The case for equity income investing

The case for equity income investing | pages 3-5
The 'evidential' benefit of dividends | page 5-8
Value versus growth | page 8
Yield discipline | page 9
Valuation | page 9
Conclusion | page 10
Glossary | page 10

➤ A BNY MELLON COMPANY℠

NEWTON
The Power of Ideas

Performance

Newton exists primarily to increase the wealth of its clients by delivering strong and transparent investment performance

Perspective

Newton uses a distinctive global, thematic approach to maintain perspective and to generate strong and durable investment ideas

Teamwork

Newton is successful in varied market conditions by using a coherent, collaborative and enduring team-based investment approach

Consistency

Newton seeks to achieve consistent and stable growth in its business by maintaining strong investment performance and managing portfolios that are appropriate to the fulfilment of clients' objectives

The case for equity income investing

With authorities around the world seeking in the aftermath of the global credit crisis to repair defective credit markets and to support economies, the rates of income payable on most asset classes have changed significantly. Most obviously, interest rates and the levels of income payable on government bonds have fallen precipitously. Near-term changes in asset prices are uncertain, but in this paper we consider the longer-term attractions of harnessing income from investing in equities.

The case for an income-focused approach to equity investing is essentially twofold:

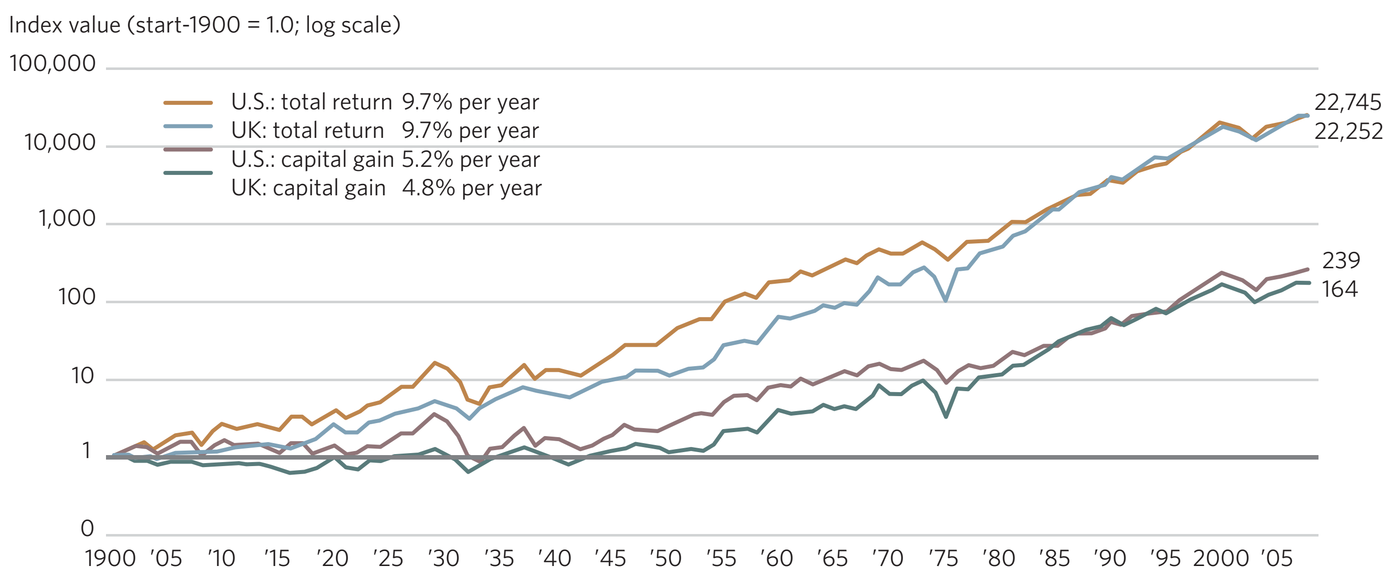
- First, equity income (whether required or not) forms an essential component of an investor's long-term total return
- Secondly, by concentrating on income-bearing shares, investors benefit from a number of qualities that issuers of those shares tend to demonstrate. In addition, dividend yield can be used as an aid to timing purchases (when the yield on a stock rises and the price falls) and sales (when the yield on a stock falls and the price rises).

In recent times, income levels on many assets have fallen, owing principally to collapsing interest rates and falling government bond yields; elsewhere many sources of income have been shown to be of questionable provenance (for example, collateralized debt obligations and mortgage-backed securities). In this environment, we have been reminded that an ungeared, transparent and understandable income yield, allied to the prospect of longer-term capital growth, has appeal as a core component of a sensible investment strategy.

By investing over the long term in income-generating equities, investors should enjoy real growth in income together with long-term capital growth. A focus upon companies that pay a regular cash dividend leads investors to hold a portfolio that is comprised of companies that are reasonably valued, that generate cash flow in a sustainable manner, that are sensibly managed and financed and that allocate shareholders' funds with a view to long-term returns on capital.

A dividend is much more than merely a component of the overall return from a stock. It is tangible evidence of a firm's profitability and represents a commitment by the management of a company to return the cash flow it generates to shareholders on a regular basis.

CHART 1. EQUITY INCOME AS AN ESSENTIAL COMPONENT OF TOTAL RETURN*



Source: "Global Investment Returns Yearbook 2008" Dimson, Marsh and Staunton. *All returns are in local currency terms.

