

The 2015 Algorithmic Trading Survey

long-only firms

Recognising excellence in the delivery of algorithmic trading solutions

Featuring

- State of the market report
- The 2015 broker roll of honour
- Buy-side roundtable

Where next?

As the algorithmic trading business matures providers seek new ways to differentiate their services

The TRADE's eighth Algorithmic Trading Survey illustrates some of the difficulties providers face as they look to grow market share in a rapidly maturing market.

Algorithmic trading is now widely accepted as an integral part of the execution landscape among long-only firms throughout the world. We noted in the 2014 Survey that both providers and clients had focused on core competencies and consistent delivery, in an environment of slow growth and few new opportunities. Last year that produced generally good scores for all providers. While the trends have not changed, the outcome in terms of scores has. This year's Survey was consistent with 2014 in terms of the questions asked. It saw similar levels of responses in terms of numbers of clients, both long-only and

hedge funds. However scores were relatively disappointing with an average decline of 0.15 points from 5.54 in 2014 to 5.39 this year as shown in Figure 1. Scores were lower in twelve of the fourteen areas of service. It is worth noting that the two areas where scores improved were Customer Support and Anonymity, aspects of growing relevance to overall client perception. The area that showed the largest fall in scores was Customisation. In an environment where margins and investment remain under pressure, this is perhaps not a surprise. However, nearly 40% of providers were rated by clients at less than 5.0 which should

Illustration: iStock

Market review: long-only firms

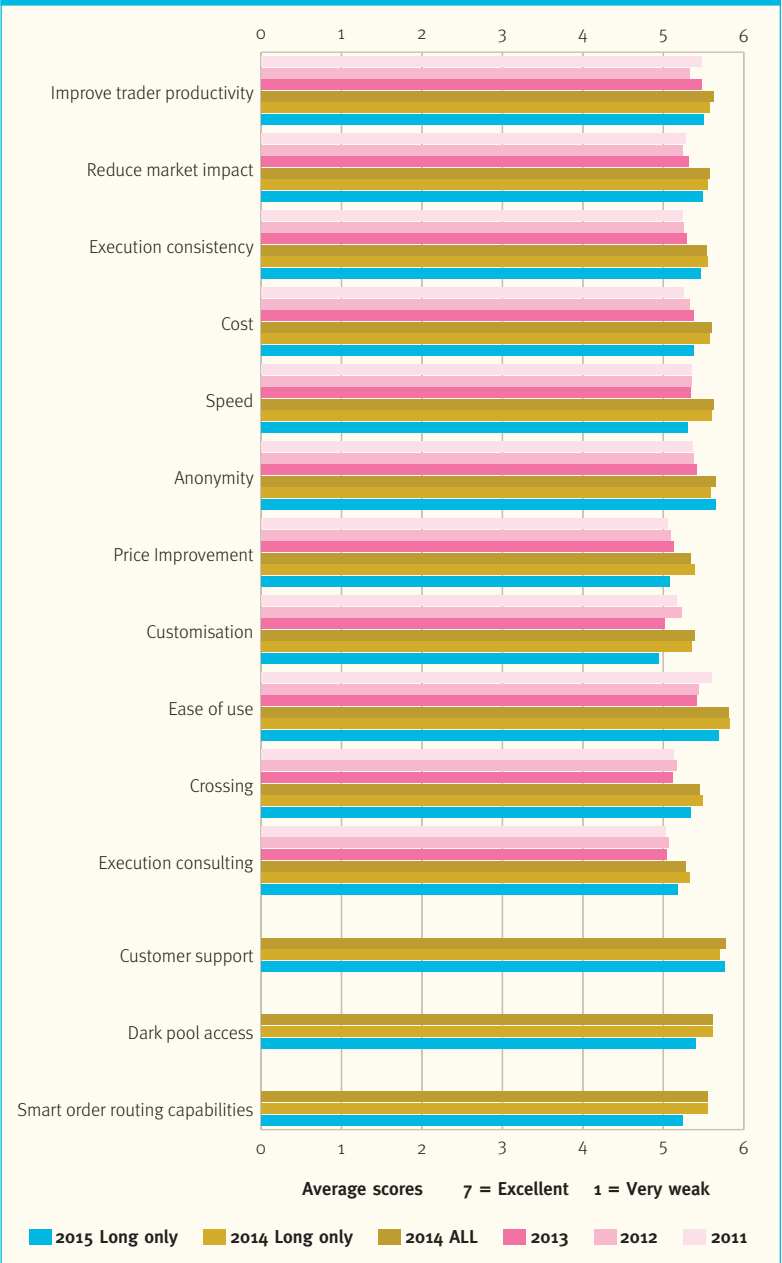
be considered somewhat less than satisfactory.

The overall scores are mildly disappointing but hardly a disaster. However they also conceal more interesting underlying trends and information about how different providers are approaching the business of servicing their large long-only clients who typically deal with many brokers offering similar services.

First is what is happening in the areas of greatest importance to clients. Figure 2 highlights the fact that there is a clear correlation between the elements that are most important and the scores achieved. So providers are clearly and quite correctly focused on meeting the principal client objectives in terms of service. Of the seven most important functions, all but one, Internal Crossing, are among the seven categories where the highest scores were awarded.

