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'The Pearl deal means the asset management business will stand alone and operate in the same way it did prior to any corporate deal'

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Resolution sales and marketing director, Jonathan Polin, talks to Nick Rice about how the merger with Pearl has played out against a backdrop of fear and uncertainty as stock markets suffered a difficult start to 2008

The proposed merger between Pearl and Resolution was arguably the most important all-British takeover in the financials sector of 2007, coming hot on the heels of credit trouble in the buyout markets. As Resolution's shareholders approved the deal in the early days of 2008 and management continued to put the finishing touches to the acquisition, stock markets suffered one of their worst starts to a year in living memory. The Pearl-Resolution deal has played out against a backdrop of fear and uncertainty, and, according to Resolution Asset Management's sales and marketing director Jonathan Polin, it has given both organisations greater clarity and opportunities for profit.

"Any period of corporate activity has an element of uncertainty for all employees, no matter what part of the business they may be in. Obviously we went through a period when there was the Friends Provident deal on the table, and then there was a potential deal with Standard Life," he says. "What the Pearl deal means is that the asset management business is going to be a standalone business and is going to continue operating in the same way as it was operating prior to any corporate deal. Both our employees and our clients are delighted with the certainty that brings and the fact that it guarantees a long-term business proposition for Resolution."

Mr Polin feels the most important motivation for the deal was the economies of scale that could be generated from the life insurance business, rather than because of the benefits from the retail asset management perspective. "What Pearl chief executive Hugh Osmond's team could see was that to be in the closed-life market you need significant mass, and the price of closed-life funds was increasing the whole time," he says. "This gave him the opportunity to get that critical mass at a price which he and his partners felt was reasonable on a much quicker timescale rather than taking on four or five or six other deals to get to that level. It makes him the biggest expert in closed-life funds, both in terms of investment management and administration."

An important consequence of this, Mr Polin points out, will involve using the Axial Investment Management arm of Pearl's life insurance business to generate a new perspective on Resolution Asset Management's retail proposition. "The key driver for the deal was the value that could be created by putting these two goliaths together. The added value element was the ability to have their own asset management, not only to augment what they were doing with Axial, but also to get an open stream of new business," he says. "This gives the opportunity to develop something very interesting in the asset management space which is open to new business and can take all the work in asset liability modelling and the management of closed life funds, particularly their use of alternatives, and bring that to the open market as well."

Complimentary businesses

Mr Polin observes Resolution's activities have nothing in common with Pearl's, which will not force the management to make unpopular staff cuts. "The beauty of this deal from an asset management perspective is that both businesses are complimentary and non-overlapping. There are none of the kinds of questions you have on a normal open asset management merger, such as which fund managers you keep, which sales and marketing people you keep, which funds you merge into which. That actually gives you a level of paralysis for a year," he says. "There will be elements at the top that will change, but the day-to-day running of the business and the management of the money will be the same as it was on 27 July when the Friends Provident deal was announced."

Mr Polin says the managements of Resolution and Axial have had meetings already, although financial regulation prevents him from revealing how many and what was discussed. "We are going through the process of getting to know

each other, getting to know each other's businesses and looking at where the fits are. The challenge for us is that we have this quant-based, derivatives-based business in Axial. How do we now package that for investors? The services we provide will not just be standalone European equity income funds, but will also be about putting together solution provision for retail clients."

Understanding alternatives

Mr Polin explains Axial's understanding of alternatives will help Resolution Asset Management launch more derivatives-based and multi-asset products in the near future, particularly within the division's multi-manager boutique Maia Capital, a 50/50 joint venture between Maia's fund managers and Resolution Asset Management. "We already use alternatives within some of the Maia funds, particularly a derivatives-based product on the fixed income side. We will certainly want to increase that exposure. There is far more interest in that at this stage than I thought there would be in the retail market. You are seeing that in the application of hedge funds into Ucits vehicles, for instance."

