IHS Markit®

Brokerage, Research, Sales & Trading

The Global Pulse

Edition 6, February 2022

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Welcome

On behalf of my colleagues in Brokerage, Research, Sales & Trading (BRS&T) I am delighted to welcome you to the sixth edition of "The Global Pulse". 2021 was a very busy and successful year for our group and we shared some thoughts on the year past in our letter to clients sent just before the holidays. If you have not had a chance yet to read the letter it is attached **here**.

Chedi Vitta, Director of Strategy for BRS&T has written an article on "The Case for Data Mapping" drawing on our group's long experience of providing market leading data on the financial services industry through BigDough.

We are highlighting our participation in Substantive Research's "Unbundling Uncovered" conference which took place in London in November. This continues to be an excellent event bringing together buyside, sellside, vendors and independent research providers and discussing topics of interest in the research consumption, evaluation and payments space. Thomas Hodds, Senior Product Consultant in our London Client Success Team, shares his thoughts on the conference and key takeaways.

In addition, we are delighted to be able to include a very interesting article written by our colleague Stephen Depietto from IHS Markit's Global Markets Group Equity Division. Last year was a record year for issuance in the equity markets and Stephen shares some fascinating insights as well as detailed data and analysis.

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We are also delighted to introduce readers to IHS Markit's Investment Manager Index™ (IMI™). Launched in October 2020 the Index asks active managers for their opinions on key areas of which after 17 months is building a strong time series if insightful sentiment data. Luke Thompson introduces the Index and comments on the latest survey.

As part of our ongoing strategic development of our BRS&T product suite we have created a new product set; **Research Evaluation & Payments**, formed by our 2 well-established product brands, **Evaluation** and **Commission Manager**. Francis Land, Director of Strategy for BRS&T, shares some thoughts on the rationale for this change.

I hope you find the 6th Edition of The Global Pulse both entertaining and informative.

McEvans Francois
Head of BRS&T, IHS Markit

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Data Mapping Services: The Case for Data Mapping

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Data Quality as a Journey and the Network Effect

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Chedi Vitta

Director of Strategy,
BRS&T, IHS Markit

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The business impact of poor-quality data is well documented, from IBM studies indicating "bad data" cost U.S. businesses $3 trillion per year to Gartner research finding poor data quality costs the average company $13 million annually. As volumes of data grow, quality and governance become more critical considerations for any firm using quantitative decision-making strategies. Data quality looks different to different people and is measured from many dimensions from completeness to standardization to integrity. However, the value of data generally lies in how useable the information is in driving action.

As a market leader for over 20 years in providing CRM solutions to financial institutions globally, we know first-hand how stale data impacts our clients. Our team of over 300 research analysts regularly review our Big Dough (BD) repository of institutional investor, private equity, venture capital and corporate issuer contacts - updating more than 30,000 records quarterly to ensure the latest emails, phone numbers, and addresses accessible through our platforms. In this paper we discuss how we partner with our clients to help them navigate the growing challenge of maintaining quality contact data.

Cost of Stale Data

Through conversations with prospective customers over the years, we know many have grown accustomed to errors in contact data. In turn they double check details online, or through competitor platforms, to avoid the reputational risk of incorrect information. In the face of incorrect data, they choose to update personal records instead of the source of the information – an easier task especially in a time crunch.

These practices prove to be costly given the direct investment in human capital, processes and technology necessary to source, house, govern and deliver high quality data for firmwide consumption - 5% of total operating costs for an average midsize financial institution according to McKinsey. Indirectly there is also the time lost from manual work, like double checking contact details, that could be spent winning more business and servicing customers more effectively.

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We surveyed Technology and Operations executives to understand their data quality challenges:

Will your data spend increase or decrease on third party data sources in next five years?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
X%	X%	X%	X%	X%

Do you trust your data?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
X%	X%	X%	X%	X%

How much of your team's day is spend on cleaning data:

0-24%	25-49%	50-74%	75-100%

What are the biggest data quality issues you see to data cleaning

Duplicates	Poor Structure	No metadata	Incorrect Data	Integration Issues
X%	X%	X%	X%	X%

Do you have a dedicated data quality team?

