

# The Future Sales Trader

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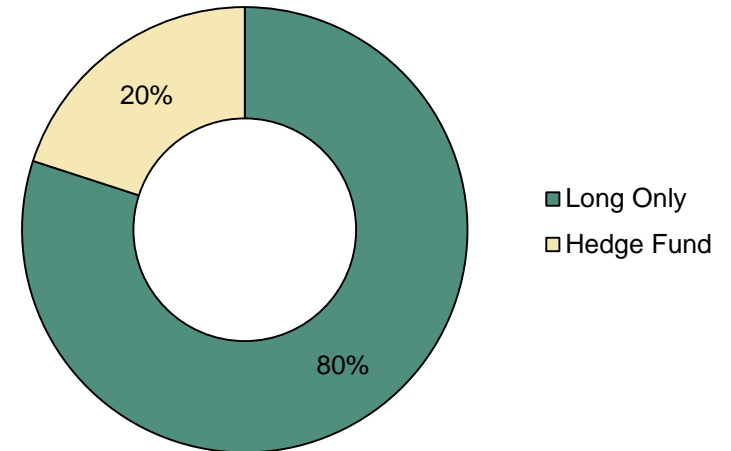
## Study Findings Overview

February 2015

# Methodology

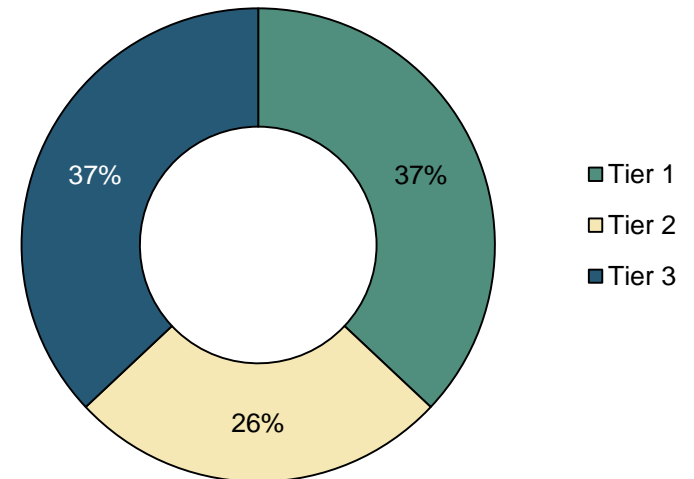
## Buy Side

- During the second quarter of 2014 we interviewed 427 equity portfolio managers and 513 equity traders in the U.S. and Europe to learn about important market trends and broker usage for European equities. Data includes
  - Total commission spend
  - All-In Blended, High-touch and Algorithmic trading commission rates
  - Allocation for Research/Advisory vs. Execution services
  - Number of firms used for Research/Advisory and Trading
  - Preferred coverage model across high-touch and electronic execution channels

