THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ITG - Q1 2017 Investment Technology Group Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2017 / 12:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Francis J. Troise *Investment Technology Group, Inc. - CEO, President and Director*

James T. Farley *ITG Market Research Inc. - Director of IR and Corporate Communications*

Steven R. Vigliotti *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

CONFERENCE CALL PARTICIPANTS

Chinedu Christian Onwugbolu *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

Christopher John Allen *The Buckingham Research Group Incorporated - Analyst*

Richard Henry Repetto *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's first quarter 2017 results.

My name is Stephen, and I will facilitate the call for today. (Operator Instructions) As a reminder, this session is being recorded.

I would now like to turn the call over to J.T. Farley of ITG.

James T. Farley - *ITG Market Research Inc. - Director of IR and Corporate Communications*

Thank you, Stephen. And good morning.

In accordance with safe harbor regulations, I would like to advise you that the forward-looking statements we'll be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward-looking statements speak as of today, and you should not rely upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release as well as in our SEC filings.

During the call, we will also discuss non-GAAP financial measures adjusted to exclude certain specified items. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are available on our website.

Press releases and the PowerPoint slides which accompany this presentation are available for download in the investor relations section of itg.com.

Speaking this morning are ITG's CEO and President, Frank Troise; and CFO Steve Vigliotti.

To start, I would like to turn it over to Frank.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Thank you, J.T. Good morning, and thank you for joining us.

Today, I will review progress for the first quarter. I'll provide an update on the execution of our 10-quarter strategic operating plan, now in its third quarter of implementation. I'll also share additional steps we have taken to manage our expenses, increase ITG's operating efficiency and make investments to enhance the client experience. Steve will review financial results. And finally, Steve and I will address your questions.

Our results for the first quarter were strong. We posted a second consecutive quarter of profitability with solid results across our international operations as well as U.S. market share gains.

Europe had its best quarter on record, as record trading in POSIT Alert drove a new high for both revenues and pretax income. This helped us post our highest-ever quarterly market share in the region. We are engaged with clients in Europe as they prepare for the start of MiFID II. We're taking a leadership position. As part of that, we hosted nearly 100 clients at a dinner in Paris, featuring key European policymakers. Asia Pacific had its most profitable quarter ever, and we reached a fourth consecutive record for POSIT Alert revenue and trading activity. Canada set another quarterly record for revenue in MATCH Now, our broker-neutral dark pool; and posted modest revenue growth on both a sequential and year-over-year basis. Our client satisfaction ratings in Canada are strong. In fact, the latest Greenwich Associates survey of Canadian equity trading highlights our strong position in that market, with ITG Canada ranking #1 for share of algo trading, #1 for overall electronic trading penetration and #1 for electronic service quality. Our trading matters conference held in Toronto last week drew more than 125 clients, demonstrating the depth of our engagement with the Canadian investment community.

In the United States, our quarterly market share was 2.2%. That's an improvement of 15 basis points over the fourth quarter of 2016 and up 31 basis points from the first quarter of last year, driven in part by growth from sell-side clients. However, we are not satisfied with our U.S. performance. We remain focused on closing the U.S. profitability gap through a combination of revenue growth initiatives and disciplined expense management. Given market conditions and a slow pace of client wallet recapture, we may not reach U.S. profitability by the end of the second quarter, but we are determined to work steadily toward that milestone in the coming months. Importantly, to accelerate this effort, we recruited a new Head of U.S. Sales, Charlie Whitlock. Charlie is ranked #1 in electronic sales by Institutional Investor. He will be joining us in June. In addition, we continue to operate with the highest standards of integrity and risk controls. We formed a global committee for new products led by Steve. We've also recruited [Danielle Bartolomei] as Head of U.S. Compliance. [Danielle] reports to the Global Chief Compliance Officer, Tom Shpetner.

On the expense side, we seek opportunities for cost savings in every aspect of our business. As we mentioned on the last call, we discontinue providing corporate access services at the end of the first quarter, as it was not in keeping with our core focus. We also made targeted reductions to headcount, primarily in U.S. technology, finance and sales. And we reduced the real estate footprint by vacating part of our Boston office space. In addition, we implemented a change to our clearing process in Asia that improved capital efficiency. Operational efficiency remains a key priority as we look to improve profitability and create additional flexibility for our long-term investment program.