Yes	No
X%	X%

Is data quality is a business priority

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
X%	X%	X%	X%	X%

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How IHS Markit Helps

According to McKinsey's study the average midsize institution with $5 billion in operating costs spends anywhere from $12.5 to $62.5 million on third-party data sourcing, with potential short-term savings of up to 10%. One way to realize these savings is choosing a vendor that emphasizes data quality. IHS Markit's Data Mapping Services are a set of consultative data mapping, cleansing and integration services that help our clients towards that end. Our services are powered by a proprietary entity management engine which enriches our clients' data with our Big Dough universe of contacts and their portfolio holdings - both at the firm and fund level across asset classes.

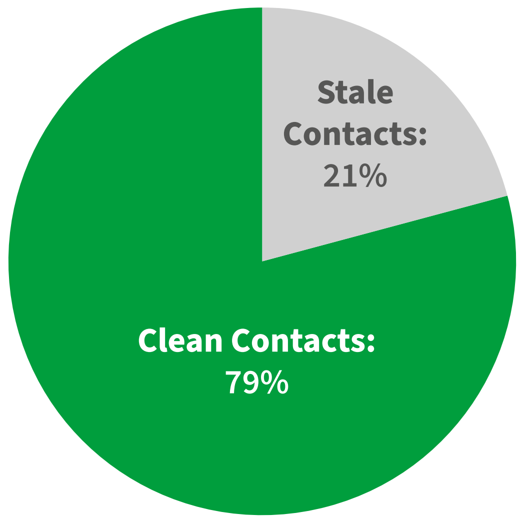
Most firms acknowledge data quality is a problem but may not under understand how much it impacts their business. Accordingly, the first step in our Data Mapping service, after defining the scope, is to profile and assess the quality of our clients' data. This step allows us to generate a benchmark, prior to cleaning, to help our clients justify the ongoing business value of our services.

Recent Data Quality Assessment for Regional US Financial Institution

Firm Operating Costs:
$3bn-$5bn

# of Employees:
2,500-5,000

# of In-scope Contact Records:
100,000-200,000



Duplicates
10%

Departed Client Company
10%

Other
1%

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Data Quality as a Journey and the Network Effect

Data quality is a moving target due to people moves, new data sets or even changes in regulatory frameworks, some estimate that as much as 2% of records go stale in just one month. Therefore, we strongly encourage our clients to leverage our mapping services for ongoing updates rather than one-off cases.

As part of our service in reviewing our clients' data we offer:

- Statistics on the confidence matches,
- In depth analysis of mapping results
- API solution to automatically update incorrect data
- Alerts and notifications as matches are uncovered

We also learn from our clients' data, creating a network effect where all of our clients benefit from records we receive and can verify from our sources. Reach out to us to learn more.

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BigDough Datasets

- Institutional invester contacts
- Venture capital/Private equity contacts
- Corporate issuer contacts
- N-CEN commisions
- Ownership
- Point in Time(PIT) ownership

BigDough Contact Coverage

Our data mappings services provide access to a propriety entity management platform offering an expansive, well-structured, and reliable institutional database with global coverage

250,000+
Contacts

20+
Years of history

300+
Research analysts updating data

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Thomas Hodds

Senior Associate,
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In November 2021, I had the pleasure of attending Substantive Research's Unbundling Uncovered conference in London. Following on from June 2021's online-only event, Francis Land (Director of Strategy for Research Evaluation & Payments) and I were joined by 300 peers to hear how leading Investment Managers across the industry are developing their approach to research budgeting and valuation in a post-lockdown environment.

Below are the key takeaways:

Heading in to 2022, asset managers will have more to consider than ever when setting annual research budgets

As many may have expected, the sentiment that the buyside is still hesitant/sceptical on providing transparency throughout the evaluation process remains. This is despite what seemed to be a mutual understanding that both sides can benefit from a freer flowing narrative between broker and client. One manager confirmed that it assesses the quality of consumed research and reviews its budget purely on allocations gathered during a standardised vote process. However, while IHS Markit's Evaluation is available to help streamline this workflow, many on the buy side feel that the role of a PM is to generate alpha, not to "analyse analysts". Others were keen to express that they go to further lengths to increase transparency via open rate cards, scorecards and qualitative sit downs with each of its providers, although it remains to be seen whether this had achieved anything in bridging the gap between provider and consumer.

