



**The results are out** for this year's Global Custodian Prime Brokerage Survey, and out of the 24 firms Gar Wood was ranked:

- **5<sup>th</sup> in consulting**
- **7<sup>th</sup> in operations**
- **14<sup>th</sup> in total points**

Moreover, Gar Wood was just a few survey responses short, but had the points to earn a "Best in Class" in four out of ten categories for securities lending, operations, consulting and in total points.

**Robert S Jersey, President and CEO of Gar Wood Securities, LLC said, "We at Gar Wood Securities, LLC are all very proud to be included in Global Custodian's annual prime brokerage survey for the second year in a row. There are approximately 35 "mini prime brokers" operating in one fashion or another, and Gar Wood was one of only four mini prime brokers to make this year's survey".**

**Global Custodian wrote:** *Gar Wood, which was founded as recently as 2003, follows its impressive debut with strong scores from a larger group of respondents. The client base of the agency brokerage has nearly doubled in the interim, as hedge funds have fled credit, counterparty and financing concerns raised by the largest providers. Almost all of the Gar Wood clients are managing relatively small amounts, and it is the unweighted averages that show the firm to best effect. They end up between **"very good"** and **"excellent"** in all but three service areas. The exceptions include the linked areas of technology and reporting, though Gar Wood has recently invested in a new web-based portfolio reporting system. The survey does not measure the important execution capabilities of the firm, but one client would like "an electronic trading platform for non-US markets." Operations, where clients can clear and custody through any of Fortis, J.P. Morgan and Penson, remain a high scoring area. "Ability to clear and custody in most markets," as a client puts it. **"Efficient corporate actions services."** A second client says the firm—which now has operations in Dallas and New York as well as Chicago—is **"accessible and responsive at resolving issues. Have been very few issues operationally. Easy to short stocks."** Despite the nature of its client base, Gar Wood does not yet offer cap intro ("Cap intro has not materialized yet," says a client), but it is working with third party marketers. (Note: formatting has been made for visual appeal).*

**"We are confident that our new web based reporting package will provide our clients with all of the bells and whistles that they are looking for in a prime broker. We are getting very positive feed back from our clients and prospect" said Dennis Gerecke, Executive Vice President and COO.**

Attached are the summary results for all 24 firms that were included this year's survey. The tables reflect the results for only the self clearing prime brokers. All "Mini or Boutique" prime brokers have been excluded.

Thank you to our clients for your business, support and time in completing the survey. We know your time is valuable. We are now offering a new on-line reporting package to address aggressively the areas where we did not excel. Please contact your client service representative to arrange a demo.

Best Regards,

Bob Jersey  
President and CEO

# Press Releases

**01 Jul 2009**

## **Global Custodian Prime Brokerage Survey 2009**

### *Annual prime brokerage survey finds an industry in upheaval*

The collapse of Lehman Brothers in 2008 sparked a series of changes which have altered the prime brokerage industry beyond recognition.

Until now, however, it has been hard to quantify the change. The publication of the 2009 Global Custodian Prime Brokerage Survey, now in its 16th year, offers a first snapshot—from a 2,000-strong sample—of how hedge fund managers currently see their prime brokers.

With responses down by a quarter by comparison with 2008, the survey suggests that the prime brokerage industry has decreased in line with the shrinkage of a hedge fund industry battered by shrinking asset values, redemptions and receding performance thresholds.

But the survey also shows that the prime brokerage industry has undergone a seismic restructuring of its own. One hedge fund in three had experienced the termination of a relationship with a prime broker during the year. This rose to more than one in two among the largest hedge funds.

But the most striking finding is the weakening of the stranglehold on the prime brokerage industry of Goldman Sachs and Morgan Stanley. Long dubbed a “duopoly,” the grip of the two investment banks on the industry had proved immune to repeated attempts by competitors to usurp their leadership position.

As recently as last year, Morgan Stanley and Goldman Sachs accounted for some of the highest number of responses, with Morgan Stanley collecting more than any other prime broker. In 2008 the two firms accounted for nearly 23% of responses. This year, they accounted between them for less than 18%.

