WHAT TO EXPECT IN EQUITIES HIRING IN 2018

Authored by OGiQ

OGiQ is Options Group's catalyst for growth, providing recruiting and strategy professionals with unique, value-added advice, products and human talent management solutions for our clients. Distilling intellectual capital from raw research and over 16,000 interviews conducted each month across the firm, OGiQ produces advanced analytics, proprietary tools and information essential to our executive search and consulting businesses. Externally, OGiQ partners with our clients to provide real time competitive intelligence and benchmarking for all aspects of their businesses.

WHAT YOU'LL FIND INSIDE:

- **INTRODUCTION**
- **GLOBAL HIRING HEAT MAP**
- **EQUITIES**
- **EQUITY DERIVATIVES**
- **PRIME FINANCE**
- **MIFID II IMPLICATIONS**

INTRODUCTION

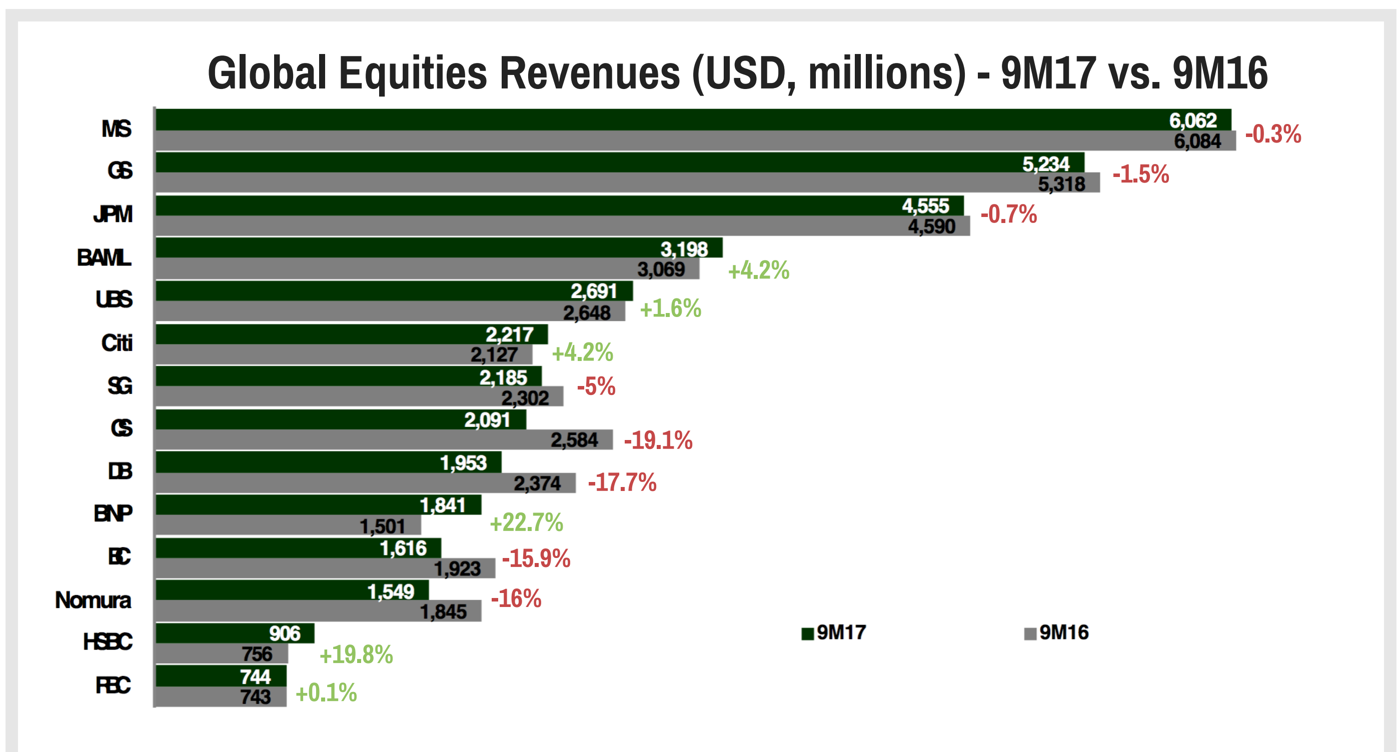
Equity markets around the world remain bullish; and many market participants believe that equity markets will continue to rise throughout 2018. Rising markets have benefited investors, especially those in the long/short equity space. They have also made possible the explosive growth of ETFs, one of the fastest growing segments of the buy-side. Even though there are signs that growth is slowing in some leading Asian economies, market sentiment clearly finds the region highly attractive. Some of those whom we surveyed have placed concentrated bets on growth in emerging markets while shorting US assets.