The question of whether the move to virtual interactions had created a valuation mismatch between buy and sellside was also posed. At the height of the pandemic, increased interaction was not accompanied by increased payments. With the debate of whether virtual interactions should be priced differently to in-person meetings ongoing, it is important to note that some feel significantly more effort is applied to virtual meetings via improved pitch decks, presentations etc. But should this opinion translate into pricing structures? Moving forward, it will be important to consider how these dynamics will evolve as we return to a post-lockdown market.

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ESG will move closer to becoming the priority in 2022

The three prominent driving factors behind the buy side's increasing focus on ESG were made clear in the day's early discussions: alpha generation, regulation and client demands. Amongst many of the panel participants throughout the event, there was a clear sentiment that asset owners will be one of the key components to encourage new investment in the data and research to support the growing demand for ESG.

It is still early days in terms of how ESG will shake up the way in which research is paid for. Many panellists agreed with the statement that ESG budget does not grow, nor does it shrink, in correlation with overall research budget. Rather, the two sit independently of one another. This is also not to say that having a separate ESG budget directly impacts a firms research budget. As we knew, ESG is paid for mainly via hard dollar across Europe today, meaning it directly competes with other budgets across the firm. In a post-pandemic market, its likely that the research budget is not the only area that ESG-focused teams will be up against.

As ESG budgets are likely increased across the market, the need for a more significant offering will grow. With that comes a requirement for the buy side to be able to properly assess the quality of services received, which in turn forces solution providers to consider how to accommodate this for existing and future clients.

The roadmap to establishing defined regulation on the use of Expert Networks is desired, but still unclear

As the research budget evolves, so does the position of expert networks within them. When evaluating the overall service provided by an expert network, quality of product (expert), speed of delivery, cost of service and administrative workflow benefit were all highlighted as key differentiators between providers.

Whilst expert networks focus on ensuring that investment managers derive significant value (and ultimately alpha) from its use of the service they provide, due consideration must also be given to how the provider itself measures the value that it adds to its clients operation. This presents opportunity to discuss whether the expert networks should be viewed in the same regard as research providers by their mutual clients. If they are, should they also be paid in the same way?

Although it is certainly not in its infancy, the expert network industry can be loosely compared to the way that many viewed the ESG space. Similarly to how a few years ago, a glossy factsheet with a wind turbine on it would suffice for ESG reporting, today, there is no regulatory requirement for the buy side to provide direct feedback or justification to the expert networks it uses. As the industry develops, so will the requirement for transparency and regulation.

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Production, distribution and delivery of research continues to evolve

Change isn't only generational, it is also structural. As the juniorization of many sell side research desks becomes more and more apparent, the permanence of the traditional pre-formatted note is fading. Of course, channel, distribution and delivery of research greatly varies on either side of the generational divide that we see in the market. However, the growing volume of sound bites, short video clips and other modern ways of communicating ideas cannot be ignored and helps to combat the idea that as the quality of research improves, the ability to consume it is declining.

It's fair to assume that as technology in financial markets evolves, juniorization will also take hold on the buy side as the importance of digesting quantitative research and programming skills grows. This notion goes in hand with something that we often hear from our existing Evaluation clients – younger and more junior PMs are generally more interested in, and diligent when completing, the research evaluation process.

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Global Markets Group Equity: New Issuance Market Recap 2021

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Stephen Depietto
Associate Director of Strategy, BRS&T, IHS Markit

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As Covid-19 brought the entire world to a standstill in March of 2020, the financial industry was quickly forced to pivot to new working environments as uncertainty loomed over what the future may hold. Following a typical start to the year, the Equity New Issuance Market 'pumped the brakes' in March 2020 with only 34 deals pricing for $8.2B in total proceeds -- well below the March average of 86 deals and $24.2B in proceeds recorded in the previous 19 years (2001 – 2019). Since then, the market has miraculously yielded record-setting new issuance volumes, with over 3,300 deals hitting the market from April 2020 through the end of 2021. Banks and Issuers restarted their engines, adjusting legacy practices and harnessing technology to connect virtually, ultimately paving the way to a new, modern world of capital formation.

