

IFAs have embraced boutiques as a whole and where they see a boutique that has a parent behind it, it is a very compelling argument

Jonathan Polin, sales and marketing director for Resolution Asset Management, speaks about setting up joint ventures to access into the specialist knowledge for best possible performance

Q What does an investment boutique mean to Resolution?

JP: These days a boutique is whatever you want to make it, but the reality is that a boutique is a niche asset management provider. For Resolution it means providing centres of excellence, whether it be in European or UK equities, to provide alpha in that particular asset class.

Q: Why would you describe Resolution as being in the boutique camp?

JP: We say Resolution is a village of boutiques. We have a 50 per cent stake in Hexam Capital Partners, Argonaut Capital Partners and Cartesian Capital Partners, but they are separate independent businesses. Each one specialises in one asset class, and they have the advantage of being in the boutique arena, in terms of just having a few staff, but have a partner in Resolution that can provide the support that is needed.

Q: How do the different boutiques – or effectively joint ventures – differ in terms of their management styles?

JP: The first one we launched was with Argonaut, which is a European equity specialist. Barry Norris and Oliver Russ were used to working in a boutique environment having come from Neptune. They manage the £212m Resolution Argonaut European Alpha fund with a very concentrated portfolio that produces well-above benchmark returns. That was launched in May last year and the firm now has over £500m in funds under management. Argonaut has diversified the product range away from just the Alpha fund to the £134m

Resolution Argonaut European Income fund, the first true European equity fund, which is a less volatile vehicle than the Alpha fund.

On the UK side, Cartesian, comprises David Stevenson and Andrew Kelly, both ex-SVM Asset Management fund managers. They manage the £39.6m Resolution Cartesian UK Opportunities fund, a special situations vehicle, which is unconstrained not benchmark driven. They have managed to significantly outperform their peer group, establishing a track record that stretches over 10 years, and now that performance is being mirrored within the whole of the Cartesian boutique.

Hexam Capital is made up of seven emerging markets specialists who are all former managers on the Baring emerging market desk. They look at the whole range of opportunities in the sector. The first launch was an Eastern Europe, Middle East and Africa absolute return long/short fund, managed by Marina Akopian, and a Global Resources Absolute Return fund has just gone live. We are about to launch two long-only funds – Emerging Europe and Global Emerging Markets in November. The managers are experts in their field.

Q: Resolution is the supportive larger partner and these fund managers are the high alpha generators, but how much of a Resolution fund do investors get when they invest in, for example, an Argonaut-branded fund?

JP: What is the difference? What investors get is access to a small boutique that is highly geared to deliver alpha returns. One of the concerns about going to a boutique is just how well is it capitalised? Does it have all the risk and

18 months

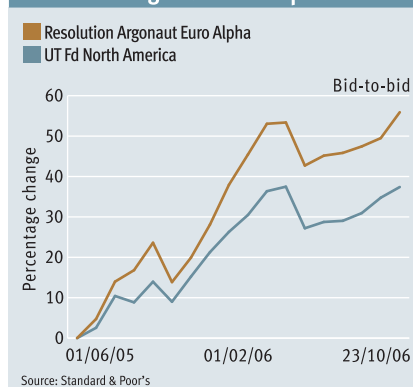
Target set by Resolution, by which time it hoped the number of joint ventures will have reached 10

regulatory controls in place? All of these aspects Resolution completes for the boutiques. Investors have the opportunity to gain the Resolution comfort factor, but within a very focused environment.

Q: Is there any particular structure to the joint ventures? For example, is Resolution looking to access particular markets or is it the case that fund managers come to you with a proposition and you pick managers instead?

JP: People come to see me and I speak with an awful lot of people. We have spoken to over 70 fund managers in the last year. One of the key things when you talk to these fund managers is to ensure they can really deliver performance within the boutique environment. Rather than providing it only with an army of analysts behind them. Secondly, it is important to see they have an entrepreneurial mind set, which means they really want to grow their business. They hold 50 per cent of the equity, as it is an equal joint venture between them and us: so they must be entrepreneurs and have a strong

Resolution Argonaut Euro Alpha v sector



CV

JONATHAN POLIN

2004 Resolution Asset Management, sales and marketing director

2003 HSBC Asset Management, managing director, intermediary business

1995 Aberdeen Asset Management, managing director UK

1993 Taylor Young Investment Management, head of business development

1992 Norwich Union, sales manager

1991 Prudential, sales manager

1979 British Army Officer

1978 Sandhurst



determination to be highly successful.

