Brightside Group PLC Fund Report

Description: Morningstar’s Fund Analyst Reports

Morningstar evaluates stocks for what they truly are--pieces of a business. Instead of prognosticating short-term price movements or momentum, our analysts focus on determining the value of a business, its risks, and whether the stock price accurately reflects both the value and risk. Simply put, we look for superior businesses that trade at discounts to their fair values. The market, of course, doesn't always agree with us, so sometimes our recommendations are out of step with consensus thinking. But we believe this approach is the most sensible way to create wealth over the long term.

Report Outline:

Fund Picks and Pans

It can be a daunting for the investor looking to narrow the field to a manageable list of buy candidates. Morningstar created Fund Picks to provide a short-cut to the list of the very best funds around. Like our Fund Analyst Picks, Fund Analyst Pans are funds with no compelling reason to buy; if you own it, you should consider selling. We look for poor management, high costs, poor performance, or just bad strategies when building our pans list. Some pans are complete dogs and others are simply below-average funds without any strong suits.

We only pan funds that are on our coverage lists because we want to be sure we know the whole story.

Role in Portfolio
Determines whether a fund is a core or supportive holding within a portfolio.

Risks
Risks are the highlights provided by Morningstar's fund analyst, in 1-5 bullet points, that identify some potential pitfalls for a fund.

Kudos
Kudos is a highlight provided by a Morningstar analyst, in 1-5 bullet points, some of a fund's strong points.

Strategy
Strategy captures the level of a risk (conservative to aggressive) a fund is associated with based upon the portfolio holdings and management.

Management
Management provides and overview and background of the fund manager, contributors, and collaborators to a fund's portfolio.

Stewardship Grade
Morningstar's Stewardship Grade for funds goes beyond the usual analysis of strategy, risk, and return. The Stewardship Grade allows investors and advisors to assess funds based on factors that we believe influence the following:
The manner in which funds are run
The degree to which the management company's and fund board's interests are aligned with fund shareholders
The degree to which shareholders can expect their interests to be protected from potentially conflicting interests of the management company.
We assign each fund a letter grade from A (best) to F (worst). Funds are graded on an absolute basis. There is no "curve."

Morningstar analysts' evaluation of five factors determine the grade for each fund:
Regulatory Issues: This one is fairly straightforward. We examine each firm's record to determine if it has run afoul of regulators in the past three years. We also look at the gravity of the allegations and the subsequent
reforms that the firm has undertaken. For example, while Strong and Alliance Bernstein both get dinged for their role in the fund scandals, we think the latter has done a far better job of addressing its problems than Strong has. As such, Alliance Bernstein scores higher than Strong on this factor.

Board Quality: Our analysts have spent a great deal of time pulling together this information because we think the quality of a fund's board of directors is of paramount importance. For far too long, fund boards have looked the other way as investment-management firms have launched lousy funds, hiked expenses, or left underperforming managers on the job.

Manager Incentives: Over the past few months, we've been asking fund companies to complete a survey detailing the structure of fund managers' pay as well as the level of their investment in fund shares. We have not asked for specific salary figures; in our opinion, the structure of a manager's compensation--bonus in particular--is more important than the dollar amount of his or her pay. We believe that performance incentives can have a strong influence on the way a fund is run. A fund manager who is paid to beat an aggressive benchmark over a one-year period, for example, might be inclined to take much bigger risks than he or she otherwise would.

We also believe managers should eat their own cooking by investing in either the funds they run or other offerings run by their firm. Why? Because fund share ownership is an important reflection of whether a portfolio manager has conviction in his or her own process. Managers who invest alongside fund shareholders are also more likely to pay much closer attention to issues like expenses and taxes than ones who do not. We don't believe it's a coincidence that firms like Longleaf Partners, which requires that all employees invest in Longleaf's funds, have shown themselves protective of fund shareholders' best interests. And while it's true that there's a dearth of evidence linking manager investment in fund shares to superior performance, such a study wasn't even possible until now because the data was unavailable.

Expenses: The amount that a management company charges fund shareholders often speaks volumes about the priority the firm accords the interests of fund shareholders versus those of company stakeholders. That's why we examine whether fund investors are getting a good deal or the short end of the stick. For example, we've recently been critical of fee hikes at Evergreen that we thought were egregious. We're interested in seeing not only how a fund's expenses stack up relative to its peers, but also at trends in expenses to gauge whether a firm is appropriately passing on economies of scale to a growing fund's shareholders. Importantly, the scoring for this factor is within category and within distribution channel because we want to compare apples to apples.

Corporate Culture: No, we're not talking about dress codes or broadly assessing how a firm operates. Rather, we're focusing on how shareholder-focused management is by looking for tangible evidence that a firm has a deep-rooted understanding of its role as a fiduciary. This is the most subjective component of the grade by virtue of the sheer number of factors that can influence the depth of a firm's commitment to its fund holders.

Our analysts have spent a considerable amount of time evaluating criteria such as the quality of shareholder reports, a firm's willingness to close funds at appropriate asset levels, and the pattern of new fund launches. We examine how fund companies deal with these issues to gauge whether the long-term interests of fund shareholders have consistently been placed front and center--where they belong.
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