Euro IRP
The European Association of Independent Research Providers

Euro IRP Members Study 2018

'Independence, with added value, is what the buyside is always asking for.'

July 2018

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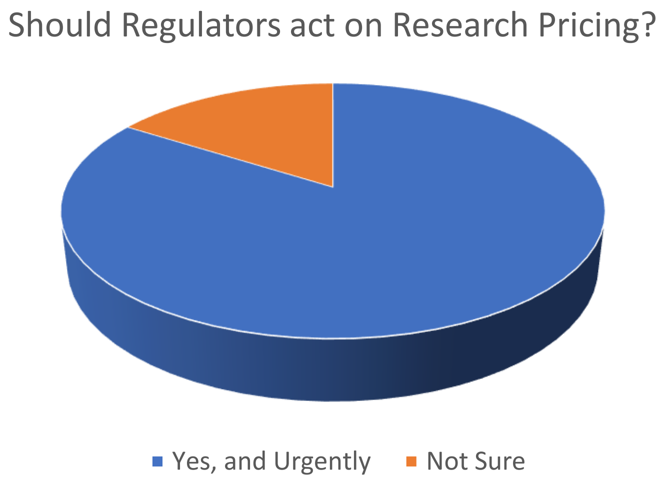
EXECUTIVE SUMMARY

- Euro IRP members are calling for urgent action on research pricing, amid deep concerns about cross-subsidisation of research services by the investment banks
- Revenues for IRPs are flat or declining for many firms, with real pressure on margins
- Asset managers are using fewer research counterparties, and often it is IRPs who are feeling the brunt of these reductions
- Trials and marketing to new prospects are hard to come by, despite IRPs being free of risk of inducement for asset managers
- Research pricing remains opaque, and as part of addressing this, Euro IRP is providing average prices for seven key components of research services

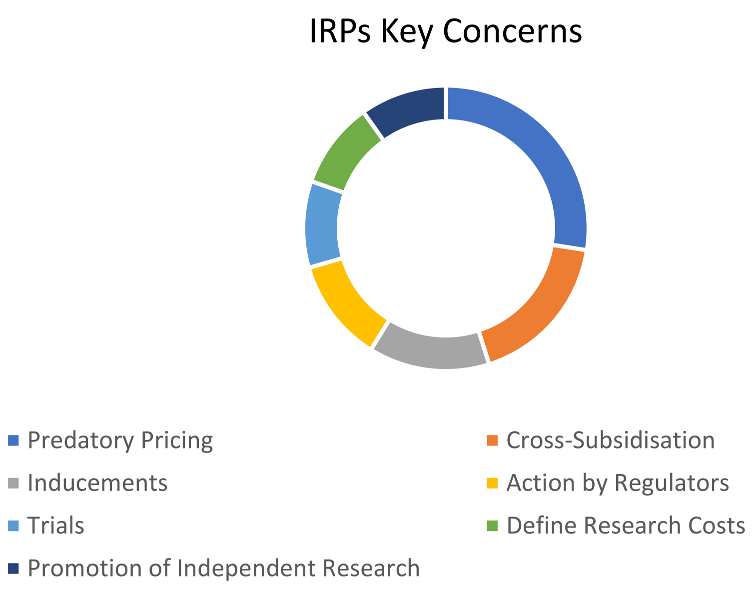
This 2018 Euro IRP Members Study builds on the first study undertaken in mid-2017, and presents a very complete picture of the status of independent investment, and the challenges and opportunities in the market. The key dynamic is, of course, MiFID II, which is reshaping the whole investment industry. Euro IRP, on behalf of all our members, has been a firm advocate of the aims of MiFID II, to bring full transparency and accountability to investment research provision, consumption and payments – for a more efficient, equitable marketplace, for the true benefit of end investors.

Euro IRP as an industry, and our member firms individually, are however, truly concerned that parts of MiFID II, most notably research pricing, are not functioning as they should. This is not in the main due to regulatory failings, nor to the attitude or activities of asset managers. Rather it is predominately the continuance of cross-subsidisation of their research by investment banks and major brokers, which is subverting and restricting a true level playing field for research providers, and preventing the best outcomes for end investors. Over 80% of Euro IRP members are calling on regulators to take urgent action to address and remedy this. We welcome the FCA announcement they are placing research pricing under 'very close scrutiny', and we hope this report, and its findings, can assist in that process.



This perspective from IRPs of the need for urgent action springs from the concerns that they have, and see in their business every day. For many IRPs, in particular those with smaller operations, revenues, client numbers and business prospects are all being squeezed. Costs have increased, or certainly not declined, and for some margins are now very tight indeed. They face a genuine existential challenge. *'Voter accounts globally are taking advantage of MiFID II to enforce pricing that brokers are absorbing, and will put 50 % of IRPs out of business within 12 months'.* (Please note, all comments in blue italics in this report come directly from Euro IRP members, and are presented anonymously).

Even overall, IRPs revenues as a group are flat compared with last year, and amongst some members, the revenue decline, driven as much by being removed from counterparts lists by clients as by research price reductions, poses a fundamental question on the sustainability of their business.



The question of research pricing has – and no surprise there – been at the heart of every Euro IRP event and meeting over the last year and more. And it has been front and centre in the 2018 Study. In setting out what members have told us, there are four absolutely key points –

- The issues of so-called predatory pricing, cross-subsidisation and inducements are really all just one subject, with cross-subsidisation lying at the heart of it. The reason banks can lowball prices for research as they are doing, is simply because the costs of their research business is being subsidised by other parts of the bank. And they do that as part of retaining and deepening relationships with the buyside, to generate other revenues through other services. As research is now under MiFID II a distinct and very separate service, and cannot be used as an inducement, then the use of prices by the sellside which do not reflect at all the economic cost of production, places the buyside at a very real risk of falling foul of the inducement rules. *'Action is needed to stop cross-subsidisation of research businesses within investment banks, leading to rock-bottom prices to keep trading and other connections with as wide a number of buyside firms as possible. This is an inducement'*.

- In reviewing the position, as the regulators are doing, there is obviously an imperative for greater price transparency and visibility, as indeed was an original ambition in MiFID II. Such assessments need to focus on cross-subsidisation, rather than seeking to unwrap the complexities of many different pricing models. *'Bulge bracket pricing is clearly an inducement and a direct breach of the law. Not to do something is to accept that the bulge bracket can choose which laws to abide by and which are only optional'.*

- The way the buyside has responded to MiFID II by reducing numbers of counterparties is both very intuitive, and entirely reasonable on one level. It does however, make discovery of new analysts and insights much more challenging. For IRPs, the rules on trials and marketing – the obvious way through to discovery – present an inappropriate restriction. These rules are rightly framed to prevent market abuse and inducement risk. IRPs, by very definition, offer zero inducement risk, and the buyside should be able to freely access and test IRP services at any point in time. *'If they don't remove the free trial restriction for IRP, then I will likely be forced to partner with a broker to get new clients, i.e. it could kill the organic independent prospects for my business.'*

- The more price information in the market the better and more consistent the market will be. This offers direct and real benefits for asset managers and their clients. In this spirit this report provides average price numbers for overall research services, and for the key components of service. Clearly, different clients have different needs, and IRPs, like any business, offer flexible, client-driven pricing. Yet there needs to be some framework and reference points, and we are providing them. *'Euro IRP can help by liaising with buyside to address the value of research and what the buyside wants versus what it is willing to pay for.'*

Steve Kelly
Special Adviser, Euro IRP
July 2018

Research Pricing

'For the first time IRPs are the expensive option, when seeking new business across Europe'

This section sets out the views of IRPs about the future direction of research prices; what IRPs are charging for their services; and where the credit research market is. The central findings are -

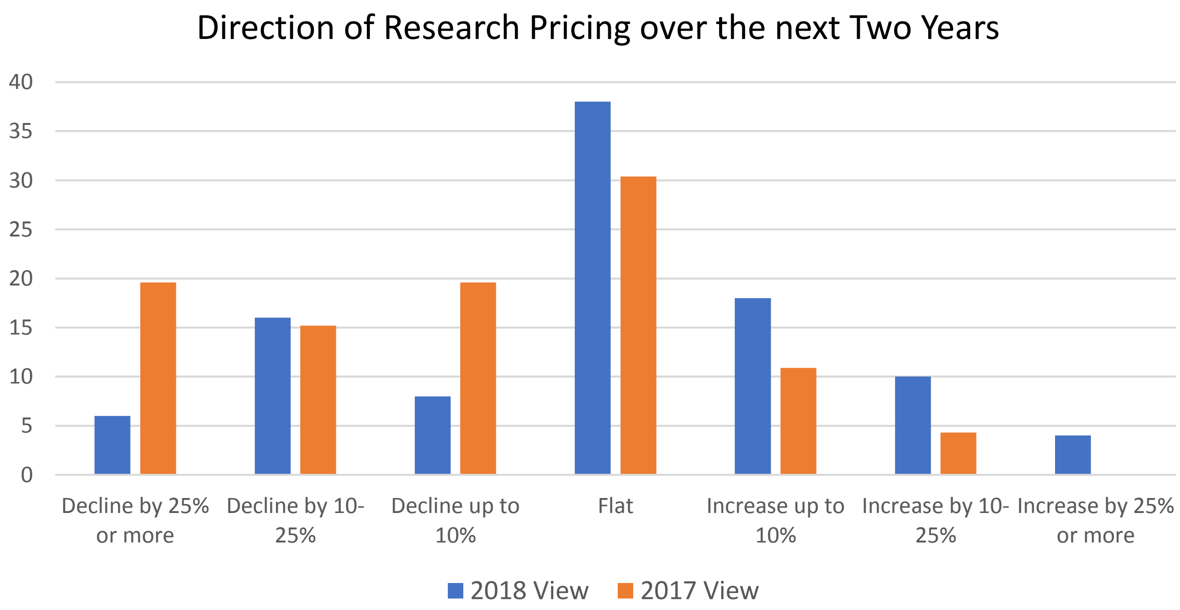
- The average price for an annual full research service provision from an IRP is $45,200; and the average price for a full, in-depth thematic report is $7,500. These are illuminating numbers, against the aggressive lowball pricing of the sellside

- Research pricing remains opaque. It may not be a mystery, wrapped inside an enigma, inside a riddle – but it sometimes feels like that. We believe all parts of the market, and the buyside and their clients most of all, will benefit from far greater price transparency, and thus provide IRP average prices for all major components of a research service offering

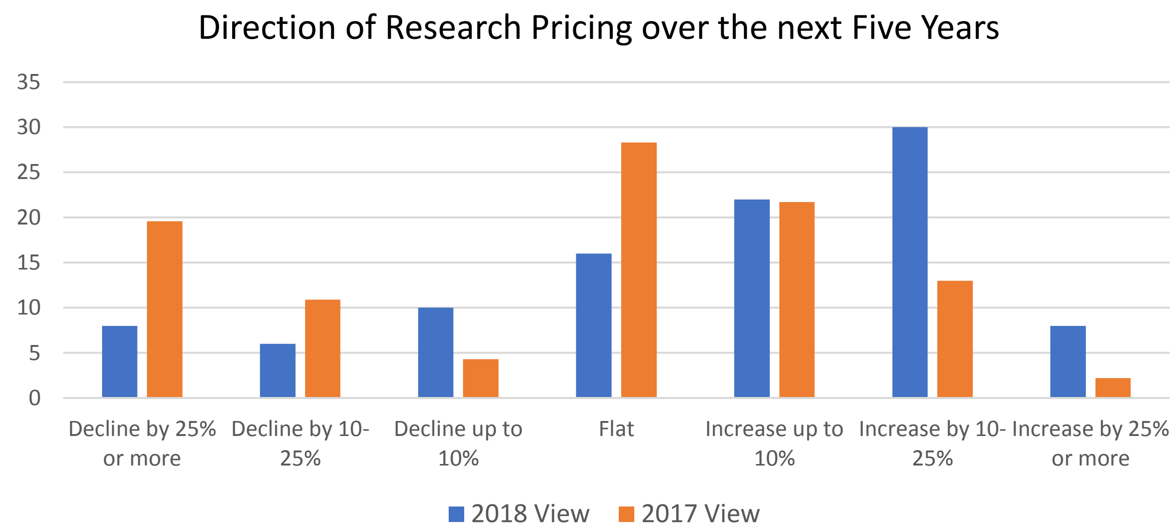
- IRPs are broadly equally divided on whether prices two years hence will be in further decline, flat, or showing some uptick. Pricing levels and expectations have dropped significantly in the last year, and looking forward, it may be that a floor has been reached

- Pricing in the credit research space remains complex, and payment methods likewise, with a marginal shift towards hard dollar payments

Firstly, what IRPs are anticipating in research prices going forward. Over the next two years, whilst the largest single view is that prices will be flat, there is no uniformity of sentiment. It is noteworthy that compared with last year, there is more expectation of prices rising. The likely basis for this is the undeniable and universal decline in prices over 2017, and into the advent of MiFID II. As we discuss in the Executive Summary, that downward pressure has really been driven by cross-subsidisation at the investment banks, along with the understandable acceptance of lower prices by asset managers, especially when they have moved to paying for research directly out of their own pockets. For IRPs, the approach of the sellside remains a real source of frustration. *'We have had anecdotal evidence from clients that investment banks are providing them the same level of research as previously at no charge'.*

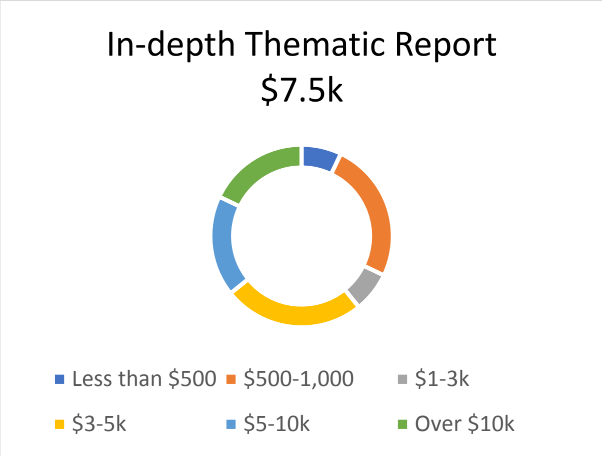


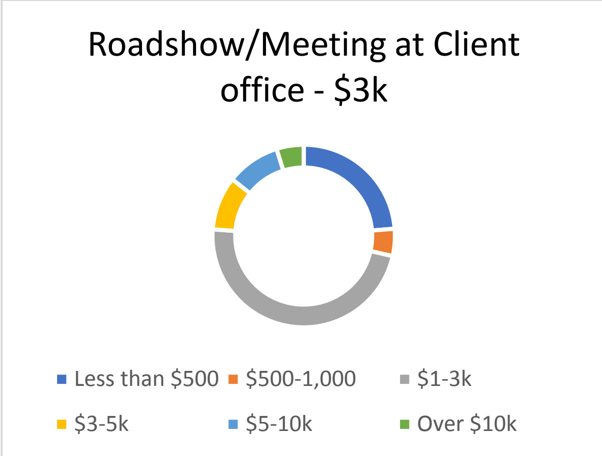
The perspective on a five year horizon is somewhat more optimistic, with 60% of IRPs seeing increases in price, as opposed to just over half that percentage who see price growth on the two year timeframe. Again, to an extent, this view is coloured by the recent drops in price. But it will too reflect a fundamental realistic optimism – if you are in a business, and deeply committed to it, as all IRPs are – then you are almost bound to project growth going forward.

