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Responsible investment is integral to Newton’s investment process. We believe that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

Responsible investment at Newton begins before we commit to an investment, and captures best practice across the globe. It is an investment-led approach that relies on understanding the issues, conducting proprietary research, engaging with companies and participating in the development of standards.

We have a rigorous approach to voting and publicly disclose our responsible investment activities.
AN INTEGRATED APPROACH

Newton is an investment manager managing assets globally on behalf of a range of clients, including institutional pension funds, endowments and charities and other mission-based investors. We exist to try to increase the wealth of our clients through the implementation of our robust investment process.

We have an integrated approach to responsible investment. The consideration of environmental, social and governance (ESG) issues is aligned with many of our investment themes, such as state intervention, earth matters, and healthy demand.

Our investment process seeks to identify companies capable of delivering strong long-term performance. The responsible investment team is part of our global research team and an integral part of the investment process.

Our responsible investment team is charged with exercising voting rights and conducting proprietary ESG quality reviews of individual companies that are being considered for investment. The team also conducts research on ESG issues and undertakes engagement. We publish reports describing conducting proprietary research, ESG activities, including examples of engagement, and disclose our global proxy voting activities.

We aim to optimise performance returns for our clients. We strive to do this through our investment expertise in security selection and portfolio construction. 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 issues are managed to the benefit of long-term investor value. We believe that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

A considered approach to ESG enhances our investment process. This process includes identifying the ESG risks and opportunities faced by a company and ensuring that these challenges are well managed within the company’s business strategy.

We continue to try to protect and enhance the value of our clients’ holdings throughout the life of an investment. Active engagement with companies enables us to monitor trading, strategy, changes in management processes, remuneration, and social and environmental issues. Engagement should ensure that any change being proposed or considered by a company is beneficial to investors.

State intervention
Policymakers see sustainable growth as requiring more economic intervention, market manipulation and regulation. We believe this has led to increased volatility, inflated asset prices and poor capital allocation.

Earth matters
As evidence has mounted of the negative impact of modern activity on the environment, a consensus has emerged around investment in ‘green’ technology.

Healthy demand
Demand for health-care products and services is increasing as ageing populations fuel demand in developed economies, and expanding incomes and changing lifestyles create new markets in the emerging economies.

ADDING VALUE
In formulating and implementing a responsible investment policy, Newton must take into account its responsibilities towards its clients with regard to investment and performance as well as its position as an agent acting on behalf of these clients. Our role demands we are not only conscious of the highest standards in corporate responsibility and of the challenges posed by the proxy voting process, but also of the individual requirements of our clients.

We aim to optimise performance returns for our clients by investing in well-managed companies. Well-managed companies should ensure that internal practices and procedures observe all legal requirements and conform to best practice. Where companies do not conform to best practice, a valid explanation should be provided. We believe transparency helps to minimise the impacts of any negative publicity for a company and for its shareholders.

Our research into companies includes the systematic analysis of ESG issues. ESG may have a bearing in a number of ways.

For example:

- **Changes to regulation**
  (e.g. laws on environmental pollution, company law, governance codes)

- **Physical threats**
  (e.g. extreme weather events)

- **Cost implications**
  (e.g. reduced cost of capital, environmental improvements, labour strikes)

- **Shareholder rights**
  (e.g. election of directors, capital amendments)

- **Brand and reputation issues**
  (e.g. excessive remuneration, poor labour practices, poor health and safety management)

- **The threat of litigation**
  (e.g. unsafe products, services or working conditions)

- **Fines**
  (e.g. pollution incidents or bribery and corruption)

- **Access to raw materials**
  (e.g. security of oil supply)

- **Product evolution**
  (e.g. low energy products, medicines)
Water
In many parts of the world, demand for water is increasing while the quality and availability 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.

Demand for water might create tensions or conflict, which has consequences for any industry reliant on access to water. 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.

Energy use
All companies require energy to operate. Some are more energy intensive than others. As economies grow, so does the demand for energy. This increase in demand has resulted in concerns over climate change and overdependence on fossil fuels, both of which may create significant challenges for businesses. Through the effective management of energy use and development of energy-efficient strategies, companies are able to reduce energy costs as well as build security of supply. We expect a well-managed company to undertake such efficiency improvements, not only in order to minimise its impact on the planet, but also to reduce costs.

Industrial waste
Industry generates waste which requires disposal. Historically, all waste was sent to landfill sites. However, landfills are becoming increasingly limited and expensive. In addition, some waste is hazardous. Increased regulation around the use of landfills creates challenges and potential costs for business.

We assess how companies monitor, measure and manage their industrial waste in the belief that effective waste management can reduce costs, avoid reputational damage and minimise the risk of increased future legislation.

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. We expect a well-managed company to demonstrate an understanding of all stages of the product life cycle.
Responsible investment policies and principles

Biodiversity
Biodiversity covers the diversity of species. This includes both diversity within a species and the diversity of ecosystems. Biodiversity trends capture the density and distribution of species, size of forest cover and the protection of natural areas.

Biodiversity has consequences for many businesses that depend on the availability of natural raw materials and services. The reliance on bees for pollination in the agricultural industry is an example of this dependency.

To ensure a continued and sustainable supply of raw materials, companies should consider the importance of biodiversity throughout their supply chains, as well as the impacts of their direct operations and products on surrounding ecosystems.

Climate change
Scientific evidence indicates that a rise in carbon dioxide in the atmosphere, mainly as a result of anthropogenic (human) activities, is causing an increase in global temperatures and subsequent extreme weather conditions. As a result, more pressure is being placed on companies to measure, report and reduce the carbon emissions generated from their business operations.

