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Dear Investorside Members,

Let me begin by first thanking all of you who joined us in New York on April 6th for our annual Members' Day event. By all accounts, the day was a solid success with the agenda completely tailored to the current macro, micro, and regulatory challenges and opportunities we are facing as leaders in the independent research industry. I also had the fortunate opportunity to host a broad ranging "fireside chat" with Dr. Harald Malmgren, who covered everything from the Middle East, Japan, Europe, and U.S. Fiscal Policy. We only had 45 minutes and I think all in attendance would agree, we could have spent four hours and have remained equally captivated.

One year ago, in my opening remarks at the conference, I outlined three core themes that I felt would define long-term success for our member firms. First, we needed to mobilize our firms to succeed with a buy-side that was rapidly moving to a meritocracy-based model for evaluating and measuring performance and success. Second, we needed to set the highest standards in the financial community for ethical practices. And, finally, we must all continuously innovate or risk dying on the vine. While I intended these themes to be long-term in focus, I think we can all agree that they have been front and center in the past year and will likely to continue to be increasingly relevant in the coming years.

During my term as Chairman, we've lived through and navigated the depths of the financial crisis as well as numerous other macro "shocks." We now have a new set of challenges – the insider trading investigation and its associated cloud of uncertainty, the broad reaching and uncertain implications of financial reform and a constantly changing macro and geo-political landscape. We often hear the term "new normal" in the financial press. Our "new

normal” for independent research firms can be characterized by: (1) relatively short periods of stability followed by frequent periods of turbulence and uncertainty – where we must embrace change as a constant; (2) a demand environment that is difficult and complex to navigate – with clients constantly shifting the goalposts and research firms finding it difficult to sustain a position as a trusted partner as opposed to a “vendor”; and, (3) a rapidly changing regulatory landscape that will likely yield unintended consequences.

It’s often said the most important quality an entrepreneur can have is optimism. Despite the continued challenging environment that our industry faces, I remain highly optimistic about our collective future. Why? First, our member firms are led by highly passionate, optimistic and intelligent leaders –many who are my friends and colleagues. This passion and drive inspires confidence and will lead to long term success. Second, our membership is the source of most of the creativity, original thinking and innovation in the industry. This creativity results in a steady stream of innovation and new and disruptive models. Finally, I firmly believe that Investorside and its member firms represent all that is “right” about the research industry – independence of thought, high quality standards, professionalism and the highest ethical standards.

This is my final letter to members as Chairman having served in the role for three years. It’s been a pleasure to serve in the role, to work with my fellow Board members and to work closely with our wonderful Executive Director, Pat Shea. I look forward to continuing to serve on the Board as our industry and Investorside embark on the next chapter in our history.

Richard Leggett, Chairman of Investorside, CEO of Business Intelligence Advisors

News Update

Members’ Day Conference Recap

Investorside’s Members’ Day conference held April 6 at the New York Athletic Club drew in 118 people from across the organization’s membership and was the second, best-attended event in the organization’s history with many positive responses from the Investorside community.

Panelists explored regulatory issues, macro trends, micro trends and the consolidation of the research industry. In a working lunch, members first highlighted their greatest challenges which included maintaining and increasing business opportunities, payments and their burdens, compliance and replacing lost sales.

Members then discussed the roles they thought the Association should play. Chief among those was providing a strong voice in Washington D.C. with policy makers and legislators, and also providing

“Congratulations on the brilliant organization and thank you for the interesting and comprehensive updates on the market. Among other discussions, I was quite impressed by Dr Malmgren’s opinion who has a sharp and relevant global view.”

“First I want to thank you and the others at IS for the award. It’s always great to be recognized, especially by one’s peers. Second, I thought the day was full of energy and great content. You’ve set the bar quite high for next year.”

“Great job on the members day event.”

“Well said...I agree. Great job... Thank you for your time and energy.”

more information to members on regulations and government funding related to independents. Members also thought the Association could play a role in opening doors to new business for them by generally promoting independent research to those who have not traditionally used it. Compliance, and getting paid, rounded out the places where members thought the Association could help out.

