NEWTON

Investment Management

September 2024

BNY | INVESTMENTS

# Stewardship and sustainability policy

## Newton Investment Management Group

Any investment policies, processes or activities described in this document relate to investment strategies managed by Newton Investment Management Limited ('NIM'), Newton Investment Management North America LLC ('NIMNA') and Newton Investment Management Japan Limited ('NIMJ'), unless otherwise stated. The entities, hereafter, are collectively called 'Newton' or 'Newton Investment Management'.
Please read the important disclosure at the end of this document.

**Unlock opportunity**

# CONTENTS

Introduction......3
Stewardship of our clients' capital......5
Governance......7
Our position on various RI topics...... 8
Our approach to ESG integration ......11
Stewardship and active ownership ......12
Reporting and transparency ......13
Sustainable investment...... 14
Corporate responsibility ......15
Key definitions......17

# INTRODUCTION

As a steward of capital, Newton is committed to unlocking investment opportunity so that its clients can achieve their goals in the vibrant world that we all want to see. This is our purpose and is centred on the responsible allocation, management and oversight of capital to create long-term value for our clients and the capital they have entrusted to us.

Our business is about investments, and we consider that helping our clients achieve their objectives necessitates an active, multidimensional and engaged investment approach. We have equipped our investment team with a wide range of innovative inputs to facilitate idea generation. Our multidimensional approach to research means that a potential investment idea can be assessed through multiple perspectives to enable our portfolio managers to make informed decisions. Once invested, we seek to be active stewards of our clients' capital, engaging with issuers and voting, where applicable.

We consider that the global economy is inherently interconnected and linked with the natural environment, and with society more broadly. Furthermore, we understand that there are planetary boundaries and critical societal shifts that present both economic risks and opportunities to the value of our investments. By developing a greater understanding of these risks and opportunities, we believe we are better placed to invest our clients' capital into an uncertain future.

We seek to understand our clients' objectives and offer appropriate investment solutions, be an engaged steward of our clients' investments, and manage our own business in a responsible manner.

## About this document

This policy describes our approach to stewardship and responsible investment (RI). More specifically, it provides insights into our key commitments, RI approach, governance and reporting, sustainable investment process and environmental, social and governance (ESG) integration, and corporate responsibility efforts. Throughout this policy, we provide an overview of the different elements of the Newton RI framework – the actual utilisation/relevance of the various framework elements described will differ on an investment strategy-by-strategy basis. The policy will be reviewed annually.

## Scope

The Newton Investment Management Group currently consists of Newton Investment Management Ltd (NIM), Newton Investment Management North America LLC (NIMNA), and Newton Investment Management Japan (NIMJ).[1] Unless otherwise stated, this policy applies to all three entities, hereafter referred to as 'Newton Investment Management' or 'Newton'. As we are working on aligning the governance structure of NIMJ with the rest of Newton, the 'Governance' section of this policy currently applies to NIM and NIMNA only.

Different elements of this policy apply to different investment strategies, depending on where these sit within Newton's spectrum of capital. As an indirect subsidiary of The Bank of New York Mellon Corporation ('BNY'), Newton is also subject to BNY policies, including, but not limited to, the BNY Investments ESG, Responsible and Sustainable Investing Control Framework Policy.

The chart on the next page determines how different components of RI apply to different types of investment strategy. For example, non-RI assets under management (AUM) are defined as those investment strategies where ESG considerations are not systematically and explicitly incorporated into investment decisions. These are strategies that invest in certain types of investments that we do not currently view as presenting ESG risks or opportunities. These investments include cash, cash equivalents, currency positions, particular types of foreign direct investment and other non-issuer specific instruments. These strategies may also use quantitative-driven investment approaches or invest in index-based exchange-traded funds (ETFs), where we do not consider it practicable to take account of ESG factors.

