

# Information System for Analysts

**isfa**



## **FINANCIAL ANALYST PERFORMANCE MEASUREMENT**

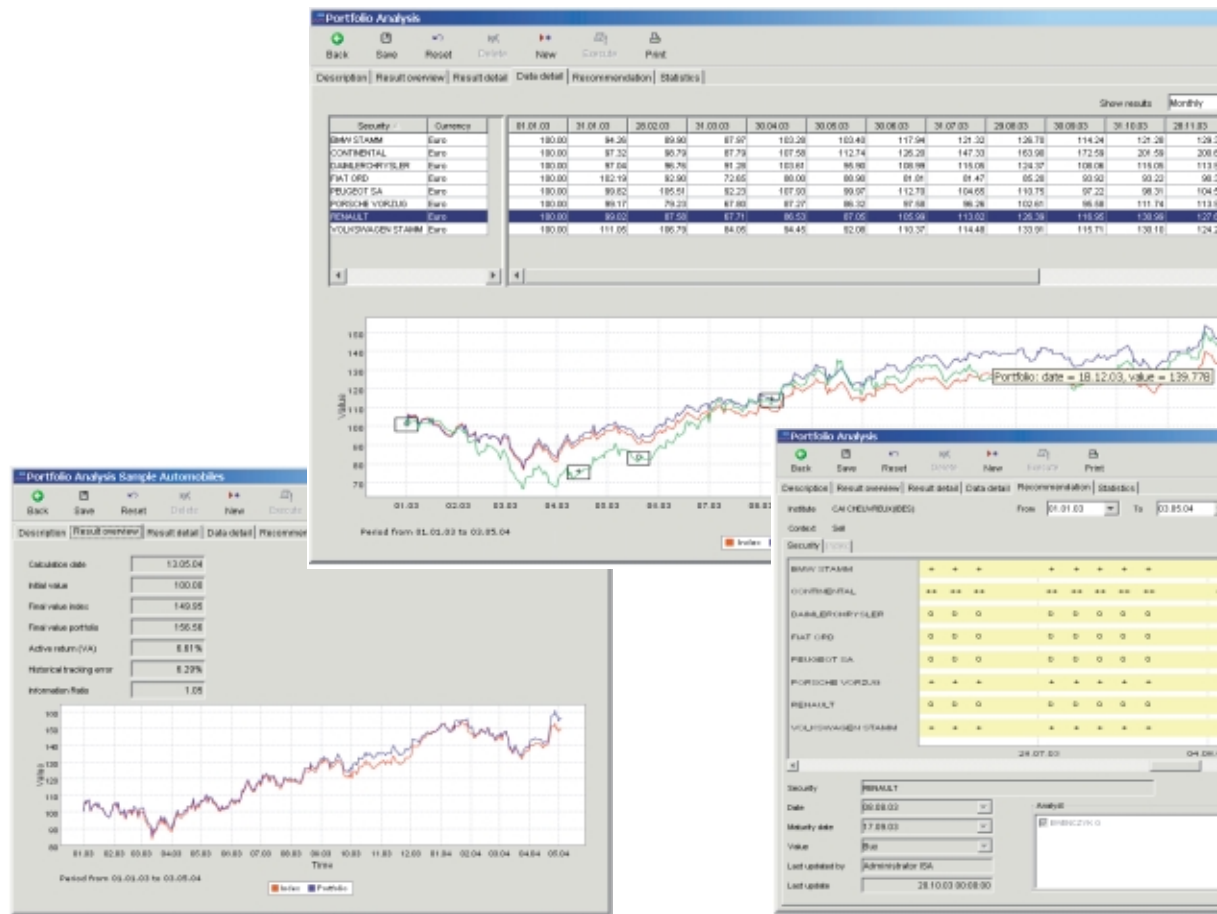
- **Measurement standard for financial analysts' performance**
- **Performance measurement of in-house or external analysts, from the buy- or sell-side.**
- **Identification of strengths and weaknesses within a research/investment department**
- **Certification of performance results for marketing purposes**
- **Development of appropriate peer group universes**
- **Accuracy-measurement of broker recommendations and EPS-estimates over time for asset managers and investors**

## About isfa

*isfa* aspires to be the leading performance measurement provider of buy- and sell-side analysts. *isfa* is able to measure both primary and secondary research analysts. In order to compare both the recommendations and EPS-estimates and to be in a position to quantify them in an objective way, *isfa* defines a standard against which the performances are measured.

