration per capita of passenger vehicles.

Increasing penetration will be a benefit to India, allowing people and goods to move more efficiently within the country. We worked with the responsible investment team to get more insights on labour risks in India, where there have been issues in the past.

Outcome: The risk remains, but we felt comfortable that is it manageable.

THEMATIC EQUITY PORTFOLIOS

2022 CASE STUDY

KNORR BREMSE

Knorr Bremse is the global leader in braking systems for railways and commercial vehicles, with the former being a more efficient way to travel than via road vehicles.

Historically, the company had a poor track record with governance owing to having multiple CEOs since its 2018 initial public offering. This was likely to have been attributable to the management style of the previous majority owner who died in February 2021.

Outcome: The recently appointed chair of the supervisory board has given us more confidence that the company has finally hired someone with a credible resume from a global company that has a good governance record.

In late 2022, a new CEO was also hired, who we believe will have the chance to add stability and improve governance, although he has only just started his position so we will be monitoring his actions closely.

UK EQUITY PORTFOLIOS

2022 CASE STUDY

THE WEIR GROUP

Weir is a mining equipment business whose top commodity exposure is copper, which represents 21% of sales.

As ore grades continue to decline, this requires more mining spend for the same amount of material.

It is selling an increasing percentage of products which materially reduce energy and water consumption for customers, in a highly energy and water-intensive industry.

Outcome: The company has recently announced new 2030 scope-3 emissions targets which, if met, will make a significant contribution to decarbonising the mining industry.

FIXED-INCOME PORTFOLIOS

2022 CASE STUDY

BRAZIL

We had continuing engagements with country representatives from Brazil to build a fuller picture of the country, with a view to reinvest in Brazil if there was a change of government away from (former president) Jair Bolsonaro.

We met a board member of Petroleo Brasiliero (the partially state-owned oil company), seeking to understand the impact that a new government might have in terms of attitude and approach in relation to environmental matters and how the company was prepared.

We also discussed the key governance concern with the company – the likelihood of the company being used by the government to subsidise fuel prices.

Separately, we met a member of the Brazilian Treasury and, among other things, discussed the auxiliary social packages in place from the Bolsonaro government to deal with higher unemployment after the Covid pandemic.

Outcome: These engagements allowed us to build up a better picture of the Brazilian state and ultimately enabled us to get comfort in buying the sovereign bonds following the election of Lula da Silva as president.

We had previously divested following Bolsonaro's insensitive approach to the environment, notably his willingness to monetise the Amazon.

A NEGATIVE ESG VIEW – THAT LED TO EITHER AVOIDING OR SELLING AN INVESTMENT

UK EQUITY PORTFOLIOS

2022 CASE STUDY

COCA-COLA HBC

Coca-Cola HBC (CCH) was the main bottler of Coca-Cola products in Russia.

Despite Coca-Cola withdrawing production of its branded products on the back of the Ukraine war, CCH continues to operate its assets to produce water and juices given the essential nature of these products to the Russian people.

Outcome: The company's opacity of disclosure here and the difficulty to understand the growth and operations of this region made us increasingly uncomfortable owning the stock and therefore we reinvested proceeds elsewhere.

US EQUITY PORTFOLIOS

2022 CASE STUDY

UNDER ARMOUR

A key factor in investing in Under Armour was the potential for improved culture and governance following the hire of a new co-CEO who, in our view, was ahead of peers in recognising the potential for supply-chain disruptions as well as able to take tough decisions on conviction.

However, the board differed in its vision, leading to his departure. Following this, management turnover seems to have accelerated after a period of relative stability.

Outcome: Given our thesis was based on the hire of the co-CEO, we decided to sell the stock.

REAL RETURN PORTFOLIOS

2022 CASE STUDY

BOSTON SCIENTIFIC

As part of our due-diligence work on Boston Scientific we unearthed a controversy related to the sale of surgical mesh products where patients have suffered from complication of nerve damage, chronic pain and deaths over the years.

We discovered that despite the US Food and Drug Administration (FDA) releasing a public health notification back in 2008, the company took no action and products stayed on the market until 2019 when the FDA ordered their removal, and in fact the company went on to compound the problem by using untested and inferior imported products procured from China.

Outcome: The company has failed to admit any wrongdoing and there is no evidence of process improvements to prevent future issues. As a result, we made the decision not to invest in the company.

SUSTAINABLE EQUITY PORTFOLIOS

2022 CASE STUDY

SAFARICOM

We exited the position in Kenyan communications company Safaricom due to alleged links between the company and the state of Kenya, monopolistic practices, and profiteering.

Safaricom has been touted as an ESG darling for giving access to mobile communications and lending products to the disenfranchised and unbanked, but after working with the investigative research team to delve deeper into potential issues, we concluded that the negative allegations against Safaricom are likely to be accurate and the company's true ESG profile is chequered at best.

Though we did not manage to speak to the company, we interviewed Kenyan journalists and academics who were both pro and anti-Safaricom to build our view and uncovered predatory lending practices, favourable policies by the Kenyan government in favour of digital banking, and anti-competitive practices that corroborated our initial suspicions.

Outcome: We moved to sell the position in the company.

THEMATIC EQUITY PORTFOLIOS

2022 CASE STUDY

BARRICK GOLD

Reports of alleged human rights abuses at one of Barrick Gold's mines in Tanzania sparked further research from our investigative team.

Management insisted these were legacy issues, but, with the input of our investigative research team, we ultimately confirmed that allegations of continuing excessive force, rape and murder perpetrated against the local community were in fact true, and were being committed by the Tanzanian police who were acting as a supplement to the mine's unarmed security forces.

Divestment was prioritised over engagement in this case because the core of the issue, in our view, is Barrick's relationship with the Tanzanian police, although this is a relationship the company denies.

Human-rights groups we spoke to with sources on the ground said the situation will not change unless Barrick ceases its relationship with the police. We considered this to be an extremely unlikely outcome in light of leaked documents that revealed the extent of the company's formal relationship with the police and close ties to the Tanzanian government.

Outcome: We exited the position as a result of the research.

WHERE A VIEW ABOUT CLIMATE CHANGE – LED TO EITHER ADDING TO OR BUYING A NEW INVESTMENT

SUSTAINABLE PORTFOLIOS

2022 CASE STUDY

SOLAREDGE

SolarEdge is a leading manufacturer of solar inverters addressing both the residential and commercial markets in the US and globally.

The International Energy Agency's report on the path to net zero highlights the need for a four-fold increase in solar and wind capacity from 2020-2030, representing significant growth in demand for SolarEdge's products to address this need.

Outcome: We initiated a position in SolarEdge to capture the significant expected growth in the solar market, and we have continued to see regulatory support increase throughout 2022 as the European Union doubled its targets for solar buildout in response to the conflict in Ukraine.

We also saw the Inflation Reduction Act introduced in the US in 2022 which brought in significant additional tax credits for clean energy, providing further support for the future growth of solar.

Lastly, we saw the estimated energy return on energy invested for solar improve to levels that are equal or superior to fossil fuels, implying that it is now arguably more efficient to invest in solar energy than fossil fuels.

This important tipping point should continue to increase the flow of capital investment into solar as an alternative energy generation source to fossil fuels.

SUSTAINABLE PORTFOLIOS

2022 CASE STUDY

NEXTERA

NextEra Energy is a North American holding company that provides electric power and energy infrastructure and was viewed positively given its explicit targets to retire coal assets by January 2024 and because it provides solutions to others in its decarbonisation goals as the world's largest renewable energy generator from wind and sun and in its leading position in battery storage.

Outcome: Continuing engagement with the company was valuable to assess potential implications of new US policies (Inflation Reduction Act) on the company's capital expenditure and allocation plans to expand exposure to renewable power generation.

Additional engagements occurred to assess potential risk relating to dark money allegations and to encourage increased transparency around third-party contractors and political lobbying as a means to reduce uncertainty relating to governance practices that could put pressure on the stock.

WHERE A VIEW ABOUT CLIMATE CHANGE – LED TO EITHER AVOIDING MAKING AN INVESTMENT OR REDUCING/SELLING A POSITION

UK EQUITY PORTFOLIOS

2022 CASE STUDY

AMADEUS IT GROUP

We were attracted to the Amadeus business model and potential upside from the recovery of the travel industry but engaged to seek more details about the company's scope 3 emissions and its strategy for reducing them, as well as learning more about its sustainable product offerings.

The company is still in the early stages of identifying its overall emissions.

Since the company caters to air travel, assessing the emissions per passenger is a critical factor in managing its environmental footprint.

Outcome: Although the company is working with industry peers to finalise the policy and has sought validation via the Science Based Targets initiative, implementation will take some time and this deterred us from investing at this stage.

REAL RETURN PORTFOLIOS

2022 CASE STUDY

RWE

RWE has developed a credible, if somewhat reluctant climate change plan in recent years which leads us to categorise RWE as a 'transition' security under our sustainable investment classification framework.

RWE is a German energy utility developing significant amounts of wind and solar capacity, but also still generating significant amounts of energy from lignite coal (otherwise known as brown coal) which is one of the most polluting fuels used to generate electricity.

The company has recently announced plans negotiated with the German government to bring forward its exit from coal to 2030.

Outcome: Despite this positive headline, we felt it necessary to engage with the company as the energy crisis in Germany is currently incentivising, and arguably necessitating, a greater reliance on coal than the original decommissioning plan would have dictated.

Furthermore, with continuing energy-security issues in Europe we considered there to be a risk that decommissioning plans get pushed further out or the absolute emissions generated for the remainder of this decade could be unacceptably high when viewed from a climate-change perspective.

WHERE HUMAN CAPITAL – WAS A FACTOR IN A DECISION TO INVEST IN OR DIVEST FROM AN INVESTMENT OPPORTUNITY

SUSTAINABLE REAL RETURN PORTFOLIOS

2022 CASE STUDY

SHAFTESBURY

We engaged with the management of Shaftesbury, the owner of London West End real estate, to understand its strategy for managing the pandemic's impact on the business.

The company's long-term strategy is to progressively purchase real estate in a concentrated area of the West End in order to manage and curate a tenant mix which drives footfall to the area and creates a self-reinforcing ecosystem for businesses.

We like its long-term strategy because it is tenant and end-customer focused, seeking to avoid the demise of the UK high street by ensuring a diverse and exciting mix of tenants that will benefit the whole community, even if it means accepting lower market rents in some areas.

Minimising vacancies and maintaining high-quality tenants are critical to this strategy and, as such, the company worked hard to help tenants weather the crisis including providing significant concessions or waivers on rent.

Outcome: The company naturally incorporates strong social and human-capital considerations in its business strategy which we feel will serve it well as it comes out of the crisis, and this led us to start a position in the company even in the face of a very challenging macro backdrop.

FIXED-INCOME PORTFOLIOS

2022 CASE STUDY

VOLKSWAGEN

Through our equity and bond holdings, separate engagements have been undertaken with Volkswagen. Notable topics have included governance and the transition to electric vehicles.