Among hedge fund clients of the bank responding to the survey, 43.6% said they had reduced their balances with Goldman Sachs. The only firm to see a bigger reduction of balances among their survey respondents was Morgan Stanley, with an enormous 70.2% saying they had cut their balances with the firm. The survey average was just 25.4%.

The survey suggests that the main factors behind the switch were anxieties about creditworthiness in the wake of the rescue of Bear Stearns and the collapse of Lehman Brothers, as well as changes in terms of business in September last year, as prime brokers scrambling to fund themselves found it hard to fund clients as well.

Among survey respondents that addressed the question, one in three offered “counterparty credit risk concern” as the reason for terminating a prime brokerage relationship. However, one in eight named “terms changed by prime broker” as their reason for ending the relationship.

Comments by respondents offer a glimpse at what this actually meant in the second half of September 2008. “Instability during times of stress, no uniform message, randomness in financing and margin, lack of partnership during times of stress, distant management, inability to focus on solutions,” is the litany of complaints about one prime broker.

One respondent claimed their prime broker “misled us when we inquired about rumors of impending changes to leverage/margin, [then] made dramatic changes without notification, which subsequently led to margin calls.” Another respondent complained that his prime broker “changed financing terms with zero notice,” and another of “lack of notice when changing margin rules.”

A survey respondent says the behavior of his prime broker “during the liquidity crisis was completely unacceptable. They deliberately delayed transfers of cash as well as unencumbered securities out of the account.” Another respondent describes a “refusal to deliver cash and shares, [and] an attitude which has not been to work with the clients, but rather protecting [the prime broker] in the very short term.” Another says it “always seems to be about [them] not the customer.”

Unsurprisingly, the survey also shows that the main beneficiaries of the crisis of confidence in the former broker-dealers were those prime brokers backed by the balance sheet of a major bank: Barclays Capital, BNP Paribas and BNY Mellon-owned Pershing, but especially Credit Suisse, Deutsche Bank and J.P. Morgan.

One survey respondent said that a large bank was “the only prime broker that allowed us to continue business as usual, even though they also raised margin and financing rates. All the others changed margin or financing in such a way that it was impossible to do business with them.” A second said of a large bank that “during the fall of ’08 they went to a much higher level in terms of service and access to senior management. They remained calm and collected when many others were scrambling and trying to change the rules during the game.”

J.P. Morgan took on another 200 large accounts in the last year, in addition to the clients it acquired with Bear Stearns. Nearly half of its survey respondents said they had increased their share of balances with the bank.

Credit Suisse, which has long pursued a policy of focusing on the largest funds, operated at a more measured pace, adding around 50 accounts, but saw the largest proportion of respondents claiming to have increased balances with the firm, at 55.6%. Deutsche Bank added over 80 clients, and more than half of its respondents increased balances with the bank. Pershing put on 30 clients. Newedge, which is jointly owned by Credit Agricole and Société Générale, has grown its clientele by half in the last year.

Winning new clients was not without its difficulties. Although some clients were impressed by the transition, there were various gripes in the survey about what one called “time taken to open accounts.” Several respondents detected signs that their new providers were understaffed for coping with the flood of new business.

Ironically enough, however, the overall winner in terms of pleasing new clients was a broker-dealer. Jefferies & Company collected an average weighted score of 6.02 for the perception of the quality of the transition process by new clients, nearly 10% above average. This positive rating was achieved despite doubling its clientele in the last year, including the purchase of a raft of smaller funds from BNP Paribas, which offloaded them after buying the former Bank of America prime brokerage business.

However, another major finding of the survey is the explosion in the use of smaller brokerage firms, or so-called “mini-primes,” which offer various mixtures of services plus the opportunity to outsource others to major service providers. Shoreline Trading, for example, which offers clients the choice of clearing and custody at Credit Suisse, Fortis, J.P. Morgan or Goldman Sachs, and Gar Wood Securities, attracted more responses this year than some established prime brokerage firms.