What is perhaps more interesting is the range of scores across the different providers, illustrated in Figure 3. Here the questions with the highest priority generally attract a narrow range of scores, while less important areas see a much broader spread. The implications are clear. Providers

FIGURE 1: RATING OF ALGORITHM PERFORMANCE



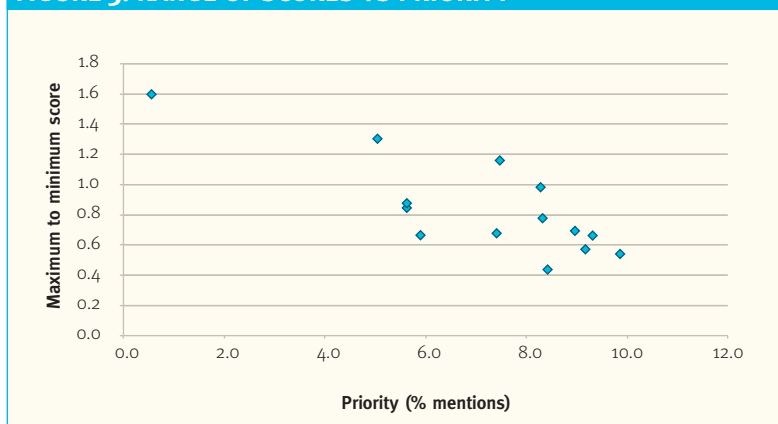
Source of all charts: The TRADE Annual Algorithmic Trading Survey

Market review: long-only firms

FIGURE 2: SCORES VS PRIORITY



FIGURE 3: RANGE OF SCORES VS PRIORITY



are all delivering core priorities to a broadly similar, generally acceptable standard. In the meantime they have different approaches to investing in and delivering the less important aspects. So some providers are focused on Execution Consulting, while others hardly give it recognition, preferring to concentrate on Latency for example. So while providers

are finding it ever harder to differentiate core service, they are turning to product and service developments in other areas as a means of distinguishing their offering from those of competitors.

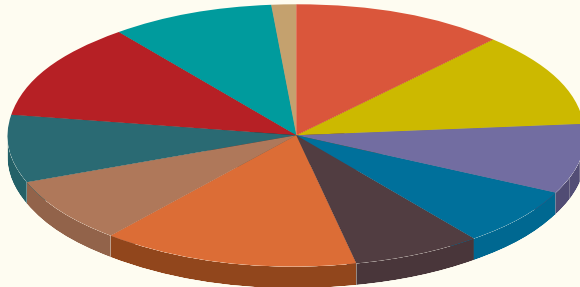
Figure 4 shows the changes in priorities identified by clients between 2014 and 2015. For long-only clients it is clear that the ability of providers to

ensure anonymity of trading remains the number one priority. It attracted one in seven mentions, well ahead of the next most important and last year's proportion. Over the last five years Anonymity has gone from being the fifth most important to first and the proportion of mentions it accounts for has risen by 40%. Other important areas that have



Market review: long-only firms

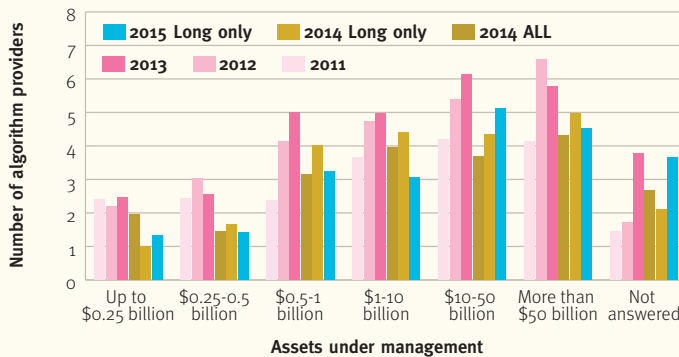
FIGURE 4: REASONS FOR USING ALGORITHMS



2015 long only

Trader productivity	11.4%
Reduced market impact	11.9%
Execution consistency	10.7%
Commission rates	7.5%
Speed	6.4%
Anonymity	12.6%
Price improvement	9.4%
Customisation	7.2%
Ease of use	11.7%
Internal crossing	10.5%
Match pre-trade estimates	0.7%

FIGURE 5: AVERAGE NUMBER OF PROVIDERS USED BY AUM



Over the last five years **Anonymity** has gone from being the fifth most important to first and the proportion of mentions it accounts for has risen by 40%.

registered an increase include Trader Productivity and Ease-of-Use. At the same time, Internal Crossing, Consistency of Execution and Price Improvement have all recorded declines. Customisation, where scores are well down, remains of moderate importance attracting just under one in eight mentions. However this proportion increased quite

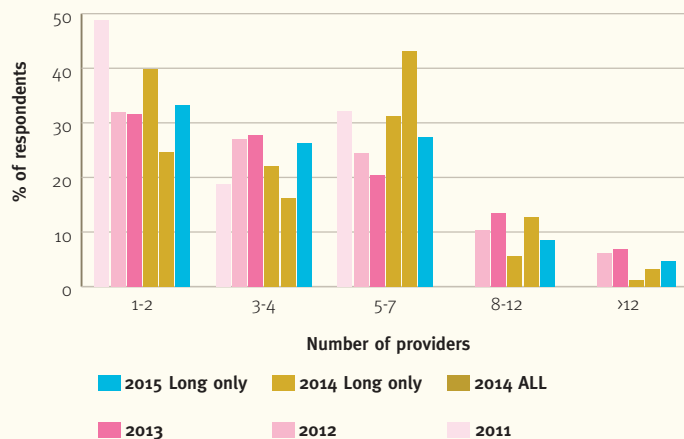
sharply in 2015 and is now at its highest level since the Survey began. For a business as closely associated with technology as algo trading, the importance of customer service is perhaps a surprise. On the other hand with both the number and complexity of algorithms increasing it is reasonable to expect that clients will need support from time to time. At the

other end of the spectrum, Execution Consulting still appears to be a low priority for clients still registering less than 2% of all mentions.