TABLE 1. YEARS TO BREAK-EVEN FOLLOWING SHARE PRICE DECLINE

Price decline ↓ yield →	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
10%	**95.8**	48.4	32.6	24.7	20.0	16.8	14.5	12.9	11.5	10.5
20%	90.3	45.6	30.8	23.3	18.9	15.9	13.8	12.2	10.9	9.9
30%	84.2	42.6	28.8	21.8	17.7	14.9	12.9	11.4	10.3	9.3
40%	77.6	39.3	26.6	20.2	16.3	13.8	12.0	10.6	9.5	8.7
50%	70.4	35.7	24.1	18.4	14.9	12.6	10.9	9.7	8.7	8.0
60%	62.2	31.6	21.41	16.3	13.3	11.2	9.8	8.7	7.8	7.2
70%	52.7	26.9	18.3	14.0	11.4	9.7	8.5	7.6	6.8	6.3
80%	41.4	21.3	14.6	11.2	9.2	7.9	6.9	6.2	5.6	**5.2**

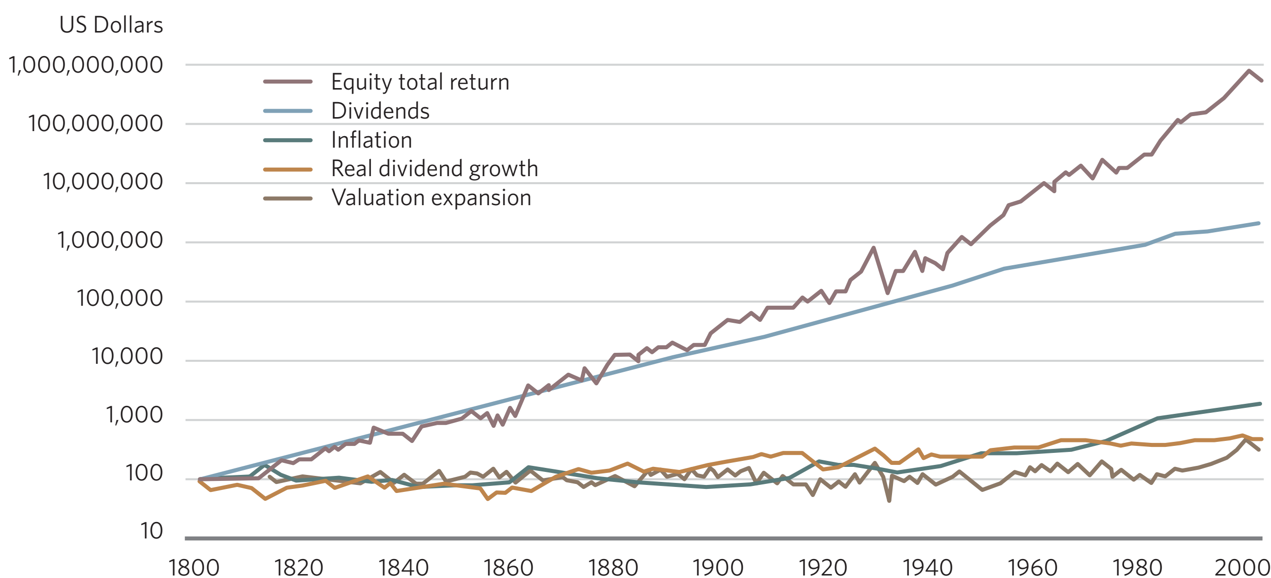
Source: "The Future for Investors", Jeremy Siegel, 2005

In addition, the regular payment of a dividend:

- aligns the interests of a company's management with those of its shareholders (assuming management is paid in restricted stock rather than options – see below), with compensation being linked to shareholder returns rather than to stock options that do not give holders a right to a dividend
- makes it less likely that cash will remain idle on a company's balance sheet (or, worse still, be used in activities that often destroy value such as mergers and acquisitions)
- reduces the likelihood or incentive of management to burden a business with too much debt.

The long-term returns from the U.S. and UK equity markets illustrate the influence of dividends on wealth creation. To the long-term investor, attractive equity returns are derived not simply from the receipt of dividends but from the accumulation of shares as a result of the reinvestment of those dividends. The compounding of investment returns via income reinvestment is a powerful driver of equity returns over the long term.

CHART 2. GROWTH OF $100 INVESTED IN U.S. EQUITIES, 1802-2002



Source: "Dividends and the Three Dwarfs", Financial Analysts Journal, Arnott, 2003

TABLE 2. ANNUAL RETURN ONCE PRICE RECOVERS

Price decline ↓ yield →	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
10%	10.1	10.2	10.4	10.5	106	10.7	10.8	10.9	11.0	11.1
20%	10.3	10.5	10.8	11.1	11.3	11.6	11.8	12.0	12.3	12.5
30%	10.5	10.9	11.4	11.8	12.2	12.7	13.1	13.5	13.9	14.3
40%	10.7	11.4	12.1	12.8	13.5	14.2	14.8	15.4	16.1	16.7
50%	11.1	12.2	13.2	14.2	15.2	16.2	17.2	18.2	19.1	20.0
60%	11.6	13.2	14.8	16.4	17.9	19.3	20.8	22.2	23.6	25.0
70%	12.5	15.0	17.5	19.9	22.2	24.5	26.8	29.0	21.2	33.3
80%	14.4	18.6	22.8	20.9	31.0	34.9	38.8	42.6	46.3	50.0

Source: "The Future for Investors", Jeremy Siegel, 2005

Investors should also benefit from the fact that, if a dividend continues to be paid after a share has fallen in price, they receive a greater number of shares upon reinvestment of that income than if the share price had not fallen. The combination of income distribution and reinvestment at attractive valuations is what accumulates capital for shareholders most effectively and with relatively little risk over the long term. This is why dividends serve not only to offer some downside protection in bear markets (by remaining relatively stable and therefore growing in size relative to the capital value of an investment) but also to accelerate returns when markets recover by leading investors to buy shares inexpensively during depressed periods in markets.