*isfa* creates transparency and is adaptable to the analyst's mandate.

The performance is measured through a Java based software, which has been developed by *isfa*.



## STANDARD AND METHODOLOGY

### Recommendations

An analyst (or a group of analysts) receives a precise mandate to analyse a set of securities of a certain sector or geographic region. Based on this, the analyst issues recommendations to buy, hold or sell the respective securities and issues EPS-estimates.

The isfa methodology is based on two passive portfolios, either fully invested in stocks or fully in cash. By issuing a buy or sell recommendation, the analyst deviates from the passive portfolio and takes an active position (long, short) in the respective security. Depending on the interpretation of the recommendation, the long (short) active position is financed (invested) by selling (investing) part of the index or cash. The index is defined as a stock index which represents the analyst's universe exactly (customised index) or as a standardised index (e.g. FTSE-, STOXX-, MSCI-indices, SMI, DAX, CAC40, MIB30, IBEX35 etc.) which shows the same style and risk as the corresponding analyst universe.

The difference in returns between an active and a passive strategy constitutes the value added of the recommendations.

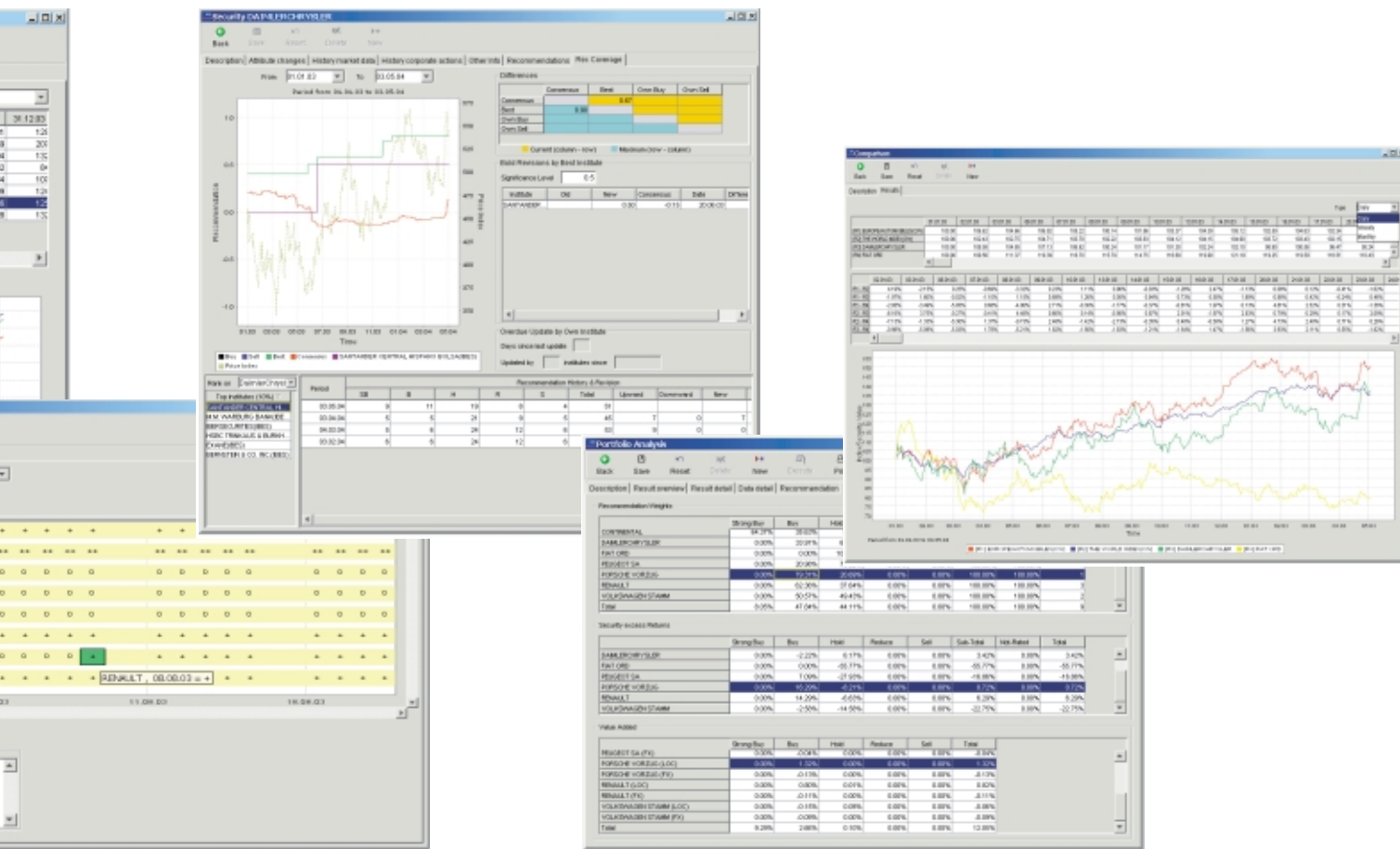
A recommendation on a security can be measured in three ways:

- an expected positive or negative risk-adjusted excess return vis-à-vis the benchmark
- an expected positive or negative excess return vis-à-vis the benchmark
- an expected positive or negative excess return in addition to the risk-free rate.

The isfa software can measure the recommendations in all of these ways.

### EPS-estimates

Based on the analyst's EPS-estimate of a company and the true realised value, a score is calculated which rates the forecasting ability of the analyst/institute. These scores enable objective comparisons to be made among peer groups and institutions.



## INPUT: RECOMMENDATIONS/EPS

Each institute can enter its own recommendations into the database. At the discretion of the institute, these recommendations can be stored locally, or made generally available to other isfa users.

The same applies for the EPS-estimates. Even the current EPS can be adjusted by the user so that this number can be directly compared to the conditions which prevail internally.

Additionally, the isfa database is fed by recommendations and EPS-estimates provided by Thomson Financial/IBES.

## RESULTS

The results are displayed numerically and graphically. An analysis can be made either per institute or for each analyst individually.

All results are broken down into the value contribution for each security on a daily basis. In addition, isfa discloses the impact of the foreign exchange rate if the security's currency is different to the reference currency.

## STATISTICS

The statistics form displays a full performance attribution of all the recommendations which were issued over a user-defined time period. For each recommendation category (strong buy, buy, hold, reduce and sell) the relative excess return of the security or cash against the selected index is shown.

In addition, a separate table shows how the total value added has been created by measuring the return for each recommendation category. This section also quantifies lost opportunity caused by hold-recommendations.

## PEER GROUP ANALYSIS

Each user defines the type of peer group analysis he/she wants to calculate. For example, all analysts can be compared by using relative recommendations and equally weighted securities. The isfa system runs all calculations for all analysts and institutes. Various filter options enable the comparison of analysts within their peer group.

As an example, if a user is interested in knowing the analyst with the highest added value over the last year in the European banking sector, he can filter all the analysts which only cover European banking stocks and display all their results.

The Peer Group Analysis by security shows which recommendations have been issued on a specific security and measures the value of those recommendations. The result determines the best analyst/institute for this security.

The Peer Group Analysis by institute compares all recommendations issued on a specified index with all brokers or competitors.