As well as recording some shift in priorities, the Survey once again identified some key aspects of usage of algorithms by long-only firms. As in 2014, the results for long-only firms differ from those provided by hedge

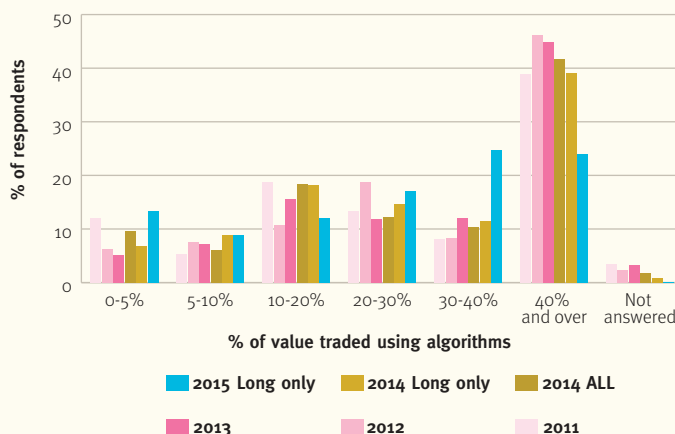
Market review: long-only firms

FIGURE 6: NUMBER OF PROVIDERS USED



* In 2011, respondents could only specify a maximum of 'five or more' algo providers

FIGURE 7: ALGORITHM USAGE BY VALUE TRADED



funds in some material ways. In terms of the average number of providers being evaluated by each respondent, this fell for the second consecutive year. Figure 5 shows how different sizes of respondent use different numbers of algo providers.

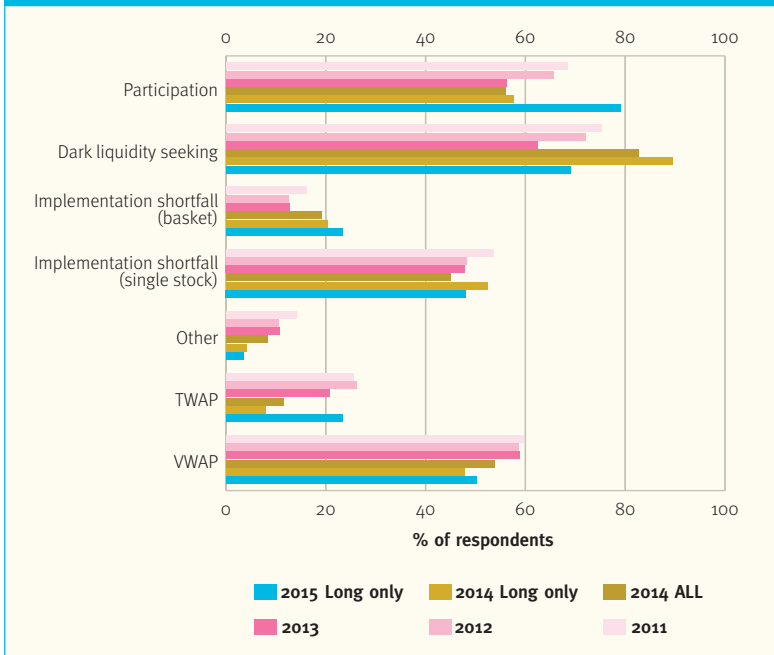
In 2013 the average number of providers evaluated across all long-only respondents was almost 5.5. Last year recorded a fall of almost one provider, to a little over 4.5. In 2015 the number of evaluations has further reduced, to only marginally

more than 4 providers per respondent. This does not necessarily mean that brokers have been 'cut off'. However it does imply that clients are concentrating their business with a smaller number of providers and those are the only ones they would choose to evaluate. Figure 5 also continues to show that larger clients use more providers than smaller ones as might be expected. Indeed the good news from a broker perspective is that for clients with more than \$10 billion of AuM the average number of providers being used is virtually unchanged between 2014 and 2015 at 4.72. Obviously providers will be pleased to learn that broker numbers are not declining. However the message is clear; the market is no longer expanding and new opportunities will principally come at the expense of competitors rather than as a result of increasing usage or new clients.

A similar message on concentration and focus is offered by the data contained in Figure 6. This looks at the number of providers evaluated by each respondent in different bands. Fully one-third of respondents evaluated only one or two providers this

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FIGURE 8: TYPES OF ALGORITHMS USED



The message is clear; the market is no longer expanding and new opportunities will principally come at the expense of competitors rather than as a result of increasing usage or new clients.

year. This compares with just under one-quarter in 2014. Similarly the proportion of respondents evaluating three or four providers was up from 16% to more than 26% this year. The number of respondents assessing five or more providers declined from nearly 60% in 2014 to only 40% this year. Interestingly the number of respondents using a very wide range of providers (more than twelve) grew slightly this year. However that group remains in a very small minority and each provider probably receives only a

modest level of business. Up until 2013 there was a very clear trend of long-only clients progressively extending their list of algo providers. 2014 saw that trend slow considerably but there was still growth. The reversal in 2015 is therefore very telling and augurs for potential further consolidation of providers in the future. No doubt some clients will expand broker lists and others will increase their level of algo usage. Even so the picture is far from encouraging from a provider perspective.

In terms of algo usage among long-only firms

Figure 7 shows how those respondents are using algorithms more selectively than in the past. Long-only firms have always been somewhat more reluctant to rely too much on algorithmic trading. In part that is in response to their own specific business circumstances and the trades that they need to get done. It is also the result of a long history of using large numbers of brokers, driven by their specific expertise, usually around research rather than execution. In the 2015 results the number of respondents using algorithms for more than 30%

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of trading was just under 50%. This figure was marginally lower than in 2014, but the variation is not statistically significant. However the number in the 30-40% range more than doubled, while the 40% and over fell by 15 percentage points. While this may exaggerate the trend, it does appear that high usage clients are reducing rather than increasing algo activity. Analysis of responses from the same clients in 2014 and 2015 suggests that the overall trend does exist, but may be overstated by different respondents within the 2015 responses compared with 2014. Among the half of respondents using algorithms for a lower proportion of trades, the numbers show an increase at the very lowest level (0-5%). Overall however the changes here may reflect the fact that different firms responded in 2015.

