Independent Research &
The Global Research Analyst Settlement

BNY Jaywalk Overview
University of Florida
September 24, 2004

Presented by:
Christian J. Ward:
Co-Founder,
Director of Research

Sean R. McMahon:
Co-Founder,
Director of Business Development
BNY Jaywalk | Agenda

- Business Overview
- What is Independent Research?
- Types of Research
- BNY Jaywalk Consensus
- The Changing Research Environment
- The Global Research Analyst Settlement
- The Independent Research Meritocracy™
- Settlement Trends
- Conclusion
BNY Jaywalk was a strategic acquisition made by The Bank of New York in March 2002 as a way to more effectively bring independent equity research solutions to the Bank’s existing and prospective investment clients.

Since acquisition, BNY Jaywalk has grown from 15 IRPs (Independent Research Providers) to a network of over 175 IRPs, posting over 130,000 independent reports per week.

The IRP community itself has also grown, with a continuous stream of new providers being chartered each quarter.

BNY Jaywalk is now the leader for Independent Research Solutions to a wide range of clients offering the following services:

1.) Buy-Side Consulting
2.) The Independent Research Meritocracy™
3.) Sell-Side Independent Research Solutions
Independent Research Providers (IRPs) are free from investment banking conflicts, and provide documentation as such.

The majority of an IRP’s revenue is from subscription-based services to the financial community, primarily institutional portfolio managers.

IRPs are entirely separate from BNY Jaywalk and have no legal affiliation, ownership, or corporate relationship with The Bank of New York.

IRPs maintain flexibility to provide both POSITIVE and NEGATIVE recommendations on any stock they cover.

Independent Research is the leading, sustainable model for research in the future (regulators and investors).

IRPs come from varying backgrounds including former sell-side analysts, investment bankers, and industry experts.
BNY Jaywalk | Types of Research

- BNY Jaywalk IRPs maintain their own areas of expertise and are paid based on the effectiveness of their research product
- Independent Research methodologies include:

<table>
<thead>
<tr>
<th>Broad Based Fundamental Research</th>
<th>Idea Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector Specific Fundamental Research</td>
<td>Forensic Accounting</td>
</tr>
<tr>
<td>Primary Source Research</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>Intellectual Property</td>
<td>Political Risk Analysis</td>
</tr>
<tr>
<td>Macro-Strategy</td>
<td>Economic Analysis</td>
</tr>
<tr>
<td>Technical Research</td>
<td>Quantitative Tools</td>
</tr>
<tr>
<td>International Equities</td>
<td>Emerging Markets</td>
</tr>
<tr>
<td>Spin-offs / Bankruptcies</td>
<td>Legal Risk Analysis</td>
</tr>
<tr>
<td>Short Strategy</td>
<td>Short Term Trading Ideas</td>
</tr>
</tbody>
</table>
As BNY Jaywalk developed its network of IRPs, the firm created the first aggregation of independent research recommendations called the BNY Jaywalk Consensus.

Average of recommendations from all IRPs provides an exclusive benchmark of objective opinion.

Clients use the BNY Jaywalk Consensus input as an “insurance policy” to complement internal or other research sources.

The Consensus gives a snapshot of current, collective independent opinion on a stock based on the following rating scale*:

- “1” Rating - Positive Outlook or “Buy”
- “2” Rating - Neutral Outlook or “Hold”
- “3” Rating - Negative Outlook or “Sell”

*The Consensus is also available on a 5 point scale.
BNY Jaywalk | BNY Jaywalk Consensus Example

INDEPENDENT EQUITY RESEARCH CONSENSUS

About the Jaywalk Consensus
The Jaywalk Consensus is an average of all of the independent research providers’ ratings on the given security. By averaging these recommendations, investors are given insight into the independent research community’s perspective on individual securities. The independent analysts who participate in the Jaywalk Consensus report are professional firms that attest to having no investment banking or other potential conflicts that might impact the integrity of their research product. Investors may utilize the Jaywalk Consensus as a frame of reference in their investment decisions.