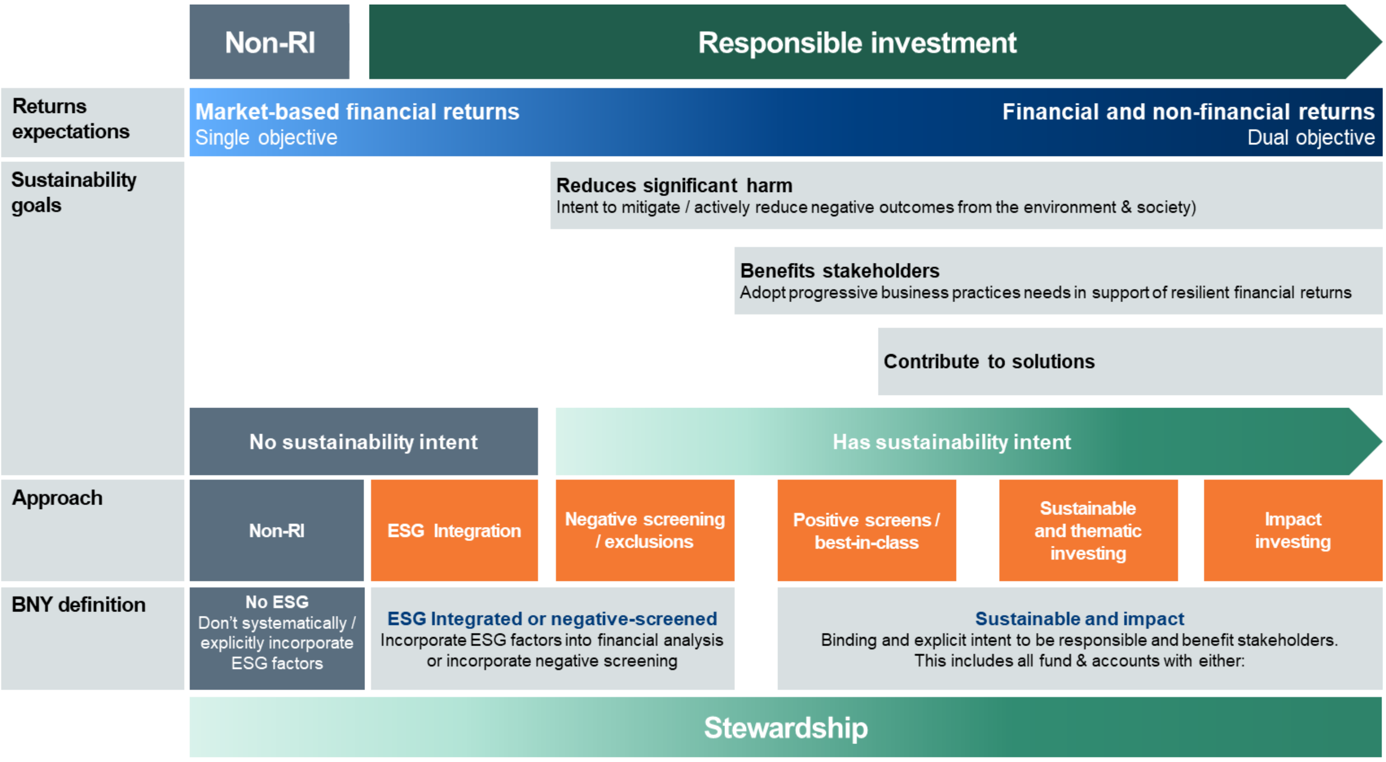
In relation to RI AUM, we take a range of approaches, moving from the integration of ESG considerations, where ESG issues may be considered alongside other factors purely to the extent that these may affect financial returns, to combining this with screening, which aims to align products to the values of clients.

[1] NIM and NIMNA were integrated in 2021 and NIMJ joined the group in 2023.

We also manage sustainable investment strategies, which aim to encourage a better allocation of capital that leads to the generation of attractive investment outcomes for clients alongside improved long-term global outcomes for society and the environment. Non-RI AUM and ESG integration approaches seek solely financial objectives and do not intentionally aim for capital allocation that leads to improved outcomes for society or the environment.

Our approach to stewardship is applied across equity and fixed-income (corporate and sovereign bonds) strategies to varying degrees depending on their nature. Derivatives and cash instruments are out of scope. This approach is applied to relevant assets across each Newton entity.

We have aligned how we define the calculation of RI AUM with the BNY definition of RI, including ESG integration, as the "incorporation and analysis of financial implications of ESG factors as an input into investment decisions".




# STEWARDSHIP OF OUR CLIENTS' CAPITAL

RI has been a foundation of Newton's investment approach for over two decades, and throughout that period we have played a highly active role as the industry landscape has evolved.[2]

## Key principles and commitments

- We are committed to an investment philosophy that integrates multidimensional research and active ownership as tenets of our investment processes where appropriate to the strategy.
- We assess a mosaic of issues to fully understand the financially material risks and opportunities influencing the economic value of the securities and instruments in which we invest on behalf of our clients. This includes, among others, any financially material ESG information.
- We emphasise substance over form, preferring to take an informed and focused approach to our research and stewardship activities, by acting on the most material issues in pursuit of the greatest meaningful long-term economic impact for our clients.
- Our core approach to investing is about engagement rather than exclusion, and about trying to mitigate risks that have the potential to cause material financial impact to our clients' best long-term economic interests. We prefer to engage with companies and support them to develop and enhance their practices or business models where appropriate, rather than using divestment or denial of capital as the only option.

