APPENDIX 1

BlackRock Position on Tobacco Stocks

Within the UK listed stock universe, tobacco companies are a large part of the benchmark comprising 6% of the FTSE All Share Index. They have performed strongly over the past decade (BAT has returned 400%, Imperial Brands 300%), significantly outperforming the wider index, which has returned 100%. One of the main drivers for this has been an ability to consistently increase prices to more than offset a slow decline in the volume of cigarettes sold. This predictability of sales volumes regardless of whether economies are growing or in recession and steady growth in profit is valuable to investors. The companies also pay out a large portion of profits as dividend payments. Portfolios that are not permitted to hold tobacco shares have to look to other companies, which in our view typically has slightly less attractive revenue stability and/or growth characteristics. Whilst there remains litigation risk, the 1998 Master Settlement Agreement reached in the US settled much of this risk.

In our UK equity portfolios we have owned British American Tobacco given its exposure to the strong growth trends of emerging markets; management ability to drive efficiencies through making small acquisitions and product innovation (adjustable filters, capsules); and capital discipline with a policy of returning profits to shareholders via increased dividends and share buybacks. The other UK tobacco company is Imperial Brands. We have owned this company more recently given efficiency savings, market stabilisation in Europe and recent corporate activity (acquisition of US company Lorillard).

BlackRock's Investment Stewardship team engage with tobacco companies over a variety of ESG issues given the areas in which the companies operate. Last year the team met a UK tobacco company to discuss sustainable farming and production of tobacco leaf in order to avoid deforestation.

Newton Position on Tobacco Stocks

As our clients will be aware, Newton is of the view that the severity of the credit crisis and the consequent unprecedented policy interventions by authorities around the world are likely to act as a drag on global economic growth for some time to come. From a thematic perspective, this has generally meant that there have been particular characteristics that we have often sought from potential investments. Typically, these have included favouring companies with strong balance sheets, predictable earnings streams that will compound over time, good cash generation, reasonable levels of dividends and low levels of debt. These features are present in most tobacco companies and helps explain why, from a stock selection perspective, we are currently overweight in the sector.

While the tobacco weighting represents a relatively small circa 1.5% of your benchmark, our current portfolio weighting is in excess of 6% of the Suffolk Pension Fund portfolio. In the event that we were restricted from holding tobacco stocks, finding appropriate alternative stocks would not be straightforward and may impact on the risk/return outcomes.

While we understand the issues surrounding investments in tobacco stocks, we have recently seen a number of industries coming under closer scrutiny from external bodies that are monitoring investments undertaken by local authorities. Therefore, it is more likely than not that if Suffolk were to introduce a restriction on investing in tobacco stocks, you would be setting a precedent that makes it more difficult to ignore pressure for restrictions in other industries. This in turn would reduce the opportunity set for adding value for the Pension Fund over the longer term.

Pyrford Position on Tobacco Stocks

Tobacco stocks are defensive in nature and perform particularly well in uncertain, low growth and low interest rate markets. Tobacco products enjoy high degrees of customer loyalty, are not easy to substitute and are price inelastic (typically spending is not negatively impacted by a price rise). The investment required to build large-scale manufacturing, develop next generation products such as “vaping” and “heat-not-burn”, and establish new brands also tends to disadvantage new entrants.

Historically tobacco stocks have performed exceptionally well, especially in times of market stress as there is comfort around the transparency of earnings they generate. To use our largest tobacco holding as an example, British American Tobacco has outperformed the FTSE 100 Total Return Index by 326% in the 10 years to 31 October 2016 (+398.37% v +71.85%). We have held the stock for this entire period.