

FT - Big banks face contest in research

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Independent research houses are elbowing aside the big banks to gain a foothold in the lucrative market for investment analysis.

Tomorrow's annual Thomson Reuters Extel Awards, dubbed the City Oscars, will reveal independent houses are increasingly being favoured by European asset managers.

Figures due to be released this week by Greenwich Associates, a consultancy, will show independent research providers and mid-size regional banks are, for the first time receiving a third of commission dollars in the US, at the expense of the bulge-bracket banks.

This figure could be set to rise faster still, with a raft of asset managers set to adopt commission sharing agreements (also known as client commission arrangements) in the next 12 months.

These deals, which allow asset managers to unbundle the payments they make for execution and research, have been pivotal in providing funding for independent research houses. "There is no question that the unbundling rules changed the terms of trade in the industry.

"That favours the emergence of new entrants into the market," said Jeremy Evans, senior partner at Redburn Partners, a pan-European equity research house that has become the first independent outfit to enter the top 20 of the Extel survey in terms of votes won.

"The advent of CSAs has enabled us to focus commission payments more directly and I think that has changed the landscape quite a bit," said Gunnar Miller, head of European research at RCM, a global investment house.

A record 37 independent firms will be named among the top 250 research providers in this year's Extel awards, up from 27 two years ago.

The independents' share of the overall vote has also risen, albeit from 2 to 3 per cent, with the fact that most operate in niche sectors stopping them from accumulating votes across the board.

"Some of those independents, such as the top three or four firms, are now in a position where the services they offer are in direct competition, not with boutiques, but with the mainstream major investment banks," said Steve Kelly, managing director of Thomson Reuters Extel.

“They have been able to develop a reputation, and a level of client contact, that means, in the sectors of the market in which they operate, they are at the ‘top table’ as it were, in clients minds, rather than relying on scraps,” said Mr Kelly, who said he could “well see” Autonomous Research, a financial sector specialist, “being in the top five or six in the banking sector, from nowhere”.

In the US, independents have increased their share of the commission pot from 2.6 per cent in 2007 to 3.4 per cent, and the mid-sized sector specialists have gone from 26.2 per cent to 32.4 per cent, according to Greenwich.

The independents are likely to strengthen their toehold further, with 77 per cent of long-only investment managers saying they will have CSAs or CCAs in place in a year’s time, compared with 57 per cent today, with take-up among hedge funds seen rising from 48 to 67 per cent. Some 92 per cent of banks say they will accept CSAs and CCAs in a year’s time, up from just 50 per cent now.

Rise of independents

Extel Survey

	No of IRPs* in top 250	% of weighted Extel vote
2008	27	2
2009	31	2
2010	37	3

US institutions with CCA/CSA arrangements

Per cent	2009	2010	2011**
Long-only investment managers	51	57	77
Pensions and endowments	40	56	56
Hedge funds	42	48	67
Banks	53	50	92

* Independent research providers ** Forecast