Dr. Harald Malmgren, Economist, Global Strategist, Former Deputy U S Trade Representative, advisor to President's Johnson, Nixon and Ford & Founding Principal, Malmgren Global, LLC, gave the keynote talk and covered 7 areas where macro-events could become market drivers. He characterized the current markets as complacent and with "high levels of correlation across asset classes, and thin risk spreads."

Awards went to:

- 👉 Tony Berkman of Majestic Research received an award for his Innovations in Data Mining case study tracking the Palm Pre.
- 👉 Ben Rose of Battle Road garnered an award for his Thought Leadership in Information Technology Research case study that traced the comeback of Akamai.
- 👉 Kirsten Bjerklie and Chris Kenyon of Business Intelligence Advisors won an award for their case study on Creative Applications of Behavioral Science to the Stock Selection Process in the case of an Alzheimer's drug failure to meet efficacy goals.
- 👉 Derek Noce and Bruce McVey of Retail Intelligence Group were awarded for their In Depth Consumer Channel Checks and Market Analysis focusing on the consumer electronics and office supply segments, post Circuit City.
- 👉 Jon Gates, Director of Research for OTR Global was awarded for his case study Global Investigative Journalism and Investment Research exploring Ralcorp Holdings' acquisition of Post.
- 👉 John Strehle of Verbatim was awarded for his market-insightful International Channel Investigations and Primary Research.
- 👉 Jean Louis Thiemele, CFA Dino Sadikovic and Dan Mahoney, CFA, CPA of Risk Metrics were awarded for their case study Leadership in Forensic Accounting and Financial Analysis that explored a speculative solar energy bubble.
- 👉 David Ritter of Argus Research was awarded for his study Insights into Government Regulations and Consumer Finance tracking the consumer finance industry.
- 👉 Michael Ervolini of Cabot Research was awarded for his Innovative Research Methodology.
- 👉 Gerson Lehrman Group won the Leadership in Global Primary Research Compliance and Systems award for its pioneering work in compliance systems.



Investorside Annual Board Meeting Set for June 3rd

The annual meeting will be held in FactSet Research Systems' conference room, 90 Park Avenue, New York City, at noon EDT. Teleconferencing will be available for those who cannot attend in person. Proxy statements are being sent to all who are members of record as of June 3, 2011. The statements outline the meeting agenda, proxy requirements and provide biographies of director nominees.

Voting will take place via the Internet using Survey Monkey. The proxy statements explain that process. On all matters to come before the annual meeting, members may cast one vote. The members are entitled to elect eleven (11) directors. Each member firm has one vote, and only one vote from each member firm will be counted.

By properly completing a proxy, the shareholder appoints John Eade, Chairman Emeritus of Investorside, as proxy holder to vote his or her vote as specified on the proxy. The proxy holders will vote any proxy not specifying to the contrary as follows:

For the election of Directors Tony Berkman, David Good, Stanton Green, Laurence Herman, Richard Leggett, Michael Mayhew, John Meserve, Frank Porcelli, Matthew Sakey, Garvis Toler and Jack Zwingli to serve until their successors are elected and qualified at the next annual meeting.

Under the Bylaws of the Company, the presence, in person or by proxy, of one-tenth of the members is necessary to constitute a quorum for the transaction of business at the meeting. The proxy holders will count votes withheld and abstentions when determining the presence of a quorum for the particular matter.

Member Spotlight

GovernanceMetrics International Looks Beyond Financial Reporting

With a seemingly steady stream of companies underperforming or suffering from events such as litigation or bankruptcy, institutional investors are increasingly seeking research on investment candidates that extends well beyond traditional financial statement analysis and into environmental, social and governance (ESG) research. In Europe in particular, investors such as country pension plans are using ESG as a key criteria in their investment decision-making.

“Many institutional investors in the U.S. have been slower to adopt governance and ESG risk measures, but they are now catching up, as they see the advantages in improving returns and mitigating risk” said Jack Zwingli, chief executive officer of GovernanceMetrics International.

