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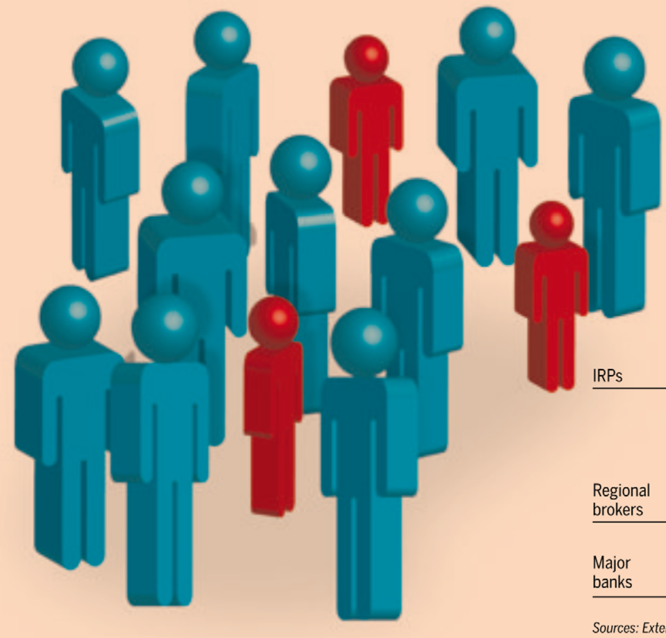
FTfm

In research – independents' day has come

The big picture

The financial crisis has opened doors for upstarts such as Redburn Partners, says **Steve Johnson**

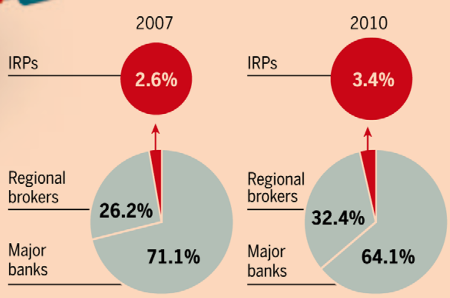


Top 10 independent research providers

As voted by European asset managers

1	Redburn Partners
2	Autonomous Research
3	Absolute Strategy Research
4	Helvea
5	Arete Research
6	New Street Research
7	BCA Research
8	Capital Economics
9	Auerbach Grayson
10	DrugAnalyst Equity Research

US commission payouts



Sources: Extel Survey 2010; Greenwich Associates

Redburn Partners, a specialist in European equities, is emblematic of the upstart independent research houses that have blossomed in the wake of unbundling of fees for execution and research.

Historically, investment banks provided research for "free", exacting payment by way of commissions for their broking services.

The fallout from the fin de siècle dotcom boom and bust, which provoked a wave of criticism of the quality and impartiality of much bank research, prompted governments and regulators to attempt to clean up this murky arrangement via the introduction of commission sharing agreements, also known as client commission arrangements.

This prompted a number of independent research providers to enter the marketplace. But for Redburn, a London and New York based firm founded in 2003, and for the independent sector at large, it has been the financial crisis that erupted in 2007 that has really opened doors.

"The 2008/09 dislocation really did change the shape of the industry considerably. There was both a large capacity reduction in terms of research and some big damage done to the reputations of some firms out there," says Jeremy Evans, senior partner at Redburn, in a rare interview.

> 'Investment bank research is just getting worse . . . more blatantly promotional of...bank interests'

"Where the leadership in the research market was static for quite some time, suddenly it became very fluid. Our market share has trebled over the last three years."

Redburn, with a breadth of expertise across 20 sectors of the equity market, will be unveiled as comfortably the highest rated independent in tomorrow's Thomson Reuters Extel awards.

Mr Evans, a former head of European equities at Flemings and co-founder of Redburn, believes his venture is "more agile, focused and nimble" than the major banks.

"We are liberating talent from the industrial process of the bulge bracket. We are creating the environment and space for analysts so they have the time to do in-depth research. We see ourselves as a large scale alternative to the bulge bracket banks," he says. Redburn's website advertises its "conflict-free research".

But Redburn is not resting on its laurels. Mr Evans says the 130-strong house is expanding aggressively with the aim of emulating CLSA and Sanford Bernstein, independent research providers that have built strong franchises in Asia and the US respectively.

"There is a greater opportunity now than at any point to emulate the success of CLSA and Sanford Bernstein. In Europe there has never really been an equivalent," he argues.

In truth, Redburn is fairly atypical of the independent sector, not only because of its size and scope but also because it offers agency execution. However, other independents are also carving out a niche helped, they believe, by a perception that bank research is still plagued by potential conflicts of interest.

"The independent sector is absolutely booming," says Richard Kramer, managing director of Arete Research and a board member of the European Association of Independent Research Providers.

"Investors routinely tell us that investment bank research is getting worse, with less content, a shorter term outlook and more blatantly promotional of proprietary trading interests," he says.

"Bank research seems largely designed to increase volatility in the market – they don't get paid if investors don't trade."

David Bowers, former chief global investment strategist at Merrill Lynch, who co-founded Absolute Strategy Research in 2006, says: "CSAs are beginning to work fairly well. I think people appreciate the independence [of specialist research houses]. There isn't a big sales department breathing down analysts' necks."

Asset managers also report they are handing more of their commission payments, estimated at $6bn (£4bn, €5bn) to $7bn a year in Europe alone, to independents.

"We would rather be paying for independent research that is doing something that we are not doing already," says Gunnar Miller, head of European research at RCM.

"Independence increases the veracity of people's convictions. With the major banks sometimes you have to be a magician to understand what they are really thinking.

"We, as an industry, are still slightly concerned there may be conflicts of interest [with banks], the way their prop[rietary trading] desks are positioned or the way their hedge fund clients are positioned.

"There are still concerns among many buy-side firms that we are competing against two other clients that are bigger than we are."

David Allen, co-head of European equities at Fidelity International, believes the conflicts of interest are less than a decade ago, but adds: "A lot of research we see from the large brokers has become more commoditised. We find it very hard to get an edge working with only the big brokers.

"Increasingly, we are spending our external research dollars on more independent research."

The major banks do still have some clear advantages, however. According to the Extel survey, the buy-side is allocating a rising share of its commissions payments on the basis of the corporate access its brokers can provide – a need global banks may be best placed to meet.

"Corporate access is the main product of the investment banks now. They have huge teams that organise roadshows," says Mr Kramer.

Interestingly, in spite of the governmental and regulatory push to encourage institutional investors to become better long-term stewards of the companies they own, there is little evidence of this happening.

Just 13 per cent of the 650 quoted companies surveyed said they believed the buy-side expected a corporate governance assessment, down from 20 per cent in 2009, and just 32 per cent thought the buy-side was interested in sustainability reports.