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OUR RESEARCH PHILOSOPHY
AND APPROACH

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OLD BROAD STREET RESEARCH LTD

“Qualitative investment research is at the heart of our business. We conduct independent, in-depth research with a view to understanding what a manager is trying to achieve and whether or not we believe a fund is likely to meet its investment objectives over the long-term. We achieve this primarily through face-to-face meetings, but we also use quantitative analysis to inform our views. This research is the engine that powers the rest of our organisation and enables us to deliver bespoke solutions to product providers, fund management groups and intermediaries alike.”

Richard Romer-Lee, Research Director

OUR RESEARCH PHILOSOPHY

The integrity of our research is of paramount importance to us and our clients. Our research philosophy and approach is not only long-established but is also developing over time in order that it remains robust and relevant in an ever changing industry.

Established in the early 1990s, our philosophy is grounded in the belief that a qualitative approach is critical to providing forward-looking research and opinions. We believe that a qualitative understanding of a manager, gained through face-to-face meetings, is the only way to understand how a fund is managed, what it sets out to achieve and the prospects of those objectives being met in the future. It also provides a meaningful framework to assess historical trends and returns.

While we are committed to a qualitative research approach, we also acknowledge that it needs to be supported by quantitative analysis to either validate or question our understanding of a fund's characteristics. This is particularly true where we are looking to assess how a fund is likely to perform in different market conditions.

In terms of comparing one fund with another, traditional industry sector classifications (such as those used by the IMA or the ABI), although of some use, are in our opinion too broad to allow meaningful comparisons. To address this we have developed a proprietary approach to categorising the funds we research. We subdivide the investment universe into much tighter groupings, which we term OBSR Categories™ and we have different categories for equity, fixed interest and multi-manager fund types.

Independent and unbiased advice

We appreciate there are many ways of managing funds. Our research process is designed to highlight different approaches and to identify the best of each when applied to different investor circumstances.

For our business, integrity and independence are absolutely crucial. We look at the entire universe of UK domiciled funds, including all multi-manager funds and life and pensions funds, to give impartial, whole of market coverage.

Our approach is underpinned by a number of important industry considerations. Firstly, Treating Customers Fairly (TCF) is a fundamental principle for everyone involved in the industry and our research can help ascertain which products are suitable for particular types of client and also support a consistent approach to investment research. Secondly, we all know that past performance is not necessarily a guide to future performance, so we believe that in-depth, qualitative research rather than just a quantitative assessment of funds is absolutely vital to deliver robust investment advice.

To support these outcomes OBSR remains committed to producing high quality and totally independent fund research and ratings. At the current time around 10% of the entire fund universe has been awarded an OBSR Fund Rating.

We use qualitative research to understand what a fund is trying to achieve and how likely it is to do so. We are not just driven by quantitative analysis which looks purely at what it has done in the past.

OUR RESEARCH APPROACH

The backbone of our research process is qualitative analysis and this is based upon regular, face-to-face meetings with fund managers.

Rather than solely relying on statistical analysis, we believe that a qualitative approach is the key to understanding whether a fund is appropriately and well managed in relation to its specific aims and objectives. It is this focus on qualitative analysis which clearly differentiates our approach from that used by other fund research companies.

Furthermore, we do not believe that it is enough to interview individual fund managers in isolation, we prefer to take a holistic approach, understanding that a manager's or a team's environment can be critical to the success of the investment process. Therefore we interview all those who have an influence on a fund manager and his or her remit. This may include those responsible for the business as a whole, for example

the chief executive officer, chief investment officer, head of strategy and/or asset allocation, as well as those involved in the investment process such as heads of desk, performance analysts, risk team, and any other relevant support staff.

As we analyse such a wide variety of funds we aim to be flexible in our research approach. During our meetings with managers we work within an organised framework but we are not constrained by a fixed format or set of questions. We think it is important to consider each fund on an individual basis. There are a number of key areas that we always cover because they are important for our understanding of a proposition. These are as follows:

1. Group ownership and stability

It is important to know whether an investment management group is committed to the retail marketplace and whether they have provided the correct level of resources to enable the investment team to deliver the fund's objectives.

2. Investment philosophy and objectives

We need to understand the investment philosophy of each fund we analyse. It should be clearly articulated and the manager should have realistic and achievable investment objectives. An important part of this discussion is to question how the managers believe they add value and why.

3. Personnel

In our meetings we question the overall resources of the group to understand if it has strength in depth or is highly reliant on the special talents of a few individuals. We also consider the level of individual fund manager experience, how they are motivated and whether the organisation promotes a star manager culture or prefers a team approach.