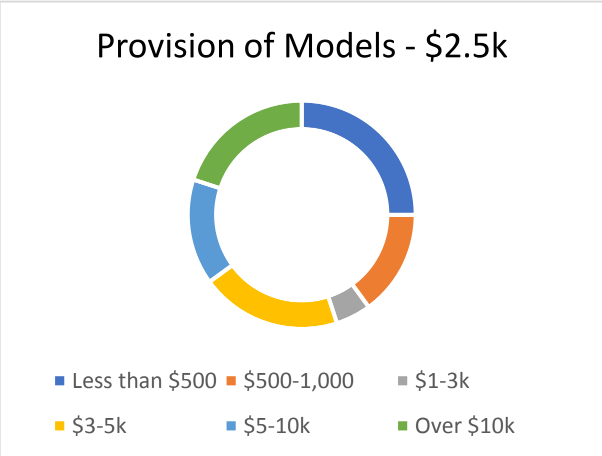


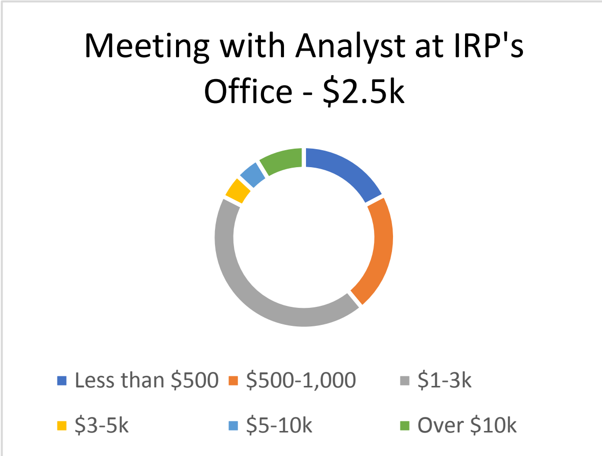
Defining exactly all the elements of the investment research service is a thankless task. Different providers will do things in a different way, much work is bespoke or tailored anyway, and negotiations with clients, whilst probably following a similar pattern, are always individual. That said, there are a number of core components, which are broadly understandable and comparable. We've sought to give this breakout, to then collect data from IRPs to construct average prices for each service aspect. It isn't an exact science, and it will obscure many variations. But, you have to start somewhere, and we know the buyside, on their own account, and very much thinking of their clients, are eager to have some benchmarks and parameters on pricing, which appears hard to obtain from the traditional sellside. *'Sellside pricing by banks is still not clear for asset managers. They are reluctant to take meetings because they are not sure how much they will be charged'.*

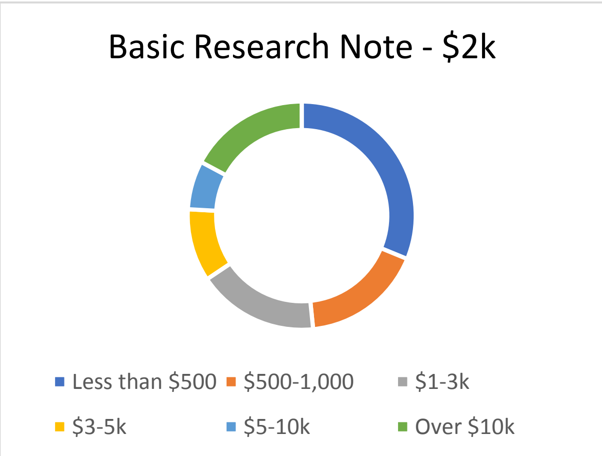
The charts following show prices, and an indication of variations from our respondents, across seven elements of research services. When you cross reference this to what it is the buyside values, the data aligns strongly. Asset managers want ideas and access to analysts, and much prefer longer-term analyses, backed by intellectual rigour to provide a deep view. Thus it makes good sense that in-depth thematic reports, meetings with analysts and provision of models attract the higher prices. Yes, different buyside firms or individuals will take a different view on what they really get value from, but the overall trends are very clear.

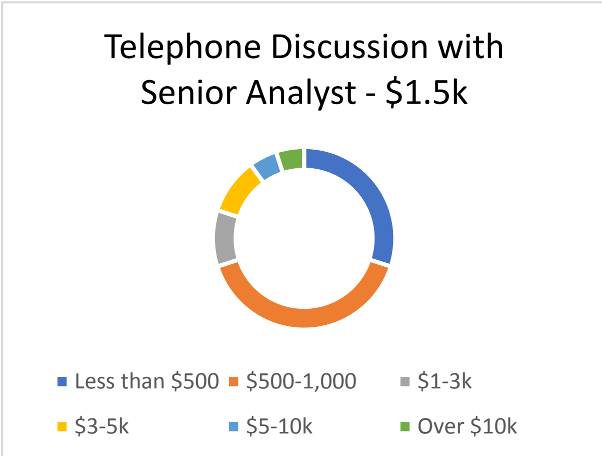

In-depth Thematic Report
$7.5k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k

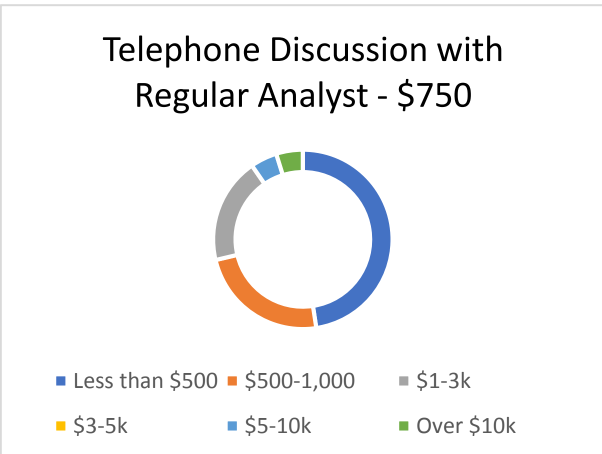

Roadshow/Meeting at Client office - $3k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k


Provision of Models - $2.5k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k

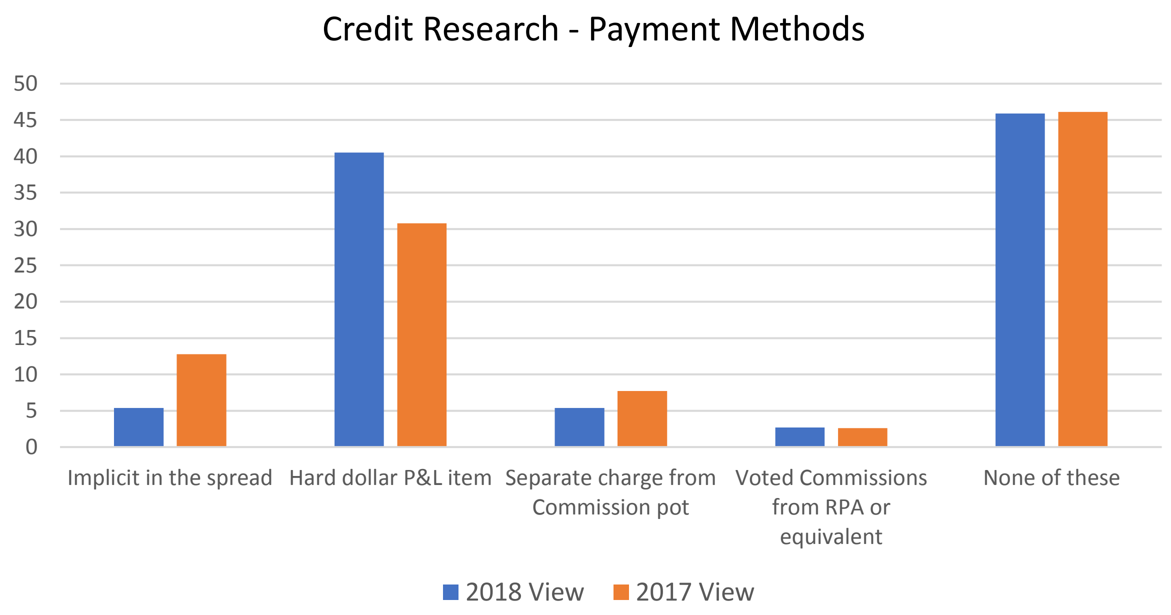

Meeting with Analyst at IRP's Office - $2.5k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k


Basic Research Note - $2k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k


Telephone Discussion with Senior Analyst - $1.5k
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k


Telephone Discussion with Regular Analyst - $750
Less than $500
$500-1,000
$1-3k
$3-5k
$5-10k
Over $10k

It remains undeniable that for the credit and bond markets the unbundling of research was always going to be a significant challenge. In the equity markets, MiFID II is arguably no more than the culmination of a twenty year journey. Those of a certain vintage will remember the Myners Report, CP176 and other milestones. Not quite, but almost you could say MiFID II was one small step for equities; one giant leap for bonds. As such, the way credit research is being carved out, and price is multi-faceted. The data shows an improvement from last year, in the sense that there is an increase in direct hard dollar payments, but there is still a long way to go. We will try to explore this further in Euro IRP studies to learn more. But this is far from an arcane issue, where it will all turn out for the best in the end. IRPs are genuinely concerned about the lack of clarity, and the negative impact that can have. *'There have been set standards and precedents (from IRPs) in terms of fair pricing models which should be used as a benchmark for the sellside and implemented by the regulators to create a sensible framework. At present, anything goes, and this unstructured and arbitrary approach, poses a major risk for the sustainability of IRPs and availability of high value quality research in the medium to long term'.*



We can't end this section on research pricing without some further reference to the elephant in the room – the pricing levels from investment banks for their research. It's presumably the elephant that Harry Houdini used in his most famous feat of magic, as it can be hard to spot, and even harder to track down.

IRPs have contributed information and comments on what they have seen of sellside pricing, and these are compiled in the Comments section of this report. It is very clear that prices can be at levels only supported by cross-subsidisation, and which place buyside clients at risk of breaching inducement rules. *'As low as $5k for complete service from JPMorgan. We hear on a regular basis that prices are around $10 or $20k. Charges for access and other services are not clear and many agreements between asset managers and banks have not been reached and are working on a quarter by quarter basis'.*

Euro IRP will look to collect further data, and make it available, although it is questionable how worthwhile it is to do this. Firstly, the FCA is now undertaking some form of review (the parameters of which await full definition); but more fundamentally such data is, in a way, providing answers to the wrong question. Buyside clients are all different, and it is perfectly legitimate for any business to offer bespoke services to different clients at different prices. Moreover, investment banks state that they have many hundreds of clients, and hence a unit price per client firm of $10k, or even below, is viable when multiplied by several hundred or even a thousand or more clients. They claim too, that they need research for their own purposes, and any 'external' distribution, and hence revenues, for this research is actually a bonus, as it were. The argument is they are obliged to incur the costs for their business, and would do so anyway even if they sold nothing to third parties.

Some of these narratives, and there are others too, are not without merit, but the real point is that there are many complexities and variabilities involved, and even if regulators saw themselves as setting prices in the market (and quite rightly they don't), it would be a fruitless task.

That is why Euro IRP is making these average prices available, to give the buyside and others at least the outlines of a framework. *'Standardised research pricing to be clearly communicated to clients as many are unsure on how to understand value from a P&L'.*

As research is now, legally, a separate function in how it is consumed, valued and paid for (the world IRPs have always operated in), then it is transparency – to the regulator – on costs that matter, with any research business being treated on a standalone basis. This is not the only option of course. The more the buyside, and indeed ultimate asset owners be included in this, the better. *'Perhaps asset managers should be required to disclose their research budgets to asset owners, even if they are paid by hard dollars. They should also disclose how much the budget has changed year on year. Then perhaps asset owners will agree to pay more for research, as the budget declines so far (reportedly 50-70% y-o-y) could hurt performance. With less pressure on asset manager budgets, research pricing might be able to rise to more sustainable levels'.*

BUYSIDE INTERACTIONS & DEMANDS

'They want research that presents them with the right ideas. They expect that we know our stuff, and can provide them with all the information they need to make the right investment decision'

MiFID II has generated a lot of heat and noise, and maybe that obscures a truly salient point. The buyside has been and is deeply committed to abiding by the spirit and the letter of the law, and to applying MiFID II rules on research usage and evaluation to ensure they do not run the risk of inducement. With this as the backdrop to their ever-present needs to run portfolios effectively, make investment decisions and generate value for their clients, the key themes from the Euro IRP survey, and wider market discourse are –

- The buyside is still coming to terms with the new regulatory regime, and exactly what will be most effective for them in running their funds
- Research spend has been reduced, in some cases substantially
- Asset managers have less interaction with research providers – both by cutting firms from their lists, and by taking fewer meetings and reports from those they do work with
- Nearly all long only buyside have moved to P&L payments; the hedge funds less so. As part of that, the appetite for usage and consumption metrics to inform evaluation and research voting, has grown markedly
- New ideas, and the more bespoke the better, continue to be the most valuable currency

In seeking to 'do the right thing' in an environment where, for various reasons, the buyside is not certain of all the parameters of action, a core response from clients has been to be cautious of doing anything. *'The buyside is in a post MIFID II holding period, waiting to gauge how the various pieces land & unwilling to engage much outside of its core list in the meantime'.*

This 'wait & see' approach has several drivers – and several consequences. It has been engendered in part of the move to P&L payments focusing the mind, as it were, but also because many buyside firms took this decision late in 2017 (or even early in 2018), and so there was no properly defined budget set beforehand. The downward pressure on research prices from the sellside, often without the buyside having to press too hard themselves, is a factor too. It's a basic tenet of economics that consumers delay purchasing decisions in times of deflation. And there is the regulatory risk too. MiFID II is a complex hydra of rules, and the ongoing Q&A releases from ESMA speak to the need for clarifications, understandably so. As we said, the buyside has been compliance-led on MiFID II and research, and that is reinforcing a risk-averse attitude.

When you place all that in the context of the challenge to show that active investment is better value for money than passive, and of course consumers of research in the buyside being, virtually by definition, active investors, you have what might be termed an 'imperfect stasis'.

And the impacts of this, intended or otherwise? Well, first up, if asset managers are using their own money to buy research, then end investors have a windfall, albeit a modest one individually, yet one that may come back to bite them in the sense of future underperformance. That's all hard to quantify, but given the core remit at the very soul of MiFID II was to protect and improve the lot of the end investor, you can see why regulators would say 'tick, done' here.

What is more certain, where the only dispute is over how deep the cuts have been, is the reduction in counterparts lists, as noted above, and stressed by several IRPs. *'The traditional buy side does not seem very open to adding new firms to their lists'.*

One result of this is how buyside firms are approaching trials with potential new providers. Quite rationally, as trials can be complicated to set up and administer, and could lead a buyside firm closer to inducement risk, asset managers have been wary of them. And rightly so – the trials guidelines, developed by the FCA and pretty much standard practice across most EU markets, were in effect designed to head off investment banks offering perpetual free trials to get round the separation of research as a service. However, IRPs are being caught in this trials trap; wrongly so, as an IRP generates no inducement risk, by definition. *'The market for new relations came to a halt with MiFID II. The idea of non-substantive, marketing correspondence being permitted does not work in practice. Buyside compliance regimens simply cut off all correspondence'.*

Euro IRP has been very active in raising this anomaly with regulators, both nationally across Europe, and with ESMA. At present, it is abundantly clear that asset managers run zero risk of inducement in taking trial research, any marketing or interacting from an IRP, but this message is not fully appreciated on the buyside. Some public clarification of this from regulators would be welcomed. *'IRPs rely on their research ideas to prove value add. They mostly cannot compete on brand names nor large sales teams. So, a) If we cannot induce, why isn't there a clear carve out? And, b) FCA presentations have included the fact that providing some sample research, prior to a formal trial, is perfectly OK. That's news to the buyside. Clear guidance on that ability would make any introduction much more productive'.*

Another consequence has been less interaction with those counterparties who are still on the buyside firm's list. Again, this comes from the uncertainties, and the greater focus on what is being spent on what. *'Buyside is currently interacting less with analysts. They are less inclined to take meetings with analysts, sometimes they are unsure if that will cost more for the company as several banks charge separately for it'.* It is too early to say exactly what the effect of all this might be. Until this year, it was fair to say that any respectable asset manager would be able to more or less instantly access any research they wanted, and that the whole market was capable of being well-informed, and of contributing to the debate on any stock, security, or market. Will a more fragmented, partial and disconnected world have adverse effects on investor decisions, and hence on performance?