Global economic growth is one driver for rising equity markets. For the first time in a decade, all 45 countries tracked by the Organization for Economic Cooperation and Development are expected to show economic growth—a sign that a global recovery is underway and the pivot toward global equities

has been an ongoing trend, with international equity funds receiving $149 billion in net inflows during the first 11 months of 2017. That was up from $16 billion a year earlier. 2018 looks equally propitious. Strategies that will benefit from current market conditions include quantitative or systematic investing. Currently, over half of the largest hedge fund firms are quantitative mangers. In Asia, however, fundamental strategies, especially in long/short equity, should benefit from regional differentiators. Asian markets typically offer lower P/E multiples, higher volatility and less institutional ownership, all of which benefit active management.

Potential threats to cash equities include falling corporate profits, an unexpected or outsized surge in inflation and a growing array of geopolitical risks. The winding down of economic easing by central banks could also damage equities' buoyancy. The equities franchises at banks are coping with the effects of MiFID II, which unbundled the cost of equity research from execution. Bulge bracket banks have backed away from research and research sales and we foresee little growth in 2018 for sell-side cash equities teams, until the impact of MiFID II is more fully understood.

Technology and technology-driven strategies have irrevocably changed both the sell- and the buy-side. The growth of systematic strategies has transformed front-office investors into engineers; and even fundamental firms are investing heavily in acquiring data and using it in investment decisions. On the sell-side, the cost of technology investments, lower margins and lower volumes have forced banks to keep staff lean; banks have done only replacement hiring or have let go of expensive, senior professionals and replaced them with more affordable juniors. On the positive side, non-bulge bracket banks have built out their teams with talent exiting larger banks.



Other market participants are hoping that a correction comes sooner rather than later. On the one hand, an increase in volatility would benefit both the buy-side and the sell-side, would bring life back to equity derivatives and would stimulate trading volumes. But on the other hand, the longer a market correction is postponed, the more likely it will cause havoc. There is widespread agreement that in the US, the UK and Europe, assets are overpriced; indeed, this is the flip-side of the strong interest in Asian equities. The danger however is not simply that the higher the markets go, the greater their fall. The increasing use of electronic trading and systematic strategies means when a correction does take place, it is more likely to whipsaw across sectors and asset classes at speeds that will themselves cause market fear; and then momentum that begins with algorithmic trading could rapidly affect sentiment across the global economy.

Market participants also realize that when the next correction comes, one instrument against market shut-down will be missing from the collective toolbox. After the financial crisis of 2008, financial regulators around the world worked hard to discourage excessive risk taking by banks; and one consequence of those regulatory moves is that banks are no longer in a position to provide liquidity when markets head south. We will see if the buy-side, which has increasingly taken on the role of market-making, will step in to provide a backstop when prices plummet. That kind of mispricing will provide stunning investment opportunities for those with cash and convictions ; but the short and medium term consequences could also have serious knock-on effects in the larger economy and in politics.

MiFID II IMPLICATIONS

In EMEA, the effect of MiFID II is profound and complex but it can be classed under four critical rubrics: investment research; best execution; transaction reporting; and trade transparency. The unbundling of research costs, previously buried in execution fees, means that asset management firms are now faced with buying research. The expectation that MiFID II will decimate the ranks of researchers, however, belies the larger picture. According to research produced by Coalition, the number of research analysts at the top 12 investment banks fell 10 percent between 2012 and 2016; and investment banks' budget for global research has fallen from a high of over $8 billion in 2008 to roughly $4 billion in 2015.[1] In other words, MiFID II has only accelerated an existing trend. Quinlan & Associates reports that 30 percent of global asset managers were planning to cut their research budgets by a third. While the numbers of researchers decline, though, competition among research vendors will inevitably heat up. The competition will take two forms: first, reduced pricing - or even free - research from the sell-side; and second, a battle for market share. The opportunity to be found amid these hazards is that independent research firms will now compete with sell-side research on far more propitious terms. A number of banks have invested in a research platform called Visible Alpha, that collates and analyzes data for asset managers. Another firm, Street Contxt, backed by Steven

---

[1] "Final call for the research analyst?" Robin Wigglesworth, Financial Times, 7 February 2017, https://www.ft.com/content/85ee225a-ec4e-11e6-930f-061b01e23655.