More recent meetings focused on the downgrade of the company by one of our data providers, which considered that the company had breached the UN Global Compact. The downgrade was triggered by the company's exposure to China's Xinjiang region, leading to concerns of forced labour.

The company clearly articulated its disagreement with the data provider's decision, explaining that its exposure to the plant in question is through a joint venture rather than direct ownership.

While the company is correct on this nuance, we found it to be defensive towards investors and felt it failed to engage on the heart of this sensitive and complex subject.

We do acknowledge the challenges of maintaining supply chains in this region and note that there is a lesser chance of this being a high-risk exposure for Volkswagen given the skilled nature of the roles and the smaller size of the plant.

Outcome: As bondholders we could not escalate this any higher, so a complete divestment of the bonds held in our sustainable portfolios was the only option available.

Similarly, concerns remained regarding how effectively the company was managing this risk, and the equity position was also sold.

WHERE BIODIVERSITY – WAS A FACTOR IN A DECISION TO INVEST IN OR DIVEST FROM AN INVESTMENT OPPORTUNITY

SUSTAINABLE EQUITY PORTFOLIOS

2022 CASE STUDY

MOWI

Norwegian salmon-farming business Mowi was a holding in our global sustainable equity strategy on the grounds that farmed salmon was one of the most efficient ways of farming a high-protein food.

As global population numbers continue to increase and ever greater pressure is applied to the food chain, the demand for salmon is likely to continue to grow. However, the process of farming salmon comes with the risk of disease through parasitic sea lice proliferation within the salmon farm, which has a significantly negative impact on biodiversity by threatening the wild salmon population in adjacent areas.

Outcome: We found the risks to biodiversity to undermine the positive impacts of efficient food/protein production, and the role of a salmon farmer within a sustainable portfolio is complicated by this, which was a significant contributing factor in our decision to exit the position during 2022.

WHERE THE WEIGHTING OF A HOLDING – HAS BEEN ADJUSTED IN RESPONSE TO POOR SHAREHOLDER ENGAGEMENT

SUSTAINABLE EQUITY PORTFOLIOS

2022 CASE STUDY

AMAZON.COM

In 2022, we met management during the company's investor outreach programme. We felt there was limited appetite for significant evolution in its governance practices and that Amazon will continue to be guided by minimum regulatory expectations rather than seeking to lead.

The company chose not to respond to a Workforce Disclosure Initiative survey but rather focus on its own disclosures which we were disappointed with.

Amazon has come under public scrutiny for its labour management but did highlight examples of improvement following employee feedback, such as the provision of immigration support which had been identified as a significant pain point for employees.

On the topic of unionisation, due to the limited responses, we were unable to assess the degree to which our feedback was taken on board.

Another controversial area for the company is executive pay. The company has strong conviction in the 'freedom' of its current executive remuneration structure to remain with the appointment of a new CEO, allowing the executive team to retain flexibility and the ability to pivot as the environment changes.

Outcome: Following our engagement, we voted in favour of shareholder proposals but against a management proposal on executive remuneration in the 2022 AGM. However, we trimmed our position owing to our discomfort following engagement.

Progress on human capital concerns may not reduce as quickly as expected.

THEMATIC EQUITY PORTFOLIOS

2022 CASE STUDY

TESLA

Tesla's corporate governance practices are criticised for being unconventional and, as such, there are significant corporate governance risks for investors to consider.

Ahead of its 2022 AGM, we met the company to discuss board declassification and, separately, the significant pledging activity by certain directors.

The company cited board stability and long-term shareholder feedback as reasons not to move to a one-year director term, which we deemed an inadequate response to the majority-supported shareholder proposal requesting board declassification.

There was also a lack of reassurance from the company regarding a more positive future direction of travel. We therefore voted against the members of the nomination and governance committee who were on ballot last year.

We also provided feedback that there is scope for disclosure of the company's anti-pledging policy to be more robust to help shareholders understand how the monitoring is effective and that it includes appropriate controls.

Outcome: Our overall takeaway was that Tesla's corporate governance practices are yet to catch up with most of its S&P 500 peers. We determined that the governance risks present significant and unquantifiable downside.

We considered that the combined lack of regard for minority shareholders, the weakening fundamental case and the difficulty in quantifying the downside risk to the stock were too significant to feel comfortable holding any position.

HOW INFORMATION ACQUIRED FROM VOTING – IS TRANSLATED INTO INVESTMENT DECISIONS

THEMATIC EQUITY PORTFOLIOS

2022 CASE STUDY

HANON SYSTEMS

Hanon Systems is a leading global supplier of heating, ventilation, and air conditioning (HVAC) systems for global auto original equipment manufacturers.

Its order book has been growing, mainly with orders for electric vehicle-related HVAC equipment, so it is positioned to be a beneficiary of the transition from internal combustion engines to electric vehicles.

Outcome: Although we are positive on the fundamentals of the company, we keep a below-average-size portfolio weight owing to a historical issue with its board of directors, as a director who was charged and found guilty of embezzlement was allowed to remain on the board.

Although this director has now left the company, we want to gain more conviction that governance is low-risk before increasing the portfolio weighting.

WHAT STEWARDSHIP MEANS FOR OUR PORTFOLIO MANAGERS

Scott Freedman

Fixed-income portfolio manager and credit analyst

Engagement helps us obtain a better understanding of the issuer's (both sovereign and corporate) sustainability objectives, as well as the ability to provide education and suggest improvements. It enables us to test management teams, assess whether they truly believe what they are saying, and determine if they intend to be held accountable for driving better outcomes.

The last few years have seen more industry collaboration within fixed income and ESG, helping bring investors together with banks and issuers, which is a powerful force for change.

I think fixed income and equity investors could work more closely together through industry bodies, helping drive change more quickly, given that both want the same things when it comes to ESG factors.

Ian Smith

Portfolio manager, emerging markets and Asia equities

Stewardship in an emerging-markets context means avoiding promoters who don't value minority shareholders or wider stakeholders in the business, and seeking durable franchises, so avoiding those that rely on a fad, or where corners are being cut in order to sustain a cost or pricing advantage.

Given the fickle nature of emerging-market capital flows, stewardship also means backing owners and managers who are conservative with their company balance sheet, and don't take undue financial risk.

Given the multiple countries, legal jurisdictions and corporate cultures in emerging markets, stewardship needs to be tailored to fit certain company and country contexts.

Many companies in emerging markets have developed investor relations departments over the last few years, which are increasingly equipped to deal with these issues, and relay them to management.

If the industry was more focused on who owns and manages companies, and assessing their behaviour and track record, we believe that this could lead to better and more targeted engagements. Trying to impose standardised governance requirements on such business leaders is less effective and is where the financial industry could improve on its actions. We think such improvement requires close integration of engagement with the investment team.

Louise Kernohan

Portfolio manager, UK equities

Being recognised as responsible long-term owners by the companies we invest in means that when we identify issues we can reach out to the company and communicate our views clearly.

The key to effectiveness is then to follow up on how the company is progressing following the engagement and holding the company accountable.

I think that engagement has historically often been seen as a 'nice to have' function in our industry rather than a particular focus, but this is changing. The more investment firms engage, the more we can make an impact as a collective, so initiatives to increase the emphasis on engagement in our industry would be helpful.

Patrick Kent

Portfolio manager, US small and mid-cap equities

There are at least three important pillars to effective engagement. First, clarity: you should be clear with management what you are focused on and why.

Second, this should be a recurring theme through all your interactions with the company. Management hear from many parties and talk to many investors and you want to repeat your engagement goals as often as possible.

Third, you must be willing to move on from an investment if you feel your engagement is not working.

Meeting with management teams both in person and virtually is common industry practice. These are the best opportunities to vocalise the initiatives you believe are most important to shareholders and, frankly, all stakeholders in the business. A key area of improvement is to focus on being clear about the goals and repeating them as often as possible.

Julianne McHugh

Head of Sustainable Equities

Being a good steward of our clients' capital involves aligning our fiduciary responsibilities with our sustainable objectives to drive long-term value. It can be challenging to eliminate all potential risks as there are always trade-offs. So our goal in engaging is to work together to identify pathways to promote positive real-world change in an economically sound manner.

I believe most companies want to be positive allocators of capital. They want to reduce risks and provide quality products and services not only to their employees and customers but also to the communities that they serve. This supports our ability to engage and identify opportunities to promote value.

The more difficult part has been to quantify the economic impact of change. While there are many studies that exist to show support for ability to engage, I believe there is still work to be done here.

Overview of the Newton sustainable investment process

We are committed to our existing sustainable investment process which aims to build on the overall assessment and integration of material ESG factors by seeking to further identify sustainable business and economic models.

Securities considered suitable for sustainable strategies are subject to our sustainable investment framework which is owned by our responsible investment team.

This framework seeks to identify and avoid issuers that participate in specific areas of activity that we deem to be harmful from an environmental or social perspective, or do not meet the regulatory baseline requirement for governance practices, while seeking to identify and invest in issuers that are proactively seeking to manage environmental and/or social factors to generate sustainable returns.

Each sustainable strategy has a dedicated responsible investment team advisor.

There are certain types of investments (e.g. cash/cash-like instruments, certain derivatives or index-based instruments) that we do not believe present ESG risks, opportunities and/or issues, and therefore even for our sustainable strategies we believe it is not practicable for these to be evaluated under the sustainable investment framework.

Sustainable investment is an evolving discipline and we will continue working to enhance this framework, both relating to different asset classes and individual securities.

The portfolio manager is accountable for the sustainable classification, but in collaboration with the responsible investment team advisor. Where there is disagreement on the classification, the escalation process under the framework can be followed.

The ultimate decision resides with the Chief Investment Officers and the Global Head of Sustainable Investment and is reported to the Investment Oversight Committee. Analysis and rationales are documented in our RI app.