On this point of quality of investment decisions, in many institutions, one probably unforeseen consequence has been a shift of power away from PMs and buyside analysts, and towards financial, data, or legal authorities within a firm. Research provider selection has morphed, to an extent, from a judgement call by the person actually using the service, to a purchase control process. *'A key problem today is an agency one between users and vendor managers/gatekeepers'.*

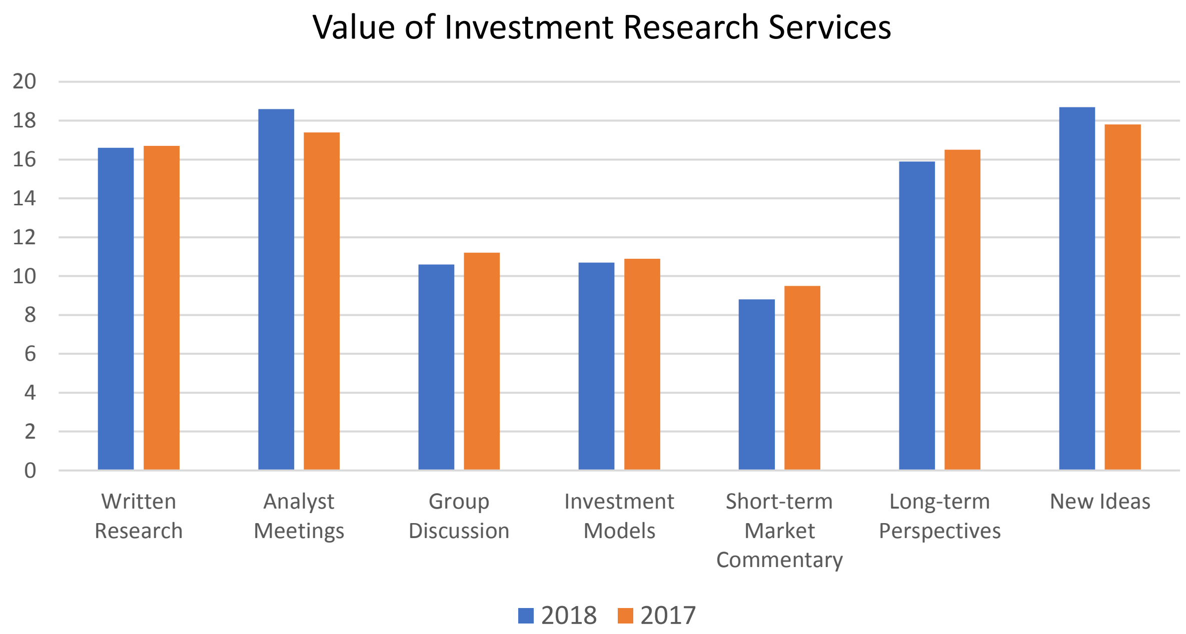
And then there is pricing, of course, as we have addressed already. Enough here to give this comment. *'Pricing demanded by the buyside has in some cases fallen to absurdly low levels'.* The result of all this is a market where a roadmap for the future is still being drafted, but the journey is underway. *'They want it all but are lost in how to engage post introduction of MiFID II'.* One key signpost for that map is a robust evaluation of what services an asset manager has consumed, and the value of those services to her or him. The research vote has existed for many years, of course, and seems so far to have almost found a new lease of life under MiFID II, as buyside firms look to capture details of all interactions, and then pay out accordingly. *'What we are seeing from the buyside is the demand for proof of process - e.g. performance statistics of ideas. Proof of contact statistics for evaluation of payment'.*

In many respects, this is all well and good. Clearly, research should only exist if it aids the decision process – be it specifically or generically. IRPs have always addressed this challenge. They only prosper by producing high quality, differentiated research and insights. And it must be good practice that asset managers should be able to articulate the relative value they are receiving from counterparties, and why. The problem for IRPs comes with what is being measured – it seems at present there is a bias towards metrics on things you can easily quantify. How many reports have you sent; how many calls; how many meetings?

This 'never mind the quality, feel the width' approach obviously favours investment banks and larger brokers, who can issue a lot of product, and have the internal resources to provide the buyside with every conceivable cut of usage statistics. Most IRPs don't have such luxuries, and importantly, know one intelligent, well-based idea is worth more than a hundred ill-thought teenage scribblings. PMs and buyside analysts know that too. Of course they do. In running their research vote, and apportioning spend from its findings, asset management firms need to take care to downplay the width and focus more on feeling the quality, as well as minimising the administrative burden on their front desk – who are, after all, employed to take investment decisions, and generate fund performance. Portfolio management firms – the clue is in the name.

So what services do PMs and buyside analysts value? Any informed report will tell you pretty much the same, and it has been like that for many years. The buyside want new ideas and insights they can interrogate and test directly with an analyst. They want to speak to people who know what they are talking about. Don't we all? *'The main demand is for proprietary meetings with sources, experts'.*

As the chart shows, that is what IRPs are hearing, along with a continuing strong regard for written reports. And the long-term for sure trumps the short-term. *'Long-term, fundamental reports, are key'.*

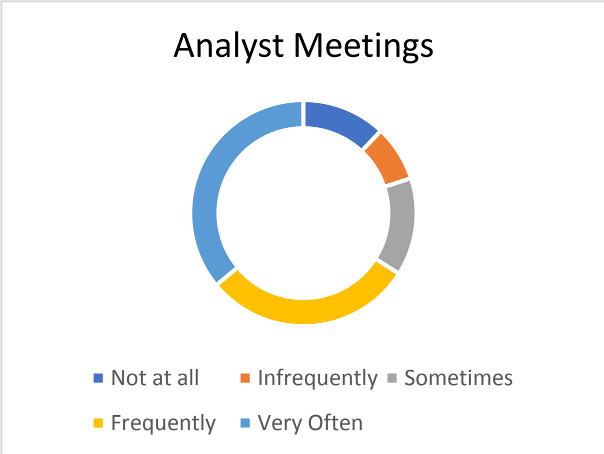


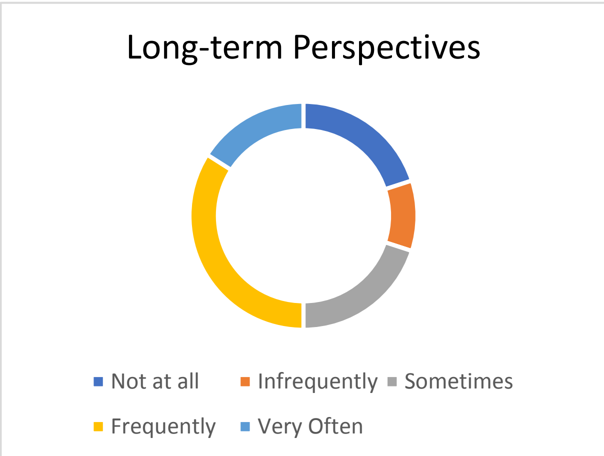
From everything we've said, it will come as no surprise that when IRPs speak about what the buyside tells them, new ideas come top of the list. *'What are your top 3 ideas – I hear that type of thing a lot'.*

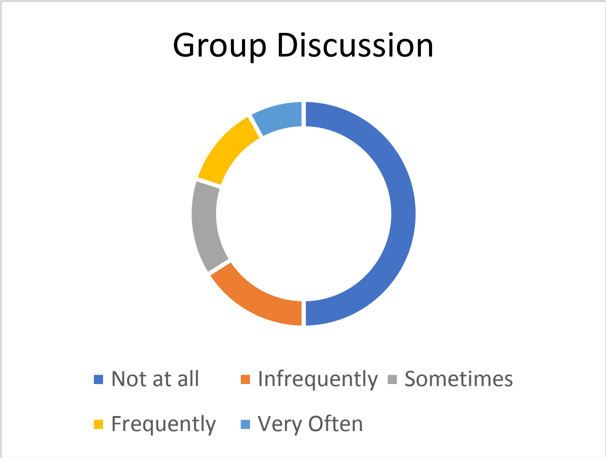
The interest in both fresh insights and speaking with experts, reflects the appetite on the buyside for bespoke capabilities. It's an interesting point. Fund managers are always looking for an information edge, to know things that other people don't. And IRPs, because they tend to be more specialist, more focused, and have more expertise, are usually well-placed to match those individual desires. *'We are getting many requests for proprietary research and data based on our unique dataset and access'.*

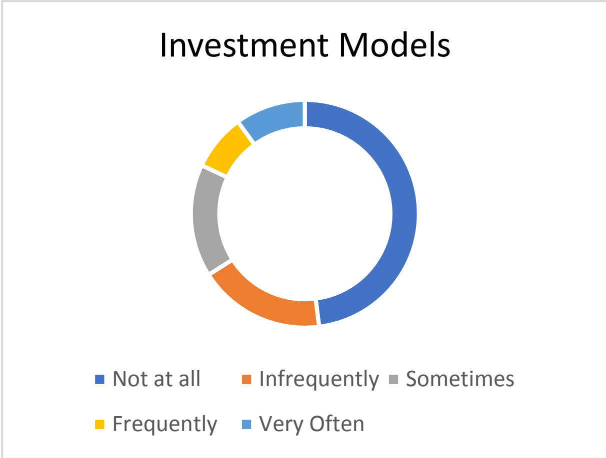
If IRPs are anything, then they are independent. The buyside wants independent research and insights, because as we note elsewhere, independence can be a proxy for quality. That doesn't have to come from an independent research provider, and we would freely agree there is much high quality, well-researched product, giving a clear and unvarnished picture, emanating from investment banks and large brokers. But there is a prairie full of chaff along with that wheat, and to ensure research is unconflicted and genuinely independent, then it's an IRP. *'They like that we can help them in the process - as an unbiased sparring partner'.*

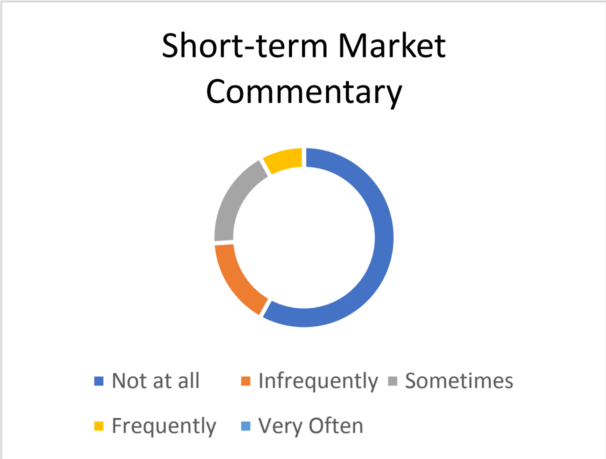
Our data breaks that out across each of the service components, to identify how sentiment is distributed. You can see the step change appreciation between new ideas and analyst interaction, and items such as group discussions or short-term notes. Not a single IRP believes any buyside puts high value on short-term notes.



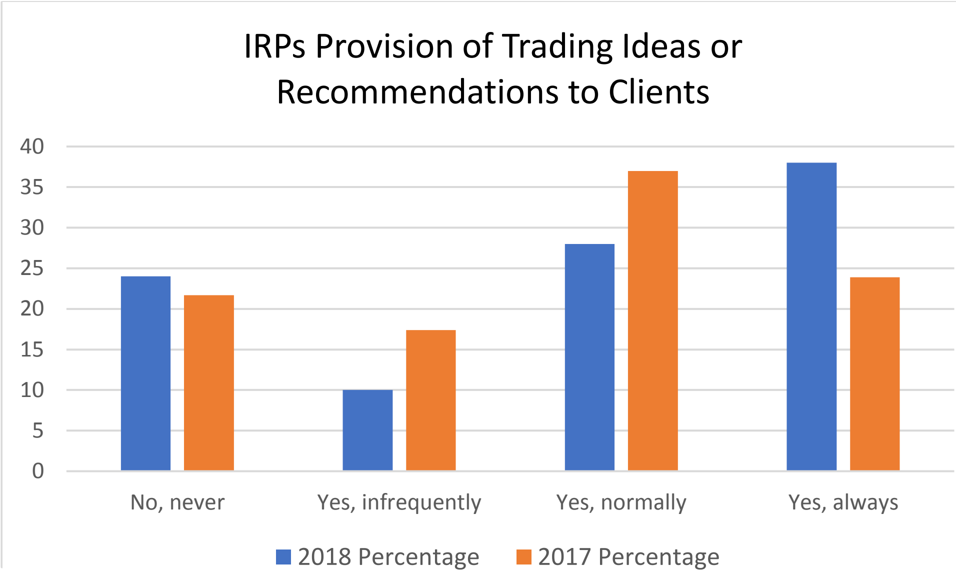


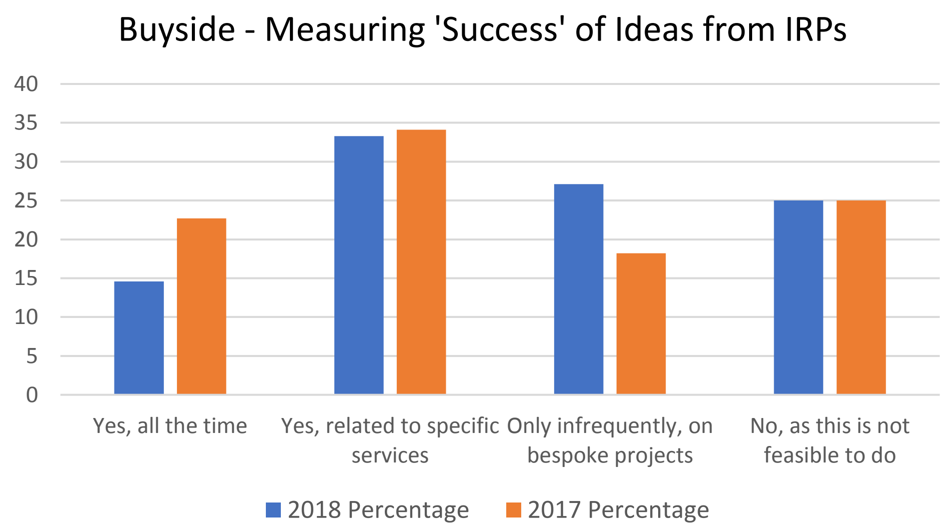




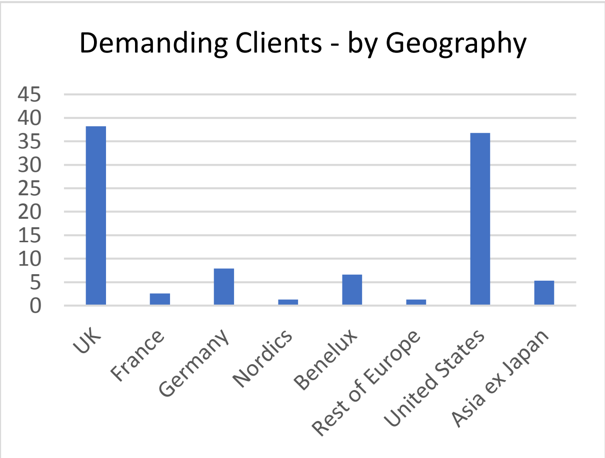


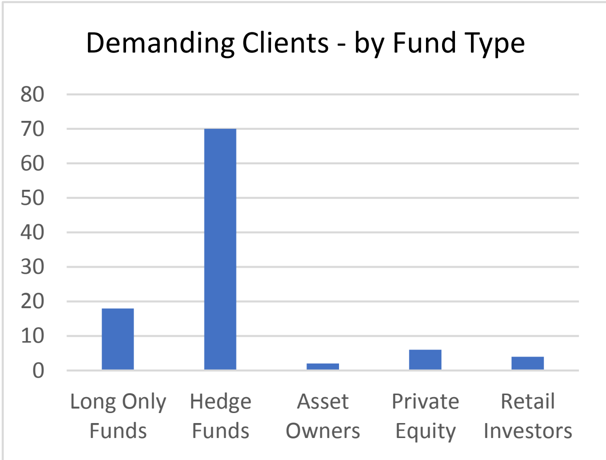
Given that is how the buyside looks at the relative merits of research services, are IRPs measuring the impact or success of those services, and especially of ideas – and do the buyside conduct this linkage themselves? The answer, as the data shows is yes, up to a point. IRPs are increasingly undertaking this analysis, partly proactively and partly as requested; and the buyside does it themselves, although not universally and more on a project or bespoke basis. In part, that difference will reflect the fact that IRP research is high quality and bespoke in many cases. It perhaps also reflects an earlier comment of the buyside capturing data more about quantity rather than quality.

