

STYLE RESEARCH

WINTER 2007 NEWSLETTER

[www.StyleResearch.com](http://www.StyleResearch.com)

Style Research is a global independent research firm providing clear and practical Style, Risk, and Performance analysis of equity portfolios and markets.

Style Research will soon be launching our new product—**Style Research Peer Group Analysis**. Currently in beta version, the full launch is expected early in Q1 2007. This product provides analysis of funds against groups of competitors and individually identified funds. Please read more about its features on page 2.

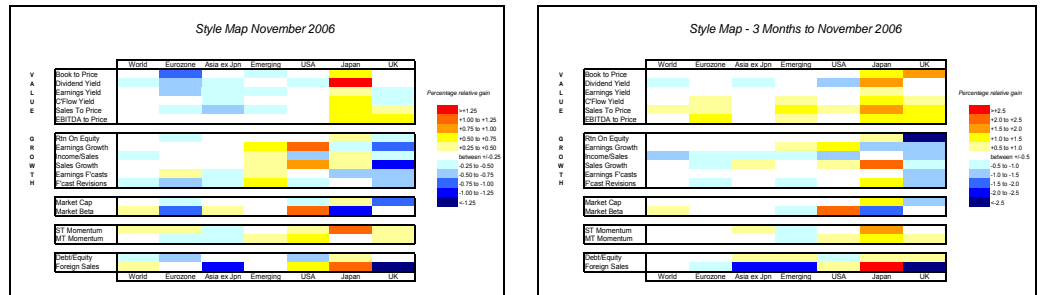
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Style Patterns in Major Markets and Regions

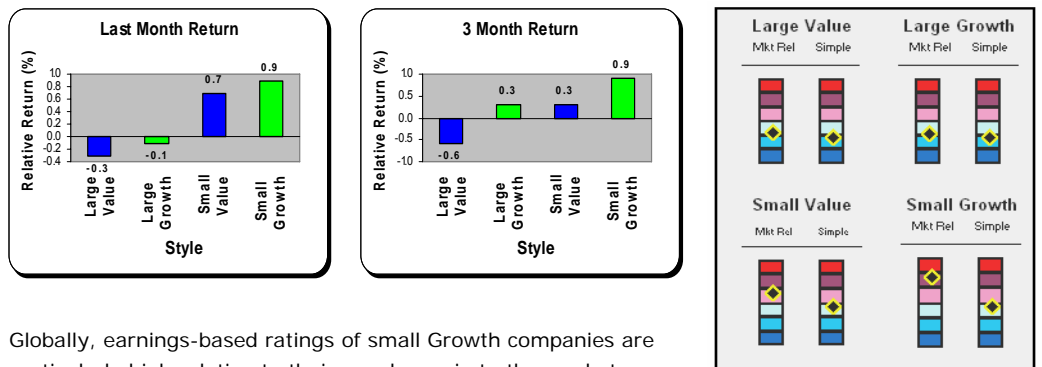
While the 3 month Style Map still gives Value a slim lead ahead of Growth, the most recent data from November show clear Value underperformance over the shorter term. In most regions (except in the Emerging Markets), however, this Value weakness has not been matched by gains in genuine Growth factors.

Performance of Key Style Factors in Major Market Regions



Smaller companies have again outperformed in most regions and, within the smaller company sector, the major Style blocks reveal a strong pattern of Growth (or at least negative Value) outperformance.

Recent Style Block Returns Across Developed Markets



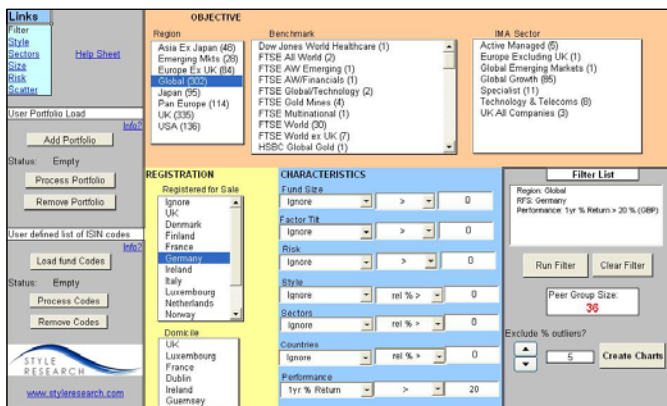
Globally, earnings-based ratings of small Growth companies are particularly high relative to their usual premia to the market average; but, so long as markets themselves are not historically expensive, small Growth is still comfortably within the centre of its historic valuation range. While larger company Growth and Value sectors are now the most attractively priced Style blocks (relative to their historic valuation ranges), the margins are small and economic conditions are currently not unfavorable to Growth stocks or smaller company shares.

