

**NEWTON**

Investment  
Management


# ALTERNATIVES IN MULTI-ASSET INVESTING

**Paul Flood**

Sheffield CII: Life & Pensions Society - Retirement & Investment Conference  
27 September 2017

**FOR PROFESSIONAL INVESTORS ONLY**

Please read the important information at the back of this material

Part of  BNY MELLON

PRE00057

# Newton's investment philosophy

Global thematic investing since 1978

We believe in ...

**GLOBAL**



Thinking globally,  
evaluating each idea in  
a global context

**THEMES**



Using themes to  
understand the forces  
driving global change

**ANALYSIS**



Conducting rigorous  
fundamental analysis  
incorporating ESG<sup>1</sup>  
considerations

**CONVICTION**



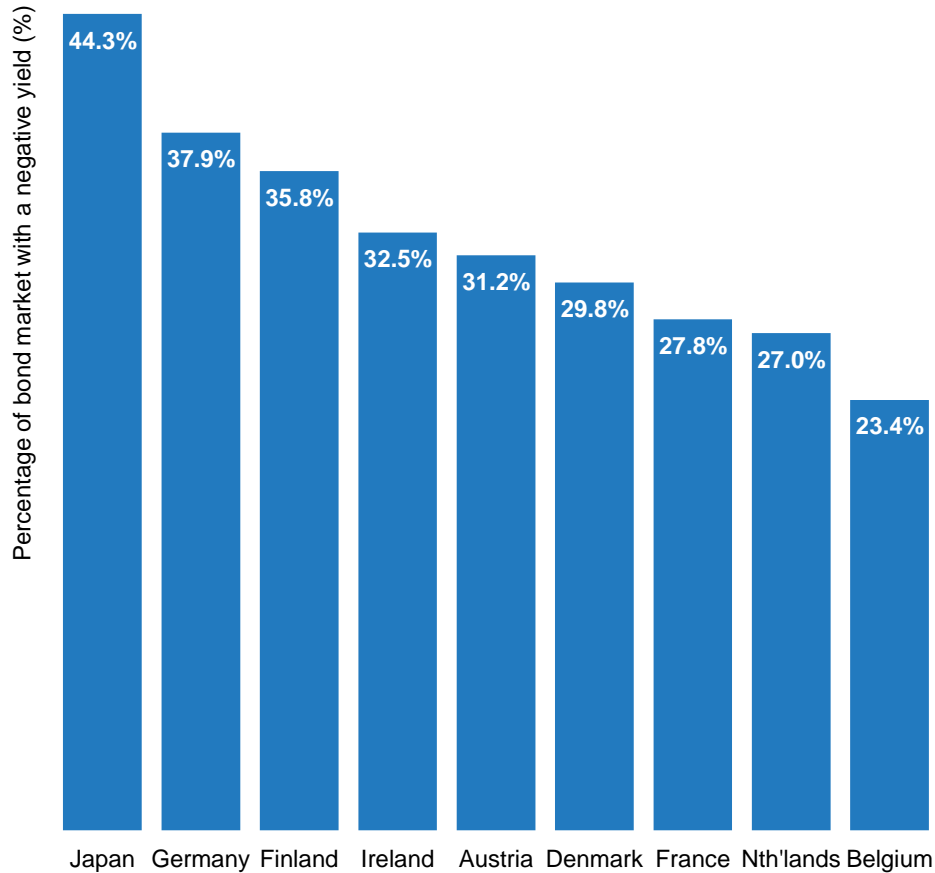
Constructing  
investment portfolios  
incorporating our  
highest conviction  
ideas

Note: <sup>1</sup> Environmental, Social and Governance.

**Our primary objective  
is delivering results for our clients**

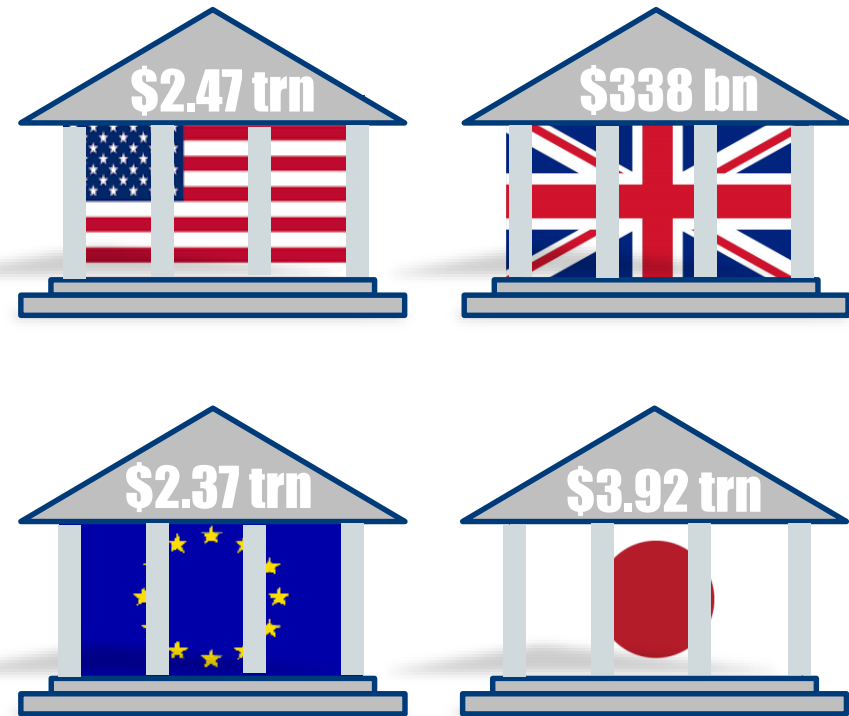
# Financial repression...

## \$8.8trn of global fixed income with a negative yields



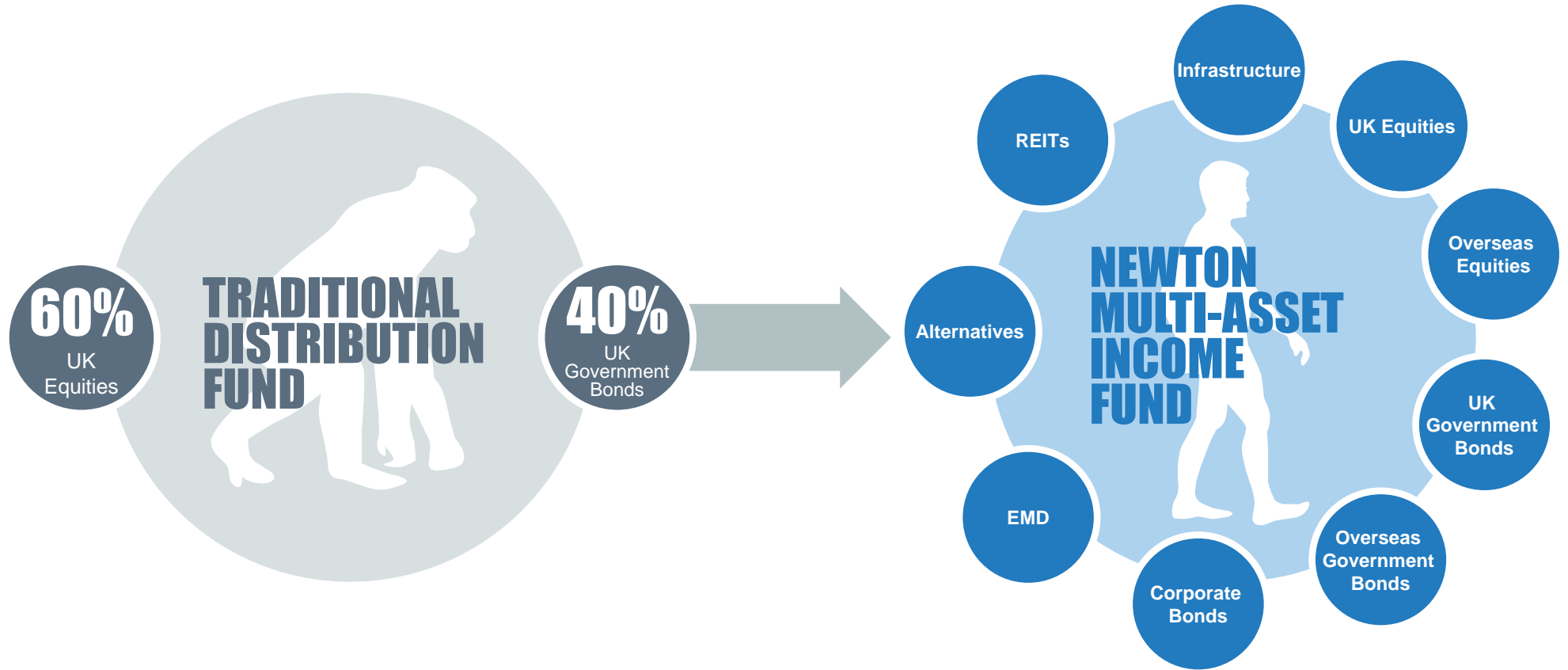
For illustrative purposes only.  
**Source:** BofA Merrill Lynch Global Fixed Income Markets Index and Bloomberg, 30 June 2017.

