The 2018 GC McLagan Prime Brokerage Survey

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The 2018 Prime Brokerage Survey is a continuation in a series of surveys produced jointly by AON McLagan Investment Services (McLagan) and Global Custodian (GC), following signature of their agreement to co-operate in the management of client experience surveys in the securities services industry from March 2018. A Survey FAQ, published in this edition and online, explains how the relationship works and who to contact in the event of specific queries.

As in 2017, the Prime Brokerage Survey, which was open for submissions between April and July 2018, asked clients to assess the services that they receive from Prime Brokers. Comparison between years was very limited, as this year's questionnaire was extensively modified from 2017. Last year's questionnaire covered 38 questions across nine service areas. This year's survey was expanded to 51 questions across 18 service areas (See Methodology). Respondents were, however, able to offer an overall assessment of a service area, if they so wished.

Clients were asked to rate services by stating how much they agreed or disagreed with a statement regarding a service based on a scale of 20 points. For publication, however, results were converted to the seven-point scale (where 1=unacceptable and 7=excellent) familiar to Global Custodian readers.

In the provider write-ups that follow, respondent profiles by size and location are published along with category scores and their variation from the global average. Table 1 below provides aggregate scores by category as well as by the respondent segments covered in the provider profiles. Read in conjunction with the assessments that follow, this may add further colour to individual provider results.

TABLE 1: AGGREGATE RESULTS BY SIZE AND LOCATION OF RESPONDENTS

		Firm Size			Location		
	Global Weighted Average Scores	Large	Medium	Small	Americas	EMEA	APAC
Total	**5.80**	**5.73**	**5.79**	**5.82**	**5.94**	**5.47**	**5.77**
Capital introductions	5.37	5.57	5.57	5.24	5.37	5.38	5.33
Client service	6.01	5.96	6.01	6.08	6.15	5.67	6.01
Consulting	5.86	5.24	5.83	5.93	5.87	5.79	5.88
Operations	5.97	5.98	5.94	5.99	6.14	5.56	5.91
Technology	5.60	5.29	5.54	5.50	5.75	5.26	5.56
Product development	5.46	5.69	5.41	5.41	5.65	5.14	5.26
Risk management	5.57	5.41	5.58	5.69	5.73	5.21	5.57
Asset safety	5.74	5.46	5.67	5.58	5.92	5.39	5.63
Sales and marketing	6.13	6.21	6.13	6.20	6.26	5.83	6.02
Trading and execution	5.85	5.88	5.79	5.88	5.98	5.43	5.87
Delta 1, swaps and financing	5.72	5.62	5.71	5.52	5.84	5.52	5.72
Stock borrowing and lending	5.97	6.04	5.99	6.01	6.18	5.55	5.75
Foreign exchange prime brokerage	5.67	5.55	5.80	5.56	5.87	5.33	5.53
Fixed income	5.77	6.18	5.85	5.74	5.89	5.29	5.91
OTC clearing	5.85	5.92	5.79	5.86	5.84	5.62	6.20
Listed derivatives	5.89	5.87	5.93	5.85	5.87	5.65	6.18

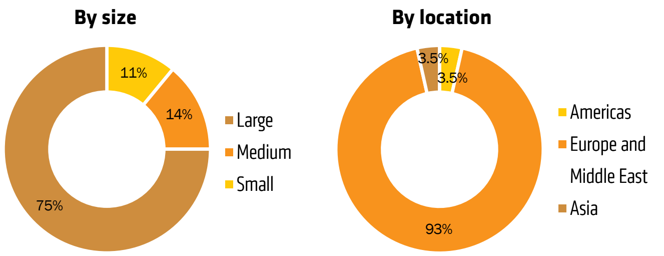
We are most grateful to all fund managers who took the time and trouble to complete a respondent questionnaire, as well as to the hedge fund administrators who encouraged their clients to do so and who completed a provider questionnaire of their own. As a thank you, hedge fund managers who participated in this survey are entitled to a free benchmarking report from McLagan, comparing their assessments to those of peers using the same service providers.

See page XX for Methodology

ABN Amro

"Always pursue client interest," writes a client. Another respondent echoes this sentiment, agreeing that ABN Amro is "perceived as a performance-driven organisation that is fully focussed on the clients' needs and requirements." The Dutch prime broker certainly knows what types of client it likes. The firm offers a pretty full range of services, but it does not aim to support every type of investment strategy: Its focus is primarily equity and commodities managers that like to trade equities, rates, currencies and commodities, especially in exchange-traded and OTC derivative forms. Nor is it afraid of working with start-ups and smaller funds. In fact, a beneficiary of the capital introductions services of the bank praises ABN Amro for their "excellent understanding of our investment strategy, in-depth knowledge and [the] expertise of their advisors." A client of longer standing agrees. "As an established business for years, we profit from the advice given," he writes. The bank does predictably well in foreign exchange prime brokerage, fixed income, OTC clearing and listed derivatives, though one respondent is disappointed: "Credit default swaps are not currently provided." Operations, also crucial to highly transactional clients, attract favourable reviews. "Excellent support over 20 years in operations services," writes a happy client. "Very rare to see errors." Another says operations are "helpful, diligent" and "always willing to assist with one-off transactions," while a third adds that "operations is very helpful and knowledgeable." Some interesting nuances are hidden in the detail, especially when it comes to financing. Clients believe ABN Amro works hard to deliver margin savings, and to provide financing, but inevitably they will always believe that their portfolios are more marketable than they are. A it happens, ABN Amro prides itself on risk management, chiefly as a means of helping its clients do more trading, and structures its own operations to avoid the internal silos that hamper margin savings at other prime brokers when clients are trading across exchanges and asset classes. Given this, the ABN Amro score for margin savings is reassuringly high. A client agrees the bank does the job well. "Risk management by ABN is probably one of their strongest areas of expertise," he writes. A second respondent applauds an "excellent reporting and margin methodology model." A third adds that the "risk department is very strict but fair." So ABN Amro will be puzzled by its performance on asset safety, though it will be pleased that its openness to clients using third-party custodians is recognised. There is also recognition that ABN Amro was changed by the financial crisis and is still constrained in stock loan by lack of supply. "Since that time, they have not signed agreements with many counterparties," ventures a respondent. "As a result, their access to counterparties and hence their ability to provide the best SBL service is limited at times, particularly in harder-to-borrow names. It is an area they should resolve, rather than attempting to focus on re-hypothecation." Advice of that kind is coupled with generous comments about the people at ABN Amro, some of which are name-checked. "Great customer care," says one respondent. Another finds "ABN is a great and very professional party to work with," while a third has experienced nothing but a "very good service from the account Management team and client relations teams." Even sales and marketing, where commercial terms are set, is praised for "transparent pricing and charging of fees." But the ultimate accolade is delivered by a client who says, "We intend to increase the business relationship going forward."

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
6.03	5.99	5.56

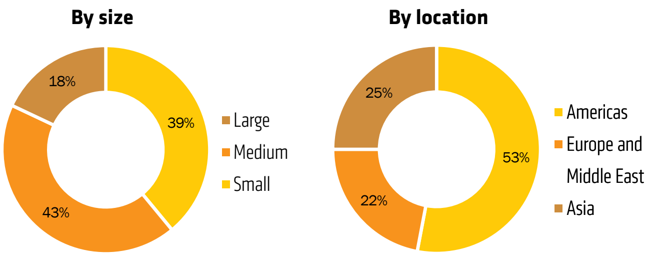
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	6.16	14.8%
Client service	5.77	-4.0%
Consulting	5.60	-4.4%
Operations	5.67	-4.9%
Technology	5.01	-10.6%
Product development	5.14	-5.7%
Risk management	5.31	-4.7%
Asset safety	5.49	-4.3%
Sales and marketing	5.89	-4.0%
Trading and execution	5.52	-5.6%
Delta 1, swaps and financing	5.76	0.7%
Stock borrowing and lending	5.25	-12.0%
Foreign exchange prime brokerage	6.23	9.9%
Fixed income	6.14	6.4%
OTC clearing	5.81	-0.7%
Listed derivatives	6.04	2.6%
Total	5.56	-4.1%

Bank of America Merrill Lynch

This is not the sort of outcome the BAML prime brokerage group enjoyed 12 months ago. Scores and comments indicate clients still like the parentage ("Counterparty has great credit quality"), and the score for asset safety is correspondingly high. Yet only in listed derivatives is BAML able to conjure a comparable degree of enthusiasm. Nevertheless, BAML continues to impress in trading and execution – although for some reason operations have failed to keep pace. "Operations services [sic] is good," says a client, but the average score is bad. One client has the "impression that more European equities trades fail than at other PBs." Sustaining clients' short positions is less problematic. In pre-crisis days, Merrill Lynch earned a formidable reputation in stock borrowing, thanks to a high rate of internalisation that kept supply steady, and that strength has not wilted. Even now, access to streams of lendable assets minimises recalls, finds hard-to-borrows and supports term transactions. To these traditional strengths, BAML has added a commendable degree of transparency into pricing. So it is not surprising to find the bank top-scoring in securities borrowing and lending. However, across all the associated equity and synthetic financing areas – in Delta 1, swaps and financing and foreign exchange prime brokerage – there is less positive momentum. Clients want to see better-integrated financing across the asset classes, including more valuable cross-margining and cross-netting opportunities, although these are not fields in which prime brokers are ever likely to satisfy clients all of the time. One BAML client concedes as much. "OTC/listed commodity option[s] are one of the product[s] that PBs generally perform less satisfactorily," he writes. "They cannot offer cross-margining with overall portfolio; strategic parting of legs [is] not married with how-it–should-be margin; mark-to-market and delta data delivery are not robust. Most of bulk matching and settlement platform do not support this product as well." As it happens, collecting and delivering data for cross-margining purposes is not the only field in which clients would like to see BAML invest. The bank did recently update its portal to provide managers with readier access to data across futures as well as equities and fixed income, but clearly it has not yet reached every client. "Portal is awful," says a client. "One of the worst portals in the financial services sector." The client servicing model, which hinges on a global and multi-asset class team that works together across 65 markets mainly from New York, London and Asia, does win plaudits. An individual is name-checked, because he is "very good at his job, always helping out in any way possible." Another respondent is experiencing "excellent client service coverage from BAML." The team as a whole earns praise for doing "an amazing job" at a time of considerable turnover within the BAML prime brokerage group – an issue evident last year that has persisted into 2018. Capital introductions, a good area for BAML in 2017, has turned sour this year for exactly that reason. "Turnover within team has been exceptionally high," explains a respondent. Inevitably – perceptions tend to divide neatly along a line that separates the successful capital raisers from the unsuccessful – not everyone agrees with the average verdict. One client insists the BAML capital introductions team is still "top tier." Consulting, where the bank has maintained a service to start-ups as well as established managers, is another area where the scoring reflects perceptions of turnover.