To support the best long-term economic interests of our clients, we are currently a signatory to or a supporter of the following industry principles and pledges:

- **Principles for Responsible Investment (PRI)** – The PRI is an asset owner-led organisation that promotes RI principles and helps administer members' specific RI activities. NIM has been a signatory to the PRI since 2007, and NIMNA became a signatory in 2022 following its integration into the Newton Investment Management Group. NIMJ was included in Newton's membership of the PRI in 2023. Collectively, we continue to embrace and strive to deliver against the principles under the PRI.
- **UK Stewardship Code** – NIM has been a signatory of the UK Stewardship Code since 2012. NIM and NIMNA currently comply with the UK Financial Reporting Council's 12 principles for stewardship expectations of UK investors.
- **Investor Stewardship Group** – Newton has been an endorser since 2018, supporting the group's corporate governance and stewardship principles.
- **Net Zero Asset Managers (NZAM) initiative** – The NZAM initiative is an international group of asset managers working in partnership with their clients to support the goal of net-zero greenhouse-gas emissions by 2050 or sooner, subject always to fiduciary duties to clients, client mandates and regulatory requirements. NIM became a member of the NZAM initiative in March 2021. In September 2021, NIMNA transitioned into the Newton Group. In 2022, the Newton Group published its NZAM commitments, which include the active equity and corporate bond assets managed by NIM and NIMNA. The assets managed by NIMJ are not currently part of Newton's NZAM commitment.
- **Task Force on Climate-related Financial Disclosures (TCFD)** – TCFD is a leading global framework for the reporting of climate-related information. TCFD is now a regulatory requirement in the UK. NIM was an early adopter of TCFD recommendations and was providing voluntary disclosures before they became a regulatory requirement.

[2] This applies to NIM and not to NIMNA or NIMJ legal entities. NIMNA was established in 2021 and NIMJ was established in March 2023.

- **Task Force on Nature-related Financial Disclosures (TNFD)** – TNFD is a new global initiative which allows financial institutions and companies to incorporate nature-related risks and opportunities into their investment analysis and decision making. Newton is a member of the TNFD Forum, a global multi-disciplinary consultative group of institutions.

Where consistent with client objectives, products and legal requirements, Newton may also participate in select collective initiatives regarding thematic issues or concerning specific changes which present a risk of materialising over the medium to long term, where it considers these to be an efficient and effective means of raising concerns. When considering action and when acting collectively on a specific issue of concern with a company, we exercise caution in order to avoid unintentionally being in receipt of material non-public information or breaching concert party or competition rules. 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. Further details are presented in our sustainability and stewardship annual report, available on our website at newtonim.com/responsibleinvestment. We carefully and diligently choose the initiatives we support to ensure they add value to our investment process for our clients and are consistent with proper standards of market conduct. Our participation in collaborative initiatives also aligns with the principles established by the PRI and the UK Stewardship Code.

# GOVERNANCE

Having an effective management and governance framework is an important part of our overall business strategy. As investors, we understand the value of effective leadership and accountability. This is closely linked to the culture of our business, as leadership and accountability have equal importance in Newton's governance. We have therefore established appropriate governance systems and controls to support our stewardship and sustainability policy.

This policy is reviewed and approved by the Newton Sustainability Committee (NIM and NIMNA), which reports to the Newton Executive Management Committee (NEMC) (to note, the NEMC reports into NIM and NIMNA boards). The policy is also reviewed and approved by the NIMJ Investment Oversight Committee, which reports into the NIMJ Executive Management Committee. The NEMC (chaired by Newton's CEO) has overall responsibility for defining Newton's approach, values and actions across all Newton entities.

Two of our operating committees play important roles in relation to our stewardship and sustainability efforts:

- **Newton Sustainability Committee** – oversees all aspects relating to stewardship and sustainability at NIM and NIMNA, including our investments, direct impacts and engagement with communities, and engagement with the wider market (advocacy) regarding sustainability and stewardship matters.

- **Newton Risk and Compliance Committee** – supported by the Newton Conflicts of Interest Committee and the Emerging Risks Working Group. These committees deal with various stewardship and RI aspects on an ad-hoc basis, including any relevant internal audit findings and actions as well as climate-related risk updates from internal groups.

Our Board Risk Committee also plays a role in the governance of our sustainability and stewardship efforts; it acts as an escalation point for any material issues identified through our governance systems and controls. For example, it has previously considered materials related to climate risk.

