THE TRADE
WORKING FOR THE BUY-SIDE

The 2015 Algorithmic Trading Survey

hedge funds

Recognising excellence in the delivery of algorithmic trading solutions

Featuring

- **State of the market report**
- **The 2015 broker roll of honour**

Market review: hedge funds

Illustration: iStock

System addicts

Alternative fund managers' satisfaction with algorithms is increasing as their dependency on them grows

The 2015 Algorithmic Trading Survey results from traders in hedge fund and alternative managers show a growing divergence between them and their long-only counterparts.

The question is whether heightened levels of satisfaction have caused usage to grow or whether the dependency on algorithmic trading has resulted in better service from providers.

Whatever the reason, the first conclusion to be drawn is that levels of satisfaction among this group of clients are higher than ever before and well above both the levels seen in 2014 and the scores awarded by long-only firms this year.

The overall weighted average score across all 14 categories was 5.7 out of a possible maximum of 7. This was comfortably ahead of the 2014 average of 5.56, the gain in performance contrasting with the slightly lower scores seen among long-only clients and reported in the Spring issue.

As a result of these different movements, hedge fund clients recorded scores that were 0.25 points higher than their long-only counterparts as opposed to being marginally behind them last year.

Figure 1 shows where the gains in perceived performance showed sharpest improvement and it is important to recognise that the picture is not one of across the board gains.

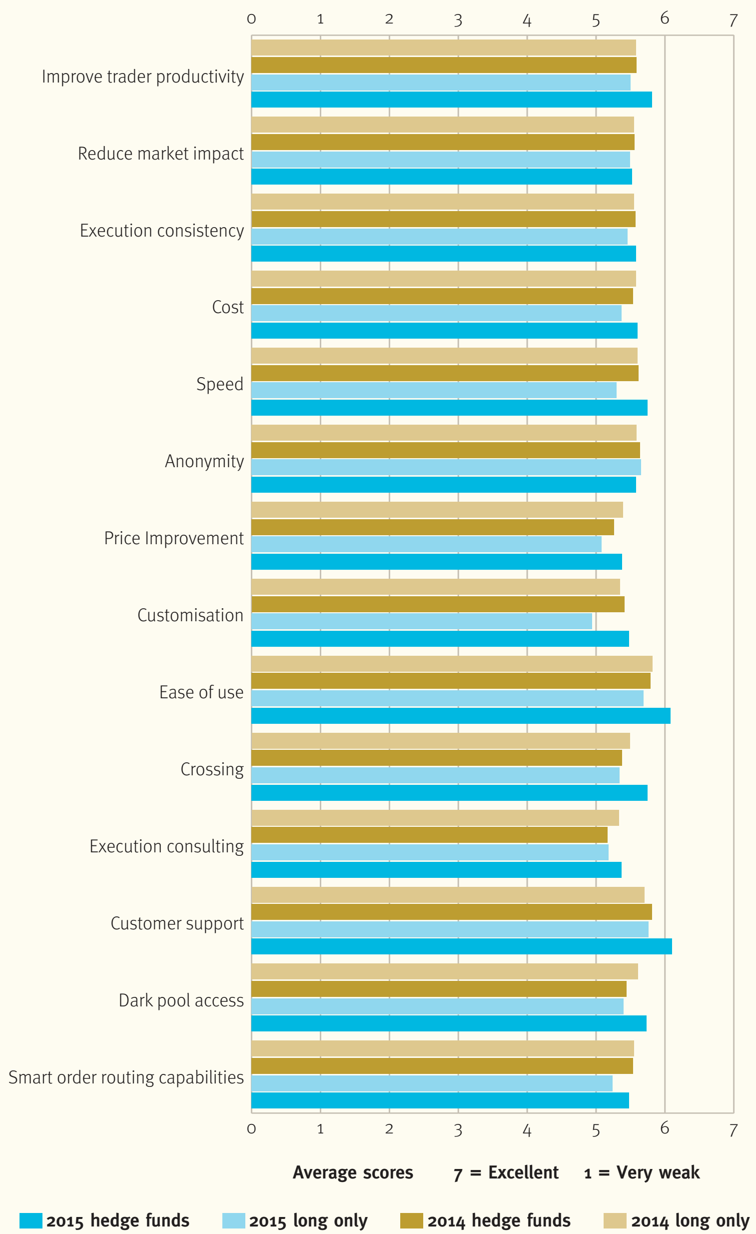
Rather particular areas showed much improved scores while some categories saw scores actually decline.

Spotting improvements

Big gains in scores were noted in four areas; Customer Support, Ease-of-Use, Internal crossing capabilities and dark pool access.

It is also worth noting that while gains were not large there was a very significant difference in scores between long-only traders and those at hedge funds in scores for Customisation. It would therefore appear that first and foremost providers are doing more for their hedge fund clients that those clients believe helps them use algorithms more effectively and more easily.