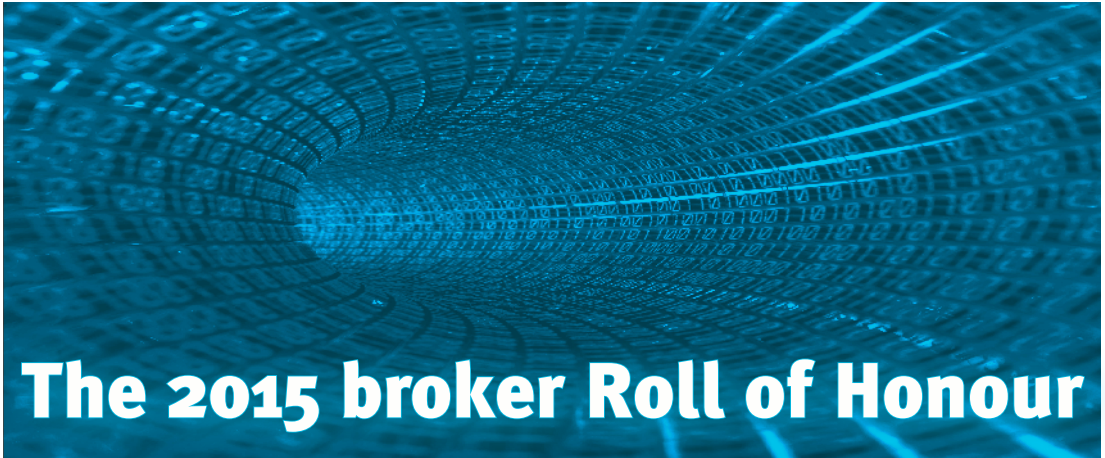
Finally Figure 8 shows those algorithms that long-only traders use most often. The data does not reflect how much usage is being made of each of the different types of algorithms. Nonetheless it is a useful guide to the thinking of these traders when they consider the aims and objectives of their electronic trading. Among the

three most popular strategies, VWAP usage is up slightly, in-line trading has increased significantly as a strategy (more than 20 percentage points), while dark liquidity seeking is down by a similar amount. Given the various issues surrounding dark pools in the last twelve months it is hardly surprising that some firms have decided to reduce activity within them. Indeed the fact that 69% of respondents are still using the strategy is a testimony to the importance of preserving anonymity, as well as the willingness to continue to support these trading venues by long-only firms. It appears likely that once the noise has subsided, dark pools will become the most important strategy once again for long-only firms.

Overall the Survey reveals that providers are adapting to a new environment with some creativity and some success in terms of client satisfaction. However what will not go away is the realisation that this is now a highly competitive, mature business where those with a leadership position have every opportunity to retain it so long as it remains attractive to them. ■



Illustration: iStock



The 2015 broker Roll of Honour

Functional capabilities

MEASURING FUNCTIONAL CAPABILITIES

Survey respondents were asked to provide a rating for each algorithm provider on a numerical scale from 1.0 (very weak) to 7.0 (excellent), covering 14 functional criteria. In general 5.0 is the 'default' score of respondents. In total nearly 30 providers received responses and the leading banks obtained dozens of evaluations each yielding thousands of data points for analysis. Only the evaluations from clients who indicated that they were long-only managers have been used to compile the provider Rolls of Honour described below. Responses from hedge funds and other institutions will be covered in the Hedge Fund analysis to be published later in 2015. Institutions were also asked to highlight the aspects of service that they considered most important to their evaluation of service provision.

Each evaluation was weighted according to three characteristics of each respondent; the value of assets under management; the proportion of business done using algorithms; and the number of different providers being used. In this way the evaluations of the largest and broadest users of algorithms were weighted at up to three times the weight of the smallest and least experienced respondent.

In arriving at the overall Roll of Honour the scores received in respect of each of the 14 functional capabilities were further weighted according to the importance attached to them by respondents to the Survey. The aim is to ensure that in assessing service provision the greatest impact results from the scores received from the most sophisticated users in the areas they

regard as most important. Finally it should be noted that responses provided by affiliated entities are ignored and a few other responses where the respondent was not able to be properly verified were also excluded.

Unlike previous years the focus of the Roll of Honour has been somewhat amended. The twelve Roll of Honour categories in 2015 include the seven most important functional service aspects covered as in previous years. In addition a further five new Rolls of Honour have been created reflecting overall performance (i.e. scores in all functional categories) for five different subsets of the overall respondents. These include the location of respondents (Europe and the U.K.), the size (AuM of more than \$50 billion), the number of providers used (greater than five) and the proportion of business being done using algorithms (more than 40%). Each of these groups received a sufficient number of responses across a wide array of providers to merit the creation of a Roll of Honour.

Finally TheTrade also recognises that as the business has matured, for key client groups in key areas of service, many leading providers are considered almost equally capable by clients. As such we have decided to create a digital accreditation process for providers, confirming that they meet the relevant standards of performance across a broad base of clients, even though their scores may not merit inclusion in the Roll of Honour. Providers have been notified of the situations where they qualify for such digital accreditation.