We have also established the Newton Sustainable Investment Forum (SIF) as an oversight group to monitor our sustainable strategies. The role of the SIF is to:

- Conduct a review of existing and new holdings against portfolio objectives (where those objectives specifically reference sustainability), our investment framework for the sustainable strategy range and any regulatory standards.

- Foster debate by bringing together a wider set of sustainability experts within the business.

- Provide support by educating, training and sharing knowledge and insights among the investment team.

# OUR POSITION ON VARIOUS RI TOPICS

Broadly, we seek to embrace the tenets of key international codes seeking to manage social and environmental capital, such as the OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises, which are endorsed by OECD countries including our main domains – the US, UK and Japan. We also support the UN Global Compact,[3] of which our parent company BNY is a member. We incorporate into our analysis guidance established by internationally recognised governance principles, including the OECD Corporate Governance Principles[4] and the International Corporate Governance Network (ICGN) Global Governance Principles.[5]

We describe below our position on key E, S and G issues and how we approach analysis of the companies in which we invest, where we consider the potential impact on the long-term economic value of an investment. This is a representative and non-exhaustive list outlining our position on select issues that we recognise to be of universal importance. These issues may vary in relevance and may play varying roles in different investment strategies, depending on the nature of an individual investment strategy and its objectives as part of a broader multidimensional approach.[6]

## Environment

- **Climate** – Climate change can have both macroeconomic impacts (such as growth and inflation), and micro or company-specific investment implications: On the positive side, efforts behind a net-zero future also bring potential investment opportunities. Given the financial risk to our clients from companies which are not managing appropriately this risk, we are equally committed to using our active engagement approach to support the companies in which we invest, in seeking to develop and enhance their practices and develop credible and effective transition plans.

- **Nature and biodiversity** – We seek to understand a company's dependencies on biodiversity and its related impact on biodiversity (e.g. deforestation and pollution) and the implications for its business model. We recognise that biodiversity loss presents a major global systemic risk because of human and economic reliance on nature. According to TNFD, more than half of the world's economic output, i.e. approximately $44 trillion of economic value generation, is moderately or highly dependent on nature. Given the financial risk to our clients in different ways, we do this by considering where this is a material risk to a company and explore both the management response and performance on key issues. We expect companies to assess actual or potential negative impacts of their direct operations and products on surrounding ecosystems, with a view to managing the associated risks to the company and mitigating impacts over time.

- **Pollution** – Pollution disrupts ecosystems, leads to biodiversity loss and is the largest environmental cause of disease and sometimes premature deaths. It is also a major burden on the global economy, triggering billions of costs owing to work absence and lower productivity, among other things. We assess how companies monitor, measure and manage pollution and consider that effective management of these issues can reduce costs, avoid reputational damage and minimise the risk of increased future legislation.

[3] The UN Global Compact is a voluntary initiative based on commitments to universal sustainability principles spanning human rights, labour, environmental and anti-corruption issues.

[4] The OECD Corporate Governance Principles represent international corporate governance standards, intended to aid policymakers in evaluating and improving the legal, regulatory and institutional framework of corporate governance.

[5] The ICGN Global Governance Principles serve as the ICGN's primary standard for what constitutes well-governed companies.

[6] Newton manages a variety of investment strategies. How ESG analysis is integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved. Newton does not currently view certain types of investments as presenting ESG risks and opportunities and believes it is not practicable to evaluate such risks and opportunities for certain other investments. Where ESG is considered, other attributes of an investment may outweigh ESG considerations when making investment decisions. ESG can be one of many inputs into the fundamental analysis. Newton will make investment decisions that are not based solely on ESG analysis. Other attributes of an investment may outweigh ESG analysis when making investment decisions. The way that material ESG analysis is assessed may vary depending on the asset class and strategy involved. As of September 2022, the equity investment team performs ESG analysis on equity securities prior to their recommendation. ESG analysis is not performed for all fixed income securities. The portfolio managers may purchase equity securities that are not formally recommended and for which ESG analysis has not been performed.

- **Product life cycle** – Increasingly, companies are being expected by governments to take responsibility for the entire life cycle of products, from the responsible sourcing of raw materials to the end-of-life disposal. Transitioning towards a circular economy is crucial from economic and sustainability perspectives. We expect a well-managed company to demonstrate an understanding of all stages of the product life cycle and to build circular business models as appropriate.