This effect is demonstrated in Table 1 (on the previous page) and Table 2 above. Table 1 shows the relationship between the level of a company's dividend and the recovery of its share price following falls of different magnitudes in that share price. If a company pays a dividend of 1% and its share price falls by 10%, it will take 95.8 years for the share price to regain the level of that of a company that pays a 1% dividend but whose share price has not fallen. Looking at a more extreme scenario, if a company pays a dividend of 10% and its share price falls by 80%, it will take only 5.2 years for the share price to regain the level of that of a company whose share price has not fallen. These figures illustrate that dividends are highly valuable in driving long-term returns.

While the above analysis is hypothetical, it reminds investors that dividends, if paid (underscoring the need for high-quality, fundamental research), are effective in restoring fortunes (literally) following share price falls. Furthermore, the greater the fall, the more powerful the effect of the dividend will be. This is illustrated by the next table, which shows the implied annual returns from Table 1 on the previous page.

Indeed, there is evidence to suggest that the power of this dividend reinvestment outweighs all other sources of return, as shown in Chart 2 (on the previous page). The study from which the chart is taken disaggregated the components of total return from the U.S. stock market over 200 years to the end of 2002. Of the overall return of 7.9%, 5.0% was attributable to dividends. The remaining 2.9% was a combination of inflation (1.4%), rising valuations (0.6%) and real growth in dividends (0.8%). The contribution of dividends outweighed therefore not just each of the other three components of return individually, but of those other components combined.

For those investors who wish to receive the income generated by their investments (rather than to reinvest it), the cumulative power of dividend reinvestment is naturally diminished, but dividend-paying equities represent nonetheless a relatively stable source of income while allowing investors to maintain exposure to 'real' assets.

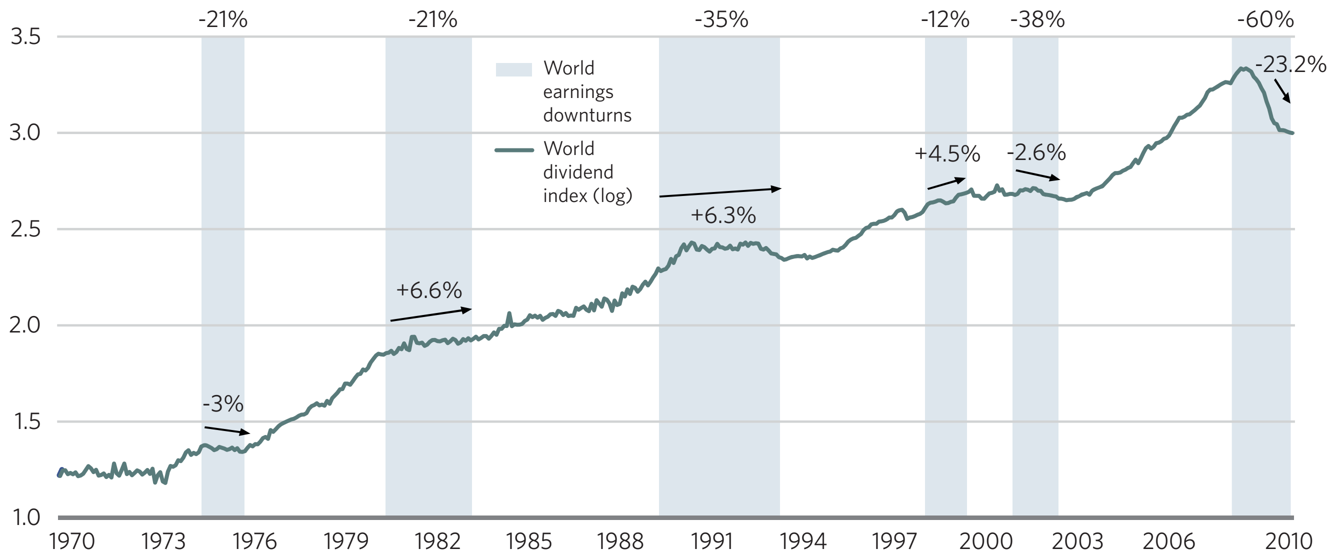
The 'evidential' benefit of dividends

Stability of dividends

An important element of income investing is the relative stability of dividends. Once a dividend is established, companies tend to try to keep paying it to avoid the negative signal that the market receives when the payment of a dividend is halted. This is illustrated in Chart 3, which shows the growth in distributions delivered by the world index since 1970.

