Institutional Investor

The 2001 Global Research Team

Analyzing the world's markets has never been more risky — or more critical to investors.

The purpose isn't just to track huge multinationals but to keep pace with virtually all companies in a tightly interwoven world. A U.S. technology hardware company, for example, may rely on Asian foundries for supplies of silicon and market its wares to customers in Europe and Africa. Understanding the global food chain becomes vital to understanding these companies' prospects. "You must harness the whole network of knowledge, resources, information and analysis around the world to improve the odds of making a good call on a stock," says Tom Hill, global head of equity research at UBS Warburg.

This year Hill and his team harnessed that network and made those calls more frequently than any of their competitors, in the opinion of institutional investors polled by this magazine. Fourth a year ago, UBS Warburg surges to the top position of the 2001 Global Research Team. Bolstered by its 2000 acquisition of PaineWebber, the firm adds nine team positions to last year's tally, for 22 overall. . .

A more tightly unified Europe also brought changes. Investors increasingly are able to look beyond their own borders to evaluate industry sectors. After the euro goes into circulation on January 1, they won't have to worry so much about the 11 euro-zone currencies and can focus primarily on the dollar, yen, euro and sterling, making for much easier comparisons. European pension reform, which is gradually increasing the amount of money available for equities investment, is spurring European firms to examine global opportunities. "Over the past year more and more buy-side guys have organized along a less regional basis," UBS Warburg's Hill says. . .

UBS's Hill agrees that a great challenge is "persuading individual interests to participate." His firm uses compensation to grease the gears. A scoring system that allows analysts to rate the quality and quantity of help they've received from their fellow researchers is part of the review process — and a factor when bonuses are calculated. "By persistent attention to these issues of compensation, we've fostered some pretty good teamwork," notes Hill.

UBS's global sales team also plays a part. Each day it distills all research, conveys the findings directly to certain investors and holds a conference call to a wider audience of clients. "The team has the effect, first, of taking the global product and making it usable by the customer and, second, letting analysts see how their work is valuable," says Hill. . .

Even if more and better data are now available, earnings quality and corporate governance issues remain. Hill points out that global research must extend beyond quickly extracting clean financial information. To make a credible buy or sell recommendation, an analyst also must understand risk. Russia's Gazprom may rival ExxonMobil in certain businesses, but whose numbers do you trust? "What's most relevant to a customer on the buy side is the interrelation of country risk versus the interrelation of industry risk. The real value added is to incorporate all this work into a buy-side decision," notes Hill. . .

— Mike Sisk

For more information on II*'s research teams, visit iiplatinum.com.*

WEIGHTING THE RESULTS

In this table firms are ranked by assigning a rating of 4 to a first-teamer, 3 to a second-teamer, 2 to a third-teamer and 1 to a runner-up.

Rank in leaders table	Rank by weighted formula	Firm	Weighted total
1	**1**	**UBS Warburg**	**52**
3	**2**	**Morgan Stanley**	**43**
2	**3**	**Merrill Lynch**	**42**
3	**4**	**CSFB**	**40**
3	**5**	**Goldman Sachs**	**33**
6	**6**	**Citigroup/ Salomon Smith Barney**	**32**
7	**7**	**Deutsche Bank**	**31**
8	**8**	**J.P. Morgan**	**9**
10	**9**	**Fox-Pitt, Kelton**	**5**
9	**9**	**Lehman Brothers**	**5**
11	**11**	**HSBC Investment Bank**	**2**
11	**12**	**ABN Amro**	**1**

THE LEADERS

Rank 2001	Rank 2000	Firm	Total positions 2001	Total positions 2000	First team 2001	First team 2000	Second team 2001	Second team 2000	Third team 2001	Third team 2000	Runners-up 2001	Runners-up 2000
1	4*	**UBS Warburg**	**22**	13	**6**	1	**5**	2	**2**	2	**9**	8
2	2	**Merrill Lynch**	**19**	18	**4**	2	**5**	4	**1**	3	**9**	9
3	7**	**Credit Suisse First Boston**	**18**	6	**3**	1	**5**	2	**3**	0	**7**	3
3	2	**Goldman, Sachs & Co.**	**18**	18	**2**	5	**2**	7	**5**	3	**9**	3
3	1	**Morgan Stanley**	**18**	20	**4**	10	**4**	2	**5**	5	**5**	3
6	5	**Citigroup/ Salomon Smith Barney**	**17**	12	**2**	2	**2**	4	**5**	3	**8**	3
7	6	**Deutsche Bank**	**14**	7	**4**	1	**2**	0	**1**	4	**7**	2
8	8†	**J.P. Morgan**	**5**	3	**1**	1	**0**	2	**1**	0	**3**	0
9	9	**Lehman Brothers**	**4**	2	**0**	0	**0**	0	**1**	1	**3**	1
10	11	**Fox-Pitt, Kelton**	**2**	1	**0**	0	**1**	1	**1**	0	**0**	0
11	—	**ABN Amro**	**1**	0	**0**	0	**0**	0	**0**	0	**1**	0
11	—	**HSBC Investment Bank**	**1**	0	**0**	0	**0**	0	**1**	0	**0**	0

