FACE TO FACE

'Sellside analysts are not a thing of the past'

Edison Investment Research	
Founded	2003
Number of clients	More than 400 across more than 40 countries
Employees	120
Headquarters	London
Ownership	Privately owned by directors and employees

NEIL SHAH

The research provider believes it is safe from the expected cull in analyst jobs

CHLOE CORNISH

Neil Shah is clutching an open bag of salted popcorn — a healthy snack for a man who grew up in a Nairobi sweet factory famed for its tropical mints — when he meets the Financial Times at his central London offices in Holborn earlier this month.

The director of research at Edison, which provides fund managers with detailed reports on companies, is remarkably relaxed as he discusses the transformation of the corporate research industry. It is predicted this will wipe out thousands of analyst jobs.

Mr Shah believes he is in a relatively protected position, watching from a safe distance as bank analyst roles, like his former job at Goldman Sachs, are made redundant.

The 44-year-old says: "Are sellside analysts a thing of the past? I don't think so. But I still think there will be [fewer of them]. Do you really need 70 research reports [about Apple]? How many of them actually call the downside?"

Mifid II, a set of rules due to come into force across the EU next year, has sparked the overhaul. For the first time, investment managers will have to tell clients how much they pay banks and brokerages for research, which they previously received for free in return for placing trades.

These changes are widely expected to expose the fact that much of this research was redundant, and this may put analyst jobs at risk.

The new regulatory regime has also thrown up questions about the future of independent research providers such as Edison, Autonomous and BCA, as fund managers are expected to cut how much they spend on external research.

But Mr Shah, a practising Hindu who came to the UK for boarding school aged 13, believes his company's business model is more secure than many of its competitors'.

Since the early 2000s, the father of young twins has been heavily involved in the development of Edison, which relies on corporate sponsored research. This means its biggest clients are companies that pay to have their businesses rated by Edison analysts, rather than relying on investment banks or brokerages to cover their stock for free.

Edison charges companies a flat rate of £45,000 per year in return for regular analyst coverage by its sector specialists. By contrast, other independent research providers' biggest clients are asset managers, who pay a fee to access their content.

Edison has two strengths in the new environment, according to Mr Shah. First, as banks start cutting costs, there is a widespread fear that sellside analysts will pull back from covering small and medium-sized companies. Edison could be the solution to this anticipated drought, says Mr Shah.

Second, a provision in Mifid II means asset managers can continue to receive research for free if it has been paid for by the companies themselves.

Mr Shah says "influential" fund companies lobbied for this exemption, which he hopes will drive more portfolio managers to seek access to Edison's research. This could in turn encourage more companies to pay to be covered by his business.

The economics graduate joined Edison a few years after deciding to quit the investment research industry altogether when he left Goldman in 2002. A close friend had nearly died during an attempted carjacking in Nairobi that year, and the duo resolved to launch a new venture: a hedge fund, Tusker Capital, with money raised from friends and family.

He soon realised that running a hedge fund did not suit him. "I don't have the psychology of a trader."

After two years, Mr Shah turned back to research. But having experienced entrepreneurship, his heart sank every time he entered the lobby of a big bank for an interview. He also felt the way banks carried out research was out of sync with reality.

"I love research. But there was always a lingering doubt within me that felt that we hadn't done it particularly well when we went through that whole dotcom boom," he says.

Then he met Fraser Thorne and Peter Molloy, a pair of former fund managers who founded Edison in 2003. "[Their company] was so small they were embarrassed to show me the office," he recalls. "We held most of our meetings at the British Museum."

In Edison, Mr Shah saw an opportunity: "I felt that this was a chance, a soapbox, to create a different way of doing it."

Since then Edison has grown quickly, and now has offices on four continents and more than 400 corporate clients. It has also secured agreements with stock exchanges in New Zealand, Israel, Singapore and Germany. In the UK, it has benefited from more companies wanting analyst coverage than banks were willing or able to offer.

"We set it up just at the time Aim [the stock market for small UK companies] went through this enormous boom. We were picking up quite a lot of work when brokers were bringing companies to market and then moving on to the next float, leaving these companies feeling orphaned," he says.

Mr Shah says his "Eureka moment" came in 2012 when the UK regulator issued a damning report on conflicts of interest in asset management. In many cases fund companies were failing to monitor the costs passed on to clients when they placed trades. He realised that the research industry was on the cusp of "profound" changes.

But research that was paid for by companies was not immediately welcomed by asset managers. The business model reflects that of the credit rating industry, where companies pay to receive ratings from the likes of Moody's and Fitch — a system that has come under heavy criticism for potential conflicts of interest.

He defends Edison's model by pointing out that it turns down business from companies the research provider has concerns about.

As Mr Shah talks, it is hard not to notice a ragged collection of red-beaded bracelets on his right wrist. The bracelets symbolise protection, and were given to the research director by family members.

When he was a junior analyst at Goldman a manager told him the bands looked unprofessional. Mr Shah ignored him. "My professional life has always been done on my terms," he says, popcorn in hand.

CV

Born *July 29 1972*

Total pay *£125,000* (salary)

Education *1991-94* Degree in economics, London School of Economics

Career *1994* Tax specialist in the banking capital markets team, Price Waterhouse
1997 Pan-European research on construction and building materials, progressed from financial analyst to executive director, Goldman Sachs
2003 Set up hedge fund, Tusker Capital
2005 Director of research, Edison Investment Research