

Helena Morrissey
Business Update

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Newton's Philosophy

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Hello, I'm Helena Morrissey, Newton's chief executive officer, a role that I've played at Newton since 2001. It's obviously been one of the most difficult and challenging periods for businesses like Newton in the recent past, but I'm pleased to let you know that Newton is actually faring quite well, despite the challenging environment.

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We ended last year with profits very marginally down on the previous year's, and actually are ahead of plan for the first quarter in 2009. People might wonder how we have done that, given the carnage elsewhere. I attribute the relative success to a number of aspects of the way we approach our business at Newton as well as the investment side.

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Firstly, we start with ensuring that we are focused on delivering for existing clients. We're not particularly interested in growing assets for their own sake, although actually we ended last year with assets around £35 billion (quite a big increase from five years ago, when we had about £20 billion).

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However, as I said, we're not about growing assets for their own sake. Our financial returns are boosted primarily by performance fees, which we've been using on client accounts for many, many years. It's a powerful alignment of interests. Our interests are served best when we're performing well for existing clients rather than trying to grow new money and new markets.

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And what we're trying to do is to offer consistent long-term investment success. We're not trying to chase the latest market developments or fads in offering a new product. We have evolved the investment services that we offer at Newton to take account of clients' changing needs and also as markets have developed.

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So, for example, a key area of growth for us is the real return area, in particular the way that we offer a multi-asset version of achieving real returns. Our real return flagship fund, the Absolute Intrepid Fund, celebrates its fifth birthday just this month and clearly over the past five years we've seen very different market conditions. This strategy is all about offering a flexible, dynamic and transparent approach to achieving returns over very different conditions. So, for example, we will adapt the asset mix within the strategy as markets change.

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As a good example of something that we've done at Newton for a number of years (without really trying to, as it were, be very commercial about it), we're trying to offer something to our clients that works. If it works, then more clients will want to have their money managed in that way and that, in turn, will lead to financial success.

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I want to emphasise that the returns that we've achieved from a business perspective have not been achieved at the expense of significant cost-cutting measures. In fact, we've been able to grow over the last few years without taking on lots more staff, particularly in the back office area, where a number of projects that we put in place several years ago have come into fruition. So, as we've increased trade volumes (reflecting more assets under management), we haven't had to invest in another layer of staff.

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We've also found that the investment team is, as it were, 'right-sized'. I think one of the problems that many businesses suffer from in our sector is they tend to layer on lots more people and make the process much more complex as they grow.

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At Newton, what we've done over the last several years is to ensure that, of course, we have sufficient bench strength. We have good quality resource, and we have our career analysts working hard. They are well remunerated for their efforts (as are our fund managers). But what we've not been about is becoming bigger just for its own sake and I'm confident that we have a good level of resources but also a tight enough team that the important elements of debate, communication, the real challenge to investment ideas, can continue to be very much the hallmark of the investment process that over a number of years has delivered such good results.

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So, just in summary, as we've seen so many changes in the market place we operate in over the past 18 months in particular, one thing I'd like to emphasise is that at Newton we have had a strong inner compass through that. We know what we stand for, what we're trying to do for clients, and what we believe in as essential parts of our business philosophy and investment approach.

US Business Growth

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So, against the constant backdrop of this business philosophy, we have embarked on a number of new ventures. In particular, we've launched a new business in the US. We've chosen to develop Newton's services in the United States for a number of reasons. There's a good cultural affinity; consultants who we deal with in the UK are also based in the US (at least the larger ones). Most importantly, we've noticed there that clients have a tendency, particularly the large ones, to build long-term partnerships and relationships with their fund managers.

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They might not have a huge number of managers, but the ones they have they develop a rapport with over a number of years so, as their own needs change, there's an opportunity for discussion about strategy and the way forward.

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It's been very encouraging; there's been good receptiveness to Newton's investment services in the United States. We won around \$2 billion of assets last year and we're particularly gratified that we won some large public sector accounts where the due diligence process is very intense and where we're subject to an intense level of scrutiny.

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One of the advantages that Newton has, operating in the US, is that we can enjoy the benefits of a boutique culture in the context of a much bigger organisation, the Bank of New York Mellon. So, for example, when we have been feeling our way around the market we've been able to discuss how the consultants operate and how our clients in different segments of the market might want different products and services that we can offer with our counterparts in the US.

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I believe it's a great example of how the structure that Newton operates (as an autonomous boutique owned by a strong parent) can be very advantageous for the success of Newton's employees and for our clients who've taken great comfort from the fact that our brand sits alongside that of one of the most trusted organisations in that market.

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In short, we're able to offer the same transparent, global thematic research-driven investment approach to a broader range of clients.

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It's obviously very important that, as we grow Newton's business, we make sure that fund managers are back at their desk, talking to each other and investing on behalf of existing clients. So, in the US, for example, we have a separate team that is working on developing the business there.

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Summary

I do believe that, as we look forward, the successful asset management companies will be those first and foremost focused on their clients and on delivering consistent investment performance. An investment-led approach has characterised Newton's business to date and has, I believe, been the reason why we've been able to weather the recent storm.

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I intend to emphasise that approach going forward rather than in any way be distracted by difficult conditions or by month-to-month developments in the market.

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Newton has always been focused on delivering investment returns for its clients and that remains our key objective.

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Thank you.

(End of talk)