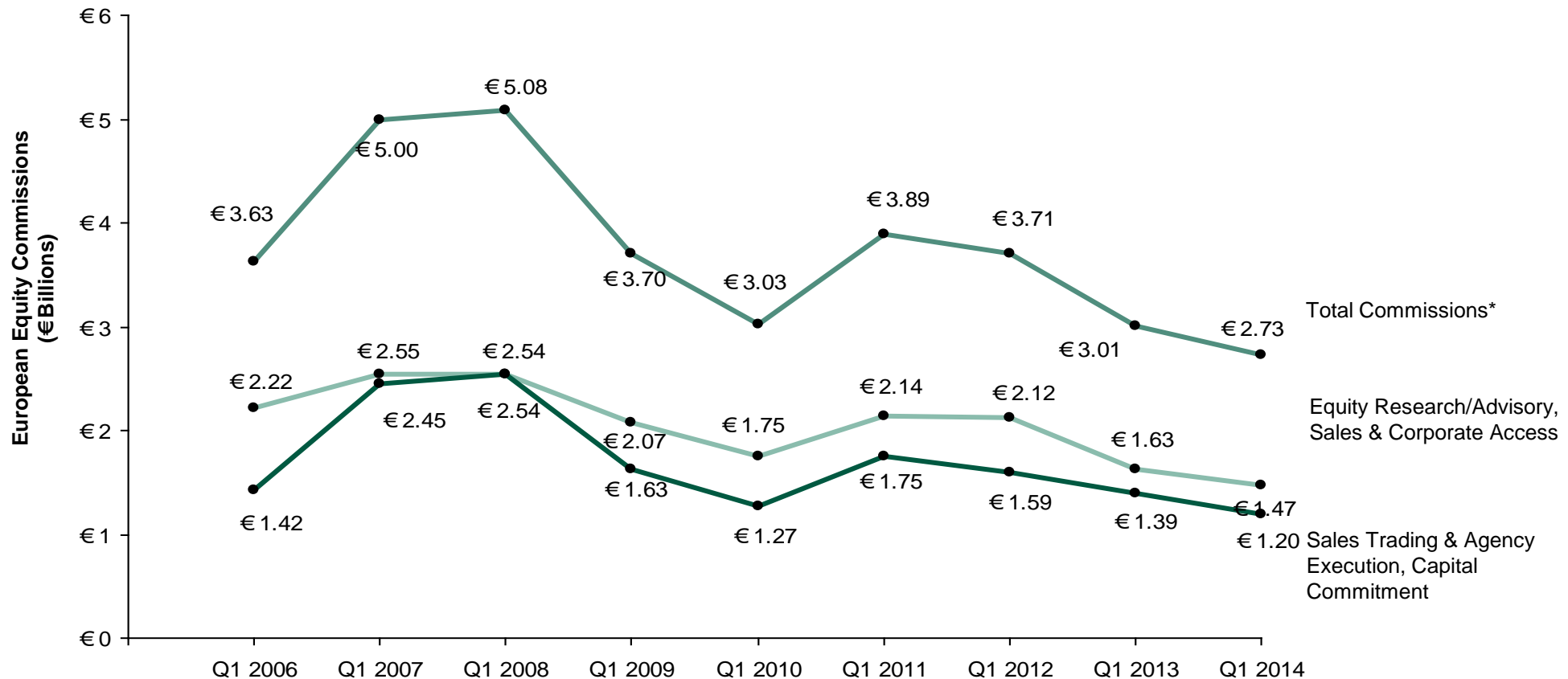


## Sell Side

- During the month of April and early-May, Greenwich Associates conducted 29 discussions in Europe and the US with the heads of equity trading desk at sell-side brokers to get their views on the future of the sales-trader.
- Discussions focused on
  - Regulatory & macroeconomic impacts on the sales-trading desk
  - How the sales desk differentiates itself for the market
  - Desk organization and staffing trends
  - Buy-side client demands and tiering strategies