Even during periods in which corporate earnings fall (represented by the shaded areas on the chart), dividend payments tend to be relatively stable. Investors may, by concentrating on the income they receive, withstand the volatility in the economy and in the

CHART 3. MSCI WORLD INDEX – DIVIDEND PERFORMANCE IN EARNINGS DOWNTURNS

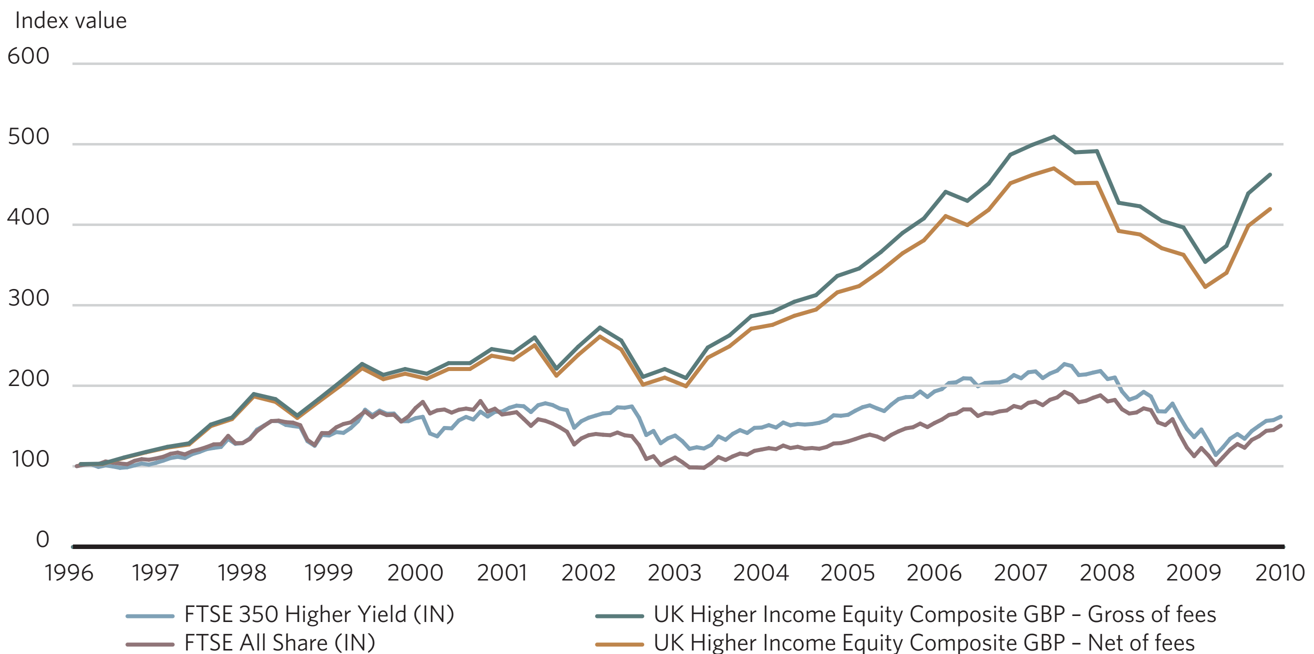


Source: "Dividend Resilience", Citigroup, 30 September 2008

capital value of their portfolios with greater equanimity, enabling them to remain faithful to long-term investment strategies even during periods of below-average total returns. Where investors have liabilities to cover, it is desirable that they withdraw an appropriate level of income that ensures that their longer-term investment plans do not have to be disturbed (and that their capital does not have to be drawn down when markets are depressed).

Finally, in an uncertain environment, investors are drawn behaviorally to the relative certainty of a dividend payment and they attach greater importance to the signal given by the solidity of a dividend policy in a downturn (the basis of so called 'prospects' or 'signalling-effect' theories). This leads to the outperformance of dividend-paying companies in down markets.[1]

CHART 4. UK EQUITY MARKET PERFORMANCE – HIGHER YIELD VERSUS LOWER YIELD



Source: Thomson Datastream as at 29.06.2010; indices rebased to 100 from 01.01.1996. Past performance is not a guide to future returns.

1. "Do dividends matter in declining markets?" Fuller and Goldstein, 2005, University of Mississippi and Babson College.

This point is borne out by the performance of Newton's (UK) Higher Income strategy, whose long track record demonstrates the relative resilience of income-biased stocks during ‘bear’ markets (for example 2000-2003 and 2007-2008). See Chart 4 on the previous page.

Stable dividends tend to represent concrete evidence of a firm's wellbeing. Dividends cannot be falsified and require some stability of cashflow to be maintained.[2]

Share buy-backs

It is sometimes argued that the prevalence of share buy-backs renders a focus upon dividend yield invalid. In the U.S. in particular, there has been a change of culture that has led to share buy-backs largely replacing (or even augmenting) dividend payments, and proponents of buy-backs argue that, not only are they more tax efficient, but that they are equivalent in terms of their effect on the capital structure of a company.[3] While we agree that these observations are theoretically true, it should be noted that theory and practice do not always concur, owing to a combination of human nature and the incentives that drive human behaviour.

A share buy-back is equivalent to a dividend only if it is maintained in a downturn. However, companies tend to carry out share buy-backs when times are good and quietly drop them subsequently when conditions deteriorate; this is equivalent to a dividend cut, but may be less obvious to investors because it is carried out less publicly. This ‘pro-cyclicality’ reduces the effectiveness of buy-backs both in enhancing returns and in providing evidence of a company's standing to investors, and underscores why investors should not rely upon them.[2]

Stock options versus restricted stock

There has been much controversy regarding the granting of options and the effect of options on incentives, profitability and shareholder returns.[5] From an income investor's perspective, the payment of options gives rise to a significant issue. If senior company employees are paid in options, not only will there be a ‘dilution’ of common shareholders' interests upon the exercise of those options (given that the company's total earnings will be divided by a greater number of shares), but management will be biased towards share buy-backs rather than dividends because it is not entitled to the latter.

If, however, management is paid in restricted stock, it will benefit from dividend payments and will be equally harmed by dilution. The payment of restricted stock aligns the interests of management with those of shareholders much more closely than is the case where management is rewarded with options. Since it could be argued, therefore, that the payments of dividends and stock options are at odds with each other, dividends provide a further safeguard against the large-scale granting of options and the negative impact that this would have on shareholders' long-term returns.

