

NEWTON

Investment
Management

▶ BNY MELLON | INVESTMENT MANAGEMENT

DEBUNKING THE MYTHS OF ESG

Florida Public Pension Trustees Association (FPPTA)

Rebecca White
January 2024

STRICTLY FOR INSTITUTIONAL INVESTORS ONLY
Please read the important disclosure at the back of this material.
PRE003519

DATA CLASSIFICATION: CONFIDENTIAL

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



Companies are part of an integrated global economy

Why do we believe ESG integration is a part of multidimensional 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 internalised, where risks crystallise, or with changing regulation and consumer behaviour
- ESG integration can be used to identify potential mispricing through alternative data sets, not traditionally found within financial reporting



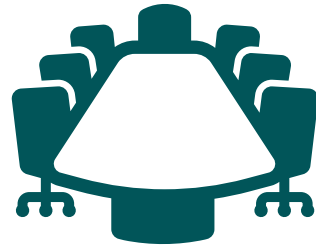
Newton manages a variety of investment strategies. How ESG analysis is integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved. Newton does not currently view certain types of investments as presenting ESG risks and opportunities and believes it is not 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 integration is a lens to identify potential mispricing

Ways in which ESG can be financially material

IDIOSYNCRATIC

E.g. product recall



SINGULAR EVENT

E.g. oil spill



SYSTEMIC

E.g. energy security & transition




QUALITY INDICATOR

Risk management & internal controls



How ESG issues can have financially material implications

ENVIRONMENTAL 	
Physical climate risks across operations/value chain	<ol style="list-style-type: none"> 1. Asset damage - one off cost 2. Asset value impairment 3. Operational disruption - reducing profitability
Climate transition risk and net zero strategy	<ol style="list-style-type: none"> 1. Revenues <ol style="list-style-type: none"> a. Product portfolio shift b. falling demand for existing products and services 2. Investment in new technologies <ol style="list-style-type: none"> a. R&D b. capex c. technology risk 3. Cost of compliance with regulation 4. Legal & litigation risk 5. Efficiency - reduces cost
Reliance on and use of natural resources	<ol style="list-style-type: none"> 1. Operational disruption - reducing profitability 2. Higher cost of input materials 3. Efficiency - reduces cost
Natural resource impact through operations and products/services	<ol style="list-style-type: none"> 1. Higher cost of operations 2. Revenues - risk to product portfolio (e.g. bottled water) 3. Higher cost of input materials (e.g. single use plastics)
Opportunities in environmentally friendly products and services	<ol style="list-style-type: none"> 1. Revenues (a) Growth rates, (b) Elasticity of demand, (c) Market share

SOCIAL 	
Cyber security / Data Privacy	<ol style="list-style-type: none"> 1. Cost of compliance with regulation 2. Legal & litigation risk
Product safety and quality	<ol style="list-style-type: none"> 1. Cost of compliance with regulation 2. Legal & litigation risk 3. Revenues
Human capital (safety, employee engagement, diversity and inclusion)	<ol style="list-style-type: none"> 1. Operational disruption - reducing profitability 2. Higher cost of labour / turnover 3. Inefficiency - increases cost 4. Cost of compliance with regulation 5. Legal & litigation risk
Opportunities in/access to socially sustainable products or services	<ol style="list-style-type: none"> 1. Revenues <ol style="list-style-type: none"> a. Product portfolio shift b. increasing demand for existing products and services 2. Brand and perception
Operations in sensitive regions and human rights	<ol style="list-style-type: none"> 1. Operational disruption - reducing profitability 2. Legal and litigation risk 3. Efficiency - increase delays/costs
Supply chain risk management	<ol style="list-style-type: none"> 1. Cost of compliance with regulation 2. Legal & litigation risk 3. Brand and perception 4. Revenues in extreme circumstances

