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Merrill Lynch Board of Directors Meeting- Fixed Income, Currencies, and Commodities Update

Bank of America Corporation/ Bank of America Merrill Lynch

Osman Semerci

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 **Merrill Lynch**

Global Markets & Investment Banking

Merrill Lynch
Board of Directors Meeting

FIGG
update

Osman Semerci

February, 2007

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1. Where we were: Progress 2002 – 2006

2. Competitive Landscape

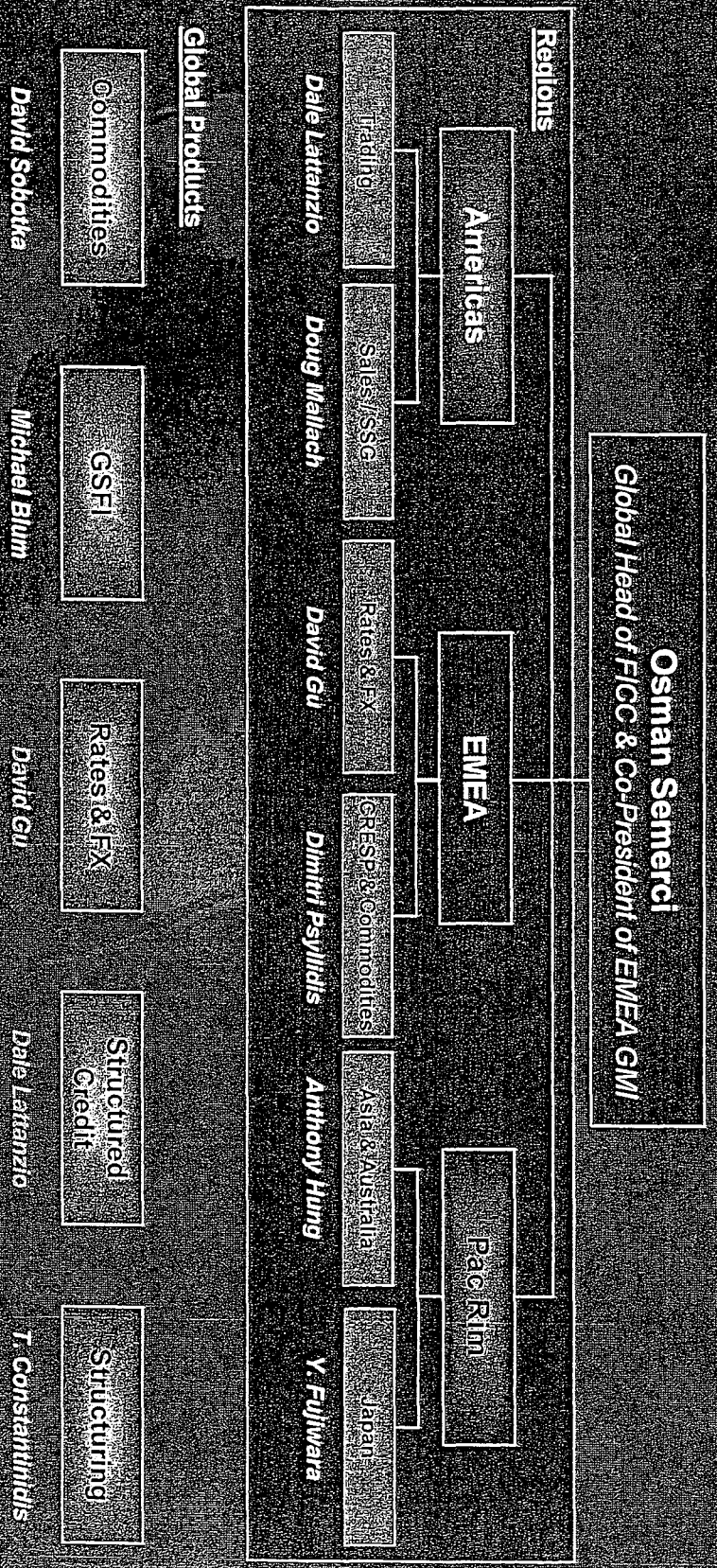
3. Growth Themes

4. Where we go from here: 2009

5. Key Takeaways

Assembling Global FICC Management Team

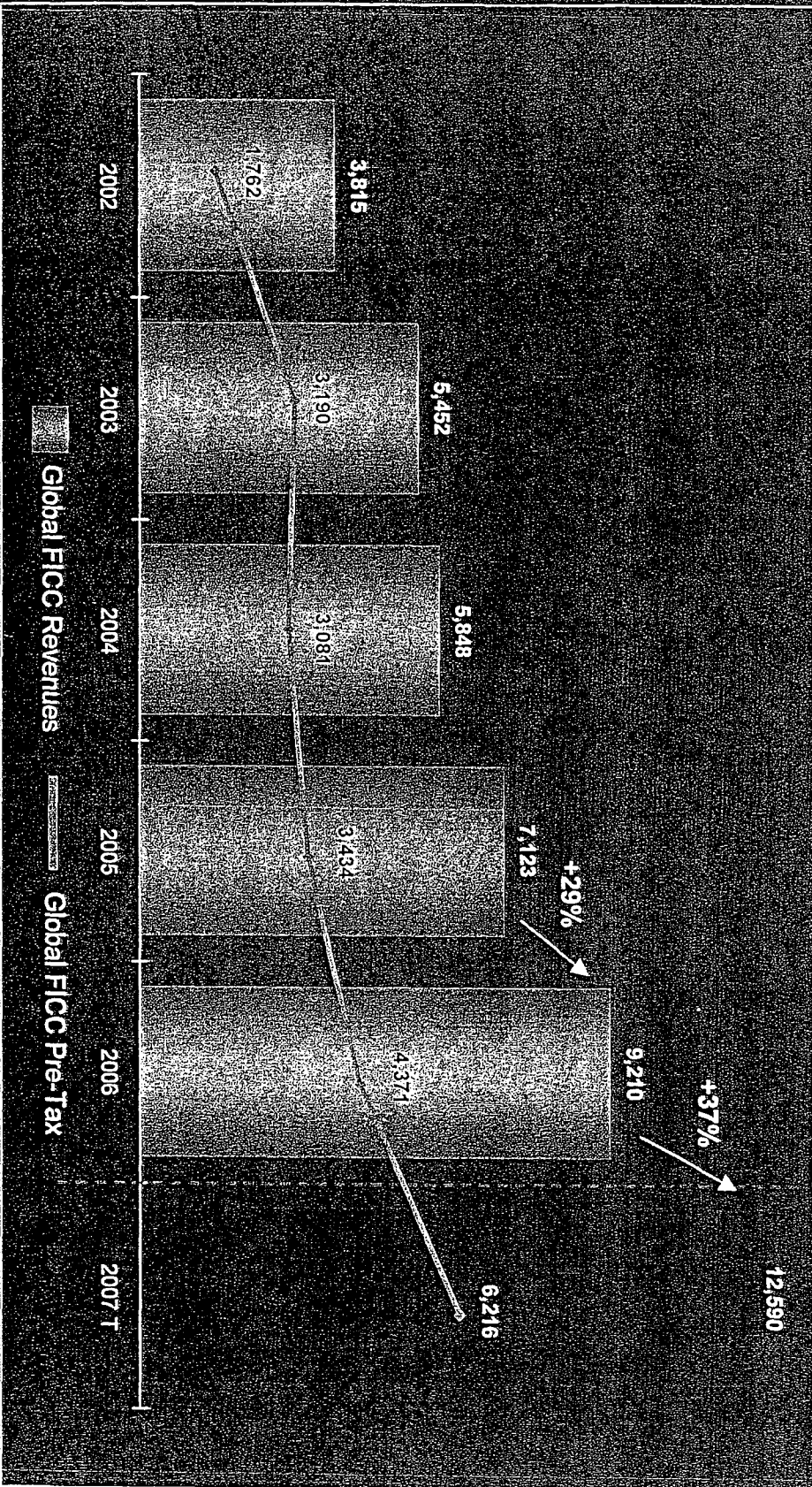
Global FICC Organizational Chart (August 2006)



David Gu & Dale Latanzio Dual Roles

Growing Revenues and Pre-Tax

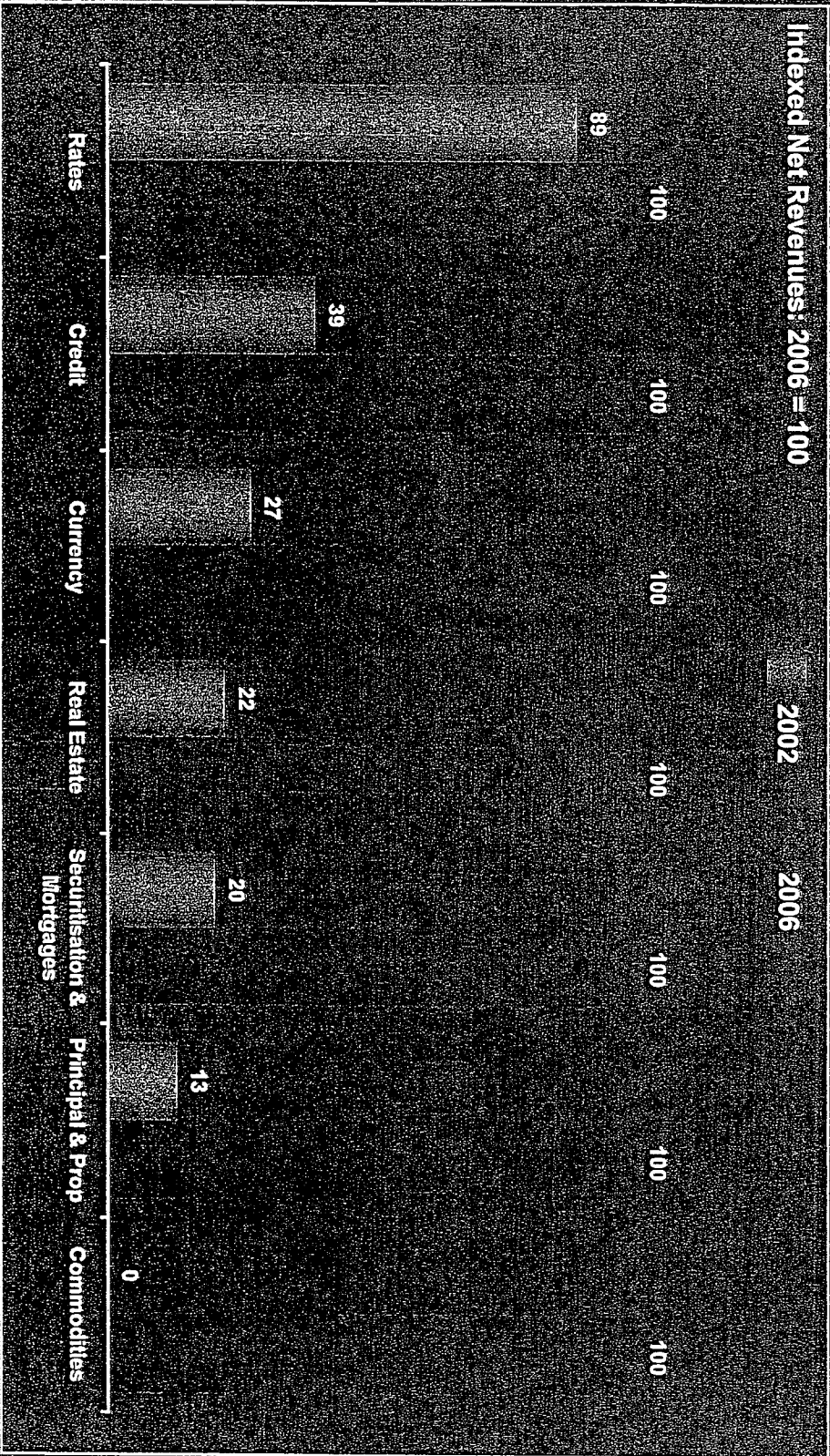
Global FICC Performance '02-'07T



Internal Revenues

Filling the Product Gaps

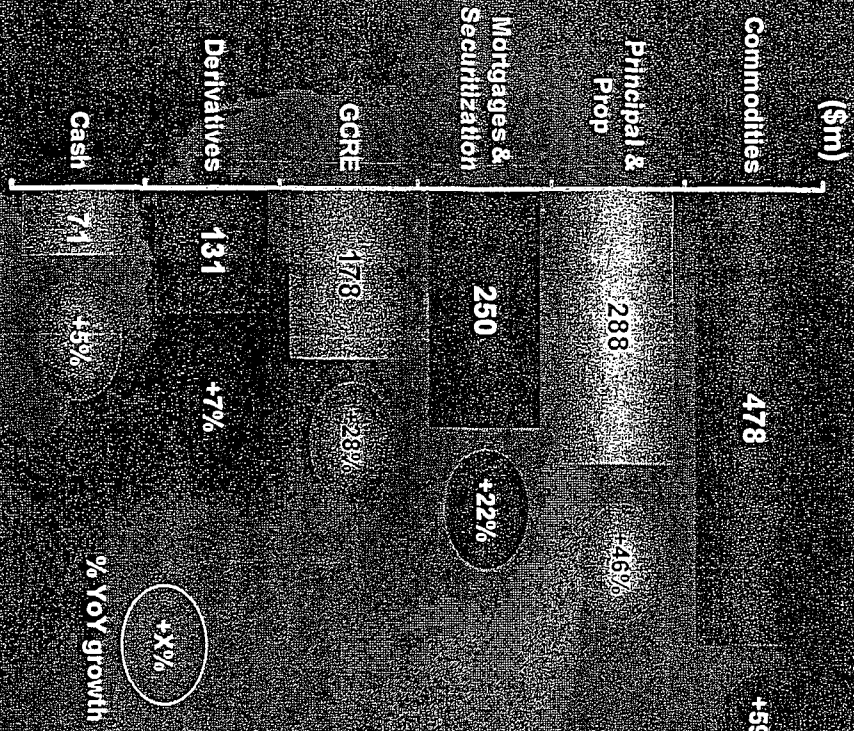
Diversification in FICC Revenues: 2002 - 2006