We encourage companies to measure, monitor and disclose greenhouse gas emissions and to have carbon mitigation strategies in place, particularly where a company has a material emissions footprint. We are involved with a number of industry bodies which promote company transparency on carbon emissions, climate management and climate adaptation. As an example, we support and encourage alignment with the final recommendations from the Taskforce on Climate-related Financial Disclosures, ¹ which provides guidance for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. We also monitor global climate change policy and regulatory changes and, where relevant, engage with policymakers.

Natural resources
As the world’s demand for raw materials increases, driven by a growing global population and emerging economies, natural resources are being depleted at increasing rates. As rainforests, for example, are felled to satisfy the rising demand for agricultural products, the world is losing these natural carbon sinks, which has negative implications for climate change.

The depletion of natural resources has implications for many businesses. We have witnessed an increase in regulation linked to the sourcing and use of natural resources, such as timber. This may have cost implications for companies and may ultimately affect a company’s ability to operate. We encourage companies to have robust policies with regard to the sustainable sourcing of raw materials. This should protect a company from association with the destruction of natural resources such as rainforests. We believe that such policies can help protect a company’s reputation and provide greater stability to the supply chain.

Event risk
Droughts, hurricanes, floods and extreme weather events are becoming more frequent, and in 2017 the cost of natural catastrophe damage was the highest it had been in the prior five years. ² We therefore seek to understand how companies’ physical assets are exposed to such events and what mitigation plans exist.

Additionally, wider systemic risks and disasters resulting from human activities can also lead to regulatory responses and other stakeholder pressures which impose new cost burdens on businesses. We seek to understand how companies can position themselves to mitigate the effects of disruptive events and benefit from a changing regulatory and stakeholder environment.

Human rights
As globalisation increases, businesses are sourcing more goods from, or operating in, emerging markets which may have poor human rights records. Human rights are basic rights or freedoms to which all human beings are inherently entitled. International companies operating in countries with no human rights laws or which have poor human rights records may face significant challenges, such as legal hurdles, security incidents, labour-force disruption and reputational damage, putting into jeopardy their licence to operate.

We encourage companies with global operations to consider adopting internationally recognised codes and standards that govern human rights, such as the Universal Declaration of Human Rights. This Declaration commits members to promote a number of human, civil, economic and social rights. We consider human rights issues, including human security, labour rights, freedom of association, civil liberties, community rights and oppressive regimes. While human rights are relevant for all sectors, companies operating in the extractive industries and retail sectors are likely to have the greatest exposure.

Conflict areas
Increasingly, international companies have to address the challenge of operating in countries exposed to conflict where other concerns arise in addition to human rights violations. These include illegitimate or unrepresentative governments, the lack of equal social and economic opportunities, discrimination against particular groups, poor or corrupt revenue management, and poverty. While the primary responsibility for peace, security and the development of a country lies with its government, we believe that companies should adopt a responsible approach to conducting business in conflict areas.

Companies can provide positive economic impacts through job creation, payment of taxes, infrastructure development, and the promotion of best practice with regards to human rights, labour standards, environmental awareness and anti-corruption. Managed effectively, these promote a stable operating environment and help to maximise long-term value for investors.

Newton encourages companies operating in conflict areas to address these risks through reference to the UN Global Compact and the UN Guiding Principles on Business and Human Rights. We also seek greater transparency on the sourcing of conflict minerals whose purchase may contribute to ongoing challenges in conflict areas.

Health and safety
A safe and healthy workplace contributes to a company’s operational efficiency. We engage with companies about their management of health and safety issues within their businesses. In particular, we encourage the disclosure of leading and lagging indicators, such as near-misses, incidents and fatalities, as well as information on employee training. Health and safety is often measured by lost-time injury statistics, which provide an indication of a company’s safety trends.

Sources:
3 Source: un.org/en/documents/udhr
4 Source: unglobalcompact.org/aboutthegc/thetenprinciples
5 Source: ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

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5 Source: ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
Companies with poor health and safety practices may face prosecution, fines and, in extreme cases, withdrawal of the licence to operate. Contractor safety is an area of increasing focus, as accidents have highlighted the need for contractors to be trained and monitored in the same way as a company’s direct employees. Road safety also poses a continuing risk to many sectors and is one of the largest contributors to employee accidents globally. While the extractives sector has received attention for poor health and safety performance, historically, sectors including construction, manufacturing, support services and food processing can also demonstrate poor health and safety performance.

**Human capital management**

Constructive and positive labour relations are critical to a company’s long-term success. Well-managed employee relations improve workforce satisfaction, productivity and effectiveness, creating value for investors. We engage with companies regarding their management of employment issues and encourage international companies to consider and adopt the International Labour Organisation guidelines on labour issues. We believe that low employee turnover, freedom of association, continuous training and promoting diversity and inclusion contribute to long-term value creation.

**Supply chain**

Many companies source and manufacture goods globally. A company’s understanding of its supply chain should include consideration of supplier policies. Relevant policies and procedures help minimise the risk of disrupting operations and protecting reputations by facilitating efficient management of supply chains. Companies need to have an understanding of their supplier base and regional and local risks in relation to labour standards and product quality. Transparency throughout the supply chain, including the use of sub-contractors, can secure the supply chain over the long term and mitigate quality and ethics risks. Recent examples of poor factory safety, employee strikes and wage inflation demonstrate the operational and reputational damage faced by a company when supply-chain monitoring is weak. We therefore engage with companies to understand and, where required, seek to improve the quality of their supply-chain oversight policies and mechanisms.

**Business ethics**

Business ethics covers a range of potential risks including conflicts of interest, protecting company intellectual property, insider trading and bribery and corruption. Multinational companies often operate in countries where corruption is a problem. Corruption can stunt economic development, making outside investment into a country unattractive. Bribery is the most prevalent form of corruption. In countries where corruption is endemic, a sustainable business model can be harmed by any activity that involves bribery. Involvement in bribery may lead to the imposition of sanctions and result in reputational damage. It also makes it harder for companies to refuse to pay bribes in the future. Companies found guilty of bribery or corruption face extensive fines and company directors may face prison sentences, particularly where the US Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act apply.