Materiality is a central consideration in ESG integration

Where material ESG issues may align to financial reporting

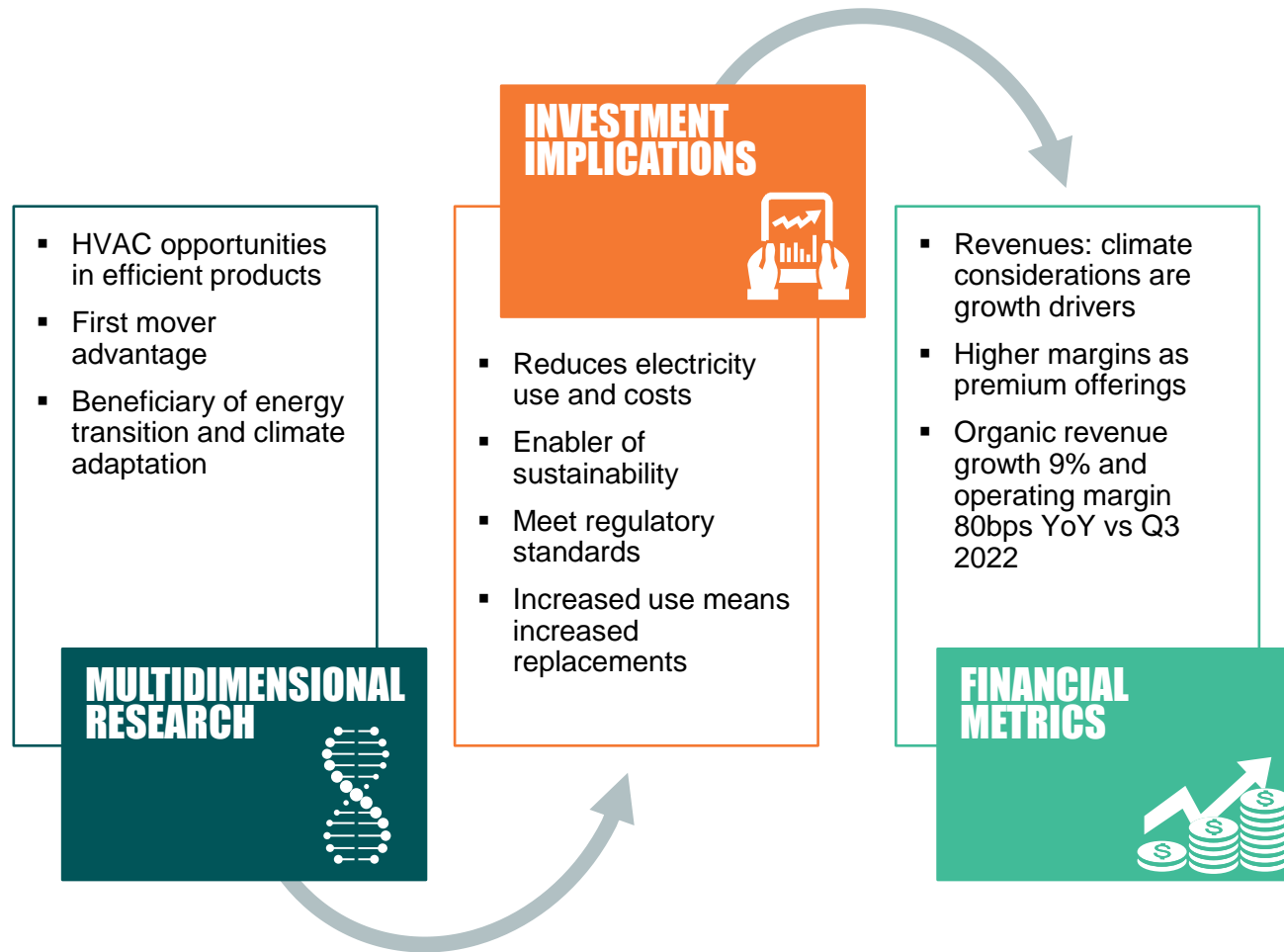
The screenshot shows an Excel spreadsheet titled 'Book1 - Excel' with the 'Home' ribbon selected. The spreadsheet is divided into three main columns: 'Income Statement' (dark green header), 'Balance Sheet' (orange header), and 'Cash Flows' (teal header). The rows contain various financial metrics and categories.