PROFILE OF RESPONDENTS



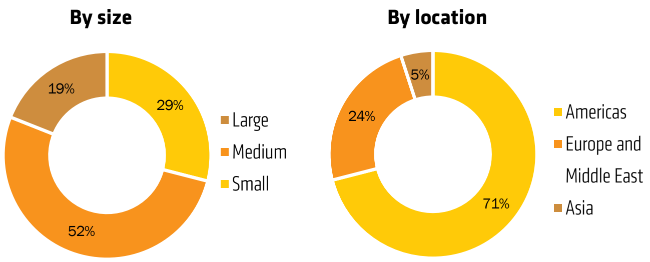
Weighted average scores		
2016	2017	2018
5.63	5.65	5.10

Weighted average scores by service area		
Service area	Weighted average score	+/- the global average
Capital introductions	5.00	-6.9%
Client service	5.00	-16.8%
Consulting	4.78	-18.4%
Operations	4.62	-22.6%
Technology	4.90	-12.5%
Product development	4.02	-26.2%
Risk management	4.97	-10.8%
Asset safety	5.23	-8.8%
Sales and marketing	5.26	-14.3%
Trading and execution	5.34	-8.7%
Delta 1, swaps and financing	4.97	-13.2%
Stock borrowing and lending	5.51	-7.8%
Foreign exchange prime brokerage	4.93	-13.0%
Fixed income	4.43	-23.2%
OTC clearing	5.06	-13.6%
Listed derivatives	5.99	1.7%
Total	5.10	-12.1%

Barclays

"We have had outstanding experience with the people at Barclays for client service," says a client. "Everyone is very responsive and eager to get the answers we need." Another respondent name-checks his relationship manager for doing "an outstanding job on being our advocate within Barclays and delivering us value and excellent service." A third writes simply of an "amazing platform, very happy with Barclays." As it happens, however, Barclays does better in sales and marketing (where it is judged mainly by what it charges its clients and how it measures its return on their assets) than client service. But where the bank actually tops-scores is in stock borrowing, with respondents agreeing Barclays outperforms in the two most important tests of a stock loan provider: excellent access to hard-to-borrows and minimal recalls of stocks on loan. A client adds that the Barclays stock loan desk "do an amazing job to provide accurate colour and keep us in names that trade special." The clearing services of the bank are assessed by a smaller contingent of respondents, but Barclays was an early adopter of specialised agency clearing services when post-crisis regulation drove swaps into a cleared environment, and the excellent scores suggest the additional experience is paying off. The futures business is almost as highly rated, though the detail suggests clients are still looking for tighter integration of both derivatives businesses with their equity and fixed income counterparts (an issue of longstanding in the prime brokerage industry that is far from peculiar to Barclays). The score in fixed income in particular – where respondents judge providers mainly by execution – is impressive. Barclays would prefer to be judged on the quality of its cash and synthetic equity and fixed income financing, and the financing score certainly does not embarrass the bank. Its margin netting policy is not unnoticed either. This pattern is likely to persist, given that financing hedge funds has become a major contributor to the overall performance of the bank. Importantly, given that asset safety and access to finance are not easy to combine, Barclays also collects points for an approach to asset safety that revolves around legal entities. The banks will be disappointed, though, by the collective assessment of its foreign exchange prime brokerage platform, which includes a choice of give-up, trading through the BARX electronic platform, or being routed to the major FX platforms. The issue, of course, is not execution but cost, including transaction costs as well as collateral. The wider foreign exchange markets are undergoing a potentially far-reaching structural change, and even a bank with such an entrenched position must be mindful of changing attitudes on the buy-side and new entrants on the sell-side. The verdict on capital introductions is also less than generous, though a client notes that Barclays has "been helpful in the UK and Switzerland." The bank looks mainly to its institutional investor sales people to marry capital to managers, which is not always the perspective managers prefer, though Barclays says it also helps funds position themselves with likely sources of capital. Where the bank will be happier with the outcome, given its Lehman heritage and what it now offers as "quantitative prime services," is the scoring of its trading and execution services. The detail suggests technical improvement is always possible, but no respondent is suggesting the Barclays model is anything but fair to them. That is a deeply reassuring sign, given the recent history of the parent bank.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.54	5.43	5.64

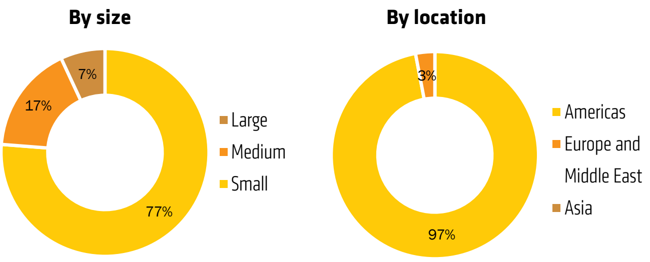
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	4.80	-10.5%
Client service	5.73	-4.7%
Consulting	N/A	N/A
Operations	5.75	-3.6%
Technology	5.09	-9.0%
Product development	5.60	2.6%
Risk management	5.13	-7.8%
Asset safety	5.21	-9.2%
Sales and marketing	6.08	-0.8%
Trading and execution	5.86	0.2%
Delta 1, swaps and financing	5.79	1.2%
Stock borrowing and lending	6.28	5.3%
Foreign exchange prime brokerage	5.01	-11.6%
Fixed income	6.14	6.5%
OTC clearing	6.24	6.7%
Listed derivatives	6.02	2.3%
Total	5.64	-2.8%

BMO Capital Markets

As in 2017, there is considerable volatility in the scoring of the Canadian bank. There is an excellent score in the core service of stock borrowing and lending, which would be even higher if respondents were convinced that BMO had readier access to hard-to-borrows. But there is also a disappointing score for product development. While it is true that not every hedge fund managers is seeking innovative products and services ("We do not present any product development needs, other than basic technology required to interact and report with BMO"), no prime broker sets out to suppress the creativity and ingenuity of its staff in solving complex or challenging client problems. Indeed, the scoring of the people who work in prime brokerage at BMO is much better than the average suggests. "Client service team is an excellent, professional, responsive and capable group," writes a respondent. "We are extremely satisfied by the level of service." Another is puzzled by the idea that BMO employees might be less than first-rate. "We have never had to deal with under-performing staff," notes one client of operational staff. Another has found only a "strong, responsive and knowledgeable team supporting us." The scores for sales and marketing indicate they like the pricing of the products and the balance sheet even more than the people. Likewise, the details of the capital introductions score indicate the outcome is more about the effectiveness of the service than its reach and ambition. After all, BMO has built a considerable reputation for capital introductions in Canada, producing a quarterly alternative investments catalogue, and hosting a string of institutional and retail client events and one-to-one meetings. But capital-hungry managers will always want more. "We need access to BMO's wealth management IAs, but often divisional barriers get in the way," writes one of them. "And the IAs need hedge fund research – they are too busy gathering assets to have a full understanding of the complexities of hedge funds. I have heard the conflict of interest argument, but BMO does research for investment banking clients – why not for prime brokerage clients?" The bank will be more concerned about the assessment of its financing services. Though at least one client is flatly disappointed by the "amount of leverage/financing provided," the majority of respondents are in fact appreciative of what BMO is doing to finance their portfolios. The average is lowered by the minority of respondents that want the bank to work harder to cut their costs through netting and portfolio margining. Much the same is true of foreign exchange. "It needs to be better integrated," is the advice offered by one user. "One bank, one counterparty, one reporting platform, one settlement platform." If there is an area where the call for investment is unequivocal, it is technology. A much-improved area in 2017, the scoring of technology has regressed somewhat this year, and not only because of the (still limited) demand for greater accessibility and the (rapidly rising) anxiety about data security. "The personal service we get is excellent," writes a respondent who is looking for investment in technology to accelerate and improve his P&L reporting. "The technology provided is not. Like the people but not the infrastructure." A second client agrees. "The technology is weak, in terms of providing live, real-time information that is easily downloadable and provides basic information, such as P&L" he writes. But a third client says the technology is good enough. "Technology, data content and access adequate for our purpose," he writes.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.74	5.62	5.65

Weighted average scores by service area

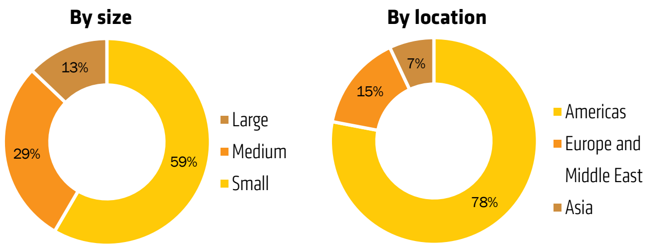
Service area	Weighted average score	+/- the global average
Capital introductions	5.62	4.8%
Client service	5.95	-1.0%
Consulting	N/A	N/A
Operations	5.66	-5.0%
Technology	5.29	-5.6%
Product development	4.85	-11.2%
Risk management	5.23	-6.0%
Asset safety	5.85	1.9%
Sales and marketing	6.20	1.1%
Trading and execution	5.58	-4.6%
Delta 1, swaps and financing	5.21	-8.9%
Stock borrowing and lending	6.13	2.8%
Foreign exchange prime brokerage	5.44	-4.1%
Fixed income	5.76	-0.2%
OTC clearing	5.53	-5.5%
Listed derivatives	5.88	-0.1%
Total	5.65	-2.5%

BNP Paribas

Only one firm attracted more responses than BNP Paribas. The scores the client base collectively delivers clear the benchmarks in every service area. Fittingly, the bank collects its highest score in fixed income: the strategy the established primes have all agreed to shun. "BNP handles our fixed income trading better than any other broker," as a client puts it. It is one benefit of a big balance sheet and a strong credit rating. Reassurance about the safety of assets is another ("Generally feel assets are safe with this firm"), but the real benefit, and one by which BNP Paribas would doubtless prefer to be judged, is the ability to compete on margin terms and especially the freedom to be creative in coming up with financing ideas. "BNP has provided financing on certain asset classes, which are unique, and worked through the products to get this accomplished," writes a client. A second adds that "BNP has been innovative in creating interesting finance structures that we believe give our firm a competitive advantage." A third is impressed by a willingness to "evaluate holdings of the portfolio on a case-by-case basis to determine if they are being treated properly." In fact, the detailed scores suggest BNP Paribas has work to do on netting and cross-margining before every client is convinced it can compete on financing terms. That requires being more joined-up internally. "They do provide some cross-margin capabilities, but in some areas, it is better to deal directly with other areas of the firm," observes a client. Another believes that "they have a lot of work and development needed to compete with longer established/more client-focused prime broker[s]." If so, the bank is getting its client service spectacularly right. There are numerous accolades for the responsiveness and problem-solving capabilities of the people, with multiple reps name-checked in the comments. "BNP's client services are some of the best I have come across in my 17 years of this line of work," reads one. "They are prompt, accurate, personable, with some of the best follow-through I have encountered." A high score for operations indicates that post-trade staff work closely with the client service teams. "Issues are promptly resolved and dealt with," affirms a client. "Requests for limits and issues impacting clients, such as mappings, are addressed in a good manner." Another says, "BNP Paribas helps simplify a complex industry and makes our jobs easier as a result. They provide timely and thoughtful commentary on best practices for our operations and we are grateful for it." The technology platform, in which the bank is investing, attracts a more equivocal verdict. "Web portal is efficient and robust relative to many competing platforms," thinks one client, but another argues, "The technology, systems and web reporting is almost adequate. I believe they are trying to upgrade some areas." In other core services it is hard to find fault. The stock borrowing desk is strong ("The BNP stock loan team works hard to find us hard-to-borrow names and keep rates tight on a consistent basis"), and the score for trading and execution is outstanding ("The support and service from the execution team is of high quality. We have access to all exchanges and algos we need. We are able to access liquidity as needed. Issues are resolved quickly and in real time with detailed explanations").

Even in areas like consulting (where the bank does not provide a formal service) and capital introductions (where BNP Paribas has out-sourced the work to Layton Road Group), the scores are still better than average.