FIGURE 1: RATING OF ALGORITHM PERFORMANCE



Source of all charts: The TRADE Annual Algorithmic Trading Survey

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FIGURE 2: REASONS FOR USING ALGORITHMS

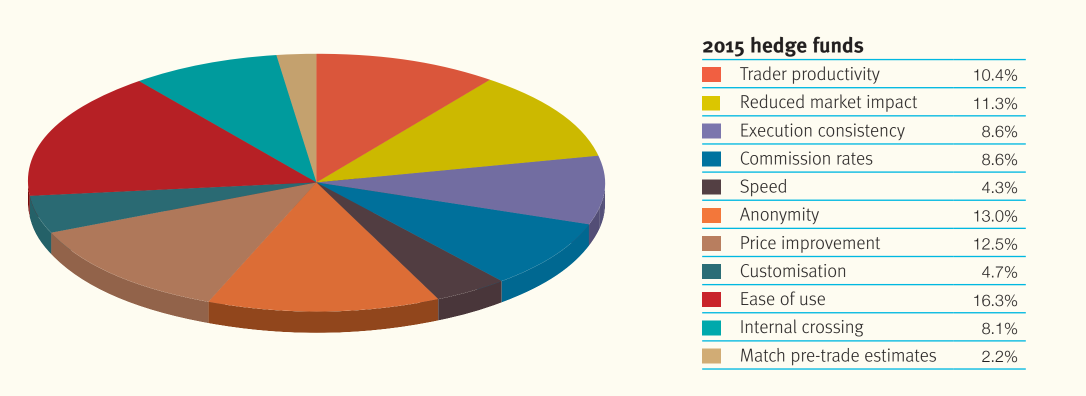
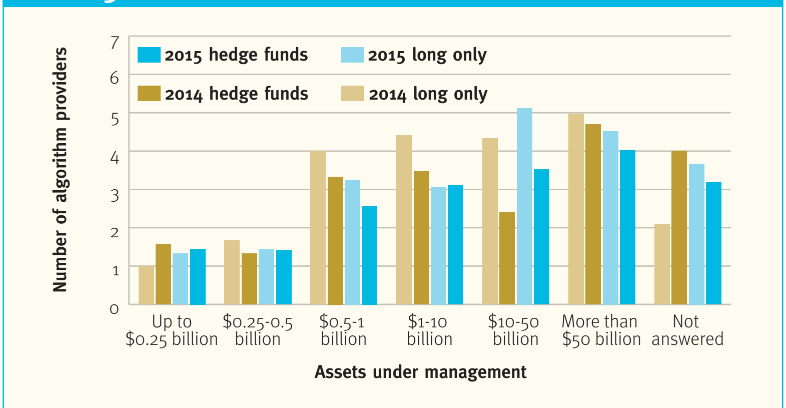


FIGURE 3: AVERAGE NUMBER OF PROVIDERS USED BY AUM



Concerns have been expressed around the effectiveness and toxicity of dark pools generally.

Providers are then offering the levels of customer support necessary to make sure that traders can benefit from improvements being made.

This virtuous circle of progress seems to be much more effectively established with hedge funds as opposed to traders in long-only firms. Whether that reflects attitudes to the algorithmic business at providers or clients is not clear, but the impact is.

Scores for Dark Pool access and Internal Crossing capabilities may also reflect different attitudes to these areas among different client types as well as possible variations in the approach of providers.

Concerns have been expressed around the effectiveness and toxicity of dark pools generally. The publicity surrounding these kinds of issues probably has a

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FIGURE 4: NUMBER OF PROVIDERS USED