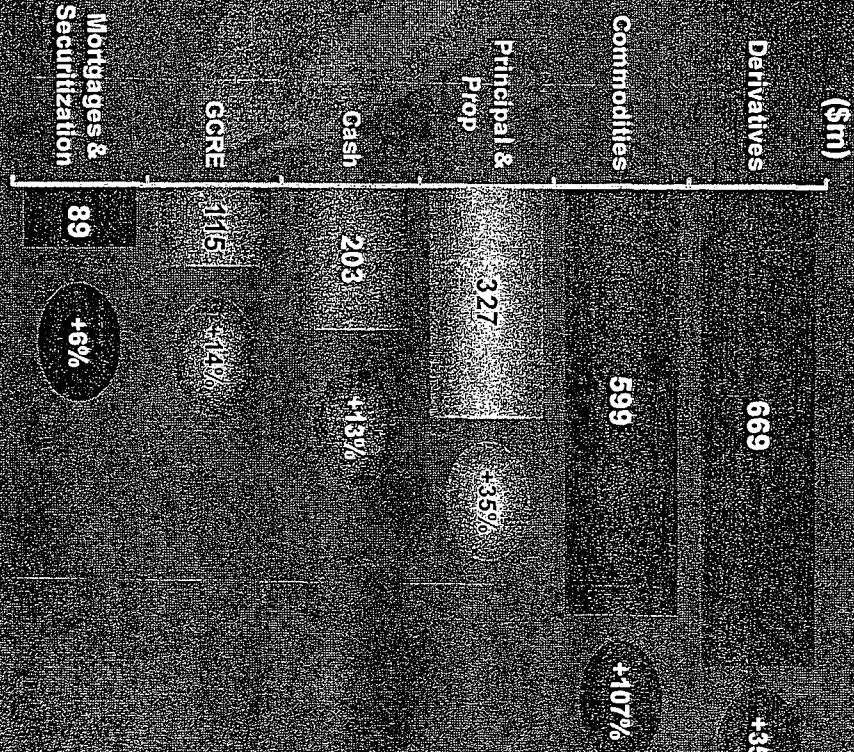
Rates includes Muni's, Credit including EITF, excluding Credit Prop & Distressed; Currency including LCI and FX; Securitization and Mortgages including MLI, Cap's, Principal & Prop including CFI, etc.

Investing in Growth Products

ML FICC '05 incremental rev growth



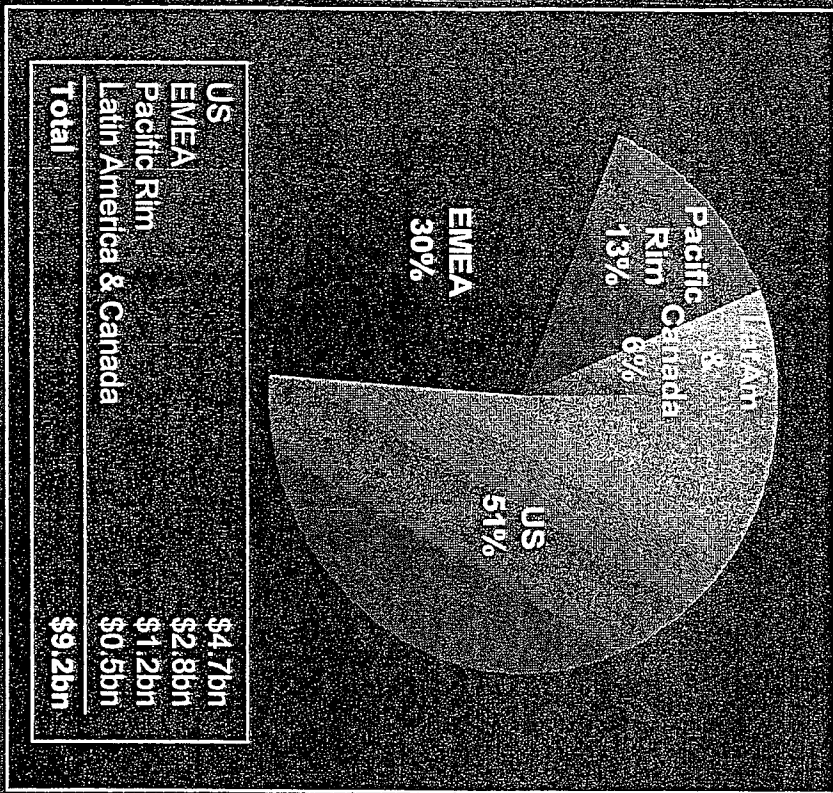
ML FICC '06 incremental rev growth



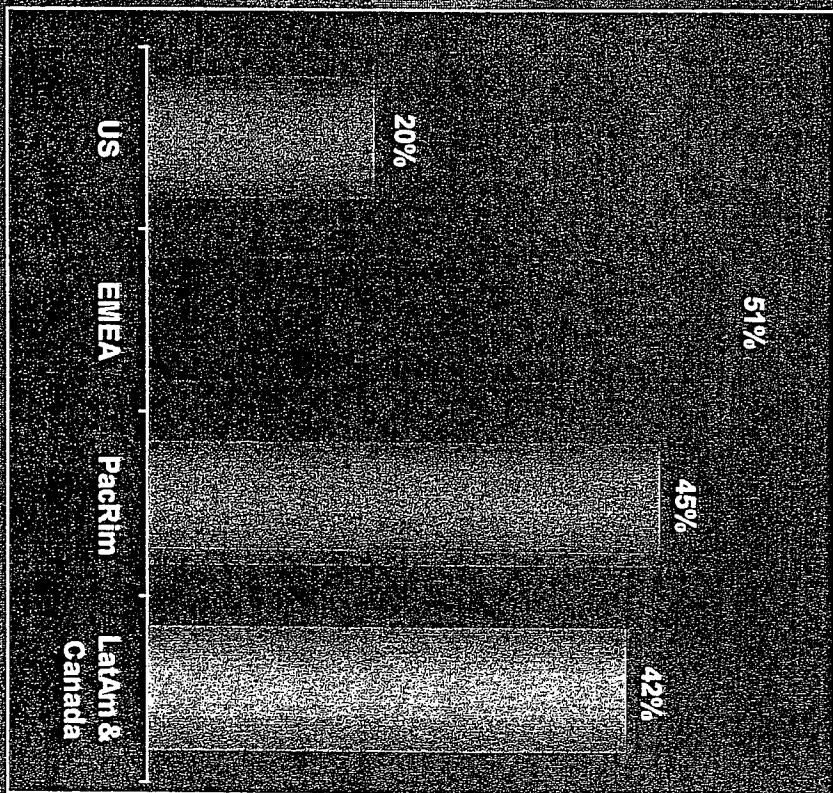
Internal Revenues

Investing in International Businesses

FICC Revenues by Region '06



FICC Revenue Growth by Region '06

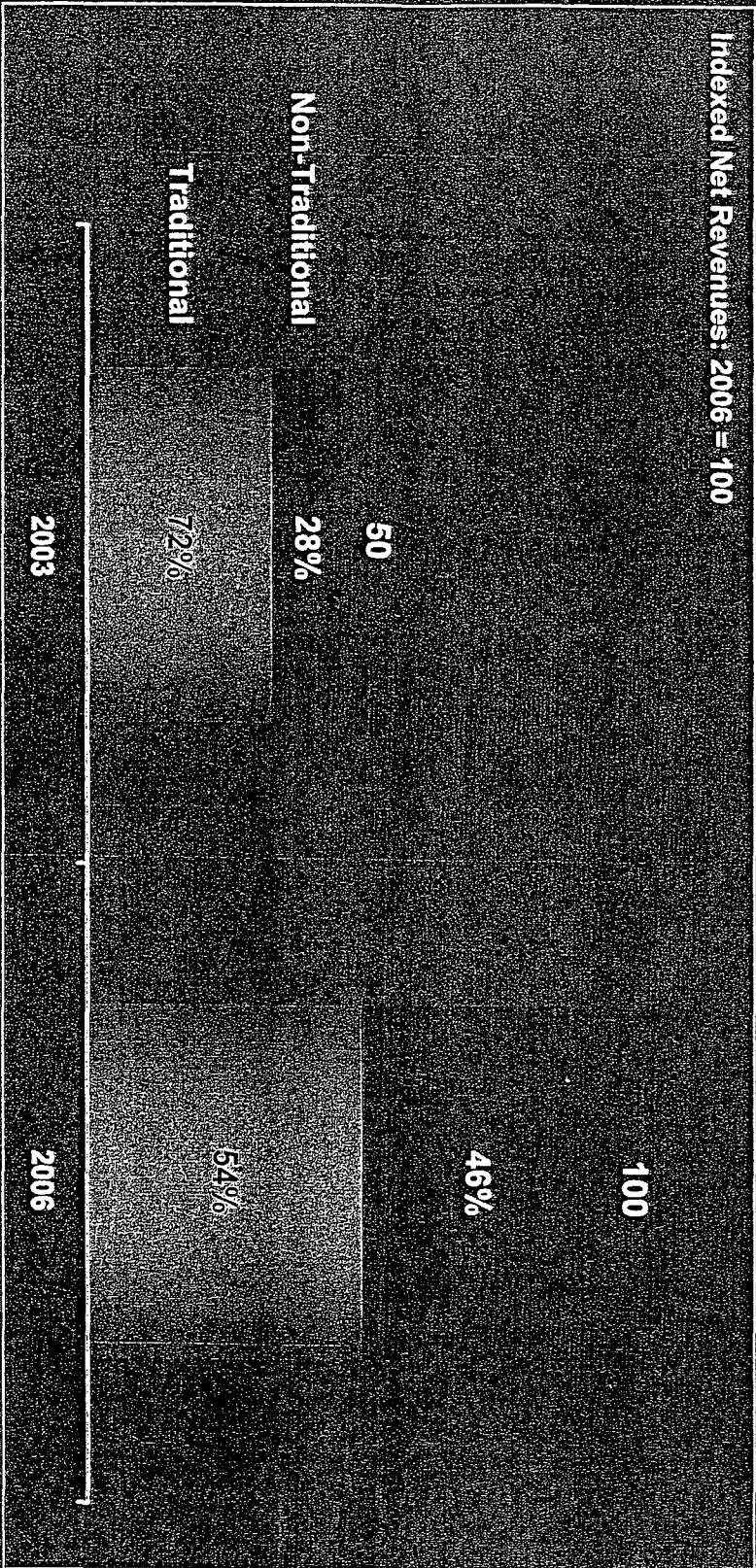


Data reflects full year 2006

Focusing on Non-Traditional Origination

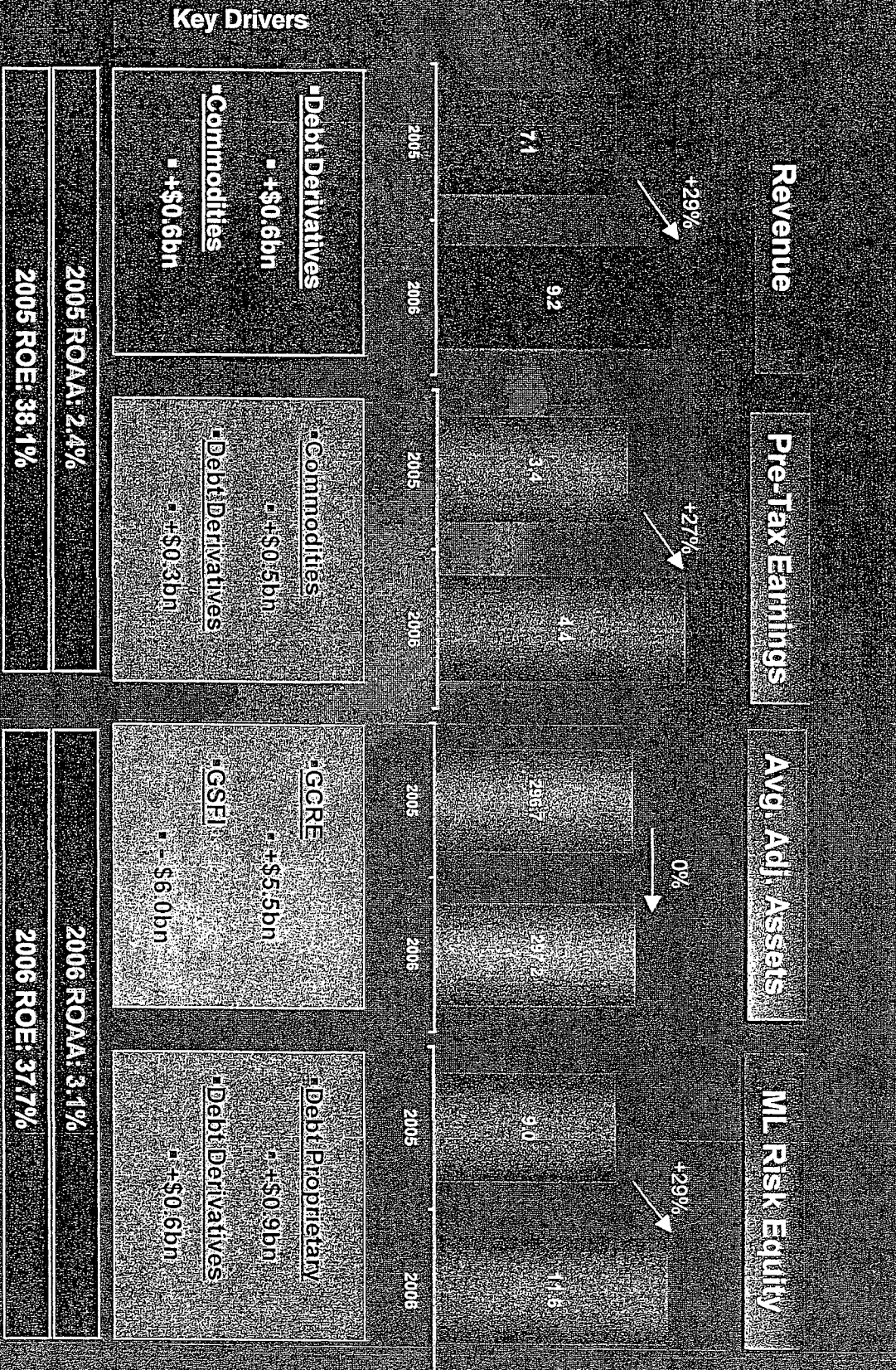
ML Global Non-Traditional Origination Revenues, '03-'06 (%)