In this vein, Mr Polin says Resolution Asset Management will be launching four new 130/30 funds next year, first US and Asia Pacific ex Japan equity vehicles and then offerings in UK and global equities. Hedging risks using derivatives, alternatives and other means is crucial to what Mr Polin believes retail investors will seek from the industry going forward.

"What clients want today is certainty. Mainstays of the asset management business such as the baby-boomer generation have always been going for growth so when they come to retire they have got this pot to draw down on. The dynamics are such that all these people are beginning to retire. No longer do they necessarily want growth. What they want is income. They want a product that will give them a certain amount of income until they are, say, 85, grow in line with inflation, plus a certain amount, and give them capital preservation," he says.

CV

JONATHAN POLIN

2004 Sales and marketing director for Resolution Asset Management

2003 Managing director, intermediary business, HSBC Asset Management

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

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

1993 Head of business development for Taylor Young Investment Management

1992 Sales manager for Norwich Union Private Clients

1991 Sales manager for Prudential Assurance

1978 IT Royal Military Academy, Sandhurst; officer in the fourth Royal Tank Regiment

"What we have to do now is design those sorts of products for the future using the constituent parts of our businesses. It will be less about selling people the flavour of the month fund this Isa season. By 2012, there will be more people drawing down on their savings than will actually be saving, so that is the market we need to get to."

This new note Resolution Asset Management would like to strike in the market could conceivably be reflected in its marketing, for which Mr Polin is responsible. He says although the Resolution name was purchased by Resolution chairman Clive Cowdery as part of the deal with Pearl, Resolution Asset Management could continue to use the same title for the next two years. Mr Polin is keen to revise the brand quickly, however, including its widespread superhero advertisements.

"It makes sense to change the name as soon as you possibly can, because otherwise you are just spending money growing a brand that you know at some point you are going to move away from. So we are at the very start of the process with our agents and advisers to look at what the name of the new company should be," he says.

"Where do the superheroes fit into that? It has done exactly what I thought it would do, which is polarise people. It is the Margaret Thatcher or the Marmite of brand advertising. When we do research about what our brand recall is, it has shot up from where we were. Admittedly we were nowhere, so we had to have a hard-hitting campaign," he says. "We have to balance that with the fact that we are dealing more in Europe and Asia than we ever did, and we have to ask if all of that is appropriate for the future."

Chief strategies

In conclusion, Mr Polin says the post-takeover model Resolution Asset Management is seeking straddles the chief strategies that are currently available for a UK investment management company, although he says no final decision has been taken on how the company will be rebranded or reorganised.

"I have said for a long time that I believe there is overcapacity in asset management, and I have always believed there will be a number of mergers and acquisitions that will happen in UK asset management. There are too many players for what the market will sustain, and there are too many people at the periphery who do not have critical mass to allow them to grow in the way that they need," he says. "I believe there are very few places to be. One of them is a large entity, and the other is a niche boutique, operating on very high margins to very specific distribution or target audiences."

Multi-boutique model

Mr Polin says the multi-boutique model will aim to operate along the same lines and continue attracting talent, without prejudicing the growth of the core retail business. "The combined asset management business will be around £85bn in assets. What the boutiques give us is the ability to put our foot in both camps. It allows us to attract very good fund managers who want to run their own business. The existing investment management business also has the mass and the financial strength to attract very good investment managers who want a corporate environment rather than their own. Boutiques will continue to increase, but there will always be a lot of talent out there that wants to sit in a corporate structure," he says.

"Without doubt, we had a very difficult period of performance up until 2004. We put very big changes in place. What we have seen is a significant turnaround in our retail proposition. The bit that we have missed in our marketing is to show really how different that performance has become.

"Everyone is very aware of the boutiques, and we need to push people's attention also to the job that our Glasgow-based fund managers are doing." Given the market's current troubles in equity, bond and property investment, however, it is unknown as to when clients will start to up their interest.