PROFILE OF RESPONDENTS



Weighted average scores		
2016	2017	2018
5.97	6.04	6.04

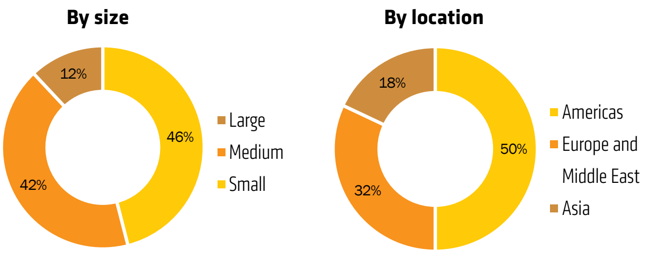
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.41	0.8%
Client service	6.46	7.4%
Consulting	N/A	N/A
Operations	6.22	4.2%
Technology	5.77	3.0%
Product development	5.78	5.9%
Risk management	5.85	5.0%
Asset safety	6.03	5.1%
Sales and marketing	6.14	0.2%
Trading and execution	6.17	5.4%
Delta 1, swaps and financing	5.95	4.1%
Stock borrowing and lending	6.10	2.2%
Foreign exchange prime brokerage	5.92	4.4%
Fixed income	6.30	9.2%
OTC clearing	6.08	3.9%
Listed derivatives	5.86	-0.5%
Total	6.04	4.2%

Citi

Understandably, Citi has spent much of the recent past looking inward rather than outwards, as it shed businesses that were eating capital and other resources without delivering a commensurate return. One legacy of that process is a discipline about where to invest. And the prime brokerage group at Citi is pursuing a strategy of building services that can generate attractive returns and offering them to alternative asset managers of sufficient variety, size and sophistication to make a reality of that return through the cycle. Quantitative strategies that can use Delta 1 and synthetic financing services are a natural target, and the robustness of the scoring in those areas indicate Citi is making good progress with its investment in the people and technology necessary to deliver products to that type of client. However, one unhappy by-product of the focus on larger clients may be a dent in wider perceptions of client service, especially among smaller clients, though the detailed scoring suggests the issue is not dictated by size. The client service teams have their advocates – “Excellent client service, best on-boarding process in the industry,” says a client who appointed Citi recently – but the score will be seen as disappointing by a bank that is investing heavily to impress its target managers. The outcome in sales and marketing is much happier and reflects the quality of the people the bank has recruited in the last few years in every region and the willingness of the senior management to liberate them to talk to clients for long periods without reward and to address client needs rather than push product. The detailed scores demonstrate it is working, in the sense that clients are willing to believe Citi will price its services and its balance sheet attractively. In other areas, Citi does relatively well as much by accident as design. Trading and execution and asset safety are cases in point – though much of the benefit seen by clients in asset safety is the openness of the bank to using third-party custodians, if not to placing restrictions on re-use. But Citi collects its best score in foreign exchange prime brokerage. This is a gratifying outcome in a business in which the bank has become more selective (indeed, it is not strictly speaking part of the prime brokerage offering at all). “Extremely satisfied,” writes a user of the service. “The only PB who can estimate margin calls on an electronic basis.” One area that is definitely part of the prime brokerage offering, and where Citi has chosen to invest, is capital introductions. Often regarded as a fringe activity, Citi sees capital introduction as crucial to attracting and retaining and growing its hedge fund client base, and the bank is recruiting well-connected people in both Asia and North America. However, the team is small and expected to focus on the dozen or so clients the bank can help in each region rather than the clients who would like to be helped by the bank. Citi is applying a similar approach to fixed income, where it is one of the few prime brokers to have stayed in the business at all. It is selective about which clients to take on and predictably averse to any looking for indiscriminate financing. While Citi provides operational support, fixed income clients are encouraged to find repo counterparties elsewhere. “The fixed income PB platform is outdated [and] the customer service is below average,” grumbles a client. The average score is nevertheless respectable. The same is true of the score for operations, where Citi would normally expect to do exceptionally well.

PROFILE OF RESPONDENTS


By size

By location

Weighted average scores

2016	2017	2018
5.23	5.78	5.61

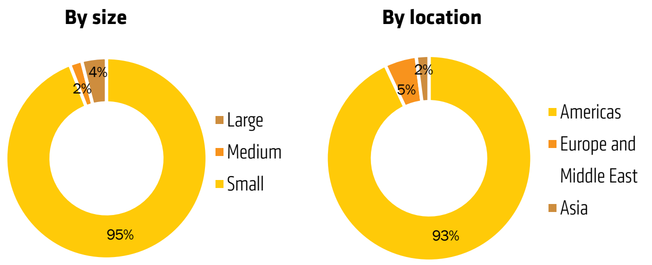
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.45	1.6%
Client service	5.60	-6.9%
Consulting	N/A	N/A
Operations	5.46	-8.4%
Technology	5.48	-2.2%
Product development	5.06	-7.3%
Risk management	5.72	2.7%
Asset safety	5.91	3.0%
Sales and marketing	5.90	-3.8%
Trading and execution	5.44	-7.0%
Delta 1, swaps and financing	5.49	-4.0%
Stock borrowing and lending	5.71	-4.3%
Foreign exchange prime brokerage	6.00	5.8%
Fixed income	5.39	-6.6%
OTC clearing	5.54	-5.3%
Listed derivatives	5.43	-7.8%
Total	5.61	-3.2%

Cowen Prime Services

“I think of Cowen Prime as a trusted partner,” writes a client. Comments and scores suggest that, in the year that has passed since it completed the acquisition of Convergex, Cowen has not only transitioned clients but completed its own transformation into a larger business. The firm has benefited from the exodus of clients from major firms, welcoming emerging managers and start-ups, but it is a different type of prime broker from its bank-owned competitors. As clients of an introducing broker, managers have BNY Mellon, Goldman Sachs or BAML as their counterparty (there are similar relationships in futures clearing). Cowen reckons this combination reassures investors without costing managers access to a nimble, agency-only brokerage that can, nevertheless, provide a full service, including electronic trading, non-synthetic financing, operational support, reconciliation, and reporting. It also enables the firm to offer clients the stock borrowing services of its clearers as well as its own securities lending desk. “Every short sale borrow engagement was entirely under my control,” enthuses a client. But where Cowen really shines is in trading, execution and operations. Its Outsourced Trading group, an agency-only service aimed at the buy-side, is playing so well with investors looking for institutional-quality infrastructure and managers facing fee compression, that it has lifted the assets under management the firm services on a daily basis to $30 billion. “The trade execution is precise and meticulous, and I am very satisfied,” says a client. In operations, where Cowen has always sought to distinguish itself, client confidence is equally high. “Operational staff that I have interacted with are very professional and experienced and they know what they are doing,” says a respondent. “They have never made a single mistake in the time I have worked with them and when there are problem issues, they are quick to resolve them.” Assessments of the technology, where Cowen relies on vendor systems for execution management and portfolio accounting, is not as enthusiastic. “Technology and reporting needs to be improved,” notes a client. That clients expect that to happen (“They accept constructive critique and new ideas in order to excel at what they do”) helps explain the product development score. In the last year Cowen has added portfolio and risk analytics and fully paid-for lending to its portfolio. Swaps are promised for the US next year. In the tricky field of capital introductions, Cowen does not collect its best score. But the firm boasts it thinks like an allocator rather than a marketer, and the fact it can police its managers gives investors assurance. “Cowen’s cap intro team has done a great job for us,” says a client. “We find them to be very proactive, helpful and communicative.” There are accolades like that aplenty, including in consulting, where a start-up says Cowen was “very helpful” in choosing service providers. “Great group of guys that I interact with at Cowen,” writes a client. “Great firm, wish them strong growth and success.” Another client says, “All client-facing employees seem very knowledgeable, so they respond correctly and in a very timely manner to all queries directed to them. They always make you feel like they really value your business.” In fact, Cowen has reached that Nirvana where even a price increase contains nothing but the prospect of an even higher standard of service. “The price of services went up, but it did so in order to focus on clients that desire to be provided with better services,” concludes one happy respondent.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.85	5.89	6.11

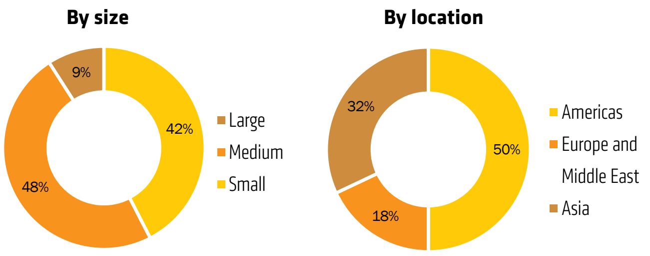
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.54	3.3%
Client service	6.45	7.3%
Consulting	6.45	10.2%
Operations	6.39	7.1%
Technology	5.62	0.3%
Product development	5.44	-0.4%
Risk management	5.85	5.1%
Asset safety	6.21	8.3%
Sales and marketing	6.52	6.3%
Trading and execution	6.09	4.0%
Delta 1, swaps and financing	6.45	12.8%
Stock borrowing and lending	6.18	3.6%
Foreign exchange prime brokerage	5.89	3.9%
Fixed income	6.48	12.2%
OTC clearing	N/A	N/A
Listed derivatives	6.04	2.6%
Total	6.11	5.3%

Credit Suisse

High profile departures and conspicuous restructuring have made for a difficult year at Credit Suisse, though uncertainty over the future of the business has clouded client perceptions for years. Roles were first moved to Dublin as long ago as 2015, and the allocation of balance sheet to prime services has been under pressure since 2014. The limited number of responses and the relatively disappointing scores reflect the challenge of managing clients and staff through prolonged uncertainty. “Strong people in NY office compensate for weaker coverage elsewhere,” is how one client describes his operational interactions with Credit Suisse. There is no doubt that the bank remains committed to the prime services business, albeit with a reduced list of target clients and in closer alignment with its equities franchise. But the drive to lift the profitability of the business is bound to affect the quality of relationships with the clients that remain. “Credit Suisse is outsourcing their operations and client relationship to India,” notes one. “This will help bring down their bottom-line. However, with the new and inexperienced team, the quality of service is affected.” The score for client service is not high. “The PB reps can do a lot more by engaging with us,” writes one client. Though the score for sales and marketing is the highest of any earned by Credit Suisse, the detail shows that clients appreciate steadiness and transparency in pricing more than the level of commitment to them as favoured and profitable clients. Though the score for risk management is robust, one client does note of the margin rates he sees that “good commercial risk staff are hamstrung by platform/tech weaknesses.” Where the firm does continue to shine is in its derivatives franchise, collecting high scores in OTC clearing and listed derivatives in particular, though the pressure on the bank to increase its profitability is evident throughout the detailed scoring of its swaps and clearing services. The scoring of the foreign exchange prime brokerage business, which came under managerial pressure to perform three years ago, provides further evidence that managers have noticed Credit Suisse needs wider margins. Likewise, at first sight the low score for asset safety is puzzling. Since the financial crisis, creditworthiness has remained the principal reason for appointing Credit Suisse as prime broker, and especially as back-up prime broker. But the details show that the concern of clients is not so much that assets will be at risk; it is that they will be more expensive to finance. The equally counter-intuitive score for capital introductions is easier to explain. Given the size and strength of the private banking and wealth management businesses at Credit Suisse, the bank ought to be impressing even its more selective client list with its capital-raising capabilities. But capital introductions is one sphere manifestly affected by staff turnover. “There is often change of people in the Credit Suisse capital introduction team,” is what one client has noticed. As always, however, clients that raised money are more than pleased. One respondent name-checks a member of the capital introductions team at Credit Suisse for a “fantastic job … She has made many introductions, done diligence on potential allocators and is on top of the details.” Other services that make it harder to stay profitable, such as consulting and product development, also exhibit symptoms of a withering-away. Unsurprisingly, respondents are cautious for now about giving more business to Credit Suisse or urging others to do so.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.32	5.60	5.39