Cohen and Joe Lonsdale, helps research vendors manage and value their product.[2] Regardless of where they purchase research, the majority of asset managers have decided to absorb the cost of research rather than passing it on to clients.

Best execution, transaction reporting and trade transparency regulations all dramatically increase the volume and complexity of reporting and documentation required of asset managers, from relationships with execution brokers to telephone conversations that may lead to portfolio transactions. Such reporting and documentation increase technology and compliance costs. A number of platforms have rolled out offerings that bundle the services needed for reporting and documentation for asset managers, saving them the challenge of developing technology and systems themselves. Nonetheless, those costs are still seen as barriers to entry for new firms.

The costs of MiFID II will not just change how research is done or exchanged or how transactions are documented and reported. Financial markets are likely change. The shift toward lower-cost passive investing may be aided by the new costs shouldered by asset managers. The reduction of research means potentially that the less research there is out there circulating, the more vulnerable the market could be to spurious comments, speculation and research. [3] Concurrently, regulations created since the financial crisis have reduced the ability of investment banks to provide liquidity in times of crisis and that role has passed to the buy-side. As a result, large asset management firms may find themselves in a deeply challenging position of needing to create liquidity at the moment when their ability to understand market behavior is more limited than it was before MiFID II. All this has significant implications for hiring and firing in research related roles.

In 2018 the war for talent across the equities markets will continue, but only for the very best talent. There will be some notable changes at the leadership ranks of banks that will be finally implementing success planning initiatives, a significant number of talented professionals at the director level will be looking for the prospect of promotion. On the buy-side, continued consolidation will create more of a market for senior level talent who have failed to make a successful transition over from the sell side; asset managers will also be looking to hire more quantitative and technical specialists in equities.

OGiQ conducted a global survey between September 12 and October 31, 2017 and received over 5,000 responses. The survey entailed more than 30 specific questions to assess trends and to capture additional perspectives from employees and other market participants.

Some key takeaways: across the board executives at hedge funds view their compensation as generally fair with 100% of executives at $5B funds seeing comp as fair and 67% at the <$1B funds seeing comp as fair.

---

[2] "Goldman leads fundraising for research platform after MifidII," Robin Wigglesworth, Financial Times, 19 January 2018, https://www.ft.com/content/b6928fee-fbd5-11e7-9b32-d7d59aace167.

[3]"MiFIDII research rules concern bond managers," Sophie Baker, Pensions & Investments 13 November 2017, http://www.pionline.com/article/20171113/PRINT/171119961/mifid-ii-research-rules-concern-bond-managers

OPTIONS GROUP HIRING ACTIVITY FORECAST BY REGION

1 = High Activity 2 = Moderate Activity 3 = Mostly Replacement Hires
4 = No Activity 5 = Headcount Reductions Likely

Sell-Side – Banks, Broker-Dealers & Boutiques

	US	EMEA	ASIA*	JAPAN	BRAZIL	INDIA	AUSTRALIA
Cash Equities	3	3	5	5	2	3	3
Equity Derivatives	2	3	3	4	2	4	3
Prime Services	3	4	3	4	2	-	-
Commodities ǂ	2	3	3	-	3	-	4
Credit	3	2	1	2	3	3	3
Rates	3	2	2	3	2	2	3
Foreign Exchange	3	2	3	4	3	2	3
Securitized Products	3	4	-	-	3	-	3
Emerging Markets	3	2	-	-	-	-	-
Investment Banking	3	3	3 ǂ	3	1	2	2
Private Wealth Mgmt.	2	2	3	-	1	1	1
Information Technology	1	2**	3	-	1	1	2
Electronic Markets	2	2	3	3	-	1	3
Quant Research & Analytics	2	3	2	2	-	2	3
Risk Management	3	2	3	3	2	3	2
Operations	4	4	-	3	3	2	-