EASE-OF-USE

ROLL OF HONOUR

Bank of America Merrill Lynch
Morgan Stanley
UBS

While it may appear simplistic, in a world of competing capable algorithms those that are easiest to use are likely to get used most. Ease-of-use is subjective and for some traders systems that have been used for a long time are the most convenient. Even so, the fact that this was the second most mentioned priority among clients, suggests that it can offer a means of competitive advantage to providers who make their systems as straightforward as possible. With one in eight mentions, this has seen

¹ Roll of Honour recipients are listed in alphabetical order throughout the survey.

Broker Roll of Honour: long-only firms

a level of priority that has remained consistent across the survey during the last five years. Scores in this area averaged 5.69 from long-only clients in 2015. Though this was lower than the 5.82 seen in 2014, it nonetheless represented the second highest score seen on this question in the last five years. All the providers included in the Roll of Honour achieved a relatively high proportion of excellent scores, while avoiding any scores below 5.0. They also were noted for Ease-of-Use as a specific strength by a number of clients based on comments received. While it is hard to retain competitive advantage in a subjective area of service, these providers appear better placed than others to do so.

REDUCING MARKET IMPACT

ROLL OF HONOUR

Goldman Sachs
Instinet
ITG

Over the course of the last five years the importance of minimising market impact on trading has diminished steadily, if not dramatically. In 2011 it was the single most important priority while in 2015 it ranked fourth. For some clients the ability to reduce market impact is the result of effectiveness in other areas such as preserving anonymity and making effective use of crossing and dark pools. For them the method is as important as the outcome. However other respondents still see this as an important differentiator however it

FIGURE 9: PERCENTAGE OF LONG-ONLY RESPONSES

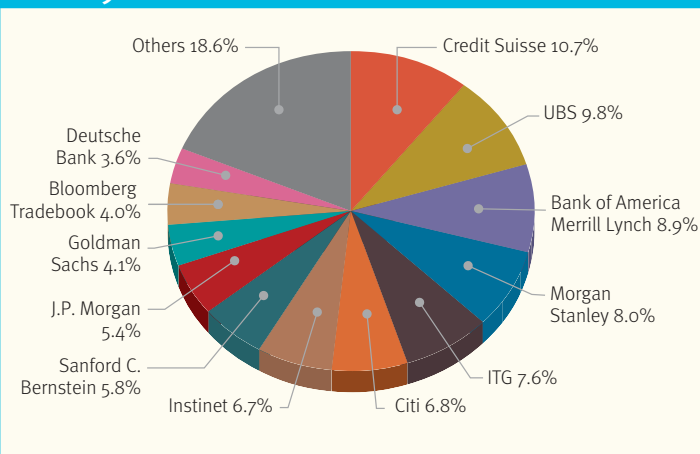


FIGURE 10: OUTSTANDING PERFORMANCE

Commissions and total costs	Goldman Sachs; JP Morgan; ConvergEx
Low latency	Bloomberg Tradebook; Instinet
Price improvement	Bloomberg Tradebook; Goldman Sachs
Customisation	KCG
Execution consulting	Bank of America Merrill Lynch; JP Morgan
Dark pool access	ITG; JP Morgan
Smart order routing	Bloomberg Tradebook; Goldman Sachs; KCG

is achieved. With transaction cost analysis becoming ever more sophisticated, it is now more practical than it was to assess effectiveness in lowering impact of trades. Among the Roll of Honour names Instinet and ITG have a

long-standing reputation for using technology to deliver better execution, and Goldman Sachs has always enjoyed good scores in this category of service. Overall scores averaged 5.49, the fifth best score across the fourteen areas. Scores



Broker Roll of Honour: long-only firms



were down by only 0.06 points from 2014 levels with only Customer Support and Anonymity, which saw higher scores, doing better in terms of year-to-year comparisons. Scores were also good among clients who used implementation shortfall algorithms, suggesting that these do indeed achieve their principal objective so far as users are concerned.

EXECUTION CONSISTENCY

ROLL OF HONOUR

Citi
Deutsche Bank
ITG

Some users are focused on improving productivity and generating performance on many trades. For these traders the ability to deliver Execution Consistency is a key priority. For many providers of algorithms generating solid consistent performance is as important as delivering algorithms that 'outperform'. While such a level of ambition might be considered insufficiently exciting

for some, it remains at the heart of algorithmic trading for many market participants. For a long time Execution Consistency attracted around 10% of mentions in terms of client priorities, consistently ranking in the top five issues for clients. In 2015 the proportion fell to 8.6%, still in the top half, but well behind some aspects of service. It may be that clients now take this aspect of service for granted and therefore treat it as less important when evaluating providers. In terms of scores these were good but not outstanding, as might be anticipated. The average score of 5.46 was a mere 0.09 points behind the 2014 level from similar clients. As a result it ranked sixth in terms of scores across all questions. Clearly it is hard to generate competitive advantage in this area. However the Roll of Honour names scored at levels that were noticeably ahead of competitors. That reflected the number of very strong scores that they achieved, while rivals scoring patterns were solid but with fewer Excellent (7.0) scores.

ANONYMITY

ROLL OF HONOUR

Bloomberg Tradebook
Sanford Bernstein
UBS

In 2014 Anonymity was, by a small margin the most important priority for long-only clients. This year it has become even more key to clients' assessment of capabilities of different providers. With liquidity seen as being in decline, the ability to preserve anonymity of orders is ever more important. Large long-only firms in particular have always been very focused on making sure that their trades are unexposed in the market. With more than one in seven of total mentions this was the most important aspect of service by some margin (14.5% of mentions against 12.1% for the next most important characteristic). What is encouraging for all providers, and no doubt clients as well, is that scores were generally very solid in 2015. Indeed Anonymity was one of only two areas where scores improved in 2015 compared with 2014, up 0.06 points to 5.65. At that level the scores were the third best in the survey behind only Customer Support and Ease-of-Use. While it may be hard to demonstrate objectively that anonymity has been achieved, it nonetheless appears clear that client satisfaction is high in this important area. The Roll of Honour names are, with the exception of UBS, not necessarily those that might be expected. However both Bloomberg Tradebook and Sanford Bernstein achieved very good scores from a

Broker Roll of Honour: long-only firms

range of clients in different locations and also received a number of positive client comments. UBS was similarly feted by clients, who see this as a key strength of its service proposition.