With 49% of respondents saying that they have started a new prime brokerage relationship in the past 12 months, a massive upheaval is now in train in the prime brokerage industry. The survey shows that the key factors in choosing a prime broker are no longer financing and securities lending but counterparty credit risk (named by 61% of survey respondents that answered the question) and safety of assets (50%). This is opening up the prime brokerage business for banks with good credit ratings and custodial capabilities, such as BNY Mellon, Deutsche Bank and J.P. Morgan.

Many relationships have been tarnished for good. Asked how likely they were to reappoint a prime broker where a relationship had ended, an average of one in four survey respondents was prepared to say “never”. “But this also means three out of four are prepared to go back,” observes Dominic Hobson, editor in chief of Global Custodian, in an essay analyzing the broader findings of the survey, and which is published alongside it. “They are, after all, hedge funds: They are hedging their bets. It will be interesting to observe in 2010 which prime brokers understood what they needed to do in order to win back their lost clients and which did not. A little humility would be a good starting point, but, of all the virtues, it is the one that investment bankers find hardest of all to practice.”

To access the results of the 2009 Global Custodian Prime Brokerage Survey, [click here](#). To read “An industry turned upside down,” the analytical essay by Dominic Hobson that accompanies the publication of the survey results, [click here](#).

*The survey will be available to journalists for 24 hours, after which it will be available to subscribers only. If you wish to view content for longer please email [rzinurov@globalcustodian.com](mailto:rzinurov@globalcustodian.com)*

Global Prime Brokers: With Outliers (Outliers are defined as responses that record 1s and 2s, or 7s.)	
Prime Broker	Weighted Average Score
1. Credit Suisse	5.82
2. Deutsche Bank	5.80
3. Citi Prime Finance	5.72
4. J.P. Morgan	5.70
5. Barclays Capital Prime Services	5.61
6. Bank of America Merrill Lynch	5.59
7. Goldman Sachs	5.52
8. Morgan Stanley Prime Brokerage	5.51
9. UBS	5.46
10. Newedge	5.45
11. RBC Capital Markets	4.90

Global Prime Brokers: Without Outliers (Outliers are defined as responses that record 1s and 2s, or 7s.)	
Prime Broker	Weighted Average Score
1. Deutsche Bank	5.61
2. Credit Suisse	5.60
3. Citi Prime Finance	5.55
4. J.P. Morgan	5.49
5. Goldman Sachs	5.43
6. Bank of America Merrill Lynch	5.40
7. Barclays Capital Prime Services	5.40
8. Morgan Stanley Prime Brokerage	5.40
9. Newedge	5.33
10. UBS	5.32
11. RBC Capital Markets	4.88

*The Global Custodian Prime Brokerage survey has become a major repository of information about the prime brokerage industry. This year, over 2000 responses were submitted by clients of 35 prime brokerage firms. The questionnaire consisted of a total 37 questions covering the following 10 service areas: Client Service, Operations, Financing, Margining (which was a new section to the survey this year), Securities Lending, Reporting, Technology, Hedge Fund Business Consulting, Capital Introductions and Value. As in previous years, respondents were asked to rate the quality of the services provided to them by prime brokers based on a grading of 1 to 7, where 7 is excellent; 6, very good; 5, good; 4, satisfactory.*

*Prime brokers are eligible for awards in five different asset sizes (less than \$100 million, \$100 million to \$1 billion, \$1-5 billion, \$5-10 billion and more than \$10 billion), seven regional categories (North America, Europe, Japan, Asia-Pacific, South Africa, Australia and Canada), two client strategy categories (Single or Multi-Strategy), and two categories based on the use of single or multiple prime broker(s). To qualify for a rating in any of the asset categories, providers needed to receive a minimum of 10 responses. To*

*qualify for a rating in region, prime brokers had to secure at least 10 responses in each of Japan and South Africa, 15 in Asia-Pacific, 20 in both Europe and North America, and 5 in each of Australia, Canada and South Africa.*

*Full research reports are available from Muzaffar Karabaev, Director of Research at Global Custodian.*

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