- **Water** – In many parts of the world, demand for water is increasing while the quality and availability of water is declining. Growth in demand reflects a growing global population and the rising consumption of water by agriculture and industry. As water demand increases, the costs associated with water use are likely to rise. Where we consider it to be a material risk, we assess water risk for companies and engage with them on where the supply risks lie, how water usage is measured and managed in their business operations, and how they work with local stakeholders.

### Social

- **Human rights** – Human rights are basic rights or freedoms to which all human beings are inherently entitled. Treating employees across the value chain with respect and dignity helps maintain a workforce that feels valued and a failure to do so could have a negative impact on companies' brand and reputation, leading to adverse financial outcomes that might be related to litigation costs or reduced revenue owing to a tarnished reputation. We encourage companies to consider adopting internally recognised codes and standards that govern human rights. We consider human rights issues, including labour rights, freedom of association, civil liberties, community rights and oppressive regimes, evaluating the extent to which they influence a company's ability to generate long-term economic value for its stakeholders.

- **Human capital management** – We consider constructive and positive employee relations as enablers of a company's long-term success. Well-managed employee relations can improve workforce satisfaction, productivity and effectiveness, and manage employee turnover, ultimately creating economic value for investors. We view belonging and inclusion through the lens of human capital, considering how a company is able to attract and retain talent with a broad range of perspectives and talent that reflects and understands its customer base, and how the company can effectively use these insights to avoid the pitfalls associated with groupthink and to adapt its offering to meet the evolving requirements of its consumers. These factors can have a potentially material impact on a company's future earnings and therefore can affect its valuation multiples.

- **Tax** – The international tax system is undergoing major reforms, driven by political and economic aspirations as well as attempts to address social inequalities. As a result, tax-avoidance strategies are increasingly in the spotlight. We consider that companies with aggressive and complex tax arrangements will be at risk, with the potential for their earnings and cash flows to be directly affected. If such practices are exposed, such companies are likely to be subject to reputational issues even before a risk to earnings materialises. We expect companies' tax arrangements to comply with relevant tax laws and reflect the economic substance of their business rather than solely being a means of reducing tax liabilities.

### Governance

- **Board leadership** – We expect a board to have oversight of a company's strategic direction and its management's operational execution. Directors are tasked individually and collectively to act in the best interest of the company and its shareholders and to give consideration to the company's other stakeholders, although this scope may vary depending on the company's jurisdiction. The board should have ultimate accountability for a company's governance arrangements, succession planning, corporate culture, and risk management systems, including the oversight and stewardship of the company's material risks and opportunities, including those arising from externalities. It is therefore important that the board proactively manages these risks, in line with investor and stakeholder expectations, and that the board satisfies itself that its members have sufficient experience and the right skillset to tackle those issues. We consider that boards are best able to provide this oversight when comprised of a majority of directors who are independent from management and other controlling shareholders. More information on our expectations on key governance issues that arise in proxy voting can be found in our governance principles and voting guidelines available on our website at newtonim.com/responsibleinvestment.

- **Capital management** – Capital management is an important consideration as capital structure modifications may not be in the interest of existing shareholders and can potentially dilute their holdings with limited or no economic upside. Additionally, we believe that a shareholder's voting rights should be proportional to its economic interest in the company.

- **Anti-takeover mechanisms** – These devices are typically deployed to defend a company from an unexpected suitor. They are generally viewed as bad practice as they can lead to the entrenchment of a poorly performing management team and inhibit the creation of shareholder value. We typically do not support the use of these mechanisms.

- **Related-party transactions** – Transparency on related-party transactions as well as the board or AGM process used for their approval is critical to help investors understand insider movements and conflict-of-interest situations. We expect these transactions to be clearly defined, disclosed, and approved by the board well before their execution date, evaluated for fairness to all shareholders by an independent audit firm, and submitted separately to a shareholder vote where permitted.

- **Reporting and audit** – A company's financial reporting is a key element of its communication with its shareholders and the market. It should provide accurate, balanced and understandable financial and non-financial information relating to the fiscal year under review. It should also offer clarity on the management's business strategy so that the stakeholders are able to assess the company's potential future performance and long-term prospects. The audit committee plays a key role in determining and overseeing internal control mechanisms, including providing challenge to management and maintaining the quality of the external auditors. We encourage all companies to provide a report to shareholders from the audit committee in their financial reporting, disclosing any risks identified and the steps being taken, if any, to enhance practices. The audit committee also plays a key role in selecting the external audit firm and verifying its independence from management. Rotation of the audit firm is also a key aspect of maintaining the independence of audit. While not yet a prevalent practice in all markets, we encourage audit committees to disclose in their reports to shareholders the rationale behind the appointment of the chosen audit firm, details around the selection process, and transparency around fees paid.

