

## OBSR Fund Categorisation

In order to assist advisers to identify appropriate funds to meet their clients' requirements we have categorised funds (life, pension, unit trust and OEIC) as described below. Users of Selector will be able to search by levels 1 (Sector) and 2 (Investment Type) whilst levels 3 and 4 will be flags.

### Investment Type

It is generally acknowledged that the ABI and IMA sector classifications are widely drawn and whilst they are designed to point investors in the right direction, there are many different types of investment approach and funds within each sector. We have therefore provided different "Investment Types" as further sub-categories within the industry standard sectors to assist advisers in their selections. These relate to each sector and vary depending on the asset classes involved. They are defined as follows:

### Equities and Managed Funds

**Core** – Core funds are likely to be diversified and the investment approach can be considered to be mainstream and non-specialist in nature. They are likely to be broadly representative of the asset class or managed fund sector when compared to other funds in the sector. Typically, core funds will be managed with tight risk controls relative to accepted main market or peer group benchmarks. Hence performance is not expected to stray too far from these, albeit with the intention of generating out-performance over the medium to long term.

**Core Plus** – Core Plus funds are typically managed and structured with a view to out-performing the accepted main market or peer group benchmarks significantly over the medium to long term. Whilst they are likely to be managed with reference to accepted main market or peer group benchmarks they are not necessarily benchmark driven. Positions may deviate significantly from the benchmarks at the asset allocation, geographical, sector and stock selection levels. Such funds are likely to take greater levels of risk relative to the market indices and peer group benchmarks compared to Core funds.

**Specialist** – by definition, Specialist funds are likely to be specialist and not core in nature. This is a heterogeneous grouping as it encompasses funds that adopt a wide range of different approaches. They are often managed with little or no reference to the accepted main market indices and peer group and therefore performance can differ significantly from these.

**Ethical** – Ethical funds are managed according to specific ethical or socially responsible investment criteria. As such, ethical funds are constructed from restricted universes and their make-up and performance can differ significantly from accepted main market indices and peer groups.

**Tracker** – Tracker funds set out to replicate or "track" particular stock market indices.

### Equity Market Capitalisation Focus

Equity Market Capitalisation Focus provides advisers with the ability to examine funds in greater detail and relates to the market capitalization biases of each fund.

*Large Cap* – A fund that invests in large companies within a particular market or markets.

*Large Cap Bias* – A fund that invests predominantly in larger companies within a particular market or markets, but which also invests in mid and/or smaller capitalization stocks.

*All Cap* – A fund that invests across all market capitalizations with no structural bias to any part of the market or markets.

*Mid Cap* – A fund that specifically invests in the mid-cap stocks of a particular market or markets.

*Mid and Small Cap* – A fund that invests specifically in the mid-cap and smaller companies within a particular market or markets.

*Small Cap* – A fund that invests specifically in the smaller companies within a particular market or markets.

## Equity Investment Style

Equity Investment Style provides advisers with the ability to examine funds in greater detail and relates to the investment style that may prevail in the management of each fund.

**Blend** – A fund that is not limited by growth or value disciplines. Managers of blended funds may try to adapt their portfolios over the market cycle. Their portfolios may display growth or value characteristics, or a blend of both, at any particular point in time according to the manager’s assessment of the underlying stocks and the prevailing market environment.

**Growth** – A portfolio which emphasises the earnings growth potential of stocks. A growth company will typically demonstrate higher than average growth in sales and earnings and the ability to generate rates of return in excess of its cost of capital. It is therefore able to retain a high proportion of earnings, which grow faster than average when compared to their peers. Where there is consideration to value, the Managers may moderate a growth approach by having regard to relative prices: this frequently referred to as GARP (growth at a reasonable price).

**Value** – A portfolio which emphasises the value of stocks relative to their peers and their own price history. These stocks typically appear undervalued for reasons besides earnings growth potential. Such stocks are usually identified by their high dividend yield, low Price/Earnings ratio or low Price/Book Value ratio. Value managers may be “contrarian” in terms of approach – i.e. they may look to invest in lowly-valued stocks at times when such stocks are out of favour.

## Fixed Interest

We have adopted a different approach to sub-categorisation of fixed interest funds due to the nature of the asset class and also the fact that the IMA and ABI sectors are sometimes helpful (e.g. UK Gilt, UK Index-Linked, UK Corporate Bond) and sometimes less so (UK Other Bond and Global Bond). We classify funds in terms of “best fit” according to their investment universes as follows:

## Investment Type

**Sovereign** – A fund which invests almost exclusively in highly-rated sovereign debt.

**Investment Grade** – A fund which invests predominantly in investment grade corporate debt. These funds may also invest in sovereign debt and there may be some latitude at the margin to invest in high yield debt.

**Investment Grade Bias** – A fund which invests in a combination of investment grade and high yield debt, but which has a structural bias to investment grade.

**Strategic** – A fund which invests in sovereign, investment grade and high yield debt with no structural bias towards any and where the fund manager is free to asset allocate across all three.

**Mixed Assets** – A fund which invests predominantly in fixed income securities, but may also invest in equities. Such funds may also invest in hybrid securities such as convertibles and preference shares.

**High Yield Bias** - A fund which invests in a combination of investment grade and high yield debt, but which has a structural bias to high yield debt.

**High Yield** – A fund which invests predominantly in high yield debt.

**Absolute Return** – A fund whose performance objective is to beat cash (LIBID/LIBOR) by a defined amount. Such funds will use a range of instruments, usually permitted under UCITS III, including interest rate swaps, credit default swaps and other derivatives in addition to investing in a combination of equities, bonds and cash in order to pursue their goals.

**Specialist** – by definition, Specialist funds are likely to be specialist and not core in nature. This is a heterogeneous grouping as it encompasses funds that adopt a wide range of different approaches. They are often managed with little or no reference to the accepted main market indices and peer group and therefore performance can differ significantly from these.