Let me now turn to our strategic operating plan which aims for best-in-class technology-driven solutions and best operator status in serving clients. We launched our plan in July 2016, and we are making tangible progress. We're investing $40 million through the end of 2018 in technology and people. And we are putting these investments to work to deliver world-class client service, optimize operations and drive business scale. By 2019, we expect those investments to yield at least $5 million in annual savings from efficiency gains. Assuming no reduction in average global trading activity, the goal of this investment plan is to exit 2018 at a $600 million annual revenue run rate, almost 25% higher than annualized first quarter 2017 revenues.

Given our high incremental margins and the expected expense savings related to these investments, pretax margins are targeted to be 15% by the fourth quarter of 2018.

As we reduce costs and maximize efficiencies, we will direct investments into improving client service. As of the end of the first quarter, we recruited 33 additional staff to fulfill the promise of our strategic operating plan. 23 were onboard by the end of March. These new team members will enhance client coverage and strengthen product management and technology development. Through the end of March, we've invested approximately $5 million since the start of the plan, including roughly $2 million during the first quarter. I'd like to note that these new team members are dedicated to executing the strategic operating plan.

We remain focused on cost discipline. As a result, our global headcount at the end of the first quarter stood at 961, a net increase of only 5 compared to the fourth quarter of 2016.

As a reminder, some goals of our strategic plan include, first, enhancing the client experience. We are developing robust account service tools to enable coverage teams to better serve clients. Second, creating a customization tool kit for Triton and algos. This will address client needs more precisely and cost effectively. Third, we are investing to bolster our leadership in multi-broker transaction cost analytics and embedding these capabilities in portfolio trading and electronic execution.

While most of the work in the strategic operating plan is multi quarter in nature, we are rolling out new offerings. Let me share a few of these capabilities. In the first quarter, we introduced our turnkey research payment account or RPA solution, which helps clients adapt and comply with MiFID II. By the end of the second quarter, we will introduce research budgeter, powerful software which allows clients to efficiently manage research spending down to the strategy and fund level. We're rolling out the algo wheel, a centerpiece of our performance-driven trading approach. The algo wheel allows for accurate, objective measurement of broker algos through a randomized approach, freeing up traders to focus on critical issues such as strategy selection.

In portfolio trading, we have streamlined order routing across regions. In analytics, we plan to launch a new fixed-income post-trade offering by the end of the second quarter. And we are developing a new client portal with added data visualization. Finally, in workflow technology, we're improving the client interfaces in Triton as we continue to migrate clients to our next-generation architecture. This migration will allow for seamless cloud-based upgrades of features and functionality. As you can see, we are developing and launching new products to help clients improve their performance. We will continue to update you in the months ahead.

To sum up, our strategic operating plan is well underway, and we are gaining ground in international operations. Our U.S. franchise is a work in progress. I'm confident that we are on a path to profitability with revenue growth initiatives and expense discipline.

As I meet with clients globally, the feedback I receive is consistent. They are taking notice of our efforts to deliver best-in-class solutions and unmatched service. And they are supportive of ITG's commitment to invest in its core business as we seek to help our clients improve their performance. We are building on that momentum as we strive to create a culture of best operator.

Now I'd like to turn it over to Steve to discuss first quarter financial results. Steve?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Thank you, Frank. And good morning, everyone.

As Frank noted, we posted a second consecutive quarter of profitability with record European and Asia Pacific results, higher Canadian revenues and improved U.S. market share.

In the first quarter, revenues were $120.8 million, and net income was $5.3 million or $0.16 per share. These results compared to revenues of $119.6 million and GAAP net income of $0.17 per share in the fourth quarter of 2016 and revenues of $124.7 million and a GAAP net loss of $0.08 per share in the first quarter of 2016.

On Slide 9, we detail nonoperating items that were included in GAAP results for both the fourth quarter and the first quarter of 2016. There were no non-GAAP adjustments to results for the first quarter of 2017. With this discussion going forward, all references to 2016 results, revenues and costs will be on an adjusted basis, excluding the items listed on Slide 9.