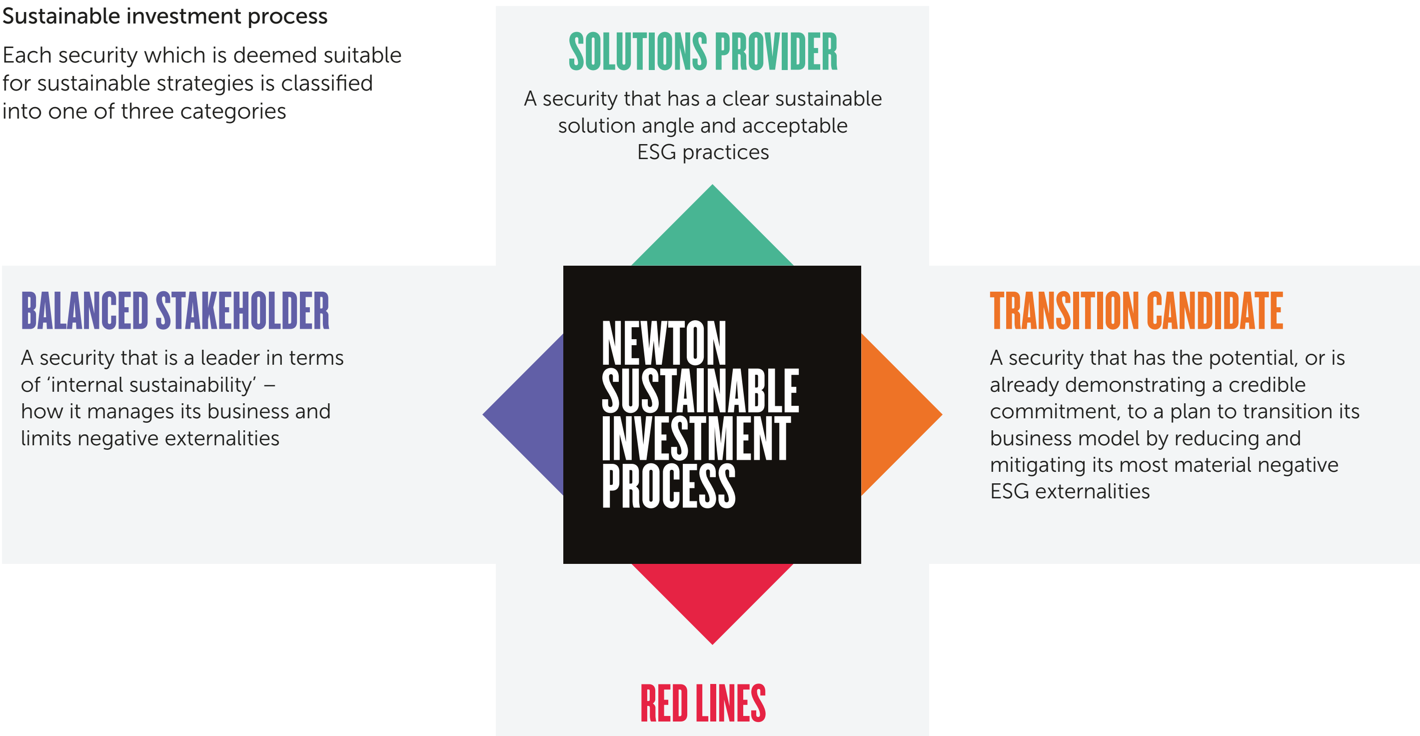
In 2022 there were no issues escalated from a lack of consensus between the portfolio manager and the responsible investment advisors. Several cases did result in debates, however, which typically related to governance aspects of our investments as well as whether a company was considered to be a solution provider ('green') or still in the transitional phase ('partially brown').

So far, we believe the consensus approach is working and is avoiding groupthink through having several different voices in the room, especially via the Sustainable Investment Forum.

Currently, a number of strategies follow this process and are hence considered 'sustainable' by Newton. As at 31 December 2022, Newton's sustainable assets under management were £3.4 billion. This includes strategies that are part of our sustainable franchise as well as a small number of thematic strategies.

Sustainable investment process

Each security which is deemed suitable for sustainable strategies is classified into one of three categories



SECTION 7

OUR APPROACH TO STEWARDSHIP

PRINCIPLES APPLIED AND EXPLAINED IN SECTION 7

PURPOSE AND GOVERNANCE

3	Conflicts of interest

INVESTMENT APPROACH

6	Client and beneficiary needs
7	Stewardship, investment and ESG integration

ENGAGEMENT

9	Engagement
10	Collaboration
11	Escalation

EXERCISING RIGHTS AND RESPONSIBILITIES

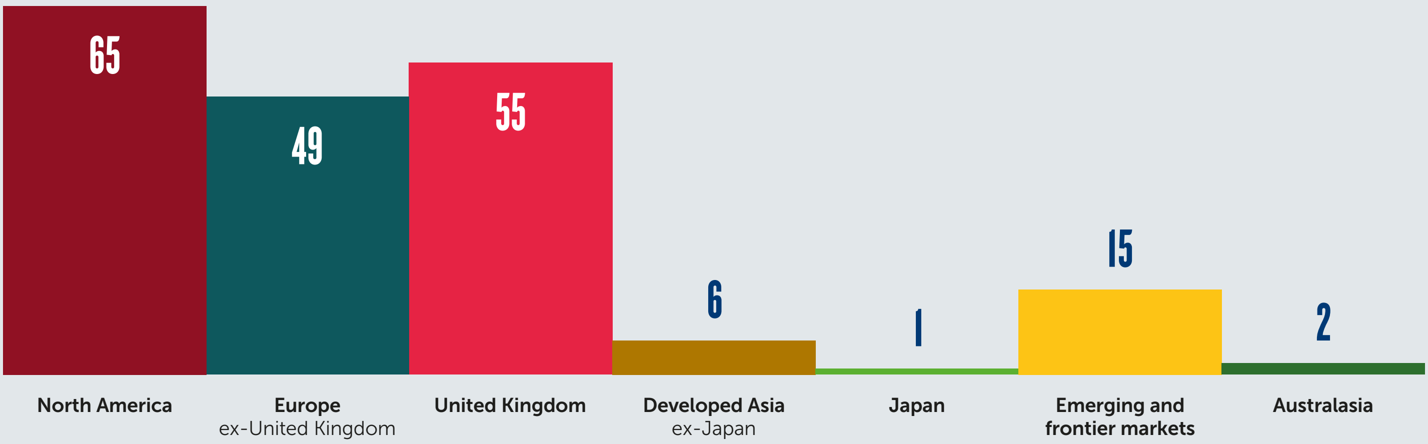
12	Exercising rights and responsibilities

2022 ENGAGEMENT SUMMARY

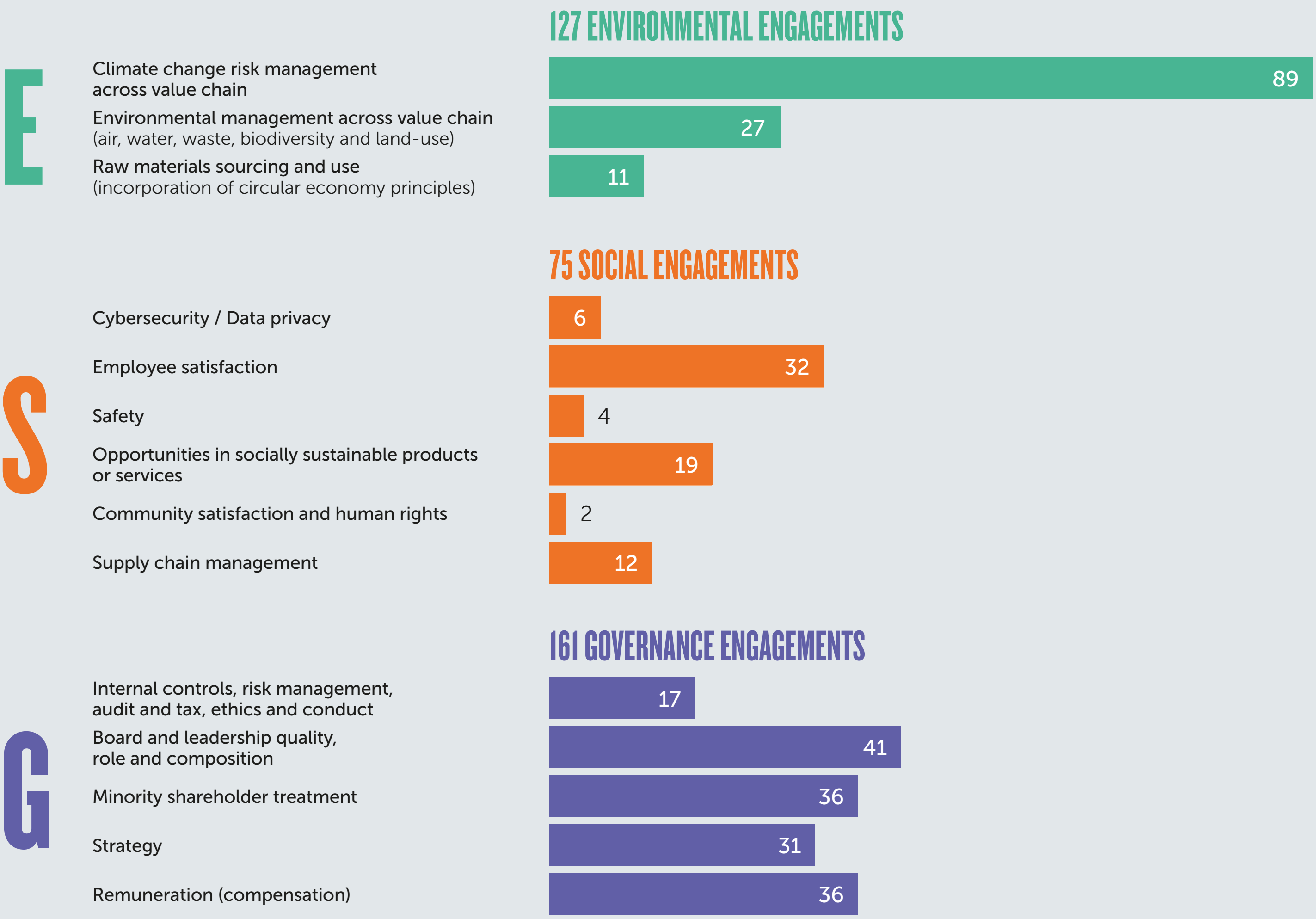
Number of ESG engagement meetings in 2022	193
Number of collaborative engagements	17

Number of entities engaged	161
of which were collaborative engagements	12

2022 engagement summary by location



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



As an active steward, we are committed to the responsible allocation, management and oversight of capital to create long-term value for beneficiaries and other stakeholders.

We use three main stewardship tools to help us meet our commitment to our clients: 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 excluded.

As an active manager, we build investment cases using our multidimensional research platform to help assess the quality of companies, their people, and their management teams. Intrinsic to the understanding of the potential of an investment is an appreciation of the quality of the company's management, its structure, the appropriateness of its internal controls and the assurance that ESG matters are managed to the benefit of long-term investor value. Speaking directly with companies as part of our research process can play a crucial part in helping to achieve this understanding.

As a responsible and engaged investor, we also engage for change where we believe this to be in the best long-term economic interests of our clients. We believe that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

Through our research process, we identify the ESG risks and opportunities faced by a company. Companies which we do not consider to be managing these challenges well will become candidates for engagement. Companies are then prioritised for engagement based on a combination of factors that include the materiality of the issues to be raised, our likelihood to meaningfully engage, the aggregated amount of our invested interest and, where relevant, our past engagement and voting activity.

Additionally, we prioritise engagements based on ESG themes that are a focus for Newton (see below for our seven priority engagement themes for 2022).

Engagement activities cannot always be planned in advance, and reactive engagement can be equally important. Such engagement is often at the company's request or in response to news, and includes subjects such as executive pay, guidance on reporting, and operational incidents. As an investor that has taken the active decision to invest, we want to be in a position to support the company and its management; as such, we will prioritise these engagement opportunities.

Finally, a further key area for prioritising engagement centres on the exercise of our clients' voting rights at companies' shareholder meetings. During the research and analysis conducted by the stewardship team in determining voting decisions, we will identify areas of controversy that we consider could be improved or where further explanation is required by way of targeted engagement.

