



Lloyds Chambers 1 Portsoken Street  
London E1 8HZ  
Tel: 020 7702 0888 Fax: 020 7702 9452  
www.hermes.co.uk

## INVESTMENT NOTE

17 April 2014

### Revamped Morgan Stanley showing signs of strength

Filippo Alloatti, Senior Research Analyst at Hermes Credit, comments on Morgan Stanley's Q1 2014 results released today:

#### Results recap

Morgan Stanley's first quarter results have reinforced the benefits the group is receiving from its revamped business model – which is focused more on asset management and retail wealth management, and less on risk-weighted asset intensive FICC (fixed income, currency and commodity) trading lines.

Net revenue ex debt valuation adjustment was \$8.8bn, against the street's estimate for \$8.6bn; while its compensation ratio was 48%, against an expected 50%. The investment bank also did not identify any specific litigation costs.

Wealth management revenues were down quarter-on-quarter, but pre-tax income rose to \$691m, compared to \$597m in Q4 last year. However, margins came in below expectations, falling under the 20% level. In its institutional securities division – both FICC, in spite of lower volumes, and equity trading were nicely ahead of expectations. This seems the best MS capital markets set in the last 6 quarters.

#### Benefitting from revamped model

Morgan Stanley in 2014 looks very different from the firm it was four years ago. It has addressed a variety of balanced sheet weaknesses and built \$203bn in liquidity reserves. The group has also had significantly reduced leverage and more than doubled the capital base to \$56bn, or 14.1% Tier 1 common.

Morgan Stanley has continued to benefit from more stable earnings over the last two years, following the acquisition of Smith Barney's wealth management operations, as well as the reduction of risk-weighted assets in its fixed income businesses to \$199bn. In summary, Morgan Stanley's current set up is now more 'compliant' with the financial landscape the regulators are still drawing up.

Given its excess liquidity and good positioning relative to any new regulation-driven minimum debt and equity threshold, Morgan Stanley arguably has limited need for straight cash issuance in the near term – as long term debt was down 5% year-on-year.

**-ENDS-**

**For further information, please contact:**

## Hermes Fund Managers

Jeannie Dumas  
+44 (0)20 7680 2152  
[j.dumas@hermes.co.uk](mailto:j.dumas@hermes.co.uk)

Melanie Shelley  
+44 (0) 20 7680 2110  
[m.shelley@hermes.co.uk](mailto:m.shelley@hermes.co.uk)

Katie Sunderland  
+44 (0)20 7680 2315  
[k.sunderland@hermes.co.uk](mailto:k.sunderland@hermes.co.uk)

### Notes to Editors:

#### Hermes Fund Managers

Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

We believe in **Excellence, Responsibility** and **Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.
- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.
- **Innovation:** We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure provides wholesale, institutional and pension fund clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Fixed Income:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives:** Commodities, Hedge Fund Solutions, Infrastructure, Private Equity
- **Equities:** Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan
- **Real Estate:** Segregated, Unitised, Debt, UK, US Residential, European

Hermes manages assets on behalf of more than 200 clients\* across these investment areas with £26.3 billion\* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £98 billion\* of assets.

\*Please note the total AuM figure includes £3.4bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 December 2013.