BREAKDOWN OF INDEPENDENT RATINGS

Below is the breakdown of analyst recommendation ratings in Jaywalk Consensus. The breakdown of recommendations provides helpful detail on the individual recommendations on a stock. For example a 1.5 score with 10 IRPs where there are 5 buys and 5 holds shows a solid overall consensus with no negative recommendations. The consensus is also show for 30, 60, 90 days ago to provide some visibility to trend. A current consensus of 2.5 with 10 IRPs that was 2.2 30 days ago, 1.8 60 days ago, and a 1.5 90 days ago shows definitive deterioration in the consensus over the last quarter.

<table>
<thead>
<tr>
<th>Current</th>
<th>30 Days</th>
<th>60 Days</th>
<th>90 Days</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/30/03</td>
<td>9/30/03</td>
<td>8/30/03</td>
<td>7/30/03</td>
<td></td>
</tr>
<tr>
<td>Positive or Buy (Rating=1)</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Neutral or Hold (Rating=2)</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Negative or Sell (Rating=3)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total Independent Research Providers</td>
<td>11</td>
<td>12</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Consensus Recommendation</td>
<td>1.27</td>
<td>1.33</td>
<td>1.36</td>
<td>1.42</td>
</tr>
</tbody>
</table>
**INDUSTRY, SECTOR AND OVERALL JAYWALK RANKING**

Industry, Sector and Overall Jaywalk Universe rankings charts on the right are shown on a 0.0% to 100.0% scale. A stock with a percent rank in industry of 25%, for example, indicates approximately 75% of the stocks in that industry have a better Jaywalk consensus than the given stock. Likewise, a percent rank in sector of 50% would demonstrate a Jaywalk Consensus that has exactly as many stocks rated higher or lower than the given stock.

**INDUSTRY RATING DISTRIBUTION**

**HOME BUILDERS**

This chart shows CTX’s Consensus Rating, relative to the ratings of the 18 companies in its industry. CTX is shown against its peers to assist investors in identifying where the consensus rating and coverage of the stock is in respect to other industry participants.

The chart also demonstrates Jaywalk Consensus on the overall industry.

**INDEPENDENT RESEARCH PROVIDERS IN THE JAYWALK CONSENSUS**

The Independent Research Consensus from Jaywalk is designed to bring investors an overall view of independent opinions on equity securities. Research firms participating in the Jaywalk Consensus employ various methodologies, including those found below:

- Behavioral Finance
- Corporate Governance
- Economics
- Forensic Accounting
- Fundamental Analysis
- Intellectual Property Analysis
- IPO Research
- Money Flow Analysis
- Primary Source Data
- Quantitative Analysis
- Sector Analysis
- Social Responsibility Analysis
- Spin Off Arbitrage
- Technical Analysis

**INDUSTRY PERCENT RANK**

<table>
<thead>
<tr>
<th>HOME BUILDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 IRPs Covering CTX, Industry Mean: 12.3 IRPs</td>
</tr>
<tr>
<td>76.2%</td>
</tr>
</tbody>
</table>

Home builders: The percentile for CTX, measured by its Jaywalk Consensus, within its industry. CTX has a better Jaywalk Consensus Rating than 14, or 76.2%, of the 18 companies in its industry.

**SECTOR PERCENT RANK**

<table>
<thead>
<tr>
<th>REAL ESTATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 IRPs Covering CTX, Sector Mean: 12.1 IRPs</td>
</tr>
<tr>
<td>86.1%</td>
</tr>
</tbody>
</table>

Real estate: The percentile for CTX, measured by its Jaywalk Consensus, within its sector. CTX has a better Jaywalk Consensus Rating than 243, or 86.1%, of the 282 companies in its sector.