We engage with companies to ensure that high ethical standards are adopted in business operations to avoid instances of bribery and minimise reputational damage and potential fines. Examples of poor sales practices in the banking and pharmaceutical sectors have highlighted the materiality of business ethics and the cost when poorly managed. We also encourage companies to implement whistleblowing policies and practices that enable stakeholders to raise potential breaches, and to monitor compliance with business ethics policies.

**Tax**

The international tax system is undergoing major reform, driven by political and economic aspirations as well as attempts to address social inequalities. The exploitation of loopholes in tax legislation, the increasingly intangible nature of company assets and the digitalisation of the global economy have made it easier for multinational companies to reduce their tax liabilities. Governments are responding and tax-avoidance strategies are increasingly in the spotlight, with the Organisation for Economic Co-operation and Development’s (OECD) base erosion and profit shifting (BEPS) project leading a globally coordinated effort.

We believe 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. However, even before this earnings risk materialises, such companies are likely to be subject to reputational issues should their practices be exposed. We expect companies’ tax arrangements to comply with relevant tax laws and reflect the economic substance of their businesses rather than being a means of solely reducing tax liabilities. We engage with companies where we have concerns about the sustainability of their tax arrangements. This helps us to better understand a company’s approach to tax management and the sustainability of its structures, and to assess the financial impacts of tax reform.

**Cyber security**

As digitalisation and automation dominate the transformation of the global economy, cyber risk poses ever greater challenges for business. However, it is clear from a number of incidents that many companies are unprepared in terms of cyber crime. While it might be tempting to assume cyber risks are material to only a few sectors, our research into the targets and resulting impact of cyber attacks confirms that cyber security is an issue that all companies should assess. Even if a company’s own systems are sufficiently protected, supply-chain companies and external service providers can create vulnerabilities.

We expect the boards of companies to understand the risks faced by cyber attacks in the context of the company’s overall strategy rather than purely as an IT issue. Companies are expected to allocate sufficient resources to deal with this topic, and we will engage with boards to gain insights into the strategy for managing this key risk. Companies are also encouraged to take a proactive approach to protecting key data, assets and operations.

6 Source: ilo.org/global/lang--en/index.htm
When assessing a company’s corporate governance, we take into account the individual circumstances together with relevant governing laws, guidelines and established best practice. However, some overarching corporate governance principles exist that apply globally. We expect companies to comply with these principles, or to explain why they should not apply. These principles are described below; some may not be formally recognised in certain markets.

Disclosure
It is imperative that investors are fully aware of the risks associated with an investment. We believe communication of risks is best achieved through regular public reporting. In the context of general meetings, companies should make information on resolution items available to the public and in sufficient time to allow owners to make informed voting decisions. We encourage companies to disclose publicly the level of votes for, against or withheld for each resolution.

Boards
A board is charged with the responsibility and authority to sanction and decide all significant matters relating to a company’s activities. We believe it is essential to have an appropriate balance between executive and independent non-executive directors (NEDs) to ensure that the interests of shareholders are represented. A company’s board should have an effective structure, have access to adequate training, undertake suitable recruitment to ensure the maintenance of appropriate skills and breadth of experience, and have planned succession. It should undertake its own annual evaluation and assess the suitability of an external evaluation. At least annually, the board should review the effectiveness of the company’s internal controls and appropriateness of its risk profile. Directors and NEDs should also be available to meet with investors when required.
Independence

We believe that NEDs play a vital role of counsel and oversight of executive management, while also representing and safeguarding the interests of investors. It is therefore important that a board maintains an appropriate level of independence. When reviewing the independence of NEDs, we look unfavourably on directors having a recent relationship with the company, involved in related-party transactions, or receiving performance-based remuneration, as well as where a NED's length of service suggests that the board lacks fresh experience, insight and judgement.

Chair and chief executive officer (CEO)

We believe that it is in the best interests of stakeholders for the roles of CEO and chair to be separate and defined. The division of chair and CEO should “ensure a balance of power and authority, such that no one individual has unfettered powers of decision.” In general, Newton is opposed to a CEO becoming chair of the same company, and has a preference for the chair to be considered independent at the time of appointment.

Senior independent director (SID)

A senior independent director or lead director should act as a conduit between the NEDs and the stakeholders, and ensure that the views of the independent NEDs play a prominent role in board deliberations. Where a chair is not considered independent, we expect the responsibilities, authorities and powers of the SID, such as the SID’s role in approving the board agenda and calling board meetings, to be explained clearly.

Board committees

We favour the establishment of key board committees with oversight of a board’s audit, risk, remuneration and nomination functions. For many companies, it is good practice for a separate board committee to be established and charged with oversight of the company’s environmental and social policies. Ideally, each committee should consist of a majority of independent directors, with the audit committee and remuneration committee consisting solely of independent directors.

Succession planning

A fundamental role of the board, and of its nomination committee in particular, is the establishment of an effective succession-planning policy. An ineffective policy can have far-reaching negative implications for a company’s performance. It may lead to investor uncertainty over a company’s sustainability and continuity should senior executives or board members depart without suitable replacements being identified.

An effective succession-planning policy can minimise the opportunities for senior executives to place excessive demands on a company. An engaged nomination committee should ensure that it has identified at least one suitable candidate to succeed individuals employed in key roles within the company. It should also be able to react swiftly in the event of an individual suddenly departing from the company.

Board diversity

A board should contain a wide variety of experience and skills. Consideration of board diversity should include, but not be limited to, gender, age, nationality, race, religion, skill, experience and knowledge.

Investors, companies and boards are not best served by a board that is overly homogeneous. In an effort to establish a breadth of expertise, knowledge and skill, and to stimulate constructive challenging debate, boards should be constituted of members that are sufficiently well diversified and experienced to meet the individual needs of the company.