Slide 10 presents consolidated results along with separate details of results from North America, Europe and Asia Pacific operations, as well as corporate activity. As a reminder, corporate activity includes investment income and other gains as well as costs not associated with operating ITG's regional and product-based business lines.

As compared to the fourth quarter of 2016, consolidated revenues were up $1.2 million, while consolidated expenses were up $4.7 million. The sequential increase in costs reflected employee separation and lease abandonment costs incurred during the current quarter and the impact of reducing incentive compensation accruals during the fourth quarter from the increased use of deferred stock awards.

Our consolidated pretax margin was 3.2%, down from 6.1% in the fourth quarter of 2016 and up from 1.6% in the first quarter of 2016. The effective tax rate on consolidated pretax income was negative 39%. The tax benefit was due to relative profitability in different regions where we are recognizing benefits at higher rates on losses in the U.S. in the rate of expense we are incurring on profits outside the U.S. We also recorded to earnings $1.1 million of additional tax benefits on employee stock awards that vested at higher values than their grant date values, as required by a change in accounting rules. In addition, our ability to recognize tax benefits going forward on losses in the U.S. will depend on ongoing assessment of future U.S. profitability in accordance with accounting rules.

Our North American businesses posted a net loss of $0.05 per share on revenues of $69.9 million. The combined European and Asia Pacific businesses posted net income of $0.33 per share in the first quarter on revenues of $50.6 million. Corporate activity lowered net income by $0.12 per share.

On Slide 11, you can review the year-over-year impact exchange rates had on the financial results of foreign subsidiaries. Currency changes increased profitability by $100,000 when compared to rates in effect in the first quarter of 2016. And you can see the larger impact on reported revenues and expenses. Currency rate changes had virtually no impact on reported results when compared to average exchange rates in the fourth quarter of 2016. As a reminder, foreign currency exposure for our European operations is split amongst multiple currencies, including British pounds and euros. The weakening of the British pound had little impact on our bottom line since revenues and expenses that originate in that currency largely offset each other.

On Slide 12, North American operations are separated between the U.S. and Canada. During the first quarter of 2017, we generated revenues of $53.4 million with a pretax margin of negative 12.4% in the U.S. This compares to $56 million of revenues with a pretax margin of negative 3.3% in the fourth quarter of 2016. Commission revenues declined sequentially despite a 4% increase in our average daily volume. This was due to a mix shift towards sell-side clients as well as increased index rebalancing. The percentage of sell-side volume rose sequentially from 53% to 56%. And the average U.S. revenue per share declined from 41 mils to 37 mils. While sell-side volume is generally less profitable than buy-side volume, it does generate incremental margins, and we are actively seeking to grow both businesses. Recurring revenues were down $200,000 from the fourth quarter and $3.6 million from the first quarter of 2016. The year-over-year drop primarily reflects the investment research divestiture in May 2016.

U.S. expenses were down year-over-year due primarily to the investment research divestiture, but they were up 4% on a sequential basis. The increase over the fourth quarter is due in part to employee separation charges of $2.5 million, a rent reserve charge for the remaining lease obligation on a vacated portion of our Boston office of $800,000, higher transaction processing costs associated with our trading activity and the impact of reducing incentive compensation accruals during the fourth quarter from the increased use of deferred stock awards. These increases were partially offset by a reduction in telecom and data processing costs from the termination of our original energy research distribution agreement.

Our compensation ratio was 50.2% in the first quarter of 2017, as compared to 43% in the fourth quarter and 44.3% in the first quarter of 2016. The increased ratio primarily reflected the impact of employee separation charges during the first quarter of 2017 and the impact of lower revenues.

Canadian revenues were up both sequentially and year-over-year, driven in part by a new quarterly revenue record for our MATCH Now dark pool.

On Slide 13 is a breakdown of European and Asia Pacific businesses. In Europe, we achieved record levels of market share, revenue and pretax profitability due in part to a record quarter in the region for POSIT Alert. We also achieved a fourth consecutive record quarter in POSIT Alert in the Asia Pacific region, resulting in our highest quarterly profit on record. As compared to the first quarter of 2016, value traded in POSIT Alert has more than doubled in the Asia Pacific region.