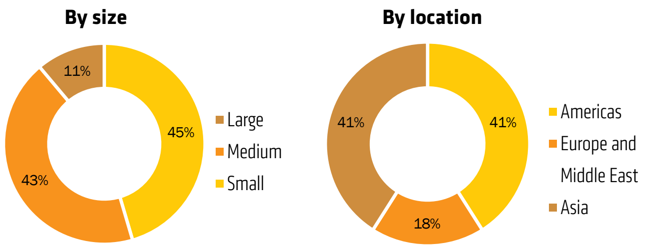
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	4.15	-22.8%
Client service	5.30	-11.9%
Consulting	5.86	0.0%
Operations	5.44	-8.9%
Technology	5.01	-10.6%
Product development	4.85	-11.2%
Risk management	5.62	0.9%
Asset safety	5.24	-8.8%
Sales and marketing	6.06	-1.2%
Trading and execution	5.55	-5.2%
Delta 1, swaps and financing	5.13	-10.3%
Stock borrowing and lending	5.68	-4.8%
Foreign exchange prime brokerage	5.41	-4.6%
Fixed income	5.72	-0.9%
OTC clearing	5.83	-0.4%
Listed derivatives	6.13	4.1%
Total	5.39	-7.1%

Deutsche Bank

The onward and upward momentum evident at Deutsche Bank a year ago has dissipated. This is not surprising. Revenues in prime services dipped last year as average client balances declined, margins were squeezed, and funding costs rose. One respondent even notes that "we do not have any active fund/client currently using DB as their PB. Last activity was in February 2017." At the end of May this year, Deutsche Bank announced it would be reducing headcount in its global prime finance business and reducing the balance sheet allocated to it through a combination of re-pricing and collateral optimisation. So a survey that took place in the immediate aftermath of this announcement was bound to be challenging for a prime brokerage group that positions itself as the provider of innovative financing solutions to the largest and most sophisticated asset managers. The details of these scores do not suggest that clients believe the German bank is losing interest in financing their portfolios, by either cash or synthetic means, but they do imply – entirely predictably – that it is looking to widen its margins and retain more of the value from client assets and collateral. Though the scoring of sales and marketing indicates that managers have yet to feel the impact of the promised re-pricing, doubts are already evident about how the bank values client portfolios and calculates its return on them. Likewise, the weakness in asset safety revolves as much around the issue of re-hypothecating assets to raise finance as it does around the threat of assets in custody being misplaced. Risk management has a similar flavour. In foreign exchange prime brokerage – and Deutsche Bank is one of the top three global banks in the foreign exchange markets – the overall level of satisfaction with costs and collateralisation is not high. The exception to this pattern of client anxiety about costs is stock borrowing and lending, where Deutsche Bank top-scores, but then the assessment of the services in that area is mainly operational rather than financial. In client service, where every prime broker expects to shine, there is a disjunction between the scores and the comments. "Excellent client service coverage from DB," writes a client. "Good one-on-one interaction with the full team," adds another respondent. "They look to support the various arms of our business actively." A third finds Deutsche Bank "very attentive and responsive," while a fourth maintains that "local account management and client services staff (including regional contact) are excellent." But the score for client service, a conspicuous strength in 2017, is now respectable rather than outstanding. Similar disjunctions are evident in consulting ("very professional, pro-active") and capital introductions ("very capable team"). True, there is nothing much wrong with the scores in OTC clearing, listed derivatives and even fixed income – a field of endeavour only the boldest prime broker could evince much enthusiasm about servicing – either. Deutsche Bank can plausibly argue that the voice of its largest and happiest clients is not being heard this year. But the same is true of other prime brokers in this survey, and it is their collective results that set the benchmarks. Accentuating the positive, or declaring the respondents unrepresentative, cannot conceal the fact that these results mark a steep fall not just from a year ago, but from the prime brokerage business, which used regularly to top this survey. As recently as last year, Deutsche secured second place in the league table. In 2018 there is not a single service area in which the bank even clears the survey benchmarks.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.86	5.86	5.20

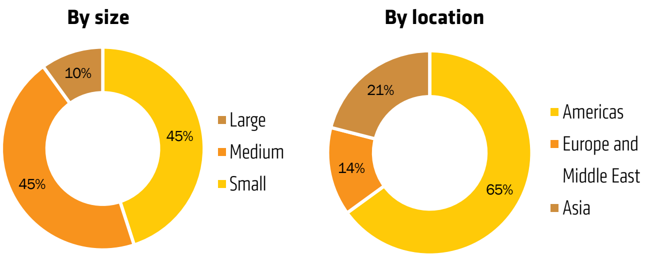
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.08	-5.3%
Client service	5.49	-8.6%
Consulting	5.14	-12.2%
Operations	5.46	-8.4%
Technology	4.96	-11.4%
Product development	4.90	-10.2%
Risk management	4.71	-15.4%
Asset safety	4.52	-21.2%
Sales and marketing	5.55	-9.5%
Trading and execution	5.18	-11.5%
Delta 1, swaps and financing	5.19	-9.2%
Stock borrowing and lending	5.87	-1.7%
Foreign exchange prime brokerage	5.25	-7.5%
Fixed income	5.47	-5.2%
OTC clearing	5.52	-5.7%
Listed derivatives	5.69	-3.4%
Total	5.20	-10.3%

Goldman Sachs

These are results which Goldilocks would recognise more readily than Goldman. In no service area is the score outstanding, but in none is it dire either. That said, there is nothing mediocre about the score for sales and marketing, where the details suggest Goldman has indeed arrived at a client base that is just right, from the point of view of the firm, in terms of size, investment strategy and profitability. Outliers can still be found in both the general ("hard to get great service unless you have a lot of assets with them") and the specific ("Goldman Sachs capital introduction is really strong but always asks for a certain level of revenues before helping their hedge fund clients"), but what is striking about the averages is their lack of volatility. True, the score is flattering in an area where Goldman is expected to shine: stock borrowing and lending. But across other disciplines in which the bank is a major force, such as financing and derivatives clearing of both kinds, the scores are indifferent. They are punctured mostly by a belief that the overall cost of the services is more reflective of their value to the firm than the clients, though this is characteristic of the survey as a whole. It is the mixed verdict in client service that might indicate a more meaningful degree of disgruntlement in some quarters. "Goldman client service is excellent, from their management team down to our daily account rep," says one client. "Tremendous partner." But another argues, "They used to be more pro-active. The quality is decreasing year over year." Much the same is visible in the higher-scoring field of operations, where the assessment of the client who works with a "great crew, very responsive and knowledgeable" is offset by one who says operational staff "used to be better." A third receives "reasonably accurate reports" but has "encountered instances where positions that had been redeems were still reported in the portfolio." Where Goldman does shine brighter than the average prime broker is in product development, where clients recognise and appreciate an innovative approach to their problems. The consulting team is also highly regarded. "The GS consulting team is my first call on almost any topic: legal, regulatory, cyber," says a client. "If they do not know the answer, they know someone who does." A second notes that "while start-ups rely the most on consulting services, I find myself continuing to use these services through the year." A third adds that "the GS team has always been tremendously helpful. Their weekly surveys are of great value." Likewise, the people working in capital introductions continue to win accolades. A stand-out area in 2017, capital introductions is judged less favourably this year, but the outcome is still more than respectable. "The Goldman cap intro team has been a strong partner for our firm," says a client. "They are very well informed and have been a great source of market intelligence." Technology, which was an issue last year, remains one in 2018. "The GS360 portal for equities and futures is in desperate need of renovation," writes one respondent. A second says there is a "need to update the back end – feels older - not compatible with certain browsers," and a third suggests the "GS prime brokerage portal have a system refresh. I am unable to access some functions on the portal." But it is a fourth that identifies the main reason for the indifferent scoring of technology: "I would like mobile reporting enhanced. Right now, I believe the only way to access the portal is through a desktop computer."

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.89	5.85	5.58

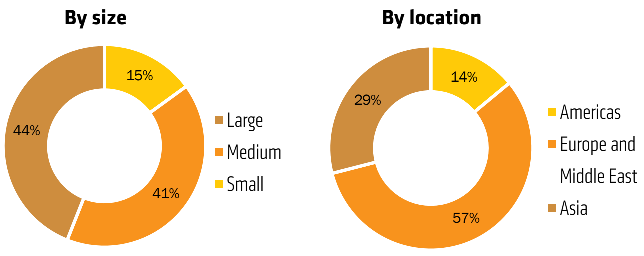
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.28	-1.7%
Client service	5.56	-7.5%
Consulting	5.63	-3.9%
Operations	5.78	-3.2%
Technology	5.48	-2.2%
Product development	5.61	2.8%
Risk management	5.28	-5.2%
Asset safety	5.75	0.1%
Sales and marketing	5.96	-2.9%
Trading and execution	5.40	-7.8%
Delta 1, swaps and financing	5.44	-4.9%
Stock borrowing and lending	5.75	-3.7%
Foreign exchange prime brokerage	N/A	N/A
Fixed income	5.60	-3.0%
OTC clearing	5.37	-8.2%
Listed derivatives	5.72	-2.9%
Total	5.58	-3.8%

HSBC

“HSBC offers a first-class client service in all respects,” writes a respondent. While excellence is not evident in the scoring of every service the bank provides, HSBC certainly has some obvious strengths. Its presence in its Asian homeland and reach throughout the region is one (“India and ASEAN resource is a big plus”). Foreign exchange is another (“Excellent client service from the FXPB team), though not every client is overwhelmed. “We do not do a high volume of FX trades,” writes one, before adding the damn-with-faint-praise observation that “the impossibility of executing trades at a block level severely negatively impacts the amount of FXes we do with HSBC.” A good score in securities lending, where the bank has a strong Asian franchise, is not surprising. Nor are good scores in futures and swaps clearing and cash and synthetic financing. “Smooth experience in getting trades booked and often favourable clearing charges offered,” says a client. “From speaking with the desk, the swap desk at HSBC is always able to provide favourable financing on positions and is always the main reason for us putting on positions with them.” And almost everybody who responded thinks HSBC is doing a great job in client service. “Excellent client service coverage from HSBC,” writes a respondent. This was a strength last year too, but one client thinks it is getting better all the time. “Client service is definitely one of the strongest points of HSBC,” he writes. “Quarterly meetings, good tracking of issues and metrics, great follow-ups. Communication with a client is key, and they have constantly been improving on this, which is always nice to see.” The excellent score for sales and marketing is better gauge of what is happening at HSBC, because it implies the bank is getting its combination of price and risk right, but it is based on fewer responses. What is based on a full turn-out is the middling score for operations. While operations at HSBC have their fans – “good support from their ops team” says one client, while a second has noticed “very well-prepared ops” – the score is middling. This is counter-intuitive at a major international bank with a global custody business and a large sub-custody network, though reliance on specialist centres may have something to do with it. “The team is responsive,” explains a client. “Unfortunately, sometimes they provide an answer to the specific question rather than trying to find out a solution to the problem. Too often they need to deal with problems caused by HSBC infrastructure.” He thinks this infrastructural inertia is inhibiting the development of the prime brokerage product. “Unfortunately, HSBC infrastructure seems to be extremely hard to change,” he writes. “For some of the issues we have, the change that would need to happen at HSBC is often presented to us as a major piece of work.” The less impressive score for asset safety, on the other hand, is not counter-intuitive. The detailed scores demonstrate that clients have no concern about HSBC losing their assets, or refusing to make them whole if it does, but they do wonder how close a track it is able to keep on encumbered assets. Where there is unequivocal room for improvement is in technology. “Technology is not the strongest point for HSBC,” says a respondent. “The lack of a central portal is a massive downside and reports often feel limited and not very malleable. The service levels provided are excellent and it is great to see things improving. However, some areas are still a lot behind other PBs, especially in terms of infrastructure and technology.”

