



AUTONOMOUS

Autonomous

au•ton•o•mous (ô-t n -m s)
adjective

- Not controlled by others or by outside forces; independent.
- Independent in mind or judgement; self-directed.
- Free from external control and constraint.

SIFMA Annual Meeting

November 10th, 2014

Redefining the Financial Sector: The
Industry Analyst's View

Rebuilding the Financial Sector: The Industry Analyst's View



Exchanges & Infrastructure

Dan Fannon – Jefferies & Co.

Retail/Online Brokers

Joel Jeffrey – Keefe, Bruyette & Woods

Asset Managers

Bill Katz – Citigroup

Universal & Capital Markets Banks

Guy Moszkowski (Moderator) – Autonomous Research

Universal & Capital Markets Banks

Plenty of Challenges Remain:

- Litigation
- Regulatory impacts
- Revenue pressure from secular shifts (like indexing)
- Persistent low rates / low volatility



Litigation: FX manipulation

FX market share and potential fines

FX market share and expected fines		
Bank	FX market share	Forecast fine (\$mn)
Deutsche	15.2%	4,400
Citigroup	14.9%	4,300
Barclays	10.2%	3,000
UBS	10.1%	8,055
HSBC	6.9%	2,000
JP Morgan	6.1%	2,016
RBS	5.6%	2,288
Credit Suisse	3.7%	1,100
Morgan Stanley	3.2%	900
Bank of America	3.1%	900
Goldman Sachs	2.0%	900
Industry		35,059



Mortgage litigation

Largely settled, but aftermath remains

Bank of America: "BofA Mortgage Settlement Stalls Over SEC Political Fight"

Bloomberg, 10/28/14

JPMorgan: "JPMorgan to face U.S. class action in \$10 billion MBS case"

Reuters, 9/30/14

Bank of America, others: "Virginia sues 13 big banks, claiming mortgage securities fraud"

Washington Post, 9/16/14

Bank of America Litigation Reserves

\$bn

Litigation Reserves Estimated 2Q14 adjusted for DOJ penalties	2.4
Liability (reserve) for Reps & Warranties	11.9
Total available reserves (est.)	14.3

Visible settlements:

FHFA Private-label securities	-
FHFA final GSE Reps & Warranties Settlement*	-
Gibbs & Bruns Reps & Warranties Settlement	8.5
Civil Penalty (HSSL)	1.3
Compensatory payments to FDIC/NCUA/Ags	-
Total visible settlements	9.8

Reserve available following visible settlements	4.5
--------------------------------------------------------	------------

Other expected issues, in order of visibility:

FHA	-
Other PLS Reps & Warranties - non-FHFA buyers	7.2
Monoline exposures	1.0
LIBOR	2.9
FX	0.9
Total, other expected issues	12.0

Available reserve after "Other expected"	-7.5
Available "excess" credit reserves or modeled expenses**	-3.6
Total available	-11.1

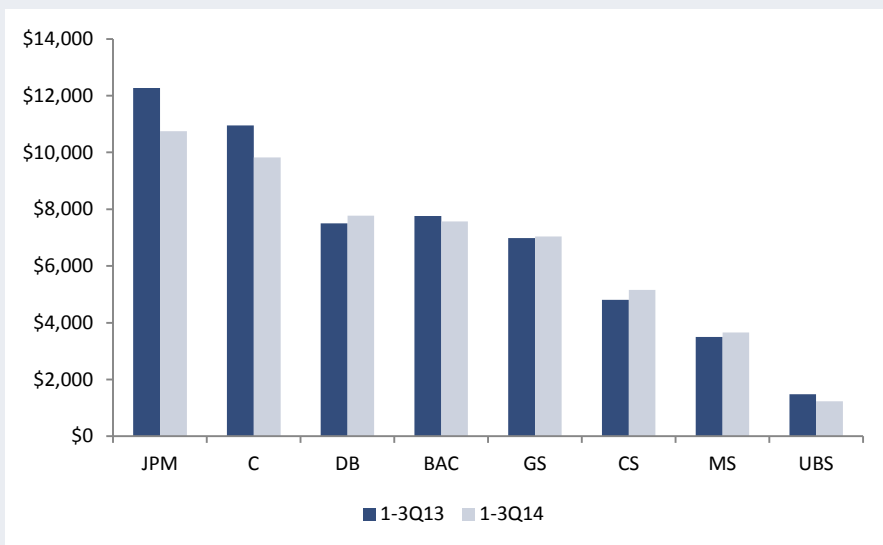
Note: Does not include any extra utilization to arrive at minimum reserve level