- **Executive pay** – Pay is critical for attracting, retaining and motivating executive leadership and senior management. We consider that the design of executive pay should support the execution of the business's strategy and align executives' interests to those of the shareholders and the broader stakeholders over the long term.

- **Transparency, accountability and shareholder rights** – Companies should provide accurate and timely information to enable investors to make informed investment decisions. Companies should also provide transparency on their governance structures and the rights available to shareholders to hold boards and management to account. Crucial to these rights are the ability to vote on and approve the company's most important corporate decisions. These decisions can relate to bylaw/article amendments, or material corporate transactions including mergers, acquisitions, disposals and related-party transactions.

# OUR APPROACH TO ESG INTEGRATION

We assess ESG considerations[7] as part of a mosaic of issues, through our multidimensional research process, in order to fully understand the material risks and opportunities influencing the long-term value of the securities and instruments in which we invest on behalf of our clients. Our broader multidimensional research aims to bring together analysis from a range of perspectives, including fundamental equity, fixed-income, RI, quantitative and alternatives research, alongside investigative, thematic and private-markets insights. These capabilities help the investment teams assess the quality of companies, their people, and their management teams. RI research, as part of our multidimensional research, is designed to provide insights into material ESG risks or opportunities that may materially influence the financial performance of a security. The aim is to deliver attractive risk-adjusted returns to our clients, consistent with their mandates.

Investment teams are responsible for identifying and analysing material risks and opportunities associated with the securities that they recommend in the context of their role of recommending securities that they consider are well-positioned to outperform over the appropriate investment time horizon.

### RI analysis in equities

Analysis forms part of the investment due diligence, prior to the recommendation of most investment cases. This is driven by our approach to materiality and our belief that ESG risks and opportunities can potentially have a materially financial effect on performance. Exceptions may arise in cases such as where there is limited ESG information or for time-sensitive trades.

### RI analysis in corporate debt

ESG factors are also a consideration when investing in fixed income, particularly as these securities have an asymmetric returns profile. 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.

### Quantitative processes

While ESG data reporting is becoming more prevalent, gaps and a lack of standardisation continue to be a challenge for investors. This often means that only scores, or binary indicators, have sufficient coverage across a universe, and even this can vary. As a result of the aforementioned data gaps, reliable long-term back tests cannot be performed on ESG data. This limits our ability to fully integrate ESG considerations into our quantitative strategies or solutions, as we do not believe that one score alone, or yes/no questions, are able to capture the necessary detail or nuance within RI analysis to add to our investment decisions. Therefore, RI analysis is not currently conducted for our quantitative-driven strategies.

.

[7] ESG can be one of many inputs into the fundamental analysis. Newton will make investment decisions that are not based solely on ESG analysis. Other attributes of an investment may outweigh ESG analysis when making investment decisions. The way that material ESG analysis is assessed may vary depending on the asset class and strategy involved. As of September 2022, the equity investment team performs ESG analysis on equity securities prior to their recommendation. ESG analysis is not performed for all fixed income securities. The portfolio managers may purchase equity securities that are not formally recommended and for which ESG analysis has not been performed. For the avoidance of doubt, we do not currently view certain types of investments, including cash, cash equivalents, currency positions, particular types of foreign direct investment and other non-issuer specific instruments, as presenting ESG risks or opportunities, and believe it is not practicable to take account of ESG considerations for certain other investments such as index-based exchange-traded funds (ETFs), and certain quantitative-driven strategies. In addition, not all equity holdings across all Newton portfolios have had ESG assessments; for example, certain equity holdings in portfolios that are managed by NIMNA, and which were originated prior to the integration with NIM to create Newton, have not had ESG assessments as this was not part of the security assessment process in place at the time of initial investment.

# STEWARDSHIP AND ACTIVE OWNERSHIP

In seeking to be an active steward, Newton is committed to the responsible allocation, management and oversight of capital to create long-term economic value for our clients. 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.

## Engagement

We emphasise purposeful dialogue with issuers to constructively challenge boards and management on financially material aspects of their decision-making where we believe it can result in improved long-term financial outcomes for our clients. We set clear and outcome-focused objectives which can be evaluated over a suitable time horizon and can be linked back to a relevant investment thesis. Our engagements are investment-led or sponsored.

Further details can be found in our document outlining our approach to engagement, available on our website at newtonim.com/responsibleinvestment.

## Voting

We vote on behalf of our clients where we have been authorised to do so. We seek to make proxy voting decisions that are in the best long-term financial interests of our clients, and which seek to assist investor value creation by supporting proposals that are consistent with our corporate governance views and investment case.