	A	B	C	D	E	F	G
1							
2							
3		Income Statement		Balance Sheet		Cash Flows	
4							
5		Net revenues		Current Assets		Cash Flow from Operations	
6		Cost of goods sold		Property & equipment		Net Income	
7		Gross profit		Goodwill			
8				Intangible assets		Adjustments	
9						Depreciation & amortisation	
10				Current Liabilities			
11				Commitments & contingencies			
12							

Note:¹ Source: <https://oceantomo.com/intangible-asset-market-value-study/>

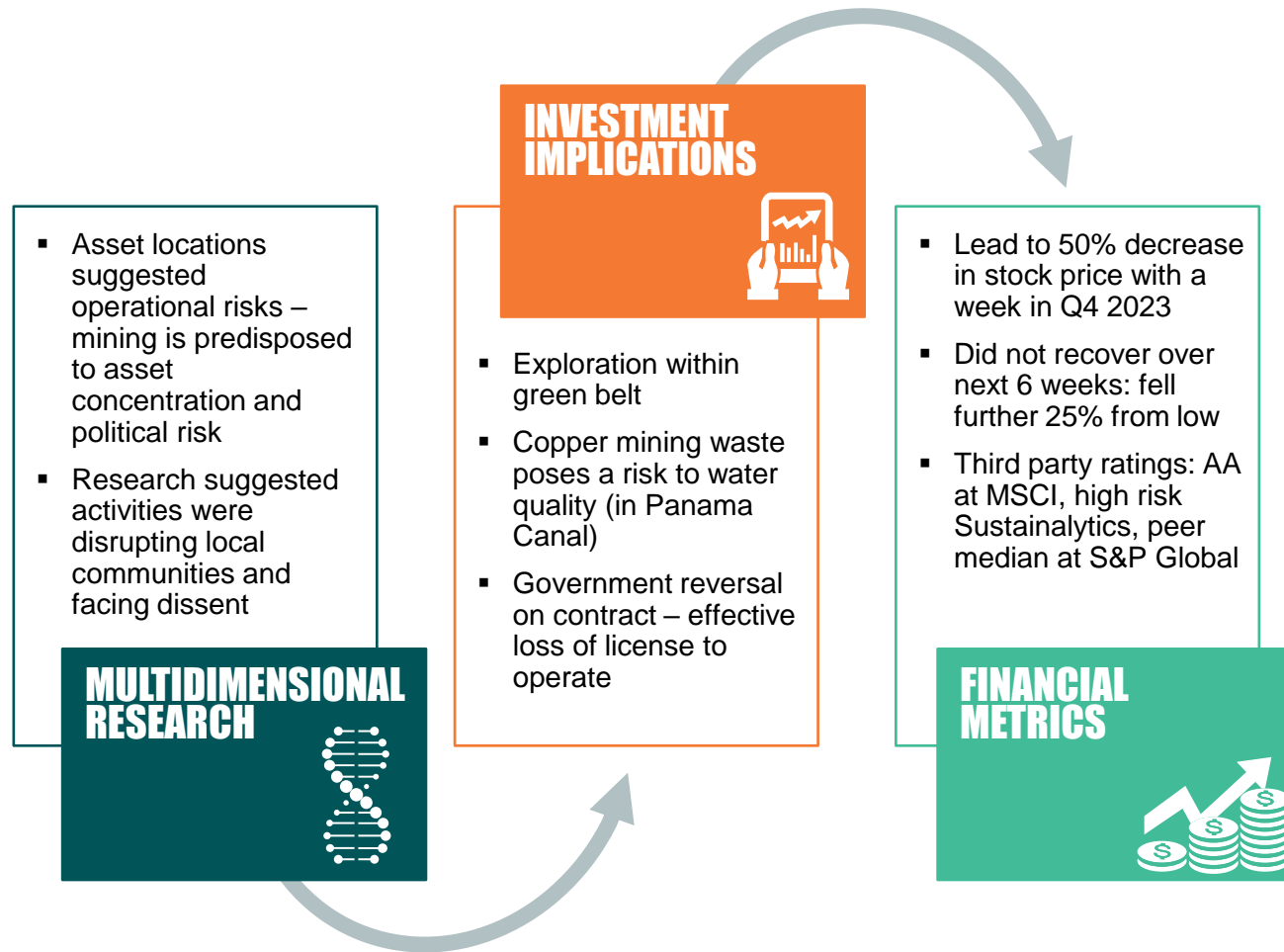
>80% of the value of S&P 500 comes from intangible assets¹

Case study: US industrial products company



Source: Newton, 30 August 2023.
The securities mentioned are only for illustrating the investment process of Newton Investment Management. These opinions should not be construed as investment or any other advice and are subject to change. This slide is for information purposes only and does not constitute an offer or solicitation to invest.

