Prime brokerage – five predictions for 2017

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Quants focus to continue

In 2017 primes will continue to focus on quants to match both investor interest and their own business needs. "Quant is a very scalable business model," says Credit Suisse global head of prime services Indrajit Bardhan.

"Quant equity will be in demand," adds Kumar Panja, EMEA head of hedge fund consulting at JP Morgan.

The likes of Morgan Stanley and Goldman Sachs are enhancing their quant offerings, sources say. "Returns from supporting quant activity can be very attractive," says Scotiabank's managing director of prime services Stuart Bloomfield, which is building out its infrastructure to support this strategy globally.

Capital raising could improve

Some are optimistic on raising assets. "We think the capital raising environment is going to improve in 2017 and we are already starting to see the signs with incoming inquiries from allocators and fruitful diligence being conducted rather than information gathering exercises," says Brett Yarkon head of capital introduction at Cowen Prime Services.

Yet others in the industry say it's too soon to tell and a better indicator will be performance at the end of Q1. "For those funds that have underperformed, capital raising will improve when performance improves," says Pershing Prime Services' managing director Mark Aldoroty.

Market neutral and equity long/short to be in demand

Uncertain political outlooks in the US and Europe could benefit market neutral, global macro and equity l/s funds, prime brokerage experts, including Credit Suisse's Bardhan, says.

"My expectation is while in general equity L/S and market-neutral had a bit of a rough year, I think next year [2017] will be their year," says HSBC's head of prime sales and marketing Europe, Joseph Leckie. Market-neutral funds who have the ability to be "nimble with their net exposure" are likely to do well, adds Leckie.

Further large client culls are unlikely

Many experts say we are past the worst of the client culls experienced at a number of large players in recent years. "If you name any of the top prime brokers they've already been through that. It's been done," says a prime industry source. Yet, while large waves of cuts are unlikely, banks continue to focus on balance sheet optimisation and may look to reprice or cut back clients not making them enough ROA.

Primes forecast continued fee pressure for managers

Fees have been on their way down for the past few years and prime sources are sure this trend will keep going this year. "The trend continues downward," says a capital introductions source. Funds launched in 2016, averaged a 1.48% management fee, down from 1.6% in 2015, according to Hedge Fund Research, with a number of investors now pushing for lower management fees alongside a higher performance fee with a hurdle to reward genuine outperformance.