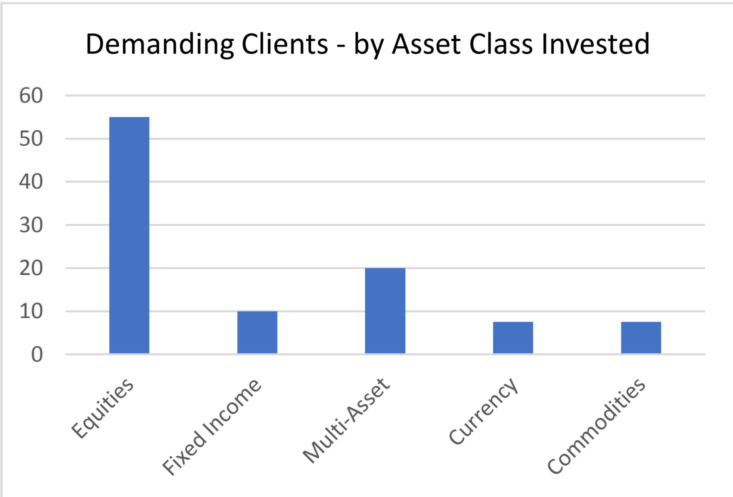

IRPs Provision of Trading Ideas or Recommendations to Clients
40
35
30
25
20
15
10
5
0
No, never
Yes, infrequently
Yes, normally
Yes, always
2018 Percentage
2017 Percentage


Buyside - Measuring 'Success' of Ideas from IRPs
40
35
30
25
20
15
10
5
0
Yes, all the time
Yes, related to specific services
Only infrequently, on bespoke projects
No, as this is not feasible to do
2018 Percentage
2017 Percentage

IRPs also told us, in data and in commentary, what they were seeing from the buyside about their demands and concerns. Let's give some overall context to that. A snapshot would be that the most demanding client is a UK-based hedge fund PM running an equities portfolio. IRPs see clients from the UK and the United States as by far the most demanding, and thus maybe hard to please. As we see elsewhere in this report, the same geographies are just as vital in revenue terms for IRPs, so it's clearly worth the efforts to match those demands. And then whilst long only firms do take a great deal of servicing, it is the hedge funds who set the bar highest, and those running equities most of all. If we'd asked investor relations directors at major corporates this question, we would have got the same answer. The myth of the uber-intelligent, laser-focused hedge fund manager may be a media creation, but it is rooted in reality. And for some IRPs, that represents an opportunity. *'Hedge funds seem to be in a somewhat different position as most of them have not chosen to go hard dollar. So they seem more willing to spend on research and perhaps more open to new suppliers'.*







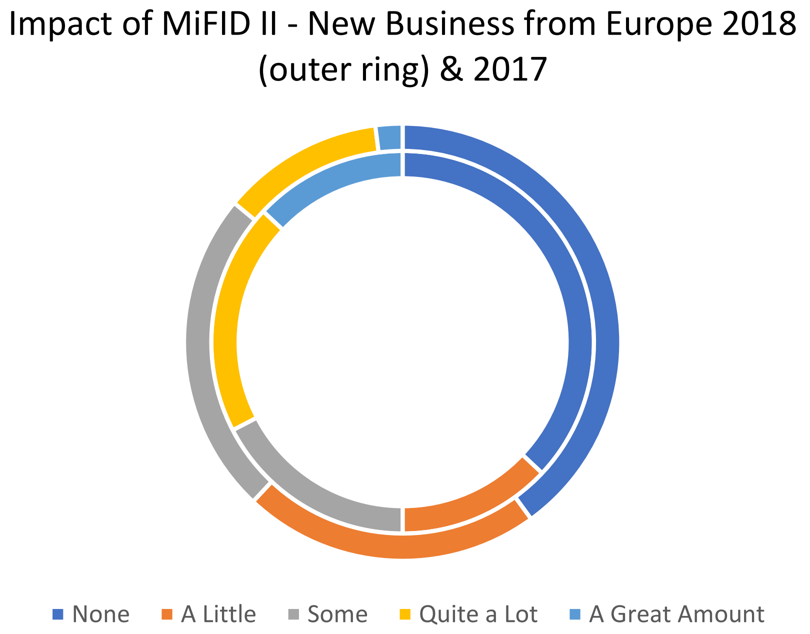
That's a generic breakout of demanding clients. If the demands are well-founded, then such clients are the best ones. And we can name some – as IRPs have told us. It's important to be clear on this. The client names on the list following are those specifically referenced by IRPs as grasping the essentials of what IRPs can offer, and having processes to match. It's not saying these firms are the only ones – that is far from the truth; and nor that these firms support IRPs over other research providers – that would just as untrue. Yet it is an interesting list in itself.

Buyside Firms Best at Engaging with IRPs

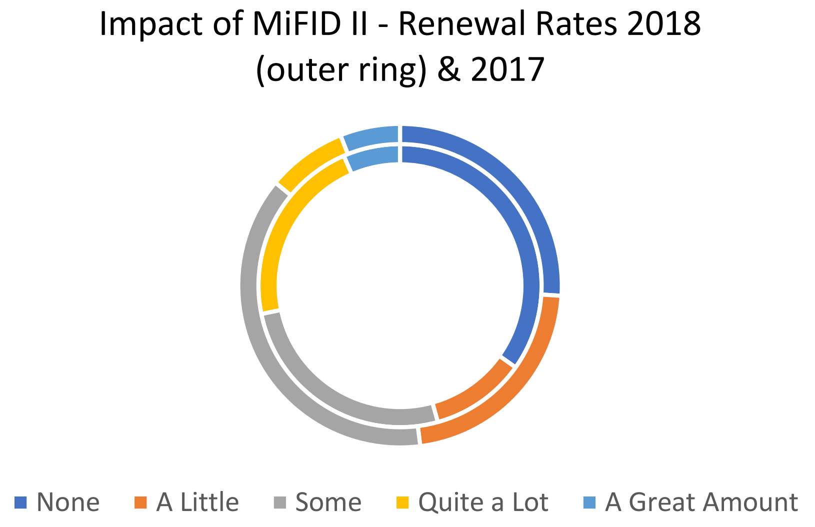
Client Name	Client Name
Allianz (AGI)	*Hermes*
Artemis	*Invesco*
AXA	*Jupiter AM*
Baillie Gifford	*KBL*
Canada Life	*M&G*
Capital Global	*Martin Currie*
Edmond de Rothschild AM	*Miton Group*
Elliott Advisors	*Polar Capital*
Fidelity (FIL and FMR)	*Veritas*

Lastly in this section, how do IRPs see buyside attitudes and approaches changing under MiFID II in three respects. The impacts upon - new business with continental European clients, given that CSAs, as the precursor if you like to research unbundling, were much more prevalent amongst UK asset managers; on revenue retention and renewal rates; and on revenues coming from vote-based decisions? MiFID II is certainly having an effect, looking at the output year-on-year.

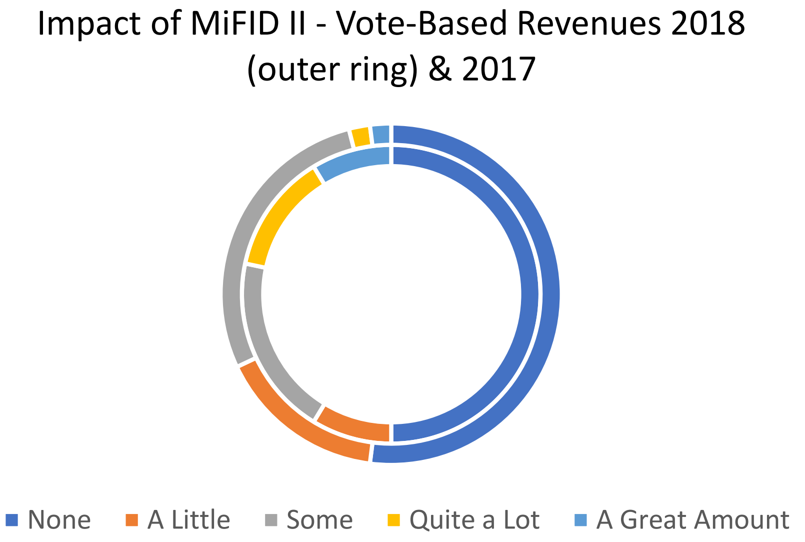
Continental Europe is notably more challenging as a potential source of new revenues. That may change, but the initial hopes of growth, given the competitive lack of penetration of such accounts by IRPs historically, and indeed in several markets, a lack of awareness from asset managers about independent research, are not coming to fruition. In part that may be because collective investments funds in Europe are out of scope of MiFID II (unlike in the UK); but it also suggests the bancassurance model is alive and well.



For renewal rates, the changes really chime with the clear reductions in spend levels, and more pertinently, the reduction in counterpart lists that the buyside have implemented. Now, it can only be a generalisation, but it is one based on direct feedback from several large long only firms, that the method used to reduce their list was to look at historic payments to all existing providers, and slice off at a pre-defined point. In all such cases, IRPs are always going to be at risk; and need the PMs and buyside analysts, who use their services and understand the unique value provided, to help fight their corner.



On vote-based revenues, IRPs are seeing an increase in activity here, with more payments flowing to them via this mechanism. Again, this data confirms what other data tells us, and what we know is true. As the buyside has moved to P&L, then all research payments increasingly come out of the same pot.



IRP Business Structures

'There is relentless pressure to cut prices. Clients are willing to state that they can effectively get broker research for free, and expected independent research to be very inexpensive'

As in 2017, IRPs gave views on the basis of their business, staffing number and functions, and on how clients and revenues were compiled. The messages this year align closely in general with what we found before, but with some subtle, and some more explicit, differences.

- Well-established. IRPs may be small in many cases, but they clearly have strong clients and real consistency, with over 60% in business for eight years or more, and unsurprisingly very much in line with the previous findings

- Headcount numbers are up 13% overall, with over a third of IRPs reporting a headcount increase in the last year

- Smaller IRPs are more challenged on headcount, and few firms of ten or less people have seen their teams grow

- More clients. IRPs are growing their client base overall, and now serve 67 clients apiece on average. Nearly three quarters of IRPs believe that trend will continue in the next two years

- Revenues present a mixed message. Over 40% of IRPs have revenues below €1million, and across the board for many firms, revenues are flat or declining – with some exceptions

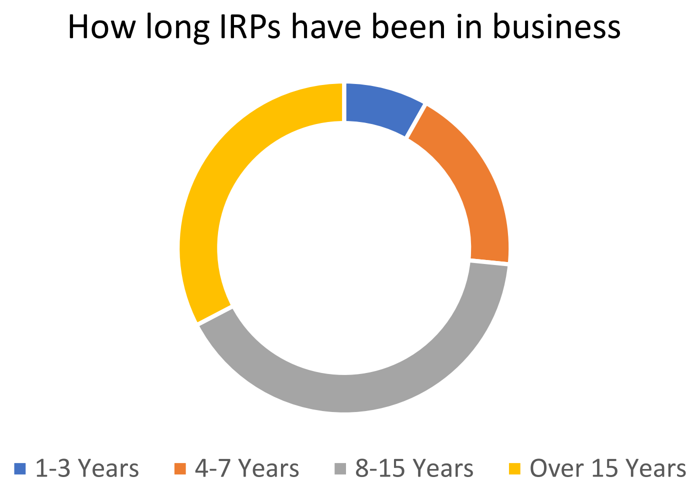
- The UK and the USA are far and away the key markets for IRPs, and equally so, it is long only firms and hedge funds who are the prime client types, with asset owners growing in relevance

- Subscriptions remain the key way IRPs get paid – new for 2018 is the dominance of hard dollar P&L payments from the buyside

Before examining these points in more detail, a few fundamentals about IRPs, and the unique, quality and differentiated research service that they offer.

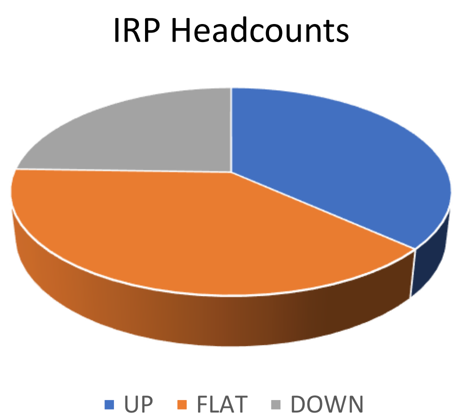
- ***The average complete annual research service fee for a client firm from IRPs is $45,200***
- ***The average annual revenue for IRPs is approx $2million***
- ***The average number of buyside client firms an IRP has is 67***
- ***The average number of employees at an IRP is 25***

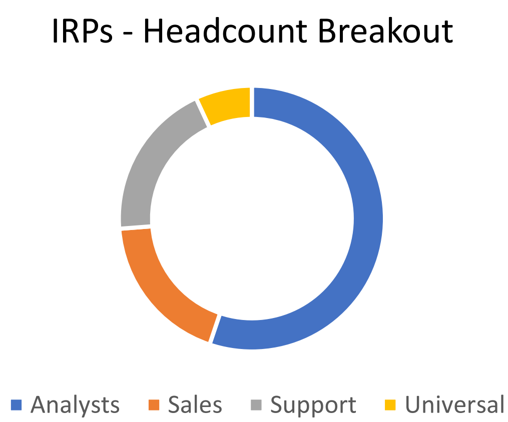
These figures are averages, and of course, there are wide underlying variations. For example, well over half IRPs have less than ten staff members, and nearly half have revenues below $1million.



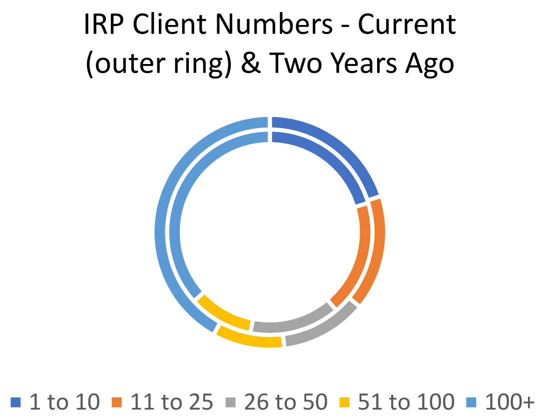
As the graphic shows, many IRPs have been around for some time. There are newer firms, and start-ups too, but this group remains in the distinct minority. Most independent research firms start by former sellside (sometimes buyside PMs or analysts) who have either been let go as the investment bank accelerates juniorisation, or have had their fill of the restrictions and complexities of investment banking life, and want to get back to what they know best, and do best – providing quality investment research and insights. There has been much talk of the world of investment research really fragmenting, and that a host of independent operations would emerge. We do not see evidence of this happening to any notable extent so far.

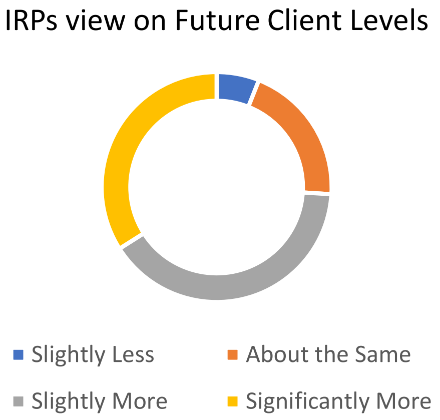
On headcount, whilst the overall number is up by 13%, this tends to be concentrated in a few, larger firms, and obscures the reality that many smaller IRPs are either flat on staff numbers, or reducing what is already a very focused team. As the charts indicate, nearly a quarter of IRPs have seen a decline in staff numbers over the last year, and this is certainly the case with the smaller end of the market. On what people do, IRPs are, as you would expect, and in line with 2017 data, focused on analysts – that's the business, after all. Sales is just under 20% of overall IRP headcount, but often this can be a single person, as over 60% of IRPs have a dedicated sales team. The sales effort is split almost equally between serving existing clients and prospecting for new business.





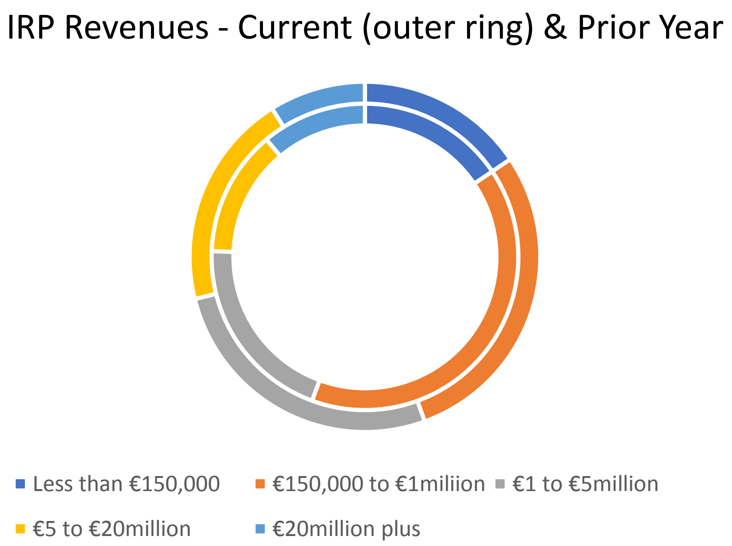
Those sales teams – and everyone at IRPs – are working harder and serving more clients. In part, this will reflect overall business growth for some IRPs, and as well, perhaps a sign of increasing buyside interest in the quality, differentiated product that is the raison d'être of any IRP. For the future, IRPs





are anticipating further expansion in client numbers, although for most these are likely to be modest increases only. Perhaps the key underlying comment here is that every client of an IRP really is a client. By very definition, there is no inducement element, or other reason to pay for IRP research. Quite simply, clients subscribe because they use the research, speak with the analysts, and find it of genuine value for them. And whilst most large investment banks will lay claim to many hundreds of client relationships, in reality it is usually only a hundred or so accounts that receive real service, and who are very consciously and deliberately using the research from these banks. In that context, the average number of IRP clients – at 67 – is effectively not far removed.