Our active approach to voting means that our voting decisions reflect our investment rationale and take into consideration engagement activity, if any, and the company's approach to relevant codes, market practices and regulations. These are applied to the company's unique situation, while also taking into account any explanations offered for why the company has adopted a certain position or policy.

Further details can be found in our governance principles and voting guidelines, available on our website at newtonim.com/responsibleinvestment.

## Advocacy

We consider that advocacy is the most efficient approach to address issues that are market-wide or systemic in nature, which present a risk of crystallising into issuer-specific risks or opportunities over the medium or long term. We are active participants in industry and market-level discussions and efforts to improve the operating framework for the companies we invest in as we seek to benefit our clients over the long term. Our advocacy efforts often link to the themes on which we are engaging with companies.

# REPORTING AND TRANSPARENCY

We consider that transparency is important for effective stewardship. We report on our sustainability performance through several dedicated disclosures that are aligned with our voluntary commitments or required by regulation.

We produce an annual sustainability and stewardship report that provides details on our ESG integration efforts and stewardship activities, including engagement outcomes, an overview of our voting activity, and our advocacy efforts including through industry initiatives and collaborative engagements.

We also produce a post-season voting report which takes a closer look at, and lays out our consideration of, trends observed during the season, as well as providing a deeper insight into our voting activities. Our full voting record is disclosed on our website.

In addition, we communicate with our clients on the sustainability characteristics of specific portfolios through both periodic and tailored reports. More broadly, we strive for timely responses to other stakeholders' reasonable information requests.

# SUSTAINABLE INVESTMENT

To support our clients' needs, we offer a range of dedicated client sustainability solutions that aim to build on the overall assessment and integration of material ESG factors by seeking to further identify sustainable economic activities. Our sustainable strategies seek a balance between the current and future requirements of stakeholders. They aim to encourage a better allocation of capital that leads to the generation of attractive investment outcomes for clients alongside improved long-term global outcomes for society and the environment. Currently, our sustainable investment strategies encompass active equities, corporate bonds and sovereign debt.

Securities considered suitable for these sustainable strategies are subject to our sustainable investment framework, which is owned by the RI team.[8] Our sustainable investment framework is focused on two main components:

- guidelines around what constitutes a sustainable investment (sustainable classifications); and
- guidelines around what is considered incompatible with a sustainable universe (the sustainable investment restrictions).

In terms of sustainable classifications, the framework seeks to identify and invest in issuers that are proactively seeking to manage environmental and/or social factors by: providing solutions to the most pressing societal needs; being best-in-class operators; or explicitly committing to transforming their business models for defined social or environmental benefits.

The framework also seeks to identify security issuers that are involved in or that generate a material proportion of revenues from specific areas of activity that are considered adverse from an environmental and/or social perspective, as well as areas that represent market failures or that cause barriers to achieving the United Nations Sustainable Development Goals (SDGs).

We are driven by our clients' objectives, and in doing so, we may also pursue unique customised opportunities where the sustainability proposition may fall outside of our sustainability framework.

Our sustainability framework is applied by the portfolio managers who manage sustainable strategies. This direct line of responsibility fosters accountability and portfolio manager engagement with the subject matter. Additionally, each strategy is supported by a dedicated RI team advisor, to advise on the sustainability framework and provide subject-matter expertise, where required. The process is overseen through a combination of governance and escalation processes, including a series of checks and balances through the Sustainable Investment Forum.

[8] Certain client strategies with a distinct sustainability proposition may fall outside the mainstream sustainable investment framework.

# CORPORATE RESPONSIBILITY

We endeavour to hold ourselves to the same standards we expect of the companies in which we invest. We consider that the interests of our clients and of society more widely are mutually supportive. We want to be active and engaged in a manner that meets our responsibilities to clients and also supports our employees and society as a whole.

## 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. NIM embraced early the idea of climate disclosures, with the publication of its first TCFD report in 2018, before TCFD became a regulatory requirement. We have taken various steps to reduce our own carbon footprint. Via our parent company, BNY, 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.[9] BNY has committed to maintaining 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.