*reduced for principal reductions

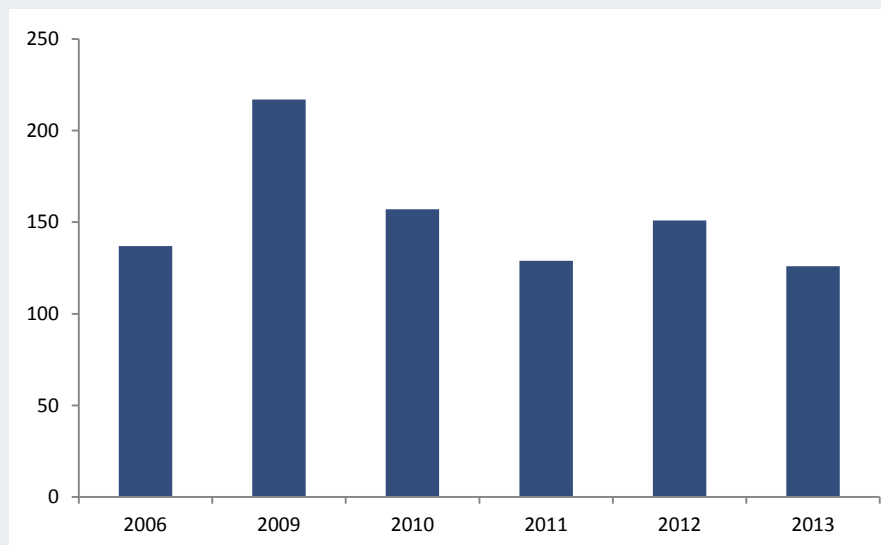


FICC results 2014 vs. 2013 YTD

Banks FICC trading revenues



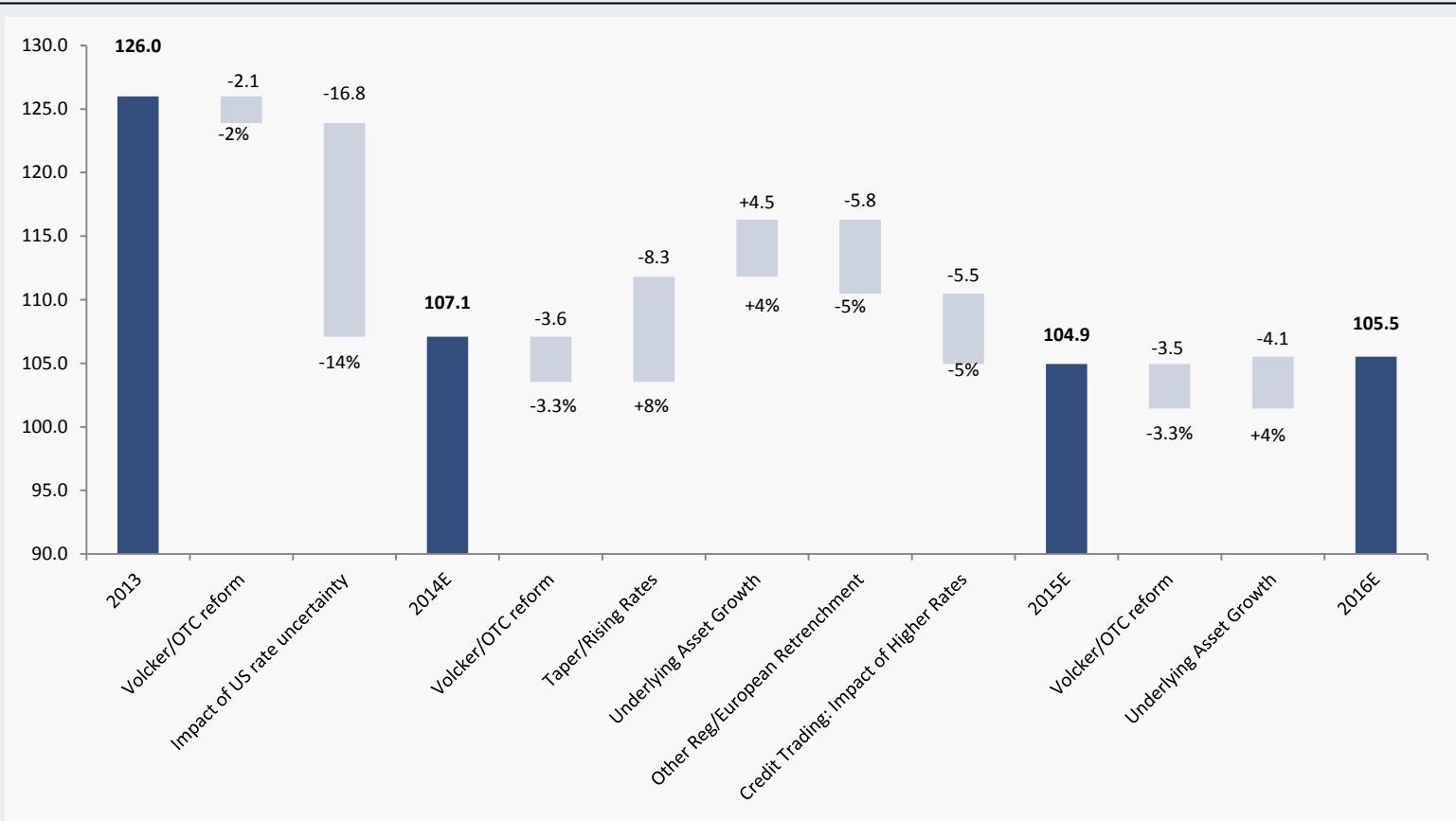
FICC revenue pool



Potential revenue impacts from Volcker and derivatives reform



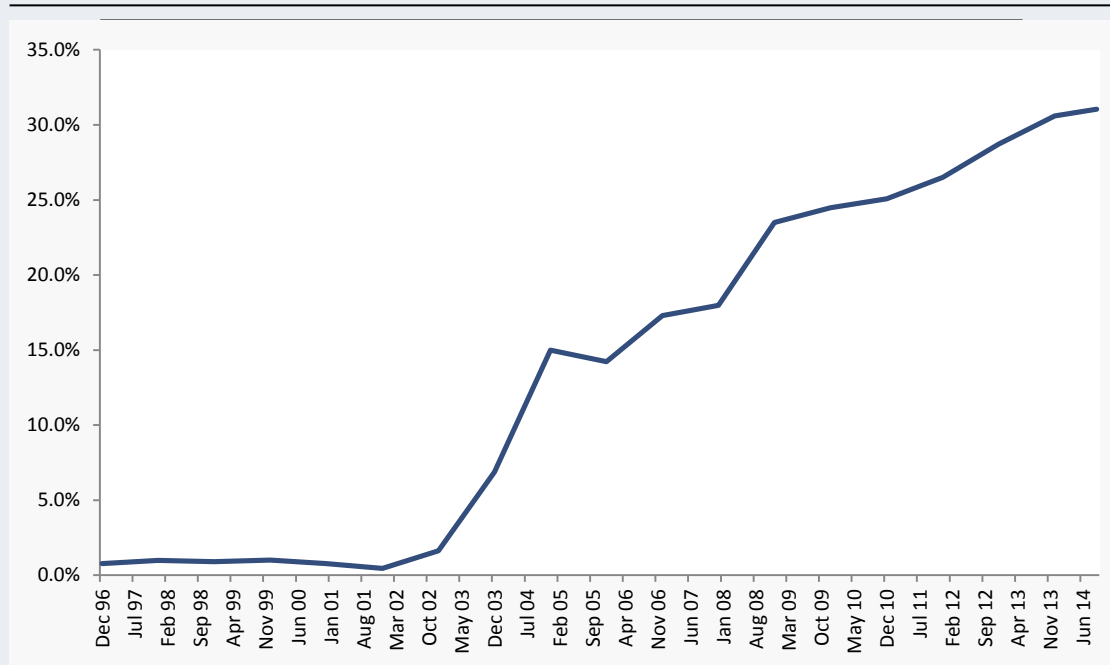
FICC revenue pool, 2013-2016E





Equities: Indexing puts pressure on “traditional” buy side

US passive equity fund AUM as % total equity fund AUM

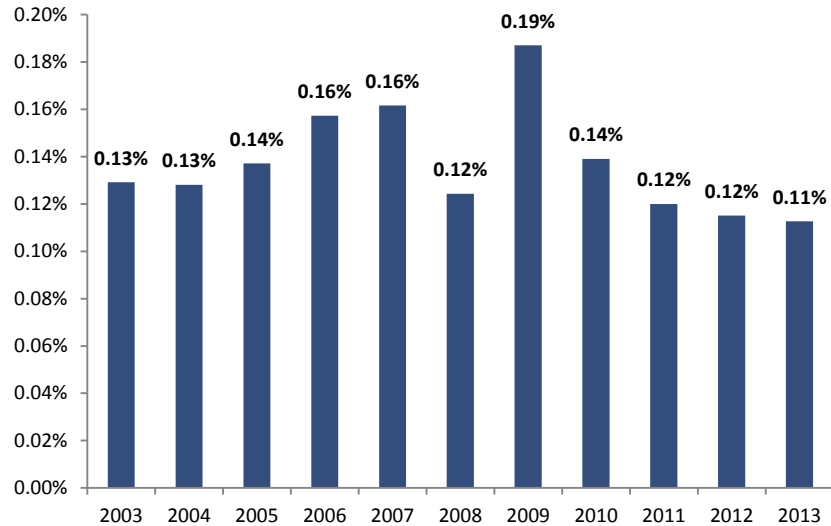




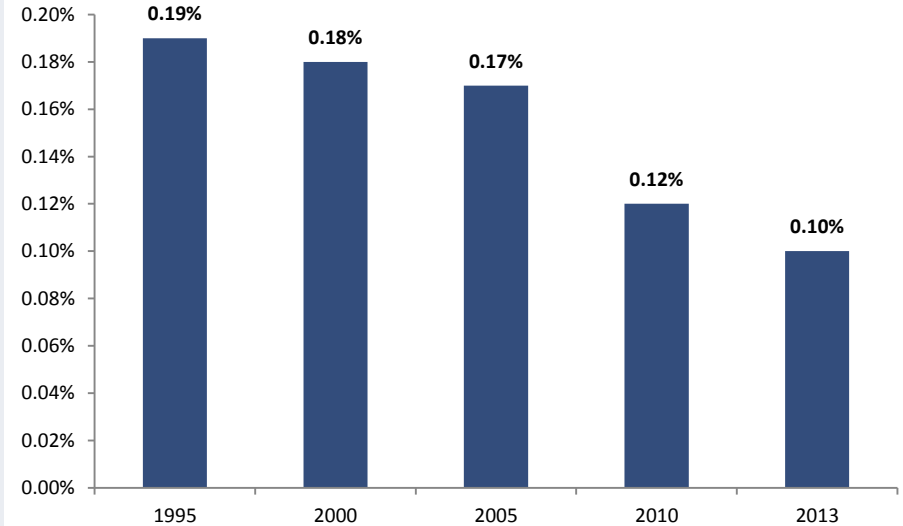
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Equity revenues facing headwinds