On Slide 14, we offer supplementary information on revenues for our product groups; and for investment income, which we categorize as corporate. Execution services revenues rose 2% versus the fourth quarter of 2016 due to strong gains in our international trading businesses. Revenues were down 4% year-over-year due in part to the impact of the research divestiture as well as a 20% drop in market-wide U.S. volumes. Workflow technology revenues declined modestly versus both the fourth quarter and the first quarter of 2016 due in part to reduced commission share revenues. Analytics revenues were up modestly on both a year-over-year and a sequential basis.

On Slide 15, we present supplementary pretax income information for our 3 product groups and for corporate activity. Margins were up both sequentially and year-over-year in execution services, aided by strong growth in POSIT Alert in Europe and Asia Pacific and reduced expenses following our research divestiture in May 2016. Workflow technology margins declined on both a sequential and year-over-year basis due to lower commission share revenues as well as the impact of employee separation and rent reserve charges in the first quarter of 2017. Those charges also impacted analytics margins, which were lower than both the fourth quarter and the first quarter of 2016. The corporate loss increased sequentially, but was down compared to the first quarter of 2016. As I have mentioned on prior calls, corporate expenses vary from quarter to quarter as we work through litigation, regulatory and other corporate matters.

Slide 16 presents U.S. volume and rate capture statistics. Average daily executed volume was up 4% versus the fourth quarter and down 7% versus the first quarter of 2016. This compares favorably to market-wide trading volumes, which were down 3% sequentially and down 20% year-over-year. Overall revenue capture rate per share was down on both a sequential and year-over-year basis. This drop was due largely to an increase in the percentage of trading from lower-rate sell-side clients and increased index rebalance trading.

We ended the quarter with $245.4 million of cash, down from $278 million at the end of the fourth quarter. The decrease was largely due to payment of 2016 incentive compensation, payment of the pre-released ADR settlement, net settlements of employee stock awards and increased cash used in settlement activities. These decreases were partially offset by liquidating a restricted cash deposit in Hong Kong following migration to a third-party clearing firm which now settles our trades in Hong Kong on behalf of our Australian subsidiary. Since capital requirements with respect to unsettled trades are generally lower in Australia, we expect this shift to reduce peak capital requirements in the Asia Pacific region by at least $10 million.

Excess cash at March 31 over and above what is needed for required regulatory capital and other compensation liabilities was approximately $55 million. This is unchanged from the prior quarter, as the free cash flow generated and reduced capital needs in Asia Pacific were offset by the impacts of Net settling employee share awards, capital returns and the buildup of U.S. tax receivables.

Regarding capital returns, our share buyback resumes during the first quarter, repurchasing 162,000 shares for $3.2 million or an average cost of $19.85 per share. As a reminder, we intend to repurchase shares over the course of the year in an amount sufficient to offset any dilution on shares outstanding from the vesting of stock awards. We estimate this will require full year 2017 repurchases of approximately 800,000 shares.

Looking forward, here are a few closing observations. As Frank mentioned, we invested approximately $2 million under the strategic operating plan during the first quarter. We expect total 2017 investments to be in a mid-teens millions range, with roughly half of that expensed. The remainder of the SOP investment will take place during 2018.

Our U.S. average daily volume in April was 127 million shares, with average revenue per share lower than our first quarter 2017 average due to a higher percentage of volume from sell-side accounts. Combined average daily commissions in April in our Canadian, European and Asia Pacific businesses were up approximately 5% in U.S. dollar terms compared to the first quarter of 2017.

And with that, I would like to turn it back to Frank.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Thank you, Steve.

Before we answer your questions, let me briefly sum up.

We are 3 quarters into the execution of our 10-quarter strategic operating plan. The progress we are making is apparent, as evidenced by the results Steve presented. Our international operations are performing very strongly. We are gaining traction with clients in key products such as POSIT Alert. In the U.S., we've recaptured significant market share from the lows of last summer. We are driving hard to narrow the profitability gap over the coming months. With world-class client service, disciplined investment and a commitment to excellence, we continue to work toward these goals.

