

# THE RESEARCH-TO-INVESTMENT PROCESS



## “HOW DOES YOUR FIRM STRUCTURE ITS RESEARCH-TO-INVESTMENT PROCESS?”

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To best prepare our clients for their investor meetings, Ipreo asked buy-side Analysts to describe their research-to-investment processes. The research strategies differ by each asset manager and the responses on the proprietary approaches of each firm can assist IR teams in marketing their investment stories and setting expectations on the ROI of their time spent. Team structure, sector coverage and the investment pitching process stood out as areas where each asset manager differed. Most performed initial fundamental research followed by contact with IR and management as the next layer of research. The standard time frame for turning an idea into an investment varies drastically across different firms (anywhere from a few weeks to multiple years), but most analysts and PMs agree that the process could be expedited depending on the firm's familiarity with the company and its respective industry. If an investor recently held a stock, the turnaround will likely be quick, while underfollowed or newer investment stories take more time.

### **ANALYST AT FIDELITY MANAGEMENT & RESEARCH COMPANY**

*Growth, \$769.8B EAUM*

“We have a core research team, in addition to the PMs. The core research team is broken down to smaller teams by sector. Our team has less than 10 Analysts and Research Associates, with each of us covering specific companies within a sub-industry. For instance, for a company in my coverage, I go to all the Fund Managers in various countries and cities around the world, and give them my thoughts. The PMs will then make their own decision taking into account my recommendation and research on the stock. Unlike Wellington or other shops, we don't have Analysts dedicated to PMs. We've scaled ourselves slightly differently in that all PMs are looking at the one company Analyst for recommendations on what to do with their position.”

### **ANALYST AT BLACKROCK ADVISORS**

*Value, \$253.9B EAUM*

“We don't have centralized research, so each fund does their own thing and has their own team of Analysts. That doesn't mean that we won't invite separate teams to a meeting with an investor team, but, typically, it will be one team. At BlackRock, fewer people can manage more money, and many other large asset managers will have many more PMs manage smaller amounts of assets. If a company wanted to come to Princeton, they could meet with two PMs and be exposed to decision making for \$150B EAUM, where they could meet with 25 people and be exposed to \$20B in EAUM at a peer asset manager.”

**ANALYST AT J.P. MORGAN INVESTMENT MANAGEMENT***Growth, \$235.6B EAUM*

“I do an awful lot of work myself, which includes meeting with the company and competitors. Then I present this idea to our PM. If it is a stock that we have decided to buy, I will buy it myself and actively communicate to other investors on the floor why I am investing and why they should consider as well. This conversation could take anywhere from an email with three bullet points to a slide deck with 20 slides. It all depends on what I believe is appropriate. There is no hard and fast rule as to how long this will take. However, it normally takes a couple months to complete this process.”

**ANALYST AT MFS INVESTMENT***Value, \$232.4B EAUM*

“It is essential for us to meet with companies before investing. Some of the bigger companies are beginning to set their own schedules, rather than come with the sell side, which works well. We do not let the sell side into our meetings. Companies that bring different executives are also very helpful. I like to hear from marketing and distribution directors. Additionally, I enjoy trips to a company’s headquarters and typically do not invest if I have not seen their headquarters. The exception to this rule would be IPOs. In this case, we meet with the team during their public roadshow, but will try to meet with them as soon as possible after the quiet period. It generally takes me three hours to conduct my initiation process for an IPO. I read the prospectus, build the model, and meet with the company. That is all you can do for IPOs. If I were to look at a brand new company, I could have it done by the end of the day.”

“*For a company in my coverage, I go to all the Fund Managers in various countries and cities around the world, and give them my thoughts*

*-Analyst at Fidelity Management  
and Research Co.*

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**ANALYST AT NEUBERGER BERMAN***Value, \$81.0B EAUM*

“I work in our research department which is a shared resource. We have 20+ portfolio management groups, and there is an ongoing dialogue between the Analysts and Portfolio Managers. For example, I can meet with a company and update the PMs on what is going on. At that point, it is up to each PM to decide if they would like to invest or not. It is not like I can recommend buying a stock and the PMs have to follow my recommendation. I do publish internal notes and analysis which go to the entire company and, from that, PMs can reach out to me. My main role as an Analyst is to be the ‘feet on the Street’ and to relay information back to the portfolio managers, so that together we can assess whether a stock is appropriate for a certain investor or a certain portfolio. So, hypothetically, we could own a stock in three or four portfolios, not all 20. Part of my role is identifying who would be the right investor for a stock.”

**ANALYST AT LAZARD ASSET MANAGEMENT***Value, \$71.4B EAUM*

“This will depend on which company we are talking about. If it is a company that I am very familiar with, it may be a matter of simply meeting once with the team and updating my model. Or it could be a company that I have not spent much time on and has a complex story and business structure. For a new story, we like to be able to meet with management, visit the company or have them visit us at our offices, work on our models, and have internal discussions pertaining to any issues that we find, such as corporate governance practices.”