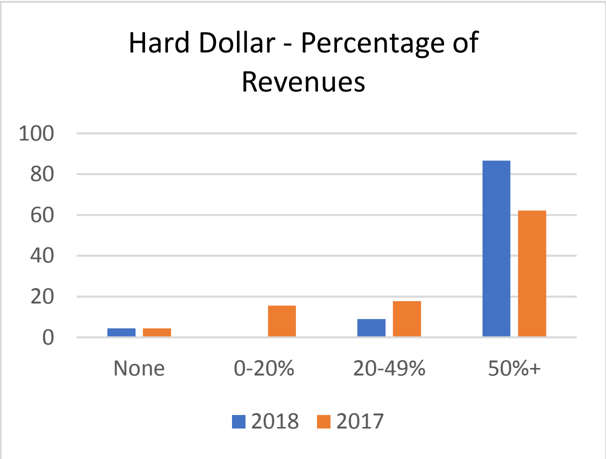
And clients equate directly to revenues, of course. Whilst client numbers have increased, revenues show a more mixed picture. In part this must be a by-product of the downward pressure on research payments in the wake of MiFID II; and in part it indicates IRPs are having to run harder to in a way stand still.

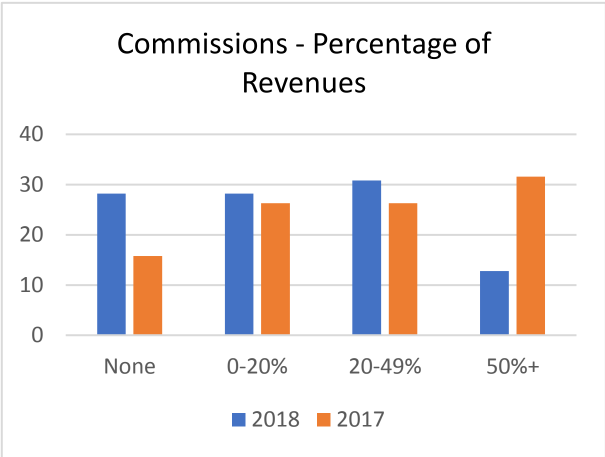


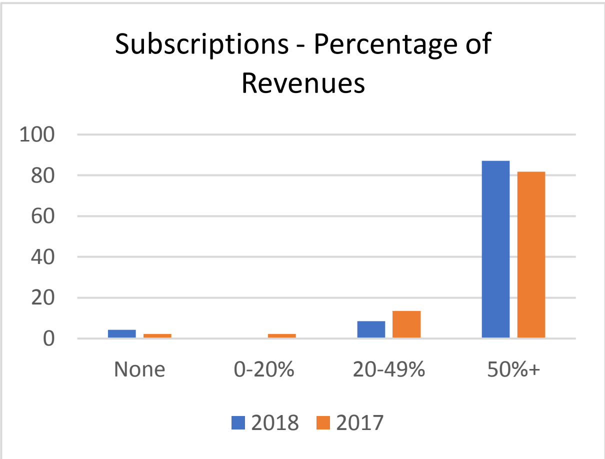
Building the Euro IRP members study data over time was intended to create interesting and valuable datasets, and this hope is coming to fruition, as the various revenue breakouts below demonstrate. There has been much news on the shift by the buyside – especially long only institutions – to take research costs onto their own P&L, and the first two charts show clear evidence of that, from the IRP perspective, with over 80% of member firms now receiving over 50% of their revenues (and for many it is much more than that) as hard dollar payments.

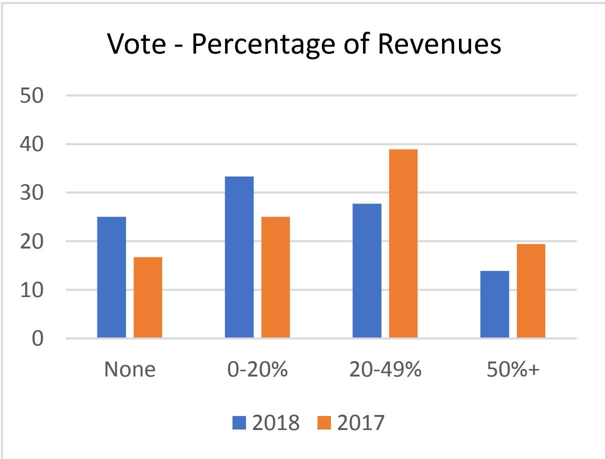
Naturally, there is a corresponding decline in commission payments, as the RPA model seems largely stillborn, at least with long only firms. IRPs have often historically been viewed by clients as a cost item outside of the mechanisms for payment of broker research. As such, a significant amount of monies IRPs received came already as hard dollars – from an information budget or whatever. This is still often the case, and payment via subscription continues to be the dominant way in which IRPs are remunerated. Indeed, compared with last year, payment driven by internal buyside firm vote processes has slightly declined, even though many of those firms are now utilising and enhancing their vote to then inform hard dollar rather than commissions outlays.

It is still of course commonly referred to as the 'broker vote' – but now, and since January 3rd this year, it is definitely to be correctly termed the 'research vote'. After all, the decision to pay firm X for their research is entirely separate from any trading relationships, is it not? One would expect payments to IRPs to increasingly come via the 'research vote' – and it would be indicative of a buyside firm operating properly under MiFID II rules for that to happen. We will see.

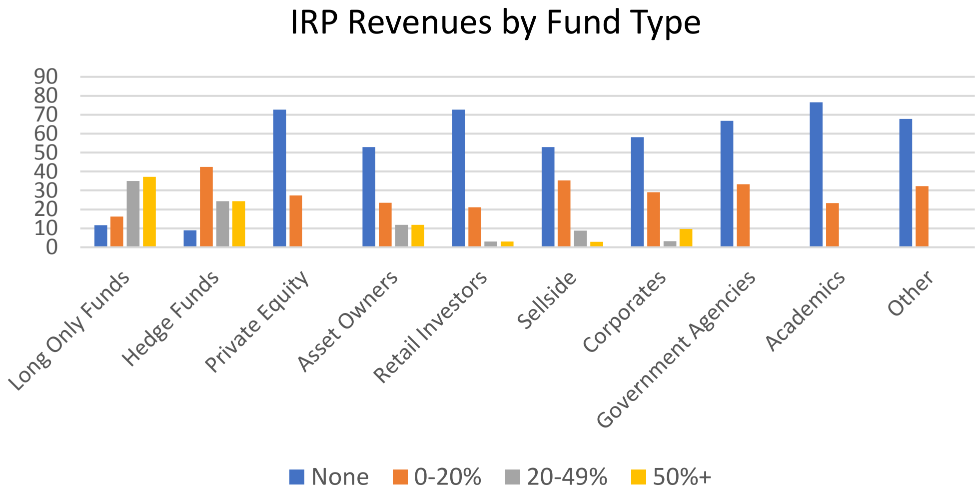


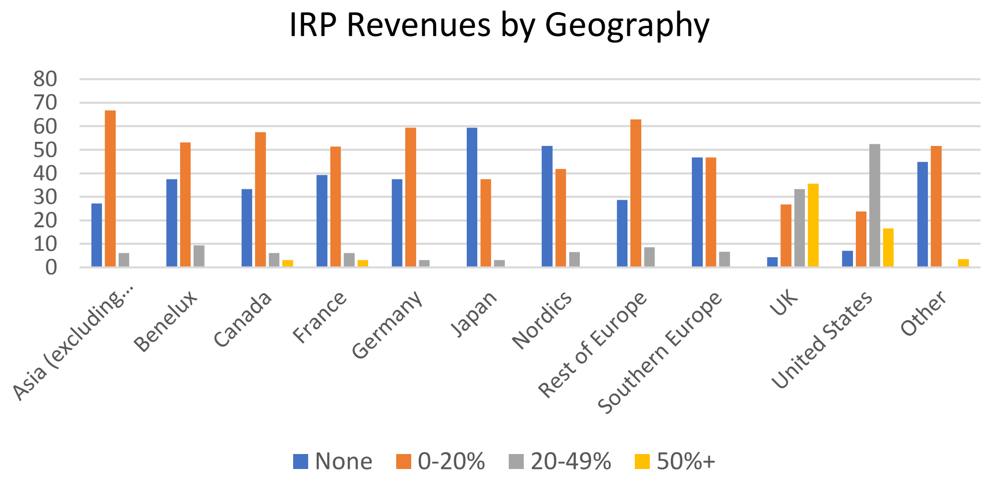




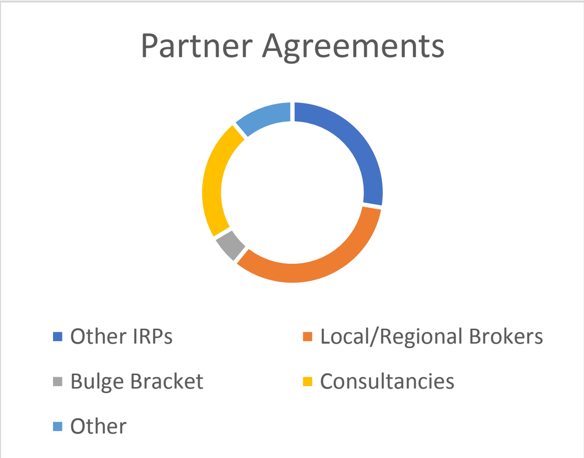


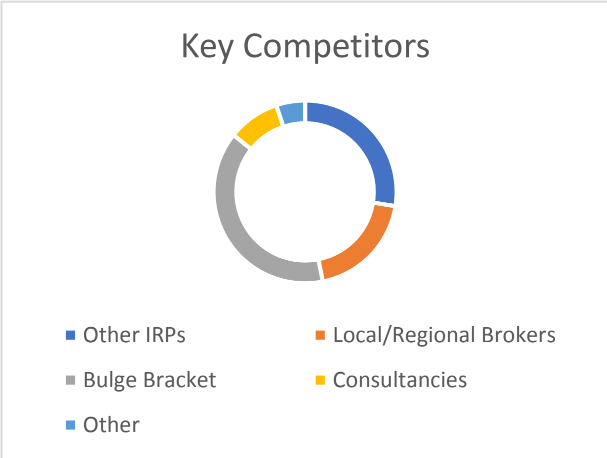
The final charts on revenue breakout paint a clear image of the importance of long only firms and hedge funds, and of the UK and the United States to IRPs. Apart from a growth, but still at a relatively low level, of asset owners as a revenue source, the data here is very similar to last years' study.





Finally, in this section, we also collected data on who, if anyone, IRPs are partnering with, and who they see as competitors. In both instances, the data is similar to 2017, so showing comparisons is not particularly helpful. Not all IRPs, of course, enter into partnerships, be they formal or informal, but when they do, it is much more frequently with other IRPs, or local brokers who don't have the deep specialist expertise and quality that an IRP can bring to the table. IRPs rarely work with the big investment banks – so naturally this group appears as the single largest competitor group. This is unlikely to change anytime soon, and gives IRPs both a challenge and an opportunity. Getting into the ring with 800 pound gorillas, dictates you are nimble and fast-moving. But it has been true for many years, and is even more so now, that the buyside really wants, really values independent research (with a small 'I'), because that means it is likely to be of high quality and unconflicted. MiFID II may not yet have created a level playing field for investment research providers, but it is ensuring we are all playing on the same pitch. IRPs represent quality, differentiated research. And quality will out.





DISTRIBUTION PLATFORMS

'Sellside pricing by banks is still not clear for asset managers. They are reluctant to take meetings because they are not sure how much they will be charged'

The question set here was identical to 2017, and probably unsurprisingly, we can see a very similar picture. The most salient points are –

- Bloomberg remains the dominant platform of choice, and streets ahead of their mainstream peers, for IRPs, with 59% putting research out through the Bloomberg terminal
- Not only is Bloomberg by far the most popular platform for IRPs, it also scores notably higher for generating sales leads, engaging with clients, and in helping to drive revenues for IRPs
- The leader of the 'fintech generation' remains Research Exchange, now being used by a third of IRPs, and consolidating the position we saw in the 2017 survey
- When IRPs were asked to add in any other platforms not on the available list, SmartKarma was mentioned several times, indicating this service is gaining some traction

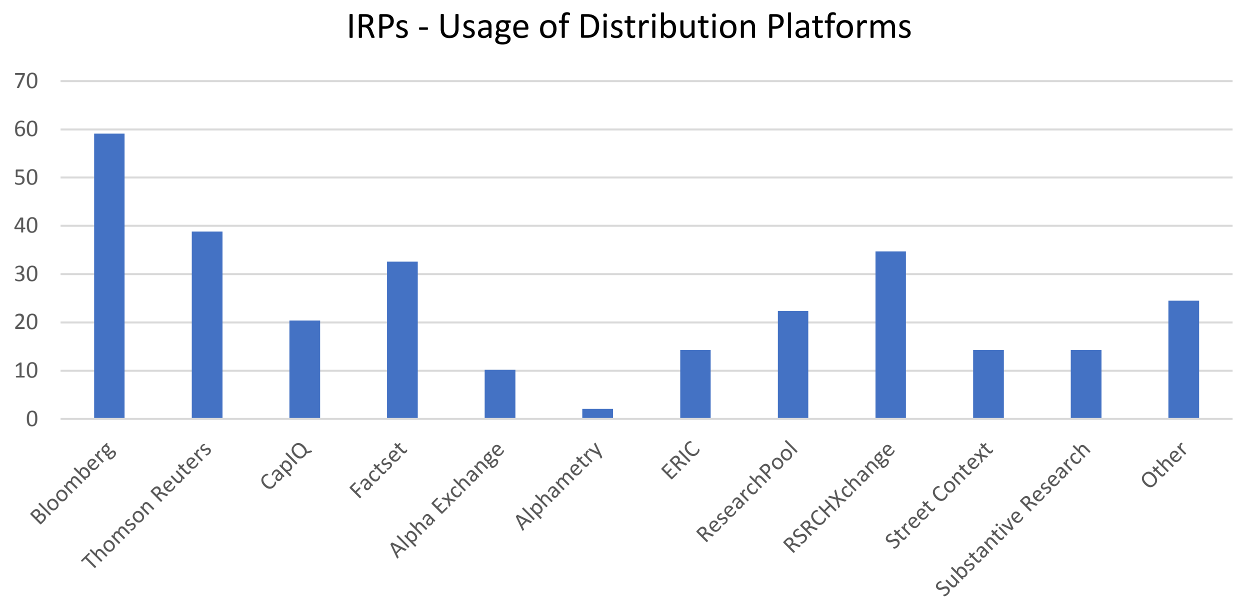
One constant challenge for IRPs, especially those smaller firms, is generating visibility for the research they produce. Whilst, as we have seen elsewhere, almost two-thirds of IRPs have a dedicated sales team, often this is one or two people only, and certainly never with the reach and scale of the sales & distribution battalions dragooned and marshalled by the investment banks and major brokers.