** UBS Warburg acquired PaineWebber in November 2000. UBS Warburg ranked fourth last year.*

*** Credit Suisse First Boston acquired Donaldson, Lufkin & Jenrette in November 2000. CSFB ranked seventh last year; DLJ ranked ninth.*

† J.P. Morgan and Chase Manhattan Bank merged in December 2000. J.P. Morgan ranked eighth last year; Chase Securities ranked 11th.

THE GLOBAL RESEARCH TEAM

In this, our fifth annual look at global sell-side research, *Institutional Investor* asked fund managers around the world to rate brokerage firm research in more than two dozen equity categories and investment specialties. Approximately 400 buy-side analysts, portfolio managers and research directors responded, representing more than 150 money management institutions in the U.S., U.K., continental Europe and Asia.

Our reporters spent weeks on the phone with voters to learn more about the research teams they had selected. In addition, many of the winners were contacted to clarify points their clients had raised, to confirm certain stock prices and to get their own assessments of the year gone by.

Because this is a team ranking, votes for specific firms and the individual analysts working for those firms were combined to arrive at a single team total. Deciding who should be highlighted in categories where votes are aggregated can be difficult. Typically, the researcher featured is either the head of the squad or the analyst recognized most frequently by investors.

The overall leaders table is based on each firm's total number of teams in our rankings. The weighted leaders table shows the results when firms are assigned a numerical total reflecting how their teams ranked in each category. These numbers were then added up to derive a weighted ranking. Unlike *II*'s other research team rankings, votes were not weighted by the size of the institution, given the difficulty of computing — or even defining — global assets under management.

The identities of the survey respondents and the institutions that employ them are kept confidential to ensure their continuing cooperation. In addition to *Institutional Investor*'s rankings of top money managers in the U.S., Europe and Asia, published buy-side directories and other data sources were tapped to make certain that the survey universe was complete. Global research directors also submitted lists of their most important clients, many of whom were contacted.

We've refined our sector lineup this year based on feedback from both global fund managers and brokerage firms. Last year's Luxury Goods category was folded into the Consumer sector, and we added the Airlines category. We also broke the Technology sector into three parts: Software, Hardware and Semiconductors. Likewise, out of last year's Telecommunications sector, we created two categories, Telecommunications Services and Telecommunications Equipment. In addition, this year Emerging Markets/Strategy & Economics represents a combination of two sectors from 2000, Emerging Markets/Economics and Emerging Markets/Equity Strategy. Two macro sectors — Accounting and Fixed-Income Strategy — were removed from the ballot this year after not receiving enough buy-side votes to merit publication a year ago.

One additional note: To meet this magazine's production schedule, votes for analysts who changed firms after October 1 are credited to their previous organization.

What follows is our ranking of the best sell-side research teams in 26 global investment specialties, with synopses of what makes these groups stand out from the crowd. It was compiled by *Institutional Investor* staff under the direction of Senior Editors Carolyn Sargent and Jane B. Kenney with Senior Associate Editor William Gaston. Contributing Editor Mike Sisk wrote the overview. Sisk, Reporter/Researcher Suzanne Lorge and Contributing Editors John Belmonte, Andrew Bloomenthal, Lee Conrad, Mary D'Ambrosio, Ben Mattlin, Scott McMurray and Giles Peel wrote or edited the sector reports that follow.

The 2001 Global Research Team

INDUSTRIES

Aerospace & Defense

SECOND TEAM **UBS Warburg**

Praised for moving clients out of commercial aircraft and into defense stocks, UBS Warburg climbs to No. 2 from runner-up. In June 2000, noting a high volume of commercial aircraft deliveries last year, London-based leader **Paul Ruddle** and team suggested that airlines' demand for new aircraft would soften. That month they urged caution on aircraft-engine manufacturer Rolls Royce; by November 2001 Rolls Royce was down 29 percent. The team's joint July conference with the firm's airlines group (No. 1 in the new Airlines category) earned raves.