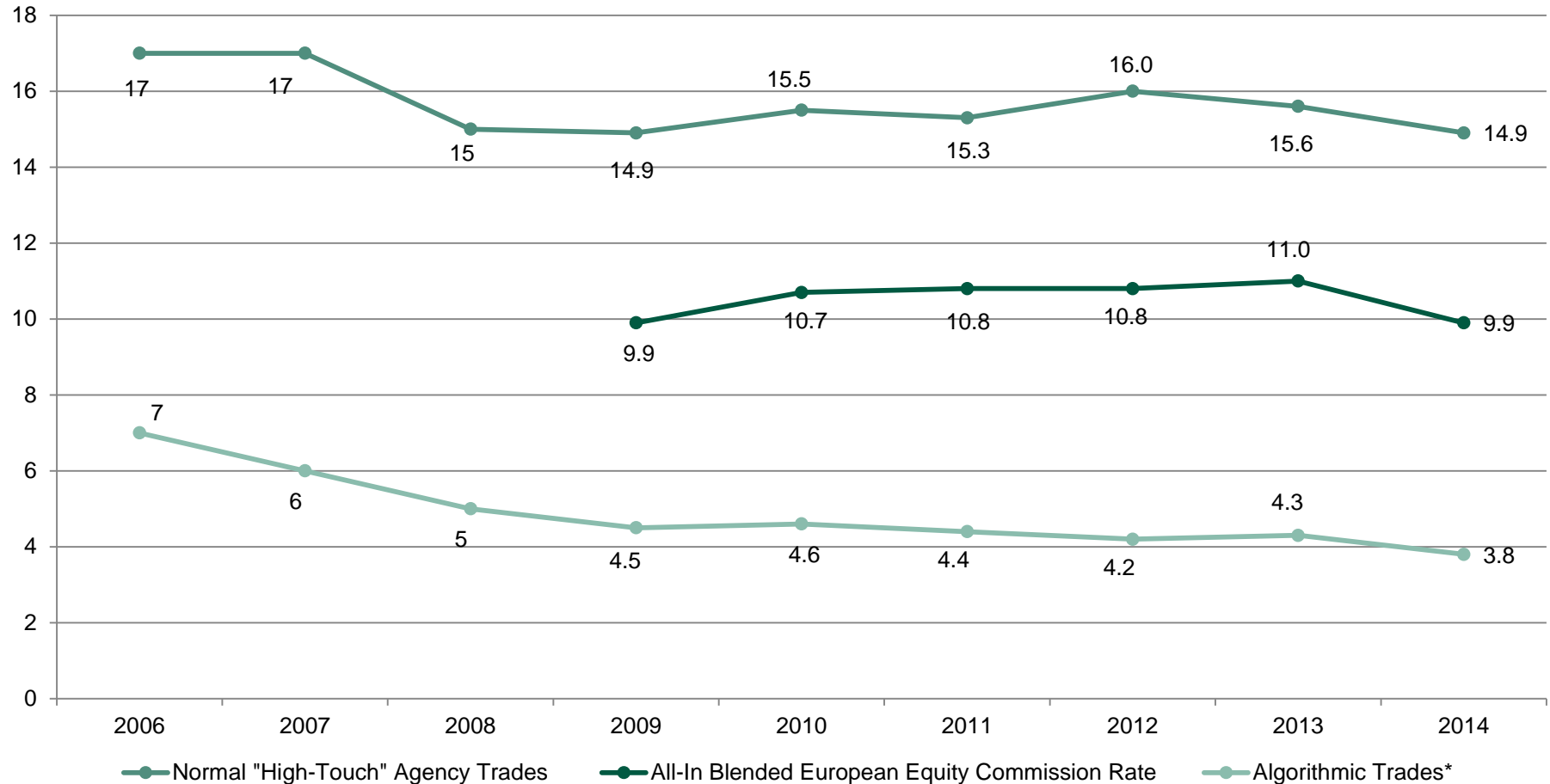


# European Equity Commission Wallet Continues to Contract



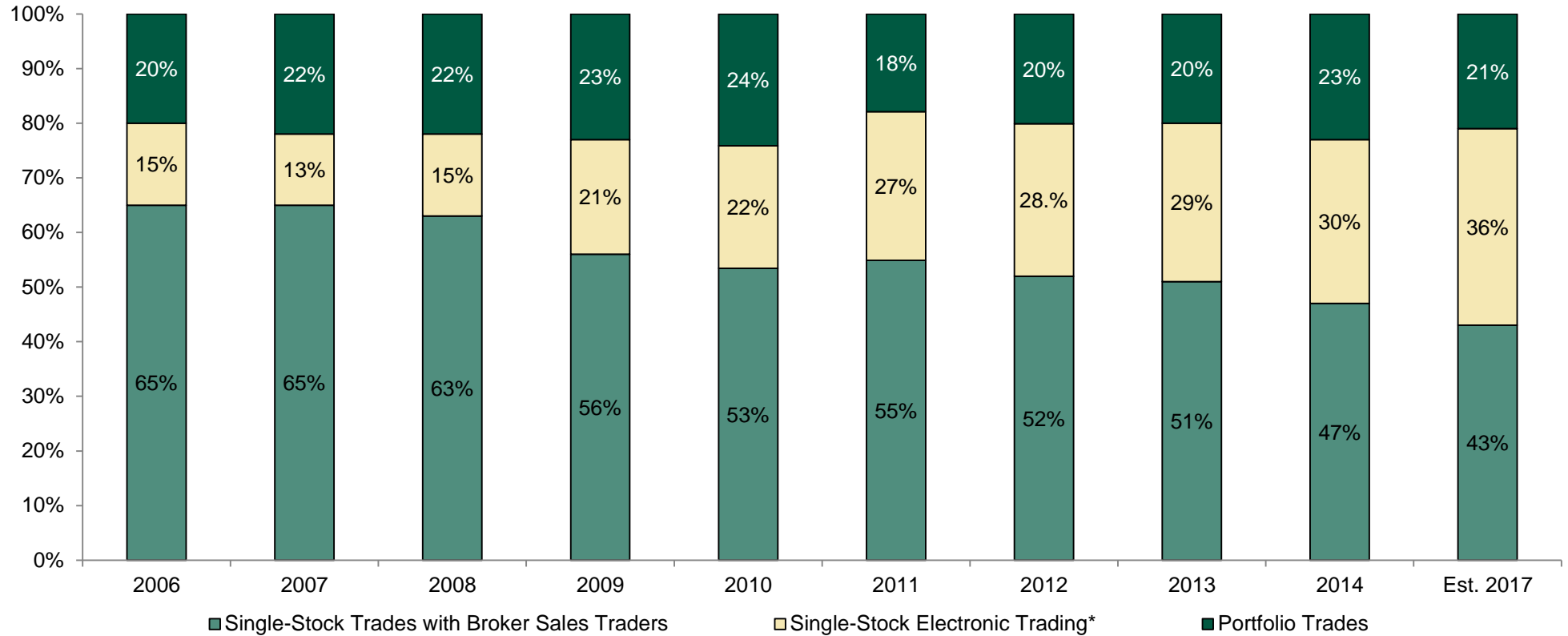
Source: Greenwich Associates 2014 European Equity Investors Research Study. Projections based on 231 institutions in 2006, 229 in 2007, 235 in 2008, 240 in 2009, 279 in 2010, 338 in 2011, 353 in 2012, 339 in 2013 and 321 in 2014.

# Commission Rates are Showing Signs of Decline



Source: Greenwich Associates 2014 U.S. Equity Investors Research Study. In basis points. \*Net of rebates and excludes portfolio and electronic trade. All-in blended rate across single-stock, program, and electronic trades, including any commission management program tack-on rate. Based on responses from 206 traders in 2006, 136 in 2007, 146 in 2008, 130 in 2009, 154 in 2010, 164 in 2011, 152 in 2012, 127 in 2013 and 152 in 2014.

# Electronic Trading In European Cash Equities has Continued its Growth Trend, Contributing to Rate Compression

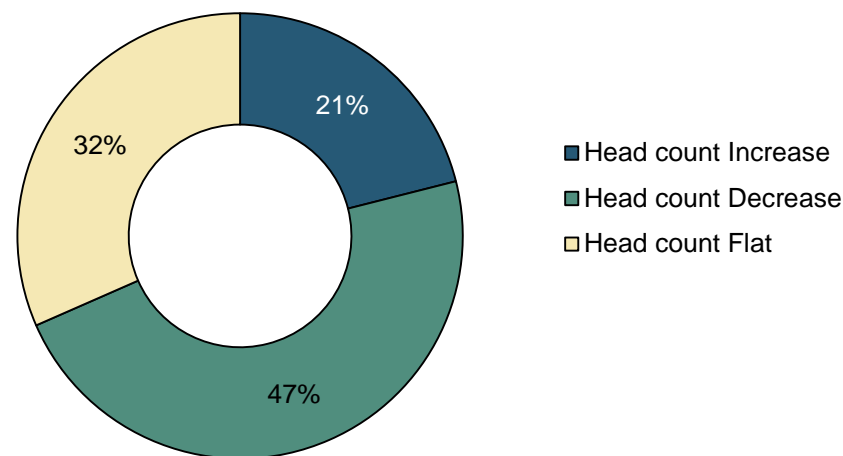


Source: Greenwich Associates 2014 European Equity Investors Research Study. Based on responses from 160 traders in 2006, 156 in 2007, 162 in 2008, 152 in 2009, 178 in 2010, 197 in 2011, 297 in 2012, 185 in 2013 and 191 in 2014. \*Includes algorithmic trading (including dark pool sourcing algos), direct to market trades, and trades sent to crossing networks.