Buy-Side – Hedge Funds, Asset Managers, Private Equity & Proprietary Trading Firms

	US	EMEA	ASIA*	JAPAN	BRAZIL	INDIA	AUSTRALIA
Investment	3	2	3	3	2	4	2
Quant/Systematic Trading	1	2	1	3	-	1	3
Distribution	3	2	3	3	2	3	1
Operations	3	2	3	3	3	4	-
Information Technology	2	2	1	3	3	2	-
Risk Management	3	2	3	3	2	3	2

*Asia = Hong Kong and Singapore
**Germany
ǂ NE Asia is a 3, SE Asia is a 2

OPTIONS GROUP

56% of all women see the new NYC compensation laws as Very Positive with another 23% viewing it as Positive. Only a small minority (fewer than 15%) of both men and women see the law change as negative at any level.

European professionals in the equities space were much more confident in expected headcount increases across all institutions when compared to their American counterparts.

In the US equities space, only 33% of employees working at British Banks felt they had job security. Overall, those working at large hedge funds showed the most satisfaction with their jobs and compensation globally.

In the US only 25% of individuals working at Japanese banks expect headcount to increase.

Global Equity IPO League Table (2017)

Manager	Rank	Vol (MM USD)	Issues	Fees	Table Share (%)	Mkt Share Diff
Citi	1	12,951.89	117	4.040	6.53%	1.83%
JP Morgan	2	11,552.67	101	4.363	5.82%	-0.48%
Morgan Stanley	3	11,151.48	96	4.281	5.62%	-0.37%
Credit Suisse	4	10,733.41	85	4.466	5.41%	1.56%
Goldman Sachs	5	8,458.45	73	4.496	4.26%	-0.76%
UBS	6	7,577.97	50	3.044	3.82%	0.53%
Deutsche Bank	7	6,854.48	60	4.632	3.46%	-0.63%
Bank of America Merrill Lynch	8	6,752.79	68	4.090	3.40%	-0.37%
Barclays	9	3,622.86	38	3.921	1.83%	0.36%
CITIC Securities Co Ltd	10	3,608.38	44	5.406	1.82%	-0.15%

Source: Bloomberg

CASH EQUITIES

US Key Trends

- Cash equity trading, sales trading, and research are most vulnerable to additional headcount reductions.
- Professionals typically do not receive increases in compensation to switch to similar firms. Those moving to a lesser platform typically receive 10% to 15% increases to switch.

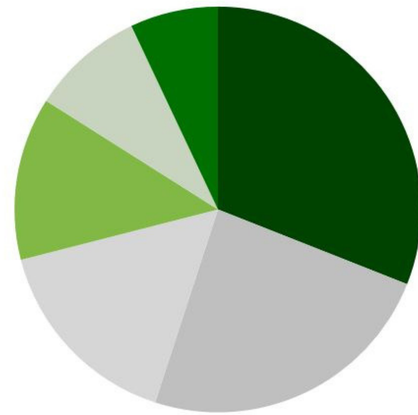
EMEA Key Trends

- High movement of top execution trading talent in 2017 could potentially lead to more movement among mid- and junior-level traders in 2018.
- Cash equity trading, sales trading, and research are most vulnerable to additional headcount reductions.

ASIA Key Trends

- Japan continues to be a challenge for most bulge bracket firms who feel they could do better in the region and are ready to make opportunistic hires if the right candidates present themselves.
- Unemployed candidates may continue to accept offers with lesser titles, most often from managing director to director.

Primary Reasons for Making a Move (Managing Directors)



- Career Advancement (31%)
- New Challenge (24%)
- Platform Advantages (16%)
- Dissatisfaction w/ Leadership (13%)
- Higher Compensation (4%)
- Layoff (7%)

Primary Reasons for Making a Move (VP/Directors)

- Career Advancement (37%)
- Higher Compensation (29%)
- More Interesting Work (19%)
- Better Firm Reputation (11%)
- Layoff (4%)

EQUITY DERIVATIVES

US Key Trends

- Due to the high number of heads of desk movement in 2017, expect more movement of mid-level professionals in 2018.

