MANSLEY, M., 2001. Understanding your audience. In: N. HILDYARD AND M. MANSLEY. *The Campaigners' Guide to Financial Markets*. pp. 77-118.
UKSIF summary, 2009.

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I. Key points

- **Analysts** (provide fund managers and traders with recommendations as to which shares to buy and sell)
    - Stockbroker and investment bank analysts: research and publish report on companies to be distributed to their employer's clients and to the press; very competitive and arrogant
    - Fund manager analysts: provide an internal service to the fund manager; have access to the research produced by stockbroker analysts; less competitive
    - Bank analysts: assess credit risks for a bank's lending
    - Economic and strategic analysts: look at how funds should be allocated between different sectors and markets
    - Technical: use the price history of a company's shares as a guide to value
    - Quantitative analysts: use computers and mathematical models to combine fundamental and technical data to produce recommendations on whether to buy or sell particular shares

Characteristics of analysts:

1. Performance criteria: recommendations to buy/sell shares, quality of their research, quantity of publications, help with firm's marketing
2. Output of analysts: analysis (assessing companies), forecasts (predicting company's results) and recommendations (buy, hold or sell stocks)
3. Sources of information: tend to rely first and foremost on company-based sources of information, such as the annual report, meetings with management and site visits. Environmental matters are rarely covered. Rarely do they conduct their own independent research.

4. Time frame: Most analysts have a reputation for having a rather a short-term focus.

- **Institutional investors**
  - **Fund managers** (or asset managers or investment managers): actually decide which companies to buy and sell: manage money for institutional investors and their clients
    - The CIO is responsible for the overall investment strategy of the fund managers within a particular company and reports to the CEO
    - Fund managers tend to move from company to company less frequently than investment bankers.
    - They are paid well, but not as much as investment bankers.
    - Fund managers as often former analysts or investment bankers.
    - Their work load is less onerous than of investment bankers.
    - Sources of information: Fund managers receive even more information than analysts. In addition to keeping abreast of the financial press, they are also expected to read and digest a constant stream of market reports from the likes of Reuters, Bloomberg, brokers, analysts and strategists.
    - Passive management: identifying and investing in the same shares as the FTSE100
    - Active management: invest in companies that look undervalued or invest in companies which are growing rapidly
  - Investment institutions: gather funds for investment, hold them on behalf of investors, organize payments back to investors and generally deal with administration and marketing
    - **Pension funds:** collect and invest employees' retirement savings
      - Larger pension funds are in the US, UK and the Netherlands.
      - Pension funds are supervised by trust law: supervised by trustees who are responsible for the running of the pension fund
      - Trustees often leave decisions to their advisors
      - Legislations requires pension funds to disclose ESG criteria
      - Fiduciary duties: some pension funds now recognize that projects which damage the environment can affect the performance of an investment
      - Some of the large fund have in-house managers
      - Large public sector funds tend to be most active on social and environmental issues
    - **Life insurance companies**: offer a range of financial products such as pensions, life insurance and savings products.
      - The majority of life insurance companies employ in-house fund managers.
      - They have been rather cautious when it comes to social and environmental issues

- Very brand-conscious: several insurance companies have improved their ethical investment performance following poor ratings in Business in the Environment's annual Index of Environmental Engagement
    - Retail investment organizations: unit trusts or mutual funds
        - Collective investment funds which are managed by the unit trust company
        - Employ their own internal fund manager
- Characteristics of the professionals
    - Pension funds trustees: older, experienced and very conservative
    - Directors of a life insurance company: less aggressive than many financiers, more willing to take risks and ordinary business people and more open to new ideas than middle management
    - Retail fund managers: more aggressive and possibly younger
- Form of engagement between the fund manager and the company
    - Talk with the company's senior executives
    - Using their shareholder voting rights (rarer)
    - Calling a shareholder meeting (most radical)
- Ethical Investment: investment that takes social, environmental and ethical considerations into account
    - 1-2% of retail investment in the UK
    - Growth of 20-30% a year
    - Investment organizations
        - Fund managers: take account of social and ethical criteria when deciding on their investments
        - Research organizations: conduct research on social and environmental issues for fund managers and others
        - Ethical investment networks: act as a meeting place for ethical investment organizations
        - Ethical financial advisers: advise individuals on ethical investment options
        - Ethical venture capital funds, investment banks and stockbrokers: specialize in investing in green business or projects and structuring ethical investment opportunities
- Project finance
    - Project financiers
        - Responsible for structuring the deal:
            - part of an investment bank, special team within a large commercial bank or an independent boutique
            - less arrogant and aggressive than other in investment bank
        - Responsible for providing the debt for a project
            - part of a large commercial bank
            - less well paid, less aggressive, less hard working than the responsible for structuring the deal
    - Stages of project financing
        - Initial assessment: project financiers meet with the project developer

