

HIGHLIGHTS

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UPCOMING EVENTS

**December 8, 11:30
A.M. Trump Tower
22nd Floor**

Semi-Annual Board of
Directors Meeting

**Independents' Day
April 3, 2012**

Integrity Research Reveals Tips for Avoiding Conflicts

Community Event Digs Deeply Into Compliance Issues

Saying the research industry has entered a new regulatory era, Sandy Bragg, CEO of Integrity Research, opened the half-hour-long compliance Community Event on November 11.

“The new regulatory regime is centered on information control and it is much more demanding,” he said. “By its very nature, it’s intrusive in the research process. It requires controls on how you conduct your analysis, it requires analysts to be thoughtful in how they gather their information and alert to risky situations. It has to be managed, documented, and maintained. Worst of all, the new regime is amorphous, vague and mutable.”

Michael Mayhew, founder of Integrity Research outlined the kinds of steps buy-side firms are taking to ensure expert and external research providers are not trading confidential information with analysts and portfolio managers. Besides hiring outside counsel to review their policies and procedures they are crafting extensive representations and warranties for research providers to sign. They are also hiring specialists to run their internal due diligence programs. However, he said, some firms, believing they have no risk are not doing anything. Then too, he pointed out there are other firms that are doing a combination of things.

Mayhew also said he suspects that buy-side firms will be doing more rigorous diligence in the months to come based on a couple of factors. First, they are preparing for the 2012 registration of hedge funds and are vetting their systems in the

lead up to that. Many also believe that by doing this kind of due diligence now they can reduce their risks across their firms.

Susan Mathews, former Regulatory Liaison for Independent Research and head of Integrity's compliance efforts, reported that government is paying particular attention to confidential information and how it is being treated at the source. She suggested four things firms can do to reduce their risks related to how they control the receiving and handling of confidential and material, nonpublic information.

- ◆ Designate someone to be accountable for compliance.
- ◆ Set up procedures to minimize the risks of receiving or even eliciting confidential information. Part of that process is to first know where analysts and employees are getting their information. Following that, put policies and procedures in place that reduce the possibility confidential information would be asked for. Some of the kinds of written records to keep include dates, names of sources and information requested. When gathering information from public companies in informal settings such as at breaks during conferences, or through other relationships that employees or analysts might have with employees of publicly traded companies, it is important to have an escalation policy that employees can refer to when they receive what they think might be questionable information.
- ◆ Review the design and results of surveys to make sure confidential or sensitive, nonpublic information is not disclosed.
- ◆ Make sure sources receive nothing of value in exchange for information they provide. That includes copies of survey results and reports.

Mathews also pointed out that the regulatory climate is one of leveling the playing field so everyone has equal access to information. The idea of some people paying for better information cuts across the vein of the desired transparency level. Since many independents use outside consultants, she said it's important to have thorough records of who those consultants are, the fees paid to them and the topics covered in communications. She also urged firms to have signed agreements with outside consultants stating they will not share confidential or material, nonpublic information.

When foreign sources are paid, Mathews stressed consulting compliance or legal counsel to be sure there are no conflicts with the Foreign Core Practices Act.

DIRECTOR SPOTLIGHT

LAURENCE HERMAN: IRPS ARE VITAL TO A WELL-FUNCTIONING MARKET

One of the newest members of the Investorside board of directors, Laurence Herman has followed the research association for many years from his position as General Counsel and Managing Director for Gerson Lehrman Group, Inc.



“From its early days, I’ve been impressed with Investorside’s advocacy for independent research providers,” Herman said. “This summer, I was pleased to take my support of the association to the next level by becoming a director.”

Herman is a strong believer in the vital role that independent research plays in well-functioning markets. As the advocate for the independent research industry, Investorside has an important story to tell to regulators and other key stakeholders.

“Decision makers at investment firms have great responsibility to their clients, including individual investors, pension funds and endowments. They need thorough and impartial research to fulfill their duties,” he said. “Independent research is an integral part of how professional investors make confident decisions.”

Completing the picture for investment professionals on Wall Street and in corporations and nonprofit organizations

around the world has become increasingly complex in recent years. Financial issues facing the economy on a macro level are not going away and uncertainty remains high.

“Our clients realize there is even more value to independent research during complex times like these and they want to tap external expertise to help inform their decisions. At least that’s what we are experiencing at my firm,” Herman explained.

Herman also sees a role for Investorside in aggregating the concerns of smaller firms in the independent research industry. The association can help address concerns regarding access to payment streams, increasing compliance standards and other regulatory issues.

“Investorside has addressed issues in the past by, for example, writing a note to state regulators who were considering rules to manage buy-side research activities,” he said. “I think there will be new issues in the future

where Investorside can play the same type of role.”

Compliance issues in particular can be a challenge for independent research providers given the many regulatory changes in recent years and recent headlines around expert network cases. According to Herman, it’s not a simple task to build and maintain a robust, up-to-date compliance system driven by technology, deep data and well-trained professionals.

Herman has worked at Gerson Lehrman Group, Inc. for eight years. He currently manages the 23-person legal and compliance department, and works closely with communications and business development. The firm provides technology and services to connect its clients to a network of consultants. That network includes more than 300,000 subject-matter experts who educate and

provide insight to decision makers through telephone consultations, conferences, surveys and custom written analyses.

