Our guest:
Resolution Asset Management

Resolution Asset Management is a £60bn ($120bn) investment house managing the assets of the Resolution group of companies. Resolution Group plc was established in September 2005 when Britannic Group plc merged with Resolution Life Group plc to become a FTSE-100 company worth £4.3 billion ($8.6 billion). Resolution Asset Management is based in Glasgow and can trace its roots back to 1899. The majority of Resolution's 55 strong team of fund managers are based in Glasgow but the European team is based in Resolution's London office.

Adrian Darley is head of European equities at Resolution and is responsible for $2 billion in European (ex UK) equities. He began his investment management career at County NatWest Investment Management in 1989. NatWest bought Gartmore in 1996 and he then worked at Gartmore for the following 10 years. Adrian joined Resolution in October 2006. Other members of the European team are John Fearon, who like Adrian is ex-Gartmore and Ian Ormiston, ex-head of European equities at Singer & Friedlander.

How is the European team organised ?

"We are generalists and are great believers in not getting bogged down in minutiae. That said one of us will sponsor each stock we review or invest in - being responsible for earnings forecasts, company contact, investment view etc."

Do you screen stocks ?

"We do a variety of screens but most of the ideas generation comes from experience and responding to company meetings, market moves that look anomalous, changes in company structure or earnings forecasts, changes in company management – all of those things are very important. So there's no one factor that we look for – we class ourselves as pragmatic investors so that means ideas can come from anywhere."

Market cap restrictions ?

"Technically no but we are restricted by what is practical to invest in. For us that is somewhere around a €1 billion free float. It doesn't mean we would rule out stocks smaller than that but the investment case would then have to be pretty exceptional."

How do you measure your performance ?

"It depends on the fund. For our retail funds, we are benchmarked against our peer group so we are trying to beat competitor fund managers – since we restructured the funds in December the European Growth Fund is just outside top quartile. For our institutional funds, we are benchmarked against the FT/S&P Europe ex UK index. Over 1H 2007 these funds have outperformed by 87bp. It is early days for us as a new team but our track records obviously go back a long way.*"

** Editor's note: the longer term investment credentials that led Resolution to hire Adrian and his team are demonstrated by a AA fund manager rating from Standard & Poors and 5 Fund Stars for the Gartmore Eurobloc Fund which Adrian ran from January 1999 until mid 2006 . During this period the fund outperformed the index by 293bp per annum.*

While at Singer and Friedlander, Ian Ormiston's European Growth Fund also earned 5 Fund Stars from S&P whilst outperforming its benchmark by 301bp per annum.

Biggest position ?

"Because of the current volatility of the markets we are not running the size of bets that we might do in different circumstances. I tend to look at positions in terms of active bets, i.e., overweight relative to the benchmark. Our biggest overweight at the moment is National Bank of Greece which is 200 basis points overweight with a holding value of over €40 million. It is therefore not our largest position (in monetary terms) but our largest active bet. I like its undervalued growth. The Greek economy continues to be one of the fastest growing economies in Europe and remains under banked. Credit cards and mortgages are still relatively new to that market. With the acquisition of Finanzbank in Turkey, NBG have bought themselves a further growth option. Finanzbank contributes about 30% of earnings now. NBG has a four year stated target of 20% per annum earnings growth yet the stock trades on 11 times earnings for 2008. The way we look at life, that's cheap and very attractive despite having already performed well.

Other large positions in monetary terms would be BBVA, EON, Axa and Novartis - all around €50 million positions. These are core holdings but it is often in the smaller stocks that we find the most exciting opportunities - BAM, Kloeckner and TomTom have all been very successful investments for us this year."

Any countries or sectors in which you won't invest ?

"No, we are pragmatic investors so we don't rule anything out. We like to think we can find interesting investments in all sectors and in all different markets. At the moment we are overweight in Germany because this market has thrown up the greatest number of interesting ideas. We are currently overweight in Greece and Germany and underweight Italy and Spain but that is very much driven by individual stock ideas."

Views on French market ?

"It's okay. France is probably a market where I've been overweight for 10 of the last 15 years. At the present time we can find more attractive ideas in markets like Germany and Greece. There are some interesting ideas in France but in general the restructuring of corporate Germany and the changes going on there are far stronger than in France at present."

Favoured French companies ?

"We like Nexity which is a French real estate play. We think BNP and SocGen within the European banking space are quite attractive. We like Bouygues, the construction/media/telecom group as it continues to generate value for shareholders and is undervalued in our view. Suez – there is big restructuring of the French energy sector and Suez is at the centre of that. At the moment there's a proposed merger of Suez and Gaz de France and it's not clear what the final result will be but Suez is certainly at the centre of things and remains an undervalued asset."