Dividends and the capital structure of a business

A key theme at Newton is *all change*, which captures the conviction that the credit ‘crunch’ marked the end of an extraordinary period in financial markets, which was characterized by cheap and plentiful credit together with low levels of volatility (that encouraged the ever greater use of leverage). The implications of this are that the cost of debt is likely to be structurally higher and financial markets are likely to be more volatile than previously. In such an environment, which is likely to prevail for some time, more conservative capital structures and less reliance on all forms of credit will be apposite.

In this context, the appropriate capital structure for a business is another topic in relation to which theory and practice diverge. Theoretically, the appropriate level of borrowing for a company is illustrated graphically at the point of intersection of two curves. One curve depicts the value of a company's tax ‘shield’ (which is created by the tax deductibility of debt) and the second depicts cost of debt that the market determines is appropriate for a company considering its inherent risks (volatility or earnings, quality of assets, barriers to entry etc.) and its current level of indebtedness. Once the market becomes concerned about the level of debt in a business, the cost of further debt will outweigh the incremental value of the tax shield.

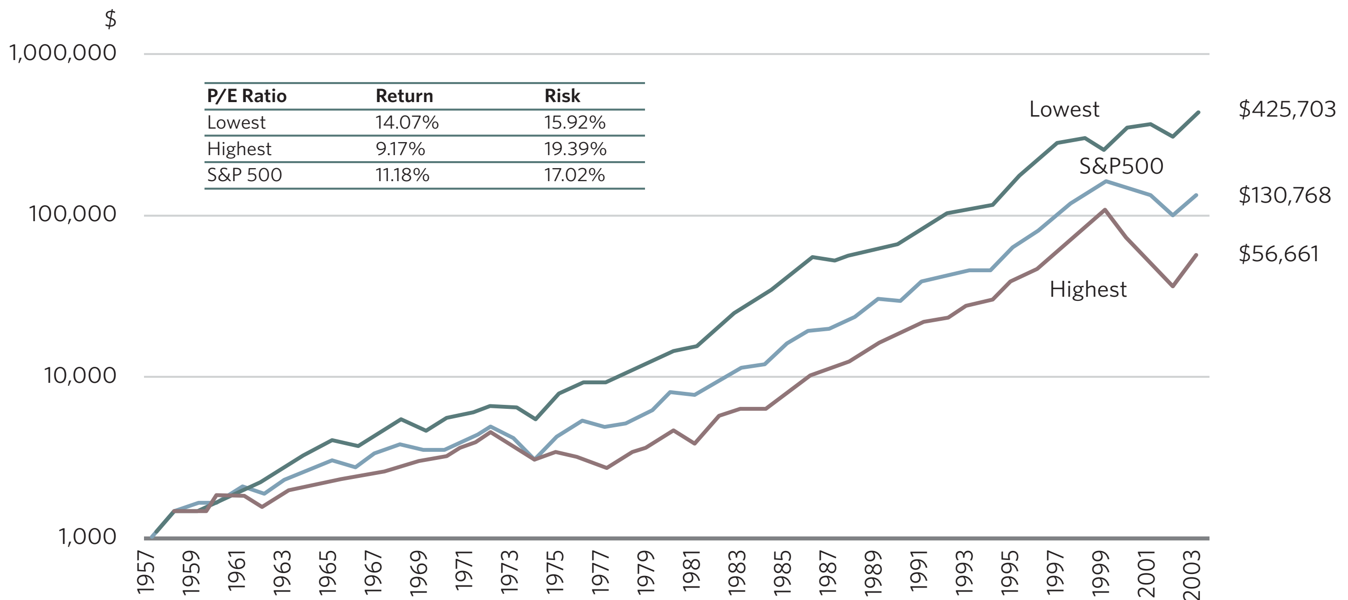
This theory depends upon some fairly strong (and unrealistic) assumptions. These assumptions include the notions that:

- a supply of credit will be available and that it is merely the price of credit (rather than its availability) that fluctuates according to factors that are exogenous to the credit markets themselves
- the risks inherent in a business will not be reappraised overnight
- lenders' willingness to lend will not change markedly
- business conditions will not radically change within the life span of the debt structure

The more one thinks about the above assumptions, the more outlandish we believe they become; and it seems unfortunate therefore that so many business models and corporate transactions are based on just this sort of thinking.

2. “Financial Flexibility – the choice between dividends and stock repurchases” Jagannathan, Stephens, Weisbach 2000 Journal of Financial Economics.
3. See Brearly and Myers 1996, or Grinblatt and Titman 1998.
4. “Financial Flexibility – the choice between dividends and stock repurchases” Jagannathan, Stephens, Weisbach 2000 Journal of Financial Economics.
5. See www.berkshirehathaway.com for various Warren Buffett views on the topic.

CHART 5. LOW P/E VERSUS HIGH P/E IN US



P/E Ratio	Return	Risk
Lowest	14.07%	15.92%
Highest	9.17%	19.39%
S&P 500	11.18%	17.02%

Source: "The Future for Investors", Jeremy Siegel, 2005

We believe that a better approach than employing a theory such as that above is to think about a company's capital structure in terms of the dividends the company pays. Although one step removed from the capital structure, a dividend is only paid once all other calls on a company's cashflows have been met.

