



# Prime Brokerage survey: Goldman Sachs remains top, but lead narrows

Posted By *Nathaniel E. Baker* On July 9, 2019 @ 10:47 am In News, Research

Goldman Sachs extended its run at the top of the annual *Absolute Return* prime brokerage survey for the eighth successive year, though its lead shrank slightly as its overall market share dropped from 18.4% to 15.5%.

The top four spots were unchanged from last year, with J.P. Morgan second, followed by Morgan Stanley and Credit Suisse. Deutsche Bank, which is transferring some business to BNP Paribas as it cuts jobs and refocuses its business, dropped two places and was leapfrogged by Bank of America Merrill Lynch and Citigroup. Barclays overtook UBS whilst BNP Paribas moved into the top 10 at the expense of BNY Mellon.

## The Market

Last year, assets at leading Americas-based hedge fund firms contracted by over \$124bn due to performance losses and withdrawals, according to the latest AR Billion Dollar Club [survey](#) [1]. With fewer launches of size, and less growth — or even contraction — at prime brokers' existing hedge fund clients, it makes sense the business as a whole has stagnated.

Winning new business in this environment has been likened to a game of “musical chairs” rather than being driven by growth, according to the head of prime services at a leading U.S. bank.

Fund managers have continued to consolidate their wallets over a smaller number of providers. The major primes have to ensure that clients have access to a full suite of resources to maximise the relationships. Focusing on technology and automation has become imperative as the quantitative space continues to grow.

First quarter revenues at prime brokerage firms declined 22% year-on-year, according to data provided by researcher Coalition. In its first-quarter Investment Banking Index report, the company said the drop was “due to core prime and synthetics, which was due to increased margin pressure in the US.”

Hedge funds need to be more cost efficient and are looking at every aspect from service providers including their prime brokers, according to Brandi Gatlin, managing director at LightPoint Financial Technology. “Due to the challenge of the asset raising environment, funds are struggling, causing primes to find other sources of revenue such as outsourced trading,” she says.

The advances by J.P. Morgan and Morgan Stanley compared to Goldman is likely due at least in part to willingness to take risk on smaller hedge fund clients, according to practitioners. While Goldman has strict minimum asset levels for hedge funds to become prime brokerage clients, other firms have lowered these minimums in recent years, says Gatlin. With smaller

managers proliferating, prime brokers willing to take chances on these funds have been able to gain some market share. "Morgan Stanley is able to take fund managers that are much smaller than Goldman would take," she says.

Position (2018)	Prime Broker	Sole Mandates	Split Mandates	Total Mandates	Total AUM (\$m)	Market Share (% of total)
1 (1)	Goldman Sachs	139	482	621	293,044	15.49%
2 (2)	J.P. Morgan	134	403	537	288,472	15.25%
3 (3)	Morgan Stanley	89	408	497	240,673	12.72%
4 (4)	Credit Suisse	41	275	316	186,213	9.84%
5 (6)	Bank of America Merrill Lynch	24	221	245	135,964	7.19%
6 (7)	Citigroup	25	183	208	127,923	6.76%
7 (5)	Deutsche Bank	18	213	231	123,280	6.52%
8 (9)	Barclays Capital	3	155	158	84,470	4.46%
9 (8)	UBS	25	231	256	74,977	3.96%
10 (11)	BNP Paribas	26	84	110	47,830	2.53%
	Other	607	705	1312	289,174	15.28%
	<b>Total</b>	<b>1131</b>	<b>3360</b>	<b>4491</b>	<b>1,892,021</b>	

### Strategy Breakdown

<u>Equity Funds</u>	<u>Macro</u>	<u>Relative Value</u>	<u>Credit</u>
1. Morgan Stanley	1. Goldman Sachs	1. J.P. Morgan	1. J.P. Morgan
2. Goldman Sachs	2. Credit Suisse	2. Goldman Sachs	2. Goldman Sachs
3. J.P. Morgan	3. J.P. Morgan	3. Morgan Stanley	3. Citigroup
4. BAML	4. Société Générale	4. Credit Suisse	4. Barclays
5. Credit Suisse	5. Citigroup	5. Deutsche Bank	5. Credit Suisse

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## **Goldman Sachs Reshuffles Prime Services Leadership**

Goldman Sachs reshuffled its prime services [leadership](#) <sup>[2]</sup> earlier this year. Former head of prime services, Jeff Nedelman was promoted to become co-chief operating officer of the overarching Global Equities division. Replacing Nedelman are three new co-heads of Global Prime Services: Puneet Malhi, Cyril Goddeeris and Kevin Kelly.

Goddeeris told *Absolute Return* the prime services unit remained focused on "creating bespoke and scalable solutions to solve our clients' financing needs, across asset classes and regions globally" and "emerging markets where regulatory environments and the fragmentation of markets creates complexities."

Goldman Sachs is also targeting the systematic market. The bank has long had a deep relationship with the fundamental long/short community and multi-strategy hedge funds but is now focused on growing its market share of quant-orientated investment advisers, an area that Goddeeris feels they are currently "underexposed" to.

## **Deutsche Bank**

Embattled Deutsche Bank fell two places in the overall rankings but maintained its share of hedge fund assets. It was pushed down as both Bank of America Merrill Lynch and Citigroup gained over 2% in overall market share.