## Bond ownership by central banks



For illustrative purposes only. All figures in USD  
**Source:** Bank of England, European Central Bank, Bank of Japan, Research Division of the Federal Reserve Bank of St. Louis, 31 July 2017.

# Income diversification has moved on



**“You have to make the rules, not follow them” - Sir Isaac Newton**

# Alternatives demonstrate strong thematic attributes



Diversifying portfolio income, returns and risk

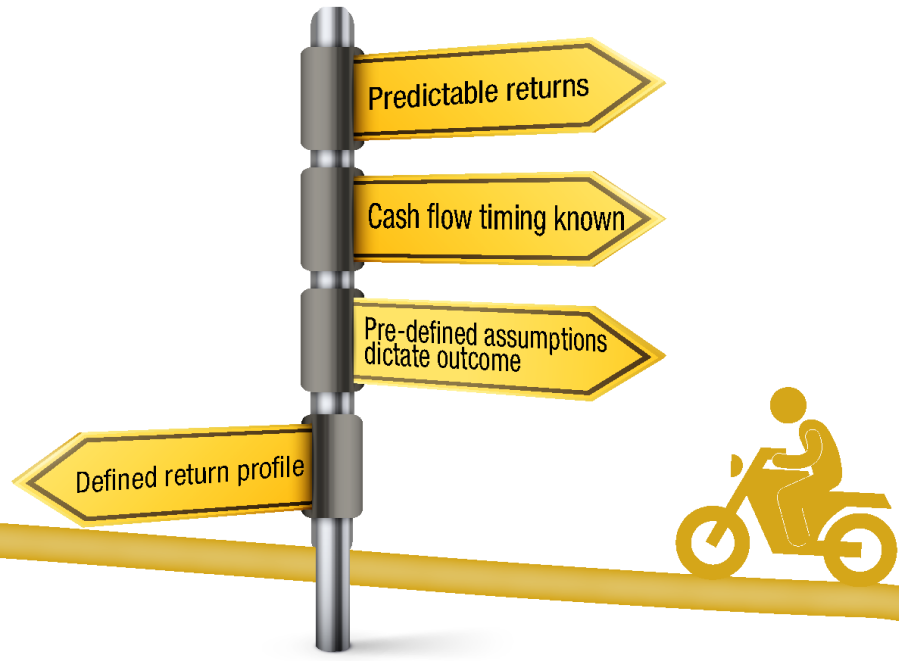
# Depth and breadth of alternatives expertise



Source: Newton, 30 June 2017.

# Structured and unstructured returns

## STRUCTURED



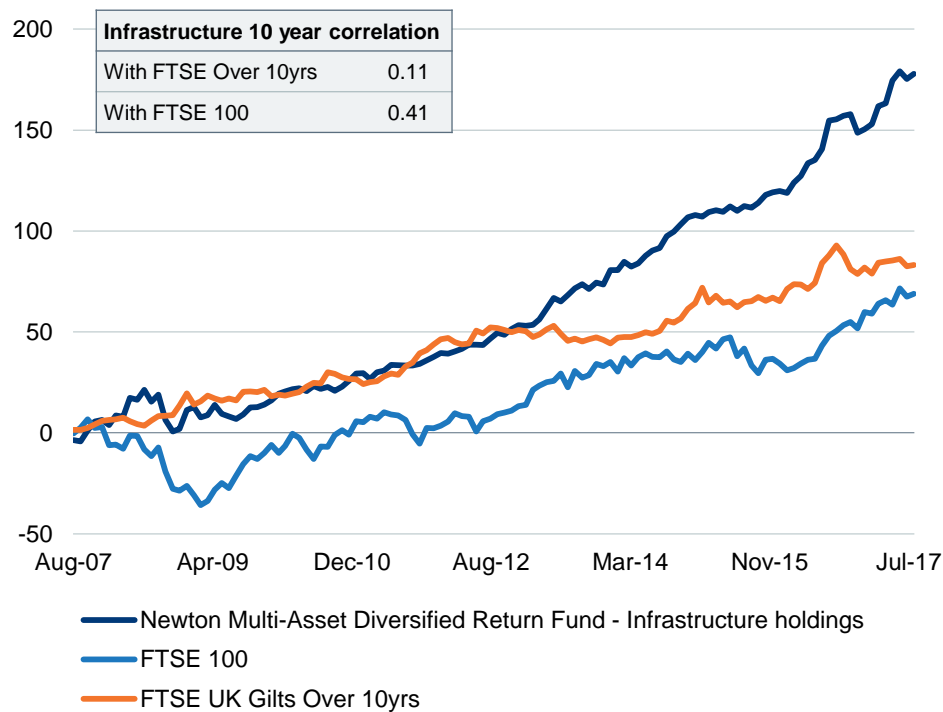
## UNSTRUCTURED



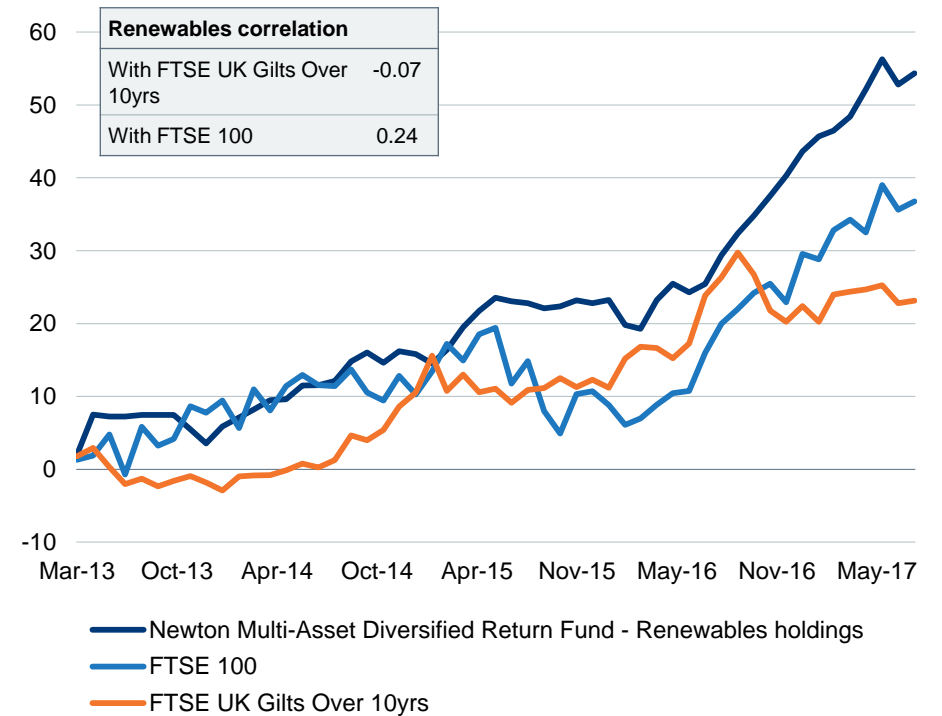
# Considering risk and return at the portfolio level – duration risk

- Government bonds don't offer sufficient diversification or return
- Large risk premium in infrastructure related assets over the government bond market (relative to other asset classes)
- Asset class provides diversification to overall portfolio

