

Fund managers face growing pressure to show the value of research

London, 01 March 2005 – Investit Intelligence, the research forum dedicated to the operational issues of the fund management industry, has explored the impact of recent unbundling of commission regulation on the buy-side. Unbundling means splitting out the cost of research bought when commission is generated by executing an equity trade. The research paper reveals that changes to the research environment will force fund managers to become more selective purchasers of research. They will also need to prove the value that research brings to client portfolios.

Unbundling was initially proposed in 2001 in the Myners Review, which suggested fund managers pay research costs from their own fees. Further industry lobbying and FSA regulation followed leading up to the FSA PS05/09 which requires fund managers to disclose their commission spend and the split between research and execution.

Investit interviewed investment banks and brokers, independent research firms, systems vendors, regulators, trade associations, fund managers and the investment consultants to the end clients - in order to assess the impact of the new UK regulations.

Investit's research shows unbundling regulation - and the subsequent transparency - will put fund managers under pressure. The immediate requirement is for managers to show what has been paid as commission for a trade and what has been paid for research. But Investit's research indicates this will rapidly lead to a demand by clients for a clear explanation of what research managers intend to buy, why and at what price – and what value this brings to their portfolios.

Unbundling legislation also has operational issues. Fund managers will need to put in place robust procedures and systems to assess the value they receive from external research inputs, particularly those obtained from sell-side firms.

The current practice to assess external research in investment management firms is a portfolio manager and analyst vote. However, voting processes are unlikely to meet the future requirement for a robust analysis of value. Quantitative assessments of forecast and recommendation accuracy have an increased role to play. In any case, there will need to be a more explicit assessment of the appropriate price to pay for a piece of research rather than saying it is worth a certain percentage of unknown commission spend.

Richard Phillipson, Principal at Investit and one of the authors of the report, said, “Fund managers are going to have to become more selective purchasers of research and more able to define their research needs. In turn, competitive pressure is likely to push brokers to provide menu pricing. Despite unbundling regulation only having been live for eight weeks, we know the price of research and execution is already a subject of active debate between fund managers and brokers.”

Increasing the pressure to comply, the NAPF have outlined 14 questions for pension funds to ask their managers regarding unbundling of commission legislation. Investit's research indicates that this is likely to become part of the manager selection process.

- Ends -

About Investit

Investit is the leading fund management consultancy providing integrated investment and operational advice and research. Investit was founded in 1998 and includes five core expertise areas: investments, client management, performance and risk, operations and systems. In 2001, Investit People was added to provide specialist recruitment services to our clients. In 2004, Investit Projects started work, providing a unique outsourcing service for business projects. Investit Intelligence completes the offering with a range of specialist surveys and detailed research papers. For further information go to www.investit.com

About Investit Intelligence

Investit Intelligence is a customised information tool for all people concerned with turning high-level business plans into reality. Investit Intelligence consists of a number of research and survey services.

- **Investit Intelligence Member Service**

The member service is an interactive service where members take an active role in selecting, shaping and researching topics by voting on new discussion and research ideas.

- **Investit Intelligence Business Process Assessment – defining best value**

BPA is a service where Investit works closely with COOs of investment management companies to identify the value output of all business processes and how that compares with peers – it's an essential decision-making tool.

- **Investit Intelligence IT Value Survey**

The IT Value Survey looks in detail at the spend, effectiveness and plans of companies IT departments. It is an annual survey particularly designed for COOs and Heads of IT.

- **Investit Intelligence Performance & Risk Survey**

The Performance & Risk Survey is the only tool specifically designed for, and by, Performance heads in Investment Management companies. It looks at performance and risk systems, performance roles and remuneration, future trends and benchmarks against peers.

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