

PRESS RELEASE

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BEYOND MS15/2.3 – CHALLENGING THE RESEARCH MARKET

Last year, the Gatekeepers report caused a stir in the industry by being the first to shine a light on potential biases in fund ratings. This year's edition is bigger, better and bolder with a wealth of practical information to help fund managers navigate this challenging post MS15/2.3 market. As well as re-assessing the gatekeeper market, we've taken a closer look at the efficacy of active fund management, sorted the really active wheat from the closet-tracking chaff, and looked at the value chain from a regulatory perspective and the potential for further scrutiny and investigation.

The independent study by Fundscape and gbi2 analysed 48 gatekeepers (up from 36 in 2016) in four different categories of fund selectors: D2C buy-lists, adviser buy-lists, ratings agencies and discretionary fund managers (DFMs). Gatekeepers influence a significant proportion of fund flows and have the potential to make or break funds whose success in gathering assets may depend on being selected by one or more fund selectors.

Graham Bentley, MD, gbi2 said "The importance of research in fund selection is undeniable, but there are significant differences in the quality of the research processes we reviewed. Tight budgets mean managers need to know which researchers to engage with and who to ignore. We see funds that aren't on the lists that should be; our analysis provides the tools to challenge the status quo."

Using a combination of seven weighted factors (the Fundscape Factors), we analysed and ranked gatekeepers on their overall research process. On this assessment, the leading three gatekeepers were Bestinvest Best of Breed, Investment Adviser 100 Club and ISA Ltd's Growth portfolio. Both Bestinvest and ISA Ltd-Growth were in the top three last year, demonstrating the consistency and robustness of their selection processes.

Bella Caridade-Ferreira, CEO of Fundscape commented "As well as a report stuffed full of practical information to help fund groups increase their presence on gatekeeper lists, we've launched a brand new website for financial advisers and professional fund selectors. This allows them to review funds by performance and/or number of gatekeeper picks. The site is free, intuitive and fund selectors can make sure they're not simply following the herd."

To find out more visit: gatekeepers.fundscape.co.uk.

Other key findings:

- We estimate that gatekeepers control around 70% of platform flows. In 2016, the platform market recorded gross sales of £94bn and net sales of £38bn so the volumes are considerable and will continue to grow.
- Gatekeepers were analysed over one, three, five and 10 years. Once again Bestinvest's Best of Breed and ISA Ltd's high-conviction growth portfolio were the stars, ranking in the top three across all four time periods.
- Active management is alive and well. Despite regulatory pressure and the rise of passive investments, 88% of advisers believe active management has a viable future.
- Around a third of UK equity funds are overpriced closet index-trackers. In contrast, researched equity funds tend to have higher active share and lower OCF.
- The fund group with the most appearances on gatekeeper lists was **Fidelity**. Its funds were featured a total of 243 times. **Schroders** was second with 233 appearances, followed by **Old Mutual** with 220.
- The fund with the most appearances was the **Stewart Investors Asia Pacific Leaders** with 29 appearances in the 48 lists (up from 27 last year). In second place were **Woodford Equity Income, Fundsmith Equity** (a new entrant), **Jupiter European** and **Schroder Tokyo** all on 23 picks.
- Using the characteristics identified as important for fund selection, we produce the Fundscope Frontier Funds list — 136 funds that meet criteria and could be featured on gatekeepers' lists.
- There are ten key selection factors that fund managers should strive to achieve to improve their chances of being picked by gatekeepers. Performance is of course a must and funds should have consistent alpha in the three years before as well as the current year if they want to be in with a chance of being selected. Other factors include assets of at least £200m, a five-year track record, and last but not least, a competitive fee.

- Ends -

Notes to Editors:

About the Gatekeepers Report

The Gatekeepers report is jointly produced by Fundscape and GBI² and is available as a stand-alone report and with a quarterly data set that updates and refreshes the data. The study is an exhaustive review of fund selectors' lists against several performance indicators, providing advisers, fund groups and gatekeepers with the tools to gain an advantage in this highly competitive environment.

More information: fundscape.co.uk/service/gatekeepers-report/

For the gatekeepers' site: gatekeepers.fundscape.co.uk

About Fundscape

Established in October 2010, Fundscape is a research house specialising in the end-to-end research and analysis of the UK fund industry. It is the publisher of the quarterly Fundscape Platform Report, widely regarded as the industry benchmark for platform data and statistics in the UK. With many years' industry experience, its team is well placed to provide unique insight into asset management and distribution trends, including product development, distribution and marketing.

www.fundscape.co.uk

Twitter: @fundscapeuk

About GBI²

gbi2 advises firms on their investment propositions and marketing strategies, and on strategy regarding global relationships between asset managers and distributors. In the asset management space it is helping fund managers navigate the impending 'watershed' in the investment management industry, caused by the FCA's increasing focus on fund groups' customer relationships and associated product development.

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