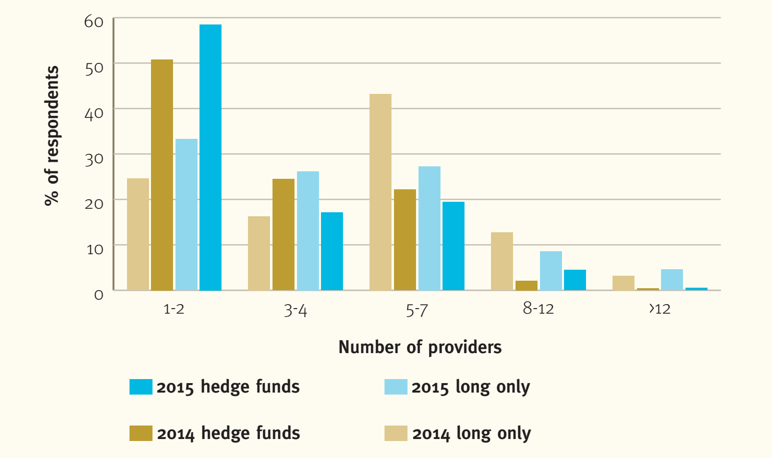
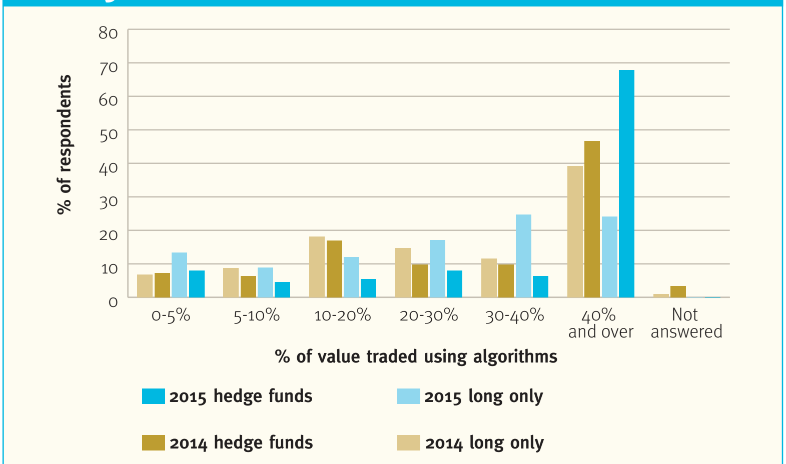


FIGURE 5: ALGORITHM USAGE BY VALUE TRADED



greater impact inside long-only firms.

Hedge funds are more likely to continue to focus on services that work for them worrying less about reputation and more about effectiveness.

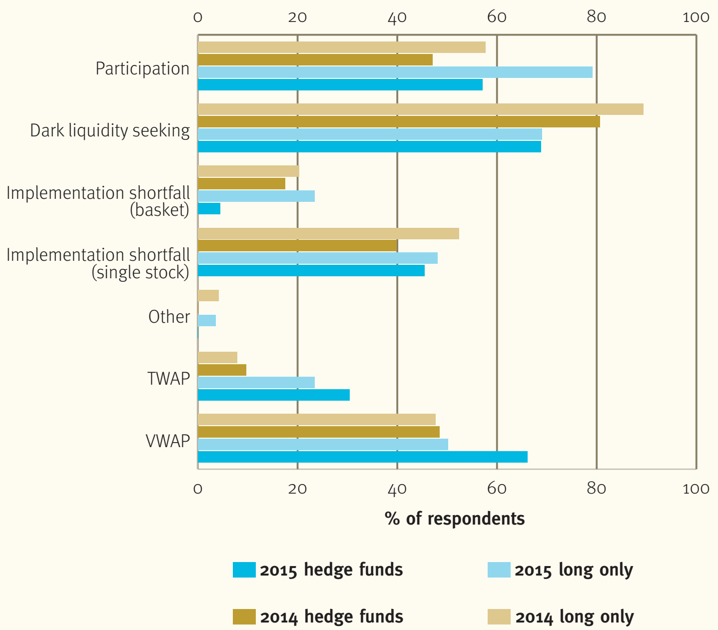
Hedge fund traders may also feel more comfortable with their ability to achieve the results they want through effective use of crossing and dark pools.

In contrast to these areas of better scores, it is worth noting that scores were lower in three categories. In each case the decline was small, but nonetheless was against the trend.

The three areas may also be related from a trading perspective being Anonymity, Reducing Market Impact and Smart Order Routing capabilities.

Clearly anything that compromises anonymity of trades, whether the result of the actions of smart order routers or more generally, is likely to compromise market impact i.e. increase it. While hedge fund traders are generally less concerned about this than long-only traders, they are not immune from concerns about the effect that market impact has on their overall investment performance.

FIGURE 6: TYPES OF ALGORITHMS USED



A growing need

In periods when investment gains are hard to find, the sensitivity to costs of trading naturally increases. This may have happened in 2014.

The growing level of satisfaction has been matched by growing use of algorithmic trading by hedge funds that is illustrated in Figure 3. This shows that nearly 70% of hedge fund respondents now use algorithms for more than 40% of their trading.

This is up from just under 50% a year ago and compares with a figure of less than 25% among long-only managers in the Survey this year. Indeed further analysis undertaken by The Trade suggests that for a significant proportion of hedge funds the percentage of trading done algorithmically now exceeds 75% of all trades by value. Among these clients algorithms are seen as providing benefits across the spectrum in terms of productivity and performance enhancement.

The trend among hedge funds towards greater use of and satisfaction with algorithms may need further reinforcement. If continued however, it does suggest that in the near future a very high proportion of market activity will be conducted by machines rather than humans. The question will then be whether long-only managers can afford not to follow that trend, and if not why not.