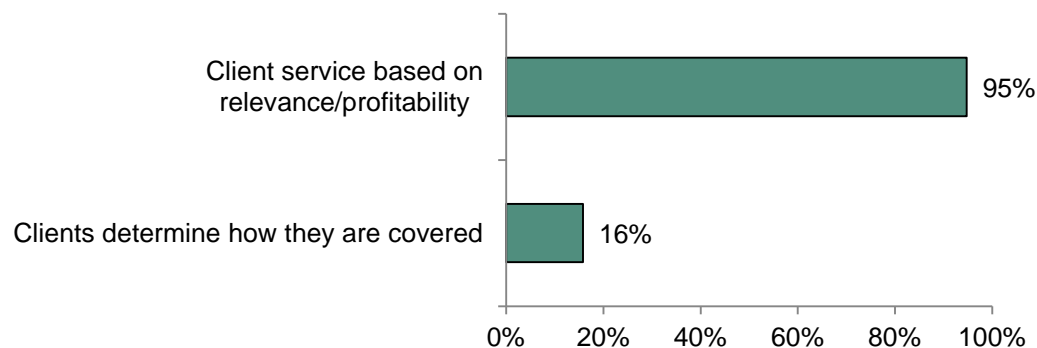
# Sales Trading Desk Size Changed Over the Past 2 Years

- A majority of sell-side sales trading desk have reduced the number of sales-traders over the past 2 years; juniorization is even more wide-spread.
- One-third of those desk we spoke to indicated that budget funds have been directed at technology spending over spending on people.
- Multi-product coverage is gaining some traction, but multi-asset class coverage is nascent.
- Client tiering is more critical now than ever, but approaches remain similar across institutions and regions.
- The separation between high-touch and low-touch coverage is also being challenged.