Case study: Canadian mining company



Source: Newton, 30 November 2023.
The securities mentioned are only for illustrating the investment process of Newton Investment Management. These opinions should not be construed as investment or any other advice and are subject to change. This slide is for information purposes only and does not constitute an offer or solicitation to invest.

APPENDIX

ESG issues are considered and inform throughout the investment process

COMPANY INSIGHTS

- Consultative support from subject matter experts during investment due diligence
- Company research meetings to inform investment views
- Subject matter expertise on systemic risk aids understanding of risk and opportunities

THEMATIC ESG RESEARCH

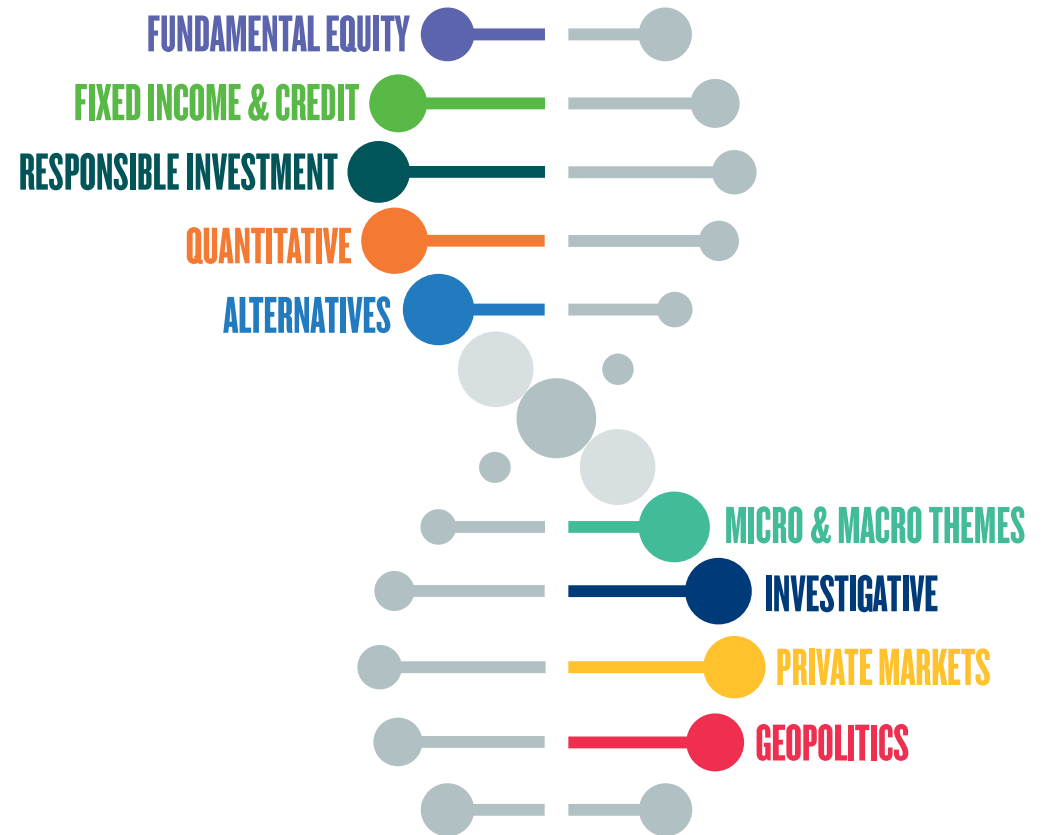
- ESG insights on micro theme oversight committee
- Research presentations e.g. climate adaptation and hydrogen
- Externalities and sustainability linked structural trends inform long term perspectives

