

Correspondence from London CIV re Newton Real Return Fund – email 31st Jan 2018

Dear Colleagues,

This email is notification that the recent events at Newton Investment Management have led to both the *LCIV NW Real Return Fund* and the *LCIV NW Global Equity Fund* being placed on 'Watch' which means that unless the concerns which led to the two funds being placed on 'Watch' by LCIV are resolved, LCIV may determine to terminate the relationship with Newton..

In accordance with the Termination and Escalation policy, the following Non-Performance Indicators (NPIs) have been breached:

Loss of key personnel (Iain Stewart, Lead PM of Real Return Fund)

- **Regulatory breach** (FCA investigation following unsuitable actions taken surrounding IPO from the UK equity team)

Staff at LCIV were notified of these NPIs in November 2017 by Newton. Following this, the **Executive Committee (ExCo)** and **Investment Oversight Committee (IOC)** were briefed and it was agreed to place Newton on official 'Watch'.

Since then, the investment team has met twice with the members of the *LCIV NW Real Return Fund* and arranged a meeting with the CIO of Newton Investment Management to discuss wider issues. Initial meetings have not led to any further issues being identified, but neither have the incumbent matters been suitably addressed.

After discussing the matter with Newton, a formal letter was received on the 8th January. The letter failed to address our concerns and we are therefore explaining to investors that our concerns still remain and **should these concerns not be addressed to our satisfaction within a reasonable period of time, LCIV will seek to terminate the relationship. We will, of course, keep investors updated on any developments and any contemplated courses of action.**

It should be noted that the Regulatory Breach did not trigger an immediate convention of the Compliance and Risk Committee (CARCO) as it is confined to a fund which is not directly linked to the London CIV and there was little danger of contagion, the event having happened in 2015.

If you have any questions, please don't hesitate to contact us.

Kind Regards

Chloe Crouch

Client Relations Executive

Email dated 30 November 2017

Dear colleagues,

We have recently been made aware that Iain Stewart, Lead Portfolio Manager for the Newton Real Return Fund, has decided to step back from the day-to-day management of the portfolio. He will still be involved, but more as a strategy input, working 2 days a week (on average). The timing of the decision is interesting, as not only has the fund struggled from a performance perspective over the past 12 months, but it also coincides with the arrival of a new CIO at Newton (Curt Custard) and the initiation of the Chief Commercial Officer position, to be performed by Julian Lyne.

On hearing the news, the London CIV team arranged a meeting to learn more about the drivers behind the decision and the succession plans for the future. The outcome was as follows:

Decision Drivers:

Iain Stewart joined Newton in 1985 and has run the Real Return Fund since inception (as a co-portfolio management structure alongside James Harries until the latter departed for Troy Asset Management in 2015). According to Newton, he has recently turned 60 and would like to spend more time at home. We are organising a meeting with the CIO in the coming weeks to discuss this situation and his wider plans for Newton as a whole.

Succession planning:

As of January 2018, the Real Return Fund will have a co-portfolio management structure, with Suzanne Hutchins and Aron Pataki joining Iain Stewart as named managers for the fund. Suzanne will take day-to-day management for the fund and the reporting lines. Catherine Doyle (US Client Service Team) will become the Investment Specialist for the fund to minimise Suzanne's US reporting requirements. This will continue until June 2018, when Iain Stewart will relinquish his direct portfolio management responsibilities to focus on the more top-down, strategic input for the fund.

Iain Stewart will be continuing his client reporting responsibilities and we will be meeting with him to discuss these changes further. No further changes to the team are expected.

The London CIV team will monitor the situation at Newton as these changes occur and will add commentary to our quarterly reports to you as appropriate.

Kind regards

Chloe Crouch

Client Relations Executive

Email from Newton 6th February 2019

Dear Gillian, George and Anisa

I understand that the London CIV team have recently communicated to all London Boroughs an announcement that they have placed the LCIV Newton Real Return Fund and LCIV Newton Global Equity Fund on 'Watch' due to concerns about '**Loss of Key Personnel**' and a '**Regulatory Breach**' relating to a FCA investigation into a UK equity IPO. We were somewhat surprised and disappointed with aspects of the LCIV's action and indeed with some of the content of the communication itself.

Loss of key personnel:

In November 2017 we communicated about our long term succession planning for the Real Return Strategy's investment team, not about a "Loss of key Personnel" (Iain Stewart)

In November last year, we briefed the LCIV on our long term succession planning for the Newton Real Return Strategy's investment team, something that we believed was sensible given that Iain Stewart, the team leader for the strategy, celebrated his 60th birthday last year. In summary, as part of our internal discussions with Iain regarding his future plans, he decided that wanted to relinquish some of his day-to-day team management responsibilities so that he could focus entirely on top-down strategic investment input. As a result of Iain's reduced responsibilities, Suzanne Hutchins will take on Iain's Real Return team desk reporting lines, freeing him up to concentrate on investment matters. This will also allow Iain to reduce his formal working hours, while the team will move to a co-lead structure, including Suzanne and Aron Pataki.

Just so you are aware, the next investment update meeting with the Newton Real Return investment team, including Iain Stewart, is scheduled For tomorrow (7th February 2018). If required, we will once again explain Iain Stewart's continuing involvement in the strategy and the long term succession plan.

Regulatory breach:

I am attaching a letter that was sent to the London CIV on 5th January outlining the background to this matter to ensure you have received all the information we can disclose. In January, London CIV representatives also had a constructive meeting with Hanneke Smits, our CEO and Curt Custard, our CIO, to discuss the matter further. The meeting concluded with no outstanding questions from the LCIV. The completion of the FCA investigation will close out this issue.

Importantly for our clients, Newton self-reported to the FCA, demonstrating good internal controls and commitment to acting with the highest professional standards, which is central to our culture.

Hanneke Smits, our CEO, has written to the London CIV executives requesting a meeting to discuss our concerns regarding their recent communication. In the meantime, I hope the above provides you with some useful clarity around this matter but I would welcome the opportunity to discuss the issue with you in person if that would help.

Kind regards

David Moylett, Client Director, Newton Investment Management Ltd