**Infrastructure performance over 10 years**

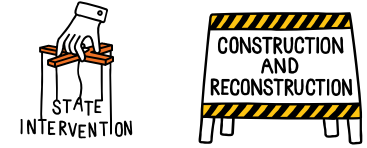


**Renewables performance since 31 March 2013**

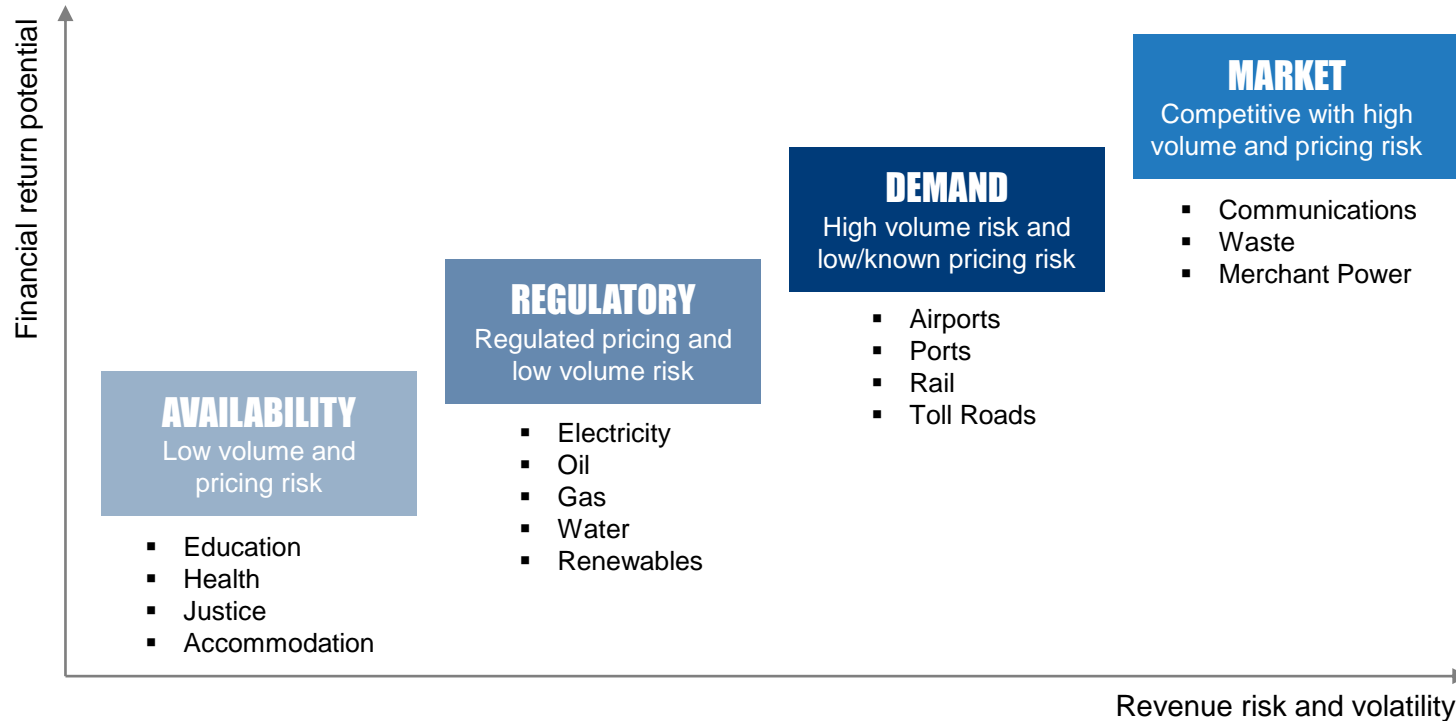


For illustrative purposes only.  
Source: Newton, 31 July 2017.





- ✗ Construction – low margins, highly volatile
- ✓ Managing infrastructure assets – stable revenues, lower volatility



### Risk considerations

- Life-cycle costs
- Operational costs/savings
- Contractual structure and risk transfer/mitigation
- Inflation/deflation



**AVAILABILITY**  
Low volume and  
pricing risk

- Availability-based infrastructure projects providing sustainable, long-term inflation-linked returns
- Less economic sensitivity: PFI eliminates pricing and volume risk
- Public sector partnership – regulated revenues or government-backed counterparties
- Diversified portfolio of over 120 asset types – health, energy transmission, transport, urban development, waste water
- RPI-linked revenue streams and consistent dividend growth since 2007
- Operational expertise adds value



**Source:** Newton, Shutterstock, September 2017

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.



**Fundamentals**

- ✓ Beneficiary of attractive secular trends
- ✓ Strong position in growing renewables market
- ✓ Strong management team with proven track record
- ✓ Dual income
  - ✓ Electricity exported to grid
  - ✓ ROCS (Renewable Obligation Certificate)

**Valuation**

- ✓ 6% dividend yield (1.8x covered)
- ✓ Retail Price Index (RPI or inflation) – linked growth
- ✓ Internal Rate of Return (IRR) 7–9%



**Paul Flood**  
Multi-asset  
portfolio manager



**Robert Canepa-Anson**  
Global Utilities  
analyst

P/E = Price/Earnings.  
For illustrative purposes only.  
Source: Newton, May 2017.  
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**Focused on the best risk/return opportunities**



- Delivering attractive income returns and capital growth
- Diversified portfolio of assets – toll roads, airports with well defined pricing increasing and protection
- Long concessions (on Italian toll roads) = visible earnings profile
- Inflation protection – c.70% inflation-linked revenues

- **Volume** – ‘floors’ provide protection
- **Pricing** (regulated RPI-linked)
- Higher returns than PFI



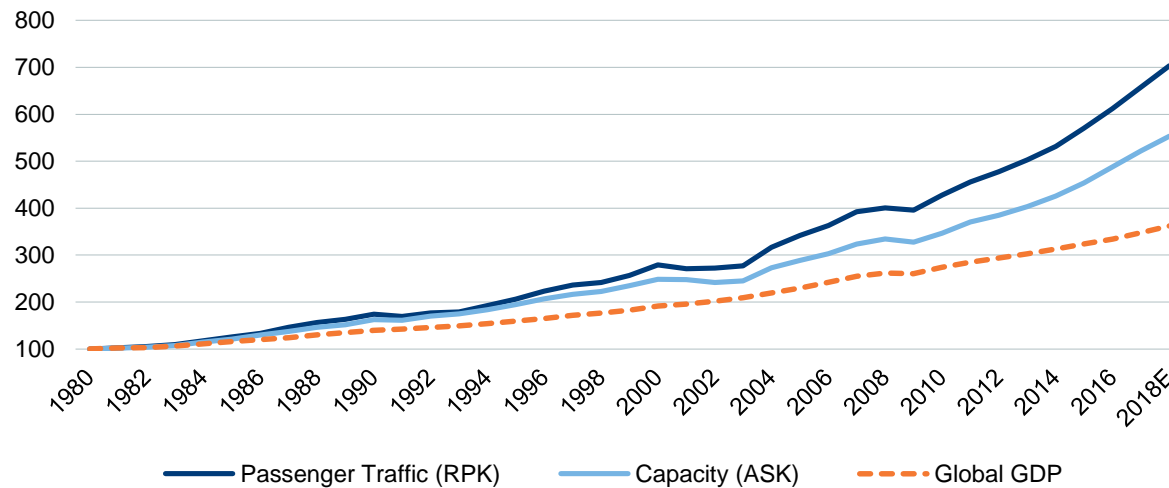
Source: Newton, Shutterstock, September 2017.