A board’s nominations committee should be charged with the responsibility of ensuring that a good balance of board diversity is achieved. An effective succession-planning policy will aid a nomination committee in its efforts to address this matter.

We will engage with companies and vote against board directors where there is an absence of a robust policy and a low level of gender diversity on the board.
Risk management and internal controls
A company should have a clear policy in relation to assessing the appropriateness of its risk profile, and communicate how it is responding to material business risks via a clear risk register. The board should have formal responsibility for risk management and the internal control functions. It should also consider the appropriateness of establishing a board committee to oversee such areas. We expect companies to report publicly on their policy and position in relation to these areas.

Auditors
The quality and independence of auditors plays a crucial role in protecting shareholders’ interests. Remuneration of auditors for non-audit services should be kept under review by the audit committee and should not be excessive. Newton expects non-audit fees to be disclosed and justified in the auditor’s remuneration section of a company’s annual report and accounts. Companies should assess the appropriateness of changing their auditor periodically and/or the lead audit partner managing the company’s audit. We would be concerned if a company accepts a monetary cap on its auditor’s liability. Also, we expect to see a detailed explanation should any other type of liability limitation be adopted.

Remuneration
Levels of remuneration should be appropriate to attract, motivate and retain suitable staff. A significant proportion of remuneration should be subject to the creation of sustainable long-term value and aligned with the company’s strategy. Variable remuneration should be structured so that it does not reward individuals for poor performance. Should performance metrics governing the vesting of variable remuneration awards not be representative of the underlying performance of the business, we would expect an independent remuneration committee to exercise discretion. Generally, we subscribe to the remuneration principles and guidelines as published by the Investment Association and the International Corporate Governance Network.

Dividend policies
Dividend payments are an important source of income for investors. A consistent policy is appreciated given that it promotes financial discipline. We are cautious of companies with a consistently low dividend payout ratio that have not identified suitable investment opportunities or developed a strategic investment plan.
Share buy-backs
The practice of companies buying back and cancelling their shares can be a valid method of increasing shareholder value. However, a decision to buy back shares should be considered in the context of alternative uses of capital, such as acquisitions or a special dividend. Investors should be mindful that share buy-backs can be used to fulfil the vesting of remuneration arrangements and may artificially improve performance metrics that govern the vesting of remuneration awards.

Related-party transactions
Related-party transactions encompass a wide variety of dealings. These can include a company trading assets with one of its directors, the issuance of capital to a ‘friendly’ investor, and agreements between a parent company and a subsidiary. We recognise that, while a company can benefit from related-party transactions, investors’ best interests are not always the primary reason for such transactions. We expect companies to explain the necessity for a related-party transaction together with justification that the decision to enter into such an arrangement was taken independently of the related party.

Voting rights
We support the principle that a company’s shares carry equal rights. An investor’s control of a company should correlate with the level of its economic interest and be in line with the company’s other investors. We are unfavourably disposed towards companies that give disproportionate influence to selected investors.

Schemes of arrangement and amendments to articles of association
Resolutions that seek approval of schemes of arrangement and changes to articles of association cover a wide remit of corporate events, including mergers, acquisitions and change of domicile. Given the individual nature of such events, it is important that each incident is considered on its own merits. As with other voting resolutions, we will exercise voting rights in line with our investment rationale and in the best interests of our clients.

Anti-takeover mechanisms/poison pills (anti-takeover defence)
We are unlikely to support arguments for approving the introduction or continuation of an anti-takeover mechanism. Such devices can lead to the entrenchment of a poorly performing management team and inhibit the creation of shareholder value.

Shareholder rights
Shareholder rights differ greatly across jurisdictions. In the US, for example, shareholders have little control over the appointment of directors or allocation of capital. In the UK, shareholders elect company directors and have control of significant capital allocation proposals. We acknowledge that shareholders should not necessarily be involved in the detail of company management, but will not support companies seeking to reduce shareholder rights and will support shareholder proposals that seek to strengthen shareholder rights.

Capital structure alterations
A key strategic objective for a company is the efficient use of its capital structure. Companies should ensure that the value and rights of shareholders and bondholders are not diluted unnecessarily. We expect companies to communicate their intentions clearly and provide rationale for any changes to their capital structure.

Controlling and influential shareholders
Care must be taken when investing in a company with a controlling or influential shareholder. Companies should disclose the detail behind any special relationships or agreements that are in place with such shareholders. We will seek to understand the investment expectations of these investors and place greater emphasis on the company conforming to corporate governance best practice in an effort to limit the possibility of our clients being disadvantaged by the situation.

Political donations
Generally, we will not support a company that seeks to make direct donations to any political party or political organisation.
Newton’s responsible investment approach is applied to both global equities and fixed-income assets. ESG factors are an important consideration when investing in fixed income given investors in this asset class do not share the same upside potential as equity investors but face the same downside risk in the event of default or rerating. ESG factors can affect the ability of companies and sovereigns to fulfil the obligation to pay the coupon and principal to which they are entitled. When investing in fixed-income assets, ESG risks can be avoided more easily than in equities owing to the opportunities to invest in other fixed-income assets that present similar return profiles.

Corporate bonds
A wide range of economic factors can influence a company’s creditworthiness and viability. These factors can be influenced by ESG issues such as reputational, event, supply-chain and legal risks. Examples of poor ESG management and credit-rating downgrades have been seen in the banking sector and extractive industries. In the former, poor marketing and incentive practices resulted in large litigation and compensation costs for mis-selling and subsequent downgrades to corporate-bond credit ratings for the companies concerned. In the extractive industries, environmental damage and poor governance have led similarly to downgrades and mark-to-market losses.