4. Investment process

Our objective is to establish what process the group, team or manager employ. We take a great deal of time and effort in order to understand the mechanics of the investment process and whether it is applied effectively and consistently. It is also important that the process is supportive of the manager's philosophy and the fund's stated objectives.

5. Research resources

We are interested in how fund managers are supported by their analysts, how ideas are generated and what emphasis is placed on the use of external resources, for example brokers, economists and information services.

6. Portfolio construction and risk controls

Lastly we aim to understand an organisation's attitude to risk and the fund manager's own appreciation of the trade-off between risk and reward. It's important to understand how they think about and define risk and the systems which are in place to monitor risk and ensure that managers adhere to the guidelines for portfolio mandates.

Quantitative research

We use quantitative analysis to support our qualitative understanding of a fund. We are not driven by the figures, but they are useful to help inform and validate our decisions.

The majority of our quantitative analysis is conducted on past performance statistics, but we use several different techniques to build up a rounded picture. We look for a strong and consistent performance record in line with the fund's objectives, appropriate levels of volatility and good risk-adjusted returns.

We also have our own systems to analyse portfolios at the stock level and monitor changes over time. This data is useful in our regular discussions with fund managers.

Our differentiator in the quantitative element of our process is the measurement of results not against the peer groups or perceived competitor products, but rather against the fund's stated investment aims and objective.

The OBSR Categories™

Having conducted our interviews and gained an understanding of each fund in detail, we then apply the OBSR Categories™. This enables us to compare funds of similar types and underlying characteristics. Our clients can then use these categorisations to help them to make more useful and meaningful like-for-like comparisons, rather than simply relying on the broadly drawn industry sector classifications.

Once we have concluded our due diligence process and have categorised a fund, it may be considered for an OBSR Fund Rating. Where appropriate, funds are presented to the OBSR Fund Rating Committee for consideration. The ratings range from A to AAA, which is the highest available. These ratings are designed to be both an independent mark of quality and a clear indication of our conviction in a manager's ability to meet or exceed a fund's objectives compared to other funds of a similar type.

Regular reviews

We operate an ongoing programme of review meetings to ensure that our understanding of funds is as up-to-date as possible. We conduct quarterly reviews of unit trusts and OEICs, six monthly reviews of multi-manager funds and annual reviews of life and pensions funds.

These reviews are used to ensure that we continue to understand how the fund is progressing and whether the investment process is still in line with our understanding and appropriate for its objectives. We seek to ensure that we are comfortable with any changes to the strategy, process, personnel or environment and to ascertain whether this has a material impact on the management of the fund. Following these review meetings, we consider whether the OBSR Fund Rating is still appropriate and any issues are discussed at our regular team meetings. Should a material change occur between our regular review meetings, this is considered and where appropriate the OBSR Fund Rating may be adjusted, suspended or removed.

Our research team

Our research team combines highly experienced analysts with talented newcomers to create a dynamic and collegiate atmosphere. The fund manager interviews are attended by at least two members of the team which supports our collaborative approach. This also extends to our regular weekly, monthly and quarterly team meetings where open discussion and debate about recent fund reviews is encouraged.

Analysts' responsibilities are divided by sectors in the mutual fund arena and by company in the multi-manager and life and pension markets. This enables them to become specialists in their chosen area, whilst retaining a broad knowledge to provide meaningful views on a range of funds.

We establish a detailed understanding of all aspects of the fund and management team so we can establish how it is likely to behave in the future.

ABOUT OLD BROAD STREET RESEARCH

OBSR's research is respected by fund managers, product providers and professional intermediaries alike, with OBSR Fund Ratings widely acknowledged as an independent mark of quality.

Established in 1999 by Richard Downs and Richard Romer-Lee, the OBSR Executive Directors have since been joined by Nigel Whittingham. Between them they have over 75 years of directly relevant experience and are all well known and respected in their fields of expertise.

There is a wider team which has been built through the recruitment of highly motivated and respected individuals from all areas of the financial services industry. Between them there is a broad mix of expertise including Asset Management, Multi-Manager, Private Client stock broking, IFAs, Research and Product Provider backgrounds. All bring relevant experience to boost the research and consultancy capability of OBSR for the different types of client.

OBSR works for many of the best known firms in the industry, offering products and services to fund managers, product providers, wraps and platforms, large distribution firms as well as individual advisers.

Contact us

To find out more about any of our products or services please visit www.obsr.co.uk, call on 020 7029 3660 or email us using one of the addresses below.

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