CROSSING

ROLL OF HONOUR

Credit Suisse
JP Morgan
UBS

Crossing was the only one of the seven key functional service areas whose score was below the average for the Survey. At 5.34 it was down 0.15 points from the 2014 level a decline that exactly matched that seen across all questions. Even so, scores remained ahead of their level between 2011 and 2013 and are quite acceptable. The main reason for the lower average was a relative lack of Excellent scores as opposed to any distinct issues raised by clients. The ability to generate internal crosses remains an important part of service for long-only clients. Although now facilitated through smart order routing and dark pool access, clients want the process to be controlled in accordance with their priorities. If done well, clients appreciate the lower costs that can be achieved as well as the reduction in market impact and preservation of anonymity. As such it is an integral component of good performance and remains sixth in terms of most important priorities. Among the Roll of Honour names, JP Morgan repeated its success of 2014 and both Credit Suisse and

UBS have the depth of business to perform effectively in this area. Turning good client perception into sustainable competitive advantage may be difficult but opportunities do exist based on client comments.

TRADER PRODUCTIVITY

ROLL OF HONOUR

Instinet
JP Morgan
UBS

Trader Productivity remains one of the most important reasons why long-only firms use algorithms. Increased numbers of orders and smaller average trade sizes have an impact on everyone in the market. Asset managers are still under considerable cost pressure and incremental resources for trading are hard to come by in most firms, in spite of trading being seen as a contributor to investment performance rather than simply an expense. The level of priority mentions has been consistent at around 12% for some years and this is an area where hedge funds and long-only managers have similar interests, though often for different reasons. In terms of scores the position was solid, paralleling overall results and other key questions.

Scores remain slightly above historic ranges but down a little compared to 2014. At 5.50 the question ranked fourth out of fourteen. Given its importance this is a position that would seem to be appropriate. The Roll of Honour names this year are different from 2014, illustrating the closeness of the competitive position among all the largest firms and the high level of performance exhibited by all. As such it seems unlikely that any provider will gain an advantage in this area, but it is one where maintaining a reputation through investment and innovation will continue to be important for all providers.

CUSTOMER SUPPORT

ROLL OF HONOUR

Bank of America Merrill Lynch
Morgan Stanley
Sanford Bernstein

For the second year in succession Morgan Stanley achieved scores sufficient to place it in the Roll of Honour. Customer Support covers both the level of interaction at the time of implementation and then the on-going support provided to traders and others. For long-only firms in particular the process of implementation can be significant. It



Broker Roll of Honour: long-only firms

may involve changes to procedures and processes as well as some technology development to ensure benefits are optimised. While this is most relevant with the first implementation of algorithmic trading, simply adding new providers is not always straightforward. While the continuing involvement of multi-broker EMS providers reduces the complexity it does not eliminate it. Over time customer support is one way in which providers do differentiate service, but also one where all the major providers deliver very strong performance. The average score for the question was 5.76 and this was one of only two questions that achieved higher scores than in 2014. The question saw more 7.0 (Excellent) scores than any other in the Survey. Two of the Roll of Honour names achieved an average score better than 6.0 (Very Good). Among the key questions no others achieved such a high score. Customer Support is also one of the five most important aspects in terms of priority mentions. The level seen in 2015 was marginally ahead of that recorded in 2014. As underlying algo products become more homogenised the ability to deliver excellent client service will no doubt become an even more important factor in where orders actually get

routed. While it may not result in new direct sales, it will be important in allowing firms to gain market share over other providers who are connected to the same clients but less attentive to them.

CLIENTS WITH ASSETS UNDER MANAGEMENT OF MORE THAN \$50 BILLION

ROLL OF HONOUR

Bank of America Merrill Lynch
Credit Suisse
Morgan Stanley

A significant number of long-only respondents have assets in excess of \$50 billion. In some cases very much higher levels. By virtue of the scale of their business they represent attractive clients even if the level of their algorithmic trading is modest and shared among multiple providers. As such all the leading providers compete hard for the business. The nature of the Roll of Honour names for this group should probably not come as a surprise. These clients also have some of the highest expectations. That may explain the relatively low scores achieved. The average score achieved across all providers was almost exactly equal to the Survey as a whole (5.40 vs. 5.39). Given the

importance of these clients that should be regarded as somewhat disappointing. Even among the most widely used providers the range of scoring was greater than might be expected. For this group the two areas that achieved the highest scores were Ease-of-Use and access to Dark Pools. The latter is perhaps surprising but no doubt reflects the importance attached by these clients to that service. A matter of some general concern among providers should be the generally weak scores seen in Anonymity. These are the clients who have the largest orders and arguably the greatest need to keep trades 'hidden'. The low scores suggest that they are not entirely happy that all providers are delivering against their needs and expectations.

