

Fair Disclosure: Leveling the Playing Field?

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The Investment Research Experts

Background on Integrity Research

- Integrity is a research firm that focuses on the dynamic investment research industry
 - We cover over 1,700 research providers globally, specializing in alternative (independent) research
- Clients are primarily institutional investors
 - Investors use us to find innovative research, evaluate current research sources, and assist with research procurement
- Integrity is unbiased and objective in its recommendations
 - No “hidden agendas”
 - Revenues come from buy-side investors, not research providers
 - No sales commissions for placing providers



Regulation Fair Disclosure

- Reg FD has been successful in accomplishing its stated goal.
- Fears associated with Reg FD have not been realized.
 - Reduced analyst accuracy
 - Declines in trading volume or market liquidity
- Difficult to measure actual impact of Reg FD.
 - Market declines due to dot com crash (2000 and 2001)
 - Global Research Analyst Settlement (2003)
 - UK commission transparency and de facto unbundling (2004)
 - Continued declines in equity commission rates throughout period
- Unintended consequences and benefits have arisen.
 - Reduced the value of sell-side research
 - More buy-side focus on internal research capabilities
 - Greater demand for alternative (independent) research
 - Re-emergence of unlevel playing field

Difficulties in Measuring Impact of Reg FD

NASDAQ 1996 to 2008



Impact on Sell-Side and Buy-Side

- Reduced Value of Sell-Side Research

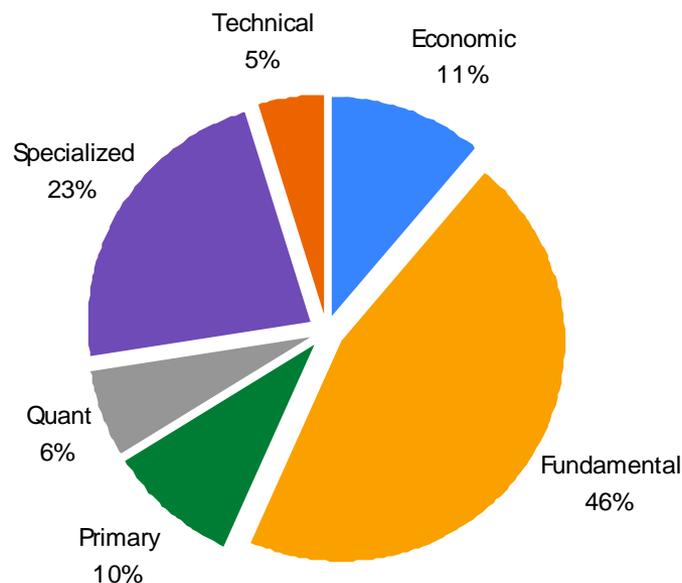
- According to Greenwich Associates, 18% of all buy-side analysts plan to reduce or significantly reduce their use of sell-side research in the next year, while 30% of hedge fund analysts expect to reduce their use of this research.
- The value of sell-side research (either provided by direct analyst contact or through research reports) has fallen from 37% of all commissions in 2005 to 34% in 2007 (only 10% for research reports).

- More Buy-Side Focus on Internal Research Capabilities

- Slightly more than 45% of U.S. money management firms project research staffing levels will continue to rise in coming few years.
- Buy-side analyst stock coverage remains extremely high (In 2007 each buy-side analyst covered over 54 companies, 5.1 industry groups, and made 6 BUY / 4.6 SELL recommendations per month).

