

The logo for Edison Investment Research, featuring the word "Edison" in a large, white, sans-serif font, with "investment" and "research" stacked below it in a smaller, white, sans-serif font. The entire logo is enclosed in a thin white square border.

Edison  
investment  
research

# A NEW APPROACH TO EQUITY RESEARCH

Independent equity research survey



Edison Investment Research  
The UK's leading independent equity research company

# EQUITY RESEARCH ~ ADDING VALUE

Independent equity research\* is one of the fastest growing segments within the City of London.

This growth is being driven by the need for financial institutions to demonstrate a competitive advantage, to tap into a wider pool of relevant information and to access this data at a reasonable cost in order to meet increasing regulatory requirements and investor demands.

Many investment banks are re-evaluating the economics of their research departments and widening the split between analysts and deal makers. This is increasing the role of independent equity research in the financial marketplace.

The key objective of this Edison survey was to gauge the importance of equity research within the investment process,

show its most relevant features and explore the general attitudes of the professional investment community towards independent research, including company commissioned research.

The conclusions of this survey demonstrate that high-quality equity research is pivotal to any investment decision. It also shows that fund managers and brokers throughout the City strongly support commissioned research and believe it is credible. It proves that independent equity research plays a key role in today's market and is essential for professional investors.

The following pages provide an analysis of the key findings of the survey with additional information on survey participants.

"Our goal is to be the research provider of choice, producing the highest quality research in the City. Our brand is built around five key quality standards namely, financial rigour, objectivity, insightfulness, readability and timeliness. It is extremely encouraging that these survey results confirm our aspirations are firmly aligned with our readership's requirements."

Neil Shah, Director of Research

"Edison has grown rapidly since 2003 to satisfy the strong demand for thoughtful, high quality research, free of the traditional conflicts of interest including proprietary trading and corporate finance. Our objective is to become the provider of the highest quality equity research in the UK.

Our research is balanced, accurate, financially rigorous and timely. We are seeking to establish the standards that others will follow. Key to this is our team of top-ranked equity analysts, the strength of internal controls and infrastructure of our research department."

**FRASER THORNE,  
MANAGING DIRECTOR**

\* independent research being defined as unconnected to an investment bank

# KEY FINDINGS

In the first quarter of 2006, Edison surveyed UK-based institutional investors, private client brokers and traditional brokers for their views on the importance of equity research and the credibility and prospects for independent research. A total of 150 responses were received, two-thirds were from fund managers and private client brokers, the remainder from institutional stockbrokers and corporate financiers.

**Professional investors regard financial rigour and objectivity as the two key attributes of research and investment recommendations and price targets as least important**

**90%** of all respondents cite research as important or invaluable to their investment process

**94%** consider access to research other than the house broker's as important or invaluable

**88%** of all respondents regard company commissioned research as a credible source of information

**98%** read Edison's research with 60% regularly or always

**87%** rate Edison's research output as good or excellent

**93%** would consider actively encouraging companies to commission independent research

# 3 MARKET BACKGROUND

At the end of 2005, eight independent research houses covered approximately 300 UK listed companies, compared with coverage of an estimated 60 companies at the end of 2003.

This growth follows an established US model, which has been accelerated by a wave of new regulations designed to extract research from investment banking and keep a bank's advisory activities strictly separate from the research function. The objective is to make analysts more accountable and thus strengthens the market for independent research.

As a result, Wall Street's biggest investment banks are obliged to make independent research (i.e. independence being defined as unconnected to an investment bank) available to investor clients in addition to their own research.

There is no equivalent regulation in the UK, but a number of factors including the dramatic growth of the AIM market, shrinking research teams in investment banks and the increasing propensity of traditional sell-side analysts to publish short results comments have all driven demand for alternative research providers.