## ►► New Product to be Launched—Style Research Peer Group Analysis

Style Research will soon be launching our new product—**Style Research Peer Group Analysis**. Currently in beta version, with a full launch expected early in Q1 2007, this product provides analysis of funds against groups of competitors and individually identified funds. The Peer Group Analysis uses the same familiar criteria found in the holdings-based Style Research Portfolio Analyzer software. Users can define broad or focused peer groups of comparable funds and compare how investment managers have changed their portfolios over time against both their major market competitors and against the returns of key Styles and fundamental investment factors.

The initial funds database already contains over 1,400 funds domiciled within Europe, and this will be expanded at launch. In addition, we expect to add peer groups from the US and Far East by early 2007.

### • Flexible Peer Groups



▲ As can be seen above, users can create specific peer groups from a wide range of filter options. This may be as straightforward as viewing a fund against others of a similar geographic focus, but the filter also incorporates data from the Style Research Portfolio Analyzer. This means that users will now be able to construct custom peer groups using Style tilts, Risk measures, Sector/Country weights, Size and Style distributions and recent performance.

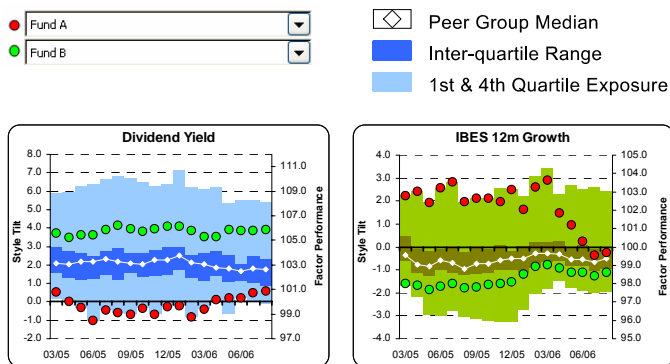
### • Positioning Charts

A number of charts focus on different criteria for the peer group through time, spanning Style tilts, Sector/Country weights, Size and Style distributions, and Risk measures. Altogether there are over 50 different charts, enabling a more thorough assessment of Style and Risk than would be available with just the simple basic Style categories. For the first time users can now see, across an entire peer group, different types of Value and Growth (including historic or forecast Growth), Momentum versus genuine Growth, GARP, Popular Recovery themes, and Quality orientation.

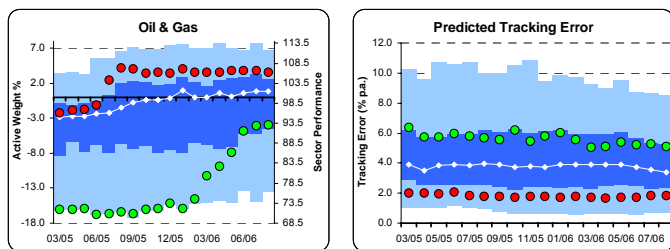
This means that investment managers will now be able to understand their positioning more accurately against their competitors.

In addition, consultants, multi-managers, plan sponsors, and advisers, can now all achieve deeper manager diligence and monitoring, recognize Style and Risk drift more quickly, and have more insightful discussions with their managers, clients and prospects.

▼ In the example below, the Style tilt charts demonstrate notable differences between the two funds selected. Fund B has been consistently more biased towards Dividend Yield than both Fund A and the bulk of its peer group. Fund A, however, was more orientated towards stocks with higher Forecast Earnings Growth, but this has reduced significantly in the recent months.