We publish a quarterly report that discloses our global voting activity and examples of engagement. Under each example of engagement, we identify the asset class to which the engagement relates. Investments are monitored in regular meetings between our fixed-income and responsible investment teams. The teams assess how these companies identify and manage their ESG risks as well as their ESG disclosure. In line with our voting policy, we exercise votes at formal bondholder meetings.

Sovereign debt
Market participants and credit rating agencies have been placing increasing importance on ESG factors in understanding default risk on the debt issued by sovereigns and also on the ratings awarded.

Sustainable economic competitiveness is dependent on the availability and quality of natural, human, social and political capital. Countries that govern these capital resources effectively are likely to experience stable long-term growth and show more economic resilience. We evaluate factors such as natural resource depletion, social cohesion, conflict and political change in order to understand if the returns on offer from sovereign debt are justified given the risks attached.

Sovereigns with limited political rights and civil liberties, and those with high unemployment rates, are more likely to experience greater civilian unrest. We believe that strengthening the social contract between governments and their citizens reduces the risk of corruption, which in turn improves the fiscal accountability of the economy, increasing tax revenues and thus improving the affordability of debt. A government’s ability to plan economic policy owing to the greater level of certainty over the data that it feeds into its forecasting should in turn reduce policy error and enable a virtuous circle of self-improvement.

We consider a number of World Bank governance indices in our sovereign risk assessment, including those relating to accountability, regulatory quality, rule of law, ease of doing business and control of corruption. We also consider other sources including the United Nations Human Development Index and Transparency International’s Corruption Perceptions Index.
Codes and guidelines relating to responsible investment change and develop to reflect changing market views. Newton supports key codes and principles which provide a framework for best practice when considering ESG issues but avoids a prescriptive or ‘box ticking’ approach.

Country-specific codes and regulations
Corporate governance: We are mindful of local corporate governance codes and regulations when engaging with companies and exercising our clients’ voting rights. Individual country codes on corporate governance vary, but all aim to protect long-term value. Our approach to corporate governance is best reflected in the UK Corporate Governance Code, the International Corporate Governance Network’s Global Corporate Governance Principles and our response to the UK Stewardship Code, which can be found in Appendix II.

Environmental and social matters: We are also mindful that environmental and social laws and best practices vary by country. We encourage companies, wherever possible, to adopt internationally recognised codes and standards, particularly when operating in countries with weak or no legal supporting framework, in order to minimise risk to a company’s reputation.

Institute of Chartered Secretaries and Administrators (ICSA)
ICSA is the trade body for governance professionals, including company secretaries. It provides qualifications, training, guidance notes and influences public policies on matters relating to corporate governance. (icsa.org.uk)

International Corporate Governance Network (ICGN)
With members in more than 50 countries and representing assets under management in excess of USD 26 trillion, the key aim of the ICGN is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. The ICGN board and its five committees develop and promote global policies and guidelines that relate to specific corporate governance matters. (icgn.org)

International Integrated Reporting Council (IIRC)
The International Integrated Reporting Council’s vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. We support the use of the integrated reporting framework to drive sustainable value creation through better corporate disclosure and more informed decision-making. (integratedreporting.org)

Investment Association
The Investment Association (IA) is the trade body representing UK investment managers. It has an established long-term commitment to responsible investment, which extends to active stewardship. We support broadly the guidance notes and position papers from the IA. (theinvestmentassociation.org)

Investor Stewardship Group
We endorse the US stewardship and corporate governance principles under the Investor Stewardship Group, which represents over USD 20 trillion of assets under management. These principles help to codify the minimum corporate governance expectations that investors have of companies in the US as well as the responsibilities of those investors in their stewardship activities. (isgframework.org)

Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
We encourage companies to support the OECD Guidelines for Multinational Enterprises. These guidelines provide a comprehensive code of conduct endorsed by the 35 OECD countries. These countries recommend that multinational enterprises adhere to these guidelines, which provide voluntary principles and standards promoting responsible business conduct in areas including employment, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation.

The guidelines are implemented through National Contact Points. Mediation and conciliation help also exists to resolve investment disputes. The aim is to improve the foreign investment climate of a country and enhance the contribution companies can make to sustainable development.

The OECD Guidelines complement the UN Global Compact’s ten principles, which are described overleaf. (oecd.org)
Responsible investment policies and principles

**Principles for Responsible Investment (PRI)**

Newton has been a signatory to the PRI since February 2007. The Principles were developed under the auspices of the UN Secretary-General and provide a voluntary and aspirational framework for incorporating ESG issues into investment decision-making and ownership practices.

The Principles are consistent with our approach to responsible investment and support our belief that incorporating ESG factors into investment decision-making can enhance returns for investors. We participate in the PRI’s annual assessment survey and remain a supportive signatory.

Our response to the six Principles may be found in the Appendix to this document.

(unsui.org/about-pri/the-six-principles/)

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**Sustainability Accounting Standards Board (SASB)**

The Sustainability Accounting Standards Board (SASB) is an independent, private-sector standards-setting organisation dedicated to enhancing the efficiency of the capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. The SASB develops and maintains sustainability accounting standards that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format. We support the use of these standards by companies to enhance their disclosures, which helps us to make more informed investment decisions. (sasb.org)

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**Task Force on Climate-related Financial Disclosures (TCFD)**

We support the recommendations of the TCFD, which seeks to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

(fsb-tcfd.org)

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**UK Stewardship Code**

We comply with each of the seven principles of the UK Stewardship Code, which is overseen by the Financial Reporting Council. The Code aims to enhance engagement between institutional investors and companies. Our response to the Code can be found in Appendix II. We have obtained an independent assurance opinion over our stewardship as recommended by the UK Stewardship Code.

The scope of this opinion includes assurance on our application of Principles 1, 2, 4, 6 and 7 of the UK Stewardship Code, in accordance with the AAF 01/06 framework. While the auditor explicitly prohibits us from publishing the opinion and report, the auditor permits us to disclose these upon individual request.