ACTIVE STEWARDSHIP

- Engagements with objectives linked to financial materiality
- Voting, advocacy and engagement activities integrated and connected to the investment process

INTEGRATION AND INSIGHTS

- Participate in research pods
- Weekly investment team meeting contributions
- Engagement with investment teams, including via investor platforms

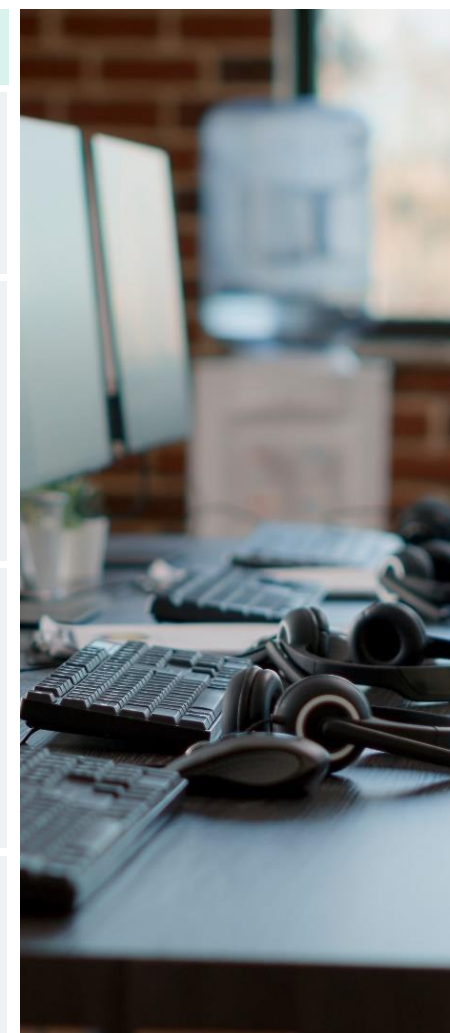


The above is an illustration of a sample investment process. For illustrative purposes only. Investment process subject to change at any time without notice. All aspects of the investment process may not be considered for each review. Newton will make investment decisions that are not based solely on ESG considerations. Other attributes of an investment may outweigh ESG considerations when making investment decisions. The way that ESG considerations are assessed vary depending on the asset class and strategy involved. The extent to which ESG may be incorporated varies across investment strategies and investment processes. 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.

Responsible Investment insights contribute to multidimensional Research

ESG integration example: French digital services company

ESG factors	 Human capital (safety, working conditions, employee engagement, diversity and inclusion)
ESG topics	 <ul style="list-style-type: none">Allegations of union-busting, and poor conditions for workers in content moderation roles
Research undertaken	 <ul style="list-style-type: none">Initial research highlighted that issues appeared to date back over ten years, and were consistent across regions, suggesting that this was not an isolated issueWe sought to understand the extent of any wrong-doing by the company, and the extent to which this had been resolved or if there remained exposure to reputational issues that could financially impact the companyWe had a conversation with an international labour union that had recently entered into a worldwide agreement with the company
Investment implications & outcomes	 <ul style="list-style-type: none">It's commitments and engagement with trade unions have provided reassurance that they are taking meaningful steps to address the risks of reputational and share price damageDespite the potential for further damage after a controversy, it is important to note that rebuilding trust takes timeNevertheless, this situation presents an opportunity for the company to establish industry standards for content moderation employment practices, and for investors to take advantage of positions where future risk levels are uncertainAs a result, the fundamental analyst recommended the stock
Next steps	 <ul style="list-style-type: none">We must continue to monitor the companyAny regression in commitments or actions would undermine current levels of comfort. This could potentially have a negative impact on the share price in the short run and increase financial risks in the long run, particularly in terms of human capital management



Source: Newton, 30 August 2023.