We disclose our ESG engagement activity in our quarterly responsible investment reports, which are also available on our website at: **newtonim.com/responsibleinvestment**

We recognise that not all engagements will produce tangible results in the time frames that reflect the urgency of the issues we wish to see companies improving on. One way to illustrate this are governance issues like staggered boards or dual-class shares.

Despite significant engagement from institutional shareholders and, in many cases, majority-backed shareholder resolutions, changing such practices typically takes several years, and might never materialise during the time we are invested in the company.

Engagements around material ESG issues follow the same trend. For example, for a company to begin disclosing scope 3 emissions, the process may take several years and involve discussions with multiple shareholders, who will not all agree on the issue.

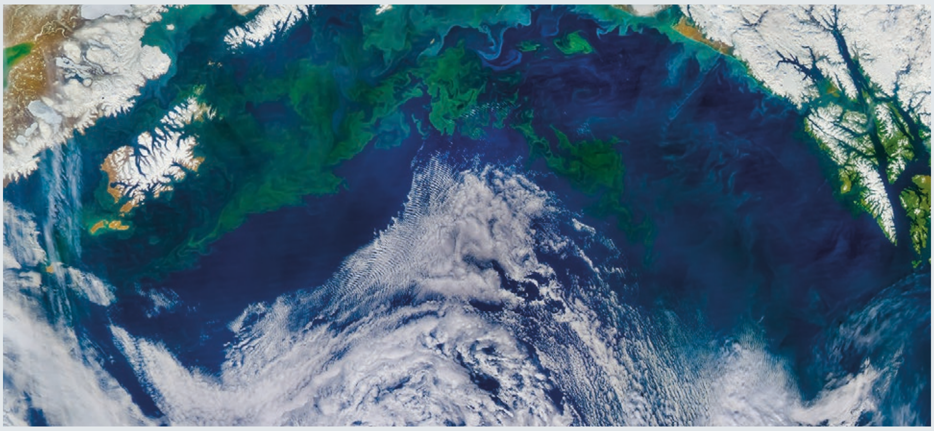
As different stages of engagement need different stewardship responses, the stewardship team constantly evaluates the probability that our engagement produces the desired result and helps evaluate if we are advancing towards the objectives set. Most of our engagements run over the medium to long term, depending on the issue at hand, for example progression towards net zero or increasing diversity within the workforce.

> "Most of our engagements run over the medium to long term, depending on the issue at hand, for example progression towards net zero or increasing diversity within the workforce."

However, some other engagements have shorter time frames, including those which occur during the annual general meeting season, or reactive engagements where outcomes are more urgent from both sides.

In any case, if we think that management is not responsive to a voiced concern in an engagement cycle, we reserve the right to escalate our engagement and nudge management into continuing the dialogue and being more receptive.

TYPES OF ESCALATION



ELEVATING THE DIALOGUE TO BOARD LEVEL AND/OR TO A COLLABORATIVE EFFORT

There are situations where engagement stalls owing to the inability of the company representative to address our concerns decisively.

In such cases, we may suggest to take the discussion to the board/executive level. In other cases, we may contact other like-minded shareholders or look for collaborative engagement initiatives as we find that these can be effective ways to raise concerns or to influence outcomes.

An illustration of this escalation technique can be found on page 44.

ESCALATING OR COMMUNICATING CONCERNS VIA VOTING

Our voting, especially on director elections, is a powerful signal sent to investee companies and their boards.

A few examples of escalation through voting can be found on pages 52-54, and our full voting record is available at: **newtonim.com/responsibleinvestment**

SUPPORTING A SHAREHOLDER RESOLUTION

We consider all shareholder resolutions on a case-by-case basis and on their own merit.

Perspectives from any relevant engagements will also be considered. Typically, support for a shareholder resolution can be viewed as an intermediate escalation on our part.

Although most shareholder resolutions are non-binding in nature, they can materially change a company's practices towards disclosure and shareholder engagement.

Supporting resolutions that are aligned with our view on the topic raised and where we believe outcomes will be additive to our investment case or benefit our clients in other ways can be a good way of communicating our concerns on a specific topic to a company's management.

Our voting record on shareholder resolutions can be reviewed on page 51, which includes a short rationale.

SUBMITTING A SHAREHOLDER RESOLUTION

Submitting or co-filing a resolution alongside other shareholders is a more explicit escalation, and is reserved for severe cases of an engagement stalling or failing. It is typically the last escalation before divestment.

This has not been used during 2022.

ASKING A QUESTION AT THE SHAREHOLDER MEETING

Posing a question at the shareholder meeting either individually or as part of a collective group of shareholders is a possible escalation technique, notably in those situations where access to a company's board or management is difficult. This has not been used during 2022.

PRIVATE LETTERS

Private-letter sending is an efficient escalation technique formally to signal to a company our interest in discussing an issue and what our objectives would be from the discussion.

An example of such an escalation is the letters we sent as part of our partnership with the World Benchmarking Alliance on the just transition, as described on page 23.

PUBLIC LETTERS/MEDIA COMMUNICATIONS

Sending letters publicly or communicating to the media are more elevated escalation techniques.

These methods have not been used during 2022.

DIVESTMENT/REDUCTION OF HOLDINGS/ CHOOSING ANOTHER SECURITY

As an active manager, we typically do not make our investment decisions based on one factor alone.

In some cases, where our engagements fail, and we believe the issue to be critical to the underlying investment case, we may take the decision to divest – the ultimate sanction for an active manager.

A few examples can be found on pages 32-35.

PRIORITY ENGAGEMENT THEMES

Each year, we define priority engagement themes which reflect the issues we believe to be most material to companies' risks and opportunity sets over the long term.

Our seven priority engagement themes for 2022 are set out on this page. Examples of our engagements on some of these themes are shared on pages 43-47.

Net zero

We seek to ensure that companies have a plan for their products, services and operations supporting a move towards net-zero carbon emissions.

Biodiversity

We seek to ensure that companies understand and manage impacts on biodiversity (including deforestation and pollution), as well as any dependencies they have.

Circular economy and resource efficiency

We seek to ensure that companies build natural resource efficiencies into their products, services and operations, including regenerative systems and principles of circular design.

Human capital

We seek to ensure that employees across the full value chain are treated with respect and dignity.

Cybersecurity

We seek to ensure that companies have robust cybersecurity controls, with evidence such as external audit (ISO 28000 or requirements).

Food sustainability

We seek to develop a strategy for reducing the social and environmental impact of products and operations across the full food value chain.

Control and regulation

We seek to understand how companies ensure audit quality and stay abreast of incoming ESG-related regulation.

ENGAGEMENT ON A CLIMATE-RELATED ISSUE

EQUITY

2022 CASE STUDY

THE GOLDMAN SACHS GROUP

We have been engaging with Goldman Sachs for almost three years to encourage the bank to solidify its net-zero approach and set interim targets.

We have consistently conveyed to the bank the need to commit to a net-zero target and to see the 2030 interim targets reflect the 1.5 degrees of warming scenario.

We also stressed the need for its measurement methods to follow industry standards to allow investors to understand that component of climate risk. External verification by an organisation like the Science Based Targets initiative provides more confidence.

The bank has improved its reporting and disclosures on financed emissions, and in 2022 it set intensity-based targets for the financed emissions for its oil and gas, power, and auto manufacturing sectors.

We believe the bank took these steps as a response to shareholder engagement.

In September 2022, we discussed in detail the bank's climate transition plan with its sustainability team. The bank is generally in line with peers, but it is applying carbon offsets to its targets, which we believe is not best practice and should only be applied later to sectors where it is harder to abate emissions.

Notably, there are no thresholds or commitments to phase out coal, but the bank's approach is to engage with clients to understand their strategies.

We would prefer a firm commitment to exit coal which provides more transparency to investors, which peers have provided. We will follow up with the bank to understand its client engagement methodology in greater detail.

On a related note, our request to increase disclosures on biodiversity and TNFD (Taskforce on Nature-related Financial Disclosures)-related work were positively acknowledged.

JUNE 2019

Engaged on:

- Climate change-related opportunities.
- Risk management on fossil fuel-related stranded assets.
- ESG reporting.
- Governance of environmental investment issues.

JULY 2019

- Follow-up meeting on sustainability measures.
- Discussed culture and conduct post the 1MDB scandal.

FEBRUARY 2021

- Provided feedback to adapt a net-zero target including scope 3 financed emissions target.
- Follow up on culture changes implemented post the 1MDB scandal.

APRIL 2021

- Follow-up meeting post the bank announcing to align its financing activity to net-zero by 2050 pathway, to discuss approach for setting targets for high-emitting sectors and external verification.

APRIL 2022

Pre-AGM engagement to:

- Raise concerns over lack of disclosure on short-term incentives.
- Understand the rationale for using one-off long-term awards.
- Raise concerns on auditor tenure.
- Seek board's view of the bank's engagement with clients to achieve climate targets.

SEPTEMBER 2022

- Update meeting with the sustainability team
- Understand the bank's approach to carbon offsets
- Understand the rationale for no thresholds to phase out coal and consequence of failed engagements with clients
- Work done by the bank on biodiversity and TNFD

EQUITY

2022 CASE STUDY

EXELON

We met the company twice in 2022. Our first engagement was following its transition to an independent transmission and distribution utility company, during which we sought to understand how its ESG priorities had evolved.

Specifically on climate, targets have been set to reduce scope 1 and 2 emissions by 50% by 2030, and 100% by 2050. The 2030 target will be achieved via actual reduction, and offsets will be used for up to 15-20% of the remaining reduction.

We recognise that there is limited scope for Exelon to reduce its scope 3 emissions given the change in its business model; however, we note its efforts on other fronts, namely its engagement with several key climate-focused stakeholders on its transition plan.

Exelon's business model of setting up transmission and distribution systems has proved challenging: it does not align with most of Climate Action 100+'s criteria and, for largely the same reasons, the Science Based Targets initiative will not validate its targets.

In our second engagement, we noted the evolving practice on scope 3 targets by comparable domestic peers and encouraged the company to consider whether it could do the same.

Outcome: Given the company's footprint, we will continue to engage to encourage evolving practice.

ENGAGEMENT TO PRESERVE SHAREHOLDER VALUE

EQUITY

2022 CASE STUDY

GREENCOAT UK WIND

Greencoat UK Wind specialises in renewables infrastructure investments in energy, wind-generation assets and onshore and offshore wind farm projects.

Over the period from October 2021 to August 2022 we had six meetings with the company to discuss several concerns we had regarding the governance of the company and whether management (Greencoat Capital) and the board were aligned with shareholders' long-term interests. We had three meetings with the management team and three meetings with independent board members.

Our primary concern was the board's decision to issue shares based on a conservatively marked net asset value (NAV). In our view, shares should only be issued at a premium to an optimistic assumption of net asset value (NAV), so that existing shareholders are not diluted on a NAV-per-share basis.