- Preliminary structuring: the lead financier starts to analyse the deal and work out the financial structure
- Due diligence: deal subject to scrutiny by lawyers and others
- Final closure: the finance is released to the developer

II. Key quotes

- "…despite the aggressive competition of the financial markets, financiers tend to be conservative, fearing the ridicule of their colleagues if they support views that are 'radical' or 'flaky' (Mansley 2001, p. 81).
- "Many will shy away from doing so for fear of denting their reputation with more mainstream colleagues" (Mansley 2001, p. 81).
- "They will have access to the research produced by stockbroker analysts" (Mansley 2001, p. 83).
- "…research shows that analysts are notoriously unreliable when it comes to advising on future share prices" (Mansley 2001, p. 84)
- "They tend to rely first and foremost on company-based sources of information, such as the annual report, meeting with management and site visits." "Environmental matters are rarely covered." "Rarely do they conduct their own independent research." "Most financial analysts have a reputation for having a rather a short-term focus." "…they receive a huge postbag of material every day, much of which goes straight into the dustbin (Mansley 2001, p. 85).
- Institutional investors are nor accountable to their beneficiaries because:
    - (i) most individuals are simply unaware that it is their money which institutional investors are investing";
    - (ii) "many individuals have not been too concerned about how their investments are managed";
    - (iii) "institutional investors have traditionally been very resistant to any interference in their investment decisions" (Mansley 2001, p. 89)
- "Most life insurance companies are very brand-conscious, spending large sums of money to promote a positive corporate image. As a consequence, they are sensitive to adverse publicity. In the UK, for example, several insurance companies have improved their ethical investment performance following poor ratings in Business in the Environment's annual Index of Environmental Engagement…" (Mansley 2001, p. 92)
- "The influence of the pension manager is thus considerable: indeed, in most pension funds, progress on social and environmental issues has generally been driven by a proactive pension manager" (Mansley 2001, p. 93)
- "Success is also measured by the increased volume of sales, which in turn places a high value on the ability of life insurance and investment companies to market themselves effectively" (Mansley 2001, p. 94).
- "…most life insurance companies and retail investment groups, together with some large pension funds, employ their own 'internal' fund managers to invest their money. Pension funds and foundations, by contrast, generally prefer to use 'external' or 'independent' fund managers. To complicate the picture, some 'internal' fund managers may also manage money from other

institutional investors – acting as both internal and external fund managers" (Mansley 2001, p. 95).

- "While analysts work in an ego-based environment and compete for reputation, fund managers compete for business" (Mansley 2001, p. 97).
- "Fund managed portfolios are usually judged quarterly, although investments are seldom switched from an underperforming fund management organization after a single quarter. However, if the under-performance continued for, say, three years, investors would be almost certain to place the portfolio elsewhere." (Mansley 2001, p. 97).
- "Fund managers receive even more information than analysts. In addition to keeping abreast of the financial press, they are also expected to read and digest a constant stream of market reports from the likes of Reuters, Bloomberg, brokers, analysts and strategists." (Mansley 2001, p. 97)
- "…institutional investors are more sympathetic to the idea of engaging with companies than they are in selling them" (Mansley 2001, p. 99).
- "Ethical fund managers are trying to do twice as much as ordinary fund managers (combining both ethical and financial research) and so are pressed for time and resources." (Mansley 2001, p. 110)
- "As a result, banks are fundamentally very 'risk adverse' and do not want to lose money through risky lending" (Mansley 2001, p. 111)
- "Investment banks will be less sensitive to their reputation than commercial banks, as they have weaker retail focus" (Mansley 2001, p. 112)