Change in Sales Trading Headcount YoY

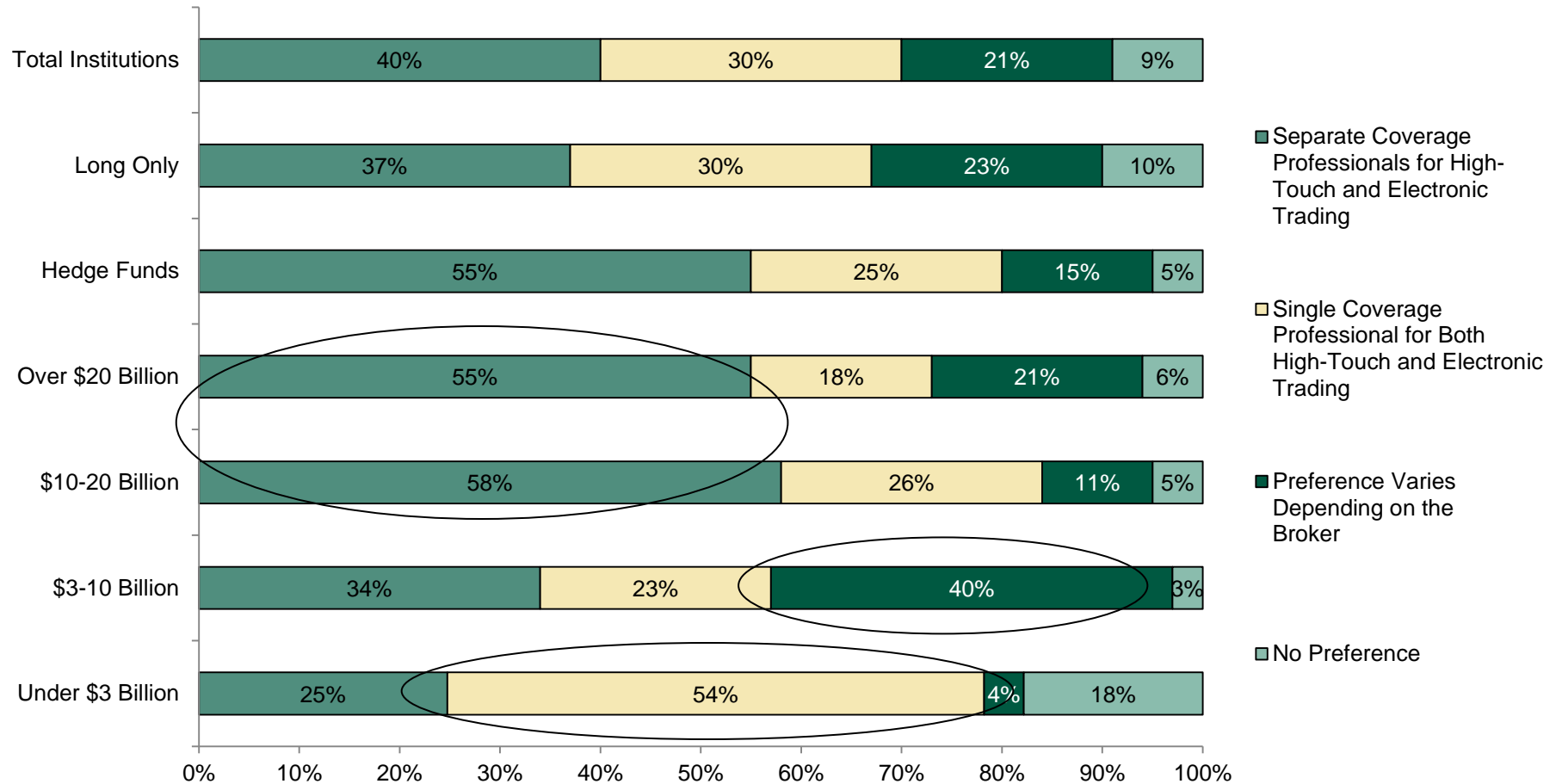


Client Tiering Strategies



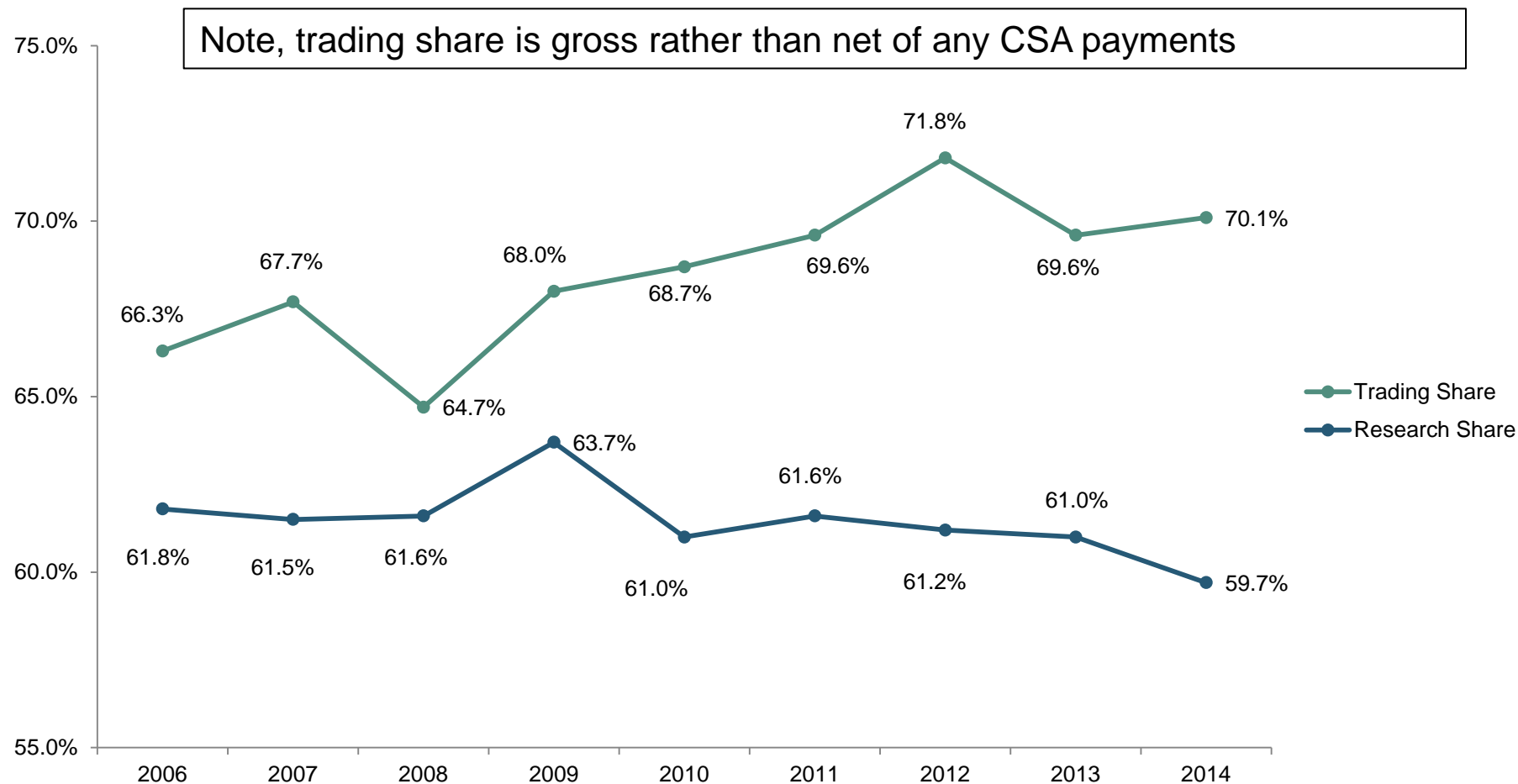
Source: Greenwich Associates 2014. Based on 19 sell-side respondents based in the U.S. and Europe in the Future of the Sales Trader Research Study.

# Client Interest in a Single Point of Contact Remains Mixed



Source: Greenwich Associates 2014. Based on responses from 122 traders in the 2014 U.S. Equity Investors Research Study.

# Global Bulge Bracket Share of European Commission Flows Remains Strong But With Trading Share Diverging from Research “Vote” Share



Source: Greenwich Associates 2014 European Equity Investors Research Study. Data shown for the 9 global bulge bracket firms. Greenwich Associates Research/Advisory Share and Trading represents a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community.



# Greenwich Associates European Equity Share Leaders

## Greenwich Share Leaders — 2014



### European Equity Research/Advisory Vote Share<sup>1</sup>

Broker	Vote Share	Statistical Rank
UBS	8.8%	1T
Morgan Stanley	8.5%	1T
Deutsche Bank	8.1%	3
Bank of America Merrill Lynch	7.6%	4T
J.P. Morgan	7.1%	4T

### European Equity Trading Share<sup>1</sup>

Broker	Trading Share	Statistical Rank
UBS	10.2%	1
Credit Suisse	9.2%	2T
Bank of America Merrill Lynch	9.1%	2T
Morgan Stanley	8.6%	4T
J.P. Morgan	8.1%	4T
Deutsche Bank	7.7%	4T

### European Equity Algorithmic Trading<sup>2</sup>

Broker	Market Penetration	Statistical Rank
UBS	63%	1
Credit Suisse	57%	2
Morgan Stanley	49%	3
J.P. Morgan	38%	4
Bank of America Merrill Lynch	35%	5T
Deutsche Bank	34%	5T