We were further concerned by the board's decision to 'lock in' the incumbent manager for a multi-year period when renewing the investment management agreement (IMA).

We are against long-term contract structures as they make it more difficult for shareholders to hold management to account or appoint a new manager for the trust, and they also discourage merger and acquisition activity as an acquirer must consider the costs of 'buying' out the management contract, which will be evaluated with any acquisition price. Additionally, we did not believe the incumbent manager needed to be tied to a long-term contract.

We believe that as assets become larger, boards should continually appraise the value that the manager provides and assess whether the fee structure remains appropriate. We encourage management contracts to be put out to tender so they are opened up to a competitive process. This was something the board informed us it would not be doing, which we struggled to understand.

While this engagement was not conclusive, we believe it addresses an important and often overlooked aspect of investment trusts whereby share issuances need to be monitored closely to ensure they remain value accretive for existing shareholders.

In the case of investment trusts, management teams are not incentivised by the share price but rather on increasing the assets under management. This can be done either through asset performance or merely raising capital through secondary-market share issuance, which can lead to a conflict of interest with shareholders.

OCTOBER 2021

Engaged on:

- Share issuances to be undertaken by the trust.

NOVEMBER 2021

Engaged on:

- Planned acquisitions which the share issuances would be used to fund
- Our concern with the dilution to existing shareholders given the NAV used for the issuance

Trust announces upsized share issuance, resulting in even greater dilution to existing shareholders.

JANUARY 2022

Engaged on:

- Continuing frustration with NAV used for share issuances.
- Amending fee proposal to incentivise prioritisation of NAV-per-share growth and not just NAV growth, lower fees, and sharing of the economies of scale that we have seen since initial public offering.
- The need for the board to take actions to ensure there is an alternative manager to take over management of the assets should investors choose to move away from the incumbent manager in the event we felt it was not managing the assets in the best interests of shareholders.

MARCH 2022

Engaged on:

- Revised share issuance, questioning the timing of the raise as we had been expecting to see a considerable increase in the NAV per share when the NAV was updated. In addition, a few large institutional investors took up a significant proportion of the share issuance, and we felt existing minority shareholders and non-participating shareholders would be materially diluted on a NAV-per-share basis on further NAV uplifts.
- Current power-price environment.

APRIL 2022

Schroders' acquisition of majority shares in the trust's manager (Greencoat Capital) was concluded.

Engaged on:

- Amendments to the investment management agreement (IMA) for the manager of the trust.
- Our rationale for voting against the share-issuance authority requests and the chair's re-election at the upcoming AGM.

We voted against the proposals for further share issuances and against the election of the board chair at the 2022 AGM. While we view the trust as a quality asset, we felt the board did not take sufficient action to protect the interests of minority shareholders when the trust conducted share issuances that were, in our view, problematic.

AUGUST 2022

Engaged on:

- Renewal of management contract, which changed from a 12-month rolling contract to a locked-in four-year contract, which we did not feel was in shareholders' best interests.
- Board members' views on share issuances and acquisitions.

ENGAGEMENT ON BOARD ACCOUNTABILITY

EQUITY

2022 CASE STUDY

MERCURY SYSTEMS

We met the chair of Mercury Systems in March 2022 as the company had implemented a shareholder rights plan in January 2022 for a period of one year, following the acquisition of a substantial stake in the company by two activist investors.

Fundamentally, we do not support shareholder rights plans, as we believe these mechanisms can serve to entrench management. Therefore, we wanted to understand the rationale and process implemented by the board to enact the shareholder rights plan.

The board, in consultation with financial advisors, concluded that it was best to create a pause after having two activists come on board. We were disappointed that there had been no consultation with the shareholder base prior to enacting the plan. The company's view was that it had to move fast.

We clearly communicated that the company could provide greater comfort to shareholders through effective communication of its long-term strategy, particularly in the face of activists, rather than implementing a defensive mechanism.

We conveyed that, as long-term shareholders of the company who have generally been supportive of management in the past, we remain supportive of its long-term strategy; however, we emphasised our desire to be consulted if there are any developments with respect to the rights plan.

As of now, Mercury Systems has not renewed the shareholder rights plan for another term.

Outcome: We are confident that our discussions with the board, in part, have helped it understand that resorting to defensive mechanisms may not be the most effective approach in such situations. Instead, fostering open communication with shareholders and even activists could enable the board to garner support for its long-term vision.

FIXED INCOME

2022 CASE STUDY

CLARION HOUSING GROUP

We met management following reports from the UK Housing Ombudsman which determined that the housing association had severe failings around the administration of complaints handling.

Given the group's profile as a leading social landlord, the news represented a potential reputational and operational risk.

We sought to understand from the group what went wrong, how long it had been aware of the issue, and what its approach would be to repair trust.

We also sought clarity on how the group and its peers were engaging with authorities and stakeholders on the issue.

This engagement gave us comfort that management was taking the issue seriously and that it did not indicate broader issues within the association or sector.

Outcome: We came away happy to maintain our investment, but we continue to monitor the company's performance and are still engaging to track progress.

EQUITY

2022 CASE STUDY

SAMSUNG ELECTRONICS

The board is trying to improve diversity, particularly among the independent directors. In terms of gender diversity, it has more than one female director and aims to increase the proportion further.

It is also seeking to increase the proportion of foreign independent directors.

Outcome: We were pleased to see the board is focusing on attaining complementary experience, such as environmental and information technology expertise.

We consider that these additions can contribute to effective decision-making.

ENGAGEMENT ON A BIODIVERSITY ISSUE

EQUITY

2022 CASE STUDY

ALBEMARLE

We had two meetings with the company in 2022 where we discussed its water ambition. The company believes its efforts to reduce water intensity and freshwater intensities further in high and extremely high water-risk countries are well focused but would be harder to achieve.

We questioned the disjointed approach where its target to reduce water intensity by 25% by 2030 only focuses on Chile and Jordan. Chile is a significant location and Jordan, The company explained that despite having lower freshwater intensities than Chile, is a high water-risk location.

Outcome: In both our meetings we suggested that an enterprise-wide target would be more appropriate given its hard-rock mining operations will not need as much water anyway. The company agreed there is an opportunity to set wider freshwater targets.

EQUITY

2022 CASE STUDY

ARCHER-DANIELS MIDLAND

We met the company to understand its approach to managing deforestation risk, which is material for the company given its exposure to soy and palm.

While the company has a thorough approach in place, its indirect sourcing model presents challenges to concise reporting and, additionally, appears to affect measures for traceability back to plantation.

The company is nevertheless confident it can meet its zero-deforestation target and uses technology to gain insights as to what is happening on the ground, enabling it to bring forward its timeline from 2025 to 2023.

The company also has a strong governance framework around this risk, with inclusion within enterprise risk management, quarterly updates to the sustainability team, and periodic reporting of key measures to the board.

Outcome: The company was open in discussing the challenges it faces, highlighting that land-ownership rights are very different in countries such as Brazil when compared to developed markets.

Separately, its indirect sourcing model means that smallholders can be hard to retain. However, it had a thoughtful rationale for engaging with this part of the supply chain and a belief in the socio-economic role it plays.

ENGAGEMENT ON A HUMAN CAPITAL ISSUE

EQUITY

2022 CASE STUDY

ONEWATER MARINE

We had a call with management to learn more about the company's diversity, equity and inclusion (DE&I) initiatives for the broader workforce.

The company appears to be in the earlier stages of developing a strategy on DE&I, and we provided feedback that we would expect and like to see more disclosures on how the company is thinking about gender diversity and DE&I in the future.

On diversity, the company does not feel ready to set goals for the board or the broader workforce at this stage.

Efforts are under way in relation to hiring processes and employee training, but the initiatives lack detailed targets.

Outcome: The company stated that while this industry typically caters to white males, it has found it helpful to deviate by looking for candidates from outside the sector who may have a passion for its business. This has proved to be useful in understanding and relating to the customer, ultimately helping with the sales process.

ENGAGEMENT ON FOOD SUSTAINABILITY

We have been engaging on the ESG impact of the food system for several years, covering the environmental impact of agriculture and food manufacturing, as well as the social impact and economic costs associated with unhealthy food and drinks. In relation to the latter, we are long-standing members of the Healthy Markets initiative at ShareAction, participating in collaborative company dialogue as well as providing input into the group's strategic direction through our role on the steering committee.

We provided examples of engagements with food retailers in our stewardship report for 2021; this year, the initiative's focus was on food manufacturers that have made less progress generally.

EQUITY

2022 CASE STUDY

UNILEVER

Despite being a leader in ESG and having a purpose-driven approach to business, we considered the company's disclosures around nutrition to lag those of other leaders in the food space.

Unilever had fallen behind retailers like Tesco and Sainsbury's and there was limited transparency provided for investors to understand how its sale of unhealthy products aligned to its purpose. Its focus on condiments and ice cream also makes it more highly exposed to risks based on its product offering.

We have had regular engagements with Unilever on nutrition, changing consumer demand and product shifts over a number of years both directly and through Healthy Markets, and encouraged the company to report on its product profile using a government-endorsed nutrient profiling model. We believed the regulatory direction of travel was towards standardised adoption of this tool, and the business would be negatively affected if it instead adopted its own nutrient profiling tool which it seemed inclined to do.

We stressed the benefit for investors from the overall transparency provided by these disclosures in terms of better comparability and the ability to integrate them into investment decisions.

During the year, Healthy Markets filed a shareholder proposal which was ultimately withdrawn following a response by the company. We remained involved in discussions.

Outcome: We were pleased to see Unilever's announcement in March 2022, and its subsequent disclosures in October, on the nutritional profile of its products based on six nutritional profile models, covering 16 strategic markets, based on both volume and revenue.

This reporting is best in class and we hope it will raise the bar across the industry in disclosing the proportion of healthy products within a company's product portfolio versus government-endorsed models.

FIXED INCOME: PRIVATE COMPANY

2022 CASE STUDY

ICELAND

We have engaged with Iceland for a number of years on nutrition and affordability of products, as described in our stewardship report for 2021.

A key ask was for the company to report on its proportion of healthy sales.

As a low-cost retailer, Iceland is particularly important given the links between income and obesity and nutritional deficiencies.

Outcome: We were encouraged to see in 2022 that the company has committed to report on this.

ADVOCACY

> Collective or collaborative action with other stakeholders can be an efficient and effective method to raise concerns or to influence outcomes.

As mentioned previously, we are active participants in industry and market-level discussions and efforts to improve the operating framework for the companies we invest in to benefit our clients in the long term.

When the issues we seek to address prove to be systemic, advocacy can be the most efficient stewardship approach.

Our advocacy efforts will often link to the themes on which we are engaging with companies. Examples of the policy-related work we undertook in 2022 can be found on pages 22-24.

Collective or collaborative action with other stakeholders can be an efficient and effective method to raise concerns or to influence outcomes.

We work collectively with other like-minded investors as well as trade associations, government bodies and non-governmental organisations (NGOs). Collective action may deal with specific company matters or broad industry concerns in an effort to develop best practice, raise awareness of an issue or enhance the effectiveness of engagement activities.