EMEA Key Trends

- We anticipate hiring activity to increase for German derivative sales professionals, partly due to limited pool of talent causing imbalance of supply and demand.

ASIA Key Trends

- Given the high number of desk head moves in trading and structuring that occurred in 2017, there could be additional movement of junior staff this year

PRIME FINANCE

US Key Trends

- Whatever hiring occurs will be in futures, swaps, and quant sales.
- Following years of hedge funds recruiting talent from banks for portfolio finance, banks are now seeking to hire them back to help find more efficient ways to structure trades and loans.
- Expect a high rate of counter offers.

EMEA Key Trends

- The largest hedge funds are concentrating their business with global primes; this loss in business is driving more candidates out of European banks to US banks.
- Hiring activity has been focused on product specialists rather than sales.

ASIA Key Trends

- Hiring activity was weighted toward the most senior levels in 2017. This year it could be weighted toward the junior levels as non-bulge bracket firms continue their expansion.
- Risk quants and quant sales coverage continue to be the most active roles.

THOUGHT LEADERSHIP

An Article for Everyone

Options Group regularly publishes industry white papers across a broad variety of subjects.

Recent publications include:

- Growth is Not Just a Matter of Getting Bigger; It's a Function of Getting Smarter
- 'Equal Pay' Laws Are Accelerating the Evolution of Recruiters as Strategic Advisors
- Asset Management vs. Hedge Fund Hiring Trends
- Making the Most of the Hedge Fund Talend Shortage
- H-1B Visas: The Bottleneck Stalling the Global Flow of Skilled Talent

To access all of our publications visit:
http://www.optionsgroup.com/Strategies-Solutions/Thought-Leadership

DISCLAIMER

© 2017 Options Group. Any unauthorized use, duplication, sale, or redistribution of this report or its content ("Report"), including, but not limited to, redistribution of the Report by electronic mail, posting of the Report online, and/or providing to a third party a link to the Report, is strictly prohibited, except with the prior written permission of Options Group. This Report is intended for reference purposes only. We believe that the information contained in this Report is dependable, having been procured from primary and secondary sources through October 31, 2017. This information is provided on an "as is" basis. Options Group does not guarantee its accuracy, completeness, or fitness for a particular purpose, and nothing in this Report may be construed as a representation of such a guarantee. In the event that market conditions change subsequent to this date, Options Group claims no responsibility for the accuracy of this information. This Report is a single source of data in the overall analysis of compensation structures and the opinions presented herein are subject to change without notice. Options Group does not accept any responsibility for liabilities arising from the use of this Report or any of its content.

GLOBAL PRESENCE

New York	121 East 18th Street | New York, NY 10003 | 212.982.0900
London	3 Copthall Avenue, 5th Floor | London, EC2R 7BH | +44.207.448.0100
Hong Kong	20/F Dina House, 11 Duddell Street Central | Hong Kong | +852.2155.1300
Sao Paulo	Rua Do Rocio, 288 11th Floor | Sao Paulo - SP | +55.11.4082.9010
Tokyo	Kyobashi Suite 1101, 3-10-1 Kyobashi, Chuo-ku | Tokyo 104-0031, Japan | +81.3.6228.7460
Zurich	Bahnhofstrasse 106, 8001 | Zurich, Switzerland | +41.43.497.3048
Bogota	Av. Chile Carrera 7, No. 71-22 Torre A Piso 5 | Bogota, Colombia | +57.1.358.2602
Frankfurt	Hochstrasse 33 60313 | Frankfurt, Germany | +49.69.971.941.10
Mumbai	Office No. 38, Paragon Plaza | LBS Marg | Mumbai 400070 | +91.22.6129.3200
Singapore	Levels 57 Republic Plaza, 9 Raffles Place | Singapore 048619 | +65.6823.1388
Sydney	Level 4, 20 Bond Street, NSW 2000, Sydney, Australia | +61.2.8098.5900
Dubai	Office 1, Level 3, Gate Village 10 DIFC, Dubai, U.A.E. PO Box 125115 | +971-4-401-9105
Amsterdam	World Trade Center, Zuidplein 36 (5.14 Toren H), 1077XV Amsterdam | +31.0.20.799.7626