Following the merger of three well-known governance and ESG firms – The Corporate Library, GovernanceMetrics International and Audit Integrity in 2010, the new company now provides a more comprehensive view of non-financial risks. The merger between The Corporate Library and GovernanceMetrics in July brought together extensive corporate governance research and data capabilities with expanded ESG metrics and global coverage. Then, the merger with Audit Integrity

in November further strengthened GovernanceMetrics International's risk research and analytics capabilities, particularly related to accounting transparency and financial disclosure.

"First we had the highly visible fraud and abuse cases at Enron, WorldCom and others, and then the financial meltdown. A number of firms were formed to identify the non-traditional risks that led to many of these downfalls. With the mergers, we can now give clients a better, more comprehensive understanding of factors affecting performance that exist beyond financial statements," Zwingli said.

[GovernanceMetrics International](#) provides services such as company reports, director profiles, data feeds, research, tools and advisory services. The firm's clients include investors, regulators, corporate services firms such as liability insurers, auditors and academics.

Predicting Negative Events

To identify companies at risk, GovernanceMetrics has pulled together data sources from all three businesses, and from that integrated database has developed a single risk rating. This risk rating encompasses a core set of environmental, social and governance risk metrics, as well as a fourth dimension – accounting transparency. This ESG&A approach is designed to identify risk by analyzing a comprehensive set of proven risk metrics.

The GovernanceMetrics approach evaluates a broad set of ESG&A metrics, and statistically determines which are predictive of risks and returns. ESG metrics include areas such as board effectiveness and independence, executive remuneration, ownership and control, climate change, supply chain, key events and accounting measure of revenue recognition, expense recognition and asset-liability valuation.

These risk factors have been found to be proven indicators of negative events such as regulatory actions, shareholder litigation, severe investment losses and financial distress.

"This comprehensive approach identifies which measures are most closely associated with negative events, and provides an effective way to identify companies at risk. Our risk rating and related 'red flags' identify specific areas of concern and provide an early warning on potentially harmful events," Zwingli explained.

A growing body of academic work has validated the ESG risk measures, and specifically the ratings available from the predecessor companies of GovernanceMetrics, as predictive of severe risks that harm investors and other corporate stakeholders.

Assessing Director Capabilities

GovernanceMetrics International also provides directors profiles that help identify any possible red flags in a board member's ability to provide effective oversight and guidance to a company's management team.

"Independence is critical for board members, so we look for interlocking directorships, related party transactions or any questionable business relationship between board members and the company. We

also assess whether the director has the right background and skill sets to benefit shareholders,” Zwingli said.

Zwingli believes there is a meaningful opportunity to expand the type of research that GovernanceMetrics International uses in its analyses. More investors with fiduciary responsibilities are interested in taking more types of corporate risk into account. Initiatives such as the United Nations Principles for responsible Investments (UNPRI) have shown a large and growing demand for non-financial (or “extra-financial”) measures of corporate performance and risk.

“The challenge is to continually demonstrate the value of the research in identifying risks, improving returns and reducing volatility,” Zwingli said. “Investors and others are looking to apply new approaches to measuring and monitoring risk in a material way.”



Director Spotlight

Stanton Green: Addressing Challenges of Diverse Membership

Stanton Green is the President and CEO of Purchase, NY-based OTR Global LLC, a former chairman of the board of Investorside Research Association and a current board member. As a board member he explores competitive differentiation and challenges for members. He also notes there are significant differences between issues facing the industry and issues facing the Association.

“One of the challenges we face is the consistency, or the lack of consistency, among our members,” Green commented. For financial services trade groups that represent large broker-dealers, there is a consistency with how Goldman Sachs, Morgan Stanley, and Bank of America run their businesses, he noted.

At Investorside, there is a wide degree of operational inconsistency, Green reiterated. “So for example, you have fundamental types of shops, you have some that are small caps, you have expert networks, you have firms that focus on data like Majestic [now ITG Research]), and you have channel checkers like us,” he explained.

There is a wide variety of business practices: Some with sophisticated distribution systems; some with sales people and trading desks; and some with neither. "Trying to come up with consistent approaches to benefit members is tough," Green said. "When member firms are giving the Association their hard-earned cash, they want their money spent on what is important to them." That inconsistency is a challenge for the Association.