The Sector analysis plots reveal the relative Sector weights through time. In the example below, Fund B reduced its significant underweight position in the Oil & Gas Sector, although it still remains more underweight than most of its peers. Fund A has moved from a neutral position in Oil & Gas to a top quartile overweight position in the Sector in recent months. Risk measures are also detailed, such as Predicted Tracking Error, Volatility, Beta and the decomposition of Tracking Error into Currency, Country, Sector, Style and Stock contributions. From the Predicted Tracking Error graph below, we can see that Fund B is clearly a much more aggressive fund than Fund A, while Fund A is less aggressive overall compared to the typical fund. ▼



### • Market Context

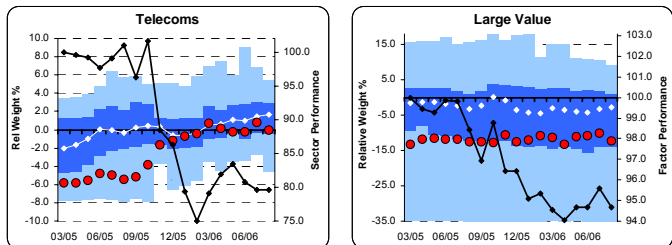
Each chart of factor exposures can also be over-laid with a plot of the actual performance of the factor. For a sector chart this is the total return of the sector relative to the market. For the Style factor charts, this is the market relative performance of each distinct Style benchmark calculated by Style Research. This side-by-side comparison of factor performance along with the factor exposures provides an intuitive visual indication of how exposure

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## ►► Style Research Peer Group Analysis...

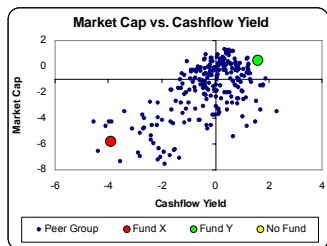
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drift or consistency has been rewarded in the market. The charts below show that Fund A moved from an underweight to a neutral position in Telecoms as the Sector underperformed, while from a Style perspective the fund had also been consistently very underweight (around bottom quartile in the peer group) in Large Value stocks during a period of underperformance from that Style. ▼



### • Scatter Charts ►

Scatter charts can be shown instantly across a whole range of relationships for any peer group, and individual managers can be selected and identified within the same chart. Any pair of factors can be selected from a full range of Style tilts, Size-and-Style classifications, Sectors, and Risk data items. For example, the chart to the right compares Market Cap Style Tilts™ with Cashflow Yield Style Tilts™ across the entire peer group. Two specific funds are also highlighted; Fund X has Low Yielding Smaller Cap attributes, while Fund Y has a Larger Cap bias and a tilt towards Higher Cash Flow Yield.



### • Loading Portfolios

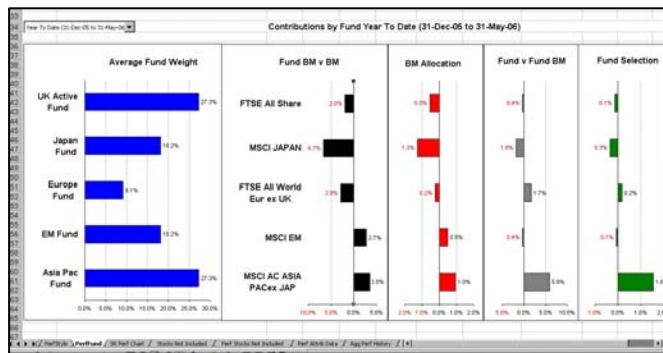
Users can load their own Style Research Portfolio Analysis output files into the Peer Group Analysis, expanding the product with their own private stores of portfolio data. These can then be used in conjunction with the Style Research database or as distinct custom peer groups if preferred.

Please contact Style Research for further information and access to this beta version.

## Fund of Funds Performance Analysis Enhancement

In the early part of 2007, Style Research will be enhancing the Portfolio Analyzer performance module to provide additional fund of funds attribution. The new attribution will allow managers to see the impact of their benchmark and fund selections on performance.