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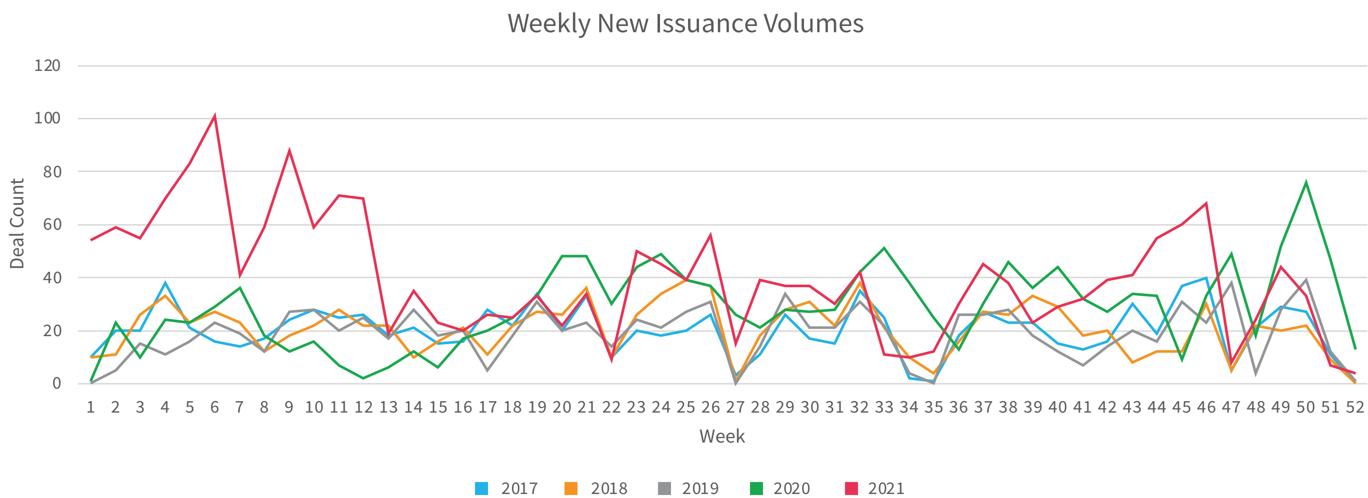
Volume Analysis

Beginning in Mid-April of 2020, average weekly issuance nearly doubled when compared to the prior 10 years to 37 deals per week for $11.7B in combined proceeds. The market remained active throughout 2020, finishing with a then record 1,502 deals for $509.4B in aggregate proceeds. As the calendar turned to 2021, new issuance continued to roar as 827 deals priced in Q1, a record high for quarterly issuance, and raised $254.6B in proceeds. The market reached its weekly apex in February, when 101 offerings priced during the week ending February 13th. This marked the first time since at least 2001 that over 100 deals priced in a single week, surpassing the previous high of 83 deals set the week prior. The momentum carried on through March when 305 deals priced for $105.6B in proceeds, a stark contrast from the analogous month the prior year. Despite issuance tapering off relative to these record highs, Q2 and Q3 had strong quarters with 415 and 372 deals pricing, respectively. The final quarter of the year brought the second most active quarter on record with 445 deals. Overall, 2021 had a record setting year, pricing a total of 2,059 deals that raised $607.5B in proceeds, led by the surge from the IPO market.