Dividends represent the most 'junior' claims upon the capital of a business and, as such, equity holders, like it or not, are subject to the demands of claimants further up the capital structure. Given that this is the case, a management (especially one paid in restricted stock rather than in options – see above) has to be confident that it has the money to pay a dividend if it has committed to doing so. This means that a dividend-paying company's management is likely, at the margin, to be more conservative than that of a non-dividend-paying company when borrowing (owing to its prerequisite to take into account not only the requirement to meet debt payments but also its obligation to pay a dividend). It also implies that one should be wary of the efficacy of dividends that are paid by companies that are highly indebted. In 2008, for example, indebtedness was a particular feature of infrastructure funds, banks and real estate companies.

Value versus growth

It is often suggested that, by following an income-focused strategy, investors are likely to suffer by investing only in businesses that have low (or no) growth potential, since paying a dividend is evidence of the paucity of a company's investment opportunities. However, this argument is flawed. In a now famous study of U.S. equities by Arnott and Asness,[6] it was shown that there was actually a positive correlation between a company's pay-out ratio and subsequent earnings growth. There is also some evidence that the same is true elsewhere.[7] These studies suggest that the payment of a dividend actually encourages greater capital discipline which, in turn, leads to better long-term returns.

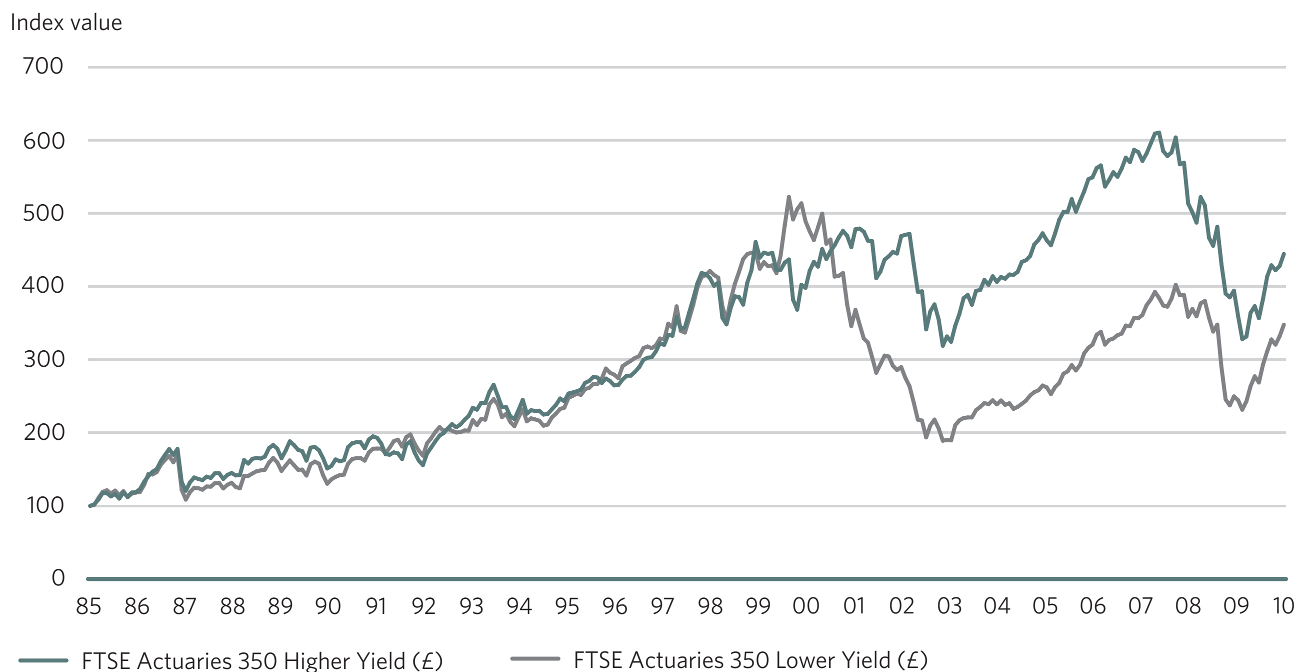
Furthermore, it should be remembered that the return from a share is not simply how quickly a company grows its earnings in respect of a given amount of capital employed, but rather how quickly a company can do so in relation to expectations. It seems that investors have a tendency to overpay for growth companies, to underestimate the capital required to finance a company's growth, and to damage their long-term returns thereby.[8] In short, an income bias should shield the long-term investor from these dangers.

6. "Surprise! Higher Dividends=Higher Earnings Growth" Arnott and Asness 2003 Financial Analysts Journal

7. "International Evidence on the Payout Ratio, Earnings, Dividends and Returns" Gwilym, Seaton, Suddason, Thomas 2006 Financial Analysts Journal

8. "The Future for Investors" Jeremy Siegel 2005 Random House p3-16

CHART 6. UK EQUITY MARKET PERFORMANCE – HIGHER YIELD VERSUS LOWER YIELD



Source: Thomson Datastream as at 29.06.2010; indices rebased to 100 at 31.12.1985.

Yield discipline

At Newton, we employ a yield discipline to our various higher income strategies. Such a discipline encourages us to be contrarian (by buying companies that have fallen out of favour), discourages us from becoming too closely attached to the stocks we hold (by forcing us to sell once a company has done well), and ensures that each company in which we invest generates a yield in its own right.

Nonetheless, a share should never be bought on the basis of its dividend yield alone. At Newton, the foundation for holding any equity is a favourable thematic backdrop to that holding and the identification of companies' fundamental attractions via proprietary global research. The use of a yield discipline complements those factors by helping us to time purchases and sales appropriately. Since dividends tend to be less volatile than the economy and the market, they are ideal for this purpose and they allow investors to turn the inherent volatility of equities to their advantage.