**ANALYST AT CITADEL ADVISORS***Alternative, \$62.0B EAUM*

“Our model is relative, so we are relative value long-short/beta-neutral. We have a lot of ‘factor’ portfolios. A lot of times, stocks will be added and sold around certain names for their factors (i.e. cheap price-to-book, high earnings growth, etc.). It all consolidates up into one and a lot of times, that will swing around our position size. A lot of what we do, we have to try and peer a stock up against the rest of the group and look at if we think it’s going to outperform over the next six, eight, twelve or twenty-four month period against a group of 10 to 15 stocks. Similar to a long-only, when you have a Capital Group saying they think a stock is going to outperform the index, we have smaller baskets that we call CSIs.”

**ANALYST AT FRANKLIN MUTUAL ADVISERS***Value, \$58.0B EAUM*

“One thing that is useful to note here is that everyone at our firm, with the exception of the CEO, is responsible for certain industries, certain geographies, or certain type of investments. Every PM, other than our CEO, is an Analyst. We tend to organize ourselves primarily by industry. Most Analysts are responsible for two or three industries on a global basis. When it comes to certain sectors, we have actually split it. One Analyst will cover the domestic side, while another covers the international side.”

**ANALYST AT WELLS CAPITAL MANAGEMENT***Aggressive Growth, \$57.3B EAUM*

“We thoroughly research the company, model it out, and spend hours on the phone with management (even if we have met in person) about the strategy and operations. The duration of this process depends on what is going on during the week; it could be a matter days or months. There may be a hot idea that I will turn around in 72 hours, while I may work on other opportunities for an extended period of time and meet with senior management multiple times.”

**ANALYST AT NEWTON INVESTMENT MANAGEMENT***Growth, \$44.4B EAUM*

“As Analysts, our job is to recommend the best stocks within our sectors to Fund Managers to put across their portfolios. Broadly, we try to find large liquid stocks with plenty of upside in the market, where everyone is interested in being present in them. Sometimes there are smaller stocks in markets that there isn’t a mandate to invest in or that not everyone is comfortable in investing in, and those are a little trickier to get buy-in on. What we normally do as Analysts is to look at the company ourselves, find it interesting, do some more work into it on a qualitative and quantitative basis and see if ties into themes we invest in across Newton. If it checks all those boxes, we’ll go to the Fund Managers with the idea. We don’t work for six months only to have a Fund Manager say at the end whether they like it or not. We are constantly going back and forth talking about interesting ideas. Then we present and talk to the Fund Managers individually on why we think the stock is right. Sometimes the Fund Managers will act very quickly on our recommendations, others take a year or two to be convinced and it can actually take that long to invest.”

**ANALYST AT PIONEER INVESTMENT MANAGEMENT***GARP, \$26.0B EAUM*

“My investment initiation process duration depends on if it is a new company that we have never held or a company that we are going back to. If it is a brand new company, it could take several weeks or even a few months, depending on how long it takes us to understand the company, its business, its competitors, and its opportunities. For a company that we are going back to, it depends on how recently we owned the stock in the past. If we had owned it fairly recently and we feel that we are up to date, we might just go right back to it in one day. If it is a company in which we invested years ago and the company has changed, then we might want to do a full-scale study of it again.”

**ANALYST AT INSTITUTIONAL CAPITAL***Deep Value, \$14.0B EAUM*

“We have a strong team base. The entire process is very Analyst driven. The Analysts generate the ideas, then present to PMs, which is followed by a team-based vote. Sizing of positions is also team-based, with Analysts and the group of PMs determining sizing.”

**ANALYST AT TCW INVESTMENT MANAGEMENT COMPANY***Growth, \$14.0B EAUM*

“Our investment initiation process starts with simple screens to make sure that the companies are stocks that fit within our market cap range and that have enough trading volume. Then we look for catalyst-driven upside with a decent amount of appreciation potential for the portfolio. This process can be as short as a few days or as long as a few quarters. Sometimes we may wait for the right price and other times we are looking for a specific change or event, like within the management team. There are also times when external factors play a role as well. However, more often than not, we are look for internal or stock-specific catalysts.”

**ANALYST, HIGHFIELDS CAPITAL MANAGEMENT***Alternative, \$10.1B EAUM*

“My investment initiation process involves reading all the research and talking to Sell-Side Analysts. We run a concentrated portfolio, so we hardly ever invest in things where we do not know the management team. Therefore, we typically reach out to IR and try to get a meeting with management. The duration of the investment initiation process varies. If it is something we have invested in previously, it can be a few days. If it is a new company, it can take months. The time span between our meeting with management and our initial investment tends to be quite short. If the determining factor is what they will do with capital or how they think about managing capital and we have an interesting response when we meet with them, we would not necessarily wait for a share price and act rather quickly.”