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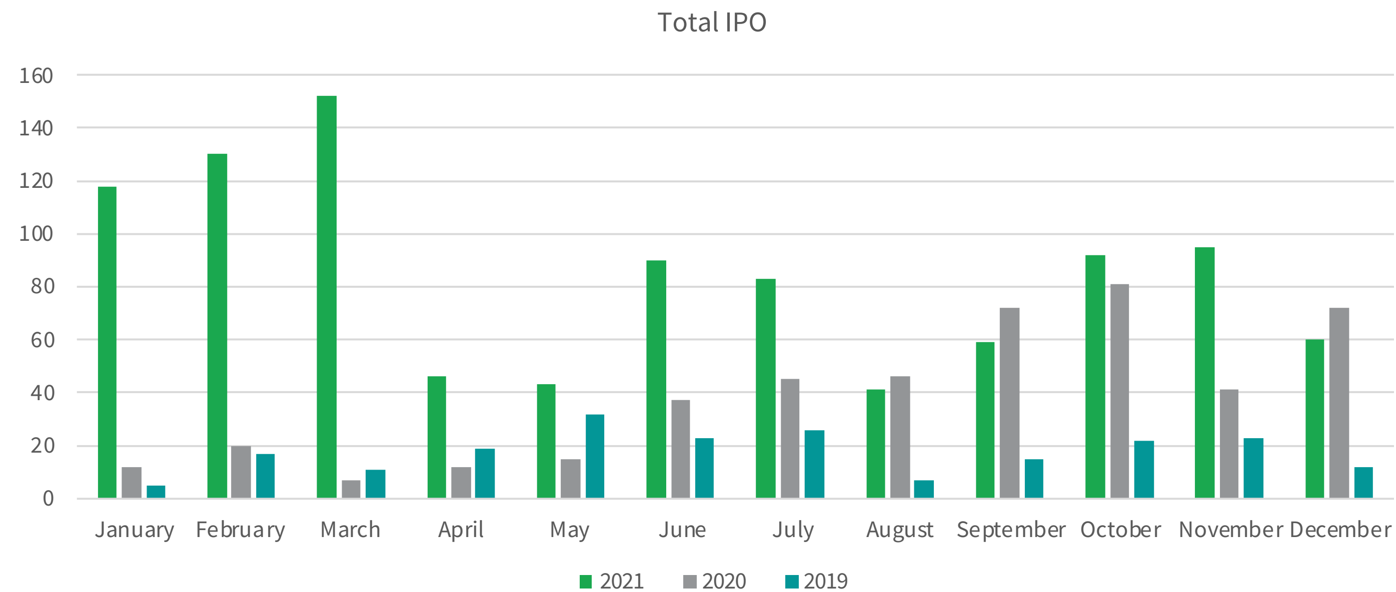
As previously noted, new issuance 'shifted into high-gear' once Banks and Issuers fully transitioned to remote working environments. With virtual meetings as the new norm, IPO roadshows shrank from 10–14 days to 3–5 days, allowing more deals and capital to hit the market faster while decreasing operational expenses. From 2001 to 2019, the IPO market averaged 177 deals per year, with the most active year being 2007 when 295 deals priced. 2020 saw a 56% increase from this previous high as 460 IPOs priced for a total of $162.0B in proceeds. As seen in the chart below, the uptick began in June with 37 deals pricing, followed by a steady increase in volume through November, when volatile market conditions arose linked to the US Presidential election. However, the market quickly regained its strength heading into 2021, which in turn became the most active year for IPOs with 1,009 deals pricing for $308.9B in proceeds. Q1 yielded nearly 40% of the year's IPOs with 400 deals that raised a combined $140.1B in proceeds. The driving force behind the dramatic increase in IPO issuance is attributed to SPAC issuers, which accounted for 60% of the year's IPOs.



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SPAC Phenomenon

Dating back to 2001, SPAC issuers had not played a major role in the new issuance market, contributing on average less than 10% of a year's total IPOs. Beyond Covid-19 disrupting typical workflows, companies and investors yearned for access to capital and opportunity, respectively. Young firms sought a quicker, easier path to liquidity, rather than battling arduous requirements, lengthy timelines and revenue validation required to navigate PE rounds and/or IPO proceedings. The need for corporate capital paired with continued investor demand for deals, especially retail investors who are excluded from early-stage investments vehicles, fueled the ensuing SPAC phenomenon.

During July, 17 SPACs priced for $10.4B in proceeds, led by the largest SPAC issuer on record as Bill Ackman's SPAC, **Pershing Square Tontine Holdings, Ltd.** raised $4.0B in its offering. Separately, **Churchill Capital Corp. IV** priced an offering the following week that raised $2.1B in proceeds, marking the only other SPAC to raised $2.0B or more in its IPO. In addition, 16 of the 18 SPAC IPOs that raised over $1.0B proceeds since 2001 were issued in either 2020 or 2021. In the end, 610 SPAC IPOs made their debuts in 2021 a near 163% jump from the 232 SPACs that priced in 2020 and an astounding 970% gain from the 57 IPOs in 2019.