CLIENTS BASED IN THE UK

ROLL OF HONOUR

Citi
Credit Suisse
Morgan Stanley

The Survey has for many years received a significant number of responses from long-only managers based in the U.K. This reflects their relatively early adoption of algorithmic trading as well as the fact that the major providers started their sales initiatives first in the U.K. and only later in Europe. The greater extent of experience may also explain the high scores received from this client group. The average of 5.64 was well ahead of the overall Survey result. Areas of particular customer satisfaction included Anonymity, where the



Broker Roll of Honour: long-only firms

average score among major providers was over 6.0 (Very Good) and Ease-of-Use. The latter is no doubt affected to some extent by the fact that English is the language of algorithmic trading. The performance in the former is however quite exceptional in the context of the Survey and the nature of the clients. In fact more than three-quarters of the main providers achieved an average score better than Very Good, including all the Roll of Honour names. The contrast with the situation in Customisation could not be more stark. Here 30% of the major names averaged less than the 'default' 5.0 score and only two providers bettered 5.50 as an average. Based on both scores and comments, this group expects more from its providers in this area. Scores for Price Improvement were also relatively weak but here at least the major providers consistently beat the 'default' score.

CLIENTS BASED IN EUROPE

ROLL OF HONOUR

Morgan Stanley
Sanford Bernstein
UBS

Of all the major client groups, those in Europe appear to be the least satisfied with services provided. The average score across all providers was well below the Survey average at 5.14. Providers generating more responses generally performed more strongly achieving an average of 5.41 but even at this level it is clear that clients see room for improvement. Two areas stand out



in terms of customer disaffection. First is Customisation. Here more than half of the major providers were given an average score below 5.0. Interestingly the best scores were awarded to the providers who received the greatest number of responses. This suggests that there is indeed a correlation between delivering customers what they want and having more customers. This relatively simple approach does not appear to be being followed by many providers of services to continental European clients. The second area of weak performance is minimising Market Impact. The most active markets from a trading perspective may create particular challenges. Nonetheless it was again the case that more than half of the main providers failed to beat the 'default' score of 5.0. The Roll of Honour names all performed well in most aspects of service, though some weaknesses were apparent even with these firms. For many providers it is probably the case that Europe offers more opportunities for growth than the U.K. Based on scores it would appear that there is also more scope to outperform existing providers as well.

CLIENTS USING MORE THAN FOUR PROVIDERS

ROLL OF HONOUR

Goldman Sachs
JP Morgan
UBS

As was noted in the Market Review the tendency is to concentrate algorithmic trading rather than extend the number of relationships. However there are still a large number of respondents who evaluate multiple providers. Those that have five or more relationships offer some specific opportunities to compare and contrast performance, both overall and 'head to head'. The Roll of Honour names perform well against both measures, outscoring in general and specifically being generally considered 'better' in the head-to-head comparisons. It should be noted that differences are not material in most cases. Scores among the major providers, who dominate this group, are very close, both overall and in most of the fourteen categories of service. Therefore while the Roll of Honour names should be satisfied with outscoring their competition, the difference is unlikely to lead to significant business growth from this group of clients. It is also the case that average scores across individual aspects of service were closer among this group than any other. However, two areas of generally strong performance stood out. These were Ease-of-Use and Customer Support. In the case of the first of these, no doubt the fact that these clients are used to working with algorithms from multiple

Broker Roll of Honour: long-only firms

providers probably helps with their broad understanding of how to achieve the best results. In the case of Customer Support it would appear that competition has indeed raised the bar for all providers. Even among some smaller providers with fewer responses, scores in this area were very strong. Clearly when faced with competition, providers can and do offer very high levels of support as a way of maintaining their share of executions actually being done.

CLIENTS USING ALGORITHMS FOR MORE THAN 40% OF TRADING

ROLL OF HONOUR

Instinet
JP Morgan
UBS

By definition those respondents that use algorithms most extensively have the greatest experience. Although in the Survey as a whole this group represent a smaller proportion than in 2014, they are still important as 'barometers' of overall levels of satisfaction with services. The good news for providers is that this group gave the highest scores of any major subset of long-only clients. The average score was almost 5.70 well above the Survey as a whole. Particular areas of strength were Anonymity and Cost and Commissions, where among the major players scores were better than Very Good (6.0) overall. Clearly those undertaking most business will save most money if commissions are lower. However, the score for Anonymity, a key focus for long-only firms suggests that

when these clients are confident around the outcome in terms of there being no information leakage around their trades, they will do more business using algorithms. This would therefore appear to present an opportunity and a focus for efforts to increase usage of algorithms among other long-only firms. The low scores from this group were in Customisation and Smart Order Routing. The former suggests that the more firms use algorithms the more they expect providers to deliver tailored solutions. Equally it is important that concerns about the effectiveness and transparency of smart order routers do not undermine confidence in the ability to maintain anonymity. Overall these results are encouraging in offering the prospect of increasing algorithmic trading levels in the future.

EXCELLENCE IN OTHER AREAS

Figure 9 shows the proportion of responses received for each of the top twelve providers. The 'Other' category reflects the efforts of another dozen or so providers all of whom received some responses from long-only clients. In some cases these firms score particularly well in certain areas and would, in previous years have been included within the 'Ones to Watch' group for the relevant functional area. In 2015 we have not included 'Ones to Watch' because not all functional areas are included in a formal Roll of Honour.

As was noted earlier there is growing similarity among the major players in terms of core offering. As

such some clients may see greater differentiation in some of the less critical aspects of service. Figure 10 shows a list of between one and three firms who scored especially well in the other seven areas of service not included in the formal Roll of Honour lists. Bloomberg Tradebook, JP Morgan and Goldman Sachs all achieved excellent scores in three specific categories. As was highlighted, Customisation is the area where long-only clients seem to have most concern based on scores, trends and comments. In this regard it is perhaps not surprising that only one firm KCG scored at a level to suggest real strength in terms of client satisfaction. In others areas two names stood out from the crowd while as far as Commissions and Total Cost, as well as Smart Order Routing, scores suggest it appropriate to consider three names on the list.