Indexed Net Revenues: 2006 = 100



Partnership with Origination delivering real results on Global Basis

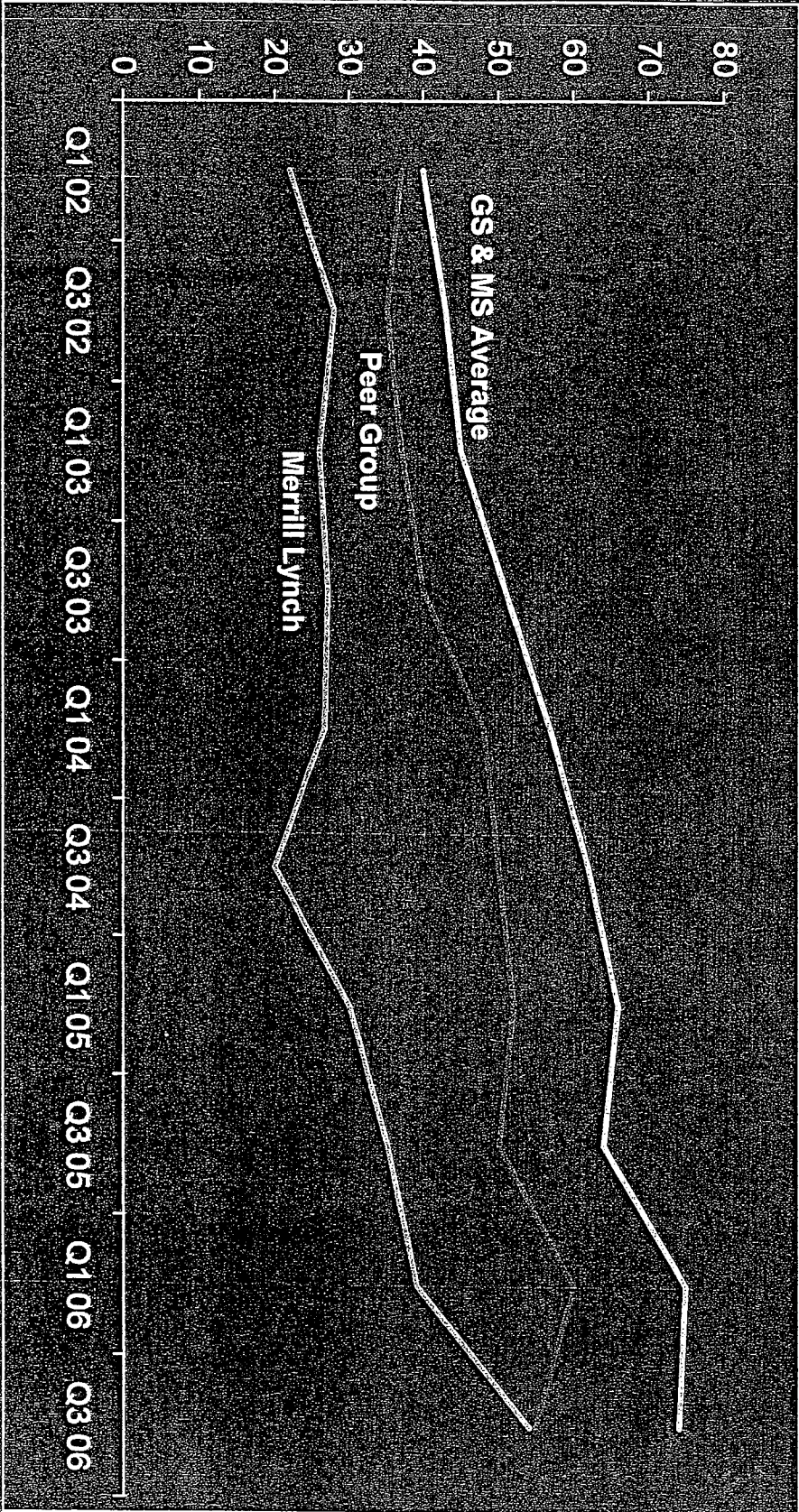
Managing the Risk and Balance Sheet



ROAA: Revs / Adj Assets

Increasing Our Risk Taking Capabilities

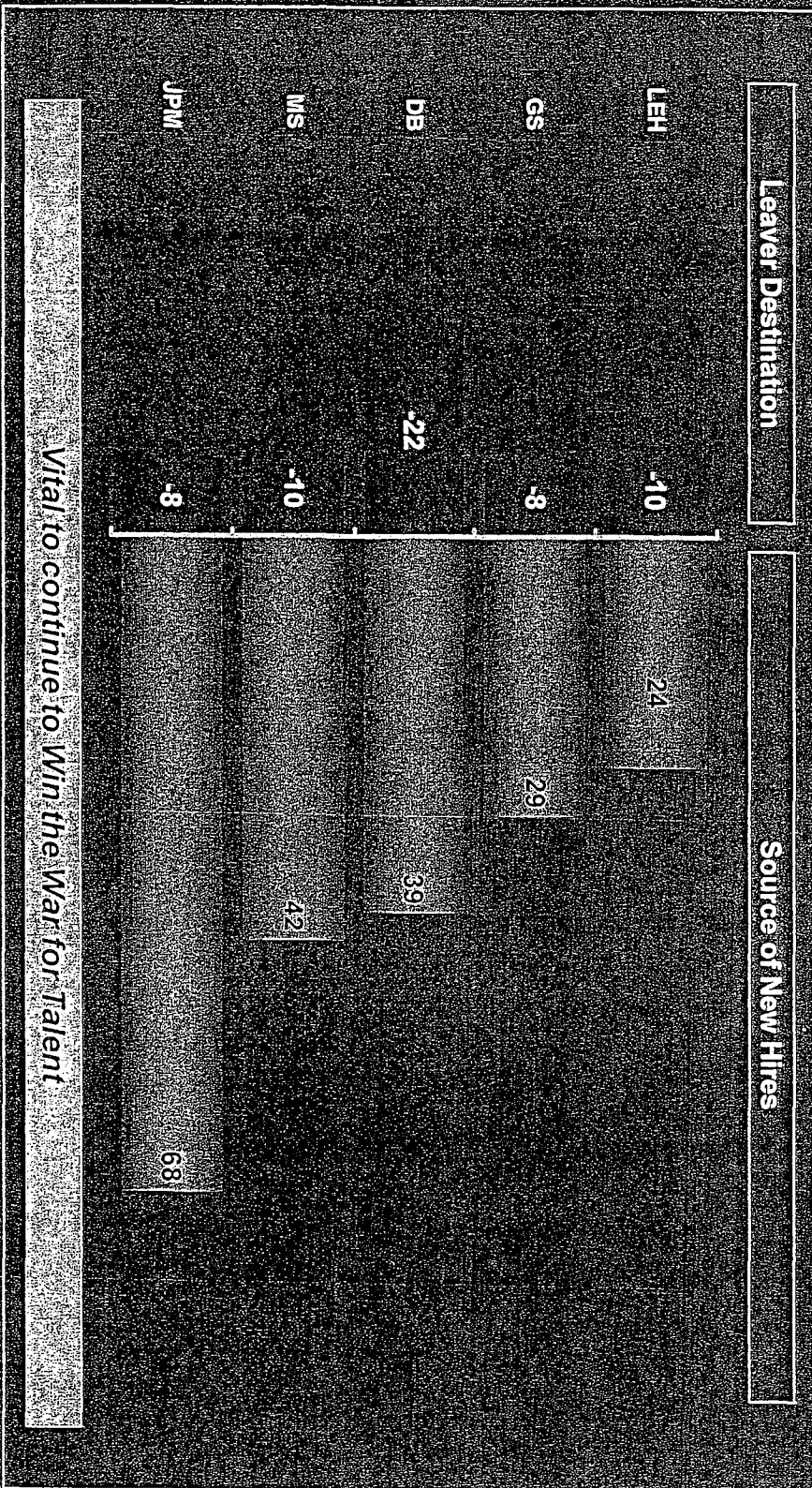
ML vs. Key Peer Group: Absolute VaR (Overall Firm)



Peers: BSC, GS, LEH, MFR, MS, C, JPIM median; 95% confidence interval; GS & MS represent Trading VaR Only; GS Research - GII/Corporate Strategy

Investing in People

ML Competing directly with Key Peers for Senior Talent: 2006



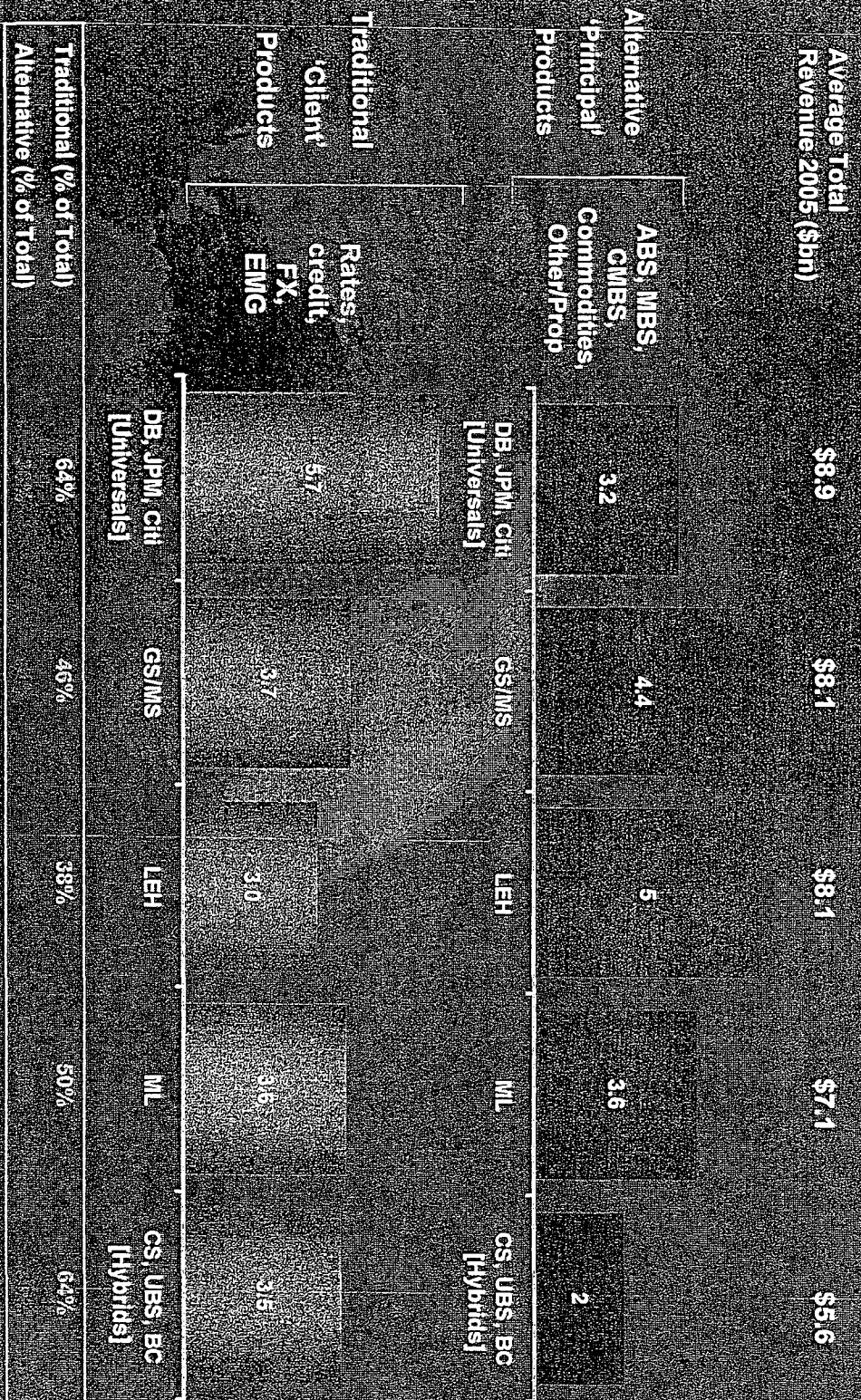
Vital to continue to Win the War for Talent