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- Contractual obligations provide stable cash-flow profile on a real asset
- **Triple lock high and hell water contracts**
- Cash-flows secured against physical (fungible) assets, no seat pricing or volume risk
- Retiring asset base requires replacement
- Benefits from growing affluence in Asian and emerging economies

## Passenger growth = demand for planes



## Global passenger traffic declines<sup>1</sup>:

- 2001: 2.7%
- 2009: 2.1%

<sup>1</sup> <http://www.iata.org/pressroom/Documents/impact-9-11-aviation.pdf>

RPK – revenue passenger kilometres

ASK - Available seat kilometres

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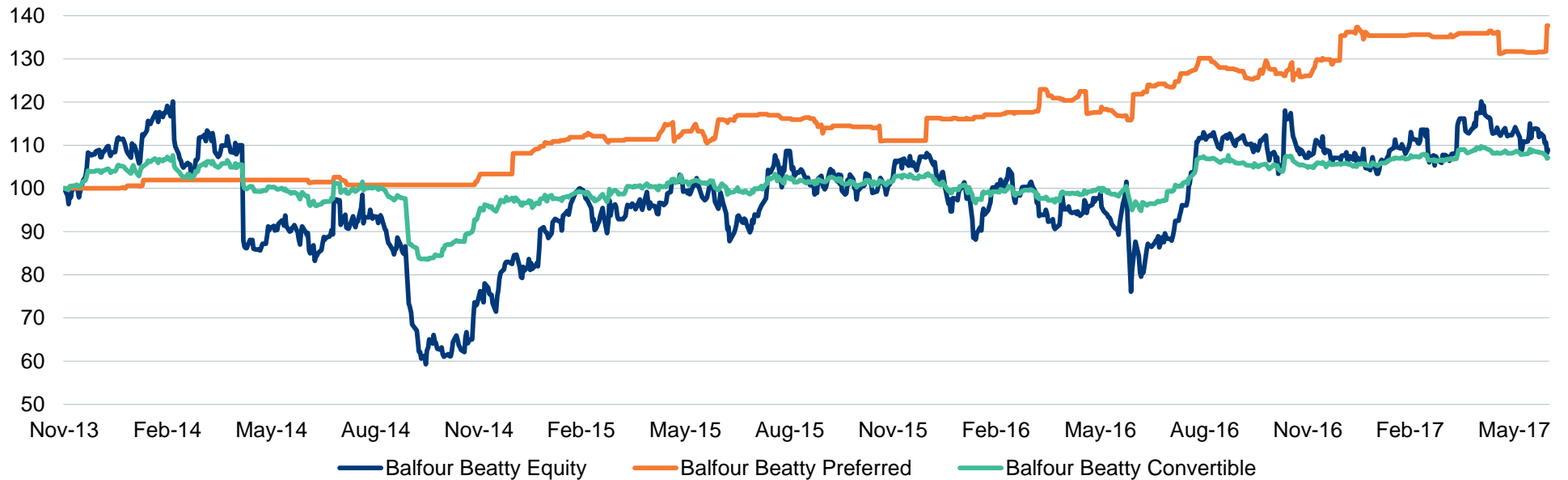


**MARKET**  
Competitive with high  
volume and pricing risk

- Low margins
- Highly volatile profitability
- Significant economic risk
- Delays to projects and cost over runs

But there are opportunities at different parts of the capital structure....

## Balfour Beatty capital structure



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Source: Newton, June 2017.

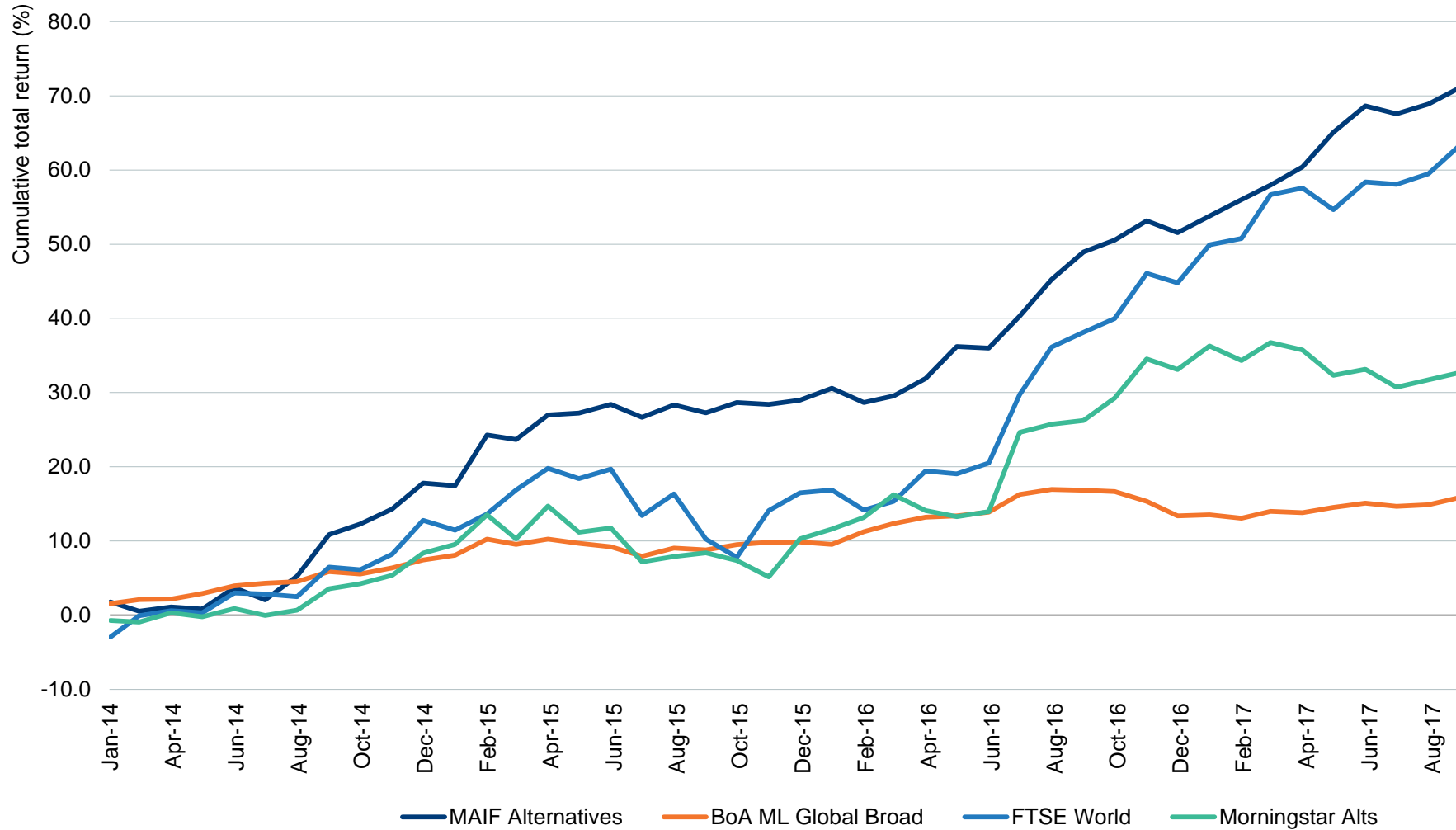
**Capital structure – risk and reward**

# Alternatives performance vs indices

Newton Multi-Asset Income Fund



Fundamental,  
active &  
flexible

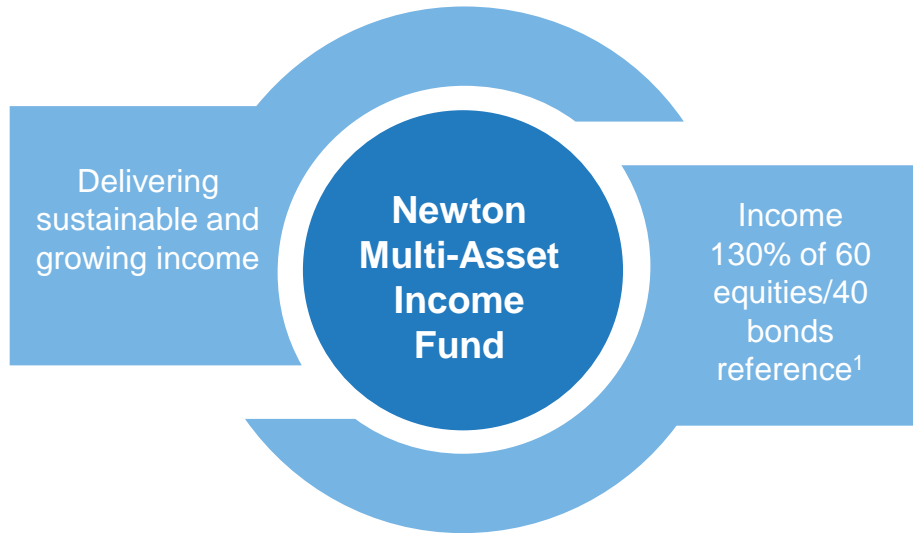


Returns from January 2014 to 3 February 2015 are based on model portfolio returns. Returns thereafter are based on the live fund.  
Source: Thinkfolio, Newton, 31 August 2017.

**Aiming to deliver robust and stable returns**

# Newton Multi-Asset Income Fund

Delivering sustainable and growing income



- Strong heritage of managing multi-asset portfolios
- A long-term focused process
- An experienced team committed to a rewarding relationship

## Seeking to deliver attractive income and total returns through:



**Stable and growing income**



**Fundamental, active & flexible**



**Harnessing the power of compounding**

Note:

<sup>1</sup> Based on performance from inception to 28 February 2017.