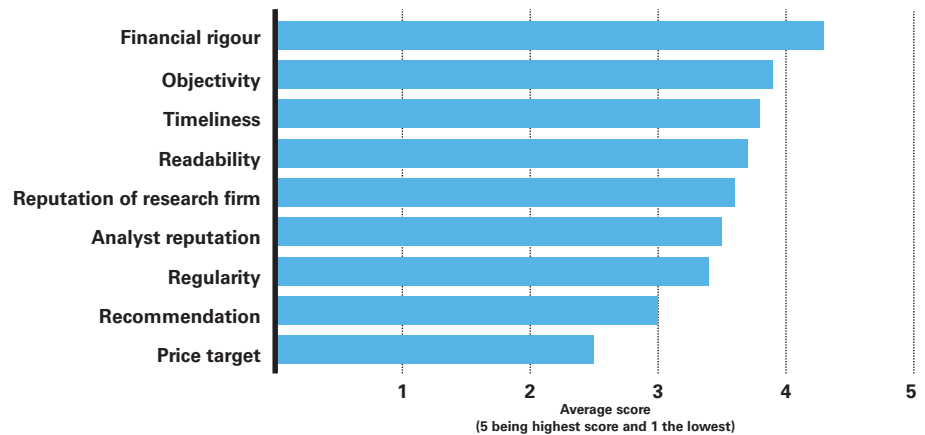
Although business models are still evolving, independent research tends to be commissioned by fund managers, brokers and listed companies. A good precedent for the company-commissioned research model is provided by Standard & Poor's and Moody's, the world's foremost providers of credit ratings. In a similar way, Edison is retained by corporate clients, investment banks and fund managers to provide research services. It aims to ensure consistent quality and credibility of research by employing some of the City's most experienced equity analysts and supporting them with a team of supervisory analysts, editors and research assistants.



# PRICE TARGETS AND INVESTMENT RECOMMENDATIONS ARE NOT A PRIORITY

## ON A SCALE OF 1-5, HOW IMPORTANT TO YOU ARE THE FOLLOWING ASPECTS OF ANY RESEARCH YOU RECEIVE?

This part of the survey identified the key elements of all research from a professional investor's perspective and reinforced the importance of an independent assessment. *Financial rigour, objectivity and timeliness* were consistently cited as the three most valuable factors. Recommendations and price targets are the least important features.



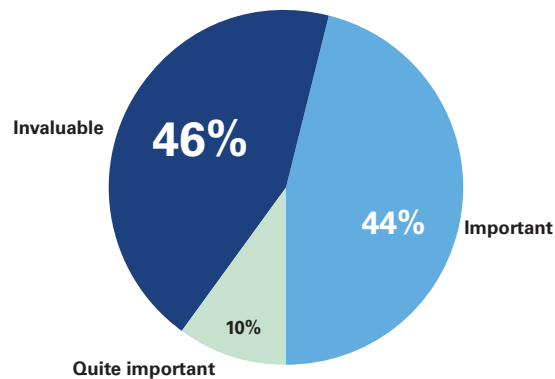
“The acquisition of a wider audience for a small listed company is of great importance. This wider audience enables greater liquidity which often leads to a higher market rating. ... independent research is highly beneficial in achieving this aim.”

Jody Downes, Head of smaller company sales, Williams de Broe Securities

# RESEARCH IS CRITICAL TO THE INVESTMENT PROCESS

## HOW IMPORTANT IS RESEARCH TO YOUR INVESTMENT PROCESS?

90% of the respondents regard research as either important or invaluable and the majority consider access to research a prerequisite to investing in a company. Other findings confirm that professional investors welcome receiving at least one in-depth piece of analysis a year, as opposed to 'maintenance' coverage (i.e. results comments) that increasingly characterises output from sell-side analysts.



“One of the problems faced by many smaller companies is gaining recognition and developing an investor profile. This is very important in the early stages of a company's life, but equally so on an ongoing basis.