Includes all Officers: MD, D, VP

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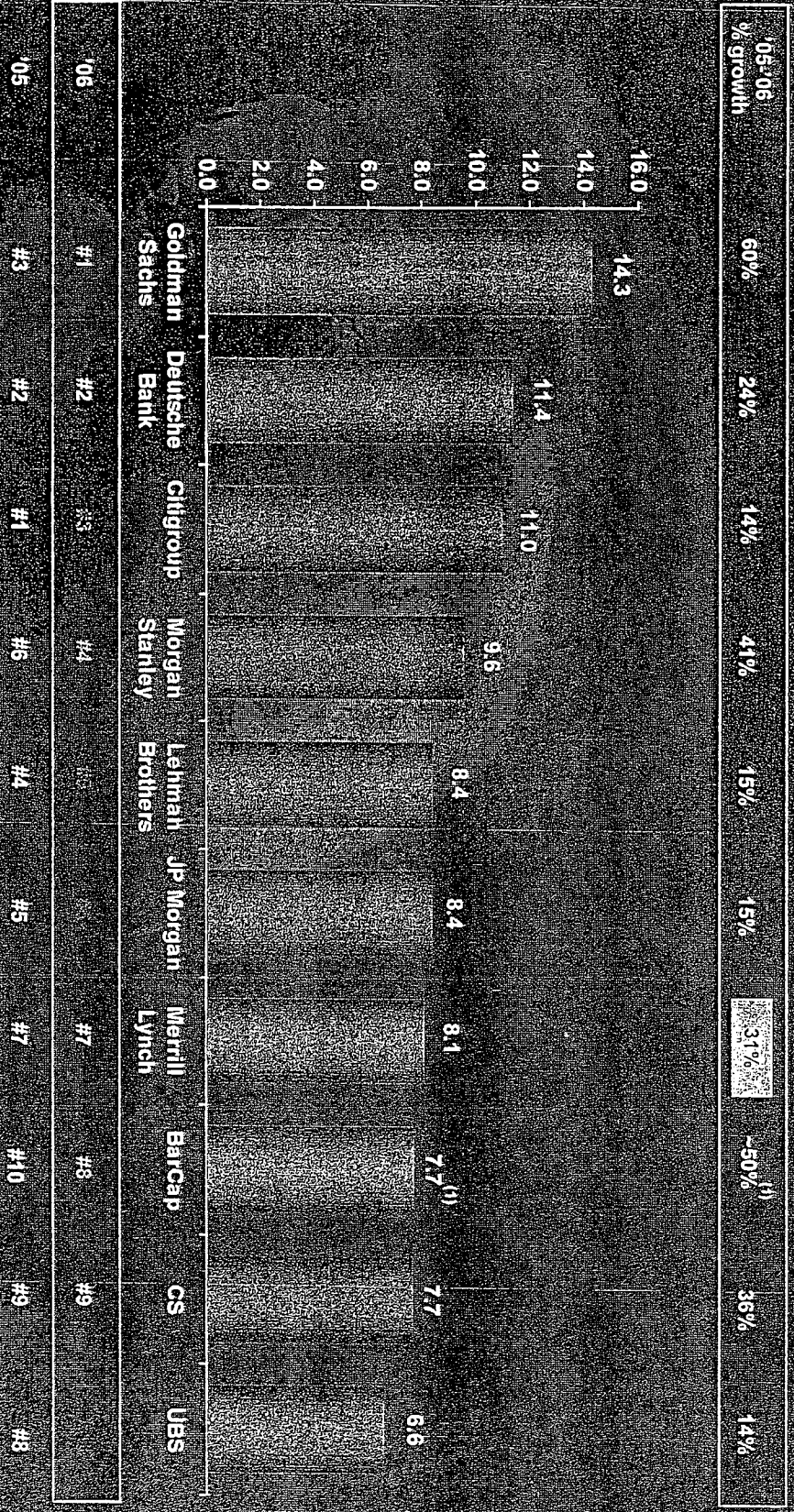
1. Where we were: Progress 2002 – 2006
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4. Where we go from here: 2009
5. Key Takeaways

Who do we compete with and on what areas?



Competitor Revenues: 2005 vs. 2006

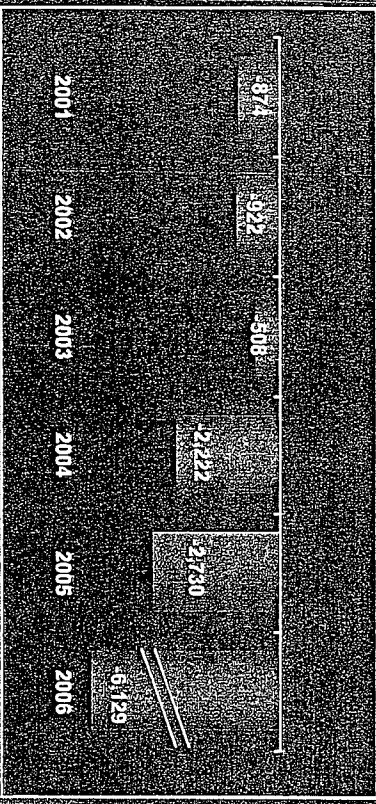
Competitor FICC-equivalent reported revenues '06, \$bn



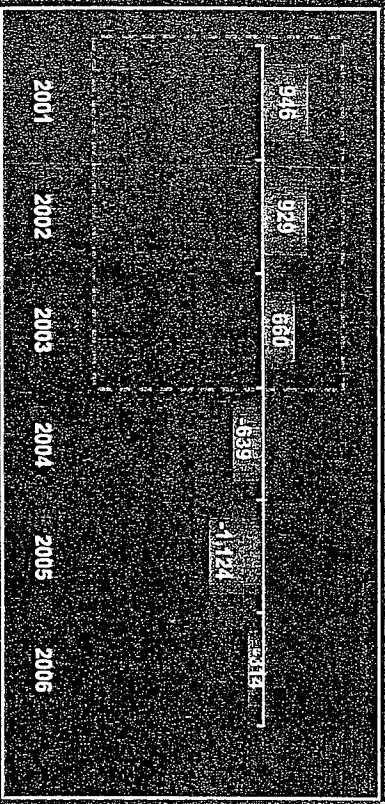
(1) Estimated based on full-year '06 disclosure

Gap to key FICC Competitors: 2001-2006

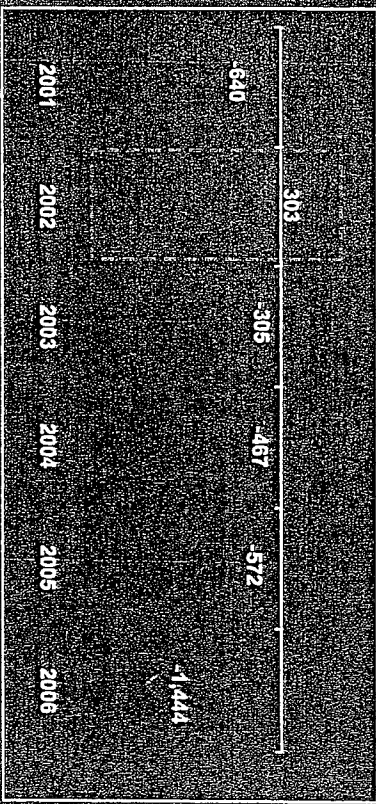
ML Gap to GS (\$m)



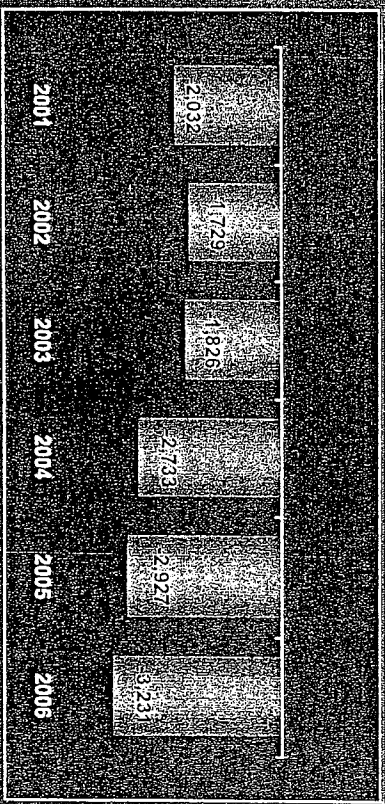
ML Gap to Lehman (\$m)



ML Gap to MS (\$m) (1)



ML Gap to DB (\$m)

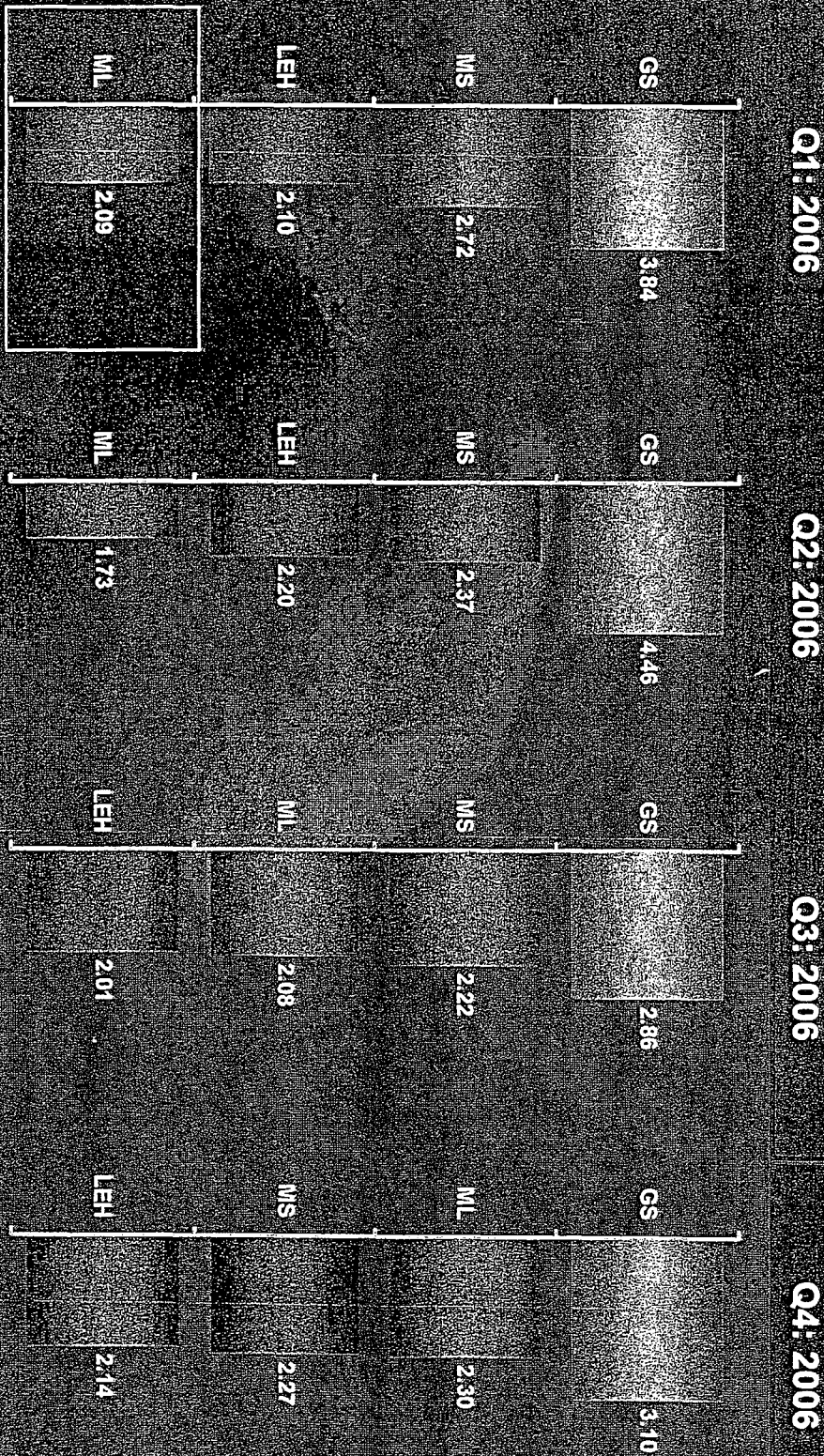


ML Outperformance

(1) Does not include Real Estate Funds
Source: Company reports

Key US Peer Group: 2006 Quarterly

Competitor FICC-equivalent reported revenues Q1-4 '06, \$bn



Strong Acceleration in ML Performance vs. Key Peers each Quarter

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5. Key Takeaways

Growth Themes

New Trends in Capital Markets

Current

1

Financial Asset Intermediation

2

Principal Investing

3

Emerging Markets
Yield Beta Play

4

Derivatization of the Market

5

Hedge Funds & Well-Defined Client Segment

6

Electronic Market Access /
Open & Closed (Dark) Pools of Liquidity



New

New Asset Classes for Financial
Intermediation

■ Real Estate

■ Commodities

■ Property Derivatives

■ Life Insurance

Growth Themes

New Trends in Capital Markets

Current

- 1 Financial Asset Intermediation
- 2 Principal Investing
- 3 Emerging Markets: Yield Debt Play
- 4 Derivatization of the Market
- 5 Hedge Funds: a Well-Defined Client Segment
- 6 Electronic Market Access / Open & Closed Dark Pools of Liquidity



New

Fund-Based Businesses

- Engine for Principal
- Significant Ancillary Revenues
- Higher ROE & PTM
- Impact on P/E Multiples

Growth Themes

New Trends in Capital Markets

Current

1

Financial Asset Intermediation

2

Principal Investing

3

Emerging Markets:
Yield Debt Play

4

Derivatization of the Market

5

Hedge Funds & Well Defined Client Segment

6

Electronic Market Access/
Open & Closed (Dark) pools of liquidity



New

Emerging Markets

- Emerging Markets countries moving to capital markets economies:
- Brazil, Russia, India, China, Turkey, Middle East
- Breadth & Depth

