NEWTON

Investment Management

BNY MELLON | INVESTMENT MANAGEMENT

DEBUNKING THE MYTHS OF ESG

FPPTA

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Investment philosophy of ESG research

How do environmental and social factors influence the economy and investments?

Newton manages a variety of investment strategies. Whether and how ESG considerations are assessed or integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved, as well as the research and investment approach of each Newton firm. ESG may not be considered for each individual investment and, where ESG is considered, other attributes of an investment may outweigh ESG considerations when making investment decisions.

Companies are part of an integrated global economy

Investment philosophy of ESG research

Why do we believe ESG integration is a part of multi-dimensional research?

- Companies both depend on, and impact, environmental and social capitals over time
- These capitals are not reflected in financial statements and are often externalities
- However, they can become internalized, where risks crystalize, or with changing regulation and consumer behavior
- ESG integration can be used to identify potential mispricing through alternative data sets, not traditionally found within financial reporting

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ESG integration is a lens to identify potential mispricing

Investment philosophy of ESG research

How do environmental and social risks and opportunities impact companies?

DEPENDENCIES

ENVIRONMENTAL CAPITAL

Changes in weather patterns and events impact commodity prices and availabilities, impacting margins of companies using

INPUTS

Disgruntled employees may be less productive, leave and increase turnover costs, or go on strike, disrupting operations

SOCIAL CAPITAL

COMPANIES

IMPACTS

ENVIRONMENTAL CAPITAL

Heavy emitting businesses are under pressure to decarbonize, resulting in structural changes in demand

OUTPUTS

Human rights violations in supply chains can result in reputational damage and regulatory costs

SOCIAL CAPITAL

Companies depend on and have impacts on environmental and social capital

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Investment philosophy of ESG research

How ESG issues can crystalize and have financial impacts

WAYS IN WHICH ESG ISSUES CAN HAVE A FINANCIAL IMPACT:

1. **Revenues:** relevant product lines, branding that resonates with consumers, trusted customer service
2. **Cost reduction:** operational efficiency
3. **Regulatory and legal:** benefit from subsidies, avoid opportunity costs and reputational damage
4. **Productivity:** talent attraction and retention, morale
5. **Capital allocation:** long term view of externalities and strategy
6. **Valuation:** market perception of ESG risks

WAYS IN WHICH ESG CAN BE THOUGHT ABOUT:

Catalyst for a singular event e.g. an industrial disaster, poor employee relations leading to strike, product as a solution

Overall management quality indicator – insight into management of sometimes conflicting issues of interest to regulators and customers

Systemic – issues facing the global economy, even where risks are not faced equally e.g. transition to a low carbon economy

Idiosyncratic – company specific considerations, often relating to the management of risks e.g. transition plan and its execution

Companies make judgements on balancing trade-offs

Evolving stakeholder expectations or sudden catalyst

Stakeholder pressure to adapt– may coincide with reputational impacts

Innovation and regulation can cement financial materiality

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ESG integration is a way to understand the broader risk and opportunities facing a company

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