Ranking priorities

Figure 2 meanwhile shows that client priorities remain relatively consistent among

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Trader Productivity continues to rank in the top five categories with just over 10% of all mentions, slightly down from 2014.

respondents compared with 2014. Once again, the contrast with the long-only responses is more marked in 2015 than it was a year ago. Ease-of-Use has become the single most important aspect gaining 16.3% of all mentions by respondents in terms of their priorities.

This is well ahead of 2014 levels, when this category ranked behind Reducing Market Impact in importance.

It is also markedly different from long-only traders where the category achieved only 12.1% of all mentions.

Another area of growing priority among hedge fund respondents was Price Improvement, which ranked third overall this year as opposed to sixth in a year earlier. With Reduced Market Impact and Anonymity seeing declines in the number of mentions, it appears that hedge funds are looking at the final outcome – better prices – rather than the means of achieving them. Even so traders understand the importance of getting the approach right and these areas still attract nearly 25% of total mentions between them.

Likewise Trader Productivity continues to rank in the top five categories with just over 10% of all mentions, slightly down from 2014 and perhaps surprisingly less important for this group than among long-only firms.

Less surprising is the data shown in Figure 4 illustrating the number of algorithmic providers used by hedge funds. Given their focus on prime brokers as opposed to a long list, the fact that 58% use only one or two providers is not unexpected. This proportion has in fact increased in 2015, a trend towards

concentration seen more generally within the prime brokerage business.

Overall there does seem to be a decline in the number of providers being used. Based on work done elsewhere by the magazine it does seem that for many clients differentiation between providers is hard to identify and this encourages concentration on the most familiar and the most effective.

Figure 5 highlights a similar trend from the perspective of number of providers based on assets under management.

The figures show that for funds with less than $500 million AUM one or two brokers is the norm. This group of managers is of course a much higher percentage of hedge fund respondents than long-only managers.

Once over $500 million AUM the number of providers increases quite steadily. However, even when AUM becomes very large, the average number of providers is only four. This is noticeably lower than the average of five providers among similarly sized long only managers. Overall the message for providers is far from encouraging. The appetite for adding new algorithmic trading suites seems very limited. Even incumbents are under pressure and certainly new names seem likely to find it tough to develop new relationships.

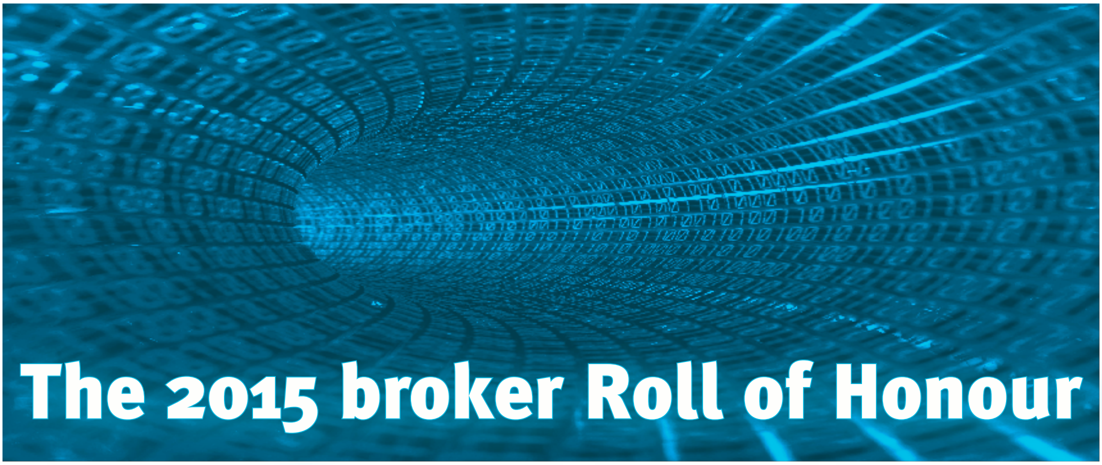
It is also not especially good news for EMS providers, for whom a major sales point was the ability to add new brokers' trading suites easily and cost effectively once the initial implementation was complete.

Finally Figure 6 shows how different types of algorithm are being deployed by traders. Among hedge fund traders there was increased use of volume and market driven algorithms; in-line participation, TWAP and VWAP, and less use of liquidity-seeking and implementation shortfall algorithms. This is somewhat surprising and it will be interesting to see if the trend continues in the year ahead.

Overall, the message is a very positive one for providers in place; clients are more satisfied and making greater use of algorithms. For those without a major market position however, the challenge of gaining market share seems to have grown commensurately.

Broker Roll of Honour: hedge funds

Illustration: iStock



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 more than 20 providers received responses and the leading banks obtained dozens of evaluations, yielding thousands of data points for analysis.

Only the evaluations from clients who indicated that they were engaged in managing hedge funds have been used to compile the provider Rolls of Honour described below.

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.

As in previous years, the 14 functional capabilities are grouped into three categories; those that impact on actual execution performance; those that effect direct and indirect costs of trading; and capabilities that are of a qualitative and more subjective nature.