Growth Themes

New Trends in Capital Markets

Current

- 1 Financial Asset Intermediation
- 2 Principal Investing
- 3 Emerging Markets: Yield Debt Play
- 4 Derivatization of the Market
- 5 Hedge Funds a Well-Defined Client Segment
- 6 Electronic Market Access / Open & Closed (Dark) Pools of Liquidity

New

Risk Transfer via Derivatives
- Key Client Offering

- Customized exposure for Asset Managers
- "Solution"-based products for FI/CI/Corporates
- Premium on expertise and Innovation

Growth Themes

New Trends in Capital Markets

Current

- 1 Financial Asset Intermediation
- 2 Principal Investing
- 3 Emerging Markets: Yield Debt Play
- 4 Derivatization of the Market
- 5 Hedge Funds a Well Defined Client Segment
- 6 Electronic Market Access / Open & Closed (Dark) pools of liquidity

New

Continued AUM Growth Fuels Structural Change

- International ~40% of AUM
- 'Big getting Bigger'
- Convergence with Private Equity
- Permanent Capital Formation

Growth Themes

New Trends in Capital Markets

Current

- 1 Financial Asset Intermediation
- 2 Principal Investing
- 3 Emerging Markets:
Yield Debt Play
- 4 Derivatization of the Market
- 5 Hedge Funds a Well Defined Client Segment
- 6 Electronic Market Access /
Open & Closed (Dark) pools of liquidity

New

Continued Trading Automation

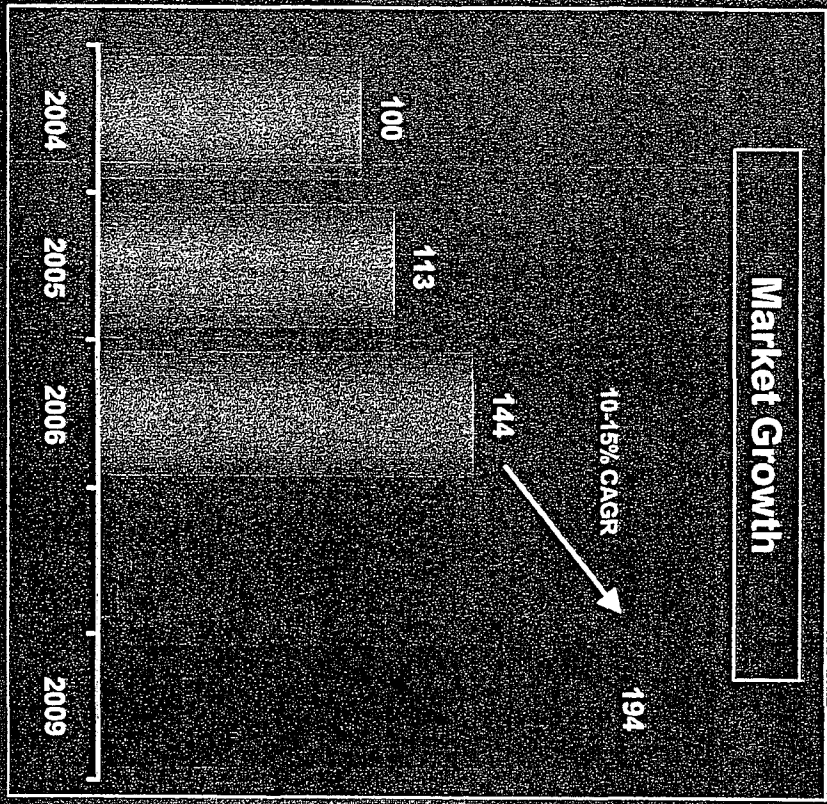
- 50-60% of Volume in Vanilla Asset Classes
- Significant Margin Erosion
- Multiple options for Trading Venues

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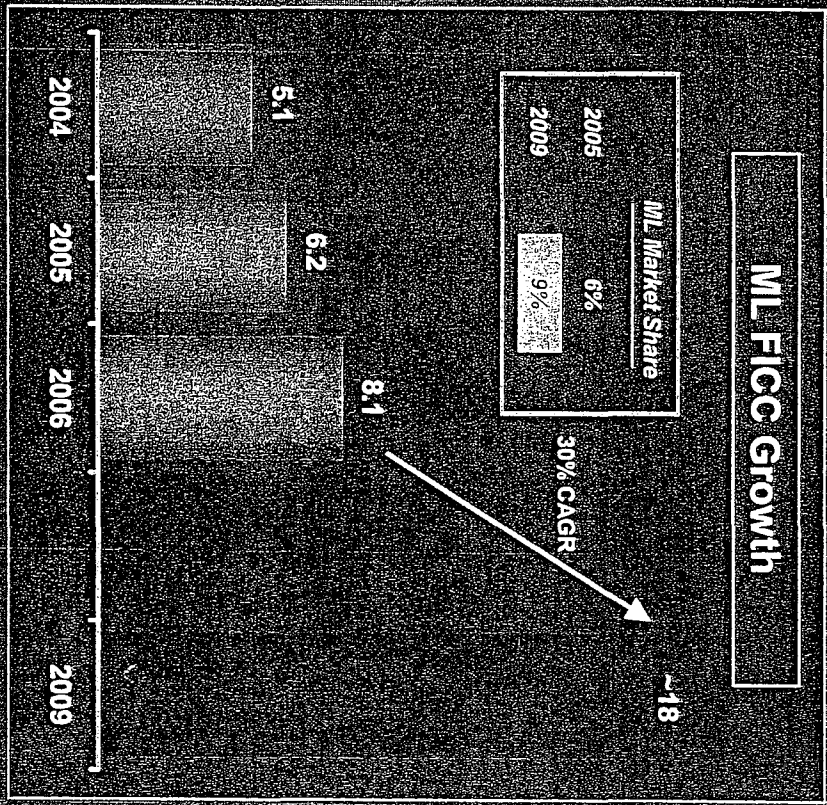
1. Where we were: Progress 2002 – 2006
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2009: Setting Global FICC Ambition

Global FICC Fee Pool, \$bn 2004 to 2009F



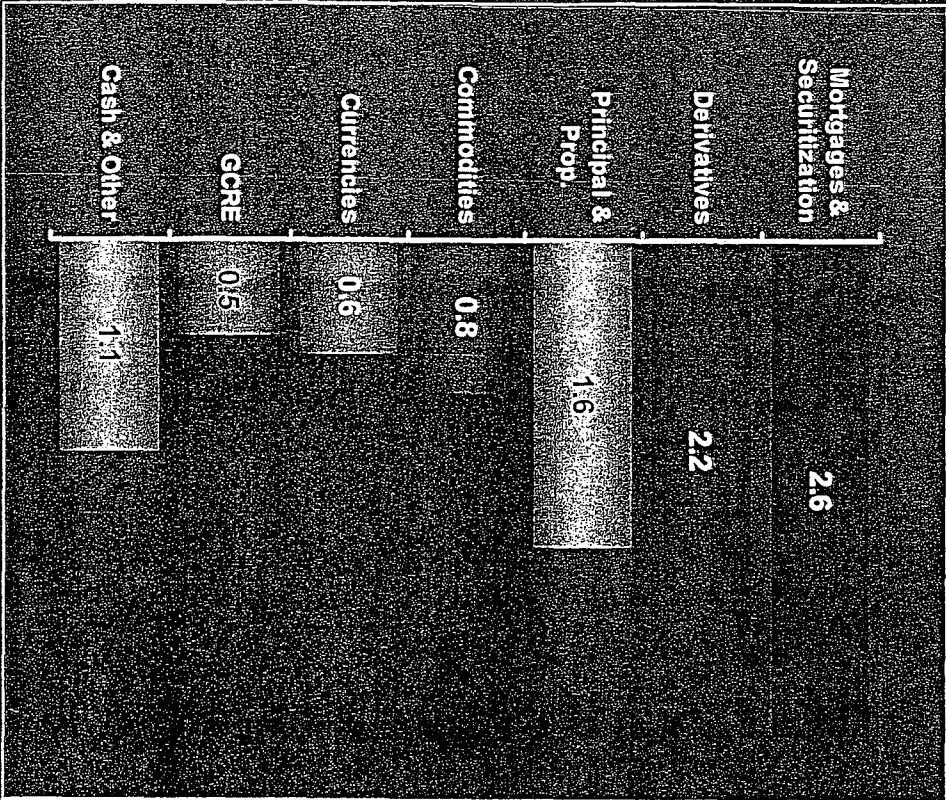
ML FICC Rev Targets, \$bn 2004 to 2009F



FICC Strategy targeting above expected market growth, capturing additional share

How will we get there?

Incremental Revs '06-'09, by Product, \$bn



Key Product Drivers

- Mortgages & Securitization
- Derivatives
- Principal & Proprietary
- Commodities
- Currencies
- Commercial Real Estate

Key Geographic Drivers

- Europe & Pac Rim
- Emerging Markets

Key Internal Drivers

- Non-traditional Origination
- Talent Build-up
- Balance Sheet and Risk Discipline
- Innovation and Technology

Key Takeaways

2009: Setting Global FICC Ambition

1. Revenue Target: Double from ~\$9bn to ~\$18bn by '09

2. Competition: Globally Top 5 Ranking in Revenues

3. Balance Sheet & Profitability: Grow ROE from 38% to 45% by '09

4. Talent Retention: Continue to Win the War for Talent

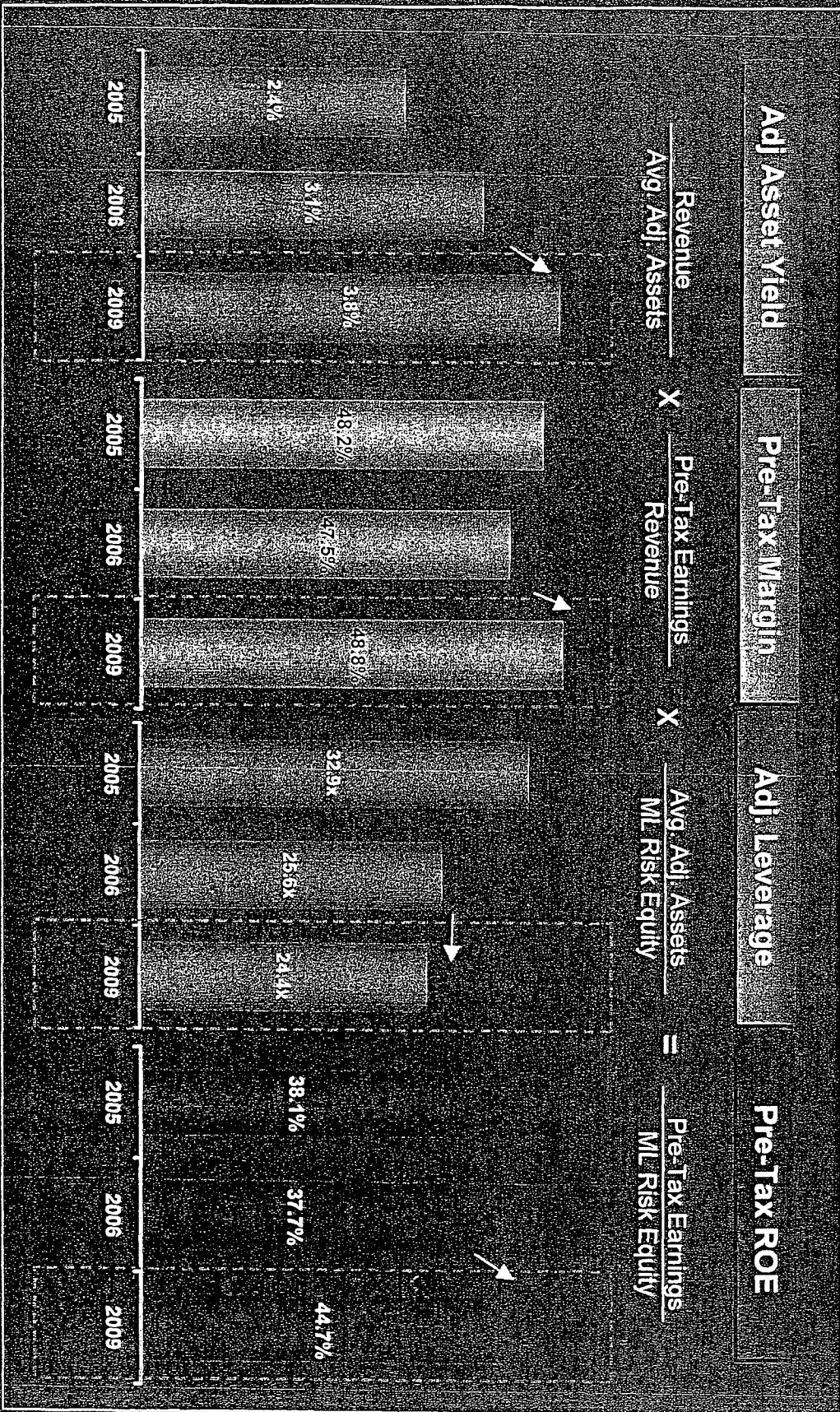
5. Product & Platform: Best in Class Innovation & Technology

