



**INTEGRITY
RESEARCHFOCUS[®]**

POLICY RESEARCH

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For more information, please contact:

Matthew Bannister – Matthew.Bannister@integrity-research.com – 646-786-6851

Jim Kempfski – Jim.Kempfski@integrity-research.com – 646-786-6865

Integrity Research Associates, LLC
53 W. 36th St, Suite 1002
New York, NY 10018

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Section 1: Executive Summary

Over the past eighteen months, one of the most important influences on the US stock market has been legislative and regulatory activities. As a result, institutional investors have become increasingly interested in tracking government policy developments and how these might impact various sectors of the market. This has led to a significant pickup in demand for policy research and other insight into the political process.

According to Integrity's proprietary taxonomy, a policy research firm is one which provides research that analyzes legislative or regulatory initiatives which will impact securities. Typically firms providing policy research have analysts in Washington or other government centers who are available to investors to answer questions about recent developments. These firms could focus on macro policy issues or on specific industries.

Integrity Research has identified 41 independent policy research providers currently assisting investors by analyzing governmental and legislative actions and their impact on financial markets. We have included four types of policy research firms in this report: those that focus on legislative/regulatory analysis, monetary policy research providers, firms that analyze political risk, and other firms, such as expert networks specializing in governmental access, which are useful in obtaining policy insights.

Integrity has also identified 17 political intelligence firms, which are typically lobbyists and law firms providing information to investors on legislative or regulatory developments. Unlike policy research, political intelligence firms tend not to provide analysis, focusing instead on answering specific queries from investors.

In order to find out more about these firms, and about the policy research industry in general, Integrity Research conducted a survey of buy-side portfolio managers and analysts to query their opinions. Integrity contacted over 350 investment professionals and found 102 respondents willing to participate in our survey. Many of the findings included in this report are taken directly from the results of this survey, while the rest come from a variety of sources including conversations with industry experts, Integrity Research's proprietary database, and Washington DC-based research firm Cypress Advisory Group, which was particularly helpful in identifying political intelligence firms. Justin Fishkin, a principal and senior investment strategist at Cypress Advisory was the main contact helping Integrity source information for the report.

Policy research firms are used by just over 35% of buy-side investors responding to our survey. This usage is split evenly between hedge funds and mutual funds, with large mutual funds using more policy research than their smaller counterparts and smaller hedge funds using more than their larger brethren. In general, investors use this type of research as a risk overlay for their analysis rather than as an independent source of new ideas.

Usage of policy research has increased with 34% of respondents mentioning increased usage in the past 12 months. This increase is due to such factors as the financial crisis and the election of the Obama administration. 45% of respondents to Integrity's survey mentioned these factors as reasons why their usage has increased over the past 12 months.

Integrity believes the policy research industry to be largely recession proof. Currently, Integrity estimates that the independent policy research industry generated approximately \$120 million in revenue from investors in 2009. Integrity predicts that by 2013 the size of this market should grow to \$151 million, reflecting a compound annual growth rate of 4.7%.

This revenue estimate does not take into account the policy research provided by investment banks, though this report does touch on which investment banks' Washington research departments are most widely used by the buy-side. Goldman Sachs and Merrill Lynch were mentioned as two of the most used firms by respondents in Integrity's third quarter survey. Integrity's revenue projections do include estimates of the proportion of policy revenues associated with large independent firms such as ISI which provide a wide variety of research to investors.

Institutional investors are most interested in research focusing on the financial, energy, healthcare and technology sectors. They are most interested in receiving research on North America; however Europe and Asia are also of interest to approximately 20% of the survey respondents. Integrity's list of providers includes specialists in each of these sectors and geographies.

Respondents to Integrity's buy-side survey also ranked a series of factors which influence the selection of a policy research provider. These factors, listed in terms of their importance to investors are: research quality, analytical expertise, cost of service, access to analysts, ability to generate actionable ideas, accuracy of their forecasts, performance of ideas, compliance practices, institutional sales coverage, and the ability to get access to key government officials.

Integrity also asked respondents to rate their overall satisfaction with the firms they used and then examined the correlation between overall satisfaction and the various factors listed above. The biggest difference between what firms stated was important to them and what actually correlates with their overall satisfaction scores was institutional sales coverage, which jumped from the second to last most important factor, all the way to the 4th most important factor. Compliance practices were the least correlated factor to overall satisfaction, while research quality was the first in both cases.

Integrity ranked 12 individual policy research firms based on evaluations received from survey respondents. Analysis on each of these firms is available in Section 4 of this report. The

comparative analysis was used to select Integrity's *2010 Policy Research Top Picks* in two categories -- Legislative/Regulatory Analysis Research and Political Risk.

Integrity also identified a number of other high quality firms we felt investors should consider, because they did not receive enough survey responses to qualify for a Top Pick, because their research product could not strictly be defined as policy research, or because their methodology was particularly interesting.

The first appendix of the report contains company profiles on all 58 of the firms mentioned in the report.

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