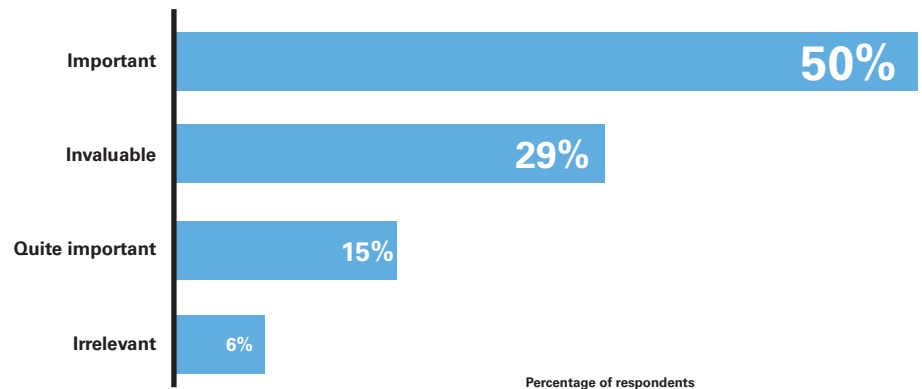
One way to achieve this is to ensure that there is adequate research coverage that is widely disseminated. Having an independent boutique is a good way to achieve this.”

Laurence Marsh, Head of UK Smaller Company Research, Winterflood Securities

# FUND MANAGERS WANT ACCESS TO RESEARCH OTHER THAN THE HOUSE BROKER'S

## HOW IMPORTANT IS ACCESS TO RESEARCH OTHER THAN THE HOUSE BROKER?

94% of respondents actively look for research other than that produced by the house broker. Only a very small number are content to rely solely on the house broker's view. Fund managers value the house broker's research but believe it is important to have alternative views and forecasts in the market place.



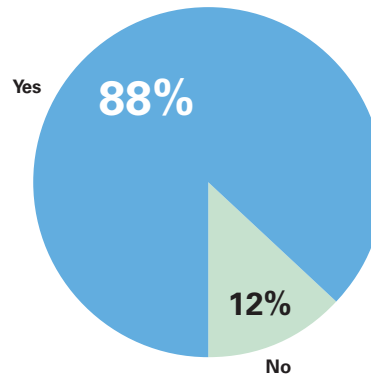
"Edison's research is a valuable tool in the hunt for good investment opportunities. It is balanced, objective and provides a level of detail not normally associated with smaller companies."

Peter Knowles, Director, Fyshe Horton Finney

# COMPANY COMMISSIONED RESEARCH IS VIEWED AS HIGHLY CREDIBLE

## DO YOU THINK RESEARCH COMMISSIONED BY COMPANIES IS CREDIBLE?

Overall, company commissioned research is regarded as credible, regardless of the size of the company. Whether it is a smaller capitalised company where research is limited or a mid-cap company, where regular, in-depth and financially rigorous research may still be at a premium, commissioned research is regarded as a highly valuable product.



“Edison has been a significant part of our IR strategy. Supporting the broker, improving visibility, strengthening and amplifying the message and increasing our potential and real investor audience has been a significant part of our share price growth”

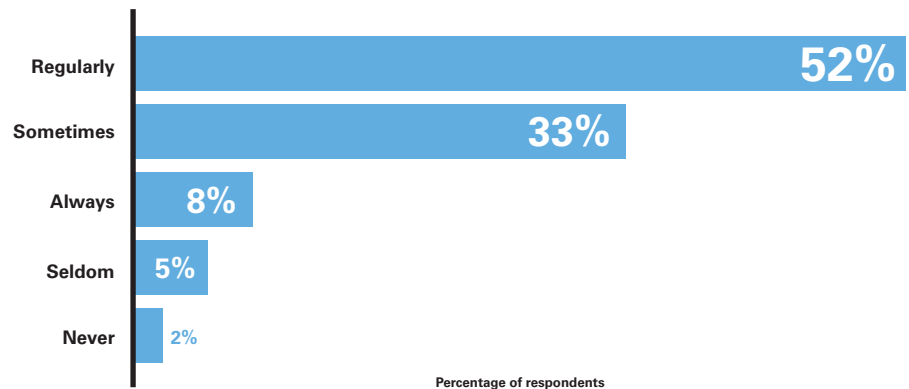
Steve Evans, CEO, Accident Exchange Group



# EDISON'S RESEARCH IS READ ON A REGULAR BASIS

## HOW OFTEN DO YOU READ NOTES WRITTEN BY EDISON?

Over half of respondents regularly read Edison's research. It produces research on all sectors, which is consistently read by the majority of fund managers and brokers throughout the City. This re-enforces the view that most small and mid-cap fund managers are generalists and not single-sector focused.