Issue Examples

How best to market the Association, preferred regulatory responses, and SEC relations are among the examples Green cited.



Stanton Green

If the Association decides it wants to help market member services to large clients, large research firms don't really need that. They have sophisticated sales teams and/or trading desks, Green noted. A small shop with a few people and a new product would love that kind of help. So there is a problem with where the Association spends its money and resources.

With regard to the regulatory environment, firms have different perspectives on what stances to take. Some firms believe that there are absolute minimum standards for working with expert networks. Other firms believe those standards are too arduous, perhaps because they are too small to operate in a certain way, Green observed. Dealing with the SEC also presents options to what the Association wants to advocate. There are certain positions that are important for some firms and not that important for others. "These things are important not just from a policy perspective, but from a resource perspective," Green said.

In his view a large number of small firms were created -- not necessarily Association members -- from the fallout of the closure of Lehman Brothers and Behr Stearns. "Clear minimum standards of how firms will operate in this industry, whether it be registration, not paying people in the industry so that there is no inducement, monitoring your information well to understand what you are giving to clients, would be very helpful to the industry," he emphasized.

Green is not a big believer that consolidation will solve this issue. While it may be very beneficial for a research firm to align with a broker-dealer, many firms simply may not have the scalability to make acquisition profitable, he concluded.

Breadth of OTR Global

As the head of OTR Global Green oversees a leading "channel checking" firm employing a journalistic research model, with editorial offices in San Francisco, research offices in Shanghai and near Nuremberg, and trading desks in New York and Boston.

The company has reporters who conduct in-depth discussions with customers, competitors, and suppliers. Interviews are typically one-to-one discussions rather than survey questions, and last an hour to an hour and a half. Green emphasized that most of the interviewers are familiar with the company they talk with because many have interviewed them for five to ten years. And the interviews are conducted in the native language of the firm.

The firm's research effort covers about 70 on-going topics, or "panels", conducting roughly 30,000 interviews a year, with about 200 reporters in 56 countries. Research panels cover retail consumer firms such as Proctor and Gamble, PepsiCo, and similar firms; cyclical or industrials like farm equipment, fertilizer, and energy; Tech-Media-Telecom (TMT), and healthcare.

OTR Global also conducts custom research for clients. An editor sits down with a client and defines the study. The firm applies its structured methodology to what a client wants addressed, defines the best sources, what questions OTR should ask, and then OTR defines the research from that, Green noted.

A few other notes Green thought important are that OTR has invested in a compliance department, which many of their competitors have not. OTR has "very strict policies" that sources are not paid and that interviewers properly identify themselves. And the firm does not employ expert networks. OTR interviews the sources and aggregates the information, he said.

Green joined OTR Global in 2007. Previously he was a founding partner, president, and CEO of Vista Research, acquired by Standard & Poor's in 2005. He was a Managing Director of Epoch Partners, an investment bank sold to Goldman Sachs in 2001. Mr. Green began his career at Merrill Lynch in the equity derivatives. He holds a B.A. from Dartmouth College.

New Members

<p>Potomac Research Group 600 New Hampshire Avenue, NW Tenth Floor Washington, DC 20037 United States 202-600-1750 www.potomacresearch.com Contact: Erin O'Connor Phone: 202-600-1750 E-mail: eoconnor@potomacresearch.com</p>	<p><i>Potomac Research Group is an independent research firm formed in early 2008 to provide Washington policy and market technical analysis to institutional investors. PRG's analysis of federal legislative activities and regulatory policies helps investors determine Washington's impact on industry sectors. PRG's market technical analysis helps portfolio managers focus on the changing dynamics within industries and sectors over the long term.</i></p>
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Upcoming Events

Annual Board Meeting

Date: Friday, June 3, 2011

Time: Noon

Location: FactSet Research Systems, 90 Park Avenue, NYC.

Conference Room & by Teleconference

Independents' Day

Date: October 11, 2011

Time: 8:30 AM to 5:00 PM

Location: Bloomberg, NYC

The Investorside Research Association's mission is to increase investor and pensioner trust in the U.S. capital markets system through the promotion and use of investment research that is financially aligned with investor interests.



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