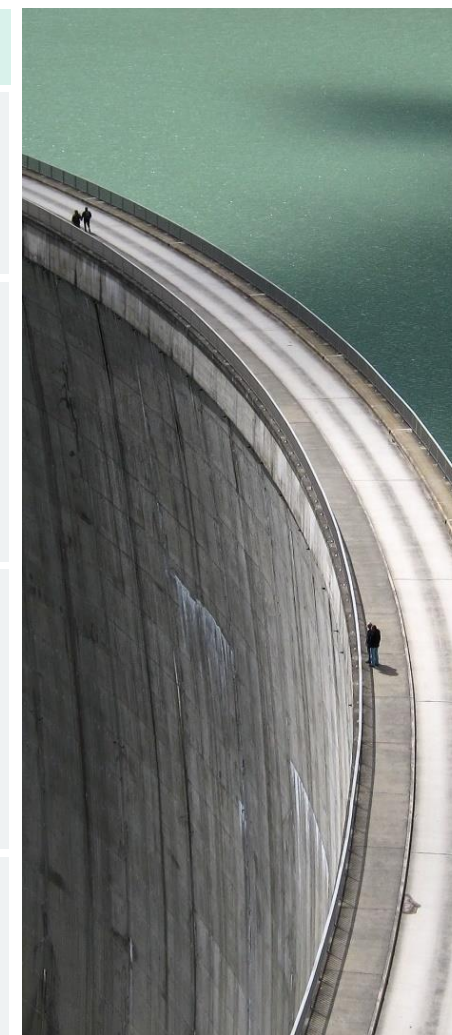
The securities mentioned are only for illustrating the investment process of Newton Investment Management.

These opinions should not be construed as investment or any other advice and are subject to change.

This slide is for information purposes only and does not constitute an offer or solicitation to invest.

ESG integration example: Norwegian Industrial company

ESG factors	 Operations in sensitive regions and human rights
ESG topics	 <ul style="list-style-type: none">▪ This project was prompted by a request from a portfolio manager following a long-form expose by investigative journalists▪ Operations in sensitive regions / human rights and natural resource impact through operations▪ Faced a class-action lawsuit alleging that its refinery is responsible for polluting resulting in health issues
Research undertaken	 <ul style="list-style-type: none">▪ We spoke with sources on the ground in Brazil including:<ul style="list-style-type: none">– the investigative journalists who broke story alleging wide-spread contamination– researchers who have been studying effects on the local community for decades– the legal team representing 11k community members in a class-action lawsuit brought against the company
Investment implications & outcomes	 <ul style="list-style-type: none">▪ It downplayed the events: it did not provide details of its engagements with local people who filed the litigation and also did not address the issues of pollution in refining. Its lack of provisions to the lawsuit suggested that it was complacent or may have misjudge the risks▪ The portfolio manager had considered purchasing this but paused this as the controversy broke▪ As they were able to get comfortable that this was not likely to have a financial impact over the short term whilst the legal case played out, they added a position around a month later
Next steps	 <ul style="list-style-type: none">▪ The class action lawsuit will likely continue for the next year▪ Monitoring those legal cases and results will be important given the company's hard stance of no wrongdoing



Source: Newton, 30 August 2023.

The securities mentioned are only for illustrating the investment process of Newton Investment Management.

These opinions should not be construed as investment or any other advice and are subject to change.

This slide is for information purposes only and does not constitute an offer or solicitation to invest.

Important information

For US investors

For Institutional Clients Only. Issued by Newton Investment Management North America LLC ('NIMNA' or the 'Firm').

NIMNA is a registered investment adviser with the US Securities and Exchange Commission ('SEC') and subsidiary of The Bank of New York Mellon Corporation ('BNY Mellon'). The Firm was established in 2021, comprised of equity and multi-asset teams from an affiliate, Mellon Investments Corporation. The Firm is part of the group of affiliated companies that individually or collectively provide investment advisory services under the brand 'Newton' or 'Newton Investment Management'. Newton currently includes NIMNA and Newton Investment Management Ltd. ('NIM') and Newton Investment Management Japan Limited ('NIMJ').

