

Canadian Equities: Institutional Commission Payments Falling Short of Projections

June 2010

Canadian institutions' domestic equity trading business is unlikely to meet volume expectations in 2010.

The total amount of projected commissions paid by Canadian institutions to brokers on trades of domestic stocks contracted by 18% to a final tally of approximately \$690 million for the year ending February 2010. At the end of that period, however, institutions predicted that activity would rebound in the coming 12 months, with the typical Canadian buy-side firm projecting that brokerage commission payments on domestic stock trades would increase by 10%. Small and mid-size institutions were even more bullish in their predictions.

Total Commissions Generated in Canadian Equities

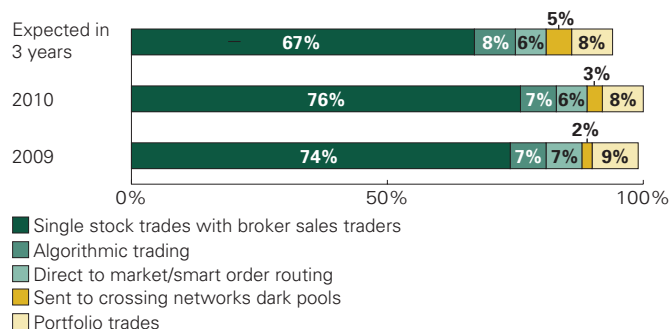


Note: In millions. Estimates based on 34 respondents in 2009 and 42 in 2010.
Source: 2010 Canadian Equity Investors Study

“Well into the second quarter of 2010, it’s apparent that commission payments will not approach a 10% growth rate,” says Greenwich Associates consultant Jay Bennett. “To the contrary, the commission pool is flat from last year at best, and may have even declined in size since the start of 2010.”

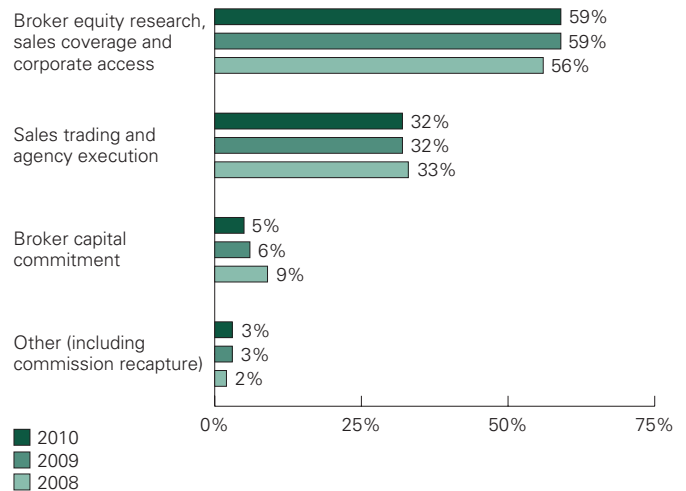
Although the lack of growth in the institutional commission pool is indicative of slower than expected trading activity, it also reflects the continued erosion of average brokerage commission rates. This year, Canadian institutions report

High-Touch vs. Electronic Mix of Canadian Equity Trading Volume



Note: Based on 41 respondents in both years.
Source: 2010 Canadian Equity Investors Study

Proportion of Commissions Allocated for Specific Services



Note: Based on 45 respondents in 2008, 37 in 2009 and 43 in 2010.
Source: 2010 Canadian Equity Investors Study

paying an average “all-in” blended commission rate of 2.46 cents-per-share, down from 2.66 cents in 2009. Among the largest and most actively trading Canadian institutions, the average “all-in” rate has declined to 2.4 cents-per-share from 2.7 cents.

Those “all-in” rates span all types of trades, including traditional “high-touch” trades facilitated by broker sales-traders, program trades and direct-to-market electronic trades. Approximately 16% of institutional trading volume in domestic equities was executed through self-directed single-stock trades from 2009–2010, off slightly from the 17% executed via these electronic platforms the prior year. Included in the electronic volume was 7% of total trading volume executed through algorithmic trading strategies, 6% executed via direct-to-market single-stock trades/smart order routing and 3% executed through crossing networks or dark pools. Canadian institutions paid an average commission rate of 1.4 cents-per share on these electronic trades.

“Institutions predict that electronic execution will account for 18% of total trading volume within three years, with growth driven by increases in algorithmic trading and dark pools/crossing networks,” says Jay Bennett. “However, changes in trading practices could prove much more rapid and much less linear than suggested in institutions’ predictions about the future mix. The reason: Lines are

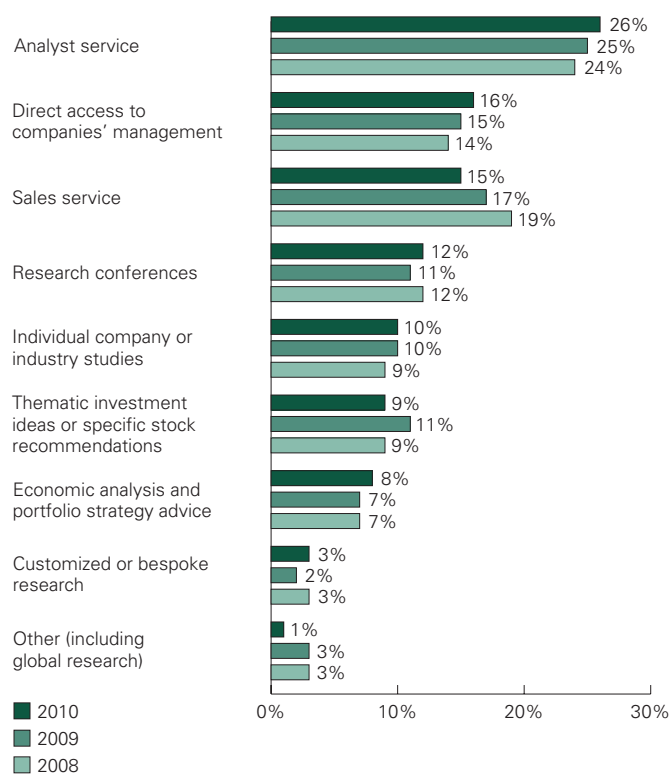
blurring between some of these non-traditional execution methods. In particular, algorithms are increasingly able to source liquidity from crossing networks and dark pools. Institutions are only starting to develop trading techniques to best take advantage of these new technologies.”