Equity revenues as % of global market cap



Commissions as % of AUM: 12 large US equity funds

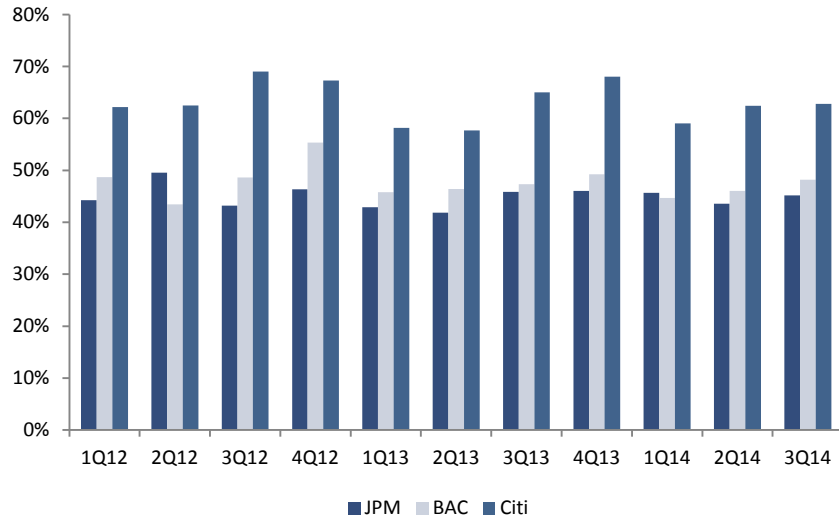




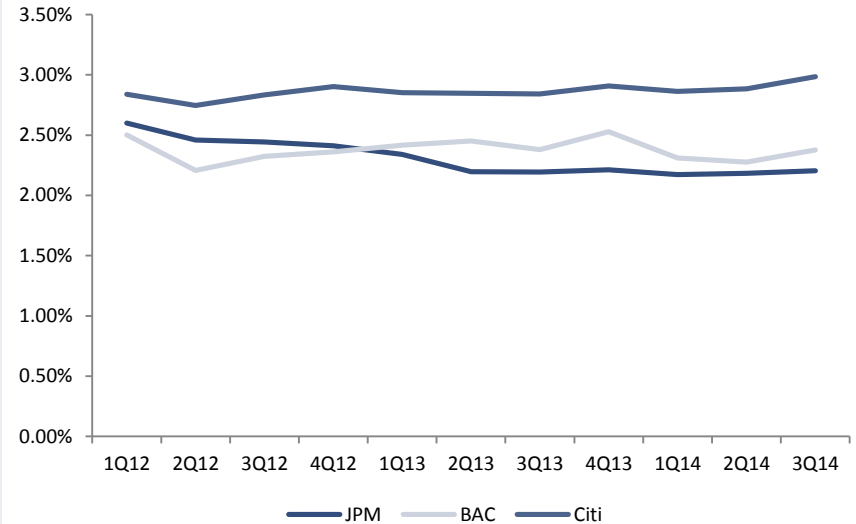
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Interest rate environment

NII as % of total revenue



Net Interest Margin, quarterly



Universal & Capital Markets Banks

The Brighter Side:

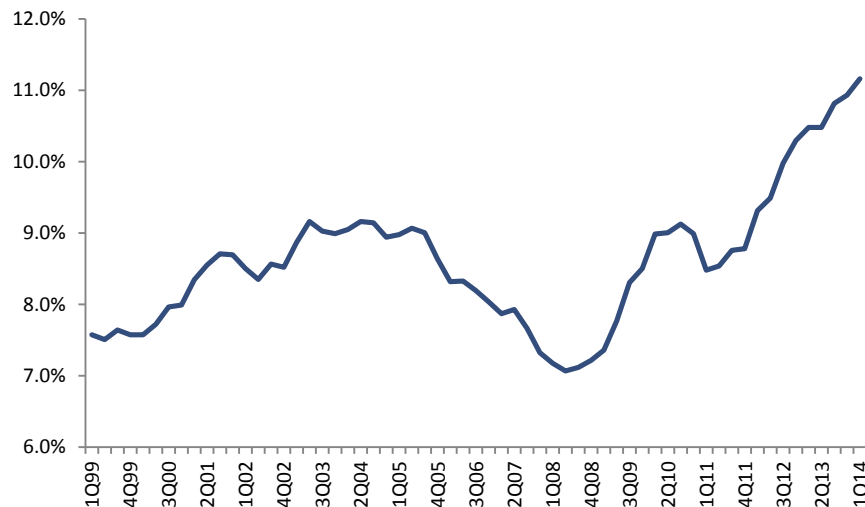
- Global capital markets development
- Company-level adaptation/strategic refinement is taking hold
- When rates move – banking businesses will do better, trading revenue will anticipate
- Advisory, ECM revenues reflecting economic growth



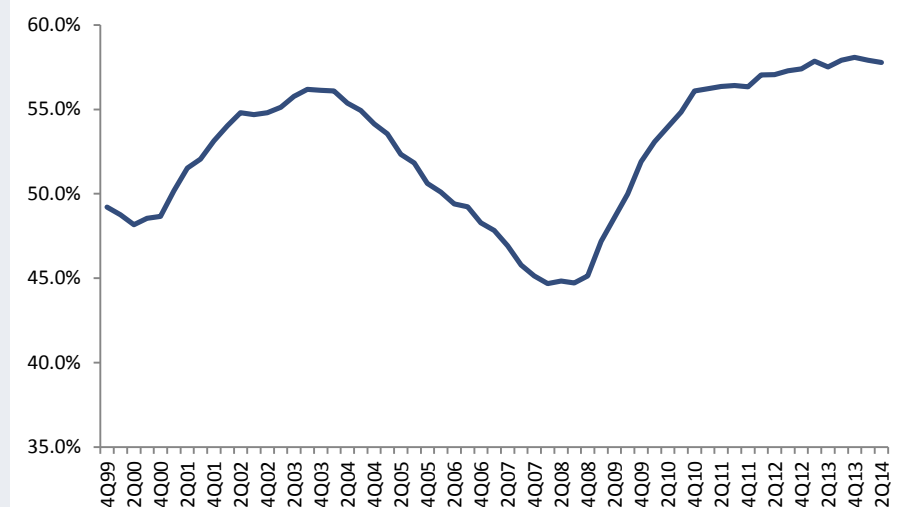
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Corporate borrowing shifting to bonds from bank loans

European outstanding debt securities as % of borrowing



US bond share up from crisis, but more penetrated



Self-help: rapid wind-down of Citi Holdings assets

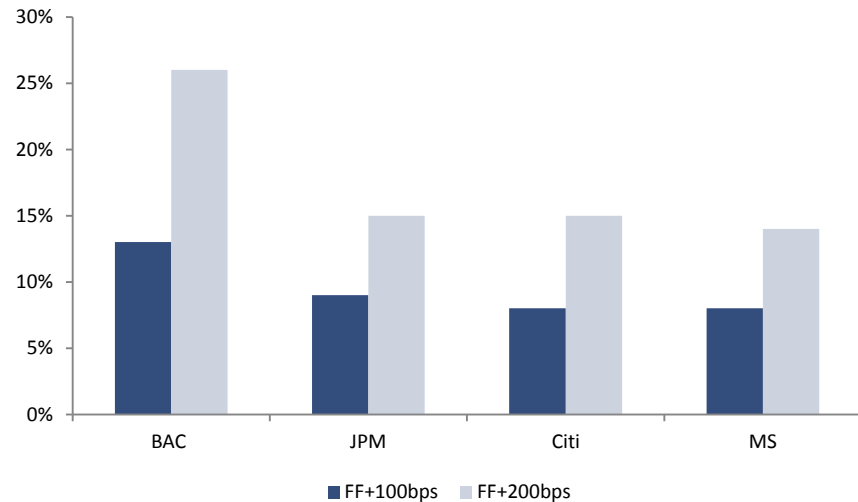
Significant progress made in ~2yrs

Assets \$bn	3Q12	2Q14	Notes
North America Assets:			
<i>Mortgage</i>	95	67	Implied 4 year life
<i>Personal</i>	10	9	Implied 5 year life - OneMain
<i>Other</i>	6	2	
<i>Loans</i>	111	78	
<i>Other Assets</i>	33	14	
Total North America Assets	144	92	
International	10	6	Spain/Greece - Sold, closing 3Q14
Other Assets:			
<i>Securities at HTM</i>	7	3	
<i>Trading MTM/AFS</i>	14	5	
<i>Other Assets</i>	7	3	
Total Other Assets	28	11	
Total Assets	182	111	
<i>Note: Numbers may not add due to rounding</i>			