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Sector Show-stoppers

While SPAC issuers drew most of the attention from the equity markets, other sectors such as Healthcare, Consumer Services and Tech had their most active years since 2001, mostly due to impacts from the pandemic.

Looking at the Healthcare sector specifically, issuers quickly sought out funding to continue developing vaccines and therapeutics. With that said, 579 and 521 deals priced in 2020 and 2021, an uptick of 40% and 24% from the 414 deals in 2019, respectively. **Regeneron Pharmaceuticals, Inc.** marked the largest Healthcare issuer in over two decades, raising $6.7B in proceeds from its May 2020 Follow-On offering. Of note, Follow-On offerings from the sector rose 39% year-over-year from 2019 to 2020 before regressing to 340 deals in 2021.

Elsewhere, the Consumer Services industry saw a dramatic increase of 101% in issuance with 125 deal in 2020 compared to the 62 deals in 2019. The sudden spark in the sector's issuance can be attributed to several major Airline and Cruise Company's such as **Southwest Airlines Co., American Airlines Group Inc., Carnival Corp., and Royal Caribbean Cruises Ltd.,** who issued multiple Follow-On and Convertible offerings as they sought out ways to generate capital during the global shutdown. Even with the world slowly reopening in 2021, the Sector remained active with 143 deals pricing, including the second largest IPO of the year from Coupang, Inc.'s $4.6B offering.

Separately, the Tech sector welcomed 269 deals for $130.5B in proceeds to the market, rising nearly 14% from the 236 deals for $108.6B in 2020. **Didi Global, Inc.** made its market debut in June, raising $4.4B in proceeds, the largest Tech IPO since **Facebook, Inc.'s** $16.0B offering in May 2012.

Lastly, **Rivian Automotive, Inc.** out of the Consumer Goods sector raised $13.7B in total proceeds in November 2021 as investors piled into the emerging EV space, becoming the largest IPO since **Alibaba Group Holding Ltd.'s** $25.0B offering in September 2014. Of note, Lucid Group merged with the aforementioned **Churchill Capital Corp. IV** SPAC, making this another popular EV market play.

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Introducing The IHS Markit Investment Manager Index™

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Luke Thompson
Executive Director, Managing Director, Economic Indices

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Introducing the IHS Markit Investment Manager Index™

New survey plugs gap in understanding what's driving US equity market movements

Over the past 30 years, IHS Markit's Purchasing Managers' Index™ (PMI™) series has developed a reputation for producing the earliest and most accurate monthly signals of economic activity around the world, leveraging their Economic Indices team's deep experience in running panel-based surveys. Each month, more than 28,000 companies across over 40 nations take part in the PMI surveys, providing factual, quantitative responses to questions on changes in variables such as activity, new business, employment and prices. These responses are weighted, aggregated, seasonally adjusted and then published as diffusion indices to an audience of users that includes central banks, governments, financials and corporates across the globe.

As we monitored the regular media reporting of the impact of our PMI data on the financial markets, we realized that there was a gap in the market for a survey which provided greater insights into which factors were driving market movements at any time. Aware of IHS Markit's Perception Analysis team's regular engagement with a global market of investment professionals, the route to creating such a survey became clear. A few months later, in October 2020, we launched our first survey – the Investment Manager Index™ (IMI™) - asking active fund managers at institutional investment firms for their views on areas such as: risk outlook and appetite over the next 30 days; market performance and key drivers; upside and downside risks; and sector outlooks.

With seventeen months of survey data now collected from a stable panel of around 100 participants in firms that collectively represent around $845bn assets under management, the IMI is building both a time series of insightful sentiment data, and also a growing following of buy-side institutions who benefit from the leading signals provided on the outlook for U.S. Equities. In addition to a core set of critical questions that are repeated every month, the survey also rotates a series of special questions covering

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themes ranging from the U.S. inflation and rates outlook to the biggest risk to U.S. equity markets over the coming 12 months.