When considering action, and also when acting collectively on a specific issue of concern with a company, we exercise caution in order to avoid being unintentionally in receipt of material non-public information or breaching concert party or competition rules.

The following are examples of the collaborative activities we undertook in 2022.

As discussed on page 23, we became one of two founding investors in the World Benchmarking Alliance's Collective Impact Coalition on the just transition.

We have been an active member of the 30% Club Investor Group, which has been encouraging improved gender and racial diversity on company boards and among wider workforces. This year, we participated in its racial equity steering group as discussed on page 24.

In addition, as a member of the Workforce Disclosure Initiative, we have played an active role in requesting information from companies as well as in encouraging specific companies to disclose information on their performance and policies in relation to their management of human capital.

We continue to be an active member of ShareAction's Healthy Markets campaign, which focuses on improving the nutritional profile of foods offered across the value chain. Examples of this work are discussed on page 47.

We will refrain from collaborating with others where there is a misalignment of interests in relation to the underlying investment or principles that are driving an initiative.

A full list of collaborative initiatives in which we participate is provided below.

Organisations and initiatives related to ESG matters in which Newton plays a formal role:

Organisation/Initiative	Region	Joined	Role	Summary description
30% Club – Investor Group	UK	2010	Member of Race Equity Working Group	Investor group seeking to improve gender and racial diversity on boards
Farm Animal Investment Risk and Return (FAIRR)	Global	2019	Member of technical advisory panel	Collective investor resource for research and engagement with animal agriculture
UK Financial Conduct Authority – Vote Reporting Group	UK	2022	Member	Collective stakeholder group with knowledge and interest in good practice vote disclosure working to develop a more comprehensive and standardised vote disclosure regime
Institutional Investors Group on Climate Change	Europe	2018	Member of Proxy Advisory Working Group (from 2022)	Mobilising capital for the low-carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policymakers and fellow investors
Investment Association	UK	2021	Member of Fixed Income Working Group	Provides expert guidance to the Investment Association on fixed income stewardship-related activities and policies
	UK	2021	Member of Green Gilts Working Group	Forum for Investment Association to discuss the UK government's green gilt initiatives
ShareAction Healthy Markets	Global	2020	Member of Steering Committee	Campaign asking UK food and drinks companies to produce healthier, more affordable products, limit advertising of sugary products to children, and encourage clear and accurate food labelling
World Benchmarking Alliance	Global	2022	Member of Just Transition Coalition Impact Committee	Seeks to encourage world's largest companies to better disclose diversity policies, procedures and practices

Newton also contributes actively to the following collaborative initiatives:

Organisation/Initiative	Region	Joined	Status	Summary description
Asian Corporate Governance Association	Asia	2007	Member	Education, research and policy influencer across Asian markets on governance matters
CDP (previously Carbon Disclosure Project)	Global	2007	Supporter	Focuses investors, companies and cities on taking action to build a sustainable economy by measuring and understanding their environmental impact
Climate Action 100+	Global	2018	Signatory	Investor-led initiative to ensure the world's largest corporate greenhouse-gas emitters take necessary action on climate change
Good Work Coalition	Global	2021	Member	ShareAction coalition focused on quality work, including a specific living wage campaign
Investor Alliance for Human Rights	Global	2021	Member	A collective action platform for responsible investment that is grounded in respect for people's fundamental rights, providing frameworks and collaboration opportunities
Pension and Lifetime Savings Association Stewardship Advisory Group	UK	2014	Member	Collective organisation for UK-based pension schemes
Transition Pathway Initiative	Global	2019	Supporter	Global, asset owner-led initiative which assesses companies' preparedness for the transition to a low-carbon economy
Workforce Disclosure Initiative	Global	2018	Member	Seeks to encourage world's largest companies to better disclose diversity policies, procedures and practices

Newton is a signatory to or a supporter of the following industry principles and pledges:

Organisation/Initiative	Commitment	Joined	Status	Summary description
Investor Stewardship Group	NIM	2018	Endorser	Framework of basic investment stewardship and corporate governance standards for US institutional investor and boardroom conduct
Net Zero Asset Managers initiative	NIM and NIMNA	2021	Member	International group of asset managers committed to supporting the goal of net-zero greenhouse-gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, and to supporting investing aligned with net-zero emissions by 2050 or sooner.
Principles for Responsible Investment	NIM	2007	Member	Asset owner-led organisation that promotes responsible investment principles and helps administer members' specific responsible investment activities
Taskforce for Climate-related Financial Disclosures	NIM and NIMNA	2018	Supporter	Leading global framework for reporting of climate-related information
UK Stewardship Code	NIM	2012	Signatory	UK Financial Reporting Council's principles for stewardship expectations of UK investors

VOTING 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.

We believe it is important that investors exercise the ownership rights they have been afforded. These include the regular voting opportunities enjoyed by most shareholders, as well as the infrequent voting opportunities for investors in corporate bonds.

We have been exercising our clients' voting rights globally for more than two decades and have been publicly reporting our rationale for decisions taken against management since 2005.

Our voting rationale for votes against management and on all shareholder proposals is available on a quarterly basis on our website at: **newtonim.com/responsibleinvestment**

We have disclosed our full quarterly voting record from Q3 2022.

Newton does not believe corporate governance or proxy-voting analysis can be reduced to strict rules but rather must be considered, as much as practically possible, in the context of each company and its region of incorporation. We therefore apply our voting guidelines in line with local market practices.

Ultimately, as an active manager, our investment case is built on our multidimensional research platform through which we assess the quality of companies, their people, and their management teams.

Our voting activity supports our engagements, where relevant, and will reflect our view on how the company is managing its particular risks.

We endeavour to exercise voting rights in all markets. However, this may be hindered for reasons such as share blocking, where the underlying custodian company puts in place certain trading restrictions when voting rights have been exercised.

We may also opt out of exercising voting rights if the entity or persons related to the entity are subject to economic sanctions.

In cases where we recognise a potential material conflict of interest, we outsource voting decisions to a third party and follow the voting recommendations of our third-party proxy voting administrator. Our detailed voting guidelines are available upon request.

We do not engage in securities lending on behalf of our clients; this activity is at the discretion of individual clients.

For certain funds that are managed by our parent company (BNY Mellon), and where Newton is appointed as investment manager or sub-advisor, the fund boards have entered into securities-lending programmes.

The nature of our relationship has allowed us to agree a recommended list of restricted securities for the purposes of lending. This list is updated on a quarterly basis.

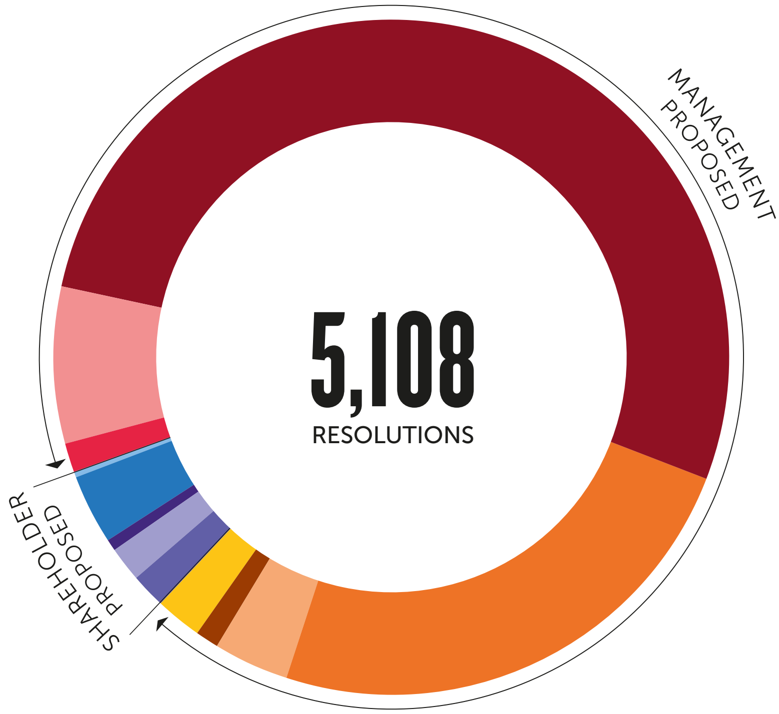
The chart below illustrates our aggregate global and regional voting summary for 2022.

41% IN FAVOUR
of management on all resolutions

58% AGAINST
management recommendations on one or more resolutions

During 2022,
we exercised our clients' voting rights
at **2,872** separate meetings.

TOOK NO ACTION ON 1%
owing to share blocking or sanctions considerations



Votes against management

In 2022, we instructed votes against management recommendations in relation to a total of 5,108 separate resolutions. Individual rationale for each of these voting decisions is included in the relevant quarterly reports published throughout the year.

Resolutions relating to remuneration practices accounted for the majority of our votes against management recommendations. 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 surrounding shareholder dilution, when companies sought to issue shares without first offering them to the existing shareholders, and changes proposed to company articles/bylaws.

Votes against management-proposed resolutions

Articles/bylaws	1.5%
Audit related	7.6%
Board structure	52.3%
Remuneration policy/proposal	24.2%
Share capital	3.8%
Transaction related	0.9%
Other, including AOB	2.2%

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

Shareholder rights	1.9%
Board structure	1.6%
Remuneration structure	0.5%
Environmental/social proposal	3.3%
Other	0.2%

Shareholder proposals

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

During 2022, we voted on 763 shareholder-proposed resolutions. We supported 372 of these that the respective companies recommended that shareholders vote against. These included resolutions relating to environmental and social matters, improvements to shareholders' rights, and director elections.

Shareholder proposals on environmental matters

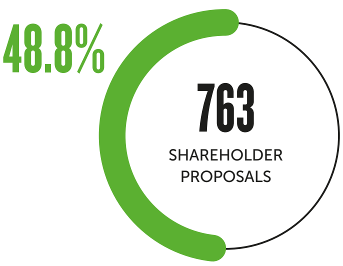
During 2022, shareholder-proposed resolutions relating to environmental matters received significant interest from a wide variety of stakeholders.

Our active approach to investment meant that we were not invested in many of the companies where environmental-related shareholder resolutions were proposed. In addition, where we were invested in these companies, we endeavoured to engage with the company ahead of the meeting.

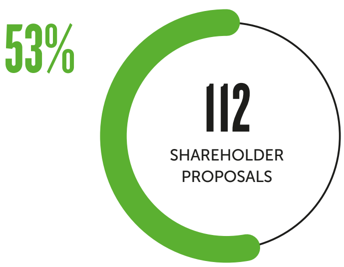
Shareholder proposals on social matters

We also saw an increased interest in shareholder-proposed resolutions relating to social matters. The most prevalent social shareholder proposals we voted on pertained to racial equity audits and human rights impact assessments.