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REDUCING MARKET IMPACT

ROLL OF HONOUR

Bloomberg
ITG
UBS

Reducing Market Impact remains an important priority for clients and a major way in which the performance of implementation shortfall algorithms is assessed. The level of mentions attached to this aspect was around one in eight of the total with nearly half of respondents naming it among their top four areas of interest. The level is generally consistent across respondents in all locations but is seen as being slightly more critical among the larger funds based on AUM, and slightly less important to clients doing more algorithmic trading based on value traded. The differences in each case are however not large. In terms of scores the position is a little disappointing. Overall the average score of 5.52 was somewhat disappointing, ranking 10th among the 14 aspects covered. The score was marginally lower than in 2014 and only 0.03 points ahead of the scores recorded by long-only traders.

Of the Roll of Honour names, Bloomberg and UBS repeated their strong showing of 2014. This year they were joined by ITG who received positive comments as well as strong scores in this as in some other areas.

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

EXECUTION CONSISTENCY

ROLL OF HONOUR

Deutsche Bank
Goldman Sachs
JP Morgan

With hedge funds using algorithms for an ever increasing proportion of their trading, the ability to produce consistent performance across a range of different types of orders becomes more critical.

There is little benefit in terms of productivity or outcome if every trade has to be monitored closely to avoid an inconsistent outcome. 2015 scores from hedge funds were adequate rather than exceptional in this area.

The range of scores across all major providers was quite narrowly bound. The average of 5.58 ranked below the overall average score of 5.70, but among the 14 questions covered was 8th equal. Scores themselves incorporated a lower proportion of 7.0 (excellent) scores that other questions and it was this relative lack of enthusiasm that contributed to the lacklustre overall result. In terms of the Roll of Honour names, both Deutsche Bank and Goldman Sachs have repeated their position from 2014 and are joined in 2015 by JP Morgan who performed generally strongly with a range of clients in various locations.

In terms of priority, the question ranked midway across all hedge fund respondents. Based on location the position was quite stable achieving mention from around one-third of respondents. Interestingly the position was slightly affected by size of respondent.

The very largest clients seem to consider this aspect of service as more important to them than the average would suggest. The implication would be that even with good scores, the ability to convert into new business is perhaps rather limited, with the best opportunities from the larger clients.

Broker Roll of Honour: hedge funds

DARK POOL ACCESS

ROLL OF HONOUR

Credit Suisse
JP Morgan
Morgan Stanley

Dark Pool Access represents an area where there has been a considerable shift between 2014 and 2015. Hedge fund clients in 2014 gave much lower scores than long-only managers, but this year the position was reversed.

The score from hedge funds was up by 0.29 points while that from long-only managers was down by 0.21 points, making a 0.50 point 'swing' overall.

It would seem that just as long-only funds realised some of the issues, hedge funds were getting more comfortable with the process of operating within dark pools, whether independent or broker operated.

Among different client groups, those from the UK gave somewhat below average scores in this area while those in North America were happiest. Larger clients gave lower scores, but that was in-line with their overall scoring pattern.

In terms of the Roll of Honour names, Credit Suisse and Morgan Stanley are two of the most experienced providers of algo services and their success in repeating their Roll of Honour positions of 2014 is not surprising. Equally JP Morgan performed well in this area, with a higher proportion of 7 (excellent) scores than others.

In terms of priorities the level of interest has continued to grow, but in terms of mentions made the area is of less importance than might be expected.

Despite the issues and some negative publicity clients appear to believe that dark pools serve a valuable purpose.

They want their brokers to make effective use of the capabilities to deliver superior execution performance where possible.

PRICE IMPROVEMENT

ROLL OF HONOUR

Bank of America Merrill Lynch
ITG
JP Morgan

The importance of Price Improvement is something that varies significantly among different client groups.

Overall it saw a marked uptick in the proportion of mentions it gained, up from 9.5% of the total in 2014 to 12.5% in 2015. This implies that half of all respondents included it within their top four service considerations.

This was heavily influenced by clients in the UK, where it represented nearly 15% of mentions.

By contrast in North America the proportion of mentions was less than 10%. With the very largest clients ($10 billion AUM and over) it was less than 8% of mentions, implying less than one in three felt it important enough to include as a top four priority.

Whether the lack of interest reflects perceptions of whether it can actually be consistently delivered may be a factor. It may also have been affected by choice of algo provider. The question had a wider range of scores than many (nearly 1.20 points between best and worst) across major providers. Some providers saw a number of scores of 3 (weak) or below.

This suggests that some clients still see delivery failing to match expectations.

UK clients were among the most likely to be disappointed based on

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scores, which were well below the hedge fund average.

UK clients, who see this as an important area and are not fully satisfied with delivery, may represent a fruitful area for the Roll of Honour names to exploit a competitive opportunity.

