



# TALKING WITH



Hanneke Smits

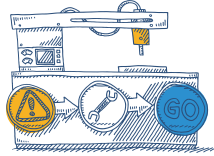
Chief Executive  
Newton Investment  
Management

Talking ESG integration, being Non-Exec at the Bank of England and giving something back with Hanneke Smits, Chief Executive, Newton Investment Management and Richard Romer-Lee, Square Mile

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## HOW DID YOU GET INTO FINANCIAL SERVICES?

It was really a function of trial and error. I did my undergraduate degree in the Netherlands, where I grew up, after which I didn't really know what I wanted to do. I tried a couple of different things in management consulting. I worked for Philips Electronics for over a year and did an internship in a small venture fund in Hong Kong, which was intriguing. After that I did my MBA at London Business School, took a course in finance and entrepreneurship, which ultimately led me to a job with Pantheon, a UK-based fund of funds where I started in 1992. I took my father's advice after Pantheon offered me a job and I've never looked back.



## WHAT DOES THE ROLE OF CHIEF EXECUTIVE ENTAIL DAY-TO-DAY?

It involves a lot of different things. I sometimes say that I'm here to help solve other people's problems. Clearly at a high level, the responsibility of the chief executive revolves around strategy and budgets, as well as people and client management. But you don't deal with strategy every day of the week.

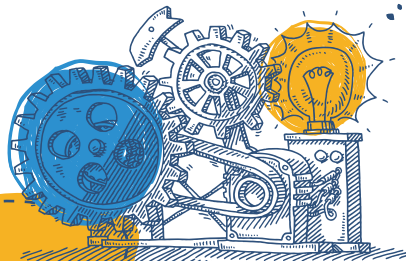


## WHAT ARE THE TOUGHEST PARTS OF BEING CHIEF EXECUTIVE?

The people decisions. Having to sit down with someone whose performance has been disappointing and explaining why that is the case is tough. However, it's a rewarding moment if you get that person, through guidance, back on track. Equally, to ensure that the organisation performs well, I think it's incredibly important that people feel safe to give senior leaders, including myself, feedback when they feel that things aren't going well on any particular metric of the business.

## WHAT WAS THE APPEAL OF JOINING NEWTON AFTER A LONG CAREER IN PRIVATE EQUITY?

Clearly there are a lot of differences between private and public markets. What was really important to me in joining Newton was understanding the investment philosophy and process, which is very much bottom-up driven, using a thematic framework and ESG-integrated research. This resonated with me as these are all ingredients that are very important in private markets as well. I thought I could bring more of a global perspective to Newton, which was more UK-focused from a client perspective, albeit not so much from an investment perspective.



## WHAT IS YOUR AMBITION FOR THE BUSINESS?

We're building on the heritage of strong, active security selection, a thematic framework, and integrated ESG, to deliver a suite of strategies to clients - in retail as well as institutional - that deliver a number of things we think are difficult to achieve through passive investments. We focus on high conviction, income, outcome and sustainability. Those are four areas where we have a clear expertise, and in which we are either continuing to build on existing strategies or launching new ones.



## WHAT ARE THE CONSEQUENCES OF THE SHIFT OF MONEY FROM PUBLIC MARKETS INTO PRIVATE MARKETS?

Within public markets, there remains room for active investment management alongside passive, which is the other shift we have seen. It's going to be really important for retail investors to be able to access private markets through appropriate structures where the liquidity requirements are matched to the underlying assets. The Investment Association, of which I'm a board member, is doing a lot of good work to ensure that the industry can have some vehicles open to it which can attract retail investors into less-liquid markets.

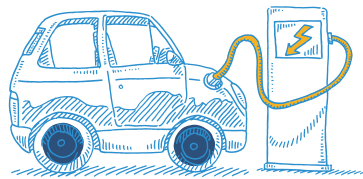
## HOW IS NEWTON EMBRACING ESG?

