



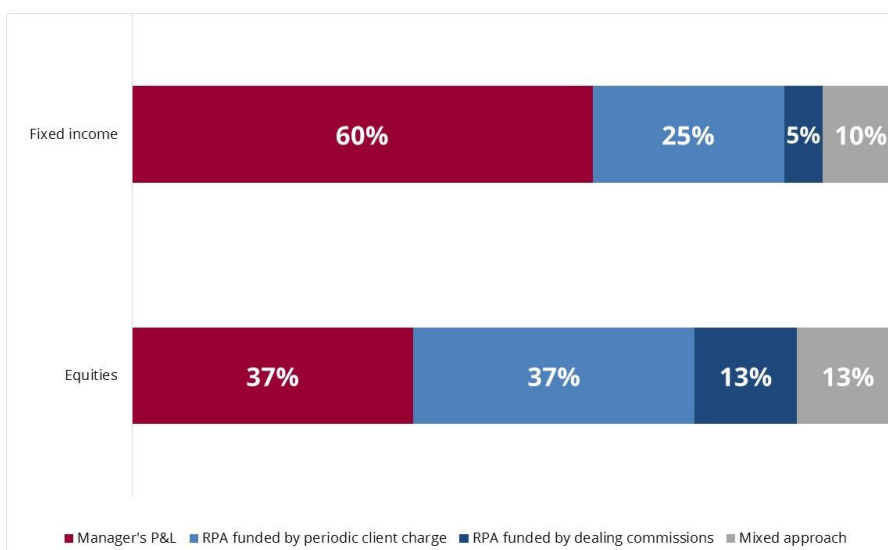
Payment for research after MiFID2: Hedge fund industry state of play

July 2018

Summary

- In July 2018 AIMA ran a survey of member firms regarding their experiences of using investment research in a MiFID2 environment. 34 firms responded.
- The position on how firms are paying for research is similar to what we saw in December 2017: P&L wins out for fixed income (just under two-thirds) and RPA approaches dominate for equities. Cost increases have been more apparent in the fixed income world, whereas more firms have seen costs fall for equities research. A majority of firms expect research expenditure to remain flat or decrease over the coming months, although there is more optimism regarding equities research pricing.
- Overall, there is no strong view that research quality has improved in light of MiFID2.
- A third of firms reported a reduction in the coverage of small and mid-cap issuers.
- The extent to which firms are relying on broker research has decreased. There hasn't been a major shift in terms of how much firms are relying on independent providers or on inhouse research.
- Where firms operate in multiple jurisdictions they have tended to prefer to unbundle on a global basis – approximately 70% of firms are opting for this approach.
- For the most part, investors are not pushing managers to adopt particular payment models.
- Alongside charts presenting the data, we have also included comments provided by survey respondents.

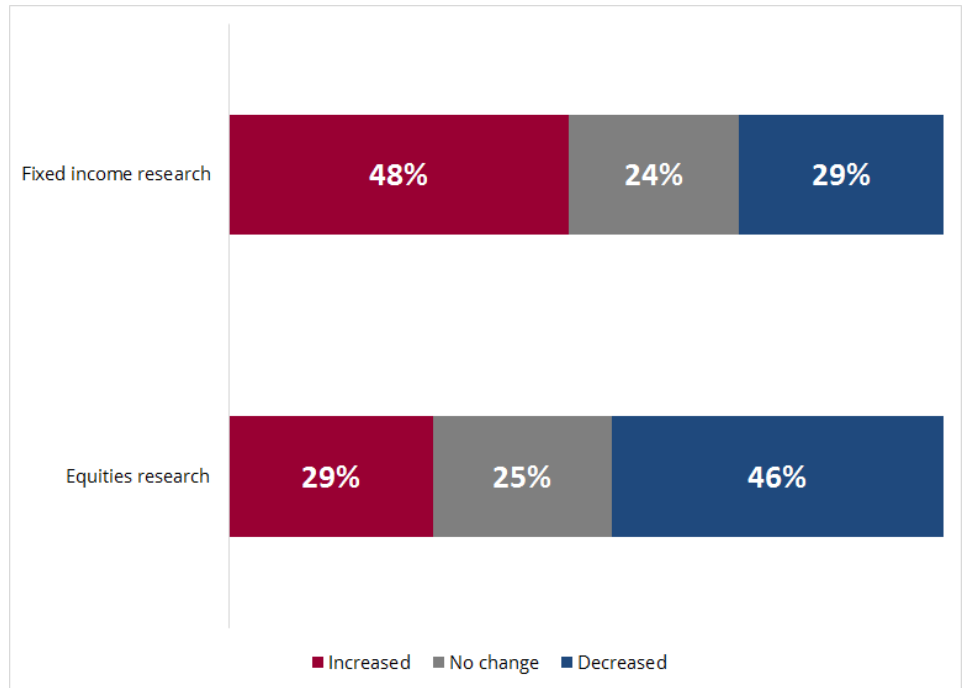
How is your firm paying for investment research in the EU?



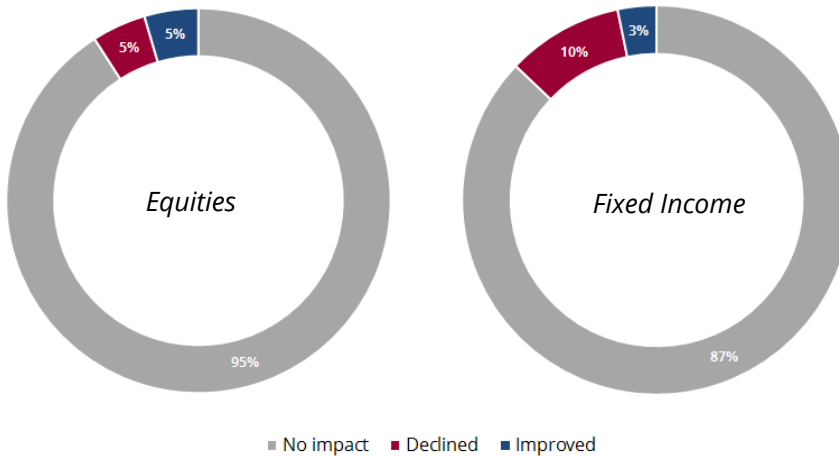
How has your firm's overall research spend changed post-MiFID2 implementation?