### European Equity Portfolio Trading<sup>3</sup>

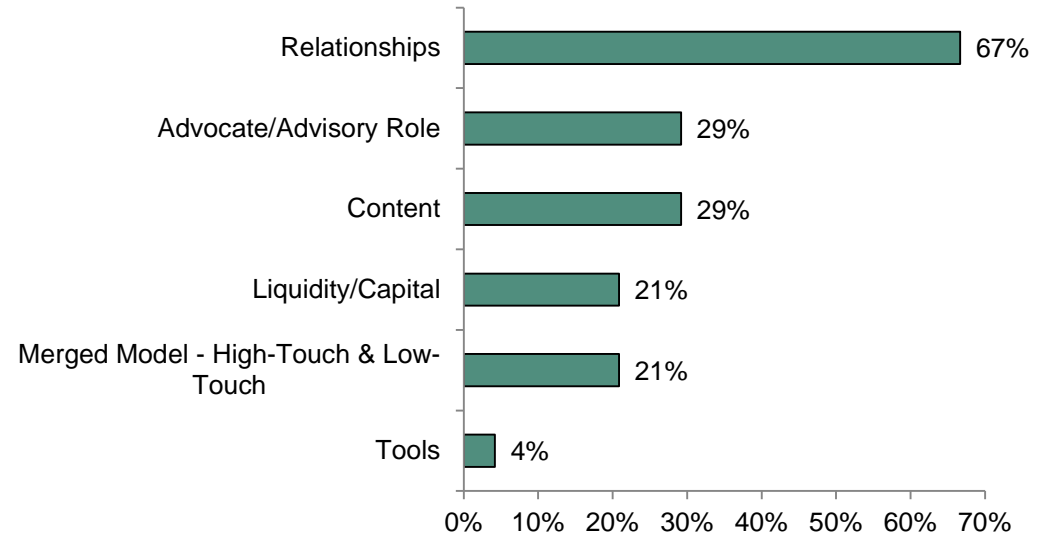
Broker	Market Penetration	Statistical Rank
UBS	54%	1
Credit Suisse	47%	2
Morgan Stanley	41%	3
Deutsche Bank	36%	4T
J.P. Morgan	35%	4T
Bank of America Merrill Lynch	34%	4T

Note: <sup>1</sup>Based on responses from 202 European respondents at buy-side institutions for Equity Research/Advisory Vote Share and 197 for European Equity Trading Share, both weighted by commission spend of accounts. Greenwich Associates Research/Advisory Vote Share and Trading Share represent a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. <sup>2</sup>Based on 134 respondents. Important algorithmic or smart-order-routing trading provider includes those cited as a top 10 provider in order of commission volume for algo trading (including dark pool sourcing algos) or SMO routing trades, or as distinctive on any algorithmic factor. <sup>3</sup>Based on 321 respondents. Includes top 5 for agency and risk portfolio trading or distinctive on any portfolio trading factor. Top five leading brokers are cited including ties. Source: Greenwich Associates 2014 European Equity Investors Study

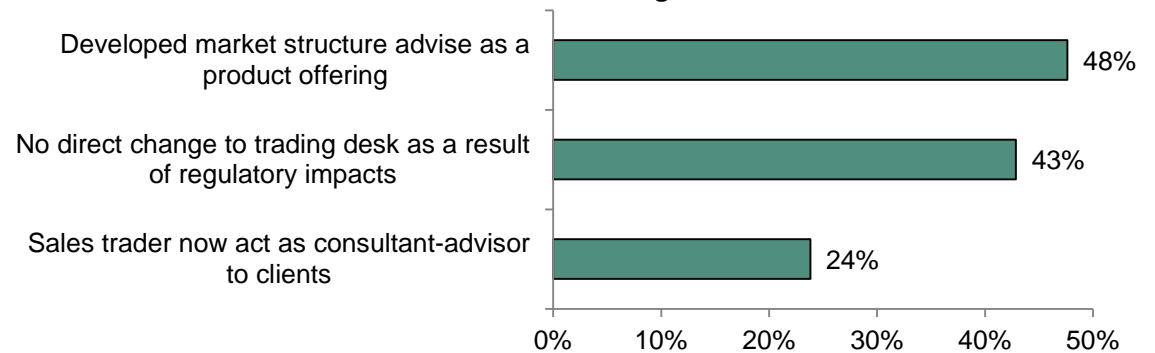
# How Sell-Side Sales-Trading Desk Differentiate Themselves

- Relationships are still how sales traders differentiate themselves; although the definition of relationship is changing.
- Clients want an advocate – not just in the market, but within that broker
- Market structure advice is in demand, but few can quantify how market structure expertise correlates to share of the commission wallet.