When I joined Newton, ESG had already been integrated for the better part of two decades. We have a team of six responsible investment analysts who perform dedicated ESG assessments on a bottom-up basis for each and every security that ends up on our research recommended list. A low rating doesn't necessarily mean that the security can't be included, but it will lead to engagement with the company around the areas of concern. Engagement often leads to good outcomes. The Investment Association recently introduced a framework for how investors should think about ESG, which is important because there is some greenwashing, which can lead to plenty of confusion around the labelling of funds.



## WHAT ARE THE EXCITING THEMES AT THE MOMENT?

One theme is "Earth matters", which fits very nicely with sustainability. It's about finding positive areas for investment, so this could involve renewable energy or different types of infrastructure, battery manufacturers or electric vehicles, for example. The changing demographics of the developed world is another very important theme; we are looking not just at medication, but also long-term care. How individuals address these issues is creating a number of very interesting opportunities.



## YOU SPEND TIME HELPING YOUNG PEOPLE. WHY IS THAT SUCH A PASSION?

There are about 2 million young people in the UK alone who are classified as NEET: not in employment, education or training. Their prospects are limited, unless you create some interventions that can help them. Brokerage Citylink is an organisation we use to bring people from different socio-economic backgrounds into Newton. Each year we invite five or six school leavers on a vocational trainee programme. They work for us for 20 to 25 hours a week and we support them doing a part-time degree. I'm also really pleased to be the chair of Impetus, supporting a number of schemes to help 11 to 24-year-olds through tutoring and helping with university applications, for example. Last year we were awarded £200 million by the Home Office to create the 'Youth Endowment Fund'. The idea is to create a series of interventions over 10 years, steering young people away from crime. It is very exciting and a real feather in Impetus' cap.

## HOW DO YOU BALANCE LONG-TERM STRATEGIES WITH SHORTER-TERM INTERESTS OF INVESTORS?

It's important for the portfolio managers to keep focused on their long-term views, which is where the thematic framework is very helpful. While they need to respond to very sharp deteriorations when they do occur in underlying securities, typically, if they remain convinced of the underlying case, managers tend to stick with their original conviction.



## HOW DOES NEWTON'S RELATIONSHIP WITH BNY MELLON WORK?

We have been part of BNY Mellon since 1998 - about half of our corporate life. It's a very clearly defined relationship. We work very closely with distribution, certainly in the intermediary space, and also institutional clients outside the UK. From my perspective, what we need to deliver is very clearly defined by BNY Mellon Investment Management, which I report into. The lines are fairly clearly drawn between manufacturing, distribution, and also where the shared services are. It is an increasingly unusual model but BNY Mellon have got it right. Crucially, we have absolute control over delivering investment performance to our clients.



## WHAT DOES YOUR ROLE AS NON-EXECUTIVE DIRECTOR AT THE COURT OF THE BANK OF ENGLAND ENTAIL?

Giving the governor and the deputy governors guidance with respect to the bank's strategy and objectives. I am not even six months in, so I am learning a lot. It's wonderful.



## WHAT DO YOU DO TO RELAX?

I have three teenagers who occasionally indulge me in playing tennis or golf, or just going for a walk with them. I like to cook - not during the week, but I do cook over the weekends. On holidays I like being quite active, I like either going hiking or skiing, or just doing something that's quite therapeutic.



## WHY DOES DIVERSITY MATTER?

The business case has been made by many organisations, including McKinsey who produce a report every year, clearly demonstrating a positive correlation between corporate profitability and diversity both on boards, but in particular, on executive teams. As an investment firm, diversity matters because we're all about perspective. Diversity leads to a more informed debate and ultimately better decisions. It's a very hard thing to measure, and it doesn't just happen overnight - we're on a journey. Co-founding Level 20 was born out of wanting to improve gender diversity in private equity - and to give something back.



## AS WE START A NEW DECADE, WHAT'S THE FOCUS FOR 2020?

Newton is thinking more and more about sustainability. It's really important that private investors familiarise themselves with the world of sustainability. Clearly, people want it in their investment portfolios, but it will require education. At Newton all of our strategies have ESG, integrated research. When will all the portfolios be sustainable? That is hard to say but I wouldn't be surprised if we get to that stage by 2030.