Please contact Julian Lyne, Chief Commercial Officer (julian.lyne@newtonim.com) or your usual Newton contact.

(frc.org.uk/investors/uk-stewardship-code)

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**United Nations (UN) Global Compact**

The UN Global Compact is a voluntary initiative that relies on public accountability, transparency and disclosure to complement regulation. Companies with global operations are encouraged to consider joining the UN Global Compact. This initiative sets out a framework of ten principles in the areas of human rights, labour, the environment and anti-corruption to which businesses align their operations and strategy. The UN Global Compact and the OECD have begun to enhance their collaborative efforts, particularly in those countries that have both Global Compact local networks as well as National Contact Points for the OECD Guidelines.

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**UN Guiding Principles for Business and Human Rights**

These principles seek to provide a global standard for preventing and addressing the risk of human rights breaches occurring as a result of, or linked to, business activity.

In 2005, the UN’s Special Representative of the Secretary-General for Business and Human Rights, John Ruggie, was tasked with a mandate to develop consensus among stakeholders. This focused on the roles and responsibilities of companies and governments when considering the impact of business on human rights. In 2008, as a result of this work, the UN’s Protect, Respect and Remedy framework was developed. This framework maintains that it is a state’s duty to protect human rights and a company’s responsibility to respect human rights. It also calls for greater access to remedy for victims of business-related abuse.

The UN Guiding Principles for Business and Human Rights were released in 2011. These provide a common global platform for the promotion of responsible business practices with a particular focus on countries with a poor record of human rights. Where appropriate, we refer to these principles in our investment process. We use these principles as a basis for discussion on human rights when meeting companies. In order to satisfy these principles, companies need to ensure that they have the correct policies and processes in place that demonstrate their understanding of the human rights implications of their business activities, as well as addressing the company’s commitment to improving human rights.

(uns.org/en/documents/udhr)
Newton’s rationale for investing in a company is supported through its proprietary ESG research, global proxy voting and engagement activities. Our responsible investment team aims to achieve a better understanding of relevant ESG risks and opportunities, while also seeking to improve the behaviour of the companies in which we invest. Our dedicated responsible investment team is part of the wider investment team that is responsible for managing clients’ assets.

Research

ESG considerations are an important input into the fundamental research undertaken by our analysts. The responsible investment team carries out proprietary research into specific companies and ESG issues and provides input to the global sector analysts. This includes the responsible investment team researching and writing ESG quality reviews for each company prior to it being recommended by our global sector analysts for investment. The combination of fundamental analysis and specialist ESG knowledge is a powerful tool that enables our investment teams to select companies for investment with as complete an understanding as possible of their attributes.

For our range of ‘sustainable’ strategies, the responsible investment team has veto power in the security-selection process, as well as during the lifetime of an investment. This enables them to prevent a sustainable portfolio from holding a particular security.

Engagement

Regular meetings with the management of companies in which we make potential or current investments are invaluable to ensure that the requirements of both management and investors are understood and aligned. Our engagement with company management covers the trading performance of the company and, where relevant, a discussion of ESG issues that present material risks or opportunities.

Responsible investment also involves ad hoc engagement with companies on ESG issues. Through engagement, we aim to achieve a better understanding of the management of material ESG issues. Engagement can also encourage an improvement or change in the behaviour of a company which in turn can protect and enhance investor value. Engagement may include dialogue or collective engagement with other investors, industry bodies, non-governmental organisations (NGOs), academics or other specialists, who can provide valuable insight into an ESG issue or a company’s activities.

Voting

The exercise of voting rights by institutional investors has received increasing attention from clients, governments, media and NGOs. We believe it is important that investors participate in all company meetings through the exercise of their voting rights.

Our approach to responsible investment is firmly embedded in the investment process. As an active manager, we aim to support or enhance our investment rationale for a company through active engagement and through the exercise of our clients’ voting rights globally.

For resolutions proposed by a company, voting in favour expresses support for management. Voting against a resolution is the ultimate sanction of the shareholder or agent short of selling the security. Disposal may not be the most constructive method of demonstrating a commitment to responsible investment. We rarely register abstentions, given our belief that these give a confusing message to management or may be interpreted wrongly. For resolutions proposed by shareholders, we give due consideration to the proponents’ points and reserve the right to support resolutions that are aligned with our approach to ESG.

Our voting policy and procedures have been formulated and approved by our Responsible and Ethical Investment Oversight Group. Implementation of the voting policy and procedures involves the head of corporate governance, head of responsible investment and responsible investment analysts in collaboration with the global sector analysts and portfolio managers.
Procedure

All voting notifications are communicated to our responsible investment team by way of an electronic voting platform. The responsible investment team reviews all resolutions for contentious issues, aided by advice from proxy research service providers. Contentious issues may be referred to the appropriate analyst for comment. Where an issue remains contentious, we may also decide to confer with the company or other interested parties for further clarification. An electronic voting service is employed to lodge our voting instructions. Each voting decision taken by a member of the responsible investment team has to be authorised by an alternate member of the team. Our corporate actions team is responsible for the all-important administrative elements surrounding the exercise of voting rights by ensuring we have the right to exercise individual clients’ votes and that these votes are exercised.

Where a potential conflict of interest exists between Newton, the company and/or a client, the recommendations of the voting service provider will take precedence.

Practice

It is our intention to exercise voting rights in all markets where we retain voting authority. This may be hindered by various practical considerations. For instance, in certain markets, shares are ‘blocked’ before the exercise of voting rights. Blocking consists of placing the stock on a register for a number of days spanning the meeting. During the share-blocked period, the shares cannot be traded freely. In markets where share blocking is practised, we will vote only when the resolution is not in shareholders’ best interests and where restricting the ability to trade does not risk adversely affecting the value of clients’ holdings.