The 60% MSCI AC World, 40% hedged BoA ML global broad market index is used as a comparative index for this fund. The fund does not aim to replicate either the composition or the performance of the comparative index.

**Sustainable income and attractive total returns<sup>1</sup>**

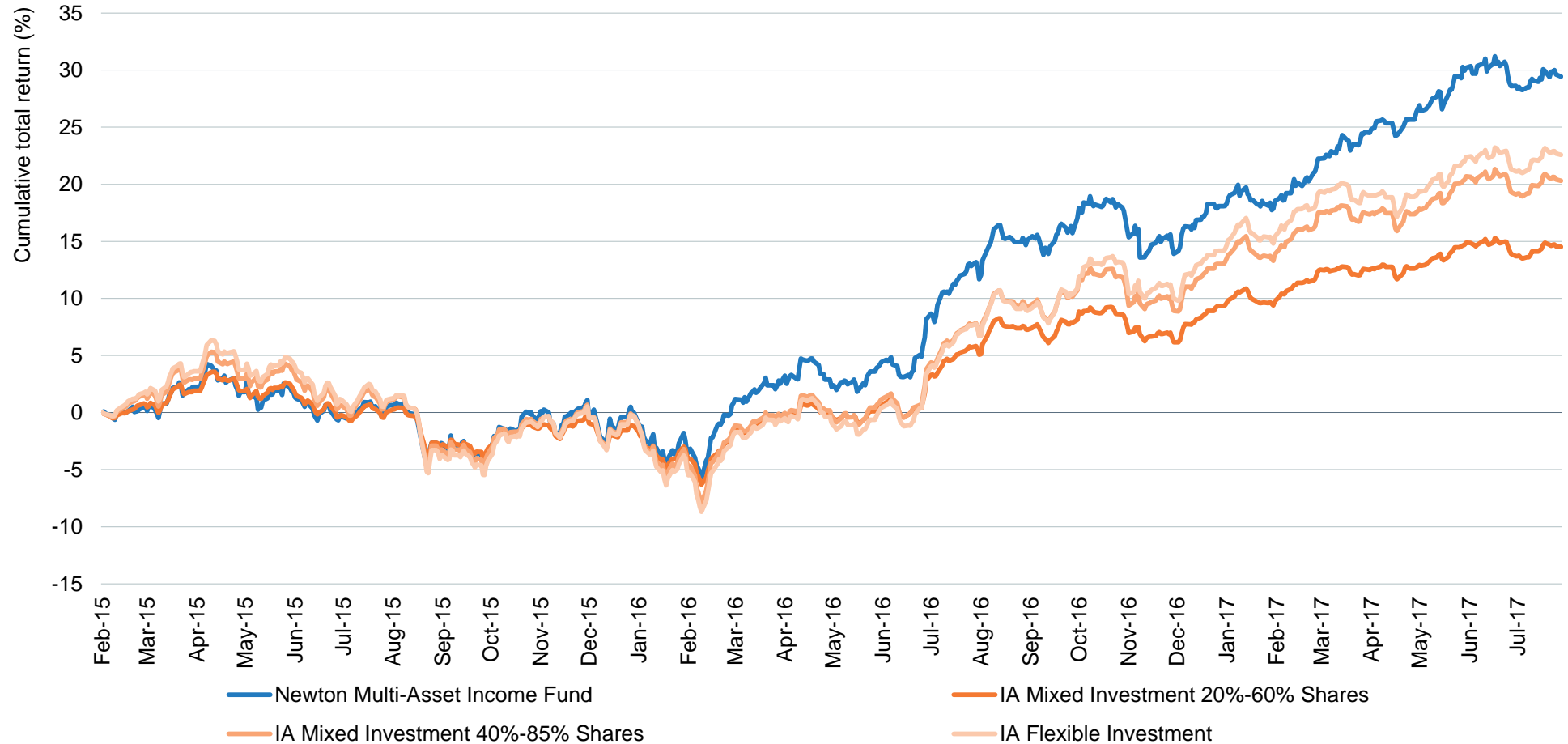


# Total return performance since launch<sup>1</sup> vs sector peers

Newton Multi-Asset Income Fund



Fundamental,  
active &  
flexible



Note: <sup>1</sup> 5 February 2015.

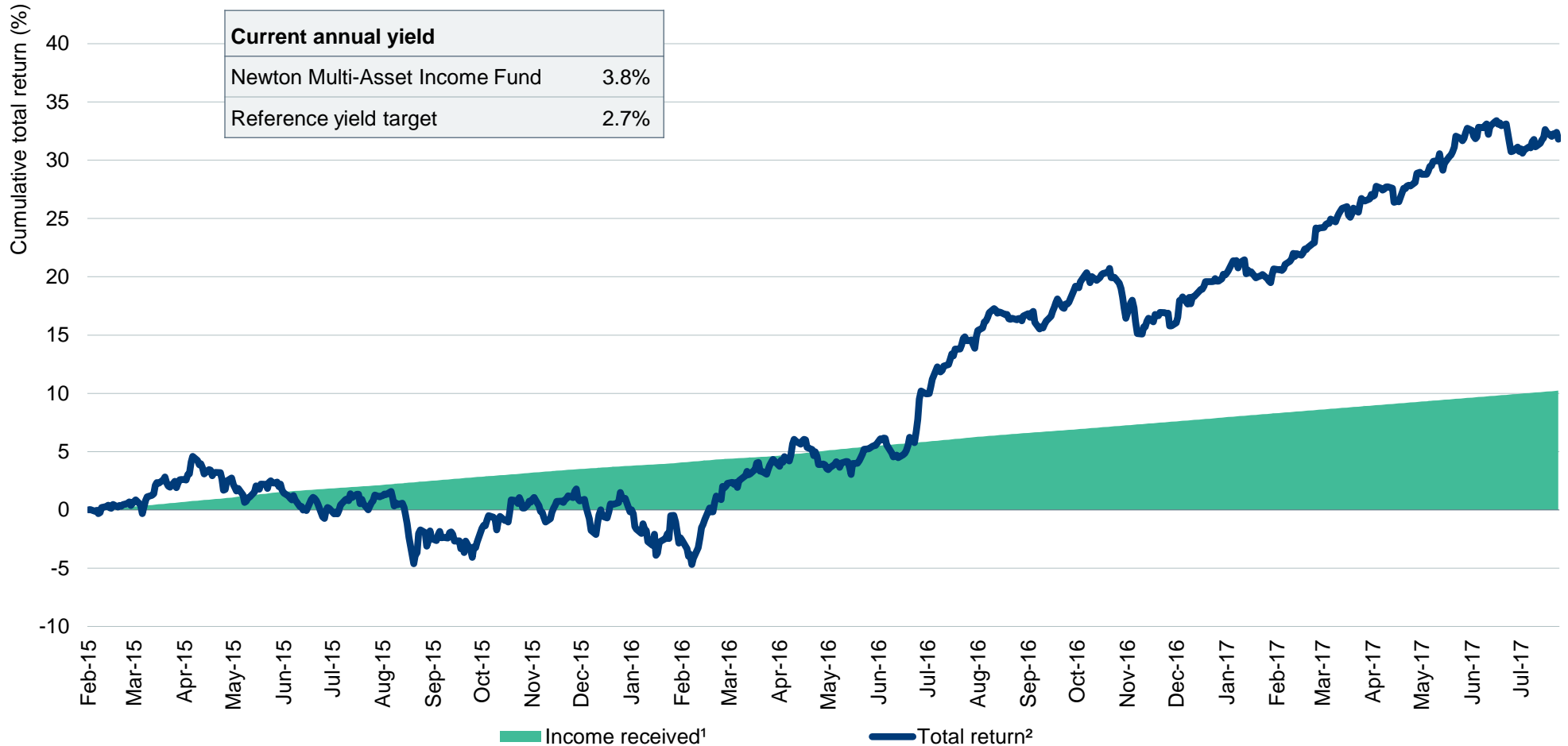
Source: Lipper, midday prices, total return, income reinvested, net of 0.63% annual management charge, Inst W Acc share class, in GBP, 31 July 2017.

Comparisons are made to demonstrate correlation only and are for illustrative purposes only.