Airlines

FIRST TEAM **UBS Warburg**

It was the worst year in a decade for airline stocks: Already hurt by a slowing world economy and fewer business travelers, airline stocks plummeted after the September 11 terrorist attacks. The Amex airlines index for world markets spiraled downward from 170 in January to 70, once the stock markets reopened after the World Trade Center disaster. By mid-November the index had crept back to 72. The UBS Warburg team, led by London-based **Andrew Barker**, tops this new category (no other group received sufficient backing to place) in a trying time. This January, predicting a weaker U.S. economy, the team reversed its bullish stance on U.S. carriers such as American Airlines. By September 17, when trading resumed after the attacks, shares of AMR Corp., American Airlines' parent company, had dropped from 37 to 18. The team then upgraded select U.S. carriers — AMR included — believing they had the wherewithal to survive. Among the team's European picks, British Airways, tagged in November 2000 at 264 pence for its strong third-quarter revenues, spiked to 474p in December. In early 2001 the team downgraded it, and by October the stock had sunk to 160p.

Andrew Barker,
UBS Warburg, *Airlines*

Banking & Financial Services

FIRST TEAM **UBS Warburg**

Repeat first team UBS Warburg provides "the best global coverage by far," a supporter says. The 45-member group — led by London-based **Christopher Ellerton** and including ten analysts in London, New York, Zurich, Tokyo, Sydney, Hong Kong and Toronto — turned bearish on Japanese banks in November 2000, pinpointing the major "structural problems in the Japanese system," asserts a fan. The move, directed by Tokyo-based Katsuhito Sasajima, proved foresighted: Japanese banking shares plunged 31 percent from last November through this October, hitting a 17-year low. In the U.S. the team briefly favored brokerages on a valuation basis. After initiating coverage on April 5 with buys on Lehman Brothers, Goldman Sachs Group, Morgan Stanley and Merrill Lynch & Co., the team downgraded on April 29, after a 20 percent run-up in the sector. Aside from pocketing a quick gain, investors following the team's advice avoided the summer downdraft in brokerage shares.

Christopher Ellerton,
UBS Warburg
Banking & Financial Services

Consumer

SECOND TEAM **UBS Warburg**

Lauded by one fan for its "truly global effort," UBS Warburg catapults from runner-up to No. 2, with 30 analysts in New York, London, Tokyo and Sydney. This June the team, led by **David Rabinowitz** in New York, launched the "Global Consumer Analyzer," a report tracking the results of 160 consumer companies in nearly 40 countries. Also valued: the team's field trips to manufacturers and retailers in Latin America and Europe.

Insurance

THIRD TEAM **UBS Warburg**

UBS Warburg, debuting in third, impressed clients by dividing insurers into two geographic groups — the U.S. and Europe — and two product groups — life and property/casualty. That helped clients "keep a global view of the business," says one fan. Led by **Roderick Raabe** in New York, the crew favored European life insurance companies from October 2000 through June 2001. It worked: Italian insurer Generali rose 20 percent during the period.

Metals & Mining (including Steel)

FIRST TEAM **UBS Warburg**

By neither "falling in love" with its companies nor straying from its investment themes, the UBS Warburg team rises two notches to No. 1. Pushing value plays, the group, led by London-based **Peter Hickson**, turned bearish on the sector in May 2001, expecting the usual summer slump in European consumption to push prices down, before a September rebound. One devotee values the team's bearish outlook on the steel sector, specifically: Against the prevailing opinion that a reduction in global production would boost steel prices, the team downgraded the Asia steel sector in April 2001. They "called it right," says one adherent: Global production cuts never materialized as competition in the Japan market heightened; Asia steel was one of the worst performers among all the global metal markets, Hickson reports. One winner: The team put a buy on aluminum maker Alcoa in September 2000 at 26; shares hit 37 this November.

Peter Hickson
UBS Warburg
Metals & Mining (including Steel)

Oil & Gas

THIRD TEAM **UBS Warburg**

Led by London-based **Alan MacDonald**, UBS Warburg's 15-member team earns third place for "instructive" and "detailed" research pieces, notably January's 132-page global strategic review, which provided ratings for the entire universe of oil and gas stocks. "Nobody else produces such a comprehensive product," raves a client. One great January pick: China Petroleum and Chemical Corp., a refiner whose shares rose 31 percent through July.