Growing Demand for Alternative Research

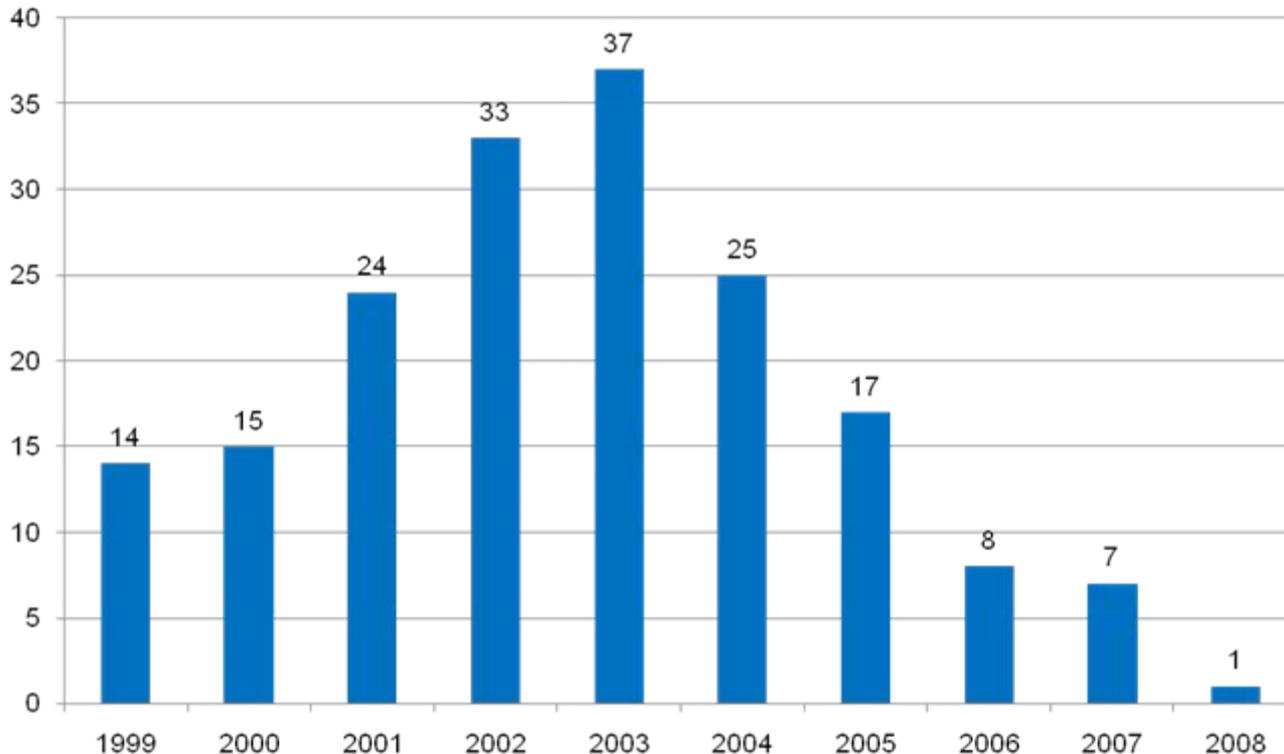
- As the number of buy-side analysts has risen, this has led to an increased demand for alternative research.
 - In 2007, Greenwich Associates reported that over 39% of buy-side equity analysts plan to increase their use of independent research.
- Integrity Research estimates that alternative research is the fastest growing segment of the investment research industry
 - Market share of total research spending will increase from 14.5% in 2006 to 20% in 2011 (from \$1.81 bln to \$2.45 bln).



New U.S. Alternative Research Providers – 1999 to 2008

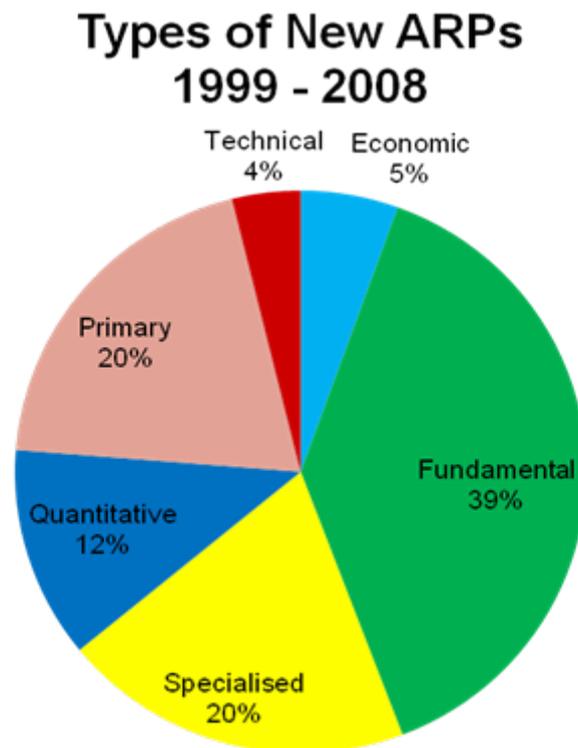
- Since 2000, 167 new U.S. Alternative Research Providers have entered the market (46% growth).
- A very small number (less than 10%) have exited the U.S. market over that same time frame.