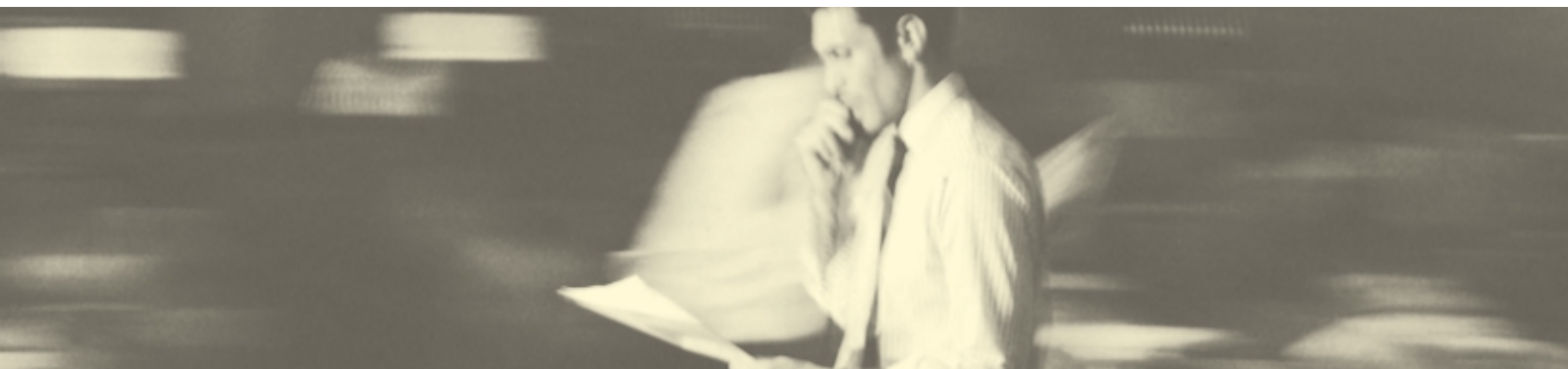
## EFFAS SUPPORT

The European Federation of Financial Analysts Societies (EFFAS) has endorsed the isfa standard. EFFAS consists of national analyst societies from Austria (OVFA), Belgium (ABAF/BVFA), Bulgaria (BGIMFA), Finland (FSFA), France (SFAF), Germany (DVFA), Greece (HACSA), Hungary (HCMP), Italy (AIAF), Kazakhstan (FIAK), Latvia (LASMP), Luxembourg (ALGAFI), Netherlands (VBA), Norway (NFF), Poland (PABIA), Portugal (APAF), Romania (ACAF), Russia (GIFA), Spain (IEAF), Sweden (SFF), Switzerland (SFAA) and Ukraine (USFA).



Endorsed by the  
European Federation  
of Financial Analysts  
Societies EFFAS

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



## DATABASE MANAGEMENT

isfa is also an excellent tool to store all analysts recommendations and EPS-estimates in a clear manner. Within seconds, all the recommendations of the selected institute can be identified. At the same time, the system enables the performance of each analyst to be calculated according to a pre-defined method. A Head of Research, for example, can filter all the analysts of his/her institute to obtain an overview of the value added of each individual analyst plus a description of how this value has been achieved.

## CERTIFICATION & PUBLICATION

On request, isfa certifies the performance results of banks and other financial institutions and gives approval for use of the isfa logo for related marketing purposes.

This supports the credibility of reports being published in order to demonstrate the added value analysts have created. The certification system assures a uniform measurement process and prevents the manipulation of results. Clients of financial institutions using the isfa certificate will benefit by having a greater degree of confidence in the analysts' research reports.

## COMMITTEE OF EXPERTS

The concept of isfa and its standard are the results of a close cooperation between practitioners and academics. The methodology was developed in consultation with a Committee of Experts from a variety of countries and business sectors. The standard will be further developed and supervised by this group. Currently, the group consists of a dozen finance professionals including Professors from the University of Zurich, London Business School and University of California.

The Chair of the Committee of Experts is held by Prof. Rajna Gibson from the University of Zurich. The business professionals are representatives of renowned banks, insurances, and pension funds.



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