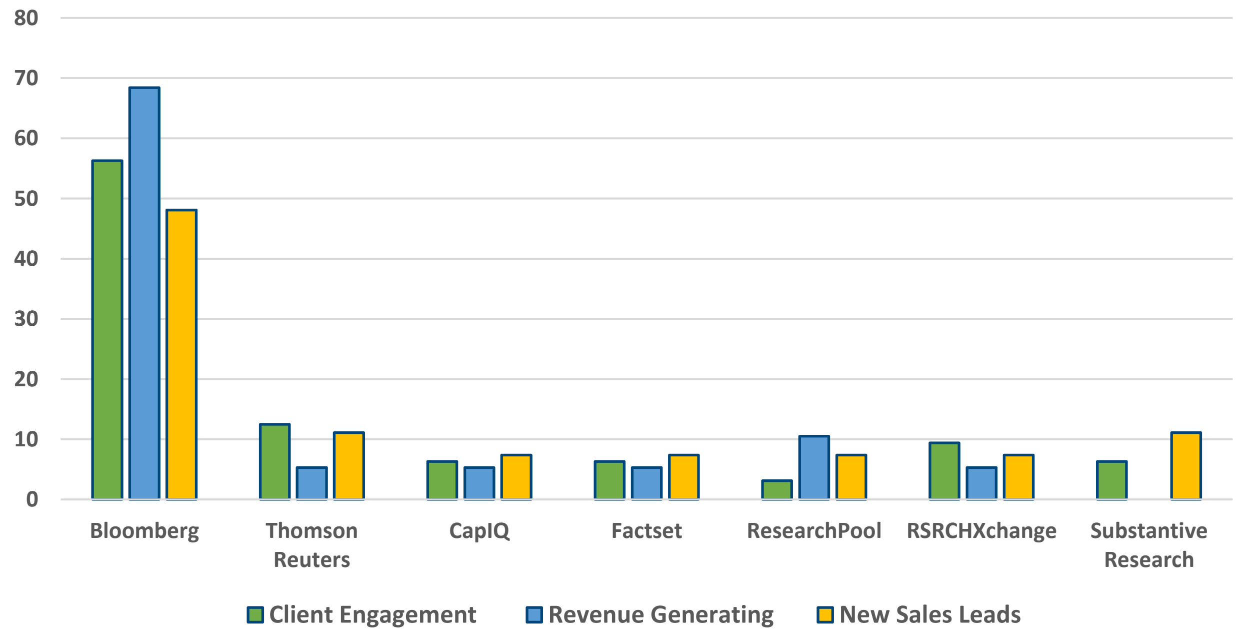
In that context, using third party distribution platforms is clearly an important consideration for IRPs. This is then made more complex by two current factors, both of which are still to play out. The first is the fintech 'revolution', where several firms are providing new, and different, ways for the buyside to seek out and utilise investment research product. Hardly a new development of course, and the market continues to expand and adapt. For IRPs, for the buyside, and indeed for all those fintech firms themselves, the question is who is going to really build market share, and a business; and what are the 'silver bullets' which will enable a provider to gain a real edge. There are a lot of views on the answers to this, but the truth is, nobody knows. And secondly, the way the buyside has been cautious and risk-averse in the new MiFID II world, as the quote at the opening of this section indicates, means much more reluctance from buyside clients to try out new research offerings. How this barrier to discovery of new ideas and insights will affect investment decisions, and the prosperity (or otherwise) of end investors is yet to play out.

Both of these factors just make the process even more challenging for IRPs, in assessing which are the right 'voices' to help them get heard in the marketplace, and what they then need to do to ensure the process works for them – technically and financially.

Undoubtedly, the core attraction of Bloomberg for IRPs is the huge, unrivalled buyside community that Bloomberg delivers. Obviously all the mainstream, established platforms, like Thomson Reuters, CapIQ and Factset, also offer the benefit of scale (if not at the Bloomberg level), and hence we see them scoring higher than most of the new kids on the block. What is notable, compared with last year, is that usage of the newer platforms by IRPs is increasing.

Increasing it may be, but to what end? As the graphic below shows, for client engagement, new sales leads, and to help generate revenues, Bloomberg towers above the rest. In part that comes from its dominant usage position, but not entirely. This data is from IRPs using a particular platform, and saying how useful they find it on these three criteria. So, the relative strength of Bloomberg against its mainstream foes is noteworthy. Equally so, someone like Substantive Research may have comparatively limited take up, but those using it seem more satisfied than with some others, and Research Pool would appear to be creating revenue opportunities ahead of its rivals.





Not listed here, but will be for 2019, is SmartKarma. Headquartered in Asia, this firm has been growing fast, and certainly seems to have its fans. It would seem to demonstrate that fintech firms need to move fast, and find some strategic advantage in aligning what they do, with the needs of clients.

EURO IRP

'Euro IRP does a good job, but there could be a lot more cross-fertilisation of ideas, clients & general business knowhow amongst the membership & that now is the time to make that happen'

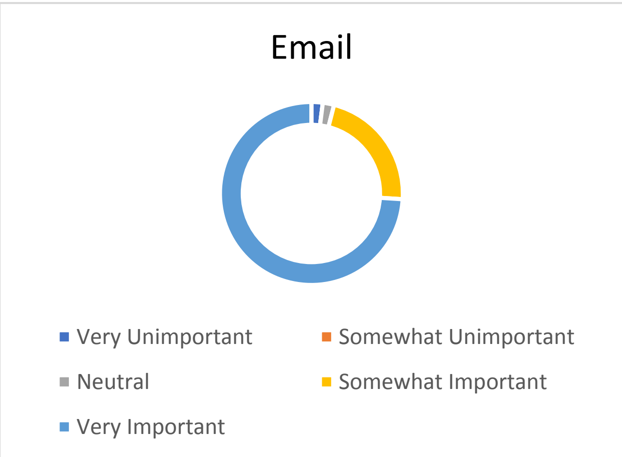
Euro IRP only exists because of its membership, and can only prosper if we serve members interests properly, and represent independent research to genuinely help member firms prosper themselves. Part of that process is seeking a better understanding of what members want from Euro IRP, and of course, what they don't want either. We collected views on three main topics – communications, meetings & events, and the most relevant and valuable subjects to cover for members.
The highlights –

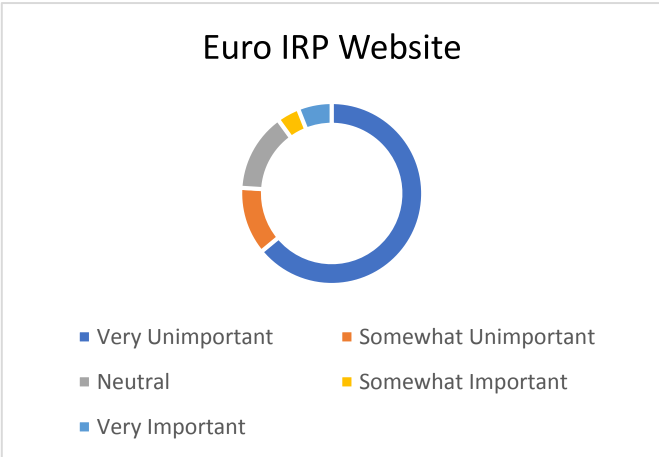
- IRPs are traditionalists when it comes to how best to communicate with them. That doesn't mean they want us to write to them on vellum parchment (we'd have trouble keeping the owls in any case), but it does mean email is much preferred

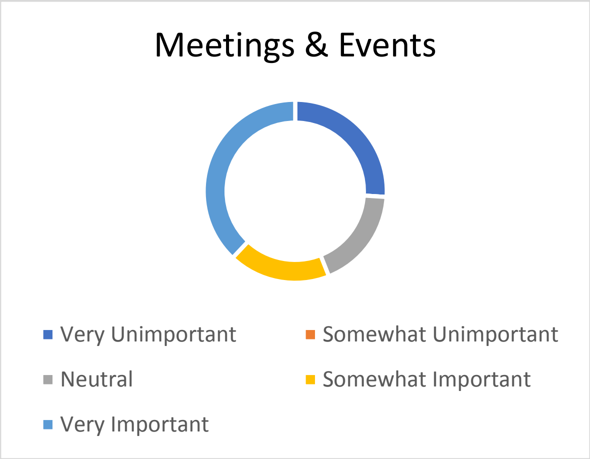
- It's a much more mixed picture on what type of meetings or events are valued, but for sure third party suppliers are pretty low down on most IRPs' Christmas card lists

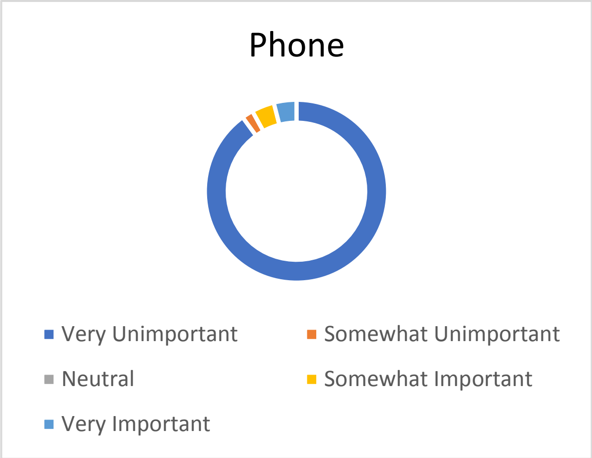
- The number one topic we need to keep on covering is pricing, so we hope members approve of the focus of this survey and report. And we promise not to try to mention GDPR ever again…

Looking at this in a bit more detail, on communicating with members, IRPs placed email first, as noted, with meetings and events also highly regarded. The opportunity to share experiences and talk about the market is clearly important; and that remains a key objective for Euro IRP going forward. Significantly less valuable for members, as a way of being informed and updated about Euro IRP, is the website. That's no surprise really – the website is much more aimed at external audiences; and there is more we can here on functionality and relevance, especially with the Euro IRP Directory.



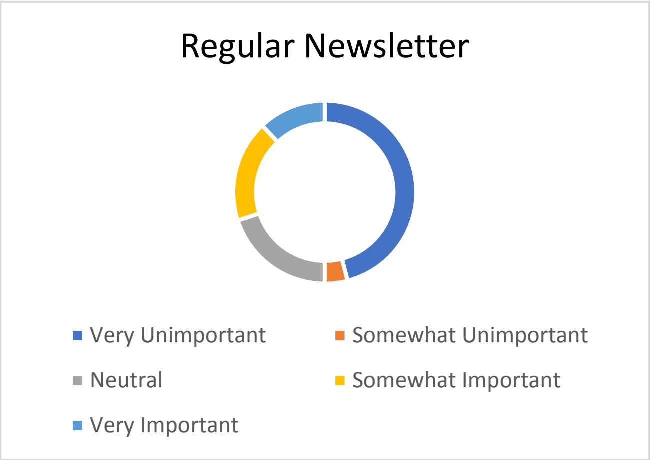




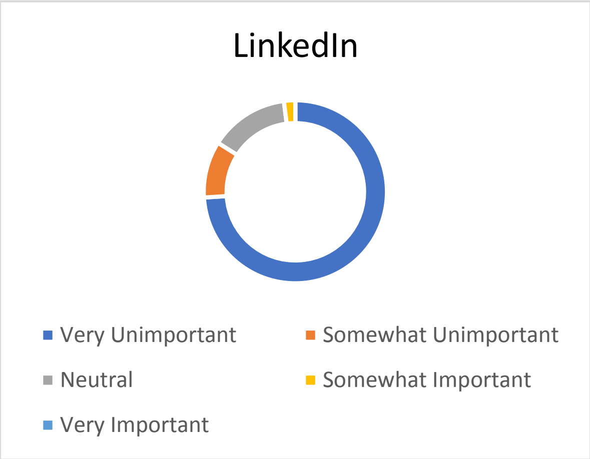


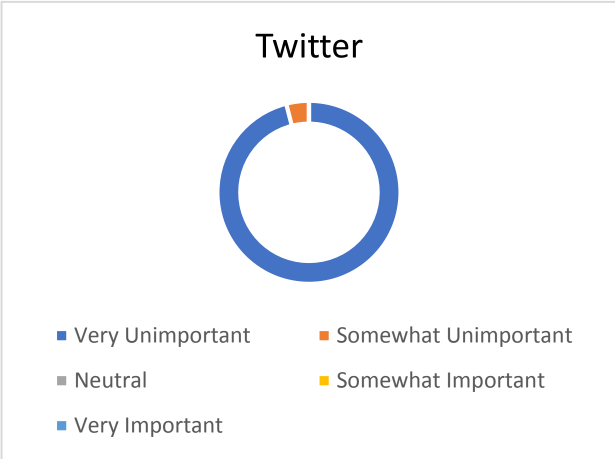
IRPs do in general value meetings, as we said, and we explore further both the type and content of those meetings. It is interesting that there is a substantial group of IRPs, almost a quarter, who see little, if any, attraction in attending meetings. Yet for most the chance to get together is way more enticing than hearing news or information via the telephone. Of course, views here may depend a little on location – it's a lot easier to attend a London event if you work in London.

Euro IRP has recently begun sending out – as a PDF – a newsletter recap of our ongoing communications and activities, and for some this hits the spot, although most are unconvinced. As it is very much a compilation of news we have sent to IRPs by email, that's to be expected. We are keen to develop the newsletter to add more value, and help in the overall aims of Euro IRP in promoting independent research.



Lastly, looking at third party communications mechanisms, both Linked-In and Twitter are pretty much next to useless, as far as communicating with Euro IRP members is concerned. Twitter does, of course, remain the official medium for US Government policy announcements.

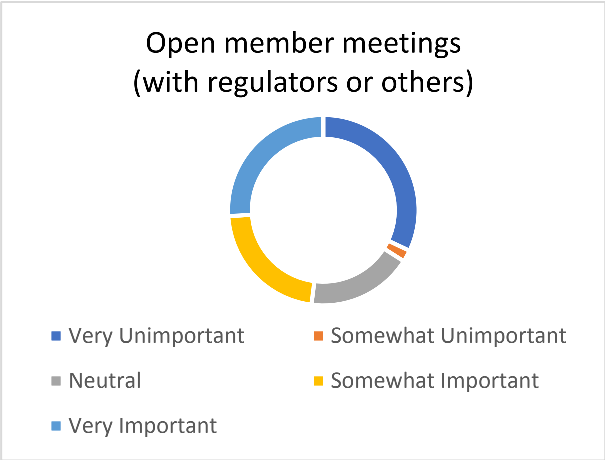


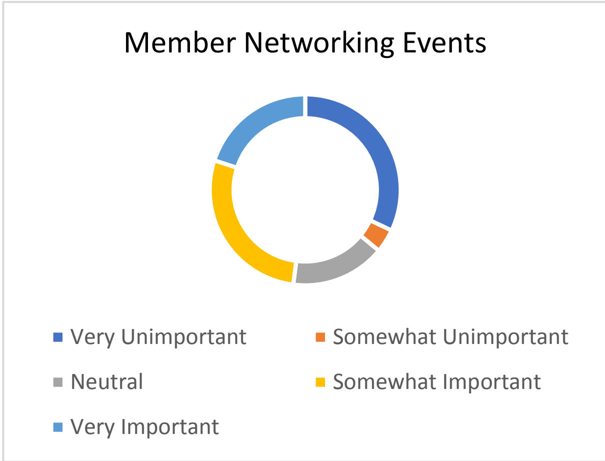


Turning to meetings and events, there are no absolutely clear winners or losers, as it were. IRPs are both uncertain as to which type of event is the most useful for them, and also in nearly every case, there are as many who dislike any type of event as there are supporters. That said, the preference overall is very much for meetings where members can interact and exchange views, and where external or third party involvement is with regulators, industry experts, or buyside clients. For the nine event & meeting types on which we asked for views, the order of interest and perceived value is shown below.

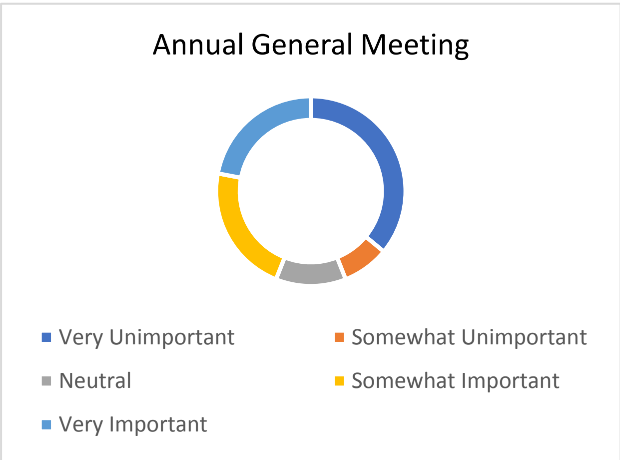
RANK	EVENT
1st	**Open member meetings (with regulators or others)**
2nd	**Member Networking Events**
3rd	**Annual General Meeting**
4th	**Panel Discussions with external speakers**
5th	**Market Conferences**
6th	**Workshop on Industry Topics**
7th	**Supplier Briefings (such as Fintech firms)**
8th	**Industry Report or Book launches**
9th	**Open day (collective of third party suppliers)**

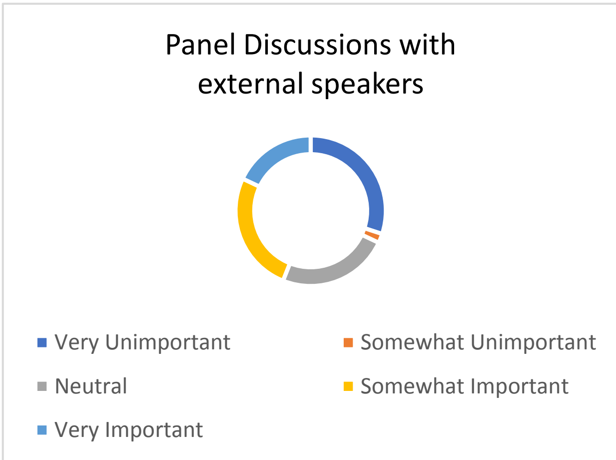
The special members meeting Euro IRP held earlier this year, with the FCA and AMF in attendance, was one of the best-attended meetings we have ever had, and the top ranking for this type of event endorses what we have seen; as well of course providing a forum for IRPs to raise the issues they care about, and to hear from their peers. Running this a close second, and very much a similar sort of event, in feel, scope and focus, are Member Networking Events. Many IRPs are comparatively small operations, and it's easy to get enmeshed in the details of their own business – so the chance to get a wider picture, and to talk with others who share similar concerns and issues, is obviously of value.

