

U.S. Equity Commission Pool Continues to Shrink

2017 Greenwich Leaders: U.S. Equities

Q2 2017

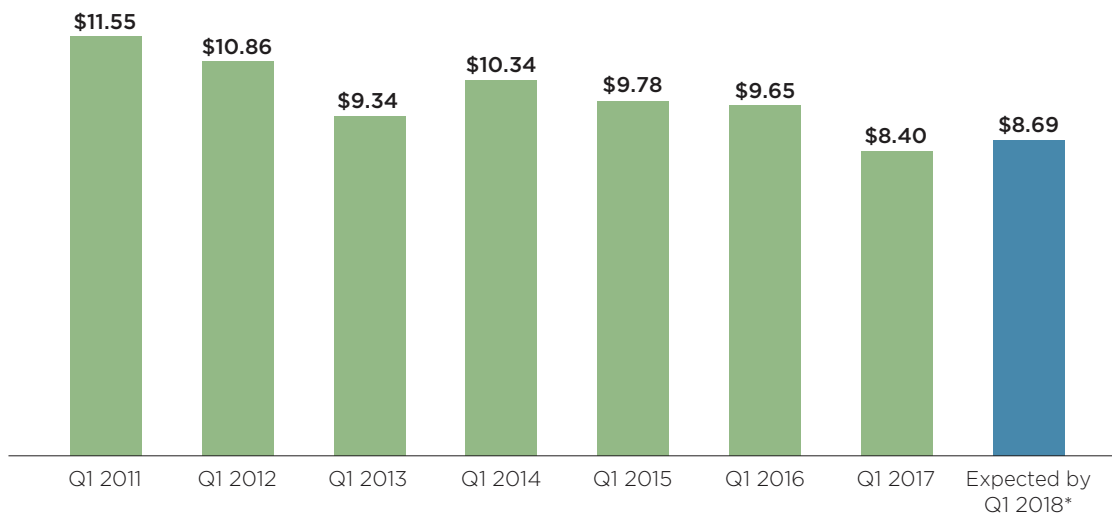
J.P. Morgan, Morgan Stanley and Goldman Sachs top the list of Greenwich Associates 2017 Share LeadersSM in U.S. Equities, besting all rivals in both research/advisory vote share and trading commission share. However, even these leaders are being forced to contend with a secular slowdown in trading activity that has shrunk the equity trading commission pool and reduced revenues.

The pool of commissions earned by brokers on trades of U.S. equities within the Greenwich Associates universe contracted 11-12% last year to an estimated \$8.4 billion. That drop marked the third consecutive year of decline. The total amount of commissions collected by brokers on trades of U.S. equities has dropped roughly 27% since 2011.

Broker-dealers were hoping for a turnaround in the first quarter of 2017, when trading revenue for the top U.S. investment banks (including equities and FICC) jumped some 15%. Banks, their clients and investors were optimistic this surge would continue into Q2 and beyond.

“The institutions participating in our 2017 study were predicting a 3-4% increase in the equity commission pool to nearly \$9 billion by Q1 2018,” says Greenwich Associates Managing Director Jay Bennett. “By late May, however, several banks were signaling the market that the pace of trading had slowed once again, and that trading revenues were likely to disappoint—again.”

TOTAL ESTIMATED U.S. EQUITY COMMISSIONS (in billions)



Note: Based on reported buy-side spend as of 12 months ended early Q1. *Based on matched sample of reported average spend per account declining from \$16.6 million to \$14.7 million, the total estimated commissions for the Greenwich Associates universe is \$8.40 billion for the 12 months ended Q1 2017, when projected to trading universe of 547 accounts in 2017 study. Source: Greenwich Associates 2017 U.S. Equity Investors Study

Greenwich Share Leaders — 2017



U.S. Equity Trading Share^{1, 2}

Broker	Trading Share	Statistical Rank
J.P. Morgan	8.5%	1T
Morgan Stanley	8.2%	1T
Goldman Sachs	7.9%	1T
Bank of America Merrill Lynch	7.5%	4
Credit Suisse	6.2%	5

U.S. Equity Research/Advisory Vote Share¹

Broker	Vote Share	Statistical Rank
J.P. Morgan	9.1%	1
Morgan Stanley	8.1%	2T
Goldman Sachs	7.9%	2T
Bank of America Merrill Lynch	7.2%	4
Citi	6.6%	5T
Barclays	6.3%	5T

U.S. Equity Algorithmic Trading Share³

Broker	Trading Share	Statistical Rank
Morgan Stanley	9.4%	1
Goldman Sachs	8.1%	2
Bank of America Merrill Lynch	7.7%	3T
J.P. Morgan	7.7%	3T
Sanford C. Bernstein	7.4%	3T

Portfolio Trading Share - North American Institutions⁴

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	11.6%	1
Goldman Sachs	9.6%	2
Morgan Stanley	8.2%	3T
J.P. Morgan	8.0%	3T
Nomura/Instinet	8.0%	3T

Note: Based on responses from 300 buy-side institutions for U.S. Equity Trading Share and 214 for U.S. Equity Research/Advisory Vote Share, both weighted by commission spend of accounts. ¹Greenwich Associates Research/Advisory Vote Share and Trading Share represent a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. ²Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ³Based on 266 respondents. Broker share is weighted by overall commission size of institutions and buy-side traders' allocation by rank. Algorithmic/SOR Trading share is weighted by overall Algorithmic/SOR commissions paid by institutions' and buy-side traders' allocation by rank. ⁴For the 74 respondents for North American Portfolio Trading Share, the results are weighted by notional portfolio trading dollar volume. Top five leading brokers are cited including ties. Source: Greenwich Associates 2017 U.S. Equity Investors Study

Greenwich Share Leaders

The 2017 Greenwich Share Leaders in U.S. Equity Trading are J.P. Morgan, Morgan Stanley and Goldman Sachs, which are statistically tied for first place, followed by Bank of America Merrill Lynch and Credit Suisse.