The Firm's assets under management, client and employee counts are as of the most recent quarter end, unless noted otherwise. Where applicable, assets under management include discretionary and non-discretionary assets, the notional value of overlay strategies, assets of bank-maintained collective investment funds for which NIMNA has been appointed sub-advisor, assets managed by investment personnel acting in their capacity as officers of affiliated entities and assets of wrap fee account(s) for which NIMNA provides sub-advisory services to the primary manager of the wrap program. Newton's assets under management include assets collectively managed by NIM and NIMNA. In addition, AUM for Newton includes assets of bank-maintained collective investment funds for which Newton has been appointed sub-advisor, where Newton personnel act as dual officers of affiliated companies and assets of wrap fee account(s) for which Newton provides sub-advisory services to the primary manager of the wrap program.

This document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorized. This material (or any portion thereof) may not be copied or distributed without Newton's prior written approval.

Statements are current as of the date of the material only. Any forward-looking statements speak only as of the date they are made, and are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

The following provides a simplified example of the cumulative effect of management fees on investment performance: An annual management fee of 0.80% applied over a five-year period to a \$100 million portfolio with an annualized gross return of 10% would reduce the value of the portfolio from \$161,051,000 to \$154,783,041. The actual investment advisory fees incurred by clients may vary depending on account size, structure, cash flow and other account-specific factors. Newton's standard fees are shown in Part 2A of its Form ADV.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Past results are not indicative of future performance and are no guarantee that losses will not occur in the future. Future returns are not guaranteed and a loss of principal may occur.

Performance is expressed in U.S. dollars unless noted otherwise. Performance results for one year and less are not annualized. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Performance presented for measurement periods prior to September 1, 2021 represents the performance of the strategy when managed at Mellon Investments Corporation ('Mellon'), an affiliate of NIMNA. Performance presented for measurement periods prior to February 1, 2018 represents the portable performance results of a prior affiliated firm. Mellon was formed on January 31, 2018, through the merger of The Boston Company and Standish into Mellon Capital.

To derive Ten Largest Holdings, Characteristics, Economic Sector Weightings, Country Weightings and Portfolio Holdings for presentation purposes, a representative institutional account ('Account') has been identified to be used as a proxy for the strategy. The information provided in this document should not be considered a recommendation to purchase or sell any particular security.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an Account's entire portfolio and in the aggregate may represent only a small percentage of an Account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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.

Some information contained herein has been obtained from third-party sources that are believed to be reliable, but the information has not been independently verified by Newton. Newton makes no representations as to the accuracy or the completeness of such information and has no obligation to revise or update any statement herein for any reason. Unless you are notified to the contrary, the products and services mentioned are not insured by the FDIC (or by any governmental entity) and are not guaranteed by or obligations of The Bank of New York or any of its affiliates. The Bank of New York assumes no responsibility for the accuracy or completeness of the above data and disclaims all expressed or implied warranties in connection therewith.

Charts and graphs herein are provided as illustrations only and are not meant to be guarantees of any return. The illustrations are based upon certain assumptions that may or may not turn out to be true.

The use of corporate names or logos in this presentation, other than those of Newton or its affiliates, is for illustrative purposes only and rights to any logos, trademarks or servicemarks are owned by their respective entities. It is not known whether the listed companies endorse or disapprove of Newton or any advisory services provided.

The indices referred to herein are used for comparative and informational purposes only and have been selected because they are generally considered to be representative of certain markets. Comparisons to indices as benchmarks have limitations because indices have volatility and other material characteristics that may differ from the portfolio, investment or hedge to which they are compared. The providers of the indices referred to herein are not affiliated with NIMNA, do not endorse, sponsor, sell or promote the investment strategies or products mentioned herein and they make no representation regarding the advisability of investing in the products and strategies described herein. Please see NewtonIM.com for important index licensing information.

Newton does not consider Investment Analytics to meet the definition of performance as defined in 206(4)-1(e). Investment Analytics are usually utilized as evaluation tools, both by internal portfolio management teams along with clients, to better understand drivers of performance returns however they are not considered actual performance returns. Gross performance data is used to derive at Investment Analytics. Investment Analytics would include but not limited to: Attribution which shows contribution of returns at difference classifications; Top xx / Bottom xx Contributors (with xx being any number less than the half of the holdings in a portfolio); Ex-post risk statistics (such as tracking error, information ratio, standard deviation of returns). Note: Classifications used in attribution can include but not limited to: Sector / Industry / Sub-Industry; Geographical (for example country, region); Market Cap.