Both JP Morgan and ITG achieved very solid scores with no disappointments and repeated their Roll of Honour ranking from a year ago. Bank of America Merrill Lynch also earned high scores from a wide range of clients of different sizes and across various geographies.

SMART ORDER ROUTING CAPABILITIES

ROLL OF HONOUR

Bank of America Merrill Lynch
Bloomberg Tradebook
JP Morgan

JP Morgan managed to repeat its Roll of Honour position again in 2015. The bank appears to be well regarded in terms of the transparency of its approach and elements of flexibility available to clients. This year it is joined in the Roll of Honour rankings by Bank of America Merrill Lynch and Bloomberg Tradebook.

The former along with JP Morgan also scored highly among long-only clients where both firms achieved Roll of Honour mention.

Bloomberg Tradebook appears to enjoy a strong reputation with its clients in a number of areas where technology and transparency may be important.

Overall this is not an area that ranks highly among clients in terms of importance.

More hedge funds than long-only firms are interested in how smart order routers actually work.

However, many simply rely on an analysis of the final outcomes in terms of execution prices.

Coupled with the statements from providers, this means that they do not choose to complete detailed analysis themselves. That in turn makes scoring difficult.

It may also explain the relatively narrow range of scores seen among leading providers and the relatively disappointing levels of scores recorded.

With an average of 5.48 the question ranked joint 11th out of 14 covered.

Scores were better among North American clients while larger clients also gave better scores.

EASE-OF-USE

ROLL OF HONOUR

Bloomberg Tradebook
JP Morgan
UBS

The importance of Ease-of-Use of systems is clear from the priorities.

The situation with North American clients is even starker. As in 2014 almost three-quarters of respondents considered it important enough to rank in their top four. UK based clients were not

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quite as convinced as to its relevance but even here almost half mentioned it, while European clients were somewhere between the two.

It was also the most important aspect among hedge funds doing more than 40% of the activity using algorithms, which is perhaps to be expected. If you are doing that much business the systems need to be easy to operate.

Part of success of Bloomberg Tradebook in this category is no doubt due to the close integration with the terminal.

However the performance is consistent from year to year, as well as across larger and smaller clients.

So the performance must be based on more than simply convenience.

JP Morgan and UBS also scored consistently well and merited a position in the Roll of Honour.

In terms of scoring, given the importance of the question, it is reassuring that scores were also excellent. With an average better than 6 (very good) it is clear that all providers have worked hard to develop their systems in response to this requirement. Among the major providers all average scores were better than 5.5. While the highest scoring providers clearly merit their position, the competitive opportunities are limited by the fact that everyone is performing very strongly.

INTERNAL CROSSING

ROLL OF HONOUR

Bank of America Merrill Lynch
ITG
UBS

Scores for Internal Crossing among hedge fund respondents were very strong. The average was 5.75 across all providers, placing this equal 4th among the 14 areas of service covered. Interestingly scores were well ahead of those seen in 2014 as well as being much higher than those from long-only clients.

As with dark pools it would appear that hedge funds were earlier in being nervous and now are earlier to regain their comfort with services. North American clients were less happy than those in the UK and Europe with the crossing capabilities. The average score of 5.33 from North American respondents was among the three lowest scoring areas of the Survey. However this was a function of a lack of excellent scores rather than an excess of weak scores. It appears as if clients see this as something that some firms do well, but perhaps none, even the Roll of Honour names does exceptionally.

In general crossing is seen as less important for hedge funds than long-only funds. However that overall trend, with around one-third of clients mentioning it as a top four item, hides some serious differences in approach. Among UK based clients for example, crossing was mentioned by almost half of

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the respondents, and ranked 4th out of all the categories considered. By contrast in North America less than 20% of respondents mentioned crossing. This lack of consideration could also be a factor in the generally weaker scores from those clients who are less engaged.

Among the Roll of Honour names UBS matched its strong position among long-only firms and appears to have an excellent reputation for both structure and ability to deliver a strong performance. Bank of America Merrill Lynch and ITG also both scored strongly across a range of clients.

TRADER PRODUCTIVITY

ROLL OF HONOUR

Bloomberg Tradebook
Instinet
JP Morgan

Achieving consistent improvements in Trader Productivity requires a combination of innovation, customer service and ease-of use, thereby bringing together a series of features in a consistent way.

It is not something that is realised quickly and hence a measure of consistency in the names appearing in the Roll of Honour is to be expected.

Instinet has achieved this consistency in two ways. First it has repeated its 2014 ranking in the Roll of Honour. Second it has been in the Roll of Honour in 2015 both for hedge fund and long-only clients. In the case of hedge funds it has been joined by Bloomberg Tradebook and JP Morgan this year.

In spite of being unglamorous, Trader Productivity has always been

regarded as important by most clients, across all types, geographies and sizes.