Deutsche is juxtaposed between scaling back its U.S. operations whilst trying to retain major hedge fund clients. *Bloomberg* recently [reported](#) <sup>[3]</sup> RenTech has been pulling money from its brokerage account with the German lender. Other primes will be circling its remaining hedge fund clients as the bank cuts one in five staff [globally](#). <sup>[4]</sup>

## **'Mini primes' battling for market share**

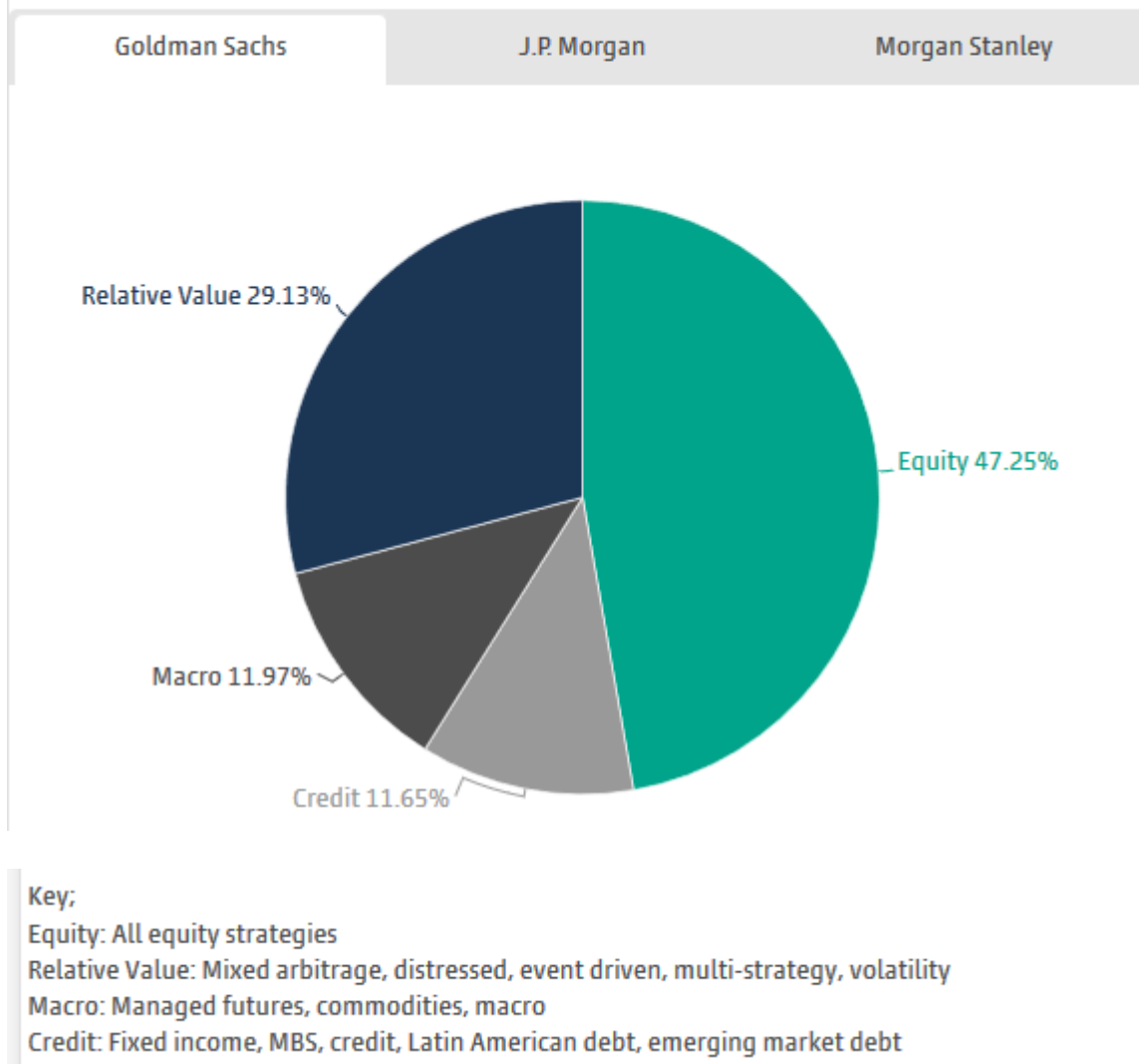
As prime brokerage as a whole has become more commoditised and funds continue to seek ways to cut costs, smaller prime brokers, or so-called "mini-primes" have managed to gain market share. Smaller primes increased their share of the overall market from 13.7% to 15.3%, the survey found.

**One such firm, Celadon Financial Group, had its best year in terms of revenues in 2018, according to CEO Daryl Hersch. The Chatham, New Jersey-based firm has established a niche by focusing on a few areas of expertise: fixed-income and derivatives on the trading side and capital introductions.**

Celadon doesn't offer clearing or custodial services, and doesn't offer research, choosing instead to partner with larger brokers to provide clients these services. While these arrangements are typical for mini-primes, capital introduction can be a distinguishing feature to attract clients, according to Gatlin. Larger prime brokers simply don't have the option of introducing smaller funds to institutional investors such as pensions and endowments with their strict assets-under-management thresholds (typically managers must have \$250m in assets to be considered).

Additionally, Hersch says he has noticed a trend in the brokerage business back to more of a relationship-driven model. "That's been absent the last five years or so when people were just chasing pricing," he says.

### Big 3: Client Composition



#### Methodology

The survey looks at the market share of prime brokerage firms via the assets of the hedge funds they service. Data is sourced from the Absolute Return database, public filings and original reporting. If no wallet share details are available assets of the hedge fund are split equally

*between the prime brokerage firms. Only Americas-based managers are included. Only commingled hedge funds and their pari passu managed accounts are included.*

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[2] leadership: <https://www.reuters.com/article/goldman-sachs-moves/update-1-goldman-sachs-global-equities-trades-co-head-levine-to-retire-idUSL2N22I1JD>

[3] reported: <https://www.bloomberg.com/news/articles/2019-07-05/rentech-has-been-pulling-money-out-of-deutsche-bank-for-months>

[4] globally.: <https://www.ft.com/content/65cfe4ec-a144-11e9-974c-ad1c6ab5efd1>

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