Voting service providers

We employ the services of voting service providers to help inform its voting intentions. Only in the event of a conflict of interest will we follow the voting recommendations from a service provider.

Securities lending

We do not engage in securities lending on behalf of our clients.

Reporting

We publish a quarterly responsible investment report, which includes examples of ESG engagement and records all voting activity undertaken during the quarter, including rationale for decisions to vote against management. We also publish periodic research and notes that offer insight and thought leadership on topical and relevant ESG issues.

Visit newtonim.com for publications that relate to our responsible investment activities.

Newton’s Responsible and Ethical Investment Oversight Group

As part of our formal process, we have established a Responsible and Ethical Investment Oversight Group. The committee meets at least twice a year and oversees our strategic approach to responsible investment. Its members include the head of investment, members of the responsible investment team, and representatives from the portfolio management and client service teams.
Newton believes it is essential to be involved actively in the development of good practice in responsible investment. We participate in a number of industry groups in order to influence and understand fully the ESG issues and challenges facing the investment industry.

Asian Corporate Governance Association (ACGA)
Newton is a member of the ACGA, which works with investors, companies and regulators to implement effective corporate governance practices throughout Asia. ACGA was founded in 1999 in the belief that good corporate governance is fundamental to the long-term development of Asian economies and capital markets. (acga-asia.org)

Carbon Disclosure Project (CDP)
Newton is a signatory of the CDP, which is an independent not-for-profit organisation holding the largest database of primary corporate climate change data in the world. The data is collected annually by the CDP through questionnaires and assists us in identifying climate, forest and water-related risks. (cdp.net)

Corporate Governance Forum
Newton is an active member of the Corporate Governance Forum. Regular meetings are held to discuss industry-wide and company specific corporate governance issues. Meetings provide members with the opportunity to share in a wider understanding of the issues involved in good corporate governance. Our head of corporate governance is deputy chair of the forum.

Council of Institutional Investors (CII)
Newton is a member of the CII, which is a leading voice for effective corporate governance, strong shareholder rights and vibrant, transparent and fair capital markets. It promotes policies that enhance long-term value for US institutional asset owners and their beneficiaries. (cii.org)

Institutional Investors Group on Climate Change (IIGCC)
Newton is a member of the IIGCC, which provides investors with a collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. (iigcc.org)

International Corporate Governance Network (ICGN)
The ICGN brings together corporate governance professionals from around the world and provides an international forum for discussion of developments and initiatives in corporate governance. It also drives the corporate governance debate globally by influencing key policy makers and produces global principles relating to corporate governance matters. Our head of corporate governance is an ICGN board governor and chairs its finance committee, and represents the ICGN on the International Financial Reporting Standards Advisory Council. (icgn.org)

Institute of Chartered Secretaries and Administrators (ICSA)
Our head of corporate governance is a fellow of the ICSA. As the trade body for company secretaries, the ICSA provides guidance notes and influences public policies on matters relating to corporate governance. (icsa.org.uk)

Investment Association
Newton is a member of the Investment Association, the representative trade body for the UK investment management industry. (theinvestmentassociation.org)

Pensions and Lifetime Savings Association (PLSA)
Newton is a member of the PLSA, which is active in the development of good ESG practices and provides guidance on best practice to the investment management industry. Our head of corporate governance is a member of the PLSA’s Stewardship Advisory Group. (plsa.co.uk)

Principles for Responsible Investment (PRI)
This member-led organisation supports its members’ understanding of the investment implications of ESG factors. It also helps its members to coordinate ESG-related activities that drive best practices and influence policymakers and regulators. Newton has been a signatory to the PRI since 2007.

Newton’s responsible investment team:

- **Rob Stewart**
  Head of responsible and charity investment

- **Ian Burger**
  Head of corporate governance

- **Lottie Meggitt**
  Responsible investment analyst

- **Victoria Barron**
  Responsible investment analyst

- **Lloyd McAllister**
  Responsible investment analyst
I  Understanding trustee requirements

The Pension Act 1995 requires pension fund trustees to prepare a Statement of Investment Principles (SIP). This statement should cover the nature of, and balance between, different kinds of investments, as well as the attitude to risk, expected return and realisation of investments.

The Occupational Pension Scheme Amendments Regulation 1999 insists that trustees disclose in the SIP the extent to which “social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments”.

Charities are also required, under the Trustee Act 2000, to have an investment policy statement. Under SORP (Statement of Recommended Practice) 2005, charities above a certain size are required to disclose, where material investments are held, the extent, if any, to which environmental, social and ethical considerations are taken into account.

II  Response to the UK Stewardship Code

A statement of seven best practice principles with regard to shareholder engagement and voting activity was drawn up by the Financial Reporting Council (FRC) in July 2010 (revised September 2012). Institutional shareholders or their agents should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities;
2. have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed;
3. monitor their investee companies;
4. establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value;
5. be willing to act collectively with other investors where appropriate;
6. have a clear policy on voting and disclosure of voting activity;
7. report periodically on their stewardship and voting activities.

Newton’s response to the Code’s seven principles:

Newton is an investment manager managing assets globally on behalf of a range of clients in a variety of asset classes. We aim to increase the wealth of our clients through the implementation of our investment process. Our investment process seeks to identify companies capable of delivering strong long-term performance and sustainable value.

Our approach is rooted in the selection of securities aligned with one or more of our global investment themes. Fundamental research is crucial, as are regular meetings with company representatives. In addition, we have global proxy voting procedures and pursue contentious issues. In-house expertise is provided by our global research team which consists of global sector analysts, the responsible investment team and regional specialists. We seek to invest in companies that have an ability to invest for growth, have strong management teams, a sustainable strategy and financial viability.