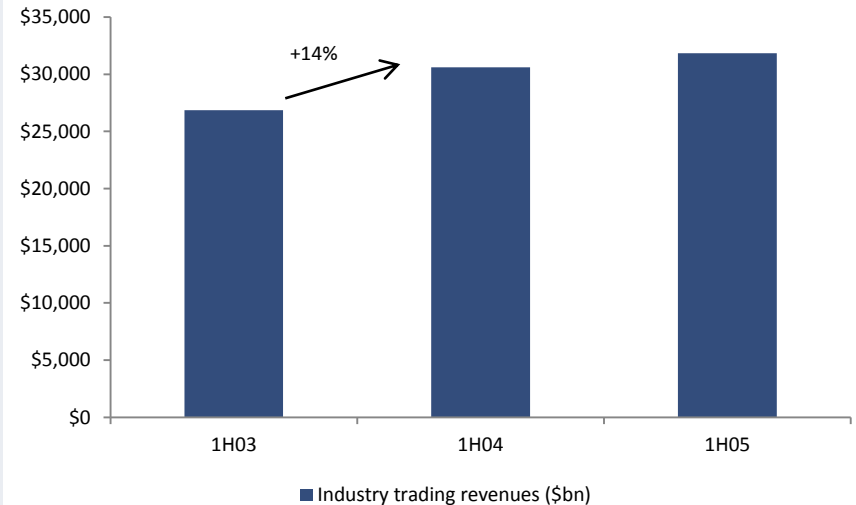


Rising rates benefit in several ways

EPS upside – '15 estimates



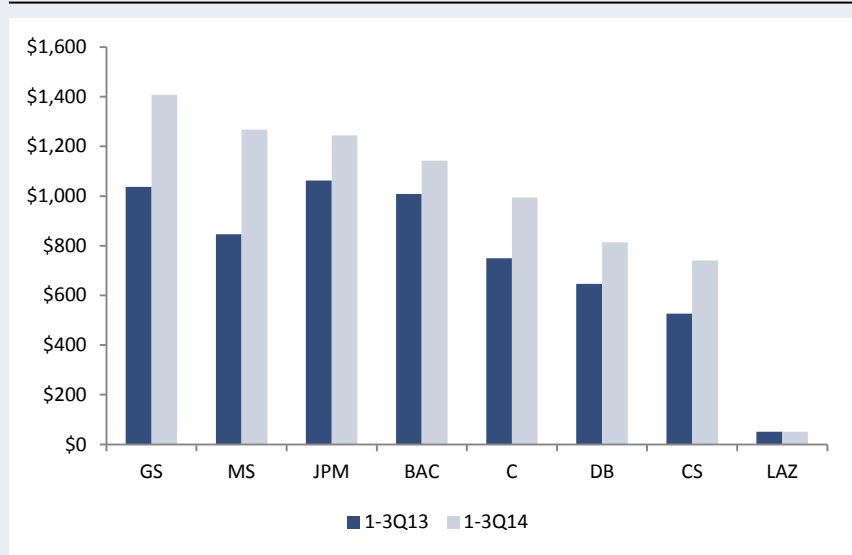
Trading benefits when tightening imminent



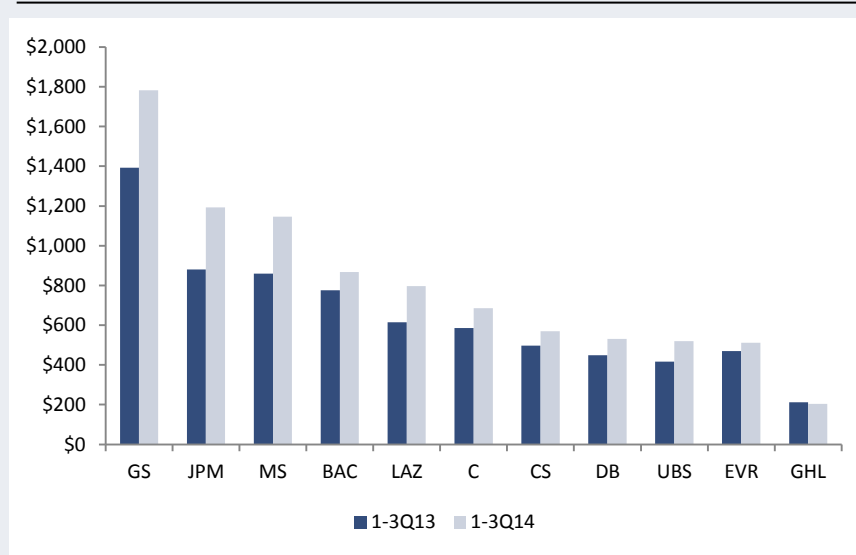


Upswing in ECM, M&A

ECM revenues YTD



M&A revenues YTD





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US Equity Research | November, 2014

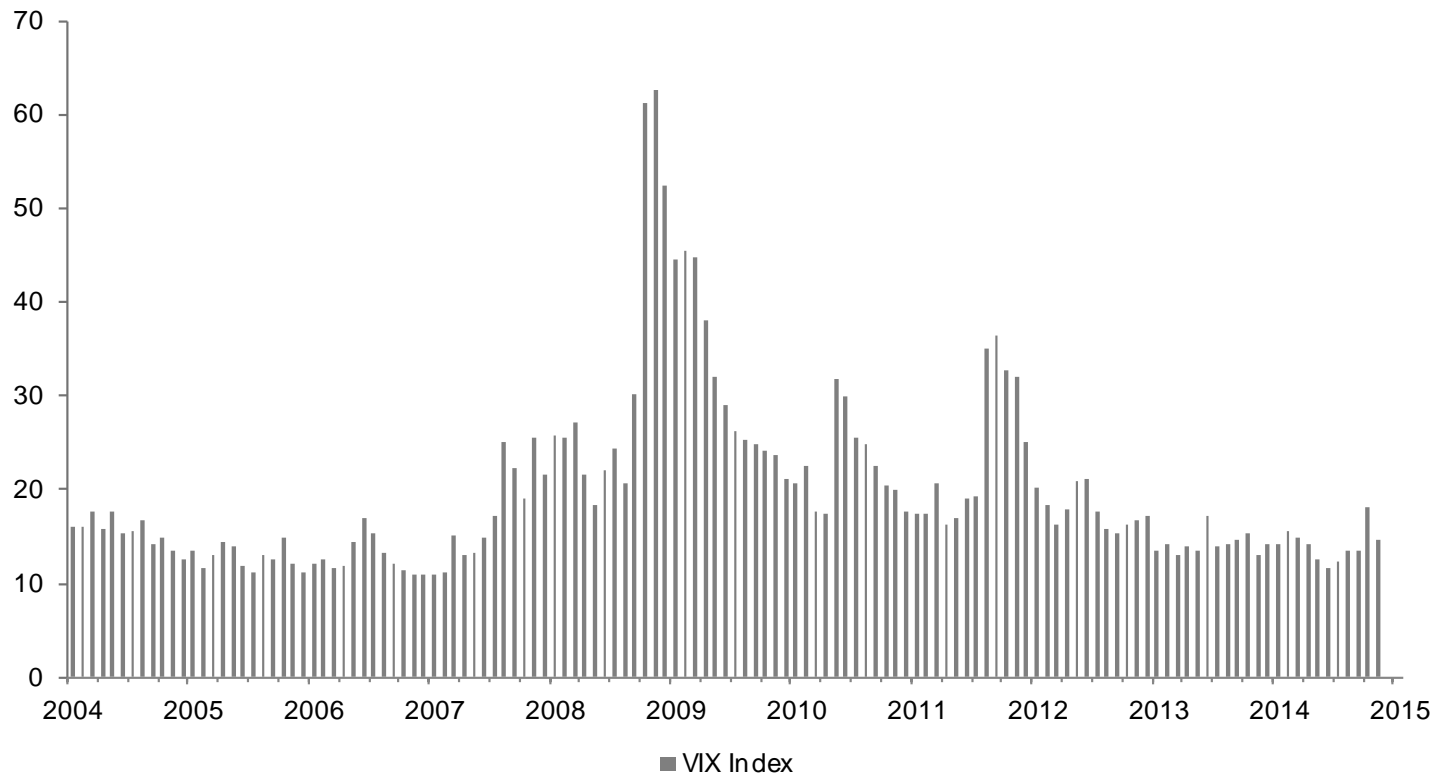
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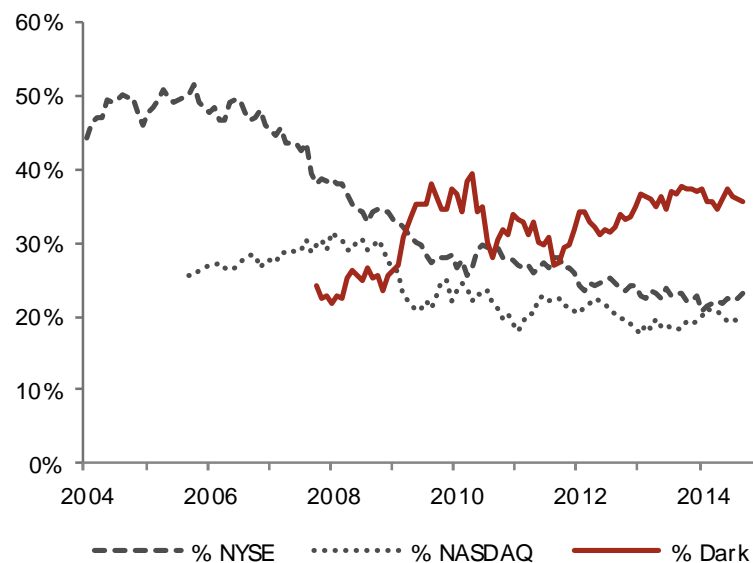
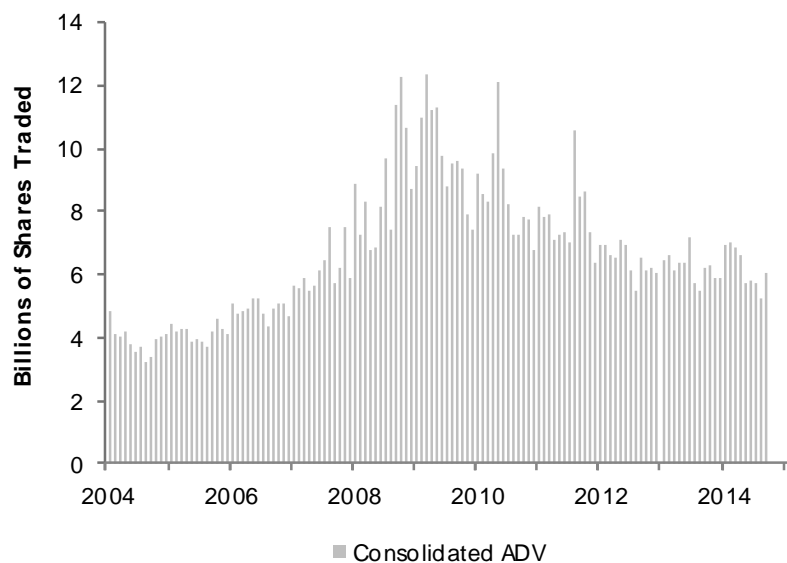
Jefferies