The screenshot below shows the output from a fund of funds where the overall benchmark is MSCI EAFE. The individual funds are each allocated a specific fund benchmark. In the example below the UK Active Fund is benchmarked against the FTSE All Share, the Japan Fund against MSCI Japan and so on. ▼



The second row of the charts shows how the investment in the Japan fund has performed. The fund of funds had on average 18.2% invested in Japan over the year to date period (blue bar). The benchmark specified for this Japan Fund is MSCI Japan and this underperformed the overall MSCI EAFE benchmark by 6.7% (black bar). This resulted in a negative benchmark allocation term (red bar). In addition the Japan fund underperformed the MSCI Japan benchmark by 1.8% (grey bar) which resulted in a negative fund selection return (green bar).

On a more positive note the investment in the Asia Pac fund paid off handsomely as the MSCI AC Asia ex Japan benchmark outperformed the MSCI EAFE benchmark and the Asia Pac fund outperformed its specific benchmark. So this investment did well both in terms of benchmark allocation and fund selection.

The screenshot above is just the tip of the iceberg. More features will be revealed closer to the release date.

## CONFERENCES & WORKSHOPS

- *Fund Manager Selection & Monitoring Using Style Analysis*  
**FundManagerSelectie & Monitoring 2006**, a conference organized by the Institute for International Research in the Netherlands  
*Amsterdam, November 2006*

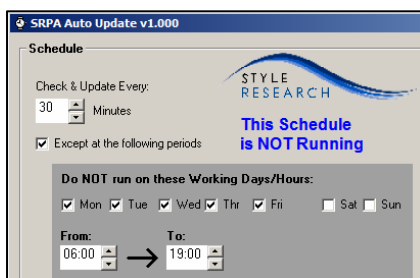
- *Improving Manager Selection and Monitoring using Holdings-Based Style Analysis* and a workshop on
- *Style-Based Techniques for Manager Selection and Oversight*  
**8th Annual Fund Manager Selection & Oversight Conference**, a conference and workshop organized by Federated Press Publications in Canada  
*Toronto, March 2007*

## Automatic Updates

An Auto Update facility is now available (“Tools” → “Update SRPA” → “Auto Update”) that can schedule the Style Research Portfolio Analyzer update to run automatically. The system will periodically poll the Style Research website to determine if a new update is available, download and extract the zip file when it is, and then apply the update. The updating schedule can be configured to suit user requirements. It is possible to specify the period during which the scheduler can, or can not, carry out updates according to particular days of the week and hours of the day. ▼

The Auto Update program checks that all users have logged off and also that another user is not carrying out an update; in these cases it will wait until later to see if it can carry out the update or if an update is

necessary—in case it has already been applied. The program is very robust and fail-safe, with a comprehensive logging and reporting mechanism to allow users to check the progress of updates and identify any problems (“Tools” → “Update SRPA” → “View Update Log”).



## Tips and Tricks

### • ‘Duplicate for all time points’

A recent enhancement to the Style Research Portfolio Analyzer is the ability to quickly populate a complete set of Batch Analysis records in order to analyze a fund over multiple time periods. After the normal batch loading of a fund’s holdings over multiple time periods, the user simply creates a single batch analysis record with the required fund settings, e.g. portfolio display name, region, benchmark. Then, by clicking anywhere on that single batch record and simply right-clicking, the user will see a new menu option to “**Duplicate For All Time Points**”. Choosing this option will automatically create a batch analysis record for every occurrence of that fund name at all available time points, and with identical settings. This set of batch analysis records can then be run together (by either running the batch file, or by ctrl-clicking on the required subset of the batch analysis records followed by right-click and run). The resulting set of individual output analyses will then also be available for creating further Snail Trail reports.

### • Renaming funds/benchmarks for multiple time points

Users of the Style Research Portfolio Analyzer may find themselves in a situation where they have different fund/benchmark names for the same fund/benchmark over time. Sometime this occurs because the original input files had the date appended to the fund/benchmark name (in fact this is unnecessary since the

*Continued on page 5*

## Benchmarks Within The Style Research Portfolio Analyzer

Style Research is continuing to add to the list of benchmarks available pre-loaded for use within portfolio analyses. Adding to the current list of FTSE, MSCI (All Country, Developed and Emerging Markets), Russell and Standard & Poor’s, we can now provide the following sets of benchmarks to subscribers of these products:

- MSCI Small Cap Indices representing small cap companies across developed markets.
- MSCI 10/40 Equity Indices for use with UCITS funds. These benchmarks are compliant with the UCITS III Directive concentration constraints.