The latest IMI survey covering the early days of February 2022 showed that a risk averse mood continued to dominate US equity investors, with market returns expected to come under pressure again amid growing concerns over the economy. Intensifying drags are perceived from monetary and fiscal stimulus as well as escalating political tensions.

The Risk Appetite Index derived from the survey remained unchanged from January's survey low as the number of risk averse investors continued to outweigh those with risk appetite. The past two months represent the first period of risk aversion seen since the survey began in late-2020. Similarly, the number of investors expecting US equity market returns to fall over the coming month exceeded those expecting a gain, albeit to a lesser extent than January – though this still represents a major shift in expectations from the buoyant optimism of late last year.

The February survey highlights a growing storm of headwinds facing the market. Having been seen as strong positive factors driving the market higher throughout much of last year, both central bank policy and fiscal policy are now seen as the biggest drags on the market since data were first collected. This reflects the projected Fed tightening to counter inflation, currently at a four-decade high, as well as pandemic-related fiscal stimulus moving into its end game.

At the same time, intensifying tensions surrounding Ukraine mean the political environment is now also viewed as the biggest drag on the US equity market since the presidential election back in October 2020.

The risk aversion in February and Q4 earnings season results to date also meant 28% of US equity investors have lowered their earnings expectations for Q1 2022, far exceeding the 16% lifting their earnings expectations.

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As the calendar turns to 2022, many are guessing when a true return to normalcy will follow as Covid-19 variants continue to prolong a "true" global reopening. Beyond this, financial markets grapple with inflationary pressures, rising interest rates, supply/demand chain imbalances and anticipated fiscal/monetary policy changes. Yet, erratic deal volumes and meme stock sagas have definitely tested traditional market fundamentals.

This leaves the financial industry wondering what the state of the markets will be, and more specifically, if it can sustain this type of extreme deal volume when things begin to normalize. With that said, there are reasons to be cautiously optimistic as we head into the new year. The pipeline of IPOs remains robust, as several unicorn deals are lurking from the likes of **Reddit, Discord, Instacart,** and **Stripe**. Overall, SPAC issuers remain the most common deal structure in the pipeline as we look ahead. However, the investment community is on the lookout whether suspected fiscal and regulatory policies will hinder this accelerated path of issuance. The industry will continue to monitor if companies break away from conventional execution methods when going public and instead, leverage alternatives such as Direct Listings and Modified Dutch Auctions to retain more control.

And always, technology remains at the forefront to drive innovation, speed of execution and efficiency. We witnessed a seamless virtual shift in quick order, which will continue to prevail into 2022. We also expect more solutions to empower and connect the institutional investment community, such as IHS Markit's InvestorAccess portal, serving as a central repository for all deal data and participations. Given the pervasiveness and sophistication of modern-day retail investors, we are keenly focused on the evolution of tools to propel deal participations and connectivity with online providers.

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Francis Land
Director of Strategy,
BRS&T, IHS Markit

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Research Evaluation & Payments(RE&P) What's in a name?

RE&P is the new name for BRS&T's buyside-focused workflow solutions.

IHS Markit's Broker, Research, Sales & Trading (BRS&T) Division was created in 2019. BRS&T encompasses our market-leading BigDough, CRM, Data and Events Management solutions together with our research evaluation and virtual CSA aggregation and payment solutions.
Provided through our **Evaluation** and **Commission Manager** brands, these workflow solutions are now marketed as **Research Evaluation & Payments (RE&P)**.

Why RE&P? It's All in the Name

Around the world the buyside have been investing heavily in research evaluation and payment workflow solutions, adapting to regulatory change and the New Global Best Practice. IHS Markit has occupied a pre-eminent position in this industry for over 25 years; our new name explains to clients clearly and simply what we provide.

RE&P Solutions

Evaluation

- Track interactions data fed directly from service providers
- Robust interaction pre-filtering rules engine
- Manage a formal research evaluation process
- Links to Commission Manager for payment

Commission Manager

- Virtual CSA aggregation system
- Consolidated view of CSA accounts, trades, balances and payments
- Automated CSA trade reconciliations
- Links to Evaluation for payment instructions

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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