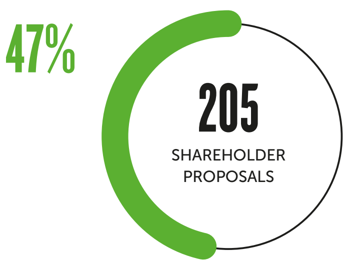
Shareholder proposals – supported



Environmental matters – supported



Social matters – supported



VOTING ENGAGEMENTS – CASE STUDIES

ENGAGEMENT – LEADING TO POSITIVE VOTING ACTION

2022 CASE STUDY

REDWOOD TRUST
ENGAGEMENT THEME – EXECUTIVE PAY

We met the compensation committee chair and senior management ahead of the AGM to raise our concerns with pay structure and quantum. We wished to gain better understanding on:

- the bonus payout for the year, the proposed increases to the maximum bonus opportunity for this year, and the structural safeguards that exist to ensure pay and shareholder experience are aligned in the future; and
- the rationale for annualised performance conditions in the long-term incentive plan, and the possibility to move towards three-year periods.

Even during periods of good performance, the compensation committee should ensure downward variability to executive pay outcomes if shareholder experience changes, in order to align executive behaviour to long-term value creation. The compensation committee chair provided adequate rationales on the points raised, namely that the pay structure had not been reviewed for 15 years, and the decision to increase the cap was in recognition of an exceptional year. He assured us that there are no plans to further increase the cap after this year's adjustment.

In terms of the use of annualised performance periods in the long-term incentive plan, the committee chair explained that these targets increase every year with respect to past performance, incentivising a steady improvement of gains each year. In addition, a three-year total shareholder return modifier is applied on top of this to capture performance relative to the market.

The board believes this is the right structure to align executives to long-term shareholder value creation, and previous vesting results have indeed shown payouts in line with shareholder experience.

Outcome: While we prefer simpler pay structures, the committee believes this structure provides the best control for the board over executive pay and aligns to long-term shareholder growth, while ensuring growth is also steady and predictable.

The rationale for the committee's decisions is robust. For the moment we are satisfied with the committee's position.

ENGAGEMENT – LEADING TO NEGATIVE VOTING ACTION

2022 CASE STUDY

EJF INVESTMENTS
ENGAGEMENT THEME – STRATEGY, MINORITY SHAREHOLDER TREATMENT

We had a meeting with the chair of EJF Investments, to discuss the upcoming continuation vote and our concerns on trading liquidity. We highlighted to the chair that while we continued to like both the strategy and the management, the current construct was untenable given both the size of the vehicle and our ability to trade. We expressed that the concept has not gained the traction expected and as such we believed it was time for the company to be wound up.

Furthermore, we highlighted another concern regarding the largest shareholder of the trust being allowed to vote on the continuation of the trust. We saw this shareholder as effectively a related party to the investment manager and therefore should it be allowed to vote it would effectively impede minority shareholder rights.

While the chair acknowledged the issue of there being a discount to net asset value (NAV) and a lack of trading volume, she highlighted that it would not be possible to wind the trust up as the strategy was operating as expected. Furthermore, the chair later communicated that the largest shareholder was not considered as a related party in line with regulations.

Outcome: As none of our concerns were completely addressed, we voted against the continuation of the trust, as we believed the winding-up process would offer minority shareholders the option of getting their capital back at NAV minus costs.

VOTING ENGAGEMENTS – CASE STUDIES

ENGAGEMENT – LEADING TO NEGATIVE VOTING ACTION

2022 CASE STUDY

BARCLAYS
ENGAGEMENT THEME – CLIMATE

We engaged with the bank collaboratively through the Institutional Investors Group on Climate Change as well as one to one to understand its climate transition plan, which was subsequently put to a shareholder vote. Through our engagements we learnt that the bank had made a few positive changes.

The bank was now using a 'net zero by 2050' transition scenario for its loan book, rather than the International Energy Agency (IEA) Sustainable Development Scenario which it had originally used and which was targeting net zero by 2070. Furthermore, the bank had also added methane in the scope of its energy target, and the energy target captures the scope 1, 2 and 3 emissions of its clients. The bank had also set target ranges for the cement and steel sector in addition to improved targets for the power sector and energy, although these ranges were not without concerns.

While the bank had made certain improvements, we believed the plan still had critical gaps. The upper band of the target ranges for the power, cement and steel sectors were aligned with the IEA's 1.5 degrees net-zero emissions scenario, but the lower band had not been externally verified nor were they based on any scientific approach; therefore these ranges did not seem stretching enough. While the bank aims to achieve the upper band targets, these ranges allowed the bank sufficient room to conduct its business in ordinary course, in our view.

In addition, the bank had not published its absolute emissions for these sectors and green financing targets were not available for us to make an informed decision at that stage.

For its oil and gas exposure, transition is dependent on engagement with the bank's clients. While the bank acknowledged the criticality of this issue and ensured us that it conducts enhanced due diligence, the bank at that stage did not have a fully operational climate transition framework and there were no timeline commitments. Furthermore, some of the bank's targets and definitions associated with fracking and Arctic exposure did not seem stretching enough.

Moreover, there was no commitment from the bank to have another say-on-climate vote in the future. While we do not have a binary approach on annual say-on-climate votes, in this case we would have liked to have clarity on this, given the bank plans to disclose targets for its other sectors such as auto and real estate by 2023 and for its entire exposure by 2024, while absolute emissions and green financing disclosures would also be available in 2023. Therefore, we would have had comfort from a future say-on-climate vote where we could have analysed the suitability of these targets and disclosures.

Outcome: We voted against the say-on-climate proposal at Barclays' 2022 AGM.

VOTING – AS A FEEDBACK MECHANISM TO SUPPORT ONGOING DIALOGUE

2022 CASE STUDY

APPLIED MATERIALS
ENGAGEMENT THEME – EXECUTIVE PAY AND BOARD ACCOUNTABILITY

We believe voting proxy proposals is an important way for us to help enhance the value of the investments we make for our clients. It also provides us with another opportunity to speak with management.

Recently, Applied Materials contacted us as part of its pre-AGM process to discuss various proposals on the ballot. We have had some concerns about the company's compensation mix so it was helpful for us to be able to share our concerns with management. We take a relatively strict policy stance, holding compensation committees responsible for pay practices and voting against them when we believe the structures are not supportive to shareholder value.

Outcome: We voted against the chair of the compensation committee given our concerns with the executive compensation structure. An additional concern was that the majority of the compensation committee was not independent.

We believe these constructive dialogues, paired with our votes against management, should help to improve outcomes. If they do not, we will need to reassess the risk premium assigned to the business in our valuation work.

VOTING ENGAGEMENTS – CASE STUDIES

VOTING ACTION – LEADING TO A POSITIVE OUTCOME

2022 CASE STUDY

HERITAGE COMMERCE

ENGAGEMENT THEME – EXECUTIVE PAY

At the 2022 AGM of the bank, we dissented against the executive compensation arrangements as the long-term incentive plan (LTIP) awards were entirely time-based and were not subject to performance hurdles. Furthermore, the compensation committee did not disclose any shareholder engagement efforts or suggest any meaningful changes to the compensation programme, following significant dissent at the 2021 AGM's say-on-pay vote.

Consequently, we also withheld our votes against the incumbent compensation committee members. The 2022 say-on-pay voted received c. 30% dissent which was similar to the dissent received at the 2021 AGM.

In December 2022, ahead of the 2023 AGM, the bank contacted us to hear our feedback and concerns on its compensation programme and also to present the changes it wished to make to its pay programme for the coming year.

In January 2023, we spoke to the compensation committee chair and management team of the bank to whom we highlighted our aforementioned concerns regarding the pay programme. The compensation committee chair positively assured us that, following the dissent at the AGMs and through the ongoing shareholder outreach, the company would make significant changes to the pay programme.

It plans to move to a 50% performance-based LTIP structure, introduce stock ownership guidelines, and improve its disclosure on shareholder engagement efforts ahead of the 2023 AGM.

Outcome: While we will monitor these changes ahead of the 2023 AGM, we believe our voting actions as a significant shareholder pushed the company's board to take a positive step to understand and potentially address shareholder concerns.

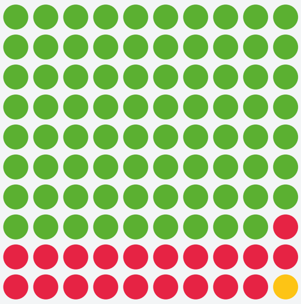
Voting summary by region for meetings held in 2022

Region's % of our global vote

- In favour of management on all resolutions.
- Against management on one or more resolutions. Including abstentions and withhold votes where there was no option to vote against.
- Took no action owing to share blocking or sanctions considerations.

UK

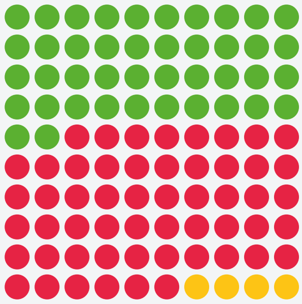
7.3%



79%
20%
1%

EUROPE

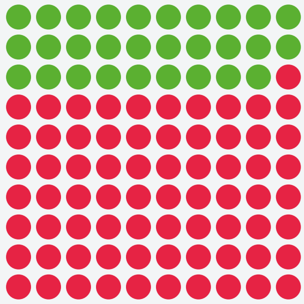
10.6%



42%
54%
4%

NORTH AMERICA

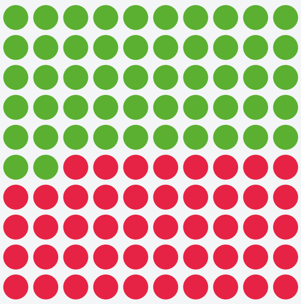
52.8%



29%
71%

LATIN AMERICA

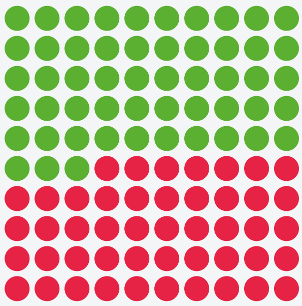
3.0%



52%
48%

AUSTRALIA / NEW ZEALAND

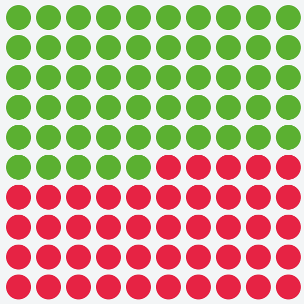
1.6%



53%
47%

JAPAN

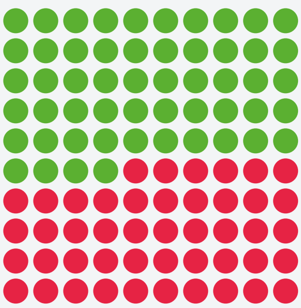
2.9%



55%
45%

ASIA

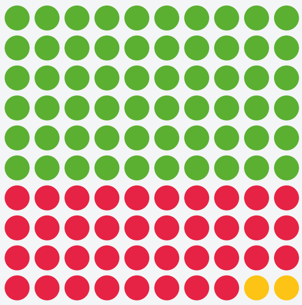
11.8%



54%
46%

EMERGING MARKETS

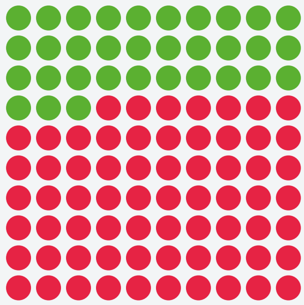
7.0%



60%
38%
2%

REST OF THE WORLD

2.9%



33%
67%

Source: Newton, as at 31 December 2022.