Average length of a holding ?

"It's difficult to say as I only arrived in October but going forward between one year and two. A lot of it is dependent on the market: we set a price target for all stocks that we own and if the price target is met within the space of a month then we'll review it and if we don't think there's any more upside we'll sell it but it may also take a year for that price target to be met. Normally the price target is set on the basis of expected return over a year and we would not typically buy anything with less than 20% upside over that period."

Do you get as much corporate access as you'd like ?

"You can always have more. We are a tight team of three so that makes us selective about who we want to see. One of the problems in our industry generally is information overload so allocation of time is very important. With 36 years of fund management experience between us we generally know what information or news is important and worth following up. We travel quite a lot to see companies in situ and do a lot of conference calls with management - by being proactive in this way it then makes it easier to get access when those companies come to London."

How many companies do you see in London per year ?

"It's early days but in a typical year we would expect to see 250 in London and another 150 in situ. Another 100 to 200 would be via one-on-one phone calls."

Given that Britannic changed its name quite recently to Resolution, do you find the lack of brand name recognition a hindrance ?

"Sometimes – it is very much a UK brand. There are some companies we want to invest in and some clients we want to approach that are not familiar with the brand. We therefore have to stress a) our investment credentials at our previous employers b) the fact that we are sensible long term investors and c) the fact Resolution plc is a FTSE-100 company with a big asset base. These are the sorts of things that help gain access to company management. We have occasionally found that some counterparties through being unfamiliar with the brand name initially assume we are one of the many small hedge funds that are here today and gone tomorrow so it's important that we establish our investment credentials at an early stage."

Who do you like to see ?

"The CEO would be our primary source of contact in terms of understanding the strategy and discussing key investment concerns. Where we are more interested in trying to fine tune our spreadsheets and forecasts, obviously a Finance Director is more than adequate. If it's for a general catch up, most of the investor relations community now is extremely competent and we have no problem with talking through issues with investor relations people. But if it's a new position for us, direct contact with the CEO is something we would prefer."

European countries best at IR ?

"It's easier for investor relations in markets where they have a strong command of English to understand what investors are looking for and to get their message across. So Sweden, the Netherlands and Switzerland. The markets where English is not as widely spoken such as Spain, Italy and Portugal historically have more of a patchy record which is partly a language barrier and partly a cultural barrier vis-à-vis Anglo Saxon investor requirements. But as an investor you can't use a language barrier, per se, as a reason not to invest in a company. If you make the effort to understand the strategy of a company when the majority of investors haven't been able or willing to, this can create a very good opportunity."

Any companies that are particularly good at IR ?

"None that I would single out. It's easy to confuse a good share price with good IR. Companies need good IR most when things are going wrong. That's really when you learn the most about an IR department. Are the management then there for you? Is there a consistent message? That's a big test. It's very easy when things are going well to put out confident messages but it's when times are tough you can really tell who does the job well."

Tips for companies wishing to increase shareholder base in the UK ?

"Encourage a broader section of the broking community to follow you. With mid to small companies (below €5 billion) there can be a tendency to rely on one or two broking relationships and that isn't always in the interests of the company trying to broaden out their shareholder base. We find that a frequent problem. The other catch-22 is that companies have a responsibility to see their core shareholders but those core shareholders are already in the investor base. Some companies come over on roadshows and split into two teams to see more investors. If a company genuinely wants to broaden out its investor base, then they have to do more than see their current four or five key investors. I've often found that to be an issue. Ultimately as an investor you also want the message to catch on so that somebody else is pushing up the share price. So they would be my two tips – broaden out the research coverage and see a broader range of investors. If companies are very serious about it they need to be coming over to London at least twice a year and if they are not very well known, quite possibly more, maybe quarterly. That can require a lot of time and investment in management time but that's one of the trade offs they face."

One-on-ones or group presentations ?

"It depends on the company. If it's a company that we know well then there might be a couple of issues that we want to focus on so a quick email or a phone call is sufficient. A small lunch or breakfast meeting (4 - 6 investors) also works well. If things are going wrong and there are a number of issues to go through, then a one-on-one would certainly be preferred. What doesn't work well is a big jamboree with 30 or more different investors all with different agendas. Short term trading style hedge funds, very long term investors, value investors, growth investors etc and they've all got different agendas. That can be counterproductive as you end up with a long rambling presentation and five minutes for questions before lunch. There was far too much of that 10 years ago but companies and their advisers are learning so it's generally handled better now but I think there's still room for improvement."