In the absence of secular growth, trading volume is highly impacted by market volatility



Source: CBOE Holdings

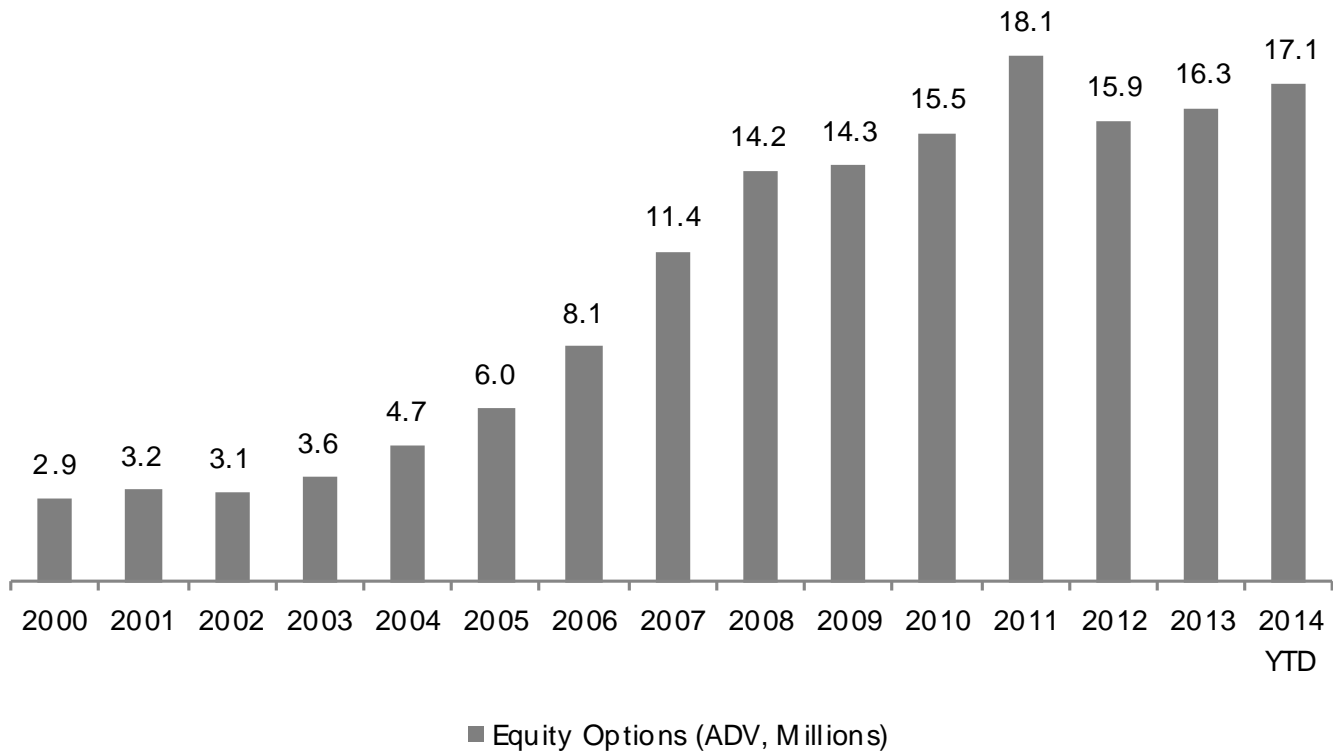
Equity trading volumes have failed to recover since the financial crisis; following regulatory changes and technological advancement limits organic growth trends are limited



Source: BATS Trading

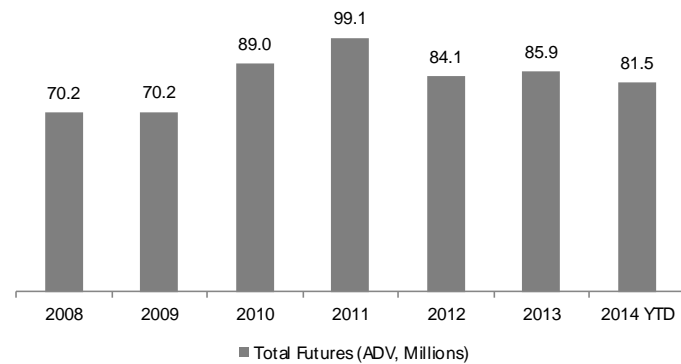
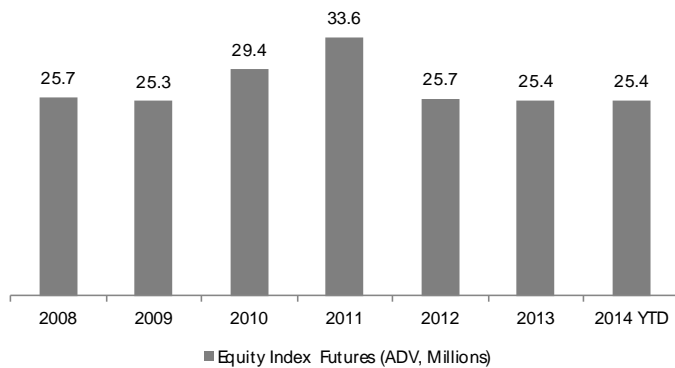
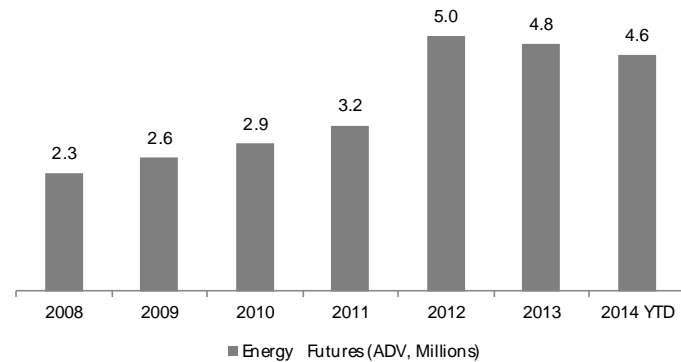
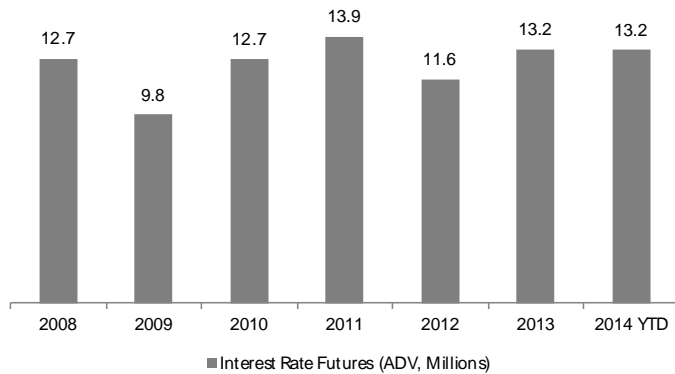
US Equity Options Volumes

Options volumes represent one of the few areas of continued growth within all of trading.