Now Steve and I will answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

First, congrats on the international progress. It's definitely evident. And I guess, the first question. Can you see that continuing to grow like it is? I know the big thing is MiFID II, and I know that the -- there's a number of things that will help you, but I know there's a dark pool issue as well. So I guess, the outlook, first, on international going forward given the regulatory changes and the success you've had.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Rich, thank you for that. And we do look at strength continuing in our international operations. MiFID II is a tailwind for our business. The unbundling of execution from research is going to extend, from our perspective, well beyond the shores of Europe. And we're a leading provider of CSA and RPA solutions to handle the change. We also believe that the non-displayed liquidity pool caps will eliminate competition from broker-crossing networks and spur even more demand for block trading solutions. This positions POSIT Alert very well. With respect to smaller-size trading, we expect to provide clients valuable execution, analytics and workflow products that help them navigate the evolving liquidity landscape.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay, that's very helpful. And I guess the more difficult thing has been the U.S. And I'm not -- would you -- I'm trying to see whether you consider this quarter as making advancement. If you step back -- and yes, we're seeing market share gains, but if April is a similar revenue capture, it looks like revenue capture, at least for the first 1/3 of the year, could be at least 10% down. So I guess the question is, the gains you're making in market share, it seems like it's being diluted by the revenue capture because of the mix. Is that fair?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

So Rich, as I said in my remarks, we're not satisfied with our progress toward profitability in the U.S. We have made progress in client mindshare. Clients are responding to our focus. We've made progress with respect to rolling out new capabilities, as I commented in my remarks. Rest assured we are focusing on narrowing the profitability gap. It is a hypercompetitive market. And a little volatility, relatively low-market-volume environment has been a headwind for us. Regardless, we are working hard to achieve profitability through both market share growth and cost effectiveness. We're investing in areas to drive revenue capture, whether that's client coverage, product management, technology. We're enhancing service levels. It's being noticed by our clients. And where possible, we are eliminating positions that aren't contributing to profitability.

Operator

And our next question comes from Chris Allen with Buckingham Research.

Christopher John Allen - *The Buckingham Research Group Incorporated - Analyst*

Yes, I guess, just quickly on the expense line. We've seen a really nice progress in telecom and data services on a year-over-year and sequential basis. Just wondering like kind of what the outlook is there. And can you kind of maintain it at these levels?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, so that was down from both sequentially and year-over-year, as I mentioned in my remarks, Chris, from the termination of a research distribution agreement we had with the purchaser of the energy research business that we sold at the end of 2015. So that reduced costs on a sequential basis by about $1.3 million; on a year-over-year basis, by about $1.6 million. And we expect the cost levels to be relatively stable going forward, but we are continuing to make investments in the business. And as the business grows, we may need to connect to more clients and things like that, but overall I would say it'll be pretty stable going forward.

Christopher John Allen - *The Buckingham Research Group Incorporated - Analyst*

Got it. And then, on just on the U.S. business. I mean, if we kind of pull out some of the onetime costs, it gets a little bit better, but there's obviously still work to do there, as you've talked about. I mean, do we need to see better volumes in that, in the segment to get to profitability? I mean, obviously you guys are very focused on the cost side, but you also seem to be investing as well, so I was wondering what kind of volume environment we may need to get to in order to see that profitability.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Our consolidated business is performing well. And as I said in my remarks, we may not achieve U.S. profitability by the end of the second quarter. The timing to achieve U.S. profitability depends on a number of factors. An external one that's uncontrollable is market volumes. And one that's in our control is our ability to press forward with delivery of our initiatives. Our SOP is the answer to that as we continue to roll out best-in-class products, differentiate the client experience and drive a culture of best operator. As part of that, we're making the investments in people. We're supplementing our already talented team with even more firepower across sales, client coverage, product management and technology. And as I remarked, one key hire is Charlie Whitlock, who will be leading U.S. sales. With these actions, we expect to achieve profitability.