How we choose these people is two-fold. First, it revolves around the areas that we are interested in and where we need a high alpha product offering; and, second, it is about being able to say these are really good fund managers – they fit all the necessary criteria, so how can we fit them into our structure?

Q: Do you have an optimum number of boutiques that you would like to establish?

JP: We are on the record of saying we would like to have about 10 in the next 18 months or so.

Q: And seeing as you have seen over 70 fund managers over the last year you are being quite aggressive in terms of getting out there and looking for people.

JP: Very much so. Our policy is to get out there, meet people and choose the right one. These boutiques represent a large commitment from us. We fund them from day one. We give them our own money to manage, so we have to get it right.

Q: Are you looking to hire managers or fill a gap in the fund range?

JP: It stems from my view of saying we want a high alpha UK equity product, for example, so we look in the UK equity universe in terms of who we want and then see if we can join those two things together. Other times people come to us with ideas, and if I think they are good fund managers with a proposition to market which we can sell through our distribution channels then we will have further discussions.

Q: It is a very attractive structure for fund managers – cutting back the time they spend on admin and cushioning those early cashless days. But it also seems very popular with IFAs. Why do you think that is?

JP: IFAs want to be able to deliver alpha to their clients. They want to be able to pick funds that will outperform, as good IFAs won't tolerate mediocrity. Our joint ventures have a certain resonance with the intermediary market. IFAs have embraced boutiques as a whole and where they see a boutique that has a parent behind it that will be there through the bad times as well as the good, it is a very compelling proposition.

Q: How do these boutique funds sit with your other Resolution-branded funds?

JP: Very neatly. Our in-house fund managers are in competition with our boutiques in exactly the same way we are in competition with houses such as Schrodgers or JPMorgan. In a way, the boutiques have been helping us to refocus our core fund managers to perform in the way we want them to perform. We have some good in-house offerings in terms of Far East ex Japan, Corporate

Bonds, Global Equity and Property. Over the last 12 months our UK Smaller Companies and UK Focus Funds have also performed well. But there are areas of weakness, for example US and UK core equities. What we are trying to do is to raise the horizons of this business.

Q: Many people might argue that having these boutiques represents a bull market luxury and when the bear market comes a lot of them will disappear as they have in the past.

JP: Take Argonaut, for example, and look at Barry Norris's track record in Europe over the last three years. The European market has had some good returns latterly, but it has not been so good in the previous few years. Yet Barry has continued to outperform in the bad months just as he has in the good.

When you free people from being slaves to benchmarks you will see these guys are superlative stock pickers moving in and out of stocks just at the right moment. Indeed, Barry moved to a more cautious stance earlier this year than some of our competitors. It is all about these fund managers being able to look at their funds from a total return perspective. The size of the asset manager has nothing to do with the possibility of having outperformance over the long term.

Q: But if you are in a multi-manager structure, for example, and one manager performs badly it is relatively easy to ditch that particular person or fund. But with a joint venture it is a lot more difficult to unravel your involvement. At what point do you decide to end the joint venture?

JP: It is important to make decisions on this point. Key is that all fund managers, no matter whether they are boutique or within large companies, will have periods of underperformance.

If you do not think you can make it work or the fund manager is no longer able to produce the numbers then you have to take drastic action. All the agreements we have with our fund managers allow for precisely that eventuality.

Q: Ten boutiques in 18 months means it is likely to be a busy period ahead, but what else does the future hold for Resolution?

JP: At the moment we are having a bit of a purple patch and have seen our sales increase 10-fold over the last two years, admittedly from a low base. Our in-house fund managers are performing better and we are keen to become one of the top five retail fund managers within the next two years. We are on track to do that. In terms of the UK retail market, you will see a lot more of Resolution. We will be a lot more visible in 2007 through spending more money reaching the intermediary market. We will continue to launch new and innovative products that will be designed to meet their clients' demands.