"Non-Independent Fixed Income Research was historically free and is now chargeable. Consumption patterns of equities research are changing."

"A slight decrease, but to tick 'decrease' would be misleading."



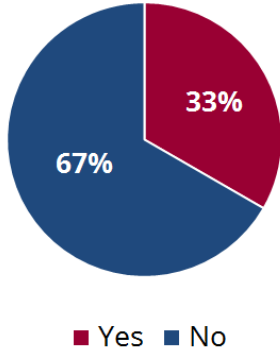
In your view, have the MiFID2 research rules had an impact on the quality of research?



"Too soon. Expect that quality will decline over time or certainly that some of the very good independent research firms will struggle to survive"

"No particular impact to date, but will be interesting to monitor developments over the medium term given how research spend has decreased."

Have you noticed a reduction in the availability of research on small and mid-sized quoted companies?



"Not as yet, albeit may impact longer term."

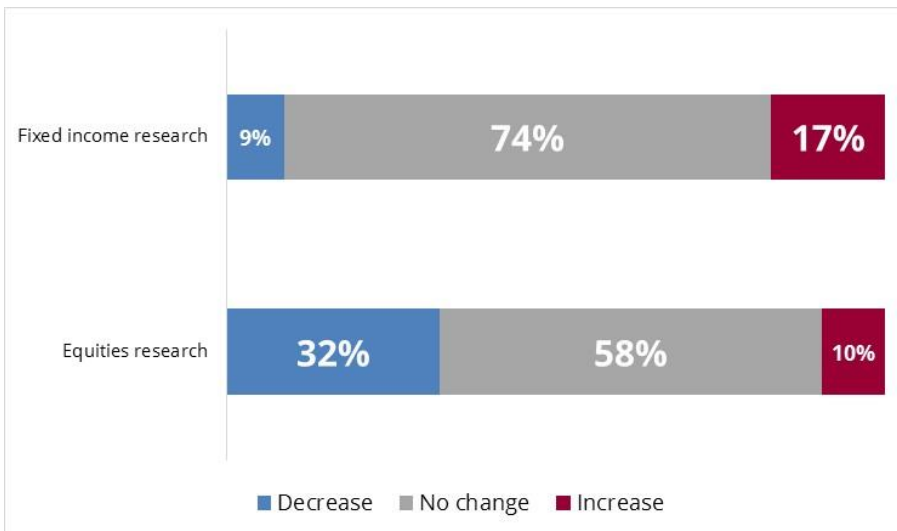
How has your firm's consumption of research changed with the introduction of MiFID2?

"While it is still early, we are seeing a shift from broker to independent research providers and suspect this pattern will gain momentum."

"Somewhat less on the sell side since we are now paying for the research and as such likely consuming less of the research."

	Less	No change	More
Broker research	62%	32%	6%
In-house research	0%	85%	15%
Independent research	18%	71%	12%

How do you anticipate your firm's ongoing research spend will change over the medium/long term?



"Too early to tell. Firstly it's dependent on business growth and the number (and style) of investment teams that we have on the platform. Over time we may look to increase our internal analyst resource pool and also maximise corporate access"

"Slight decrease, but we believe we pay for a higher level of service and therefore are not seeking to drive the cost down hard."

If your firm sources research outside the EU, how are you managing any conflicts of rules?

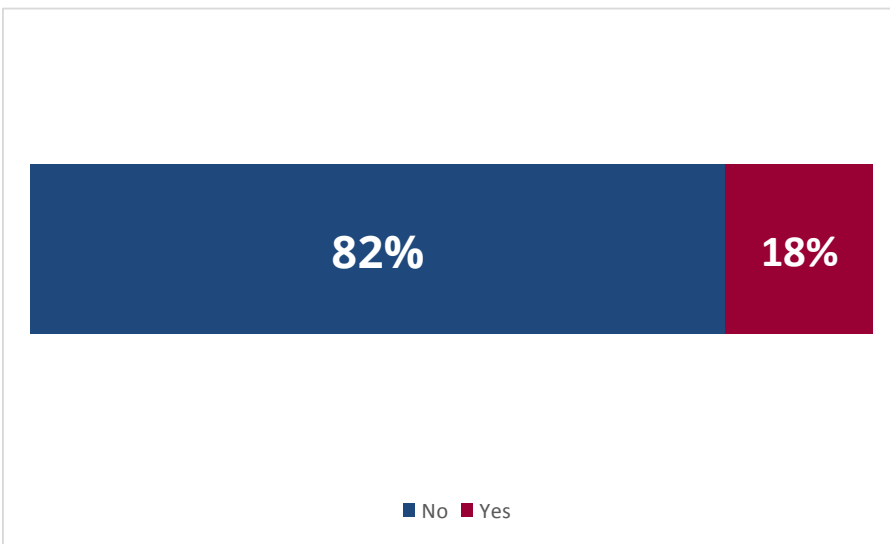
Unbundling research fees from execution fees globally

68%

32%

Segregating the EU business from the non-EU business and adopting different payment models

Have you experienced pressure from investors to change your methodology for paying for research?



"No concerted pressure but have had inquiries from investors."

"Yes desire for manager to absorb cost."

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