Appendix

- Risk and Balance Sheet Metrics
- Competition

Risk and Balance Sheet Metrics

Return on Equity



Average Trading VaR

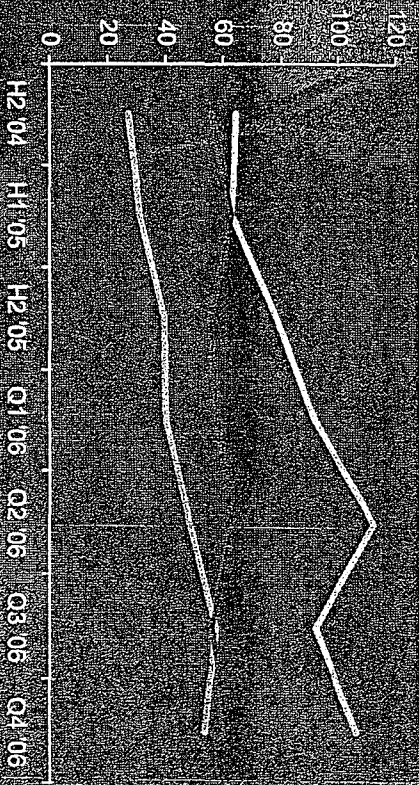
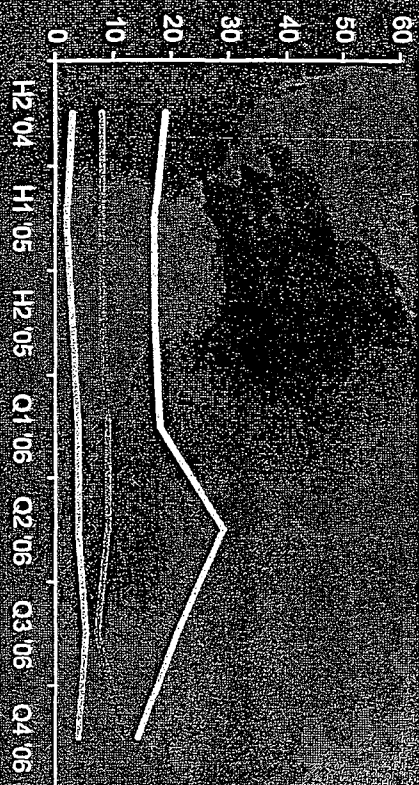
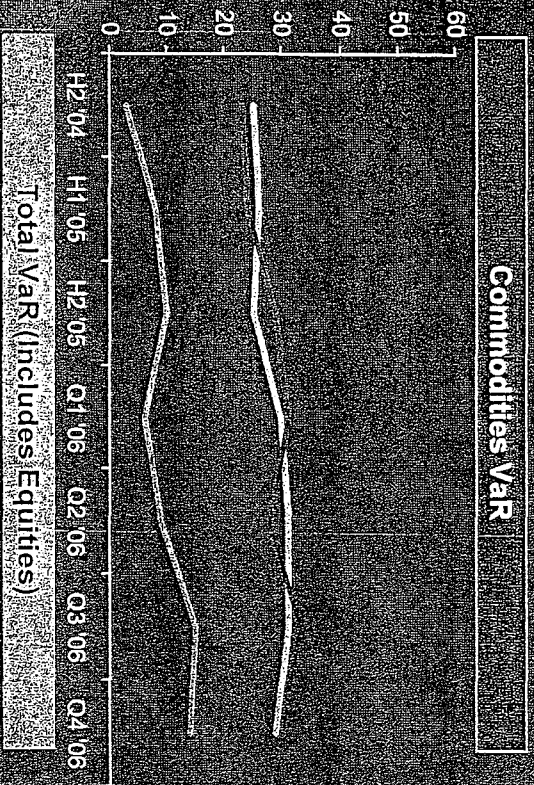
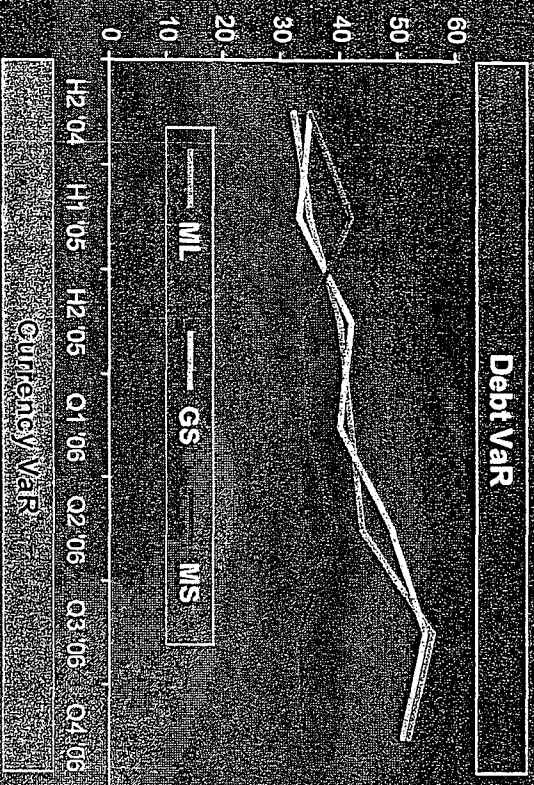
Average Trading VaR: ML & Key Peers, \$m

Risk Factor	H2 '04	H1 '05	H2 '05	Q1 '06	Q2 '06	Q3 '06	Q4 '06
	Merrill Lynch						
Total	27	31	39	40	48	57	53
Debt	32	35	40	42	44	56	52
Equity	9	12	14	11	25	16	21
Commodity	3	8	10	6	9	15	14
Currency	3	2	3	4	4	5	4
GS							
Total	64	63	78	92	112	92	106
Debt	35	33	42	40	49	55	51
Equity	27	28	42	69	83	61	75
Commodity	25	26	25	30	31	31	29
Currency	19	17	17	18	29	21	14
MS							
Total	56	63	55	58	63	56	61
Debt	35	42	34	35	39	33	34
Equity	26	26	24	25	29	26	32
Commodity	23	24	29	31	28	33	30
Currency	8	8	8	9	9	7	12

Based on Daily 95% VaR; GS uses a shorter market data history than ML, hence direct comparison requires an adjustment; MS uses 4-yr data history (same as ML); MS includes specific risk (unlike ML)

Average Trading VaR

Average Trading VaR: ML & Key Peers, \$m



Based on Daily 95% VaR. GS uses a shorter market data history than ML, hence direct comparison requires an adjustment. MS uses 4-yr data history (same as ML). MS includes specific risk (unlike ML).

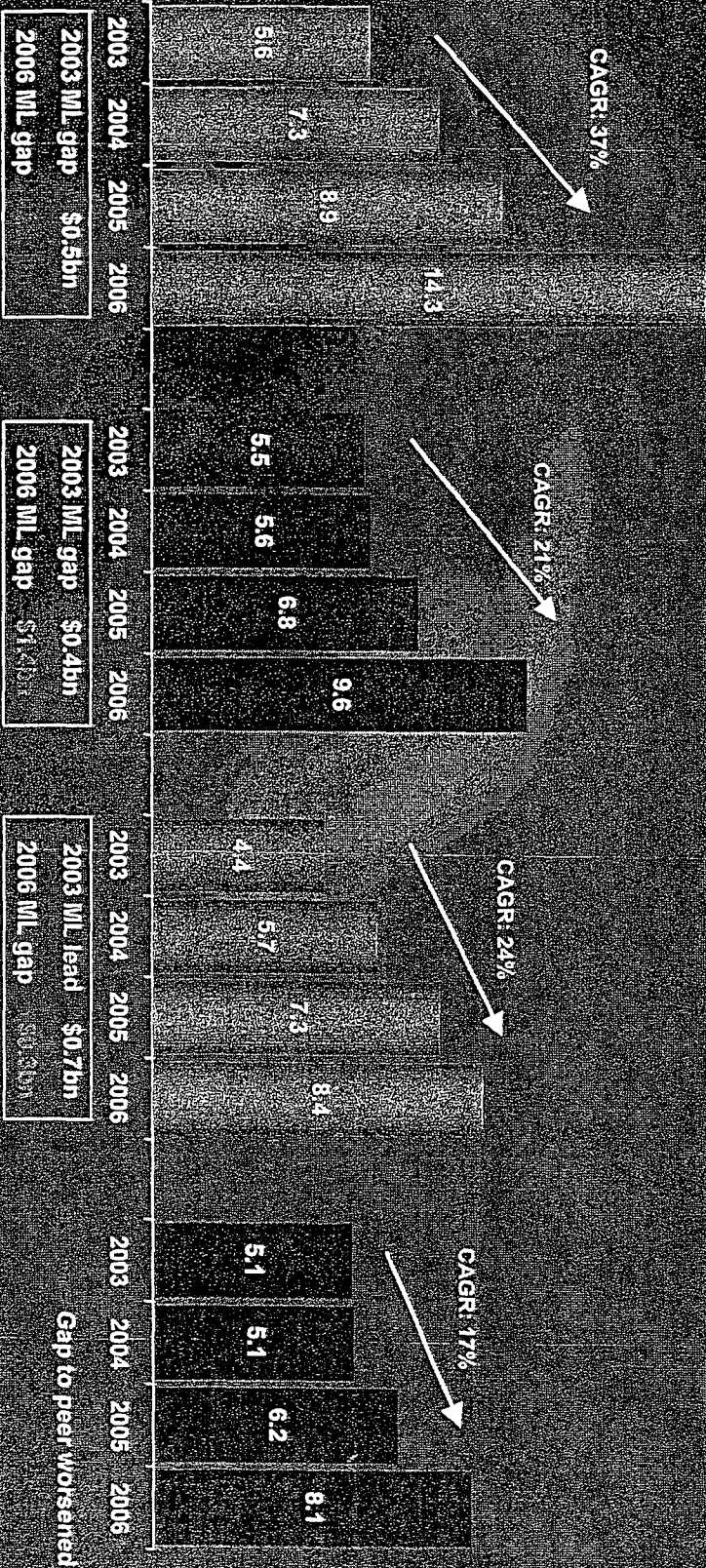
Competition

Key US Peer Group

ML vs. I-Bank peers, reported FICC revenues 2003-06 (\$bn)



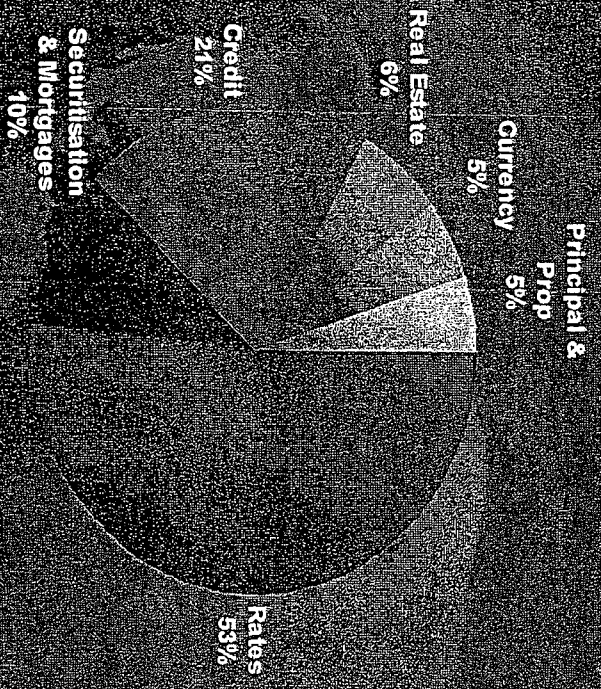
Morgan Stanley



ML FICC: Diversification of Revenues

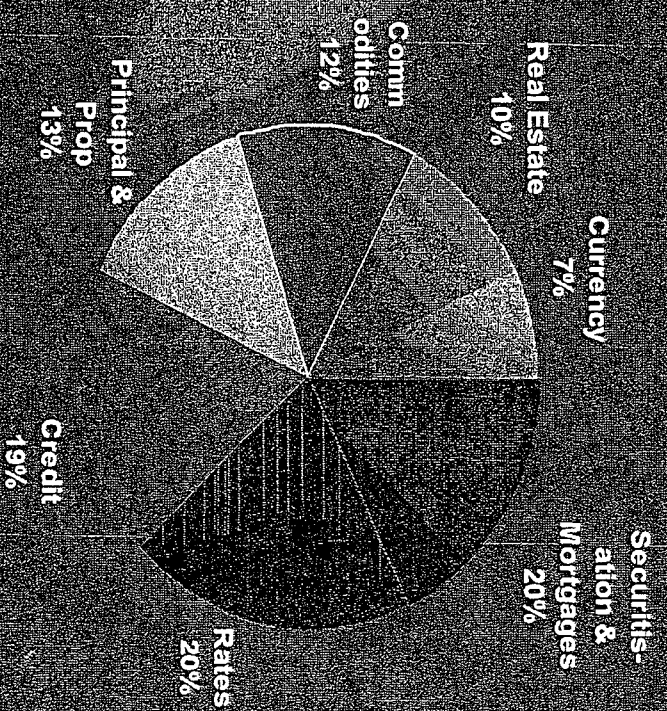
Diversification in FICC Revenues 2002 vs. 2006