Indeed it remains one of the cornerstones of algorithmic trading take-up. Among the very largest respondents it accounts for one in seven of the total mentions and ranks highest of all aspects among funds with AUM in excess of $10 billion. It is also important to North American clients.

Scores remain very strong, which means that it is hard for providers to move clients. The average of 5.81 was the 3rd highest score of 14 and was well up on 2014. It was also well ahead of scores from long-only clients.

COSTS AND COMMISSIONS

ROLL OF HONOUR

Bloomberg Tradebook
Instinet
ITG

As well as improving productivity of trading desks, clients certainly regard algorithmic trading as a way to reduce overall costs.

This may result from enhanced automation, fewer errors or better integration with other systems. It may also be achieved through paying lower commissions. The latter however is rarely the sole reason for algorithmic trading.

Costs taken as a whole are important, though not as important as some of the functional features offered by providers. Across all clients around one-third cite costs as a top four issue for them to consider.

This number is consistent by geography and type of manager. Interestingly for larger funds it appears slightly less important.

Of all 14 questions Costs ranked 7th in terms of scores achieved. The average of 5.6 was up 0.06 points on 2014 levels. It was however 0.23 points higher than the long-only score this year. Given respondents natural desire not to be too positive about costs, this score should be considered generally solid. Interestingly the scores across all leading players were very comparable. One interesting feature was the difference between scores on this question and scores achieved overall by providers.

In some cases this was clearly the lowest scoring area of a client. This

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suggests that other scores may have been negatively impacted by a feeling that clients were not getting as good value for money.

On the other hand the Roll of Honour names all saw this area as a solid performer in terms of scores achieved and as such merit the accolade they have received.

CUSTOMER SUPPORT

ROLL OF HONOUR

Credit Suisse
Instinet
Morgan Stanley

Scores for Customer Service were once again excellent among hedge fund clients. The average of 6.1 was the highest seen in the survey of all 14 questions. As important scores were well ahead of 2014 levels and well ahead of long-only scores in

2015. The excellent results were a combination of all leading providers doing a good job and some doing well enough to achieve a high proportion of 7 (excellent) scores. The proportion of 7 scores was well ahead of that seen on any other question, including Ease-of-Use. Clients clearly appreciate the service that they are receiving. Competitively the difficulty is that among the major players no one is performing poorly.

As such even Credit Suisse the only Roll of Honour name to have repeated from 2014 will find it hard to turn their good scores into additional business.

The very best scores were seen among the smaller clients. This is consistent with other surveys but still may be a surprise given the efforts that providers make to satisfy their larger and more commercially significant customers. It is also the case that scores from continental European and Asian clients were higher than those from respondents in the UK and North America.

ANONYMITY

ROLL OF HONOUR

Bank of America Merrill Lynch
Goldman Sachs
ITG

As was noted in the Market Review hedge fund traders appear to be more focused on the outcomes of trading rather than the techniques used to achieve them. Anonymity nonetheless account for some one-in-eight of mentions in terms of priority and remains a key factor for

all clients including hedge funds. What was noticeable was that North American clients were much more concerned about it than those in the UK and elsewhere. In North America Anonymity accounted for one-in-six mentions.

Scores from North American clients were slightly below the overall average and much closer to it than scores from UK clients in particular. Even so the overall level of scoring was somewhat weak for an area of relative client importance.

The average was only 5.58 and this was equal 8th of the 14 questions.

This is perfectly acceptable but may leave open some opportunities for Roll of Honour names and others to gain market share.

In fact there was quite a wide spread of scores across the leading banks, though few were noticeably

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weak and all averaged better than the default score of 5 (good). Goldman Sachs managed to repeat their Roll of Honour ranking from 2014 and were joined this year by ITG and Bank of America Merrill Lynch, both of whom received a number of excellent scores and positive comments from clients.

SPEED AND LATENCY

ROLL OF HONOUR

Goldman Sachs
JP Morgan
Morgan Stanley

Latency is very hard for clients to assess unless they have a specialist interest that demands that they determine how to assess different brokers.

As a result much of the perception is based on anecdotal instances where it is very obvious that something has gone well or badly. It is to the credit of the Roll of Honour names that they are able to perform consistently well enough while at the same time generating a number of 7 (excellent) scores that imply a number of instances where performance has been particularly strong.

In the case of Morgan Stanley, who repeated their success of 2014 again this year, the level of performance is clearly very high. Turning it into more business is likely to prove harder however, given the generally solid scores seen by competitors and difficulties in measurement.

It is also the case that in terms of priority, it only attracts a small number of mentions, again among clients who have a specific trading based interest. While hedge funds may be generally more sensitive to speed than long-only traders, it is still not an across the board interest. Scores were also good. The average across all providers was 5.75, and this ranked 4th equal among all the areas covered. With very few leading providers scoring below 5.50 it would appear that clients are generally of the view that services are broadly very good from all providers.