**Strong relative performance**

# Performance since inception to 31 July 2017

Newton Multi-Asset Income Fund



<sup>1</sup> Source: Newton, GBP Inc share class, 31 July 2017. Total income received from holdings smoothed daily for illustrative purposes.

<sup>2</sup> Source: Lipper, midday prices, total return, income reinvested, net of 0.63% annual management charge, Inst W Acc share class, in GBP, 31 July 2017.

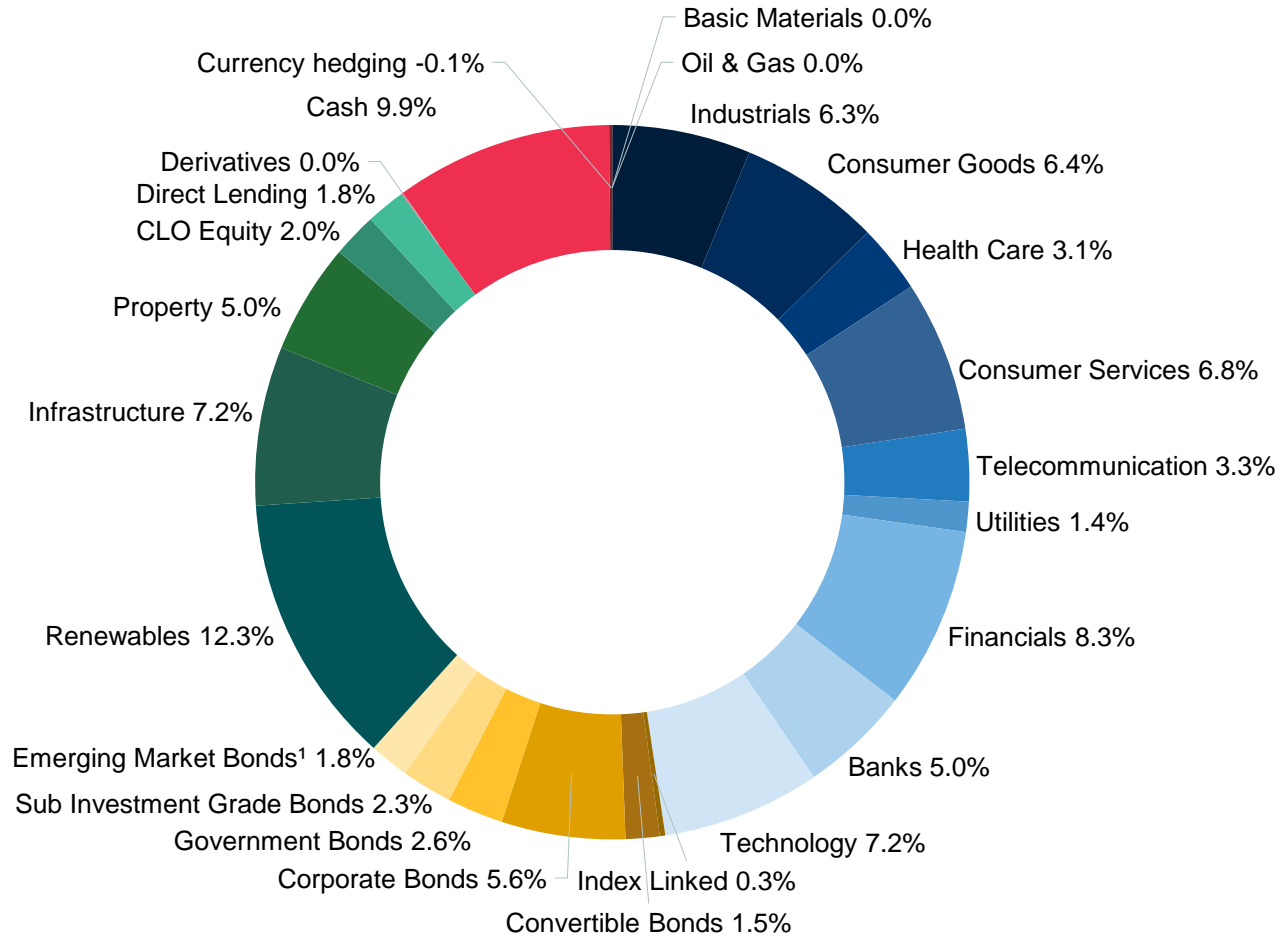
**Aiming to deliver robust and stable returns**

# Current positioning by industry, as at 31 July 2017

Newton Multi-Asset Income Fund



Fundamental,  
active &  
flexible



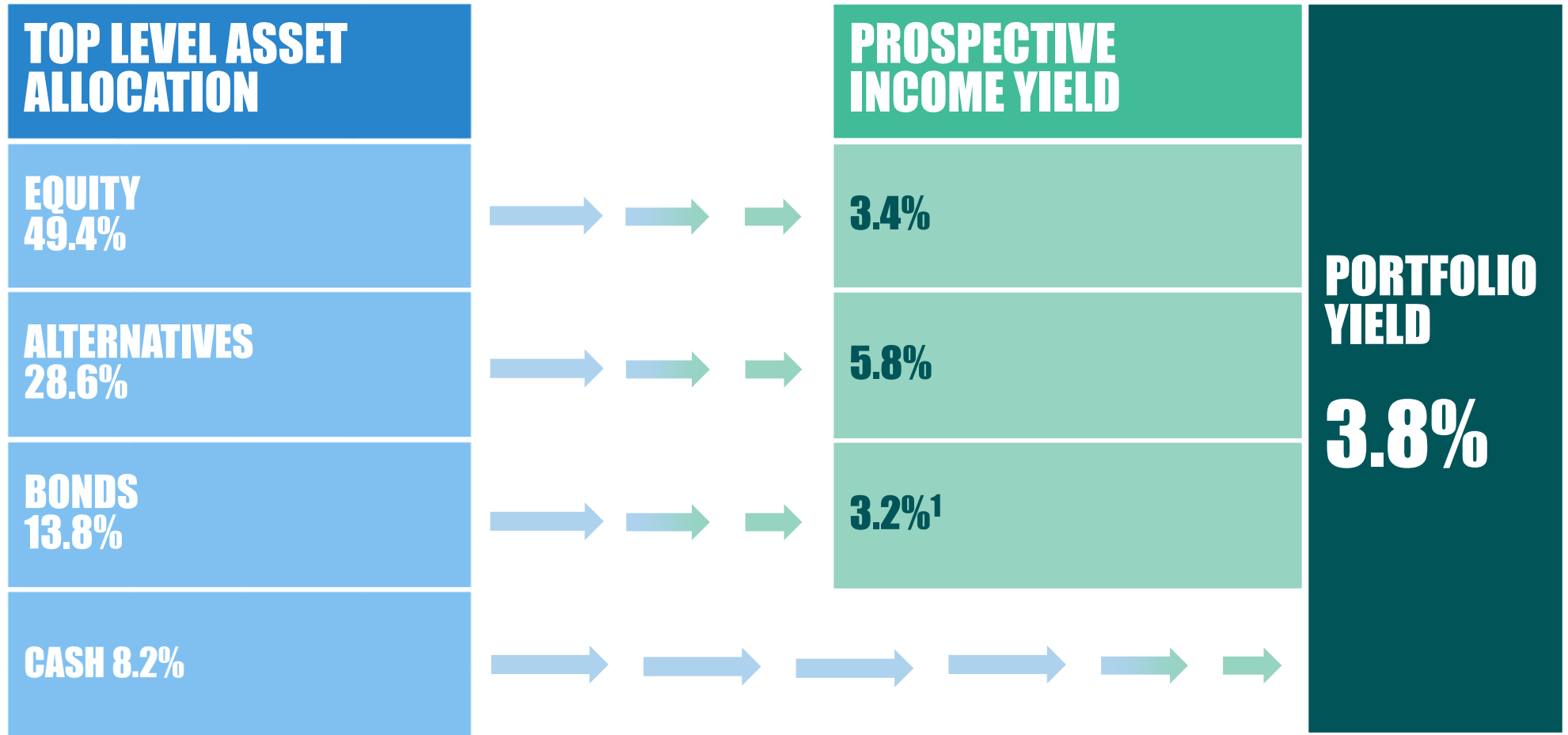
Source: Newton, 31 July 2017.

<sup>1</sup> Compared to more established economies, the value of investments in emerging markets may be subject to greater volatility due to differences in generally accepted accounting principles or from economic or political instability.