2002 FICC Revenue Dispersion



Total: \$3.8bn

2006 FICC Revenue Dispersion

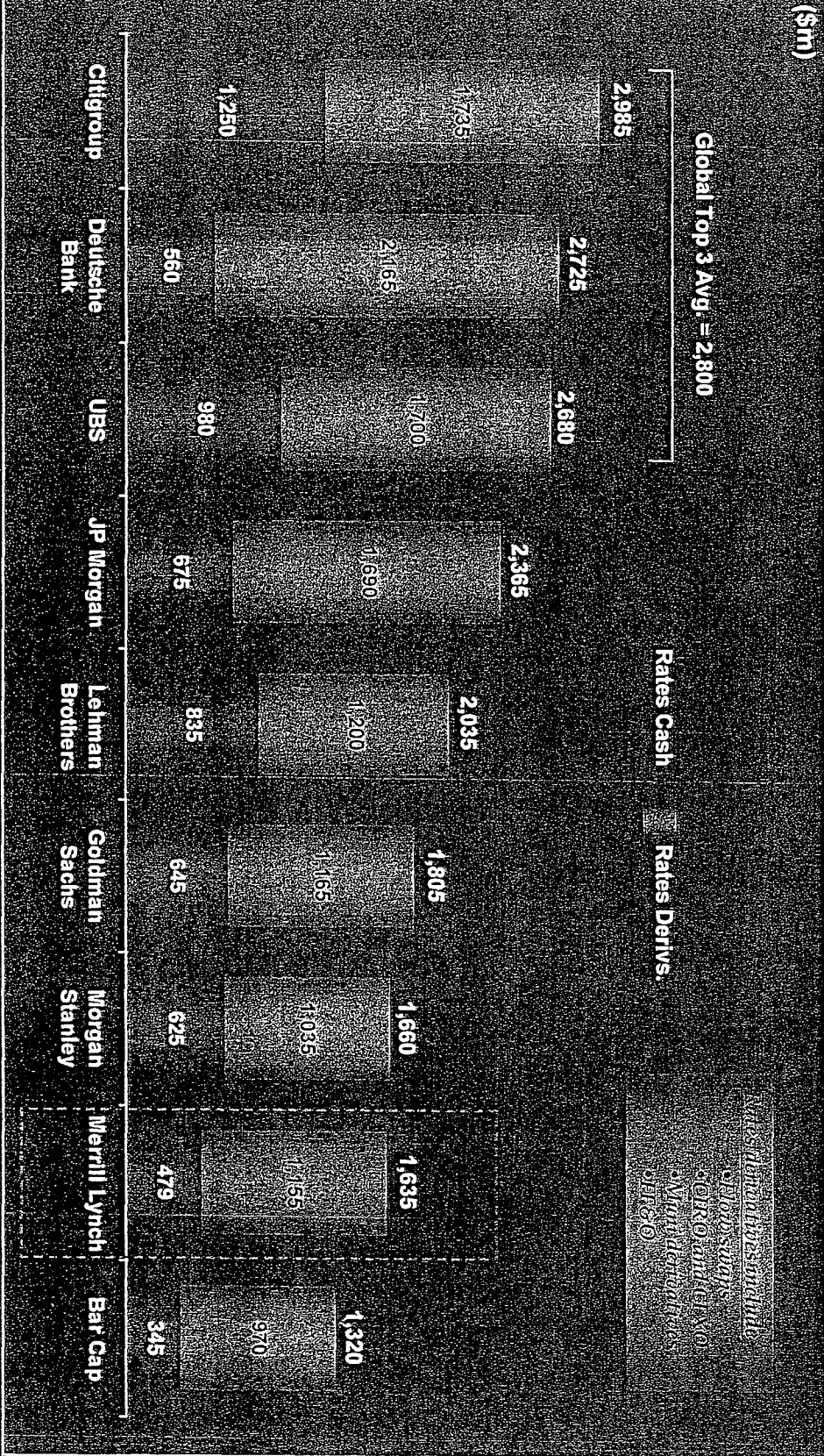


Total: \$9.2bn

Rates includes Intls. Credit including EMG, excluding Credit Prop & Distressed; Currency including Lct and FX; Securitization and Mortgages including ML Cap; Principal & Prop including Cpl etc.

Competition: Rates

Global Rates Revenues by Player (2005)

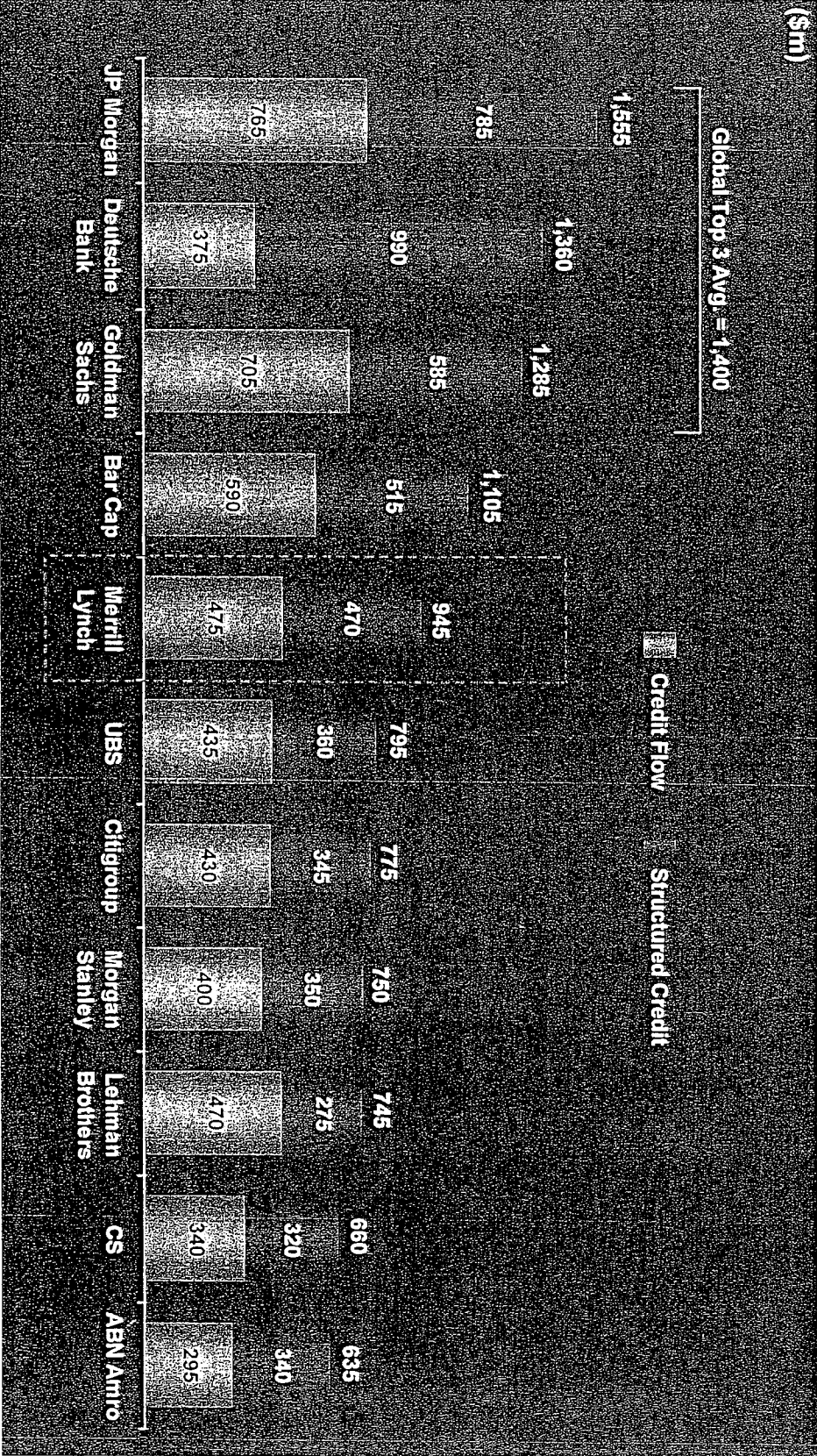


Competition: Rates derivatives revenues include
Complex FX options revenue

Merrill Lynch

Competition: Credit

Global Credit (Ex-Distressed) Revenues by Player (2005)

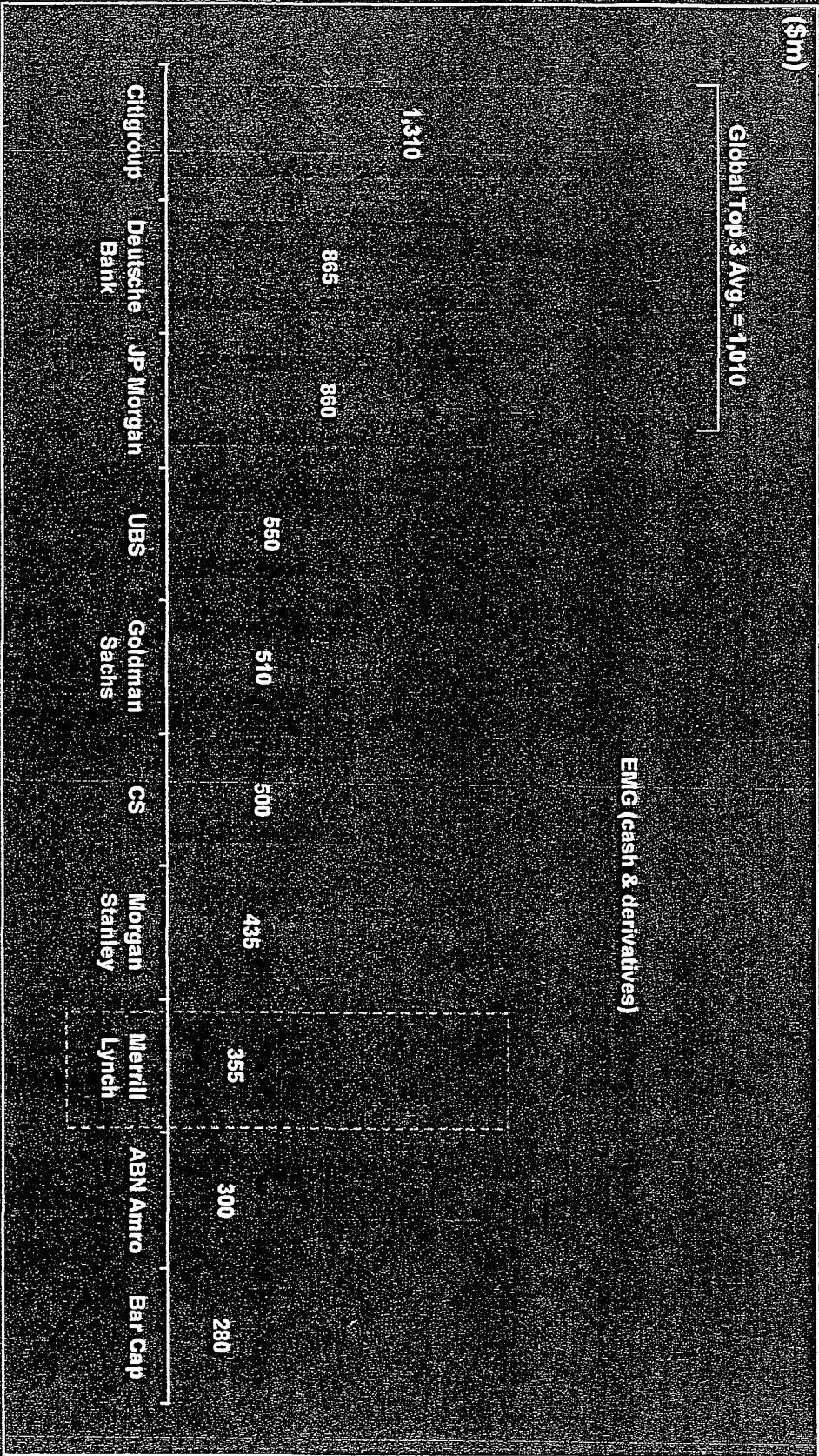


Source: Mercer Oliver Wyman and ILL Corporate Strategy.
Credit cash includes Single name CDOs.

Modelled

Competition: Emerging Markets

Global Emerging Market Revenues by Player (2005)

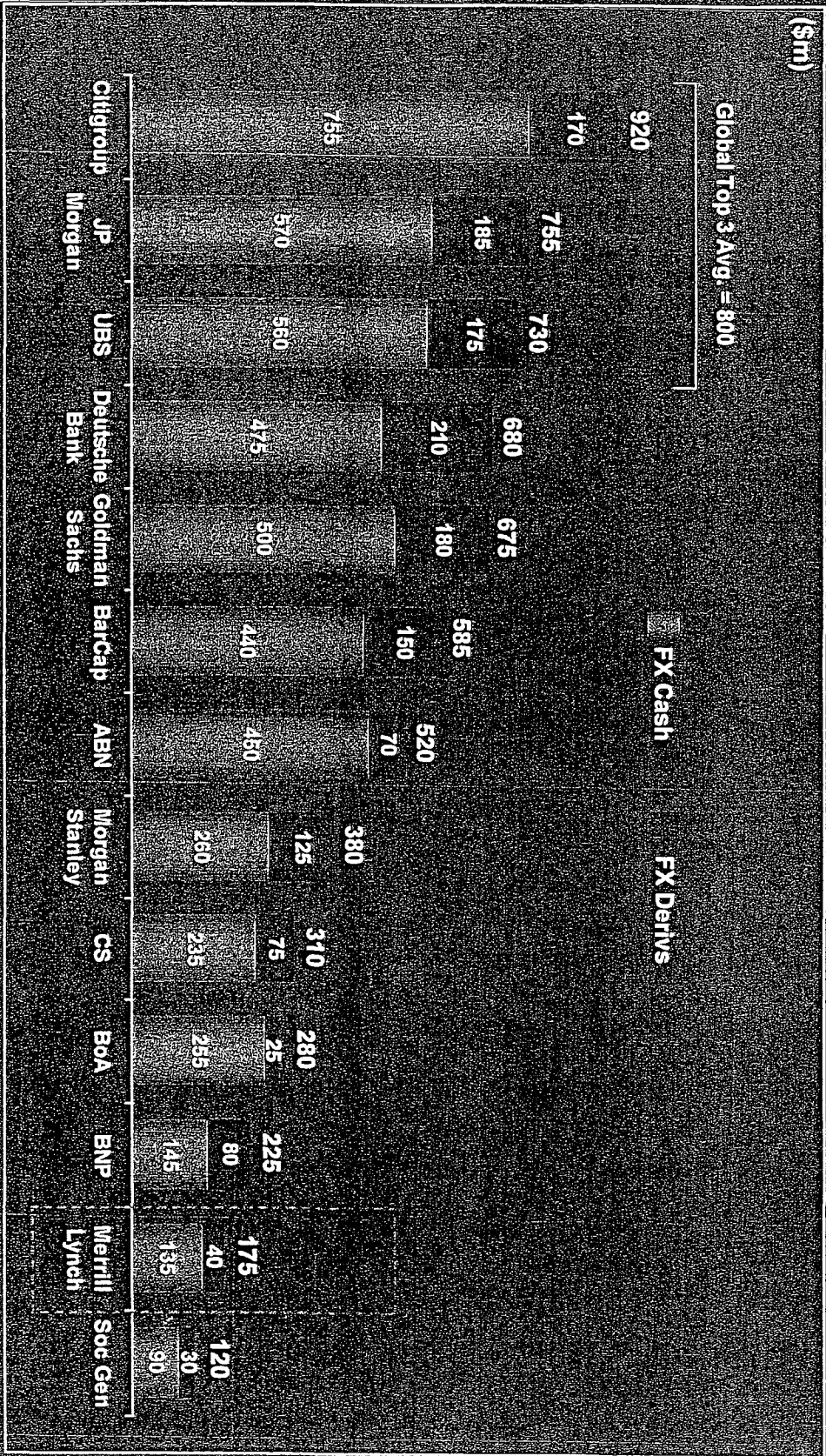


Source: Mercer Oliver Wyman and IIL Corporate Strategy

Modelled

Competition: Foreign Exchange

Global FX Revenues by Player (2005)