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.36	5.75	5.73

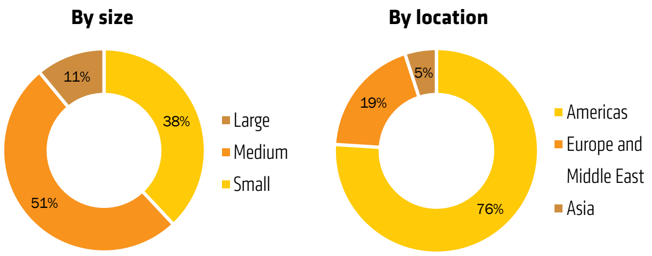
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	N/A	N/A
Client service	6.17	2.6%
Consulting	N/A	N/A
Operations	5.86	-1.8%
Technology	5.01	-10.5%
Product development	5.30	-2.9%
Risk management	5.59	0.3%
Asset safety	5.57	-3.0%
Sales and marketing	6.47	5.5%
Trading and execution	5.66	-3.3%
Delta 1, swaps and financing	5.79	1.3%
Stock borrowing and lending	6.12	2.6%
Foreign exchange prime brokerage	5.84	3.0%
Fixed income	4.73	-18.0%
OTC clearing	6.52	11.5%
Listed derivatives	6.11	3.7%
Total	5.73	-1.1%

J.P. Morgan

J.P. Morgan expects to do well in financing across the asset classes and in synthetics – where it shone before it entered the equity finance business – as well as securities financing. It does. “Swaps are an important part of our portfolio, and this broker has been extremely helpful as we continue to grow that part of the business,” says a client. “They have worked with us on reducing costs and identifying efficiencies on when to trade on swap in certain markets.” The same client has found the bank helpful in reducing its margin costs in cleared swaps as well. “The collateral process has improved overtime to become much more efficient and cost-effective,” he adds. Not every client has had the same experience: Financing scores are dented by the conviction J.P. Morgan could do more to reduce costs through cross-margining. The bank does get credit for its ability to source securities from third parties as well as internal supply. “The stock borrow process is easy to access through the broker portal and we routinely get locates for full size and at low rates,” writes one respondent. A second applauds “competitive hard-to-borrow pricing.” Unusually, the score for fixed income is as good. Unlike many prime brokers, J.P. Morgan has not discouraged fixed income managers, which it continues to ply with funding as well as clearing services. An excellent score is its reward, along with the sort of comment that indicates client expectations are rising rather than falling. “Lacks capability to book/pay 3rd party OTC options trades,” as the respondent puts it. But there is nothing wrong with the outcome in trading and execution as a whole, where only an anxiety that some clients are more important than others dampens enthusiasm. “Extremely satisfied with the trading and execution capabilities this broker provides,” writes a client. “We have been using their services for years and the relationship continues to strengthen and improve.” Much the same is true of foreign exchange, where J.P. Morgan owns an impregnable market share. “FX trading with this broker is simple and straightforward,” says a client. “We get quotes very quickly and at competitive rates. The settlement process has also been streamlined to improve our operational processes.” The only conspicuous weaknesses lie in product development (where clients want to see greater creativity), consulting (though one recent user is grateful for “very useful insights across a broad range of topics”) and especially capital introductions. The global capital introductions group has the sort of relationship with institutional investors that the brand can secure, but these respondents have not felt the benefits. “Too few senior professionals,” says one, while a second admits to “not much interaction in recent years.” Performance fades in operations, though a client says that the “operations team is solid and dependable” and “quick to fix issues we bring to them and also good at identifying potential issues and alerting us pro-actively.” Clients want more from the technology (“JPMM reporting tool could be improved to match peers”). The quality of the credit risk is resonating with clients less than their doubts about the terms on which assets can be re-hypothecated or segregated or restored. This suggests the “prime custody” offering is not working as well as J.P. Morgan will have hoped. Though there are plaudits for account managers – “Our service reps are reliable and dedicated to get the results we need” – J.P. Morgan ought to be very interested in the details of the client service as well as the asset safety scores.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.33	5.64	5.67

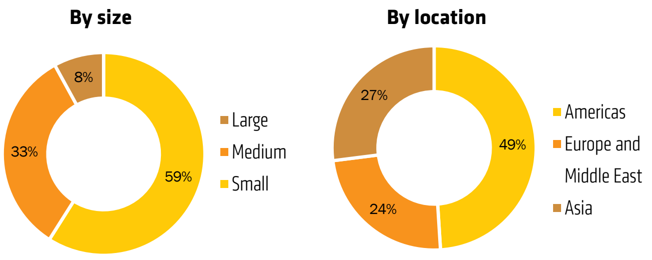
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	4.70	-12.4%
Client service	5.38	-10.5%
Consulting	5.38	-8.1%
Operations	5.70	-4.5%
Technology	5.51	-1.7%
Product development	5.01	-8.2%
Risk management	5.49	-1.5%
Asset safety	5.58	-2.8%
Sales and marketing	6.18	0.8%
Trading and execution	5.81	-0.7%
Delta 1, swaps and financing	5.52	-3.5%
Stock borrowing and lending	6.06	1.5%
Foreign exchange prime brokerage	5.78	2.0%
Fixed income	6.06	5.1%
OTC clearing	5.85	0.0%
Listed derivatives	5.90	0.3%
Total	5.67	-2.2%

Morgan Stanley

“Morgan Stanley have been a fantastic counterparty in helping us build our strategy and business,” writes a client. The investment bank might jib at being characterised as a mere counterparty. As another manager puts it, working with Morgan Stanley is “really a partnership arrangement where we work together to solve issues and problems.” For the firm, which invented the business in the 1980s, and reinvented it during the financial crisis and its aftermath, prime brokerage remains at the heart of its equities division. Morgan Stanley attracted more than twice as many responses as its nearest competitor, and both scores and comments suggest its people are living up to the corporate ambition of partnering with clients and delivering the whole firm to them. “Always willing to assist, at the expense of P&L on occasions,” says one client. Another notices, “They work closely as a team so coverage is consistently good.” A third applauds “a great team, they are very pro-active, always looking for ways to reduce margins and costs in order to benefit us and 100% transparent on issues.” Certainly, the scoring of sales and marketing, which measures client perceptions of how accurately the firm values business, indicates most managers think Morgan Stanley helps them as well as itself. One client says that Morgan Stanley “react if we need to check fees and [are] happy to teach related calculation skills.” A second adds that “our team is always very up-front with us and points us in the right direction. We trust that the information they give us is mutually beneficial.” A third observes that “conditions were then re-negotiated and we are now happy.” The detailed scores show that clients believe Morgan Stanley could do more for them on margin terms, netting, cross-margining and collateral eligibility and valuations, but that is common to every prime broker in this survey. In the linked fields of operations and technology, the scores are virtually indistinguishable. “Operations sets Morgan Stanley apart,” argues a client. “Technology as the foundation, and phenomenal human capital.” A second client agrees that operations people are “very strong technically and can answer most of our questions very rapidly; very efficient equity swap/corporate actions teams. Matching rate on Traiana is consistently high across cash and swap.Very reactive.” The drive to raise rates of automation does not please everyone all the time (“Everything is required to go through their portals; however, when there are limitation[s] on their portals, they are not willing to take a manual instruction”), and at least one client has clearly not yet encountered Matrix on his mobile. “Would like mobile reporting enhanced, right now,” he says. “I feel Morgan Stanley is the most technology-advanced PB out there, but adding mobile capabilities would be incredibly useful.” Even in the Cinderella services of capital introductions and consulting, Morgan Stanley clears the benchmarks. Raising assets is a field in which it is impossible to please everybody (“have not been invited to Breakers conference,” muses one client), but there is recognition for “very experienced employees who understand the industry and have a deep Rolodex of contacts.” Likewise, the consulting teams are seen as “our first-ask when looking to add any service providers and have been integral over the years in providing help and unbiased feedback on options for our business.” Morgan Stanley will not be surprised to do less well on fixed income, and the client who “would love to do ‘away repo’” is unlikely to be granted his wish.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
6.06	6.16	6.04

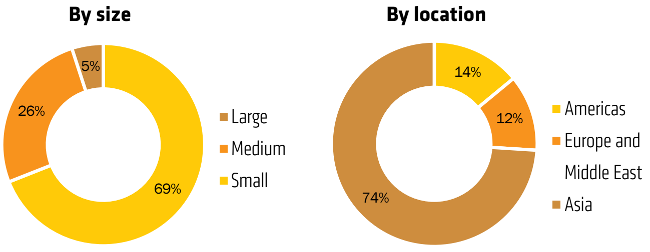
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.65	5.3%
Client service	6.43	7.0%
Consulting	6.21	6.1%
Operations	6.34	6.3%
Technology	6.09	8.8%
Product development	5.92	8.5%
Risk management	5.79	4.0%
Asset safety	5.86	2.1%
Sales and marketing	6.27	2.3%
Trading and execution	6.08	3.9%
Delta 1, swaps and financing	5.91	3.3%
Stock borrowing and lending	6.13	2.7%
Foreign exchange prime brokerage	5.91	4.2%
Fixed income	5.68	-1.6%
OTC clearing	6.03	3.0%
Listed derivatives	6.16	4.6%
Total	6.04	4.2%

Nomura

What is least surprising about these scores is that Nomura top-scores for trading and execution. With Instinet as its execution engine outside Japan, the firm owns significant market share in Europe as well as Japan. It gives Nomura an edge in servicing quantitative strategies, which it can then ply with margining and financing as well as execution and clearing. “Trading and execution are key services for us,” says a client. “The team is reliable, attentive and overall of very high quality.” The score for operations, mitigated by concerns about staffing and internal communication, suggests the post-trade experience does not undo the good work in the front office. Comments as well as scores testify to an ability to keep clients in their trades, especially when it comes to sourcing stock in Japan, where Nomura has the inestimable advantage of more than 3 million retail customers. “Great team, which does everything in their power to minimise recalls,” writes a client. “Not surprisingly SL access is particularly strong in Japan.” Clients even like the custody options. “Nomura has a mirror account that offered complete segregation,” notes a client concerned about asset safety. “In time of stress, we can easily move assets into this segregated account, which offers some comfort.” More importantly, the sales and marketing scores confirm that even clients sensitive to transactions costs do not believe they are being over-charged and are convinced that Nomura values their business enough to want a long-term relationship. The client who appreciates “their long-term vision to partner with promising funds rather than look at day one profitability” is more representative than the one who expresses anxiety about the “future direction of the PB and the range of services they offer.” In fact, recent high-profile hires on both sides of the Atlantic are aimed squarely at addressing the vulnerability in product development (“not really seen anything new from them in a long time”). Nomura will, nevertheless, be disappointed to read that “the firm does change margin on certain instruments fairly regularly,” and that “the margin framework is quite conservative for my portfolio/strategy,” since it aims to be competitive on margin. The detailed scores do suggest the firm needs to do more for clients on cross-margining and netting. Technology is another area where clients would like investment. Though a platform geared to the needs of quantitative managers may not suit all investment strategies, the significant issue is mobile reporting. “Reporting portal is old and slow,” says a client. A second adds that “faced with certain system limitations, the Nomura prime brokerage client services team makes up for it by going the extra mile.” There is certainly nothing wrong with the score for client service. “Nomura is a key strategic partner for our firm, and that in large part has to do with our relationship with the client services team,” explains a respondent. “The team is of extremely high quality and gives us confidence that Nomura is invested in our firm’s success.” Other vulnerabilities are more apparent than real. Nomura would not disagree with the client who says “They are not too fond of fixed income, and the service shows that.” The firm clear swaps in Japan only. It has capital introductions teams in Tokyo and Hong Kong only, focused on Japanese and Asian allocators. In consulting, Nomura prefers to be judged by the quality of its advice on regulatory and strategic issues. Classical consulting is confined largely to Asian start-ups and, even there, no team is dedicated to it.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.76	6.01	5.79

