



BNY MELLON | PERSHING



The 2018 GC McLagan Prime Brokerage Survey



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An expanding universe

The 2018 Prime Brokerage Survey has been revised to allow respondents to assess a broader range of service requirements.

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.

As in 2017, the Prime Brokerage Survey 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.

The table shows, for example, that the largest respondents are also the harshest markers. This may well be reflected in the category scores of those providers with a sizeable cohort of large firms in their survey response sample.

With aggregate category scores ranging from 5.37 (Capital Introductions) to 6.13 (Sales and Marketing), the overall impression in this year's Prime Brokerage Survey is that concerns about any particular service are limited to individual providers and are not survey-wide.

TABLE 1: AGGREGATE RESULTS BY SIZE AND LOCATION OF RESPONDENTS

	Global Weighted Average Scores	Firm Size			Location		
		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

Methodology

The 2018 Prime Brokerage Survey asked respondents to address 57 questions across 18 service areas, though 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. For each service area, respondents were also invited to provide commentary. A

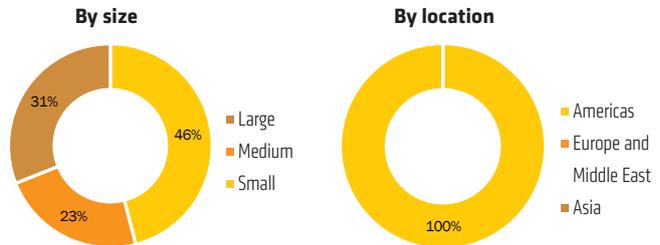
total of 1,400 completed questionnaires were received on behalf of 35 prime brokers. After clean-up and validation, 1,395 responses remained. The analysis published in this report is based on average scores given by respondents. They are weighted for the size (measured by assets under management, or 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.

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. 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%

STRENGTH SUPPLY SERVICE

Harness the power of BNY Mellon's Pershing through an award-winning prime services team that is entirely focused on your needs. From the seamless movement of collateral to unique financing solutions, we are poised to help you meet your business challenges at every turn.

We are invested in your success.

For more information, email primeservices@pershing.com



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