A slight edge in these circumstances is nice to have but does not appear to be critical.

CUSTOMISATION

ROLL OF HONOUR

Bank of America Merrill Lynch
Bloomberg Tradebook
Citi

Given that new product initiatives tend to go in waves, it is not surprising that scores for Customisation should vary from

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year to year and the names of the Roll of Honour change with them. This year saw Citi perform extremely well in this area, in contrast to less good scores in some other areas. Their average, like that of the other names included in 2014 reflected strong scores from a range of different sizes of clients across different regions.

Scores generally for Customisation were not among the best. However they were up on 2014 levels and noticeably stronger than those received from long-only clients.

At an average of 5.48 they ranked 10th of the 14 questions covered. UK based clients appeared to be particularly disappointed with the level of customisation available to them and even respondents conducting a high proportion of business scored below average.

Overall then some progress but still work to be done to convince clients that investment in meeting specific needs will be forthcoming. At the same time Customisation is not an important factor for most clients.

Overall across all geographies, interest in it was not seen as a priority for many respondents; less than one in five overall. There was more interest among the larger respondents with the subject garnering 40% of mentions among the very largest respondents.

These more demanding clients would seem the most likely to get what they need from their existing providers.

EXECUTION CONSULTING AND ANALYTICS

ROLL OF HONOUR

Bloomberg Tradebook
Credit Suisse
ITG

Execution Consulting remains something of an enigma as far as hedge fund clients are concerned. Logically they should be best positioned to benefit from helpful analysis from brokers about how they are performing and what they can do to improve results. Unfortunately this is not something that they appear interested in, collectively as a group or as individual clients. While the level of mentions is higher than it was among long-only clients it is still extremely modest. Indeed among the very largest clients not one mention was made of it within the top four priorities.

Set against this apparent indifference the scores cannot be seen as especially good or bad even though they rank last of the 14 categories with an average of 5.37. The scores were better than in 2014, gaining at a level consistent with the overall results. They were also better than those recorded by long-only clients. However for the most part client indifference is reflected in the scores. There are very few that move outside the range of 5 (good) and 6.0 (very good).

In such circumstances it would appear to be an error to expend too much human effort in explaining trading performance even though the nuances might require it.

Rather success seems to be going to those firms that have built the necessary reporting into their systems to allow clients to do whatever analysis they want for themselves.

That may deliver sustainable advantage without incurring too much cost. However it is unlikely to result in clients feeling there is value that can be added from providers in this area.

Ones to watch

In previous years the Survey has highlighted names to watch in each category of service. With the greater number of questions in this year's Survey and the presentational split between long-only respondents and hedge funds, continuing previous practice would have risked dilution of the value of the Roll of Honour mentions.

As a result, and following the example of the Awards presented by The Trade magazine each year, Ones to watch have been put into two simple categories. First are those firms that seem, based on response numbers to be winning clients. Second are those that, based on scores achieved, appear to be highly regarded by the clients that they have.

RESPONSE NUMBERS

ROLL OF HONOUR

BNP Paribas
Jefferies
ConvergEx

Some firms that have a very large long-only business are increasingly seeing business from asset managers that are extending from that traditional approach into the alternative asset space.

The growth of liquid alternative products such as US mutual funds or UCITS means that some individuals within long-only firms are now trading on behalf of what are in effect hedge funds. Whether that will result in a further extension into the hedge fund space directly

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is not necessarily clear but for some names the possibility certainly exists. In other cases a hedge fund business built around prime brokerage offers scope for global expansion. So BNP Paribas, whose prime broker business has a very heavy US focus may have limited algorithmic trading responses currently but can grow further in the future.

What is worth noting is that there have been no new entries into the list of providers receiving responses this year from 2014.

That suggests that opportunities for growth are now seen as extremely limited within the space.

That will affect all market participants to some extent going forward.

CLIENT SCORES

ROLL OF HONOUR

BNP Paribas
ConvergEx
Societe Generale

As well as having a limited number of relevant responses, most of the smaller names have some areas that are definitely stronger than others.

That makes an assessment of overall performance harder to standardise. Therefore the names mentioned in the Roll of Honour are those that have done best in the areas of greatest importance to clients. That is not to say they are good at everything, but it does mean that they are very good at the things that matter most to clients. To qualify for a Roll of Honour position providers must have a relatively high proportion of 7 (excellent) scores.

Without these, their performance would be interesting, but unlikely to be good enough to merit the accreditation as one to watch.

It is also worth noting that in the case of ConvergEx this is the second year in succession that they have received very good scores.

However, even in 2015 the level of responses had not grown sufficiently to enable them to qualify for consideration within the main rankings. That is testimony to just how hard the market is in 2015.