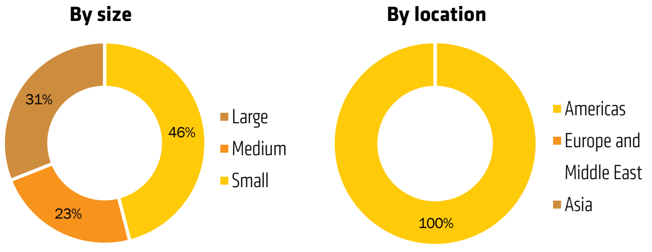
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.00	-6.8%
Client service	6.13	2.0%
Consulting	5.83	-0.5%
Operations	5.94	-0.5%
Technology	5.29	-5.6%
Product development	5.10	-6.6%
Risk management	5.64	1.3%
Asset safety	5.73	-0.2%
Sales and marketing	6.05	-1.3%
Trading and execution	6.07	3.7%
Delta 1, swaps and financing	5.78	1.1%
Stock borrowing and lending	5.74	-3.8%
Foreign exchange prime brokerage	N/A	N/A
Fixed income	5.77	-0.1%
OTC clearing	5.89	0.7%
Listed derivatives	5.81	-1.4%
Total	5.79	-0.2%

Pershing

The three-year growth rate in prime services at Pershing now exceeds 75%. This is impressive, given the determination of the management to be catholic in their selection of strategies, resistant to leverage-hungry managers that might put the wider franchise at risk and prudent about the degree of operational intensity they can absorb. Top-scoring for operations is one measure of their success in maintaining that discipline. "Very smooth operations, and very helpful in the event of a counterparty issue," writes a client. "It is impressive how knowledgeable, friendly, and efficient their operations personnel are." A conservative approach to risk and return reminds clients and investors that Pershing is owned by an AA-rated global custodian bank with $33.5 trillion of assets in custody, which processes transactions rather than trades securities. The score for trading and execution, where a conflict-free Pershing can offer a choice of venues as well as post-trade efficiency, is predictably high. But the benefits of the parentage go beyond the obvious. BNY Mellon helps with low-cost funding, delivers a steady stream of referrals and provides a place to put unencumbered assets (via PrimeConnect) or even park trades that make less sense for Pershing. As a clearing firm for brokers, RIAs and financial advisers, Pershing has many strengths of its own, including a steady flow of client cash. Not the least of them is a $1.7 trillion box of securities Pershing can tap even before turning to external sources such as its parent. The scoring of the firm for stock borrowing suggests it can not only keep its clients in trades for longer but do so at stable rates. "We use Pershing for all of our shorting activity," writes a client. "We get great colour and very good borrow opportunities (access and terms)." Perceptions of client service, which is based on a single point of access to a dedicated team, are even more flattering. Several reps are name-checked. "Pershing is very hands on with their client service," adds a client. "They regularly reach out to us to make sure that we are aware of any issues, and we appreciate the extra distance they go for handling our accounts." The current rate of growth is the best tribute to the Pershing approach to sales and marketing but there are scores and comments to match. "Our sales rep is always available and open to implementing pricing improvements as we grow," notes a client. The effort to recruit credit managers, less through leverage than by operational efficiency and assured short-covering, earns its reward in a handsome score from managers of strategies most prime brokers now abjure. Pershing is also having some success with liquid alternative strategies run by mutual funds, which like a conservative prime, and value the transparency and collateral management functionality of PrimeConnect. Technology is not, as it happens, the strongest area for Pershing, but views of PrimeConnect are enthusiastic ("The system is amazing. It has streamlined our collateral management process by making it much more efficient") as well as glum ("It is not great"). Assessments of NEXEN, the cloud-based platform built by BNY Mellon to give clients more control, must wait until 2019. Most weaknesses in other areas reflect the limits of the services (Pershing provides FX execution rather than FX prime brokerage and clears options but not futures), and there is praise for the risk managers. "They are careful and intelligent, with a willingness to hear and discuss different ideas we might bring to their attention," says a client.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.62	5.93	6.07

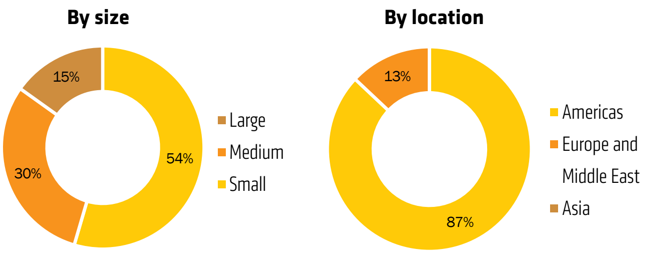
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.53	3.1%
Client service	6.51	8.3%
Consulting	N/A	N/A
Operations	6.60	10.7%
Technology	5.79	3.4%
Product development	5.49	0.5%
Risk management	5.43	-2.5%
Asset safety	6.31	9.9%
Sales and marketing	6.16	0.4%
Trading and execution	6.08	3.9%
Delta 1, swaps and financing	6.37	11.4%
Stock borrowing and lending	6.10	2.3%
Foreign exchange prime brokerage	5.37	-5.3%
Fixed income	5.93	2.8%
OTC clearing	N/A	N/A
Listed derivatives	5.38	-8.7%
Total	6.07	4.6%

Scotia Capital

Scotia has come a long way since it began to service Canadian hedge fund managers at the turn of the century. The Canadian stock loan desks of a decade ago have evolved into full service equity finance operations in New York, London and Singapore, and the bank has built a successful synthetics prime brokerage business in all three regions on the back of the Daiwa acquisition of 2011. Managers like Scotia as a counterparty – Bank of Nova Scotia has an A+ credit rating – but, as these results indicate, the bank has also built strong relationships with a sizeable client base. It is disciplined too about what new business it on-boards. The scores for sales and marketing suggest the clients fit the services: They think Scotia prices openly and competitively and puts the right value on their portfolios. A client service model based on a single point of contact from the outset earns its reward in comments as well as scores. “Client service at Scotia is very strong,” writes one client. “They are responsive and dependable for all issues.” A second says, “Scotia is always supportive and helpful. The staff respond to our inquires and requests [in a] timely [manner].” A third says the “people are very pro-active in helping us.” On the financing side, Scotia applies the same approach, in particular by customising swaps to individual client needs, but scores and comments suggest the bank could do more to help clients cut costs. “Would like to see cross margining vs. the PB,” writes one. In the associated field of securities financing, clients have noticed an emphasis on technology, especially by the stock borrowing desks, which are still strong in Canadian securities. “Excellent improvements made in automation and tech in the stock loan space,” writes a client. But technology, where the bank has relied on vendor systems (notably CoreOne Technologies) to supplement its own platforms, is not the strongest area at Scotia. “Good portal, can do some improvements,” says one client, while a second says, “Additional investment in a secure, modern document and data exchange would be helpful.” Others see Scotia is already on the case, with several infrastructure projects in hand to ensure the business can scale without difficulty. “We have seen Scotia investing in technology with new reports and systems upgrades over the last several years,” writes one respondent. “There are functions and features that can be further automated to reduce manual processing (e.g. withholding tax for multi-jurisdictions).” Another is “happy to see Scotia continue to invest in technology.” Any technological shortcomings have clearly not hampered operations, where a model that aligns settlement staff with settlement location works well for clients. “Personnel are always concerned with the correct settlement of trades and monitors that all funds have proper balances,” says one. “This is highly appreciated by our firm.” Clients add that they “do not experience any inefficiencies or delays,” and that operations staff are “very capable.” Even in capital introductions, Scotia manages to clear the survey benchmark comfortably. One client rated the bank specifically because “they have been providing excellent capital introductions to our teams.” The fact that not every capital-hungry client has enjoyed the same access (“It is not good at capital introduction – they never help us”) is a reminder of how hard it is to please in capital introductions, but also of how disciplined Scotia is in introducing clients it believes it can help to investors who can benefit from their investment strategy, especially in Canada.

PROFILE OF RESPONDENTS



By size

By location

Weighted average scores

2016	2017	2018
5.77	6.13	6.06

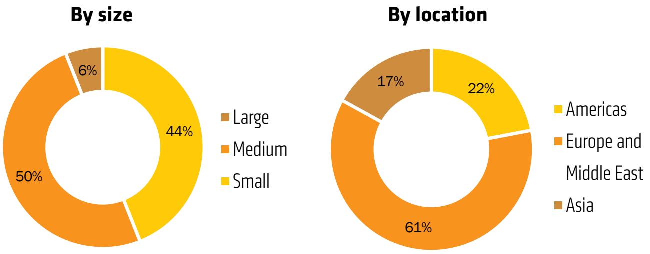
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.71	6.3%
Client service	6.30	4.7%
Consulting	N/A	N/A
Operations	6.46	8.2%
Technology	5.69	1.7%
Product development	5.25	-3.8%
Risk management	6.12	10.0%
Asset safety	6.13	6.9%
Sales and marketing	6.46	5.3%
Trading and execution	5.82	-0.5%
Delta 1, swaps and financing	6.05	5.8%
Stock borrowing and lending	6.24	4.5%
Foreign exchange prime brokerage	6.33	11.7%
Fixed income	6.21	7.7%
OTC clearing	5.78	-1.2%
Listed derivatives	5.32	-9.7%
Total	6.06	4.6%

Société Générale

In theory, the French investment bank, wholly owned by Société Générale for over four years now, combines the financing capacity of a global bank with expertise of a global derivatives broker. It ought to offer prime clearing as well as prime brokerage, with commensurate scope to win business through skilful cross-margining. The prime clearing component looks to be in rude health, with excellent scores for both swap clearing and futures. “We are happy with the many exchanges and products available to us through SG,” writes a user of the exchange-traded derivative services, which range across more than 125 markets. A client thinks both the fixed income and foreign exchange services are expensive (“The pricing for this service is off market,” he says of both), and the score in neither field is strong. A respondent adds that he “would like to see Soc Gen use CLS for clearing of some of the non-vanilla FX currencies that do clear through CLS.” On the financing side, there is praise for the way in which Société Générale helps clients write more business. “The risk team understands our business well and works closely with us to set appropriate limits for our activity,” says one respondent. But there is no persuasive evidence in the detailed scores that Société Générale is saving clients cash or collateral through better-informed margin management. “Sometimes we need to point out parts of our portfolio that should be offset for VaR and margin purposes so that we get better offsets and credits,” writes a client. “It feels like we are doing the job for this team at times.” This may reflect technological shortcomings. The bank does not score well for technology. One client describes the technology as “really `80s – poor and unreliable.” Another notes that “until [a] couple of years, we are waiting for the close-out into the [proprietary reporting] platform [Newedge] Pulse.” Even a third client, who says, “The IT connectivity and direct access does an excellent job for us,” has experienced data issues. On the people side, there is evidence of turnover. One client name-checks his current reps for doing “a great job servicing our account,” but admits he still misses others who “looked after our needs in their respective divisions.” In operations, which is not the highest-scoring area for the bank, a client has noticed improvement. “There was a period where they were under-staffed, and it was frustrating because we had many operational problems that took a long time to get resolved,” he writes. “Things are better lately. There was a period of staff turnover where we were under-served, and we had many clearing problems. We considered moving our business at that time. Things are better now.” All of that said, Société Générale is scoring well for client service, though one respondent has noticed promises outweigh delivery. “They try hard for us and are responsive,” he writes. “But it does take a long time to get approvals for new products/services from senior management.” This helps account for the weaker score in product development (where prime brokers are assessed on the creativity of their solutions to client problems). Société Générale will also want to do better in stock borrowing (where it has in theory got access to a massive global inventory, particularly on the equity side) and capital introductions (which matters because Société Générale, unlike many prime brokers, is interested in managers of all types and sizes). One respondent with experience of the capital introductions team is clearly unhappy, but the average score suggests he is not alone.