Christopher John Allen - *The Buckingham Research Group Incorporated - Analyst*

Got it. And then I just want to confirm. April, was that 127 million per day? And if so, that kind of implies a decent market share decline. I'm just wondering what may have driven that. I think we're coming off some index rebalancing in March. I just want to be clear on that.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, Chris, as we've guided, I think our last call, right, we'd encourage you to look at market share activity on a quarter-to-quarter basis, all right? It can vary month to month, depending on index rebalance activity. But yes, the 127 million share number is correct for April.

Operator

And our next question comes from Christian Bolu with Crédit Suisse.

Chinedu Christian Onwugbolu - *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

I just wanted to get back on the MiFID II point here. So I guess you listed out an impressive list of new products and services. Just was curious, when you add up all those new products launched, is that actually a revenue opportunity on its own? And if so, any sense of what that revenue opportunity is?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

So those, the products that we listed there, research budgeter, focus on RPA solutions for clients, they are tied in. They are revenue producing on their own; as well as all the other capabilities and requirements that are needed for MiFID II around best execution, measurement and repeatable audible processes. So we are well positioned to be an end-to-end solution provider. I mentioned the algo wheel. That is another key component to revenue-producing capabilities that we're delivering as part of the overall end-to-end MiFID II solutions to clients.

Chinedu Christian Onwugbolu - *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

And in terms of the size in here -- or how to think about the size of the revenue potential for these products?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

We're not giving any specific guidance on that sizing.

Chinedu Christian Onwugbolu - *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

Okay. And then maybe just bigger picture, some of the secular dynamics that are happening in the buy side and how that's impacting your business. If we continue to see this pressure on the buy side here, whether it's move from active to pressure or cost pressures, does that have any impact on where you think buy-side capture rates in the U.S. go? Or the mix of business between buy and sell side?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

We are completely committed to our strategic operating plan. And when we evaluate our business, we evaluate 6 customer segments, first one being quant-indexed passive institutions, another one being long-only fundamental institutions; long/short equity hedge funds; quantitative hedge funds; sell-side liquidity providers; and the sixth is sell-side execution providers. We're looking to grow the sell-side business independently of growing the institutional business. Steve's remarks indicate that, that is a profitable segment. The mix and the movement to index and passive investing, we have traditionally been very strong with that segment, and we continue to be very well positioned with that segment. We're looking to continue to penetrate the long-only fundamental investors. And long/short equity hedge funds is another area that we thought had solid results, where there's more upside. So when we look at the mix moving to quant index, we believe we're well positioned.

Chinedu Christian Onwugbolu - *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

Okay. And then, just can you just confirm that the decline in the capture rates year-over-year, that's completely mix? That's nothing to do with any specific reduction in rates or commission or any fee pressures, I guess, on the buy side.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, that's correct, Christian. It's pretty much due to a shift in mix. Year-over-year, our sell-side mix was 56% versus 52%. And also, within the buy side, we saw a bigger portion of that trading come from index rebalancing. But each of the individual segments that Frank listed were relatively stable year-on-year.

(technical difficulty)

rate standpoint, yes.

Chinedu Christian Onwugbolu - *Crédit Suisse AG, Research Division - VP in Equity Research and Senior Analyst*

Okay. And then just lastly from me. And this is not totally your control, but just when I think about it and just look at 2018 consensus numbers, and I hear you absolutely reiterate the 2018 targets despite the pushback of the U.S. profitability, I don't know, any sense of what investors are missing in the story in terms of not giving you full credit for your 2018 targets?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Yes, I don't know if they've caught on to the fact that we are investing in our core business. And our strategic operating plan is the future. And it lays out a focused 10-quarter investment plan in core capabilities: liquidity, execution, analytics and workflow technology. We believe that's the best returns for our shareholders, and we're completely committed to that. Perhaps it's -- hasn't resonated as well with the investors as yet.

Operator

And this concludes our question-and-answer session for today. I would like to turn the conference back over to Frank Troise for any closing remarks.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President and Director*

Thank you for your questions. We look forward to discussing our continued progress on our Second Quarter Call in August.

Thank you again for joining us this morning.

Operator

The conference has now concluded. Ladies and gentlemen, thank you for attending today's presentation, and you may now disconnect.