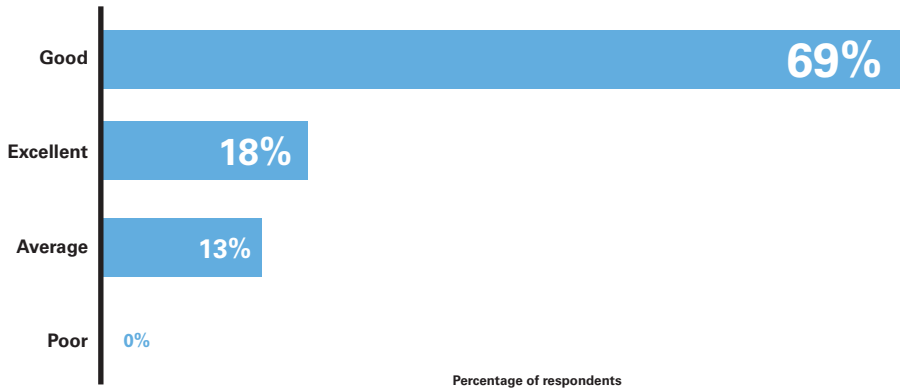
"Edison provides high quality research coverage provided by an experienced team of analysts often on companies overlooked by the majority of brokers. With this, institutions and brokers are able to develop their knowledge of companies, which leads to greater awareness and enhances liquidity."

Graham Bell, Institutional Sales, Bridgewell Securities

# 87% OF RESPONDENTS VIEW EDISON'S RESEARCH AS GOOD OR EXCELLENT

## HOW DO YOU RATE THE QUALITY OF RESEARCH PUBLISHED BY EDISON?

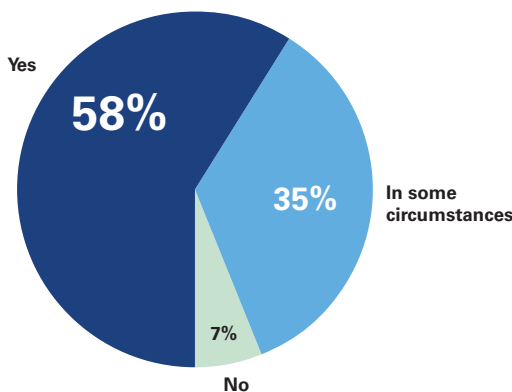
Over 87% of respondents regard Edison's research as good or excellent. Comments from some leading fund managers suggest Edison's reports are now considered to be amongst the highest quality research published by any City institution.



# MOST RESPONDENTS WOULD RECOMMEND COMMISSIONED RESEARCH

## WOULD YOU ACTIVELY ENCOURAGE COMPANIES TO CONSIDER COMMISSIONED RESEARCH?

Over 90% of respondents would recommend commissioned research. This confirms its credibility and highlights the importance of ensuring investors have access to a regular, high quality research product.