**Active, flexible and directly invested**

# Current positioning, as at 30 June 2017

Newton Multi-Asset Income Fund



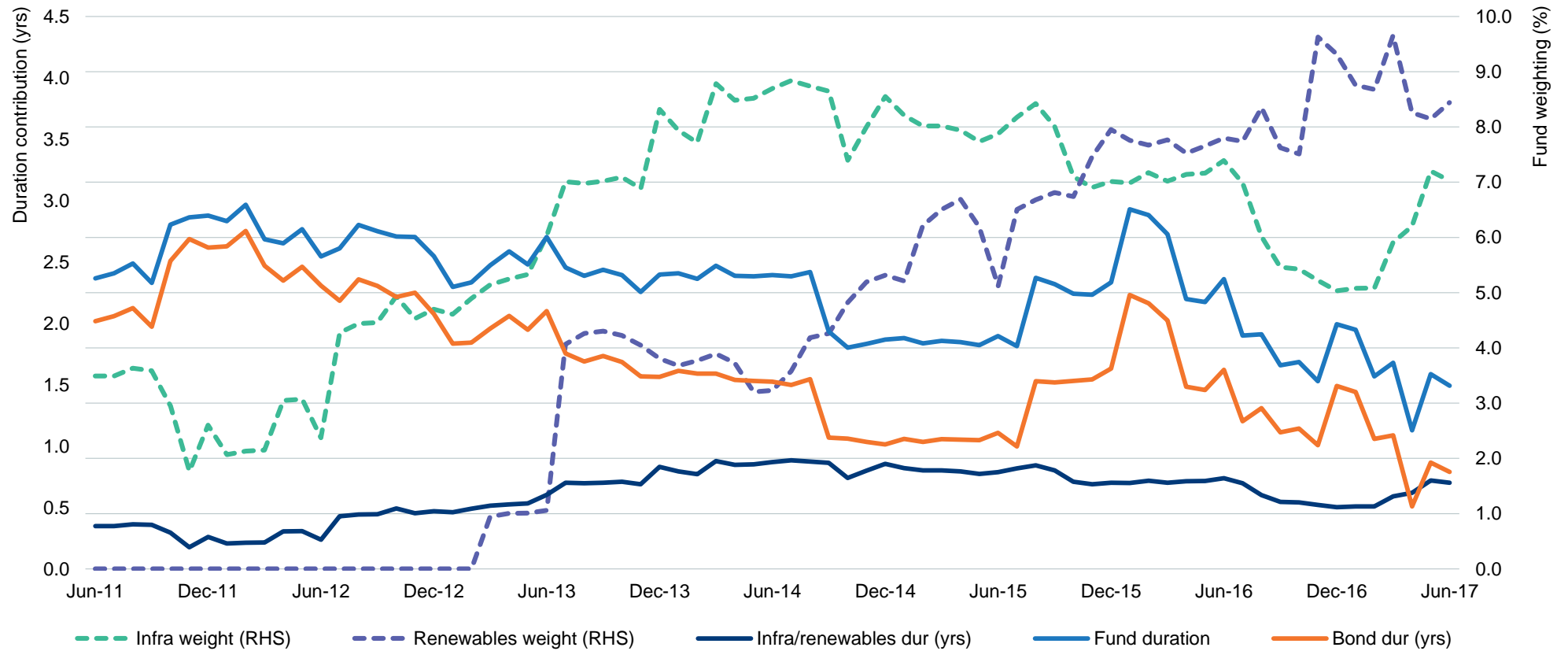
For illustrative purposes only.  
Note: <sup>1</sup> Current 12 month prospective yields, not effective yields.  
Source: Newton, 30 June 2017.

**A Newton portfolio, with the flexibility to allocate capital across asset class**

# REFERENCES

# Considering risk and return at the portfolio level – duration risk

- Government bonds don't offer sufficient diversification or return
- Large risk premium in infrastructure related assets over the government bond market (relative to other asset classes)
- Asset class provides diversification to overall portfolio



For illustrative purposes only (chart on LHS).  
Source: Newton, 30 June 2017

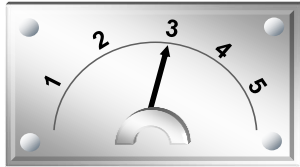
# Investment process

Newton Multi-Asset Diversified Return Fund

## STARTING POINT

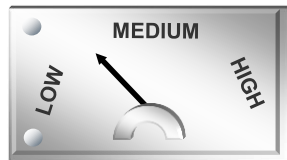
Cash + return...

Return  
(LIBOR +3%<sup>1</sup>)



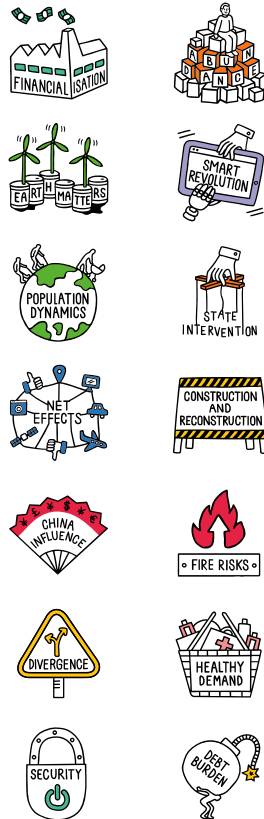
Whilst controlling risk through diversification...

Volatility %



## VIEW OF THE WORLD

Global Strategy



## PORTFOLIO CONSTRUCTION

### SECURITY SELECTION

Fundamental proprietary research  
Individual security selection  
Directly invested



### PORTFOLIO STRUCTURE

Disciplined diversification  
Current portfolio positioning  
Current views and outlook



### RISK AND POSITION SIZING

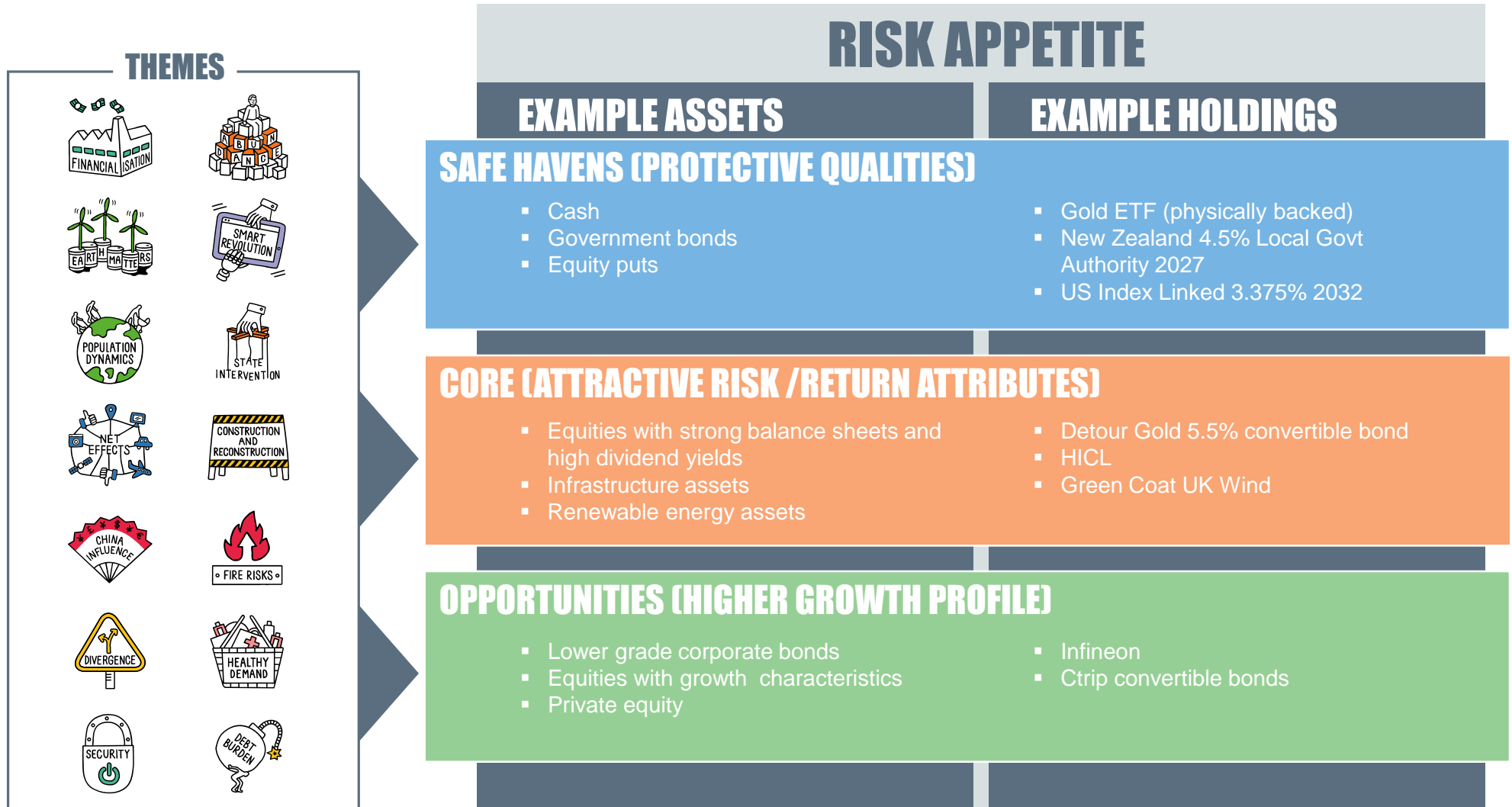
Position size reflecting risk and return prospects  
Considering liquidity, diversification benefit & conviction