While these areas are generally of lower concern to clients responding, they are all relevant to some decision makers from time to time. As such excellence in these areas should be considered as an opportunity to grow market share, especially where core services are being delivered well. ■



Moving on



Having gathered the results from this year's Algorithmic Trading Survey, we asked four industry experts for their views on the findings.

TT: This year's survey results suggest that providers have been improving their customer support function. What do you believe has been the key driver for this over the past year?

LdK: Because of all the FCA regulations coming in, we have more work to do. So we are relying on providers to do more for us. We can't produce numbers ourselves so we have to work with vendors and providers.

Going forwards, customer service is going to become more critical. There are more and more questions being asked on best execution, where you are sending your orders and where you are spending your dollar.

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TT: Why do you think ‘anonymity’ came out as the most important factor in algo choice in this year’s survey results? It has always been important, but has there been a shift in priorities for our buy-side dealers?

NB: When talking about anonymity, we really mean that we want to keep our orders under the radar as much as possible in order to minimize market impact. In the same way as a broker wouldn’t want to show his hand to other brokers, we don’t want our intentions known.

LdK: If they are going to shout out who they are dealing with, they will be shooting themselves in the foot. From the buy-side it has always been pretty paramount. There are so many different venues and avenues you can go to now. The risk of dealing with a high touch desk is that your slippage can be a lot more.

With brokers, you only find out when someone talks about you or shows your order flow around. From a provider’s point of view, you are all in the same category. If you let someone down, you get

THE PANEL

DP = Dean Palin, head of trading, Impax Asset Management

LdK = Louis de Kock, head of trading, JO Hambro Capital Management

NB = Neil Bond, partner, Ardevora Asset Management

RM = Richard Metcalfe, director of regulatory affairs, The Investment Association

TT = The TRADE

RM: What is key is whether asset managers are able to demonstrate best execution for their clients. If anonymity provides an asset manager the ability to cross with another responsible institutional investor, or offers price improvement when compared to executing on a lit market, then that in itself is a good measure of success.

dropped off the radar. You don’t get people that are better at it than others. If no-one talks about you, that’s great. As long as there is no market leakage, that is the acid test. It is a really tough one.

TT: Why is consistency of execution now considered less important on trader’s wish lists than it was five years’ ago?

NB: I do think that that is less important now. When

DEAN PALIN



Buy-side Roundtable

everybody was providing a VWAP algo that did what it said on the tin, everyone's did the same thing. It is not so important now because all the algos try to differentiate themselves. Consistency is less important because of the more opportunistic way that some of these algos try and outperform.

RM: Consistency of execution does not equate to achieving best execution. There are a variety of factors that may affect an asset manager's use of algorithmic trading tools, whether it be execute-ability, timing, price or other factors. Customisation, as the survey illustrates, where technology has been personalised to the individual needs

of the manager, has become more important as the level of data and information needed to be consumed on markets has increased.

TT: Why are we seeing increased use of VWAP and in-line trading and a drop in dark liquidity usage?

RM: The use of VWAP and other non-traditional performance benchmarks has increased due to the demands made by asset owners, who make stipulations within fund mandates about which performance benchmarks a fund manager ought to use. It is also likely that the recent issues faced by certain benchmarks, such as WM/R, may have had an effect.

NB: There has been much argument over dark pools. I think there has been an over reaction in Europe, where the regulations and order types are different from the US market. I think our regulations have prevented some of the problems they have had in the States. Our exchanges won't entertain as many order types as they do in the States – which has been a contributor to the problems there. (There are order types designed not to trade, for example.)

I think the people are slowly going back to the dark pools. One problem is that they are called 'dark pools' and not 'crossing networks'. They were created to minimize market impact and facilitate larger orders, this is still the case. When people talk about information leakage in dark pools, the biggest alternative is to go into the lit market where information leakage is guaranteed.

DP: For us, we are liquidity seekers. We aren't huge but we do trade our share of small and mid caps. My primary objective is liquidity. Dark liquidity for me is hugely beneficial in every possible way.



RICHARD METCALFE

TT: This year's results suggest that consolidation is likely to continue in the years ahead. Do you agree?

DP: We have been able to consolidate and concentrate our brokers. Some of the best execution requirements are going to push people in that direction. We found ourselves going to the key liquidity providers in the market. People over complicate the execution process on the trading desk, but our trading desk is very integrated with the investment process.

The concept of having 50 brokers on your panel is a bundled concept and the regulators are forcing us to change that. We are in a very good position because we don't have the problem to solve. We unbundled about five years ago.

NB: Yes, I do think it is inevitable. We have quite a high number of providers but most of them we only use for dark seeking algos. I think it is important to know that it is only natural that algo usage polarises towards the providers and the strategies that users are most comfortable with.



LOUIS DE KOCK

They all try to have differentiating factors now. When you have found one you are most comfortable with, you are probably going to stick with that one. At the same time, one area of growth I am seeing, is some clients becoming more systematic in their order distribution.

Now traders have the ability to measure which strategies and providers are best for their order flow and apportion it accordingly. This allows traders to focus more on the trickier trades where they can add more value. The more sophisticated buy-side trading desks are increasingly developing their own smart order routers, but still point them to selected brokers for market access.

RM: Consolidation is not inevitable. The industry is

fiercely competitive and that is the right thing. There are regulatory and competitive pressures from non-traditional sources (such as internet companies) but they are likely to bring about innovation and further competition, rather than consolidation, which the industry welcomes.

TT: Why are providers finding it so difficult to differentiate their core service?

LdK: They need to become a specialist in something. Either specialists in liquidity, for having the best algo, the best venue analysis or something. You can't just be a good 'all round Boy Friday' because there are too many of those around. You need to be top dollar. ■