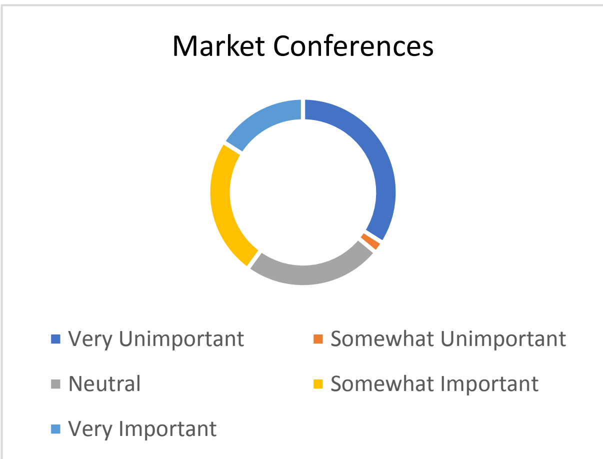




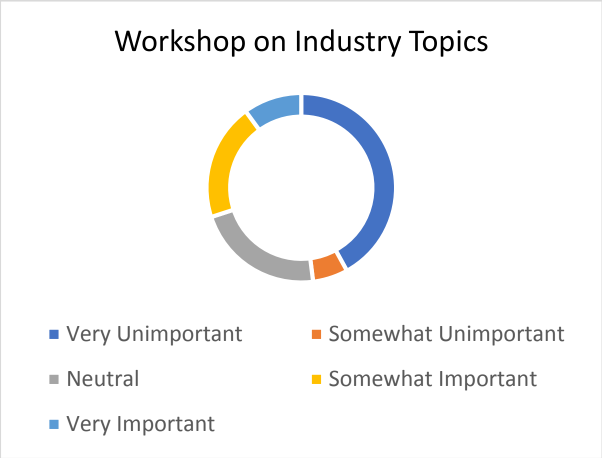
The next three on the list – the AGM, Panel Discussions, and Market Conferences, are all closely bunched in attributed value, and only slightly behind the top two. Whilst obviously the AGM has a formal and legal component, all these meetings have a lot in common – exchanging views with other IRPs; hearing from and speaking with organisations that really matter for IRP businesses; and getting to grips with key subjects.

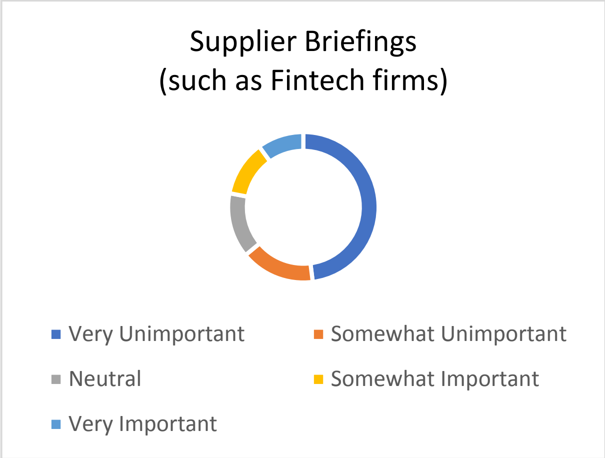


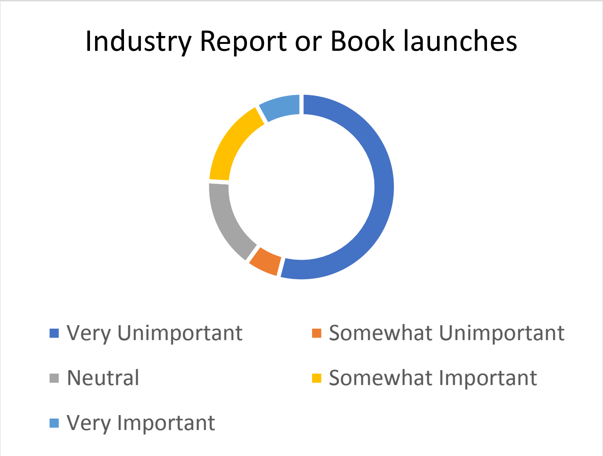


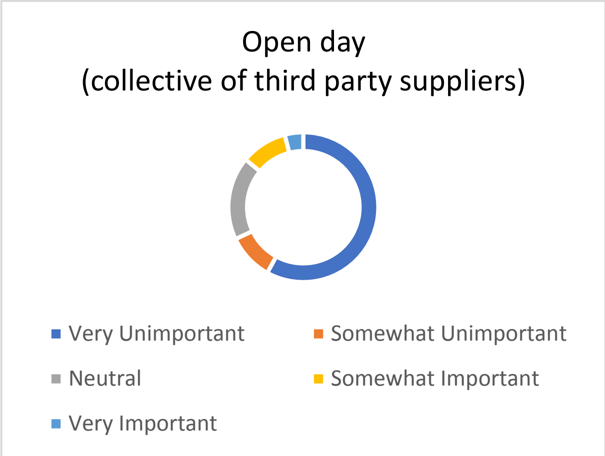


Going down the list, all of the remaining four sorts of events – Workshops, Supplier Briefings, Industry Report/Book Launches and Open Days for Suppliers – have their supporters, but are increasingly outweighed by those who see less or very little value for them in such meetings. Like any group, when IRPs are the clients, then suppliers or providers of service or product, need to have a compelling story in order to make it worthwhile for IRPs.









It should go almost without saying that Euro IRP will focus only on events higher up on this list; as the provisional meetings programme for the rest of 2018 demonstrates. But it's much more than just the type of meeting – it's the content too. And here, IRPs are more clear cut in their views. As the ranking table shows, it is the topical issues – that go to the very essence of running a successful research franchise – which are the ones members want to talk about.

RANK	CONTENT of EVENT
1st	**Pricing/Payment mechanisms**
2nd	**MiFID II**
3rd	**Inducements/Trials**
4th	**Technology/Innovation**
5th	**Sales Solutions/Training**
6th	**Client Agreements**
7th	**VAT**
8th	**GDPR**

They largely speak for themselves, and we've discussed the pricing/inducements etc questions extensively already in this report. But safe to say, we are unlikely to invite IRPs to an open day where they can listen eagerly to a range of GDPR experts any time soon.

We are also really grateful to all members who added comments on what they see as priorities for Euro IRP, and where we need to focus and enhance our efforts. There were three themes to these comments.

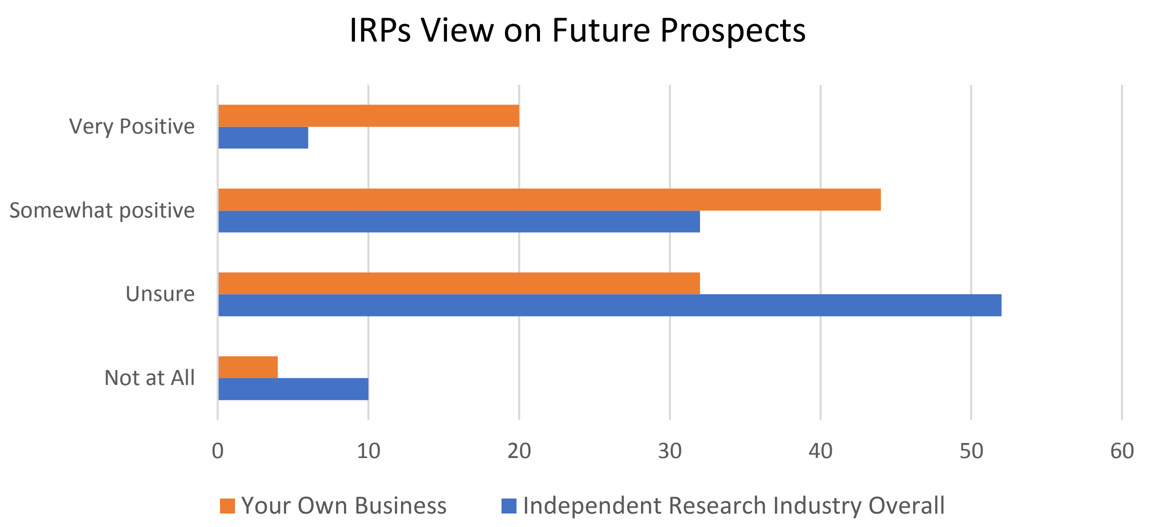
Firstly, that whilst regulatory liaison is, and will continue to be important, the organisation should devote more time and effort to helping members grow their business, and get a closer positioning of Euro IRP with the buyside. *'My feeling is there could be a lot more cross-fertilisation of ideas, clients & general business knowhow amongst the membership & that now is the time to make that happen. We are in a war against larger & better resourced competitors. It is time we started using Euro IRP as a collective force not only to effect common sense thinking at the FCA et al but also to generate increased revenue'.*

The second was to do more to raise the profile generally of independent research, and the rationale that independent research represents. The end objective of this, of course, is pretty much aligned with the above point. *'We need a PR budget. We need to hammer home the message that if it's not independent it's not research'.*

And thirdly, there were those who feel Euro IRP is backing the wrong horse. It is up to the membership overall to take a view here, but we do feel it is important we are as transparent and responsive to every comment, and every view. *'Regulators need to properly audit the banks but, they won't. They view lower pricing as success for their primary mandate, investors. They have zero interest in independent research as such, and that is what Euro IRP needs to realise and adjust their strategy urgently'.*

Future Perspectives

'Near term pricing is likely to remain challenging but in the medium term average pricing should be robust/should grow at least in line with inflation as the sellside will have a shake out and buyside budgets will be clearer'.



We have already talked quite a lot on the shape of the market now, on what clients are doing and what they want, and on the challenges IRPs face – and naturally that leads into assessing the likely outcomes. So we won't repeat ourselves here. The simple key question posed was how positive IRPs were about the next year or so, for their own business, and for the independent research industry as a whole. There are two differing perspectives

- IRPs are broadly confident about their own prospects, with 64% somewhat or very positive
- They are a lot less sanguine about the industry, although not excessively so, with 38% being positive and the majority unsure or pessimistic

At first that seems rather contradictory. Less so, one would argue, than the view you get from the investment banks and major brokers – who virtually to a man feel the investment research industry is in turmoil, with looming casualties, but that their own firm will emerge a clear winner whilst others fail.

IRPs are not that prescriptive, but there still does remain this apparent disconnect between what they see as their own, and the industry's prospects. But you can square this circle. It can be explained primarily as any individual IRP obviously knows their own business inside out – what their clients are doing, what their cashflow is like, what is happening to them when they make calls, and write research. And if business is down say, then they will be adjusting their spend and ambitions accordingly. It is very clear, from the key topics that this report covers, that the wider industry concerns are both very real, and can be potentially negative for independent research in general – even if the longer term, more secular trends point upwards. IRPs don't operate in a vacuum, so this awareness of the broader picture informs the broader judgements.

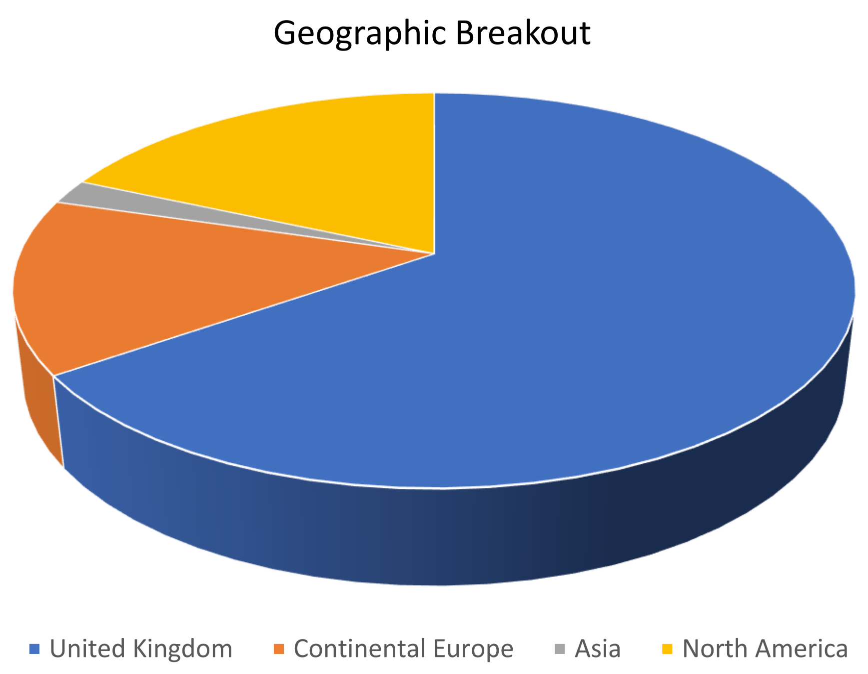
As with the other pertinent parts of the Euro IRP members study, we will continue to capture sentiment and views here, to see if individual confidence feeds through to a truly healthy, vibrant independent sector, which is desired by both regulators and the market.

STUDY SCOPE & PROCESS

This is the second annual Euro IRP members study, following on from the initial survey undertaken in mid 2017. The 2018 study continues to set the standard for the most comprehensive and far-ranging assessment of IRP sentiment and experience. A question set was drafted, based on discussions and feedback with a selected small group of Euro IRP member firms. Deliberately, to secure trend data, the majority of questions were the same as in 2017. Importantly, and at the heart of the 2018 survey, new questions were included on price levels for various aspects of IRP research services, with the aim of establishing wider market benchmarks for research pricing, in the light of MiFID II. The final draft was circulated and approved, and the survey then opened to participants.

All responses to the survey were collected online. Euro IRP utilised the services of Worldflow (who also provide the online Directory service for Euro IRP) to set up and distribute the survey online. Responses were sought from 74 member firms. 49 completed submissions were received, slightly ahead of the 46 submissions received last year, and a further 5 member firms responded to apologise for their inability to participate, or to offer reasons why they wished to decline. The survey was open online from June 16th to July 13th. Responses came from members across all key investment industry geographies, and a breakout of respondents is provided below. This report contains multiple quotes and comments provided by Euro IRP members, to reflect sentiment, and to underscore salient points. The comments are all highlighted in blue italic text, and deliberately anonymised, in line with our commitment to participant confidentiality.

We continue to intend to conduct this study on an annual basis going forward. The question set will be reviewed, and updated as needed, to ensure the appropriate mix of trend data together with views on topical issues.



RESPONDENT COMMENTS

In the question set, as is our practice, we asked for open comments from IRPs on a number of the main topics. The views and insights received are provided – unattributed of course – under the various headings of the questions posed.

What do you think is the most important issue to be addressed following MiFID II which would help the IRP sector?