Valuation

While attractive yields and attractive valuations do not necessarily coincide, they often do so; high-quality research will identify when the two are synonymous. There is evidence (see Chart 5 on the previous page) to suggest that a portfolio of companies with lower price-to-earnings valuations than the market tends to outperform a portfolio of companies with higher price-to-earnings valuations than the market. The same can be said for higher-yielding portfolios relative to lower-yielding portfolios, as illustrated by the performance of UK equities since inception of relevant indices at the beginning of 1986 (see Chart 6 above).

Conclusion

The case for equity income investing is strong.

A focus on income:

- has delivered superior returns to investors historically
- when allied to a robust global thematic investment process, should generate attractive returns for investors
- has proved to be less volatile than a growth-orientated approach to equity investment and has had a 'protective' quality during market downturns
- accords with the fact that dividends represent a crucial component of an investor's total return from equities
- can deliver an attractive, regular and growing stream of income
- identifies a number of qualities inherent in a business that are valuable to the long-term investor (irrespective of the investor's requirement for income).

Newton's higher income equity strategy is available, depending on an investor's location and the amount they wish to invest, either via the UK, European, Asian or global higher income funds or via segregated portfolios.

For further details, please go to:
http://www.newton.co.uk/core/contact_us/contact_us.html

Glossary

Capital structure The components which form a company's capital, including ordinary shares, preference shares, debentures and loan stock. In the U.S., the equivalent components are common stock, long term debt and preferred stock.

Dividend The distribution of part of a company's earnings to shareholders, usually twice a year in the form of a main dividend and an interim dividend. Dividends are nearly always paid in cash, but they can also be paid in the form of stock (a 'scrip dividend').

Dividend yield The annual dividend income per share received from a company, divided by that company's share price.

Pay-out ratio The proportion of earnings paid out in dividends to shareholders.

Price-to-earnings ratio The current share price of a company divided by its earnings per share.

Restricted stock Stock which is acquired though an employee stock option plan or via other private means and which may not be transferred.

Share buy-back The purchase by a listed company of its own shares either in the open market or by tender offers.

Stock option A contract that gives the option holder the right, but not the obligation, to buy or sell a fixed number of shares (or other instrument) at a fixed price on or before a given date.

IMPORTANT INFORMATION

This is a financial promotion and is not intended as investment advice. The information provided within is for use by professional investors and/or distributors and should not be relied upon by retail investors. 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 authorised. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment you may get back less than you originally invested. No warranty is given as to the accuracy or completeness of this information and no liability is accepted for errors or omissions in such information.

'Newton' refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Capital Management Limited, Newton International Investment Management Limited, Newton Capital Management LLC and Newton Fund Managers (CI) Limited. Newton Capital Management LLC, which provides marketing services in the U.S. for Newton Capital Management Limited. Except for Newton Capital Management LLC and Newton Capital Management Limited, none of the other Newton companies offer services in the U.S. Newton Capital Management Limited is an investment management firm, authorized and regulated in the UK by the Financial Services Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Registered in England no.2675952. Newton Capital Management Limited is registered as an investment adviser under the Investment Advisers Act of 1940.

Performance is stated gross and net of fees or net of fees only. The impact of management fees can be material. Generally, investment management fees are charged based upon the size of the portfolio, computed quarterly. A fee schedule is available on request from the contacts listed on page 10.

Newton has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). For each of the years from 1996 to 2007, Newton has been verified by an independent verifier. Copies of the verification reports are available upon request. Additional information regarding the firm's policies and procedures for calculating and reporting performance results and a complete list and description of Composites is also available by contacting Ciarán Spillane +1 (516) 338 3521. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this Composite. Capital gains, dividend and interest received may be subject to withholding tax imposed by the country of origin and such taxes may not be recoverable.

If part of the portfolio is invested in sub-investment grade bonds, which typically have a low credit rating and carry a high degree of default risk, then please be aware that this can affect the capital value of your investment. If the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, then there are additional risks associated with these sectors. The information contained within this document should not be construed as a recommendation to buy or sell a security. It should not be assumed that a security has been—or will be—profitable. There is no assurance that a security will remain in the portfolio.

All information relating to Newton and the Newton Global Real Return Strategy has been prepared by Newton Investment Management Limited. Any views and opinions contained in this document are those of Newton Investment Management Limited at the time of going to print and are not intended to be construed as investment advice. BNYMAMI and its affiliates are not responsible for any subsequent investment advice given based on the information supplied.

This document is issued in:

Australia by BNY Mellon Asset Management Australia Limited (ABN 56 102 482 815, AFS License No. 227865) located at Level 6, 7 Macquarie Place, Sydney, NSW 2000.

Canada by BNY Mellon Asset Management Canada Ltd, a registered Investment Counsel Portfolio Manager and Limited Market Dealer.

Dubai, United Arab Emirates, this document is issued by the Dubai branch of The Bank of New York Mellon, which is regulated by the Dubai Financial Services Authority.

