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Energetic optimist sees opportunity for growth

Face to face

The public face of Ignis AM expects some rich pickings from the devastated fund industry, says **Steve Johnson**

Suitably enough for a senior executive of Ignis Asset Management, Jonathan Polin is fired up about the growth opportunities starting to emerge from the scorched earth of the fund industry.

The inferno that has swept through the industry in the past two years has burnt many a good management team, particularly in the hedge fund firmament.

And Mr Polin, sales and marketing director and the public face of Ignis, is recruiting some of the newly available hot talent.

"We have a number of future joint ventures that we are working on at the moment. We hope to have two announcements finalised by the end of the year," says Mr Polin, although he is waiting for sellers' demands to cool a little.

"We will grow organically but we will also look at growing through acquisitions, although that is difficult at the moment because the expectation of price is still too high."

Ignis itself was crafted in a merger. When Hugh Osmond's Pearl Group bought Resolution last year, the two UK life insurers' fund arms, Axial Investment Management and Resolution Asset Management, were combined to create Ignis, a £65bn ($107bn, €76bn) gorilla of a fund manager, although all but £5bn of these assets come courtesy of Pearl's 9m policyholders.

Alongside its in-house operations, Ignis already operates three 50/50 joint venture boutiques; Argonaut, a European equity house; Cartesian, a UK peer; and Hexam, its emerging markets specialist.

A fourth, Maia, a multi-manager operation, was taken in-house last week. According to Mr Polin, the move was forced by a combination of disappointing performance and margin erosion in the multi-manager sector, which undermined the viability of operating a boutique based on a revenue sharing agreement.

Mr Polin is tight-lipped about the nature of the joint venture deals he is working on, but Ignis is known to be keen to add a global equity manager and a UK equity income house to its roster. This is not the extent of its ambitions. Mr Polin is anxious to extend Ignis's asset base across the English Channel.

"On a five-year view the European market should be a larger proportion of our asset gathering than the UK. It's zero point something now, but we will be investing in that marketplace as we also build out our UK proposition further," he says.

He accepts that Ignis's European distribution network is "weak", something it intends to rectify by recruiting a new sales team. Ignis also plans to tap into continental Europe's predilection for fixed income by offering its expertise, hitherto reserved solely for its life company parent, to outside investors.

> 'The worst thing you can do in asset management is to have a lot of leverage'

"We want to be able to sell fixed income into the third party market and we will be offering it very shortly," says Mr Polin. Pearl has already seeded a number of funds, which will be aimed primarily at an international, institutional audience. "By the end of the third quarter we feel it will be in shape to take out into the third party market," he adds.

Unsurprisingly, Mr Polin is an advocate of the multi-boutique model, backed by a strong parent.

He believes its strength was demonstrated by the Ignis UK Property fund which, thanks to its heavy ownership by Pearl's life funds, never had to suspend redemptions last year, even as many of its peers did.

"The boutique structure seems to have a lot of resonance in the marketplace, and because it has a large parent above it, it makes it a lot easier for institutional investors. Particularly in this environment it gives them a lot more security," he says.

"I think a lot of boutiques will cease to exist or will merge into larger organisations. For [pension fund] trustees the risks are just too high for them, and at the retail level they won't have the distribution. Investor sentiment is changing. Scale is becoming more important."

Further, Mr Polin argues that the barriers to entry to the asset management industry – traditionally very low given its lightly capitalised nature – are set to rise amid the backlash against laisser faire regulation, in spite of the fact that the industry has withstood the crisis reasonably well.

"Regulators, both in the UK and elsewhere, will want to have larger, more well capitalised asset management houses. Capital adequacy requirements will get more stringent.

"Irrespective of the fact [the crisis] didn't happen in asset management, the regulator will want to make sure there will not be the level of opportunity for contagion in the future."

Mr Polin now envisages a period of consolidation, given the "overcapacity" in the industry. "A lot of [fund houses] are part of larger organisations where asset management is not necessarily core, but markets have allowed them to make profits so there was no need to do anything about it."

As for potential acquirers: "There are a lot of private equity firms trying to get into asset management, but the key is there should only be a small amount of leverage. The worst thing you can do in asset management is to have a lot of leverage, because you cannot control your revenues, they are dependent on market moves."

Perhaps Pearl, Ignis's parent, should have taken such advice; the burden of the debt it took on to finance the Resolution deal was a driver of its cut-price acquisition by Liberty, an Amsterdam-listed acquisition vehicle, last week.

But Mr Polin, a hyperactive whippet of a man, is already moving on to his next topic; the need for new products to re-engage disaffected retail investors.

He believes the industry needs to find a "more long-term holistic approach" to meeting the needs of private investors, rather than merely doling out relative return offerings. He speaks of the "success" of outcome oriented products in the US and with-profit life funds, with their long-term smoothing effects, notwithstanding their opacity and high charges.

Most of all, Mr Polin believes diversified vehicles incorporating some level of guarantee are crucial to regaining the trust of embattled retail investors.

"We need to give them some certainty of outcome and try and reduce the volatility to give them a more appropriate solution to their investment needs. That is where the industry should be going."

Ignis Asset Management

Established: Roots can be traced to The Foreman and Staff Mutual Benefit Society, founded in 1899

Ownership: A division of Pearl Group, due to be acquired and listed in London by Liberty, an Amsterdam-listed acquistion vehicle

Assets under management: £65bn

Employees: 402

Headquarters: Glasgow

Curriculum Vitae

Jonathan Polin

Born: 1959

1978: Royal Military Academy, Sandhurst; Officer in the Royal Tank Regiment

1991: Life cover sales manager, Prudential Assurance

1992: Sales manager, Norwich Union Private Clients

1993: Head of business development, Taylor Young Investment Management

1995: Managing director, UK, European and Middle Eastern sales, Aberdeen Asset Management

2003: Managing director, intermediary business, HSBC Asset Management

2004: Consultant, Aberdeen Asset Management

2004: Sales and marketing director, Resolution Asset Management, later renamed Ignis Asset Management