How Sales Traders Differentiate

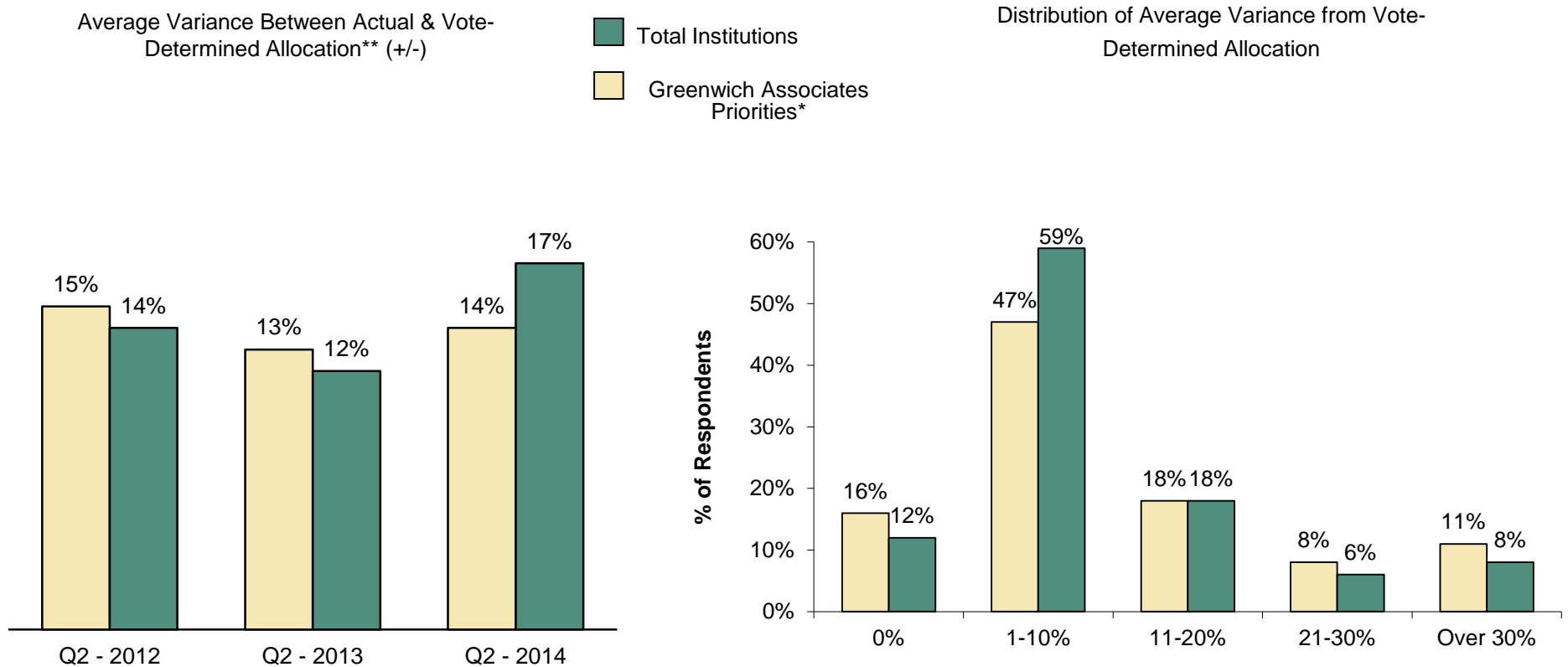


Impact of Market Structure Discussion on Sales Trading Desk



Source: Greenwich Associates 2014. Based on 24 sell-side respondents in the Future of the Sales Trader Research Study.

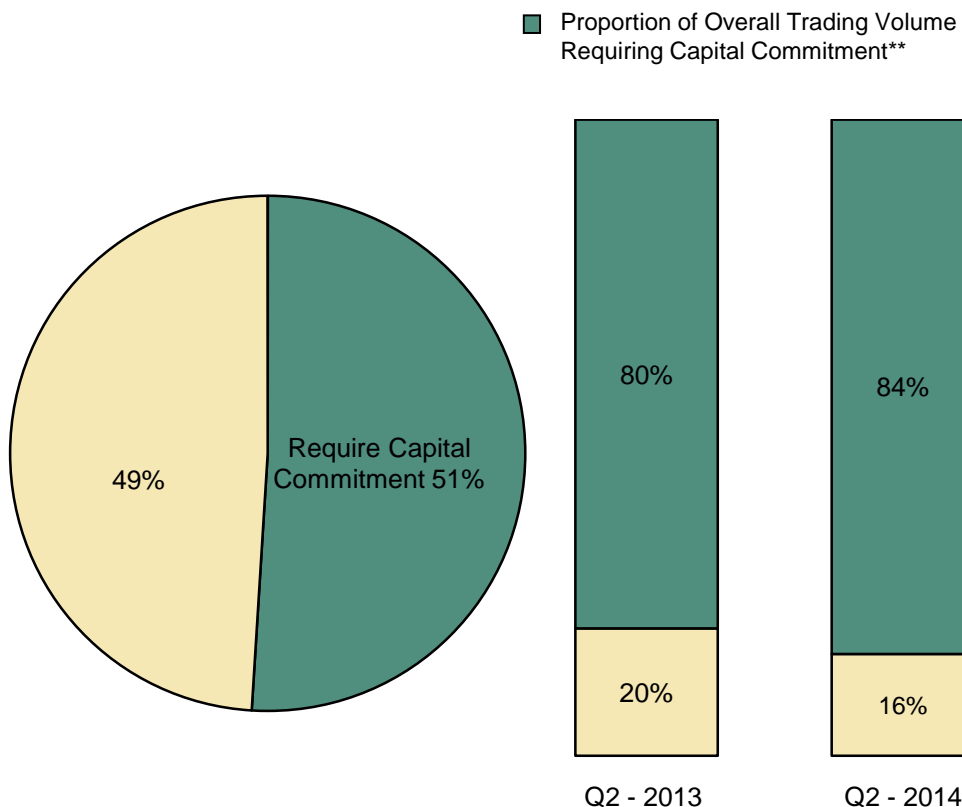
# New Regulations Will Narrow Buy-Side Traders Leeway in Allocating Business Relative to “Broker Votes” and Reduce If Not Eliminate Sales Traders’ Role as “Bill Collectors”



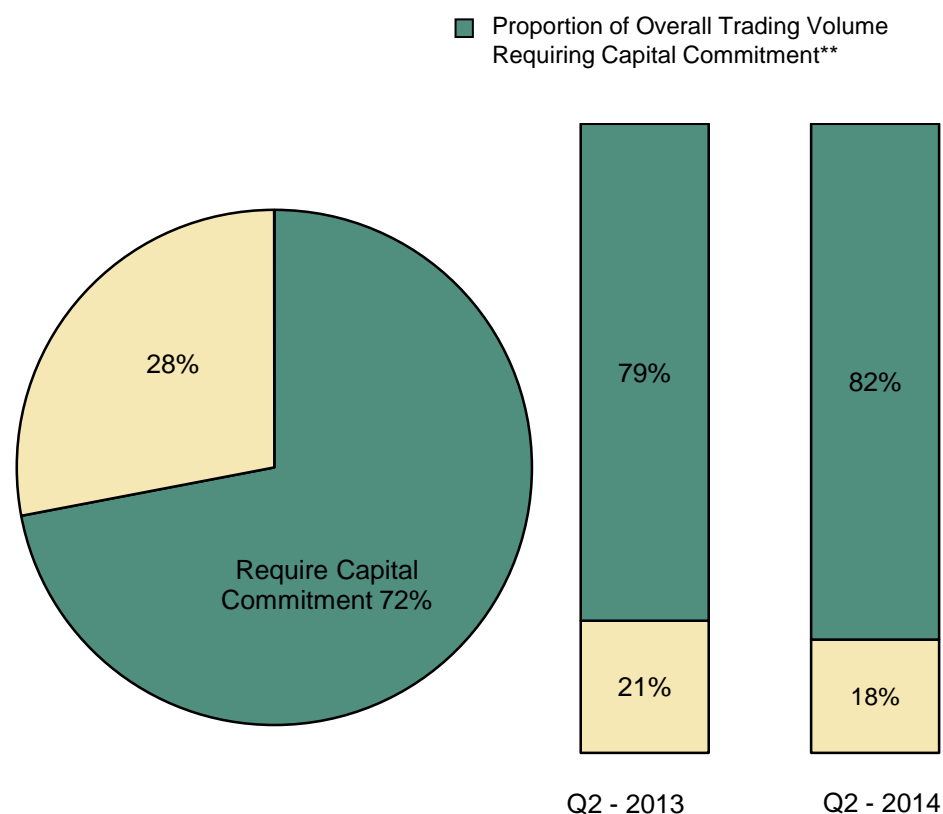
Source: Greenwich Associates 2014 European Equity Investors Research Study. \*Greenwich Associates Priorities are defined as institutions in Tiers 1-3 of five. Tiers are determined by institutional commission volume, with Tier 1 containing the largest and Tier 5 the smallest commission payers. \*\*If broker's vote entitles executing broker to 10% of an institution's commissions, but 12% is actually directed, then this is considered a 20% variance to the broker.