In the list of Greenwich Leaders in U.S. Equity Research/Advisory Vote Share, J.P. Morgan holds the top spot by itself, followed by Morgan Stanley and Goldman Sachs in second, Bank of America Merrill Lynch in fourth place, and Citi and Barclays, which tie for the final spot.

In the increasingly important category of U.S. Equity Algorithmic Trading, the 2017 Greenwich Share Leaders are Morgan Stanley and Goldman Sachs, followed by the trio of Bank of America Merrill Lynch, J.P. Morgan and Sanford C. Bernstein, which are statistically tied for third.

Robert W. Baird maintains its position as the top broker used for U.S. small/mid-cap equities. In a statistical tie for second place are Raymond James, J.P. Morgan and Jefferies, while KeyBanc/Pacific Crest and Stifel Nicolaus tie for fifth.

Greenwich Quality Leaders — 2017



U.S. Equity Research Product & Analyst Service Quality

Broker

J.P. Morgan
Morgan Stanley
Sanford C. Bernstein

U.S. Equity Sales & Corporate Access Quality

Broker

J.P. Morgan
Morgan Stanley

U.S. Equity Sales Trading & Execution Service Quality¹

Broker

Goldman Sachs
J.P. Morgan
Morgan Stanley

U.S. Equity Electronic Trading Quality²

Broker

J.P. Morgan
Jefferies
Sanford C. Bernstein

U.S. Equity Commission Management Service & Execution Quality

Broker

Westminster/Cowen
ITG
Nomura/Instinet

Note: Based on 214 respondents for U.S. Equity Research Product & Analyst Service Quality (portfolio managers) and U.S. Equity Sales & Corporate Access Quality, 300 for U.S. Equity Sales Trading & Execution Service Quality, 269 for U.S. Equity Electronic Trading Quality, and 196 for Equity Commission Management Service & Execution. Leading brokers are displayed in alphabetical order including ties. ¹Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. ²Electronic Trading encompasses electronic trading, client service, sales and algorithmic product quality. Source: Greenwich Associates 2017 U.S. Equity Investors Study

Greenwich Quality Leaders

As part of its 2017 U.S. Equity Investors Study, Greenwich Associates interviewed 315 institutional portfolio managers and 300 institutional traders about the brokers they use for U.S. equities. Study participants were asked to name the brokers they use, to estimate the amount of business done with each firm, and to rate the brokers in a series of product and service categories. Firms that received client ratings that top those of competitors by a statistically significant margin were named Greenwich Quality LeadersSM.

The 2017 Greenwich Quality Leaders in U.S. Equity Research Product & Analyst Service are J.P. Morgan, Morgan Stanley and Sanford Bernstein. The 2017 Quality

Leaders in U.S. Equity Sales & Corporate Access are J.P. Morgan and Morgan Stanley. That duo is joined by Goldman Sachs in U.S. Equity Sales Trading & Execution Service. In U.S. Equity Electronic Trading, the 2017 Greenwich Quality Leaders are J.P. Morgan, Jefferies and Sanford Bernstein. The 2017 Greenwich Quality Leaders in both U.S. Small/Mid-Cap Equity Sales & Corporate Access and U.S. Small/Mid-Cap Research Product & Analyst Service are KeyBanc/Pacific Crest, Raymond James, Robert W. Baird, and William Blair. And in a new category, U.S. Equity Commission Management Service & Execution, Westminster/Cowen, ITG and Nomura/Instinet are the 2017 Greenwich Quality Leaders.

Consultants Jay Bennett, John Feng, Richard Johnson, and David Stryker advise on institutional equity markets globally.

Greenwich Share and Quality Leaders — 2017



U.S. Small/Mid-Cap Research/Advisory Penetration

Broker	Market Penetration	Statistical Rank
Robert W. Baird	80%	1
Raymond James	76%	2T
J.P. Morgan	75%	2T
Jefferies	73%	2T
KeyBanc/Pacific Crest	69%	5T
Stifel Nicolaus	69%	5T

U.S. Small/Mid-Cap Equity Sales & Corporate Access Quality

Broker
KeyBanc/Pacific Crest
Raymond James
Robert W. Baird
William Blair

U.S. Small/Mid-Cap Equity Research Product & Analyst Service Quality

Broker
KeyBanc/Pacific Crest
Raymond James
Robert W. Baird
William Blair

Note: Based on interviews with 101 institutions. U.S. Small- and Mid-Cap Research/Advisory Penetration represents proportion of investors citing each broker as one of their 15 most important research/advisory firms. Share leaders are based on top five brokers including ties. Quality leaders are cited in alphabetical order including ties. Source: Greenwich Associates 2017 U.S. Equity Investors Study

METHODOLOGY

Between December 2016 and February 2017, Greenwich Associates interviewed 214 U.S. generalist equity portfolio managers, 101 small/mid-cap fund managers, 300 U.S. equity traders, and 74 portfolio traders at buy-side institutions. The study participants were asked to evaluate the sales, research and trading services they receive from their equity brokers and to report on important market practices and trends.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

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