## Belonging and inclusion

We consider that creating an equitable and inclusive workforce with a broad range of experiences and skills leads to better outcomes for our staff and our business, and by extension, potentially for our stakeholders. Each employee's unique experience supports a broad range of perspectives and adds to our ability to deliver the best possible client experience, making us improved decision-makers and better reflecting our place in society. We consider that an inclusive culture encourages the open sharing of different opinions and perspectives, which makes Newton a company that employees are proud to work for. To achieve this vision, we are committed to:

- Building an exceptional, workforce with a broad range of skills, talents and experiences, and fostering a broad range of thoughts and opinions, both of which we believe lead to better decisions, align with the interests of our clients, and offer the most creative idea generation. We endeavour to ensure we have not excluded anyone from employment or advancement based on, but not limited to, gender, sexuality, race, creed, age, socio-economic background, parental status, education, or any other characteristic beyond merit

- Ensuring that ours is an inclusive place to work for all our staff, treating everyone with respect, dignity and fairness

- Working in partnership with our communities, clients, those in the financial services industry and others where we may have influence to support belonging and inclusion

- Creating a culture that encourages open communication, supports sharing of different opinions and perspectives, and seeks input from all levels of the organisation.

Newton has a focused Belonging and Inclusion Council staffed with volunteers working to realise these commitments and to support the delivery of the Council's objectives, which are approved annually by Newton's Sustainability Committee. The Newton Belonging and Inclusion Council leverages and works closely with the BNY Office of Belonging and Inclusion, which implements the parent company's policies and initiatives in this area.

[9] For Scope 1 and Scope 2 greenhouse-gas emissions, including BNY data centres, as well as Scope 3 business travel emissions through the use of renewable energy and carbon offsets.

## Community engagement

We place sustainability, education and belonging at the core of the projects we sponsor within the wider community. We also support various organisations and activities that advance the quality of life where our employees work and live. Under BNY'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. Newton has also been involved with a variety of charitable programmes over the years and remains committed to this activity.

# KEY DEFINITIONS

- **Advocacy** – The process by which individual shareholders, or a group of shareholders, seek to partner with relevant stakeholders, including policymakers, on systemic issues which present a material risk that may crystallise in the medium to long term.
- **Engagement** – An active dialogue between investors and companies on issues that may affect such companies' long-term economic performance and providing companies with insights into investors' expectations around corporate behaviour or management of specific issues.
- **ESG integration** – The incorporation and analysis of the financial implications of environmental, social and governance (ESG) issues into the investment decision-making process.
- **Net zero** – Cutting greenhouse-gas emissions to as close to zero as possible, with any remaining emissions reabsorbed from the atmosphere, by oceans and forests for instance.
- **Responsible investment** – Responsible investing is the overall strategy and practice of active ownership and the incorporation and analysis of the financial implications of ESG issues into the investment decision-making process.
- **Sustainability** – Meeting the needs of the present without compromising the ability of future generations to meet their own needs. For businesses, including Newton, this means seeking to do business without negatively affecting the environment, communities or society as a whole.
- **Sustainable investment** – Sustainable investing balances traditional investing with ESG insights to improve long-term outcomes. Sustainable investing seeks not only a financial return but also positive outcomes for the environment and/or society.
- **Stewardship** – The responsible allocation, management and oversight of capital to create long-term economic value for clients. Good stewardship via active ownership seeks to protect and increase the value of investments over time.

# IMPORTANT INFORMATION

These opinions should not be construed as investment or any other advice and are subject to change. This document is for information purposes only. Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell investments in those securities, countries or sectors. Please note that portfolio holdings and positioning are subject to change without notice. Newton manages a variety of investment strategies. How ESG analysis is integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved. Newton does not currently view certain types of investments as presenting ESG risks and opportunities and believes it is not practicable to evaluate such risks and opportunities for certain other investments. Where ESG is considered, other attributes of an investment may outweigh ESG considerations when making investment decisions.

ESG can be one of many inputs into the fundamental analysis. Newton will make investment decisions that are not based solely on ESG analysis. Other attributes of an investment may outweigh ESG analysis when making investment decisions. The way that material ESG analysis is assessed may vary depending on the asset class and strategy involved. As of September 2022, the equity investment team performs ESG analysis on equity securities prior to their recommendation. ESG analysis is not performed for all fixed income securities. The portfolio managers may purchase equity securities that are not formally recommended and for which ESG analysis has not been performed.

Issued in the UK by Newton Investment Management Limited, The Bank of New York Mellon Centre, 160 Queen Victoria Street, London, EC4V 4LA. Registered in England No. 01371973. Newton Investment Management is authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN and is a subsidiary of The Bank of New York Mellon Corporation. 'Newton' and/or 'Newton Investment Management' is a corporate brand which refers to the following group of affiliated companies: Newton Investment Management Limited (NIM), Newton Investment Management North America LLC (NIMNA) and Newton Investment Management Japan Limited (NIMJ). NIMNA was established in 2021 and NIMJ was established in March 2023.

MAR006600. Exp 09/2025.

**Unlock opportunity**