> We have a regulatory obligation to act honestly, fairly and professionally in accordance with the best interests of our clients and to take appropriate steps to identify and prevent or manage conflicts of interest.

Managing conflicts of interest

We have a regulatory obligation to act honestly, fairly and professionally in accordance with the best interests of our clients and to take appropriate steps to identity and prevent or manage conflicts of interest.

As part of our governance framework, a number of organisational arrangements, systems and internal controls have been implemented that are designed to identify and manage potential material conflicts of interest in order to prevent damage to the interests of our clients.

From a stewardship perspective, we seek to ensure conflicts of interests are recognised, recorded and mitigated.

We maintain a list, which is updated twice yearly or when a new potential conflict of interest arises, of all investments where we identify a potential material conflict of interest.

The list includes all funds sub-advised by Newton or managed by affiliates of its parent company, BNY Mellon, and also includes companies that are directly linked to our underlying clients, such as corporate pension funds.

Where a potential material conflict of interest is identified between Newton, BNY Mellon, the investee company and/or a client, the voting recommendations of an independent third-party proxy service provider will be applied.

Our quarterly voting reports detail each instance where we have outsourced the voting activity owing to a potential material conflict of interest that has been identified.

When engaging with a company which is subject to an identified conflict, we declare and explain the conflict to the company at the outset of discussions.

Engagement activity is then expected to continue as normal and includes the production of meeting notes that are shared with all investment staff and retained in accordance with our corporate policy.

During 2022, there were 11 instances where we recognised a potential material conflict of interest for voting:

Company	Meeting	Date	Action following vote recommendations of independent third-party proxy service provider
American Airlines Group	AGM	08 Jun 2022	Voted against management (resolution 7)
Canadian Imperial Bank of Commerce	AGM	07 Apr 2022	Voted in line with management on shareholder proposals (resolutions 6, 7, 8, 9)
Fidelity National Financial	AGM	15 Jun 2022	Voted against management (resolution 3)
Integra LifeSciences Holding	AGM	13 May 2022	Voted in line with management
Nasdaq	AGM	22 Jun 2022	Voted against management (resolution 5)
Nishi-Nippon Financial Holdings	AGM	29 Jun 2022	Voted against management (resolutions 3.1, 3.3)
Prudential Financial	AGM	10 May 2022	Voted in line with management on shareholder proposals (resolution 4)
The Bank of New York Mellon	AGM	12 Apr 2022	Voted against management (resolution 4)
Nippon Life India Asset Management	AGM	12 Jul 2022	Voted in line with management
WisdomTree Investments	AGM	15 Jul 2022	Voted against management (resolution 4)
Matrix Service Company	AGM	5 Dec 2022	Voted in line with management

Further information is provided in our Conflicts of Interest policy, which is available on our website at:
https://www.newtonim.com/global/special-document/conflict-of-interest-policy/

SECTION 8

HOW WE TAKE INTO ACCOUNT OUR CLIENTS' EXPECTATIONS

PRINCIPLES APPLIED AND EXPLAINED IN SECTION 8

PURPOSE AND GOVERNANCE

5	Review and assurance

INVESTMENT APPROACH

6	Client and beneficiary needs

Identifying our clients' requirements and expectations is achieved at the outset of our relationship by way of initial discussions and formal provisions within investment management agreements.

We gain additional insights into our clients' objectives, preferences, and investment beliefs through regular, scheduled meetings with them and their advisors, and also through ad-hoc requests. In addition, we gain an insight into what drives our clients and what their investment objectives are through other interactions, such as round-table discussions, our annual investment conference (or other similar events), and other events with market participants.

For example, in 2022, we participated in **interactive sessions** where Newton participants were given an opportunity to present to an investment consultant firm and its clients our thoughts on a subject that has relevance in today's investment landscape. We participated in these sessions in Asia and North America.

Such forums give us an opportunity to get feedback on our ideas and help in the evolution of our investment strategies. We also held market group round tables in the US, aimed at educating our clients and their advisors in some of our capabilities and to gain a sense of how these can help in meeting our clients' objectives.

We also hosted a **net-zero seminar** in London for investment consultants and our clients, with the theme *Investing for real-world decarbonisation*. The seminar had internal and external speakers and acknowledged that if we are to collectively hit the globally pledged net-zero targets, there will need to be an extraordinary and global effort, and asset managers will have a crucial role to play in the transition.

At our seminar, we discussed multiple facets of net zero. We addressed how to define the right approach to achieving net-zero targets, how to engage for real-world decarbonisation, what this means for our clients' investments, and the investment transition story.

A similar event was hosted for our North American client base in Toronto in early 2023.

Additionally, in typical years, our interaction with clients may include training sessions on topical responsible investment and stewardship subjects. We believe this helps support our clients' expectations of their investment managers and helps them to develop their own position in relation to stewardship matters.

Net-zero seminar – London

> Our vision is one of true integration: active alignment of our stewardship and investment activity, which ensures investment-team accountability and ownership for the investment decisions the team takes on behalf of our clients.

In the UK, in 2022, we conducted our ninth annual **Charity Investment Survey**, which typically covers diverse topics within the management of charitable portfolios, and provides an industry benchmark to see how aligned our charity clients' investment experience and intentions are with those of their peers.

It serves as a vital feedback tool for us, in addition to giving us a deep insight into the concerns, thoughts and areas of interest of our charity clients and the sector in general.

Charity Investment Survey – 2022

Understanding clients' requirements and investment objectives and engaging with clients is one part of a good steward's responsibilities. The other vital aspect is to strive to meet their investment objectives over the agreed time horizon.

We take very seriously our responsibilities as an appointed agent acting on behalf of our clients, as well as our responsibilities as a trusted intermediary in the investment value chain. We aim to meet our clients' investment objectives over the long term, which, in practical terms, we consider to be a period of approximately 5+ years (or a full market cycle).

As an active manager, we are keen to ensure that the decisions surrounding the exercise of ownership rights are aligned with our investment process as well as with our clients' expectations. As such, we believe that financially material ESG-related risks, issues and opportunities must be integral to the research activity and the investment decision-making process, in addition to being part of the engagement activity or voting decisions.

In this context, in 2022, as explained earlier in this report, our responsible investment team has handed over the direct responsibility for conducting ESG analysis to our fundamental equity-focused research analysts.

Our vision is one of true integration: active alignment of our stewardship and investment activity, which ensures investment-team accountability and ownership for the investment decisions the team takes on behalf of our clients. It is a transformation that we believe needs to happen more widely in our industry.

This alignment of our stewardship and investment activity is supported by our well-resourced central responsible investment team, whose task is to undertake specialist research, in collaboration with the investment team, and provide support, where needed, on company engagements, as well as to develop tools and insights through ESG data.

By creating a partnership between our investment and responsible investment skillsets, we believe we can get the best of both worlds and build genuine thought leadership that should help us serve our clients better.

The production of client reporting is formally reviewed by our marketing and communications team, which not only helps to ensure consistency and accuracy, but also that the reports meet financial-promotion requirements, including being fair, clear and not misleading.

SECTION 9

MONITORING OUR SERVICE PROVIDERS

PRINCIPLE APPLIED AND EXPLAINED IN SECTION 9

INVESTMENT APPROACH

8	Monitoring managers and service providers

The responsible investment data integration team has primary responsibility for analysing data vendors, including deep dives into methodologies and datasets. The objective is to ensure that Newton has access to the best quality data to meet its current and future requirements.

A new responsible investment data sourcing strategy was published internally earlier this year and is being followed by a project that will complete vendor assessments and data requirement analysis under our RI 2.0 initiative. As part of the responsible investment team's continuing work, regular meetings are held with data vendors to provide feedback on the quality of services being offered and to comment on data providers' roadmaps. Climate data was a particular focus during 2022; we participated in a pilot of a new climate module from one of our core providers.

A governance framework around responsible investment data vendors has been established at multiple levels within the organisation.

Any new vendor that Newton wishes to onboard would need to be reviewed by the ESG Data and Reporting sub-group before being submitted to the wider Newton Data Governance Framework and the BNY Mellon Third Party Governance Framework. Once onboarded, the data providers are subject to review at Newton's Investment Data Oversight Group.

The list of existing data providers is reviewed quarterly by the ESG Data and Reporting sub-group with updates sent to Newton's Sustainability Committee.

Newton currently leverages a range of external ESG Data sources:

- MSCI (including Carbon Delta)
- Bloomberg
- ISS Ethix & Proxy
- Vigeo Eiris
- Sustainalytics
- RepRisk
- CDP
- Equileap
- Factset Revere
- Sell-side research

We also obtain data from publicly available sources and sources available through membership:

- Transition Pathway Initiative
- Science Based Targets initiative
- Climate Action 100+
- FAIRR
- Workforce Disclosure Initiative

We use an independent voting service provider, ISS, for the purposes of managing forthcoming meetings and instructing voting decisions via its electronic platform, and for providing research. ISS is subject to the requirements set by our Vendor Management Oversight Group.

As such, regular due diligence meetings are held and minutes maintained with this provider, which includes reviewing its operational performance, service quality, robustness of research and its internal controls, including management of its potential material conflicts of interest.

Examples of the issues discussed in 2022 include:

- Vote instructions in the Brazilian market context
- Unrealistic vote deadlines in certain markets
- Quality of vote recommendations on remuneration proposals in some markets
- Check-up on vendor's conflicts of interests policy and application
- Contract renewal procedures and other administrative items

No issues of significant concern were recognised within the service review meetings or with the services delivered by ISS during 2022.

In addition, and along with ISS's other clients, Newton participates in consultations that seek specific feedback on proxy voting matters. This helps ensure alignment of interest between Newton's expectations and the voting recommendations provided by the external provider.

With the Newton bespoke voting policy being applied as of the 2023 season, we expect our future service reviews with ISS to include senior members of the ISS research team.

We currently have access to MSCI as one of our core ESG vendors to support ESG integration and sustainable investing. We conduct quarterly and ad-hoc reviews with MSCI to ensure regular feedback across all these services.

A specific area where we provided feedback this year is on its approach to controversies monitoring and the methodology used to attribute controversies to companies as we had occasion to question this. While we recognise the nuance required for assessing controversies, we believe it is important for service providers to have robust methodologies which are well understood by their clients.

We are a member of FAIRR's technical advisory committee, participating in work done in 2022 towards the evolution of its climate risk tool. The objective is to build out more advanced functionalities for the next iteration. The new tool will be launched in 2023.

WANT TO FIND OUT MORE?

LGPS investors

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Institutional investors

E: institutional@newtonim.com

Charity investors

E: charities@newtonim.com

newtonim.com @NewtonIM Newton Investment Management Group

newtonim.com