Breaking Down the Commission Spend

Of the approximately \$690 million in commissions paid last year on trades of domestic stocks, Canadian institutions used roughly 60% to compensate brokers for research and advisory services and just over 30% to pay for sales trading services and trade execution.

Proportion of Research Allocation for Specific Research, Sales and Corporate Access

Total Canadian Institutions



Note: Based on 45 respondents in 2008, 42 in 2009 and 41 in 2010.
Source: 2010 Canadian Equity Investors Study

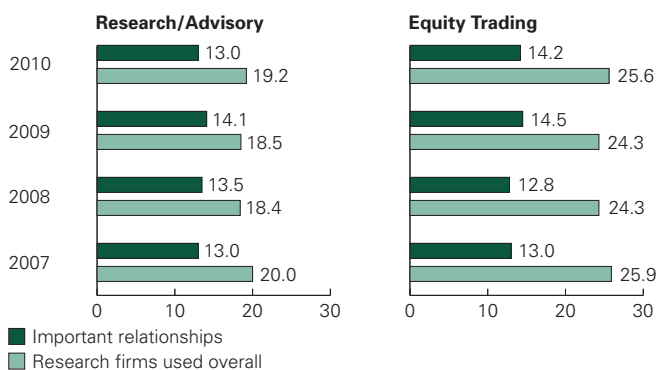
Of the approximately \$407 million in commission paid for research and advisory services, institutions used about 26% to compensate brokers for analyst service/direct access to analysts, 15% for sales service and 9% for investment ideas and stock picks. The biggest chunk of research commission payments were used to reward brokers for facilitating meetings between institutions and company management teams. Institutions allocated

a combined 28% of their research commission spend to compensate brokers for facilitation of direct access to company management and for the sponsorship of industry research conferences that provide opportunities for face-time with management teams.

Greenwich Leaders: Canadian Equities

Canadian institutions last year made modest additions to their lists of brokers used for domestic equity research and trade execution. While institutions in general expect to keep their lists of research providers stable in terms of size in 2010-2011, about 30% plan to cut back on the number of brokers used for domestic stock trading.

Number of Brokers Used for Canadian Research/Advisory vs. Equity Trading



Note: For research/advisory, based on 51 respondents in 2007, 59 in 2008, 59 in 2009, and 49 in 2010. Important research/advisory firm includes those firms cited as a top 15 broker or distinctive on any sales or research factor. For equity trading, based on 48 respondents in 2007, 50 in 2008, 49 in 2009, and 44 in 2010. Important trading firm includes those firms cited as a top 15 trader or distinctive on any trading factor. Source: 2010 Canadian Equity Investors Study

“In a year in which the commission pool appears to be falling well short of expectations, Canadian institutions should be paying careful attention to how they are allocating their commission dollars,” says Jay Bennett. “With less currency to spend, institutions that fail to closely coordinate operations between portfolio managers and traders in allocating commissions could be jeopardizing their access to research and other services that are important to the investment process.”

The following tables identify the 2010 Greenwich Share Leaders in Canadian Equity Brokerage in terms of market share in secondary trading and overall franchise quality. The Greenwich Quality Leaders are determined by their scores on the Greenwich Quality Index (GQI), a normalized composite of client evaluations of the managers' equity trading franchises in a variety of product and service categories.

Greenwich Share Leaders — 2010



Canadian Equity Research/Advisory Vote Share

	Vote Share
RBC Capital Markets	13.7%
BMO Capital Markets	13.2%
TD Securities	9.7%
CIBC	9.5%
Scotia Capital	9.3%

Canadian Equity Trading Market Share

	Market Share
RBC Capital Markets	13.9%
TD Securities	12.6%
BMO Capital Markets	11.5%
CIBC	10.2%
Scotia Capital	8.5%

Note: Based on 49 respondents for Canadian Equity Research and 46 for Canadian Equity Trading. Leaders are based on top 5 brokers including ties.
Source: 2010 Canadian Equity Investors Study

Greenwich Quality Leaders — 2010



Canadian Equity Sales and Research Quality

BMO Capital Markets
RBC Capital Markets
Scotia Capital

Canadian Equity Trading Quality

BMO Capital Markets
RBC Capital Markets
TD Securities

Note: Based on 49 respondents for Canadian Equity Sales and Research and 46 for Canadian Equity Trading. Leaders cited in alphabetical order including ties.
Source: 2010 Canadian Equity Investors Study

Consultants Jay Bennett, John Feng and John Colon advise on the institutional equity markets globally.

Methodology

Greenwich Associates interviewed Canadian equity fund managers about the research and sales services they receive and Canadian equity traders about the trading services they receive from their brokers in Canada. They were also asked about current market practices, trend, and compensation. Ninety-five interviews were conducted between December 2009 and February 2010.

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6 High Ridge Park Stamford CT 06905 USA

Tel: 203 625 5038/800 704 1027

Fax: 203 625 5126

email: ContactUs@greenwich.com

www.greenwich.com