PROFILE OF RESPONDENTS



Weighted average scores		
2016	2017	2018
5.79	5.22	5.47

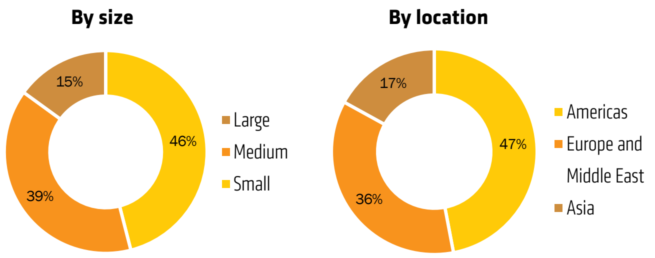
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	4.99	-7.0%
Client service	5.82	-3.2%
Consulting	6.48	10.6%
Operations	5.75	-3.7%
Technology	5.05	-9.8%
Product development	4.91	-9.9%
Risk management	5.20	-6.7%
Asset safety	5.60	-2.4%
Sales and marketing	6.13	0.0%
Trading and execution	5.22	-10.9%
Delta 1, swaps and financing	5.51	-3.7%
Stock borrowing and lending	5.32	-10.9%
Foreign exchange prime brokerage	4.86	-14.2%
Fixed income	4.98	-13.7%
OTC clearing	6.21	6.2%
Listed derivatives	5.95	1.1%
Total	5.47	-5.7%

UBS

The bank does well in precisely those areas – Delta 1, swaps and financing and risk management – where its traditional strengths and consistent ambitions lie: in delivering risk-based securities financing and customised swap financing. These findings are reinforced by a handsome score for sales and marketing, where clients reassure UBS it charges sums they believe to be fair and puts the right value on the assets they hold. The only vulnerabilities, discernible in the detailed scores, lie in the client appetite for greater economies through netting and cross-product margining – and these are fields where managers always believe every investment bank can do more. The scoring of OTC clearing services, where UBS is a major force, is affected by the same considerations. Stock borrowing and lending, on the other hand, remain acknowledged strengths of the bank. “Best stock borrow and lending team we deal with globally,” writes a client. It is a predictable strength, given that the bank has access to in-house inventory from its wealth management arm as well as an extensive global network of sources of supply. The detailed scores confirm that clients believe there is enough depth to protect them from unhelpful recalls, even if they are not so confident about the ability of UBS to secure hard-to-borrows. Unusually, UBS also beats the benchmark for capital introductions. This almost certainly reflects the degree of collaboration between the investment bank and the private bank, and the distribution power of UBS networks in the wider private banking and funds of funds and family office industries. One member of the capital introductions team is name-checked as “one of the best CI guys around,” while his colleagues are described as “top tier.” Inevitably, there is at least one manager who is disappointed. “Quality of introductions is lacking,” he writes. “Generally, only hear from them when we reach out.” But a fourth respondent says UBS has a “top-notch team globally” that “always provides us with timely information and introductions.” The same cannot be said of the consulting team. The scores for fixed income and foreign exchange are not much better, which is curious, given that prime services is a gateway into fixed income and foreign exchange platforms of formidable size and reputation. The operations score is equally puzzling for a bank with an in-house custody arm that clears and settles cash and securities in dozens of markets around the world on behalf of the private as well as the investment bank. But the assessment of client service is more worrying. Although one client has encountered nothing but “great client and PB Services,” the average score suggests the client service model is not working. Staff turnover, an issue in 2017, is not mentioned this year. UBS will be even more disappointed by the outcome in technology. UBS Neo, the new investment banking platform designed to bring together research, prices, financing, execution and settlement capabilities across all asset classes, is noticed by some clients but clearly not all. “Great portal, one of the best in the industry,” enthuses one respondent. A second agrees Neo is “best in class.” A third contributor is more thoughtful. “Neo online portal is very useful, with reports that are updated/generated live (vs. other PB portals that only has T+1 reports shown on the portal),” he writes. “However, timing of some T+1 reports can take a bit of time to generate (mid afternoon).” Unfairly, the bank earns insufficient reward for building the apps that allow clients to access Neo on the move.

PROFILE OF RESPONDENTS



Weighted average scores

2016	2017	2018
5.56	5.61	5.45

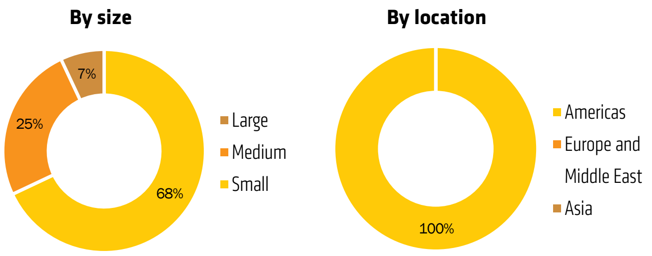
Weighted average scores by service area

Service area	Weighted average score	+/- the global average
Capital introductions	5.49	2.3%
Client service	5.20	-13.5%
Consulting	5.19	-11.4%
Operations	5.00	-16.1%
Technology	5.45	-2.7%
Product development	5.13	-6.0%
Risk management	5.63	1.1%
Asset safety	5.53	-3.6%
Sales and marketing	6.13	-0.1%
Trading and execution	5.55	-5.2%
Delta 1, swaps and financing	5.68	-0.7%
Stock borrowing and lending	5.56	-6.8%
Foreign exchange prime brokerage	4.69	-17.3%
Fixed income	4.85	-16.0%
OTC clearing	4.97	-15.1%
Listed derivatives	5.58	-5.3%
Total	5.45	-6.0%

Wells Fargo

All of the strengths of Wells Fargo as a prime broker can be found here, but some are more visible than others. The excellence, and especially the stability, of the client service is obvious. "Client service is staffed with very capable, knowledgeable, responsive and friendly people with regular back-ups in the event anyone is out," writes a client. A second adds that he has "experienced very low turnover – in the ten years that we have been clients, we have only had two main contacts." The efficiency of the operations – which, tellingly, share the same floor as the client-facing staff – is equally manifest. "We have had the same quality staff members on our team for years, and the longevity in the industry, and with Wells Fargo, clearly sets them apart from less-qualified or junior professionals," explains one respondent. The third conspicuous centre of excellence is the well-populated stock borrowing desk, where Wells Fargo has invested in (name-checked) people with established networks, who also have access to a great source of internal supply in the retail brokerage arm of the bank. "Firm clearly works hard to get and keep short borrow," as a client puts it. Where the performance of Wells Fargo is harder to discern is on the financing side. The fact that clients appreciate the prime brokerage group is less capital-constrained than the investment banks – it is a small business in the context of a $2 trillion balance sheet – is found in sales and marketing rather than Delta 1, swaps and financing. "The best access to balance sheet" writes a client. That balance sheet means Wells Fargo can also be more flexible on the types of portfolio it on-boards and, by extension, the types of collateral it can take. "The bank will finance our hardtofinance securities at very fair pricing" is how one client experiences it. The apparent vulnerability on swaps and futures reflects genuine shortcomings. The bank does not have a non-dollar synthetic platform, and the swaps business it does have is part of the wider equities division rather than prime brokerage. Wells Fargo needs to do better at cross-margining too. But hidden in the details is an excellent score for non-synthetic financing. "Our sales contact understands our needs and knows how to navigate the bank and help with our financing needs," is how one client explains the context. Likewise, the less impressive scores in swap and futures clearing (run by the FCM) and foreign exchange prime brokerage (the banks executes currency trades but not on behalf of managers trading currencies as an asset class or for hedging purposes) should not be allowed to obscure the clear message of these results: The core prime brokerage franchise is in great shape. This is as true of trading and execution ("We find algorithmic trading capability to be excellent. When necessary, high-touch trading is the best we receive from any relationship"), product development ("There is a flow of product enhancement that is generally helpful"), technology ("Cutting-edge technology provided by Wells Fargo Prime Services is one of the main reasons we use them as a prime broker"), capital introductions ("One of best CI teams around. Very helpful and resourceful") and consulting ("A credit to Well's prime offering and an insightful thought leader"). To some extent these are benefits that accrue to latecomers, especially if they pick people and technologies well. The price they exact is raising expectations. Clients of Wells Fargo want more. "Need to expand into more international markets," says a client. "This should be a high priority."

PROFILE OF RESPONDENTS


By size

By location

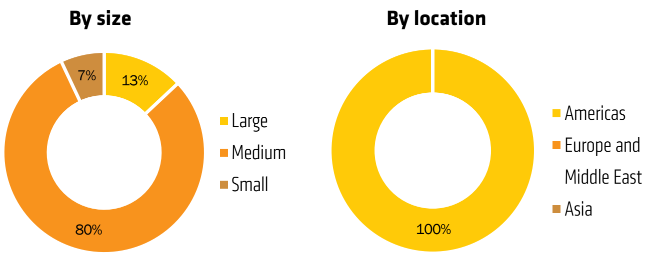
Weighted average scores		
2016	2017	2018
6.05	6.12	6.00

Weighted average scores by service area		
Service area	Weighted average score	+/- the global average
Capital introductions	5.48	2.1%
Client service	6.44	7.1%
Consulting	5.53	-5.6%
Operations	6.55	9.8%
Technology	5.96	6.3%
Product development	5.86	7.5%
Risk management	5.83	4.7%
Asset safety	5.95	3.8%
Sales and marketing	6.58	7.3%
Trading and execution	5.98	2.1%
Delta 1, swaps and financing	5.52	-3.4%
Stock borrowing and lending	6.26	4.8%
Foreign exchange prime brokerage	5.03	-11.2%
Fixed income	5.53	-4.2%
OTC clearing	5.54	-5.3%
Listed derivatives	5.39	-8.4%
Total	6.00	3.4%

Fidelity Prime Services

This is a formidable performance by Fidelity. The firm clears the benchmarks with ease in every service area that matters. In the core service of stock borrowing and lending, it gets the best score in the survey. At one level, this is a predictable triumph, since Fidelity has access to one of the largest (and broadest) collections of captive securities available. Certainly, the detailed scores suggest that clients believe the pool is liquid enough to protect them from recalls. But the score is also a tribute to the efforts Fidelity has made to increase transparency in the securities borrowing markets through PB Optimize, a cloud-based service that aggregates the cash and synthetic financing activities of its clients, and provides intelligence on potentially awkward risks and opportunities, such as upcoming corporate actions. Importantly, detailed scores also reveal a level of satisfaction with the associated margin financing available from Fidelity that is less evident at the service area level. Capital introductions, which was an issue last year, has improved markedly. Though it is a notoriously fickle service area – the score would be even better if more clients felt they were invited to multi-manager events – Fidelity does have tremendous distribution power through in-house channels such as Fidelity Family Office Services and the Fidelity Charitable Gift Fund. Another field in which Fidelity can leverage its networks is execution. Fidelity Capital Markets (FCM) offers electronic and algorithmic execution and an anonymous crossing network for domestic equities, and in international equities trades on more than 90 execution venues in 46 countries. The score for execution is reassuringly robust. While Fidelity would probably not describe it as FX prime brokerage, the currency trading services available through Fidelity FOREX Inc. are judged to be perfect. One further benefit of working with Fidelity is also buried in the detail: Clients like Fidelity as a counterparty – because it is not a bank, or publicly owned.