New U.S. Alternative Research Providers – 1999 to 2008



New U.S. Alternative Research Providers – 1999 to 2008

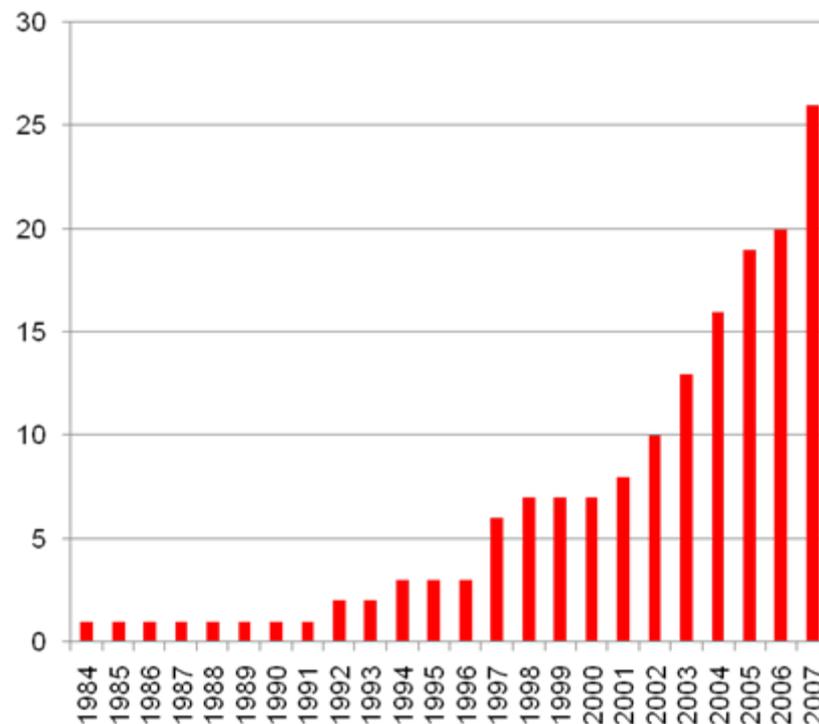
- 51% of these new firms might have started as a result of the Global Research Settlement (they are either fundamental or quantitative research providers).
- The remaining 49% of new alternative research companies have been other types of firms, including Primary, Specialized, and Economic research providers.
- This growth has come, to some extent, from increased demand from buy-side analysts, etc. – a development spurred on by Reg FD.



Growth in Primary Research – Expert Networks

- Expert Networks directly connect investors with consultants, academics, professionals, and company employees for one of one conversations.
- Expert Networks have become a major tool for the buy-side to get access to insights and expertise.
- Approximately 30% of existing Expert Network users plans to increase their use in the future.
- Since 2000, the number of Expert Network providers has grown by close to 260%. This trend has no sign of abating.

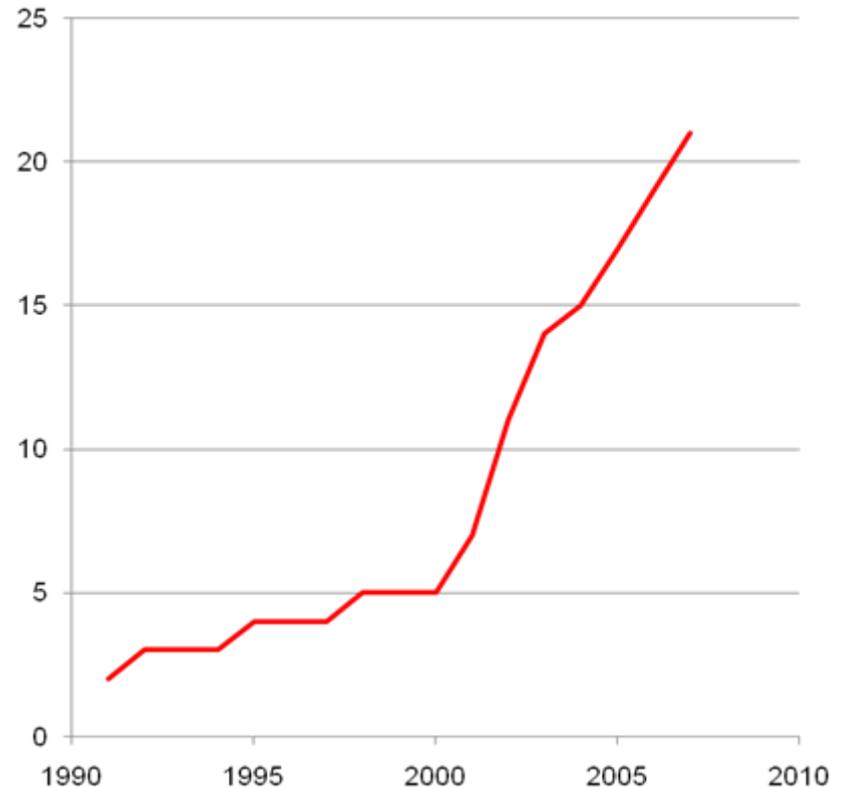
Total Number of Expert Networks



Growth in Primary Research – Channel Checks

- Channel Checking is the practice of surveying firms in a company's supply chain (vendors, suppliers, competitors, clients).
- Slightly less than half of all buy-side participants conduct channel checks. More than 30% of all buy-side participants use external channel checking providers.
- Approximately 25% of all buy-side participants plan to increase their use channel checking services.
- Since 2000, the number of firms providing channel checking services to the buy-side has grown by nearly 320%.

of Channel Checking Firms



Re-emergence of Unlevel Playing Field

- Reg FD was successful in eliminating the practice of selective disclosure of material non-public information by company management, thereby leveling the information playing field – at least for a time.
- Institutional investors, and the alternative research firms that serve them, have developed processes and products to fill the information void that was created with the passing of Reg FD.
- Retail investors, however, don't have the financial resources or the time necessary to take advantage of this type of research. Consequently, they are once again at an information disadvantage.
- The questions are, “Does it make public policy sense to try and level the playing field once again?” or “Should we eliminate the conflicts of interest and lack of transparency that exists at many buy-side firms to encourage retail investors to leverage institutional investors' economies of scale?”