Source: Options Clearing Corporation (OCC)

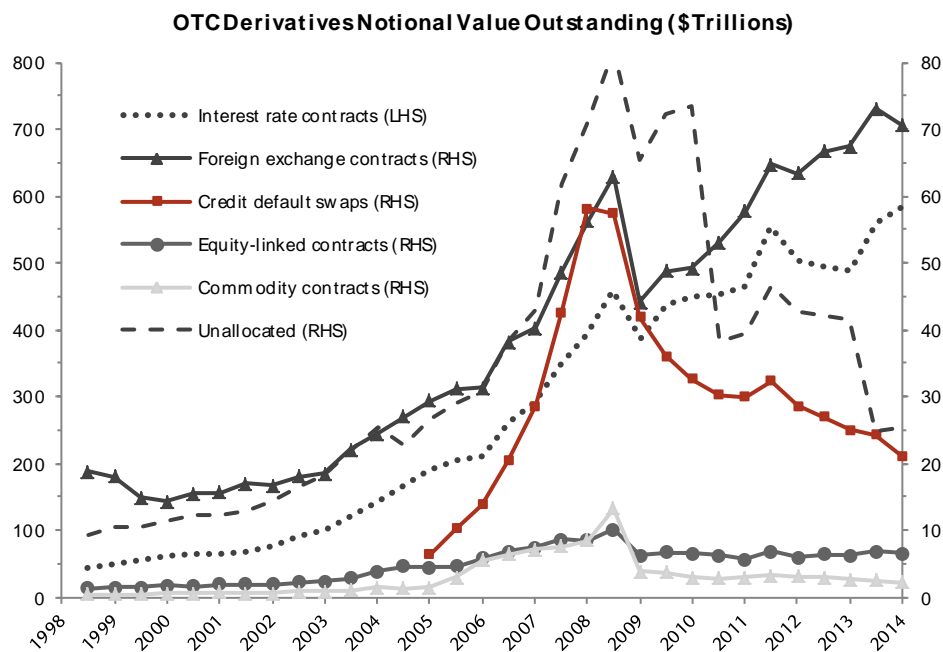
Outside of interest rates, most asset classes have experienced downward y/y volume trends in 2014.



Source: Futures Industry Association (FIA)

Over The Counter (OTC) Notional Amounts Outstanding

Following Dodd Frank implementation in the US and EMIR in Europe, the OTC market is beginning to look more like the futures world.



As of Dec 31, 2013	\$Trillions	Y/Y
Interest rate contracts	584.4	18%
Foreign exchange contracts	70.6	6%
Credit default swaps	21.0	-22%
Equity-linked contracts	6.6	4%
Commodity contracts	2.2	-26%
Unallocated	25.5	-39%
Total notional outstanding	710.2	2%

As of June 30, 2013	\$Trillions	Y/Y
Interest rate contracts	561.3	11%
Foreign exchange contracts	73.1	15%
Credit default swaps	24.3	-15%
Equity-linked contracts	6.8	14%
Commodity contracts	2.5	-20%
Unallocated	24.9	-7%
Total notional outstanding	692.9	7%

Source: Bank for International Settlement (bis.org)

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November 2014

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Outlook for the Retail Brokerage Industry

Brokerage

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What Will Drive the Retail Brokerage Industry In the Future?

- Regulatory Issues
 - Fiduciary versus Suitability
 - Payment for Order Flow
- Higher Compliance and Technology Costs
- Increased Focus on Advice-Driven Offerings
 - Traditional brokers move to fee-based models
 - Demographics more favorable for advice models
 - Brokers get more stable revenue stream versus commission-driven model
 - Advisory Fees could see pressure from lower-cost advice products
 - Continued focus on recruiting
- Online Brokers Move to Derivatives Trades
 - Equity trades industry-wide are declining
 - Options generate twice the commission levels as equity
 - Firms will need to continue to invest in technology, compliance, and client education

Advisory Model Driving Retail Brokerage Growth

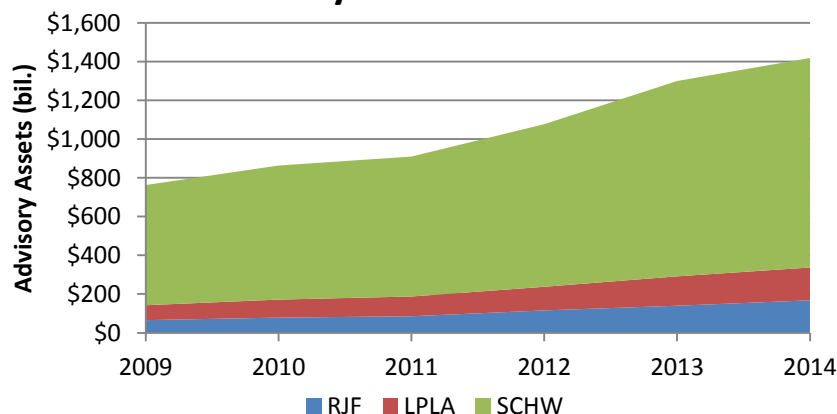
Advice-Driven Models Are Gaining Momentum

- Demographics show an aging population
- Advice becoming more important to clients as they get closer to retirement

Advisory and RIA Growth Has Been Substantial

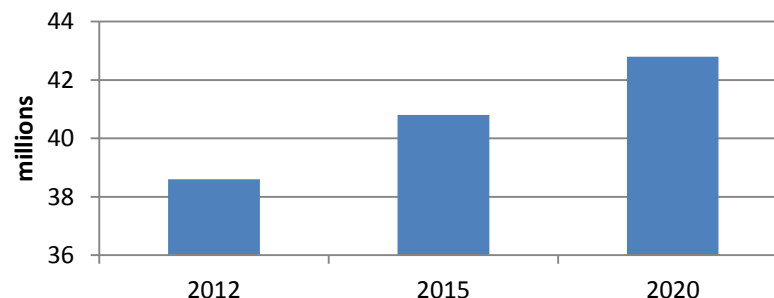
- Since 2008, RIA assets have doubled to \$4 trillion
- Since 2009, advisory assets increased at 13% CAGR at three major firms

Advisory Asset Growth



Source: Company Reports and KBW Research

US Population Between Ages of 55 - 65



Source: Company Reports and KBW Research

Outlook:

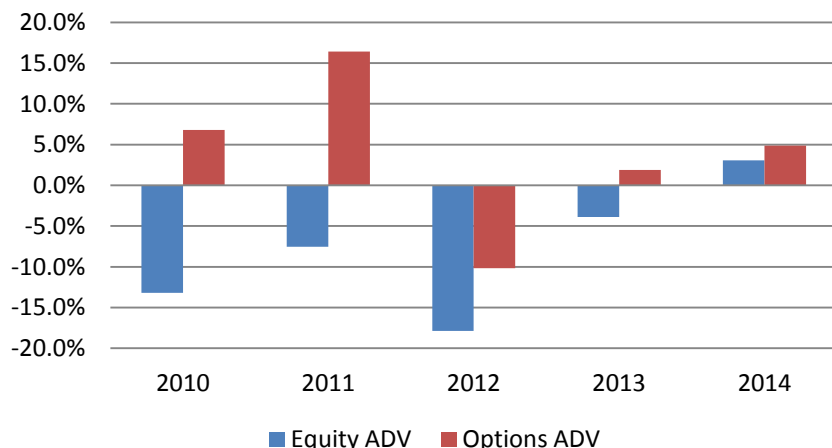
- The advisory business should further expand as the investor population ages and given more stable fee-based revenues. We'd expect fees to be pressured by new online offerings

Online Brokers Shift to Derivatives Trades versus Equity Trades

Recent Trend:

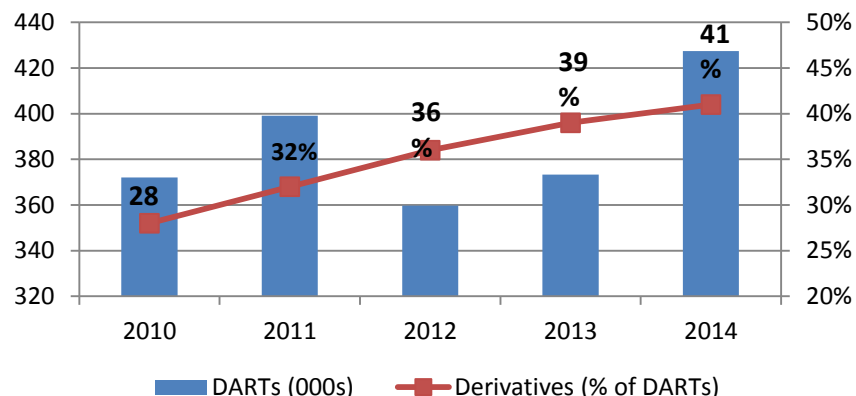
- Overall trading activity in Equities has been weak as options volumes have outperformed.
- Online brokers have grown trading revenues with increased derivatives trading.

Options Growth Outperforms Equities



Source: BATS Global Markets, KBW Research

Increasing Importance of Derivatives Trades to Online Brokers



Source: AMTD Investor Presentations, KBW Research

Outlook:

- Online brokers will increasingly focus on higher-margin derivative trades which should result in continued technology, compliance, and education investments.