PROFILE OF RESPONDENTS


By size

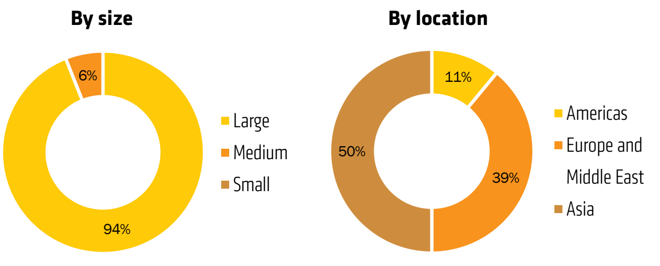
By location

Weighted average scores		
2016	2017	2018
5.94	6.01	5.97

Global Prime Partners

GPP has benefited from the upheaval in the traditional prime brokerage industry, taking on managers as the major prime brokers shed their less profitable clients. This has driven rapid growth at the firm. GPP currently has around 230 clients, of which 75 are hedge fund managers, so its prime services client base has grown by half since last year. It has added people, and now employs 50 in London and ten in Hong Kong, plus 30 technology and support staff in Cape Town. But growth has not diluted the ambition of the founders to stay close to clients. "Overall very happy with the level of client service," writes one of them. "GPP are very responsive and tend to resolve issues swiftly." It is a model which also appeals to new entrants. "As a start-up hedge fund, we wanted a service provider who were accessible to us, could support us as we grow, and provide the level of support and service needed," writes one client, explaining why he chose GPP. "We felt access to client service personnel was important to us." By working with Nomura and Macquarie as counterparties, clearing transactions with BNP Paribas, and placing client assets in custody with BNY Mellon, GPP is able to go beyond the human side and offer financing, futures clearing and asset safety. "Best and most cost-efficient service for low volume users," is how one respondent describes his access to the futures markets. GPP also has a partnership in place in capital introductions. Last summer it joined forces with Edgefolio, which uses technology to connect managers and investors. Scores and comments ("would be nice if GPP would offer that actively") suggest the relationship has yet to make an impact, but capital introduction is a notoriously difficult area in which to shine. GPP is doing much better in trading and execution and operations, where it has control over the outcome. "Always found GPP ops staff to be very good," notes a client.

PROFILE OF RESPONDENTS


By size

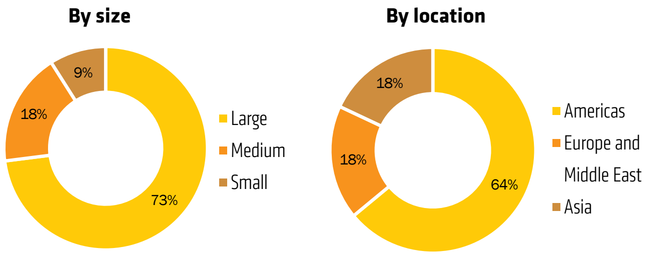
By location

Weighted average scores		
2016	2017	2018
5.49	5.79	5.63

Interactive Brokers

Greenwich, Connecticut-headquartered Interactive Brokers is a pure agency brokerage. Hedge fund managers who find their funds are no longer attractive to the major prime brokers, or who consider the cost of using the investment banks excessive, can find a home at Interactive. It offers execution and clearing, margin and securities financing and custody and asset servicing, including corporate actions processing (Interactive has links to eight custodian banks, including BNY Mellon, BBH and State Street). The firm has a reassuringly conservative philosophy set by its founder – Interactive is still majority-owned and controlled by its original shareholders –towards the structure and evolution of financial markets in general and the assumption of risk in particular. However, Interactive is nevertheless a strong believer in the power of technology to cut costs and increase transparency. It uses software to connect clients automatically to more than 100 stock exchanges and other execution venues around the world, and to automate as much as possible of the trade and post-trade transaction processes (including risk management). The apparently puzzling score for technology is explained by shortcomings on one aspect only. The promise of Interactive technology on the execution side is lower transactions costs across equities, bonds, options, futures, currencies, metals and exchange-traded and other funds. The firm does collect one of it best scores for trading and execution, and its best for fixed income execution. The scores for futures and options is not as impressive, but that for foreign exchange is even better. In stock borrowing, where clients with long positions are able to make their assets available to other clients with short positions, the detailed scores indicate clients are not completely convinced that Interactive has access to the hard-to-borrows they need, nor that it can offer them protection against buy-ins and recalls. The only comments are submitted by single client, who is looking for improved levels of service, especially in post-trade operations and online reporting.

PROFILE OF RESPONDENTS



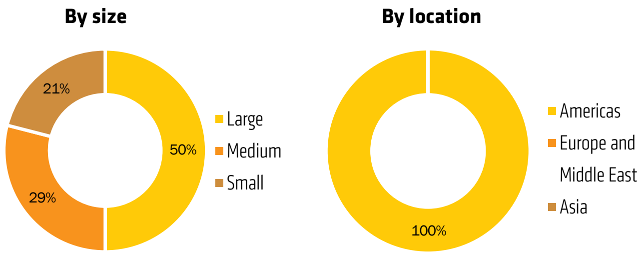
Weighted average scores

2016	2017	2018
6.09	4.83	4.33

Jefferies

“Service is outstanding!” writes a client of longstanding. “They are quick to respond to questions or issues and pro-active in notifying us of issues with respect to our fund.” The average score for client service suggests he is not alone. Indeed, a new client confirms that the “team is strong – very knowledgeable and accommodating.” The assessment of the core services is not much less effusive. It helps that the Jefferies prime brokerage offering, rooted in the origins of the firm as an equity trading and market-making house of the 1960s, is admirably no-nonsense. The firm showcases trading and execution, stock borrowing, margin finance and repo, online reporting, efficient post-trade operations and custody- plus capital introductions. The average scores the firm collects across almost all of these service areas vary between the very good and the excellent. There are comments to match across trading and execution (“In our commission reviews, Jefferies’ execution is typically positive vs. VWAP and average price”), stock borrowing (“In eight years, we have had only one stock recall”), technology (“Their reporting system is very reliable – our fund info is typically posted before 7:30 AM EST”) and operations (“Our experience with Jefferies operations staff is excellent”). There is an exception, and it is a predictable one, delivered by a minority and characteristic of a notoriously difficult area. Capital introductions nevertheless still attracts a favourable review. “Although a small PB client, Jefferies was gracious to invite us to their flagship event in 2017,” writes a respondent. “They continue to provide cap intro support that has been helpful to our firm. Excellent team and strong leadership.” The Jefferies scores do falter in financing and derivatives, but the averages are based on a limited number of responses. Besides, the human factor is clearly what binds this group of clients to Jefferies. “We would definitely recommend Jefferies’ prime broker services,” concludes a happy client. “Great people to work with and a company that is clearly committed to meeting the needs of their clients.”

PROFILE OF RESPONDENTS



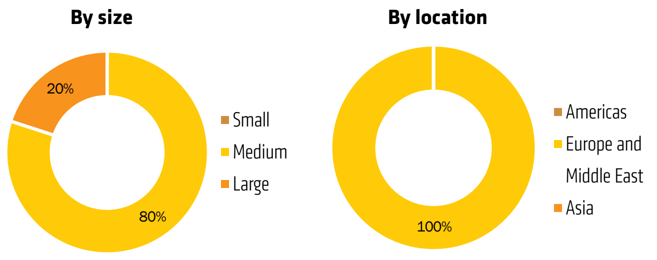
Weighted average scores

2016	2017	2018
5.91	5.99	5.76

TD Securities

Scores are up again, and clear the survey benchmarks comfortably in every service area that matters. The prime brokerage group is winning plaudits for all the core services consumed by hedge fund managers and performing conspicuously well in stock borrowing and lending and margin and equity finance. In capital introductions, always a difficult field in which to excel, a minority of respondents are clearly impressed. Even where the firm appear to have shortcomings – in, say, technology or derivatives – the detail discloses that the vulnerabilities are more apparent than real. In operations, a strong area for TD last year, the outcome remains a flattering one. This year, in a field often but wrongly seen as secondary, TD is actually singled by one client out for its commitment to seamless operational interaction with their back office. “Really makes an attempt to understand our processes and operations,” he writes. “They tend to think as partners and are looking for ways to solution issues while identifying their boundaries.” On the human side of the business, TD is living up to its commitment to a high standard of client service. One way of measuring that is how well the prime brokerage group – at TD, hedge fund managers work directly with a dedicated team – functions as a gateway into other products and services. And the scoring of foreign exchange and financing indicates that TD is indeed a joined-up organisation, with the prime brokerage group acting successfully as a conduit to relevant parts of the firm whenever clients have unusual or more complicated requirements, such as structured finance or advice on structuring for tax purposes. While it is true that these findings are not based on a large sample, they will, nevertheless, encourage the Canadian bank, which reinforced its commitment to the prime brokerage business in North America with the acquisition in 2016 of Albert Fried & Co, a New York-based broker-dealer with a prime brokerage franchise in the United States.

PROFILE OF RESPONDENTS



Weighted average scores		
2016	2017	2018
5.29	5.67	5.93

Methodology

The 2018 Prime Brokerage Survey asked respondents to address 57 questions across 18 service areas: Capital introductions, Client service, Consulting, Operations, Technology, Product development, Risk management, Asset safety, Sales and marketing, Trading and execution, Delta 1, swaps and financing, Stock borrowing and lending, Foreign exchange prime brokerage, Fixed income, OTC clearing, Listed derivatives and Future Relationship. (However, scores for Future Relationship were not included in the total calculations printed here.) For the majority of questions, respondents were asked to assess their administrators by determining how much they agreed or disagreed with a series of statements about services. Respondents were also given the option of providing one overall assessment of a service area rather than answering individual questions. For each service area, respondents were also invited to provide commentary. A total of 1,400 completed questionnaires were received on behalf of 35 prime brokers. After clean-up and validation, 1,395 responses remained. In order to receive a write up in the survey, an administrator needed to receive at least 10 responses. As a result, we were able to provide assessments for 24 separate prime brokers. The analysis published in this report is based on average scores given by respondents. They are weighted for the size (measured by assets under management, or AuM) and complexity (measured by the number of asset classes and investment strategies pursued) of the respondent. Scores in any question or service area which attracted less than four responses are excluded from the calculations. The suppression of scores for this reason does not mean the provider does not offer the service in question; it means only that an insufficient number of respondents scored the service to assess its quality with confidence.