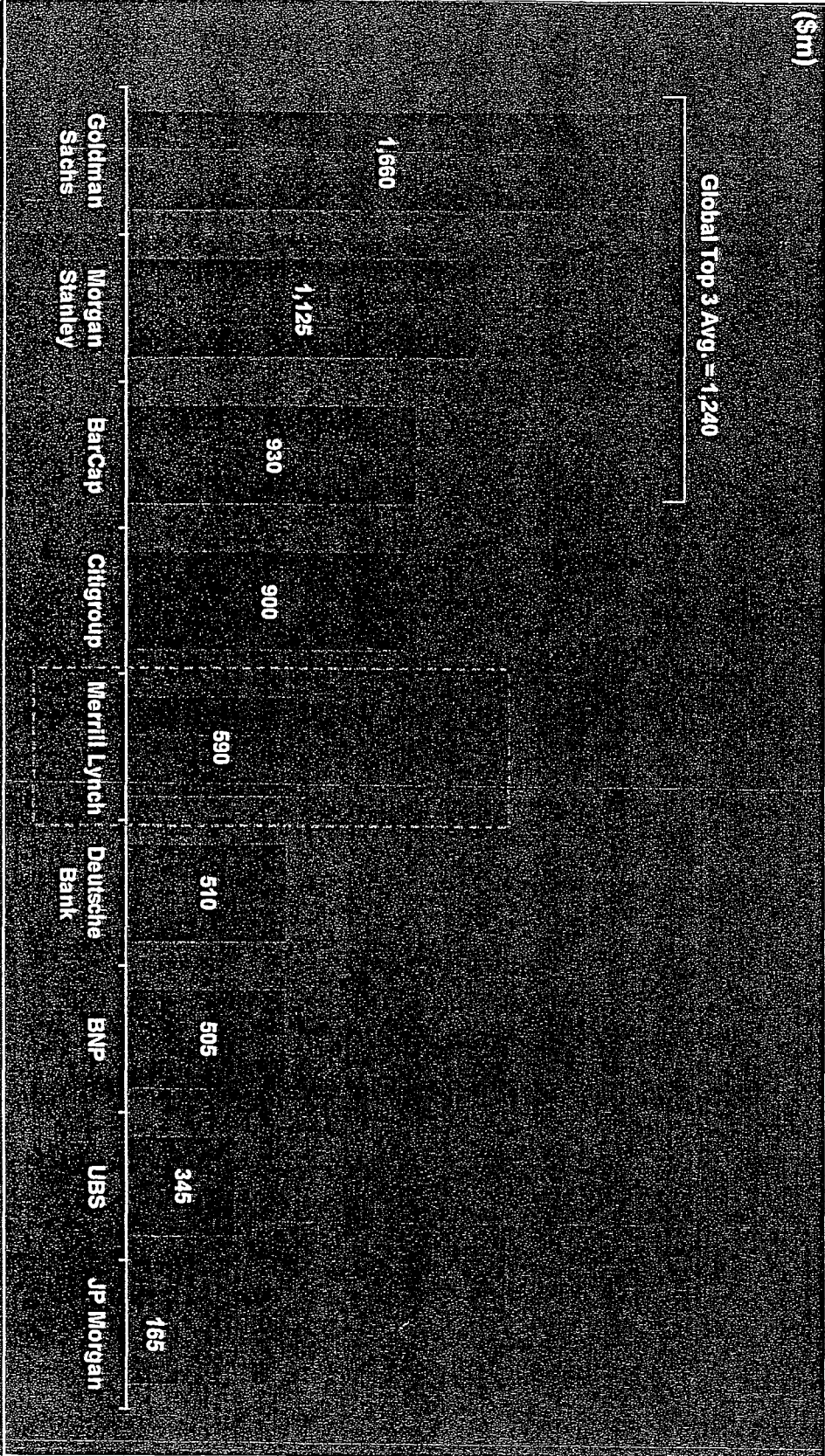


Source: Mercer Oliver Wyman and M&A Corporate Strategy. Excludes complex FX options which are included in rates derivatives revenues

Modelled

Competition: Commodities

Global Commodities Revenues by Player (2005)

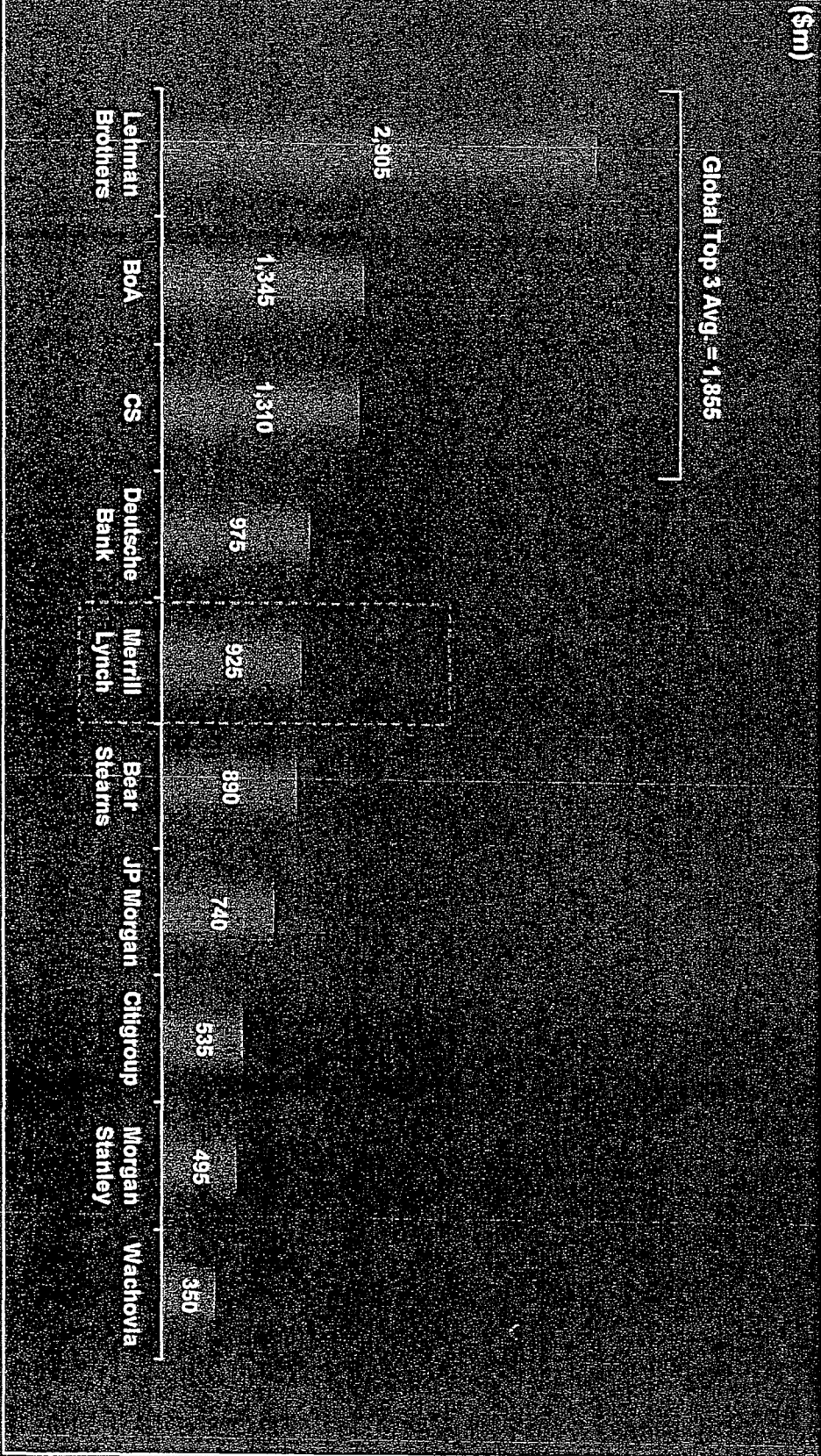


Source: Mercer Oliver Wyman and ILL Corporate Strategy

Moultrie

Competition: Securitized Products

Global Securitized Products Revenues by Player (2005)

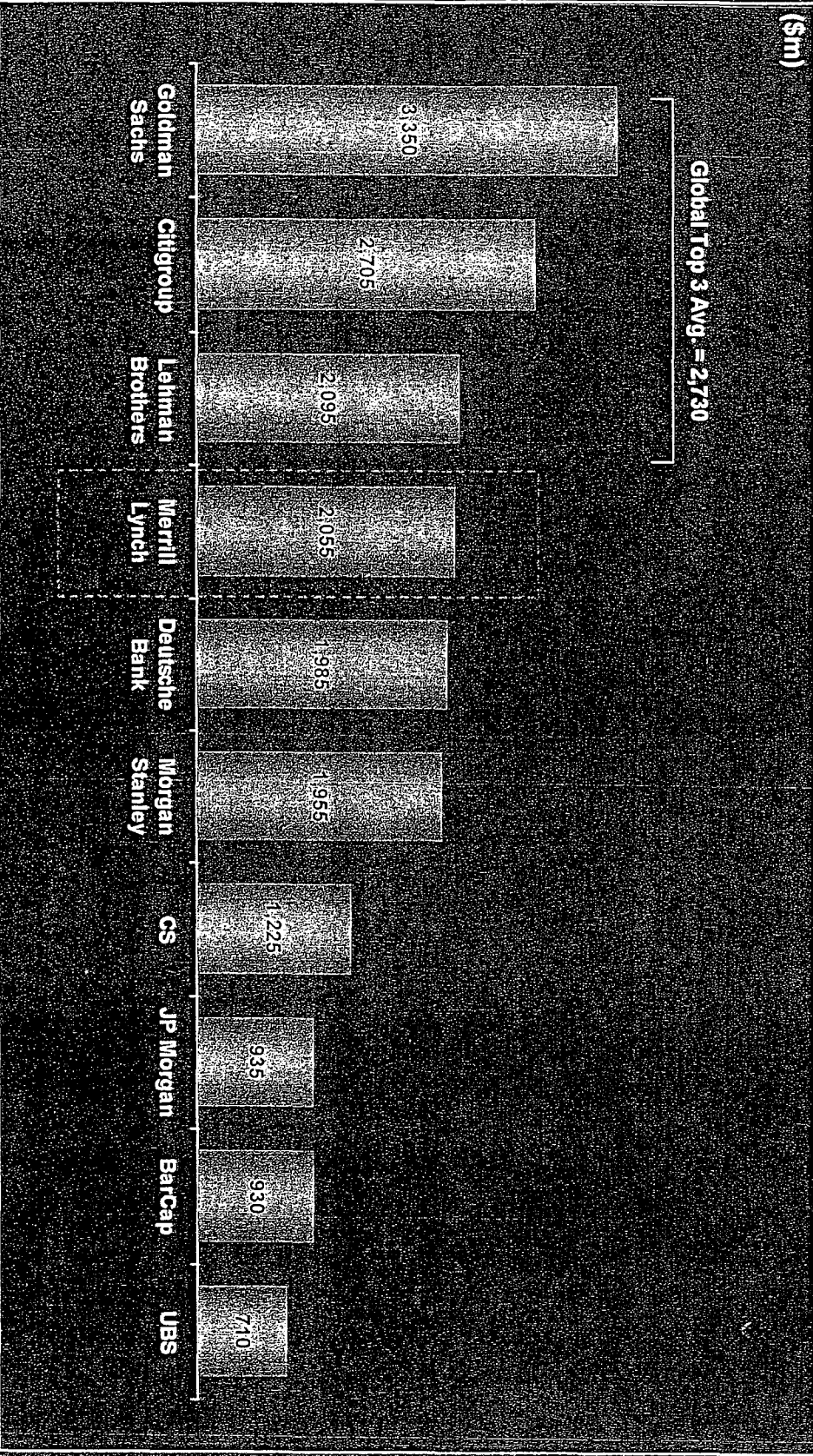


Source: Mercer Oliver Wyman and ILL Corporate Strategy

Modelled

Competition: Principal and Prop.

Global Principal & Prop. Revenues by Player (2005)



Source: Mercer Oliver Wyman and ILL Corporate Strategy