**JAYWALK UNIVERSE PERCENT RANK**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11 IRPs Covering CTX, Universe Mean: 9.7 IRPs</td>
</tr>
<tr>
<td>92.1%</td>
</tr>
</tbody>
</table>

The percentile for CTX, measured by its Jaywalk Consensus, within the total Jaywalk universe of 6,000 stocks. CTX rates better than 5,526, or 92.1%, of the 6,000 companies in the Jaywalk Total Stock Universe.
Issuers have typically garnered sell-side research coverage through investment banking interest in their securities for either public offerings, financial advisory work, or other “7%”-type business.

Another trend for Issuers is that investment banking sell-side analysts are not following the companies they bring public.

Of the 193 IPO’s in the last year being lead managed by the ten Settlement Investment banks, 58 of those are not covered by the research analyst team at the lead underwriting firm.

This trend further indicates that coverage is declining across the street and is not following just a cyclical banking trend.

Sell-side investment banking coverage continues to be overly positive on the companies followed and further raises the issue of biased stock recommendations in favor of banking clients.
Investment banks: reduced equity coverage without the ability to pay for research with investment banking revenue (more than a cyclical decline)

Corporations: firms, particularly smaller firms, have in many cases lost all research coverage of their security from investment banking research firms

Portfolio Managers: continue to utilize independent researchers or hire internal analysts in growing numbers to gather differentiating information

Regulators: The Settlement has increased the rate of Independent Research market development and is the catalyst for change, regulators continue to prosecute firms where investment banking dominates research

Independent Research: currently accounts for only between 5% to 10% of buy-side research commission budgets, Independent Research has vast opportunities for growth

Broker-Dealer Research Departments: eyeing the door for opportunities in money management, investment banking, or independent research, as their compensation can no longer be justified with trading revenues alone
The Settlement, officially launched on July 27, 2004, calls for 10 investment banking firms to pay $432 million over five years for independent research.

Retail clients must now be provided at least one independent report for every stock followed by the investment bank.

Institutional clients of the investment bank may “opt-in” to seeing the available independent research.

Five out of the ten investment banks have chosen BNY Jaywalk to provide independent research to their clients.

The Settlement has created an enormous opportunity for independent research to fill the void of coverage left by the sell-side exiting the research business.

The SEC and BNY Jaywalk believe that other investment banks will follow suit in some way to offer independent research.
Each Settlement client utilizes BNY Jaywalk’s IRP network to cover the securities they are required to under the terms of the Settlement.

The Meritocracy meets or exceeds all of the legal hurdles to provide independent equity research.

The Meritocracy protects the buy-side businesses of IRPs by only releasing the top IRP’s report according to a merit-based algorithm.

The Meritocracy Interface is a proprietary access platform for Independent Consultants in charge of selecting the research for each of the Settling firms to choose and then monitor the performance and attributes of each.

Each Independent Consultant has complete flexibility to add or remove research firms from their selections at any time.

The basic premise follows the rule, if the analyst consistently adds value, they should be paid with the converse being obvious.
More investment banks not involved in the Settlement are beginning to offer independent research opinions.

Many, including those closest to the Settlement, are viewing this as “the Rise of the Financial Consultant”, as access to institutional grade independent research creates the ability to recommend equity investment.

Settlement firms are already incorporating Jaywalk Consensus data and the chosen independent research into their internal processes.

Independent research shops, long only available to the larger buyside and hedge fund community, are beginning to work with the sell side.

Research departments at the investment banks are recognizing that independent research can augment and solidify their own research offerings.

Performance Measurement is becoming an embedded part of the research process, where before it was far more of a popularity contest.
This is by far the most dynamic change in the research landscape our capital markets system has undergone since 1975 and the abolishment of fixed commissions.

The Global Research Analyst Settlement has caused an immediate change in the way broker dealer research is paid for and regulated.

The Settlement has also re-introduced the concept of Financial Consultants regaining the ability to make equity recommendations rather than acting primarily as a librarian mutual funds.

Independent Research has gained from these changes, but still has a long way to grow.

Look for investment banks to begin removing their recommendations from their research and labeling them more as marketing materials.

The investment banking community may follow the lead of some early adopters to drop their internal research effort and outsource it to independent firms.