- *To make public the cross-subsidy in the bulge bracket. Also that lowball pricing is an 'inducement'.*
- *Eradicating predatory pricing – but most of all, IRPs coming together to promote their research – via monthly meetings, inviting the buyside, and similar ways.*
- *Resolving the free trials issue.*
- *If they don't remove the free trial restriction for IRPs, then I will likely be forced to partner with a broker to get new clients, i.e. it could kill the organic independent prospects for my business.*
- *Euro IRP does a good job in its efforts to improve the regulatory environment in which independent research firms operate. Given the post MIFID II environment has largely become one of shrinking revenues & business model pressure should the emphasis now shift to making 2+2 = >4 for its members? My feeling is there could be a lot more cross-fertilisation of ideas, clients & general business knowhow amongst the membership & that now is the time to make that happen. We are in a war against larger & better resourced competitors. It is time we started using Euro IRP as a collective force not only to effect common sense thinking at the FCA et al but also to generate increased revenue.*
- *Benchmarking research costs.*
- *Predatory pricing, inducements.*
- *Allowing foreign investment banks to be "out of scope" means that the FCA has forced only one of the top 10 players in Latin American equities to comply with MIFID II, namely us. As you can imagine, this is rather perverse and completely unfair.*
- *Simplify the procedures/regulation to charge research to the funds so that the market for research gets oxygen.*
- *Conflicts at bulge bracket firms.*
- *Predatory pricing and cross subsidising.*
- *The extent to which MIFID II has met (or not) its objectives.*
- *The removal of this massive ton of bureaucracy + pricing issues - the current efforts are greatly appreciated.*
- *Clarity on the status of IRPs re inducements.*

- *Regulators need to properly audit the banks but, they won't. They view lower pricing as success for their primary mandate, investors. They have zero interest in independent research as such, and that is what Euro IRP needs to realise and adjust their strategy urgently.*

- *"Predatory pricing" and bending of the rules by the non-independent mob. As we suspected all along... I am SO very disappointed to still be hearing "we get research for nothing"... It makes it very difficult to compete unless we under sell our services!*

- *Performance measurement and performance based compensation, as we have been saying for a decade, the fact is that there are too many useless sell & buy side service providers, and now, again hiding under renewed MiFID II screen, "alpha capture programs" as some hedge funds are doing to capture and compensate for alpha generating ideas is the only way to be transparent and give the clients the best service, and for those IB's and IRP's who are good to thus have a model and existence.*

- *Removal of trial period, investigation into cross subsidisation in IBs.*

- *Stopping cross-subsidisation of research businesses within investment banks leading to rock-bottom prices to keep trading and other connections with as wide a number of buyside firms as possible. This is an inducement.*

- *Predatory pricing is most important; Euro IRP can help by liaising with buyside to address the value of research and what the buyside wants versus what it is willing to pay for.*

- *We need a PR budget. We need to hammer home the message that if it's not independent it's not research.*

- *Standardised research pricing to be clearly communicated to clients as many are unsure on how to understand value from a P&L.*

- *To raise the conviction among asset managers that having a certain quota of research budget dedicated to IRP should be a positive and could increase their visibility among final clients; a large amount of research budget dedicated to Euro IRP certificated members should be seen as a good ESG criteria for the company overall.*

- *The regulator needs to investigate the banks for anti-competitive behaviour as they are pricing their research below cost. In any other industry this would be called "dumping" and is illegal.*

- *Pushing firms to be able to pay out of commissions through more adoption of RPAs.*

- *Correcting the bias in the assumption that IRPs should be subject to the rules about 'inducements'.*

- *Predatory pricing.*

- *Separation of how cross subsidised pricing within the bulge bracket is being used to drive out IRPs.*

- *I feel the world of investment banking fees should be investigated. These have not been under pressure in all the years I have been in the city (30+) and I believe they are mostly the cause of the current mess left by regulators not thinking through the ramifications of MIFID II. The fees to raise new equity are hugely attractive (up to 5%) leading to large firms* *focusing on retaining their institutional client base at all costs in order to win corporate mandates. The prospect of winning this corporate business allows for a heavy subsidisation to research costs, leading to these institutional clients paying little for the bank's research.*

- *Helping showcase our services.*
- *Perhaps assets managers should be required to disclose their research budgets to asset owners, even if they are paid by hard dollars. They should also disclose how much the budget has changed year on year. Then perhaps asset owners will agree to pay more for research, as the budget declines so far (reportedly 50-70% y-o-y) could hurt performance. With less pressure on asset manager budgets, research pricing might be able to rise to more sustainable levels.*
- *1) Predatory pricing; and 2) removing new barriers to entry. IRPs rely on their research ideas to prove value add. They mostly cannot compete on brand names nor large sales teams. So, a) If we cannot induce, why isn't there a clear carve out? And, b) FCA presentations have included the fact that providing some sample research, prior to a formal trial, is perfectly OK. That's news to the buyside. Clear guidance on that ability would make any introduction much more productive.*
- *Bulge bracket pricing is clearly an inducement and a direct breach of the law. Not to do something is to accept that the bulge bracket can choose which laws to abide by and which are only optional.*
- *Small firms and individuals do not have the luxury of an a la carte approach to the law of the land.*
- *Sort out sellside pricing models to create a level playing field (the reason why MiFID II was introduced in the first instance). Engage more proactively with the regulators and get them to take concrete action with regards to carving out exceptions for IRPs (length of trial periods, administration of trials, buyside compliances with regard to IRPs et al).*
- *Making research a fixed cost to come out of asset managers' profit and loss is inherently a fallacy. Nobody know which research is going to be value added and which is not, nor is it known what that level of research should or should not be; so probably the best solution is for asset managers/regulators to suggest to clients that they should provide a further resource to asset managers over and above the p/l constrained outcome.*

IRPs comments on what they are experiencing and seeing in relation to research pricing.

- *The situation is worse than expected this time 12 months ago but probably no worse than anticipated by end 2017.*

- *Excellent job by Euro IRO to put this thing on the agenda of FCA and the other market watch dogs!*

- *While it is making investors think about pruning research, it is clear that the pricing is silly so we have chosen to charge an amount per seat that will deter anyone but a really interested contact from buying. We are also wasting hours on interaction recording, something we believe enshrines the idea of bulk over quality, exactly what MiFID II sought to eliminate.*

- *Voter accounts globally are taking advantage of MiFID II to enforce pricing that Brokers are absorbing and will put 50 % of IRPs out of business within 12 months and as a group, Euro IRP has no coherent strategy to address for its membership. Frankly, I feel Euro IRP looks lost and am seriously questioning staying in this group.*

- *It is very difficult to price our research too highly as we often STILL hear "we get lots of free research from our brokers/clearers"... all very frustrating. Until it becomes accepted that research is a cost, like data is, we will continue to struggle with this problem.*

- *Sellside pricing by banks is still not clear for asset managers. They are reluctant to take meetings because they are not sure how much they will be charged.*

- *For the first time IRPs are the expensive option, when seeking new business across Europe*

- *There is relentless pressure to cut prices. Clients are willing to state that they can effectively get broker research for free, and expected independent research to be very inexpensive.*

- *Because we have a very high degree of focus on returns, we will eventually receive more of our remuneration in the form of success-related payouts.*

- *We have had anecdotal evidence from clients that investment banks are providing them the same level of research as previously at no charge.*

- *Near term pricing is likely to remain challenging but in the medium term average pricing should be robust/should grow at least in line with inflation as the sellside will have a shake out and buyside budgets will be clearer.*

- *It still remains opaque and the buy side is in denial about their role is pricing properly as opposed to simply regarding it as a cost cutting exercise.*

- *It is interesting to see real capacity coming out of the sell side so quickly after implementation of MIFID II, although I suspect there is much more to come. Clients are already complaining that the quality of research has fallen, and many equities are poorly covered (or uncovered). This is not sustainable, so I assume prices will have to rise to attract the necessary analytical talent.*

- *We charge an all-in fee and separately per research report. That's all.*

- *It could be affected by regulatory action by the FCA which is presently unknown.*

- *Large voting accounts have valued our written research - which covers all sectors, is for 100+ analysts - at $4,000 and less (10% of what we would ever price).*

- *After initial downward pressure pricing seems to have stabilised. Growing dissatisfaction with the quality of IB bundled research and uniformity of opinion seems to be leading to more enquiries. These comments can only relate to macro research.*

- *Current pricing for credit research from the sellside is way off-market, arbitrary and grossly uncompetitive for IRPs. Given credit research is still a niche asset class with scarcity value, the negative impact from MIFID II is yet to be felt. However, to ensure a well functioning research market, we urge Euro IRP to address this issue aggressively as top priority with the regulators i.e. normalise fair pricing for all market participants. There have been set standards and precedents (from IRPs) in terms of fair pricing models which should be used as a benchmark for the sellside and implemented by the regulators to create a sensible framework. At present, anything goes, and this unstructured and arbitrary approach, poses a major risk for the sustainability of IRPs and availability of high value quality research in the medium to long term.*

- *We've lost all our clients in the UK. The new price imposed was £1,000 for the read only access, and then we would be paid on the idea we could provide. We did refuse to go in that direction.*

- *Having recently moved into the data provision section of the market from the more 'analogue' reports driven model, it is clear that pricing for data is on the up. The more conversations I have with PMs, it is clear that the asset management community is taking the decision to 'be better' and that not much more room will be given to pay for research out of the P&L. Data is seen as a key for PMs to gain an edge whilst reducing the amount of headcount they would need to add to their internal research teams.*

Examples given by IRPs of research pricing from investment banks and brokers.

- *We have access to all JPMorgan research on Bloomberg with a 2 day delay for free.*

- *Normal breakout seems to be - Website subscription, Vendor selling, Direct Contact, Bespoke Research, Consultancy – with prices increasing sharply up this curve.*

- *Credit research not being priced separately on the whole - mostly bundled with equity research. Basic package $10-50K.*

- *ABN Amro and ING have a lot of primary business and thus require access to clients. We are hearing that they both provide research coverage on up to 110 Benelux stocks plus sales support for EUR 10K per annum. If a client is prepared to pay only EUR 5K, they'll accept it too. An average place in the dealing room (sales, research or trading) costs at least €400-450K per annum. In order to break-even, this would require at least 40 average clients per person. Both ABN Amro and ING has teams of 20+ people on Benelux equities (sales and research); i.e., that would require 800 paying clients in secondary business. At its peak, Rabobank (which exited the equities business all together) had approx. 165 institutional clients.*
  We cannot verify these stories ourselves, since everybody is quite hush-hush about pricing and client numbers. Yet there is too much circumstantial evidence showing that supports what we have been hearing from clients ourselves.
  Our tariffs are more that double those mentioned above. We have not been forced to adjust our tariffs in relation to the start of MiFID II. We have been using our pricing menu/card for at least 3-4 years now and obviously our clients believe that these are fair tariffs.
  As far as new clients are concerned, we are experiencing that they are initially struggling with our much higher tariffs, because their first impression is to benchmark us against the established names (ING, ABN Amro, Société Generale, etc.)

- *As low as $5k for complete service from JPMorgan. We hear on a regular basis that prices are around $10 or $20k. Charges for access and other services are not clear and many agreements between asset managers and banks have not been reached and are working on a quarter by quarter basis.*

- *I have heard of quite predatory pricing from the large banks. While the quality of research does factor in, this pricing impacts the expectations and the discussion from the client side. I think its weighing on the larger global Long-Only accounts who have US and UK / Europe offices and impacting US rates as well.*

- *None that are not already in the public domain via the media.*

- *Banks are charging my clients $10-45k pa for basic research service.*

- *$10,000 from JP Morgan, for getting access of their worldwide research.*

- *The data I have is as follows; which mostly dates from October 2017 (please see below for table).*

AlphaValue	50 000 €	90 000 €	364	
Autonomous	43 478 €	286 957 €	70	
BarCap	33 333 €	388 889 €	395	All in
Berenberg	30 000 €	360 000 €	336	
Bernstein		130 435 €		access to equity analyst reports and other services
BofA Merrill	69 565 €	na		Full package?
Canaccord (UK corporate broker)		83 333 €		All in
Credit Suisse	26 087 €		402	
Exane	na	na	409	would actually impose high prices (and tough conditions)
HSBC	na		364	
Goldman	na		440	
Jefferies	na		349	
JP Morgan	8 696 €	na	476	
Kepler Cheuvreux	25 000 €	125 000 €	401	Research web-site only per Institution
LBBW (German bank)	25 000 €			
Macquarie	43 478 €			
Morgan Stanley			424	
Morningstar			253	
Natixis				Keeps quiet
Nomura	86 957 €		0	Japan only
Oddo BHF				
Raiffeisen (Austria & CEE)	15 000 €	?		150 or so CEE stocks
RBC Capital			253	
Santander	30 000 €		50	Spanish product only
SocGen	50 000 €	?	348	
UBS	34 783 €	na	469	limited to 5 users - basic access

What are the key demands you get from the buyside?

- *Consistency of methodology.*
- *Price Trends and Price Amplitudes.*
- *Portfolio reviews.*
- *1. New ideas. 2. Thorough follow-up & ownership of existing ideas. 3. Bespoke requests. 4. Interactions.*
- *Consistency of method. Conviction calls.*
- *Timeliness, in-depth research, new issue research.*
- *Bespoke ideas and reports.*
- *Buyside do massively consume maintenance research but will never admit to it. We can see that modest reality as consumption for our services is on a live website that helps see who needs what on the spot. The buyside claim they want "ideas" for ego reasons primarily but they rarely take the time to read "ideas" if they are not quoted first in the FT or FAZ. but above all to be seen at a lunch with a big broker remains the best way to do business. We do not do that.*
- *Analyst interaction, pre IPO research (we are not involved in deals), detailed models / plug & play spreadsheets, bespoke work.*
- *That we present them with the right ideas and that we know our stuff and provide them with all the information they need to make the right investment decision and that we can help them in the process as an unbiased sparring partner.*
- *Independence, added value.*
- *We are often asked to look at the governance issues or a particular long term trend, especially if a stock is under pressure and the bulge bracket firms have turned against it.*
- *Consensus challenging actionable ideas.*
- *Global Macro Multi Asset Strategy views.*
- *Original, good analysis, coherent (often actionable) conclusions.*
- *Investable themes, market calls.*
- *We make our living by telling clients what to sell. The more senior the client, the more he concentrates on what not to own.*
- *Requests for proprietary research and data based on our unique satellite data access.*
- *Analyst meetings.*
- *More ideas.*

- *Requests for more detail about our proprietary technology.*

- *New Ideas.*

- *Fundamental research, data, analyst time.*

- *"What are your top 3 ideas".*

- *Proof of process - e.g. performance statistics of ideas. Proof of contact statistics for evaluation of payment.*

- *Ongoing equity coverage of a specific sector, at least 2 meetings a year and timely responses to client inquiries.*

- *Valuation analysis and market colour.*

- *Long-term, fundamental reports.*

- *Proprietary meetings with sources, experts.*

- *Macro is a simple product so no models etc and educational as well as focusing on forecasts*
    - *Expand Coverage (specifically new issues)*
    - *Analyst access and insights*
    - *New Issue Assessments (pre pricing)*
    - *Trade Ideas with follow-ups*
    - *Daily analysis on key company-specific news (real time updates).*

- *We provide a very specific service designed to give the "technical view" of the world so that clients can compare that to where they are positioned.*

What are you seeing from the buyside?

- *Mostly equity driven - not holistic - brainwashed into thematic news-flow.*
- *The buyside is in a post MIFID II holding period, waiting to gauge how the various pieces land & unwilling to engage much outside of its core list in the meantime. There is a distinct lack of original thinking with few viewing the new world as anything other than more boxes that need ticking.*
- *So far pricing demanded by the buyside has in some cases fallen to absurdly low levels, but the doors are still open.*
- *As desperate to find a way to justify their jobs as we are.*
- *They want it all but are lost in how to engage post introduction of MiFID II.*
- *Most of them are still imprisoned in their own little silos.*
- *Buyside is currently interacting less with analysts. They are less inclined to take meetings with analysts, sometimes they are unsure if that will cost more for the company as several banks charge separately for it.*
- *They do not know what they want.*
- *A key problem today is an agency one between users and vendor managers/gatekeepers (especially regarding MiFID II).*
- *The traditional buy side does not seem very open to adding new firms to their lists.*
- *Hedge funds seem to be in a somewhat different position as most of them have not chosen to go hard dollar. So they seem more willing to spend on research and perhaps more open to new suppliers.*
- *Incredibly hard to be discovered by the buyside if not a known quantity as of end December 2017. The market for new relations came to a halt with MiFID II. The idea of non-substantive, marketing correspondence being permitted does not work in practice. Buyside compliance regimens simply cut off all correspondence.*

CONTACTS

Euro IRP

Euro IRP – the European Association of Independent Research Providers – represents the interests of independent investment research firms which are based in Europe, or which have clients or activities in Europe. Now with nearly 80 member firms, Euro IRP was founded in 2005 with the following four goals –

- To enhance the awareness and reputation of independent research
- To change the perception that research is free
- To work with regulators and investors to promote the awareness and acceptance of payment structures
- To improve the regulatory and fiscal environment in which independent research firms operate

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