“The firm has grown every day that I’ve been here. We’ve expanded globally and broadened our client base from financial firms to corporations to nonprofits,” Herman said. “It’s been gratifying to see the services we provide take off in terms of the number of applications.”

Prior to joining Gerson Lehrman Group, Herman practiced law at Cahill Gordon & Reindel and was Senior Vice President, Operations, for Capital IQ, Inc. He worked in strategic development for Delphi Capital, working with the firm’s affiliated fund of funds and hedge funds, insurance companies and other investment projects. He received a BA from Williams College and earned a JD from the University of Chicago.

Executive Leadership

Association Welcomes New Leadership Team Member

Dan Magarino has joined Executive Director Pat Shea and the association’s leadership team to help drive its core mission and plans heading into 2012.

“I’m extremely honored to have been asked to join Investorside,” said Magarino. “I am looking forward to helping Investorside continue its role in forming the right conscience for all the key players in this well-connected research ecosystem, and ensuring the markets continue to promote and foster the growth of research product that always keeps the investor’s best interests in mind.”



Magarino joins Investorside with more than 15 years experience in the research space. He spent the last six years as Vice President Business Development at Capital IQ, a financial information and

analytics platform and a subsidiary of the McGraw-Hill Companies. There he led several business critical initiatives that enabled the company's successful commercial launch of its core offerings in the investment research and estimates product category. He spearheaded the creation, and led the development of relationship management, product development and operations teams that contracted with and supported hundreds of diversified investment research firms globally.

"Over the coming weeks I hope to spend quality time with our Executive Director Pat Shea, the Investorside Board of Directors and as many of our members as possible to ensure we are well aligned for 2012 and positioned to advance on our mission statement - a mission statement, I sincerely believe, is as relevant today as it was when Investorside was first formed," he said.

Prior to Capital IQ, Dan spent two years as Vice President and Program Director leading the

launch of Thomson Financial's, now Thomson Reuters, new independent research products. Those products included solutions aimed at investment banks seeking to meet new regulatory requirements of the Global Research Analyst settlement. At Thomson he was also Vice President, Investment Management, guiding and influencing the design and direction of products directed to investment management clients.

Before that, he spent more than seven years with Morgan Stanley's Equity Research group first as a Marketing Manager and later as Vice President charged with the development, marketing and fulfillment of all electronic distribution and e-commerce channels including Morgan Stanley's primary online research platform. Dan holds a Bachelor of Business Administration: Marketing Management degree from Bernard M. Baruch College, The City University of New York.

Member Resources Affinity Providers

[Berkery Noyes](#) - Mergers/Acquisitions/Consulting

[Montieth & Co.](#) - Public Relations

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[InvestingChannel](#) - Marketing/Sales

LA JOLLA ECONOMICS

WE GO WHERE THE RESEARCH TAKES US

Taking a top-down view, La Jolla Economics (LJE) searches for global macro trends that could have a potentially long-lasting impact on investment performance. In the political arena, for example, the firm looks for disturbances or shocks that could impact a region, country and or economic sector.



Founder & Chairman Victor Canto

They then focus on how a new equilibrium will be achieved and from there, determine who wins and who loses in those circumstances.

“We go where the research takes us,” said LJE Founder and Chairman Victor Canto. “We start very broad and then work our way down to positions on specific asset classes.”

With deficit issues taking center stage in many countries, investors and media currently are focused on sovereign debt. According to Canto, if a country’s budget deficit as a percent of GDP is greater than its nominal GDP growth rate, then it’s in trouble.

“We’re bearish on Europe, sort of bullish on the U.S. and neutral on Japan. That has implications for emerging markets as well - as they sell into developed economies,” Canto said.

Canto founded LJE in July 1997. With four full-time employees, the firm combines qualitative analysis and quantitative models to offer economic, political and industry research. Besides its top-down research methodologies, the firm also performs bottom-up quantitative modeling on companies in the S&P 1500 that is integrated with the firm’s macro asset allocation model.

Currently, LJE has approximately 40 clients; most have been with the firm for many years. According to Canto, the firm’s marketing strategy is “to find the 50 people who love us.”

“We want to work for thoughtful people who will be in their position for a long time,” he explained. “We know who we are and what we do well. We want clients who fit with what we do.”

He describes his ideal client as intellectually curious, open-minded and at a senior level in

a stable organization. With higher turnover in the investment community, that has gotten more challenging in recent years. The LJE client base is the best research department in the world, according to Canto. For example, he gets ideas for his research papers from clients who call saying they would like to learn more about a certain topic.

“I look forward to chatting with our client calls. We discuss issues that jointly interest us and pursue the logic of ideas. I enjoy chatting with them,” he said.

LJE offers the same research to all clients but provides high-touch, very personalized service. Clients can call Canto and chat about whatever is on their minds. The goal is to provide clients with insights or ways of thinking they have not had in the past.

“One good idea can pay for our service,” Canto explained. “If an institutional investor can improve their performance by 50 b.p., that’s a lot of money.”

Canto avoids offering services that are subject to extensive regulation and that require extra paperwork. He used to be a broker-dealer but got rid of that business long ago to avoid the filing requirements.

“I had a business plan and website set up to offer a great asset allocation model online, but it would have required registering in every state. That’s something I don’t want to do,” he continued.

More information on La Jolla Economics is available online at www.lajollaeconomics.com or by phone at (858) 456-4567.

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.