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Distribution of Ratings/IB Services KBW				
Rating	Count	Percent	*IB Serv./Past 12 Mos.	
			Count	Percent
Outperform [BUY]	241	39.97	79	32.78
Market Perform [HOLD]	305	50.58	87	28.52
Underperform [SELL]	27	4.48	4	14.81
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	30	4.98	6	20.00
Covered -Not Rated [CNR]	1	0.17	1	100.00

*KBW maintains separate research departments; however, the above chart, "Distribution of Ratings/IB Services," reflects combined information related to the distribution of research ratings and the receipt of investment banking fees globally.

As of October 31, 2014.

*KBW maintains separate research departments; however, the above chart, "Distribution of Ratings/IB Services," reflects combined information related to the distribution of research ratings and the receipt of investment banking fees globally.

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Asset Management: An Industry In Transition

Repercussions Of The Financial Crisis – Risk Management Trumps Alpha Generation

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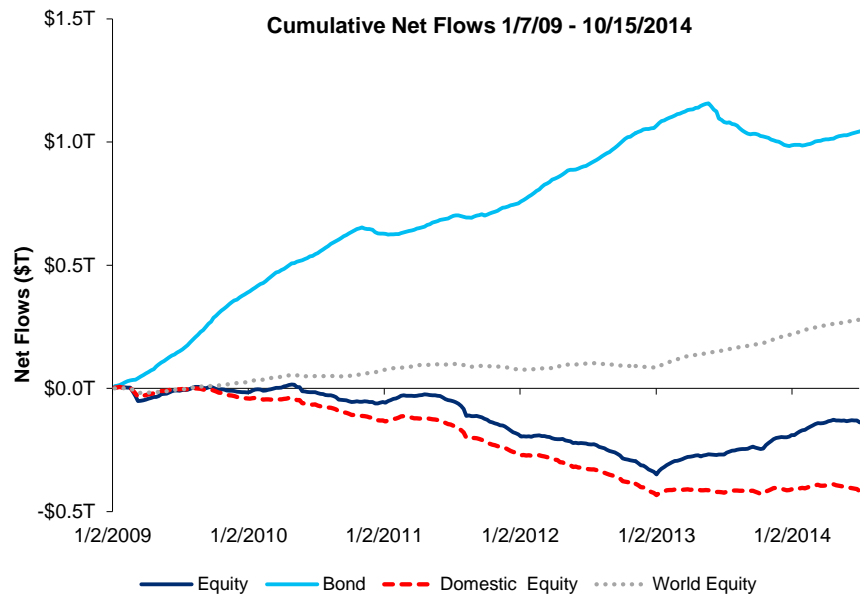
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Investor Mindset Is Shifting Away From U.S. Equities

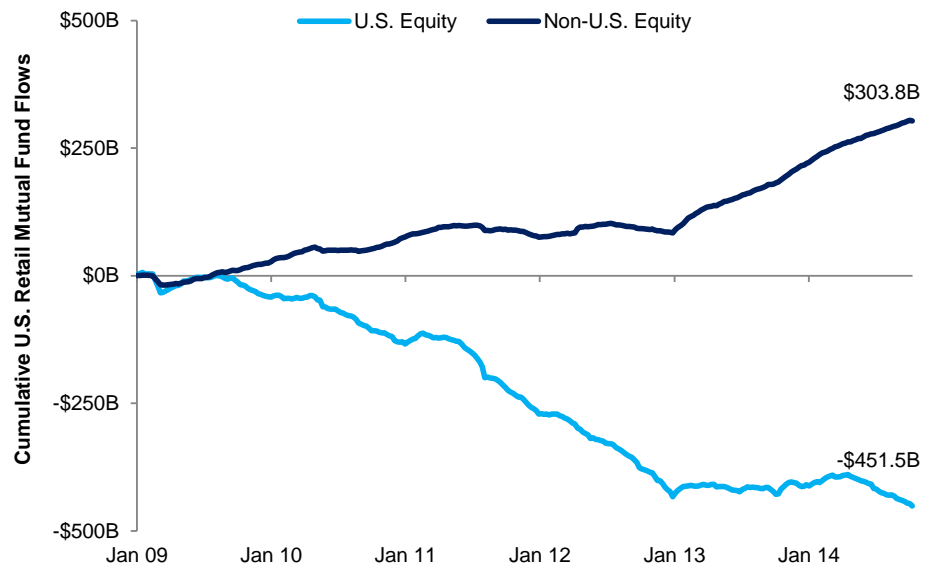
As Investors Emphasize Capital Preservation & Diversification

Retail Favors Fixed Income & International Equity, While Domestic Equity Lags...



Source: ICI, Citi Research

...And Home Country Bias Is Declining



Note: Data From January 1, 2009 Through October 15, 2014

Source: ICI, Citi Research

Excess Capacity Is Fueling Barbell Dynamics

The Industry Is Barbellizing, Causing Outsized Growth In Passive (Beta Products) & High Alpha

Passive Investing

Active Investing

High Alpha Investing

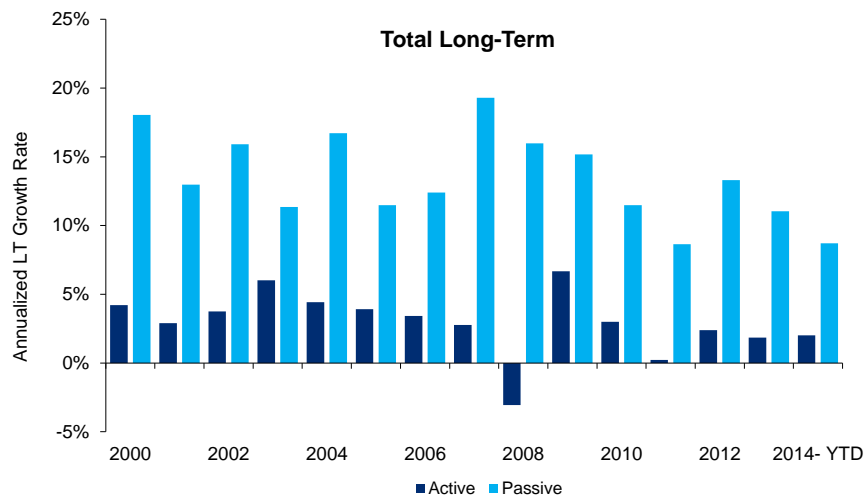


Growth Of Passive Investing Through Smart Beta, ETFs And Index Funds

Style Box Platforms Are Caught In The Middle And Are Losing Share

Growth In High Volume Investing Through High Alpha and HF Strategies

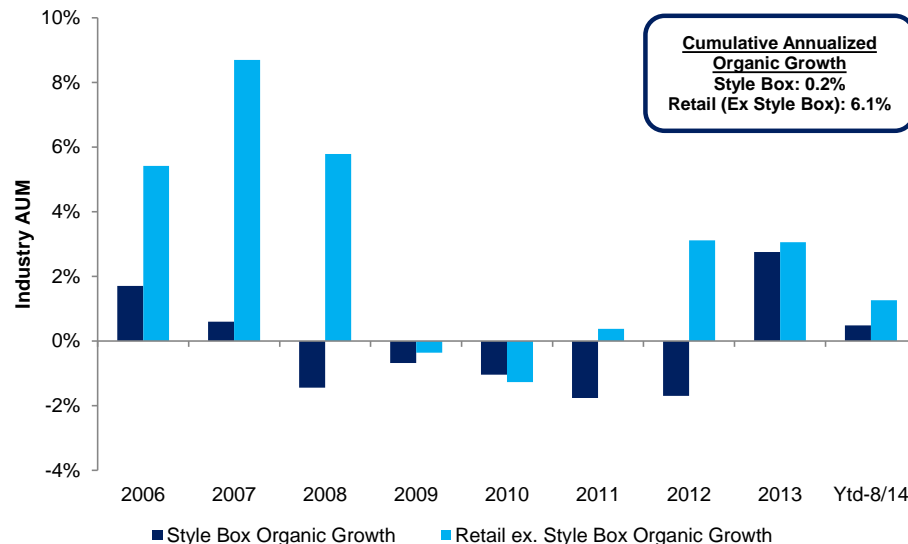
Passive Organic Growth Is Outpacing Active...