Germany by WestLB Mellon Asset Management Kapitalanlagegesellschaft mbH, which is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. WestLB Mellon Asset Management was formed as a 50:50 joint venture between The Bank of New York Mellon Corporation and WestLB AG. If WestLB Mellon Asset Management Kapitalanlagegesellschaft (WMAM KAG) receives any rebates on the management fee of investment funds or other assets, WMAM KAG undertakes to fully remit such payment to the investor, or the Fund, as the case may be. If WMAM KAG performs services for an investment product of a third party, WMAM KAG will be compensated by the relevant company. Typical services are investment management or sales activities for funds established by a different investment management company. Normally, such compensation is calculated as a percentage of the management fee of the respective fund, calculated on the basis of such product's fund volume managed or distributed by WMAM KAG. The amount of the management fee is published in the prospectus of the respective fund. Any compensation paid to the WMAM KAG does not increase the management fee of the relevant fund. A direct charge to the investor is prohibited. The information given herein constitutes information within the meaning of § 31 sub-section 2 WpHG (German Securities Trading Act).

Hong Kong by BNY Mellon Asset Management Hong Kong Limited, whose business address is Unit 1501-1503, 15/F Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong. BNY Mellon Asset Management Hong Kong Limited is regulated by the Hong Kong Securities and Futures Commission and its registered office is at 6th floor, Alexandra House, 18 Chater Road, Central, Hong Kong.

Japan by BNY Mellon Asset Management Japan Limited, whose business address is Meiji Seimei Kan 6F, 2-1-1 Marunouchi Chiyoda-ku, Tokyo 100-0005, Japan. BNY Mellon Asset Management Japan Limited is a Financial Instruments Business Operator with registration No. 406 (Kinsho) at the Commissioner of Kanto Local Finance Bureau, and is a Member of the Investment Trusts Association, Japan and Japan Securities Investment Advisers Association.

Mainland Europe (excluding Germany) and Korea by BNY Mellon Asset Management International Limited. BNY Mellon Asset Management International Limited, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Services Authority.

Singapore by The Bank of New York Mellon, Singapore Branch for presentation to professional investors. The Bank of New York Mellon, Singapore Branch, One Temasek Avenue, #02-01 Millenia Tower, Singapore 039192. Regulated by the Monetary Authority of Singapore.

The UK by Newton Investment Management Limited, an Investment Management firm authorised and regulated by the FSA.

The US by Newton Capital Management LLC.

BNY Mellon Asset Management International Limited and Newton any other BNY Mellon entity mentioned are ultimately owned by The Bank of New York Mellon Corporation.

EXPLANATION OF INDICES

LIBOR 1 MONTH
The rate at which an individual Contributor Panel bank could borrow funds, were it to do so by asking for and then accepting inter-bank offers in reason-able market size, just prior to 11.00 London time FTSE British Government Fixed All Stocks FTSE British Government Fixed All Stocks Index is part of the FTSE UK Gilts Index Series FTSE British Government Index Linked All Maturities FTSE British Government Index, Index Linked All Maturities is part of the FTSE UK Gilts Index Series.

HFRI HEDGE FUND INDEX
The HFRI Monthly Indices (HFRI) are equally weighted performance indices, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database.

IPD ALL PROPERTIES INDEX
A property performance index which tracks retail, office and industrial properties. The index includes data on actual property transactions from institutional investors and property companies. It produces annual and monthly figures for the total property return. The UK IPD index is the standard benchmark for investors to analyse the performance of property in the UK market.

JP MORGAN GLOBAL GOVERNMENT BOND INDEX
The GBI Global index is J.P. Morgan's flagship index for fixed rate government debt. The index measures the total return from investing in 13 developed government bond markets - Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, UK, and US. The GBI Global is part of the GBI family of government debt indices. The GBI indices are market capitalization weighted and bonds enter and leave the indices at the monthly rebalance. There are no size criteria for inclusion, but bonds must have a minimum remaining maturity of one year. Index returns are available hedged or unhedged in a variety of currencies. Daily index returns for the GBI Global hedged in USD are available back to March 31, 1993.

FTSE ALL-SHARE INDEX
The FTSE All-Share is a market-capitalization weighted index representing the performance of all eligible companies listed on the London Stock Exchange's main market, which pass screening for size and liquidity.

FTSE WORLD INDEX
The FTSE World Index, contains only the Developed and Advanced Emerging market segments, is a sub-set of the FTSE All-World Index.

MSCI WORLD NDR INDEX
The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. NDR means that net dividends are reinvested.

RETAIL PRICES INDEX (RPI)
The monthly Index in the UK that demonstrates the movement of retail prices. It effectively shows the cost of living as it tracks the prices of UK consumer goods and services. It also includes expenditure on items such as mortgage interest, rent, and other charges which are not necessarily considered as retail. The RPI is inclusive of VAT, and other taxes, and as such can change as a result of changes in taxation levels. Similar to the Consumer Price Index (CPI) of other countries.

FTSE ALL-WORLD INDEX SERIES
The FTSE All-World Index is the Large/Mid Cap aggregate of 2,700 stocks from the FTSE Global Equity Index Series. It covers 90-95% of the investable market capitalisation.

FTSE ACTUARIES 350 YIELD INDICES
The FTSE 350 Index is an aggregate of the FTSE 100 Index and the FTSE 250 Index. The FTSE 100 Index comprises the 100 most highly capitalised blue chip companies. The FTSE 250 Index comprises mid-capitalisation companies not included in the FTSE 100. Securities with an annualised dividend yield above the average yield of the FTSE 350 Index are placed in the FTSE Actuaries Higher Yield Index. Those with a dividend yield below the average of the FTSE Actuaries 350 Index are placed in the FTSE Actuaries 350 Lower Yield Index.

Newton Investment Management Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Registered in England No. 1371973

Tel: 020 7163 9000
www.newton.co.uk

Registered office: As above
Authorised and regulated by the Financial Services Authority
The Bank of New York Mellon Corporation℠

18781 06/10

BNY MELLON
ASSET MANAGEMENT