RISK APPETITE	
Example assets	
Safe havens (protective qualities)	
Core (attractive risk/return attributes)	
Opportunities (higher growth profile)	

Note: <sup>1</sup> The fund aims to deliver a minimum return of cash (1 month LIBOR) +3% p.a. over 5 years before fees. However a positive return is not guaranteed and a capital loss may occur.

# Positioned for different markets

Newton Multi-Asset Diversified Return Fund



For illustrative purposes only.  
Source: Newton, 30 June 2017.



# Top 15 holdings

## Newton Multi-Asset Income Fund

Holding	Fund weight (%)	12m yield (%)
Greencoat UK Wind	3.04	5.21
John Laing Environmental Asset	2.81	5.77
Telefonica Deutschland	2.81	5.57
BBGI SICAV	2.63	4.29
AIA	2.34	1.51
GCP Infrastructure	1.94	5.96
The Renewables Infra Group	1.74	5.83
New Zealand Local Govt 4.5% '27	1.67	2.92
VPC Specialty Lending	1.66	7.87
Atlantia	1.48	3.54
Intl Public Partnership	1.46	4.09
Apple	1.43	1.59
Greencoat Renewables	1.43	-
Doric Nimrod Air Three	1.42	7.91
TBC Bank	1.32	2.83

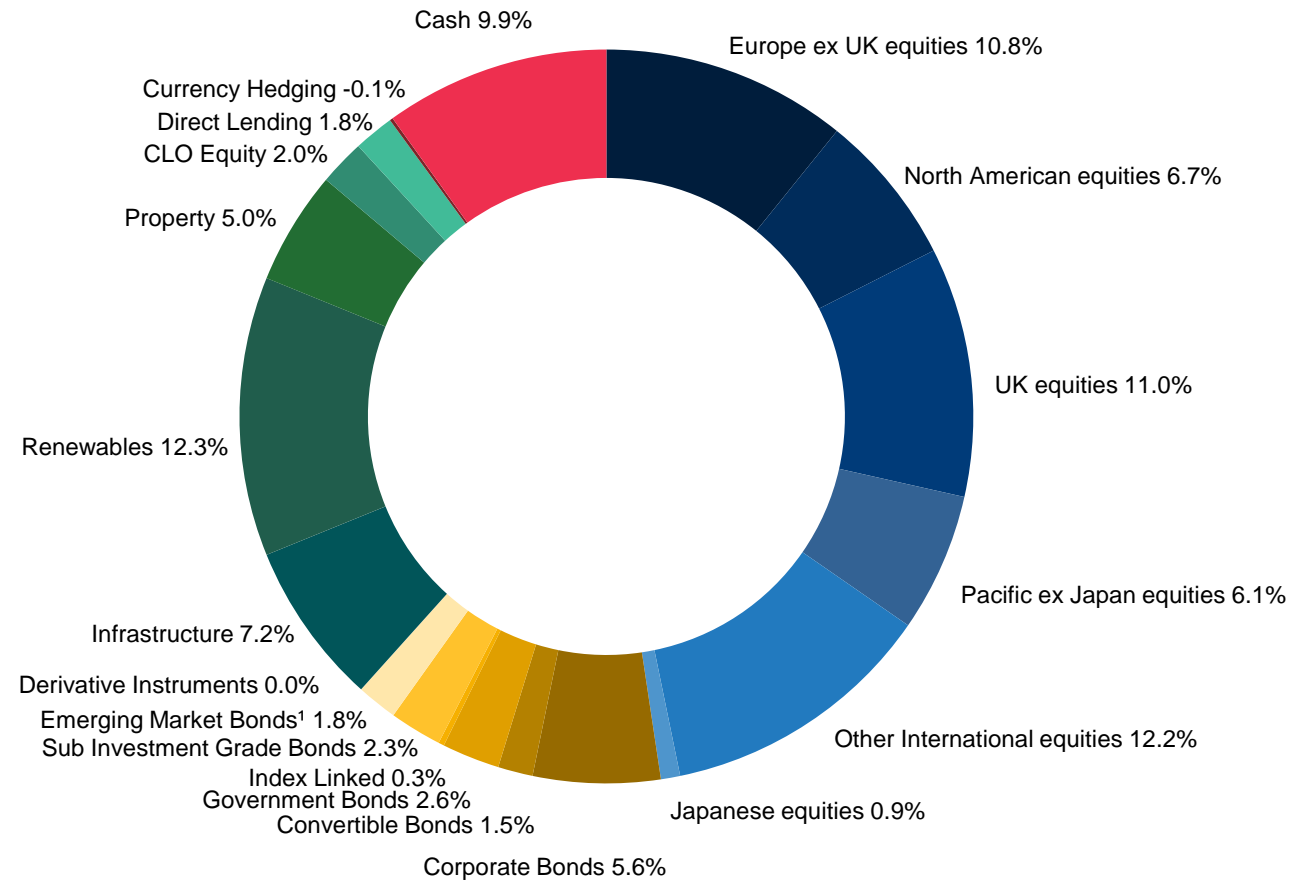
Source: Newton, Bloomberg, 31 July 2017.

# Current positioning by region, as at 31 July 2017

Newton Multi-Asset Income Fund



Fundamental,  
active &  
flexible



Source: Newton, 31 July 2017.

<sup>1</sup> Compared to more established economies, the value of investments in emerging markets may be subject to greater volatility due to differences in generally accepted accounting principles or from economic or political instability.

**Active, flexible and directly invested**

# Important information

For professional investors only

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**Your capital may be at risk. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. Past performance is not a guide to future performance.** Portfolio holdings are subject to change at any time without notice and should not be construed as investment recommendations.

Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell this security, country or sector. Past or current yields are not indicative of future yields

Where an index is used as a comparative index, this strategy does not aim to replicate either the composition or the performance of the comparative index. Where representative data is used this is for illustrative purposes only.

Where projected model portfolio data is used, this is not based on actual trading history. There are no guarantees that, if launched, the strategy's actual portfolio will reflect the model data.

## Newton Investment Management Limited

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Registered in England No. 1371973.  
[www.newtonim.com](http://www.newtonim.com)

Registered office: as above.

Both firms are authorised and regulated by the Financial Conduct Authority, are members of the IA and are Bank of New York Mellon Companies<sup>SM</sup>

## BNY Mellon Fund Managers Limited

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Registered in England No. 1998251

**Where Newton Funds are referenced you should read the Prospectus and the Key Investor Information Document (KIID) for each fund in which you want to invest. The Prospectus and KIID can be found at [www.bnymellonim.com](http://www.bnymellonim.com)**

Compared to more established economies, the value of investments in Emerging Markets may be subject to greater volatility due to differences in generally accepted accounting principles or from economic, political instability or less developed market practices. A fall in the global emerging markets may have a significant impact on the value of the Fund because it primarily invests in this market.

The value of overseas securities will be influenced by fluctuations in exchange rates.

Except where specifically noted, performance is stated gross of management fees. The impact of management fees can be material. A fee schedule providing further detail is available on request.

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