Please contact Style Research for further information.

## STYLE RESEARCH WELCOMES...

...three new joiners.

Back in February, **Jeremy Margetts** joined from Fidelity International as a Research Associate. Jeremy spent nine years at Fidelity, where he was a Fund Analyst specializing in the peer group analysis of mutual funds. At Style Research, Jeremy has been responsible for the development of our new Style Research Peer Group Analysis service (see separate feature). He has an Economics degree from Durham University.

**David Holmes** arrived in March as a Data Manager, responsible for data integrity. Before joining Style Research, David gained extensive software and database development experience in production and inventory management in the ceramics, marketing and healthcare industries. He is a skilled and experienced programmer and software developer in the field of data analysis and data management. David read Physics at the University of Reading.

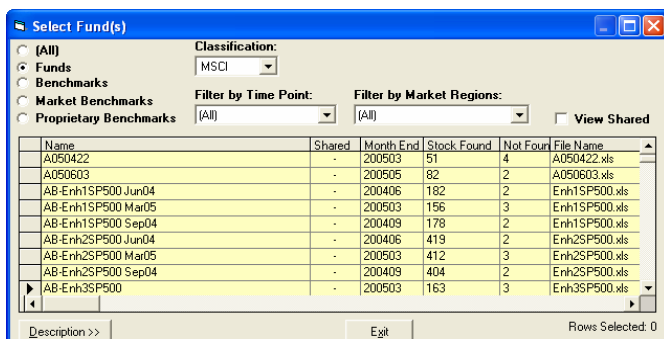
And in Boston, our latest arrival is **Mike Jervis**, from Fidelity Investments, where he was a Senior Portfolio Analyst in the Fund Analysis and Research Group. He brings with him more than 18 years of financial services experience, including over a decade in asset management and pension consulting. Mike joins as a Business Development Manager, working within all aspects of business development in the US. Alongside his MBA from Suffolk University and BA from the University of Vermont, Mike also holds the CFA designation and is a member of the Boston Security Analysts Society.

## Tips and Tricks...

*Continued from page 4*

Style Research Portfolio Analyzer already requires loading to a specific month-end date for any fund or benchmark, which in turn uniquely identifies it). Or this may occur because different users, applying different naming conventions, have entered the historic holdings. While there is no problem doing the analysis for each time period, this can create more work when using two very important and useful features of the Analyzer: 1) Performance Attribution reports and 2) Snail Trail reports.

▼ In the sample Select Fund(s) dialogue box, below, (which can be viewed from the main drop-down menu by selecting View/Manage then Funds & Benchmarks, or simply Ctrl-W) there are two portfolios that have dates as part of the fund name. However, to run a Performance Attribution analysis, the fund name must obviously be identical for each period. Although it is not strictly necessary to have the same names for Snail Trail reports, it may make it easier for the user to maintain the Snail Trail history with consistent naming. Both situations can be rectified by changing the names to make them identical.



To do this, first choose '(All)' time points (scroll up to the very top of the 'Filter by Time Point' drop down menu) to show all funds over all time points. Then click on the 'Name' title box (this will sort the list by fund name). Select the first entry of the range of fund names you wish to change and hold 'shift' while selecting the last entry to highlight the required funds. Right click and choose the Rename option and then enter the fund name. The new fund name will then be applied to all highlighted records. This can be repeated for other sets of funds or benchmarks.

## ADDITIONAL INFORMATION

[Style Research Portfolio Analyzer](#)

[Style Research Online](#)

[Funds Research Online](#)

[Global Style Manager](#)

[More Topics](#)

### Additional Papers and Articles:

[Four Faces of Style](#)

[Avoiding Style's Risk Traps](#)

[Style and Style Analysis from a Practitioner's Perspective](#)

[Style and Style Factors Within & Across Europe](#)

### Newsletters:

[2006 Spring PDF](#)

[2005 Fall PDF](#)

[2005 Summer PDF](#)

[2004 Fall PDF](#)

[2004 Spring PDF](#)

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