

Insideview

Buy-Side Trading – Challenges Today and Tomorrow

INTERVIEW WITH CHRISTOPH HOCK

While in the past many buy-side institutions, e.g., asset management firms, outsourced the order execution responsibility to brokers (the sell-side of the industry), today, they handle major parts of the order execution process themselves based on sophisticated technology and quantitative techniques. How has the search for liquidity changed and what is the role of the broker today?

A key element of our philosophy to deliver a best-in-class service to our clients – internally our portfolio managers, externally our investors – is having access to all possible forms of liquidity. A sophisticated electronic trading platform with smart order routing, broker algorithms, and program trading is as essential as block liquidity seeking strategies. I would describe our relationship with brokers in this context as a very well-established partnership.

The most challenging task you're facing is the search for block liquidity especially in

mid and small cap stocks. How do you handle this difficult task?

In a highly fragmented environment, where the average traded execution size is around EUR 10,000, accessing block liquidity is essential to deliver a best execution and to generate additional alpha for our clients. How do we manage this process and what methods do we use? Just to name some: In the electronic space, there are services like Turquoise Block Discovery enhancing opportunities for block trading. And we are involved in initiatives like Plato in Europe and Luminex in the US, which are designed to execute larger trade sizes and to give investors more influence on market structure. We also source block liquidity via IPOs and accelerated bookbuilds.

What is the role of trading venues, especially of dark pools, in your search for block liquidity?

We expect the use of dark pools to change



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significantly with the regulation of MiFID II/MiFIR coming into place in 2017. Given the double volume caps of 4% and 8%, respectively, we expect that average trade sizes in dark pools will increase significantly as block trading evolves to utilize the so-called Large-In-Scale waiver (LIS), which is not subject to the above mentioned caps. As a result, dark pools will continue to play a key role for trading block sizes.

How do you assess the performance in order execution provided to you by brokers or trading venues?

To ensure that we fulfill the highest standards of our best execution policy, we carry out regular transaction cost analysis to monitor the quality of our executions. This allows us to analyze and to optimize the decision-making process as well as our trading strategies around our order execution. We are in the process of implementing new capabilities to measure the quality of brokers, algorithms, and venues in a very

detailed and granular way focusing on each individual order fill on a microsecond level – this allows for a more sophisticated dialogue with brokers.

How do you see your desk advancing in the future?

The regulatory environment under MiFID II/MiFIR, further electronification, the challenge of liquidity, and transaction cost measurement are key drivers for the development in trading. As a best-in-class trading desk, we deliver both execution and market intelligence to our portfolio managers. So, we understand our role as a service and solutions desk, where we leverage a deep understanding of our clients, our external providers, and the market landscape to achieve the best results with the top priority of knowing and understanding our clients in the best way.

Thank you for this interesting conversation.