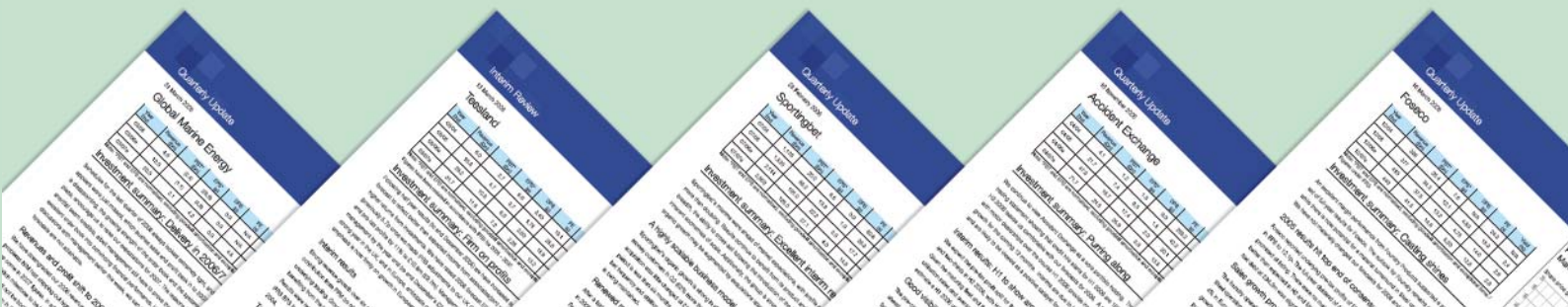


# PARTICIPATING COMPANIES

ABN AMRO  
Arbuthnot Securities  
Baillie Gifford  
Bank Julius Baer & Co  
Beaumont Cornish  
Bell Lawrie  
Blankstone Sington  
Brewin Dolphin Securities  
Brown Shipley  
Carr Sheppards  
Cave & Sons  
Cavendish Investment Management  
Cazenove Capital Management  
Charles Stanley  
Christows  
City Equities  
Corporate Synergy  
Dexia  
Dryden  
Ennismore Fund Management Ltd.  
Evolution Securities  
Fieldings Investment Management  
Framlington  
Fyshe Horton Finney  
Gartmore

Harris Allday  
Hedley & Co  
Hermes  
Hichens Harrison & Co  
Hill Osborne  
Insinger de Beaufort  
Invesco Perpetual  
J M Finn  
James Sharp & Co  
Jupiter Asset Management  
KBC Peel Hunt  
King & Shaxson Capital Limited  
KPMG  
Lewis Charles Securities  
M D Barnard & Co.  
Majedie Asset Management  
Massie & Co  
MFM Group Limited  
MLIM  
Noble & Company  
Numis Securities  
Oriel Securities  
Panmure Gordon & Co  
Pilling & Co  
Pritchard Stockbrokers

Rathbones Investment Management  
Reabourne Technology  
Redmayne Bentley  
Rensburg  
Robert W Baird Ltd  
Rowan Dartington & Co Ltd  
S P Angel  
Shore Capital Stockbrokers  
Singer and Friedlander  
Smith & Williamson  
St Andrews Asset Managers  
Teather & Greenwood Ltd  
Threadneedle  
Tilney  
Truro Stockbrokers  
UBS Wealth Management  
Unicorn Asset Management  
Vartan & Son  
W H Ireland  
Walker Crips Weddle & Beck  
Westhouse Securities  
Williams de Broe  
Wills & Co  
Zeus Capital



# ABOUT EDISON INVESTMENT RESEARCH

Edison is the UK's leading independent research company, covering more companies and publishing more frequently than any other independent research house. It provides research services to a range

of clients, including listed companies that are looking to guarantee a depth and consistency of coverage as well as gain exposure to a much wider audience of professional investors. Institutional investors also retain Edison to provide in-depth reviews on companies or sectors and thematic reports. Investment banks often outsource to Edison for extra coverage and to support their research departments.

Edison currently produces regular research on approximately 95 companies across a broad range of sectors.

Edison is free of the traditional conflicts of interest of an investment bank. It does not offer stock execution facilities to investors, operate a proprietary trading desk or advise companies on corporate finance or PR activities.

Edison's primary function is to provide the highest quality investment research on UK-listed companies. Its team of over 30 professionals includes nine former top-three ranked industry specialists. Our analysts attend hundreds of company results meetings and visit scores of companies each year. This allows them to conduct primary analysis on a company's prospects and compare its outlook with the rest of the sector. Edison's analysts are supported by a core of supervisory analysts, editors and assistants, all of whom help to ensure a consistently high quality product.

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