1. **Stewardship policy:** We must take into account stewardship responsibilities towards our clients with regard to investment and performance, as well as our position as an agent acting on behalf of these clients. These responsibilities are taken very seriously and are firmly embedded in our investment process. Responses to the Code’s six further principles, together with our Responsible Investment Policies and Principles document which is publicly available on our website, detail how we discharge our stewardship responsibilities. While we utilise external services and research providers when carrying out our stewardship responsibilities, the interpretation, recommendation and ultimate voting decisions are taken by our professional investment team, which includes our responsible investment team. We apply the services in the context of a company’s unique situation together with our investment beliefs and expectations.
2. Conflicts of interest: We seek to ensure conflicts of interests are recognised, recorded and mitigated, such that the efficacy of Newton’s approach to ESG is not jeopardised. We maintain a list of all companies where there may be a perceived conflict of interest. The list includes all funds managed or owned by Newton or its parent company, BNY Mellon, and also includes companies that are directly linked to our underlying clients, such as corporate pension funds. If any perceived conflict of interest between Newton, the investee company and/or a client is identified, the recommendation of our external voting service provider will take precedence. Our quarterly reports detail each instance where we have outsourced voting activity owing to a perceived conflict of interest. A further example of a potential conflict of interest is where Newton has invested on behalf of its clients in two or more parties that are involved in a corporate event, such as a takeover. In such situations, Newton ensures that any voting activity is in the best interests of each individual client. When engaging with a conflicted company, Newton will declare the conflict to the company at the outset but continue normal engagement activity.

3. Monitoring: The monitoring of investee companies is undertaken principally by our research analysts. Analysts come from a variety of backgrounds, including industry, consultancy, stockbroking and accounting. A bespoke research database maintains proprietary information on key securities, including analysts’ comments on these securities and our proprietary ESG analysis, as well as voting information.

We maintain a company meeting log, as well as a log of meeting notes (the log of one-to-one meetings is available in our responsible investment quarterly reports). Dialogue with companies is essential to the selection and monitoring of securities in order to determine the effectiveness, appropriateness or viability of a strategy, product positioning and management structure.

We recognise that, as active stewards of our clients’ assets, we may be invited to receive material non-public information (MNPI). We have robust procedures in place to manage such situations, including the decision-making process taken by members of our compliance and investment process teams in deciding whether or not we are willing to be made an insider in the first instance. Each decision to receive MNPI and become an insider is taken on a case-by-case basis.

4. Escalation: Despite a commitment to investing in well-positioned companies, the process of monitoring, voting and engagement will occasionally highlight areas of concern. If it is not in the best interests of our clients to sell the security, our initial response will be to approach the company’s executive or non-executive directors as appropriate, or, occasionally, its advisers. If there is no resolution of our concerns, we will arrange further meetings with the company or its advisers. We may also share our concerns with other investors or investment representative bodies. As a last resort, the tabling of resolutions at a general meeting would be considered.

The decision to escalate a concern lies with the relevant members of our investment team.

5. Acting collectively: We often work collectively with other like-minded investors as well as trade associations, government bodies and non-governmental organisations. Collective actions may deal with specific company matters or broad industry concerns in an effort to develop best practice, raise awareness of a concern 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 situations of being unintentionally in receipt of MNPI or breaching concert party rules.

6. Voting: We aim to exercise all voting rights globally. We do not maintain a strict voting policy; instead, our voting decisions reflect our investment considerations and the company’s compliance with relevant corporate governance codes, best practices and regulations. These are applied to the company’s unique situations, while also taking into account any explanations offered by the management team. Please refer to earlier sections of this document for further information surrounding the key voting policy areas and our overarching expectations.

7. Reporting: We publish a quarterly report that is publicly available on our website shortly after the end of the relevant period. The report contains a log of all voting activity, rationale for all votes against management recommendations, examples of ESG engagement and other activities undertaken during the quarter. These reports are available at newtonim.com/responsibleinvestment.

We obtained an independent assurance opinion of our stewardship activities for the year 2014 as recommended by the UK Stewardship Code. While the auditor explicitly prohibits us from publishing the opinion and report, the auditor permits us to disclose these upon request; please contact Julian Lyne, Chief Commercial Officer (julian.lyne@newtonim.com) or your usual Newton contact.
III  Response to the Principles for Responsible Investment (PRI)

The Principles are detailed below with a description of the action being taken by Newton.

1. **We will incorporate ESG issues into investment analysis and decision-making processes.**
   Our commitment to incorporating ESG issues into investment analysis and decision-making processes is explained in this document. The latest version of this document can be found at newtonim.com

2. **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
   Our engagement and voting practices demonstrate commitment to active ownership. Examples of engagement and voting may be found in our responsible investment quarterly reports. These may be found at newtonim.com

3. **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
   We assess disclosure of corporate governance matters relative to laws, codes and best practice. These may be from a local and/or a global perspective. Where it is considered that disclosure levels are inadequate, we may seek commitments from a company to future improvements and may also vote against relevant resolutions at a general meeting of the company.

   With regard to environmental and social matters, we encourage companies to comply with internationally recognised norms and standards. Companies should disclose, in their annual report, how they are managing key risks and opportunities linked to ESG issues. If the level of reporting is deemed to be insufficient, we will seek improvement by engaging with the company and may consider voting against the resolutions at its annual general meeting (AGM).

4. **We will promote acceptance and implementation of the Principles within the investment industry.**
   Where appropriate, we encourage others to accept and implement the Principles.

5. **We will work together to enhance our effectiveness in implementing the Principles.**
   We work with other investors through various organisations and initiatives, including the PRI Collaboration Platform. Newton is a member, or signatory, of various ESG-related groups, industry bodies and collective forums.

6. **We will report on our activities and progress towards implementing the Principles.**
   Our policies for the implementation of the Principles are outlined in this document.
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<th>Acronym</th>
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Important information

This is a financial promotion. These opinions should not be construed as investment or any other advice and are subject to change. This document is for information purposes only.

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