# Sales Traders Will Continue to Have a Significant Role in Capital Allocation Decisions Based on Their Knowledge of Accounts' Willingness to Reward the Provision of Liquidity.

Total Institutions



Greenwich Associates Priorities\*

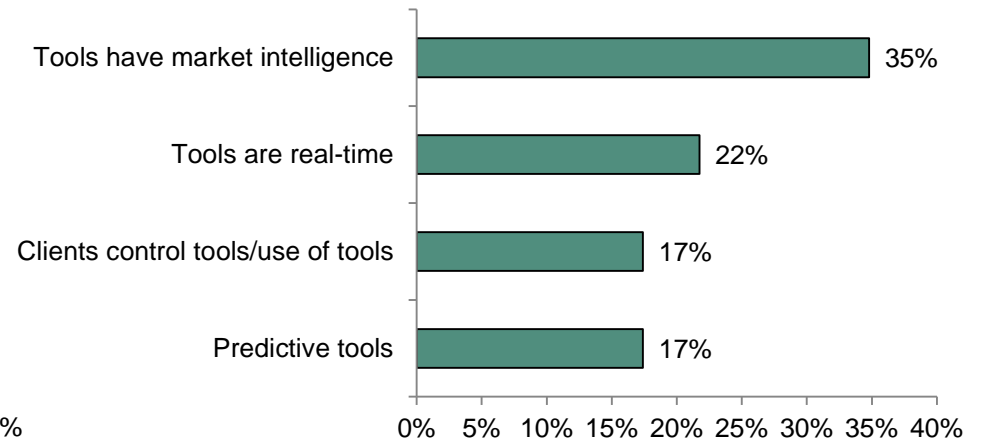
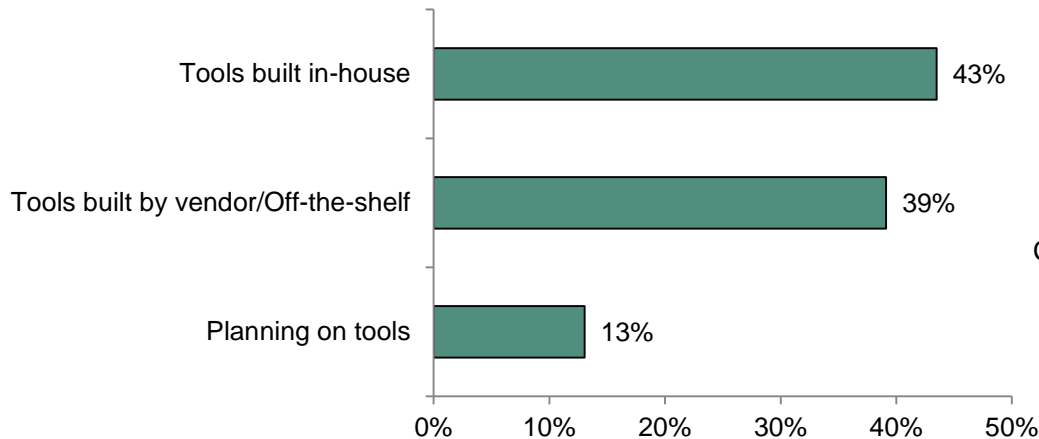


Source: Greenwich Associates 2014 European Equity Investors Research Study. Note: Based on 139 institutions, including 50 Greenwich Associates Priorities. \*Greenwich Associates Priorities are defined as institutions in Tiers 1-3 of five. Tiers are determined by institutional commission volume, with Tier 1 containing the largest and Tier 5 the smallest commission payers. \*\*Based on those requiring capital commitment.

# Technology Will Fuel Broker Differentiation

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- Sales trader technology is common, with roughly 40% provided by third-party technology providers.
- Current technology is akin to CRM with sales trader specific functionality.
- Next generation technology will focus more on predictive analytics and pro-active communication with clients.



Source: Greenwich Associates 2014. Based on 23 sell-side respondents in the Future of the Sales Trader Research Study. Respondents indicated using both in-house and vendor-provided technology.

## To Sum It All Up...

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- The sales trader is not dead
- Relationships still matter above all else, but creating and maintaining them require more than just football tickets now.
- Clients will pay more if they feel like they're getting their money's worth
- “Blocking and tackling” is still important, but it's only a start
- High touch and low touch coverage are seeing some convergence, but many clients remain unsure of what they want.
- The impact of regulation, particularly unbundling, on the long-term role of the sales trader is still uncertain.
- Sales traders need to cover more clients than ever before, and provide each of them with better service than in the past – only technology can provide the needed leverage

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