Note: Retail data used

Source: Strategic Insight Simfund, Citi Research

...While Non-Style Box Organic Growth Remains Strong

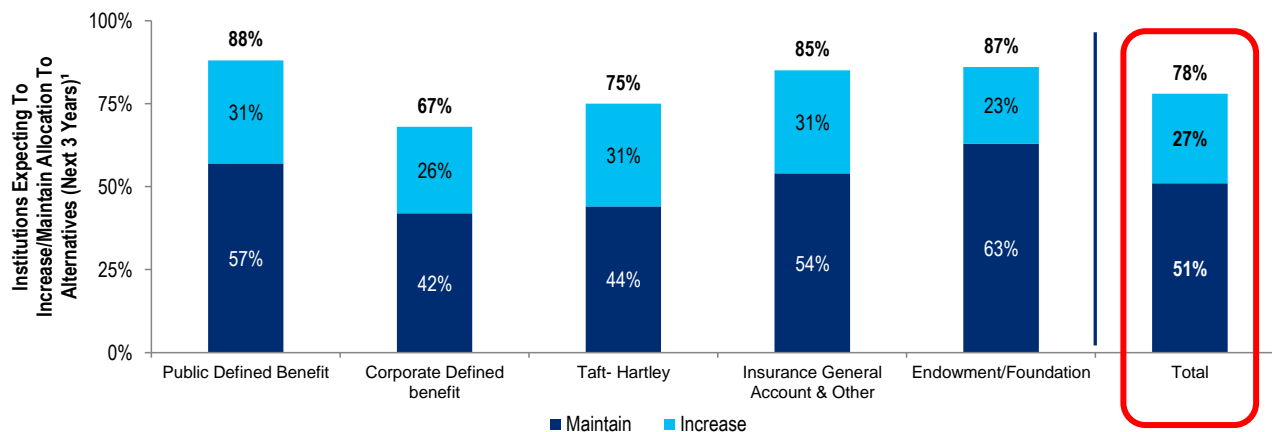


Note: Retail data used, we define "Style Box" As Large/Mid/Small Cap Value/Growth/Blend Funds

Source: Strategic Insight Simfund, Citi Research

The Rise Of Alternative Investing – Diversified Returns

Institutional Investors Are Generally Looking To Maintain Or Increase Alternatives Exposure...



	Annual Gross Sales Change LTM	
	2013	2014 YTD
Traditionals	13%	-7%
Alternatives	58%	30%

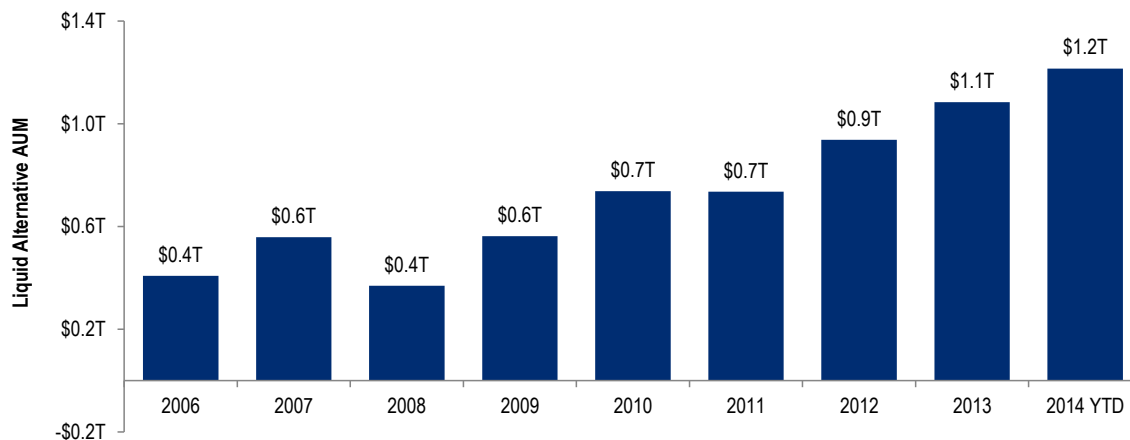
Note: Traditionals & Alternatives Reflect Companies Under Citi Coverage, Alternatives Does Not Include OZM

Date Through 2Q14

Source: Company Reports, Citi Research

Source: McKinsey Alternative Investment Survey 2013/2014

...While Retail Demand For Alternative Products Is Apparent



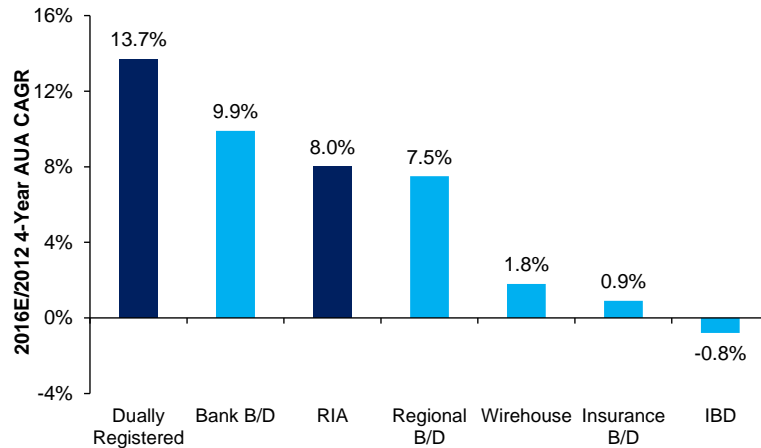
Note: We Define Liquid Alternatives As World Allocation, Tactical Allocation, Target Date, Retirement Income, Diversified Emerging Markets, Diversified Pacific/Asia, Bear Market, Multicurrency, Long/Short Equity, Market Neutral, Multi-alternative, Managed Funds, Volatility, Multi-Sector Bond

Source: Strategic Insight Simfund, Citi Research

Reshaping Of U.S. Retail Distribution Channel

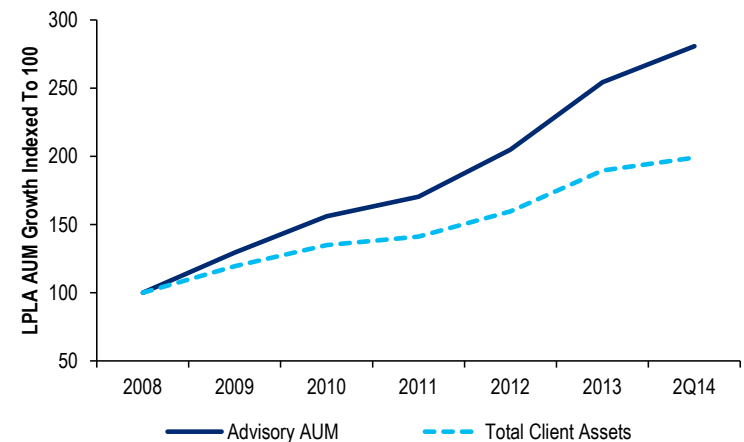
The Emergence Of Independent Advisory Channels And Migration Towards Financial Planning Is Reducing Individual Stock And Manager Selection

Independent Advisory Growth Is Expected To Be Robust...



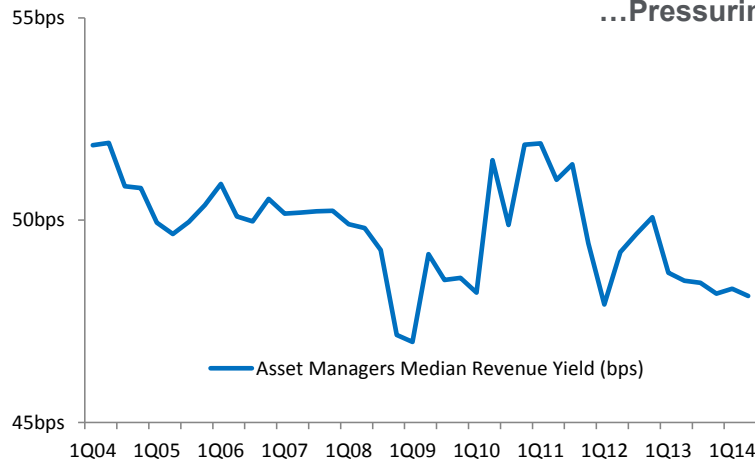
Source: Cerulli, Citi Research

...As Advisory AUM Is Driving The Bulk Of Growth



Source: Company Reports, Citi Research

...Pressuring Manufacturing Economics



Source: Company Reports, Citi Research

Margin Dynamics

Favorable Markets

Adverse Mix Shift

Rising Model Complexity

Geographic Expansion

Heightened Regulatory Pressure

Mixed Flow Expansion

Source: Citi Research

Appendix A-1

Analyst Certification

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Data current as of 30 Sep 2014

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	40%	12%	0%	100%	0%
% of companies in each rating category that are investment banking clients	66%	63%	56%	0%	64%	0%

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