Pharmaceuticals

FIRST TEAM **UBS Warburg**

With global pharmaceuticals stocks down an average of 11 percent this year through October — and no major regional market bucking the trend — finding profitable plays wasn't simple. Still, debutant UBS Warburg rose to the challenge, taking top honors. They had help: UBS Warburg's November 2000 acquisition of PaineWebber brought three new drug analysts — and a heightened sense of purpose. The "transformed" team, says a backer, has "added much-needed credibility to their work by seeking specialists and organizing dinners with experts in major clinical and therapeutic areas." The eight-member group, located in New York, London and Tokyo and led by former PaineWebber analyst **Jeffrey Chaffkin**, wins further credibility with their stock picks. Danish health care company Novo Nordisk, recommended at 34 in January, topped 40 in October. Another winner: the firm's yearlong buy on Japan's Chugai Pharmaceuticals Co., which climbed 20 percent between January and October.

Jeffrey Chaffkin
UBS Warburg, *Pharmaceuticals*

Pulp & Paper

SECOND TEAM (TIE) CSFB; **UBS Warburg**

Debuting in second and in a tie with UBS Warburg, the Credit Suisse First Boston team — under the guidance of London-based leader **Lars Kjellberg** — told clients last December that the economic downturn had created "the worst demand environment in 50 years." Judging that the weakness had created an opportunity, the team recommended a sectoral overweighting, in anticipation of a global economic revival beginning in 2002. The team's best performer from January through October 2001: Stora Enso, up 14 percent. Up from No. 3, the UBS Warburg team, led by London-based chief **Denis Christie**, also saw grounds for optimism — namely, strict controls on supply that supported prices. The group pushed Smurfit-Stone Container Corp., the world's largest container board maker. Smurfit-Stone dropped by a relatively modest 7.5 percent (besting global basic resource indexes), to 14, from January through October, after rising to 18 before September 11.

Technology/Hardware

SECOND TEAM **UBS Warburg**

Investors appreciated getting the straight story this year, even if it was a cautionary tale. The No. 2 UBS Warburg team benefits from having "a certain honesty about forecasting numbers and stocks," says a backer. And a certain prescience. In July 2000 they predicted that PCs were entering a secular decline, not a cyclical downturn. From last October to this, the sector tanked 36 percent. Buy-siders commend UBS's London-based coordinator **Phillip (Pip) Coburn** for "breadth of coverage and an ability to summarize" in his weekly reports.

Telecommunications Services

SECOND TEAM **UBS Warburg**

No. 2 team UBS Warburg earns plaudits for the "cohesiveness of its global product," a backer says. Followers like that London-based **Uberto Ferrari**, who became global coordinator this July, isn't tied down to a single coverage area and thus is free to synthesize the team's research into a global vision. "At UBS 100 percent of his job is pulling the global view together," says a booster. The 45-member team's expansive view yields well-received research, such as May's bearish study analyzing the European equity overhang of telecoms stocks held by trigger-happy short-term investors.

Utilities

FIRST TEAM **UBS Warburg**

Lawson Steele
UBS Warburg, *Utilities*

"A keen sense of the predominant trends in the industry" lifts UBS Warburg from second place into first. In February the 40-strong team, spread across New York, Rio de Janeiro, Hong Kong and Tokyo, and led by London-based **Lawson Steele**, focused its clients on "markets and trading," or the buying and selling of electricity, now a $170 billion-a-year business. They recommended Dallas-based TXU Corp., which generates electricity and supplies power to corporate customers, at 35; by October the stock had hit 45.70. Another wise call: In July, noting the industry's collective war chest of $560 billion, the team predicted a wave of utility mergers and acquisitions. Since then more than $50 billion of deals have been announced. The group also knows when to downgrade. They advised selling London-based International Power — the world's largest independent electricity generator — at 307.5 pence in July, on a valuation basis. By mid-September the stock had tumbled to 242p.

MACRO

Quantitative/Derivatives Research

FIRST TEAM **UBS Warburg**

Alan Scowcroft
UBS Warburg
Quantitative/Derivatives Research

It's user-friendly technology, says one client, that puts UBS Warburg "way ahead of the competition" into first place. Armed with proprietary analytic software, often tailored to customers' specific requirements, the 30-member team, spread across London, New York, Tokyo, Hong Kong, Sydney and Johannesburg, is led by London-based **Alan Scowcroft**, who formerly taught econometrics at Cambridge University. Supporters especially appreciate the team's risk-analysis software package, which uses regional research to forecast returns by country and industry. "The algorithm gives a breakdown of relative risk," says one devotee, which is "useful in this recent period of high volatility." The team also provides clients with online models enabling users to "plug in your own data to test certain investments," says an advocate. Backers also laud the team's monthly reports for going "beyond dry data." One good pick: overweighting Mexico, which bested the MSCI world index by 25 percentage points through November.