2nd Annual European Equities e-Trading Survey

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Survey Overview

- Compiled from November 08 to mid January 09
- 48 buy-side investors
- 9 sell-side firms
Buy-Side Demographics

- 48 buy-side investors
- Asset Managers and Hedge funds account for over 80% of buy-side
Buy-Side Geographical Split

- UK, 73%
- Germany, 4%
- Italy, 2%
- Middle East/Africa, 2%
- Netherlands, 2%
- Nordic region, 7%
- North America, 4%
- Switzerland, 4%
Over 70% sell side respondents expect to receive over 80% of their tickets electronically in 3 years time

Currently, over 50% of the Sell-Side receive 60 % or more of their tickets electronically
Over 60% of sell side respondents expect to receive over 80% of their value electronically in 3 years time;

Whereas 3 years ago, about 10% of sell-side respondents received over 80% of their value electronically.
Over 70% of sell-side respondents receive over 80% of their equity flow electronically in the US.

Whereas in Europe, only about 35% of sell-side respondents receive 80% of their equity flow electronically.

Asia and the Emerging Markets have some catching up to do.
Buy-side also expects there to be large increase in flow directed electronically in 3 years time; 60% respondents expect 80% or more of their flow then to directed electronically

Currently, less than 40% respondents are directing 80% or more of their flow electronically

3 years ago, more than 60% were directing 25% or less of their flow electronically; with 20% not directing any flow electronically
Buy Side: Equities Flow Directed to Broker by Telephone

Equities Flow Directed to Brokers by Telephone

- 3 years ago, 60% of buy-side respondents are directing 60% or more of their flow by telephone
- In 3 years time, 60% of buy-side responders will direct 10% or less of their flow by telephone
At present, about 55% of buy-side respondents still discuss 60% or more of the order instructions for their electronic flow by telephone.

Even in 3 years time, 45% of buy-side respondents will still discuss 60% or more of the order instructions for their electronic flow by telephone;
Currently, 60% of buy-side respondents are self directing 25% or less of their flow.

Even in 3 years time, a little over 10% of buy-side respondents expect to self direct over 80% or more of their flow.
Large order size and desire to maintain existing relationships are the most important factors at around 3.2 or somewhat important for deciding to self direct.

No factor is very or extremely important; and all factors are relatively of equal wait as somewhat important between 2.5 and 3.2 on a scale of 1 to 5.
90% of sell-side respondents receive only 25% or less of their flow not through FIX protocol
Sell-Side and Buy-Side have very similar views on the relative importance of key drivers for electronic growth; only views on Best Execution vary.

Trading in new markets and across asset classes seem to be the least significant; others have similar ratings as very important factors.
Choosing an Electronic Platform for an Order Management System

- Buy-side and Sell-side agree that Access to multiple brokers, sources of liquidity and range of products are the most important factors.
- Sell-Side rates compliance as equally important; whereas Buy-Side sees it as third least relevant factor.
Choosing an Electronic Platform for an Execution Management System

Buy-Side sees market data as having significantly less importance than the Sell-Side

Sell-Side sees all factors in general as being more important than buy-side
### Importance of Improving Aspects of Electronic Trading

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Sell-Side</th>
<th>Buy-Side</th>
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<tbody>
<tr>
<td>Compliance/trading controls</td>
<td>3.40</td>
<td>3.60</td>
</tr>
<tr>
<td>Global coverage</td>
<td>3.50</td>
<td>3.70</td>
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<tr>
<td>User friendly/ Ease of integration</td>
<td>4.00</td>
<td>3.70</td>
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<tr>
<td>with other OMS/FIX engines</td>
<td>3.60</td>
<td>3.80</td>
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<tr>
<td>Robust technology</td>
<td>3.80</td>
<td>3.90</td>
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<tr>
<td>Market data/ Research and Analytics</td>
<td>3.60</td>
<td>3.80</td>
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<tr>
<td>Lower costs/fees</td>
<td>3.50</td>
<td>3.70</td>
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<tr>
<td>Speed of execution</td>
<td>3.60</td>
<td>3.80</td>
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<tr>
<td>Access to brokers</td>
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<td>3.70</td>
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<td>Range of products offered</td>
<td>3.40</td>
<td>3.60</td>
</tr>
</tbody>
</table>

% Weighted Responses

where 1 is completely unimportant; and 5 is extremely important

- **Sell-Side** believes that improving user-friendliness, ease of integration, and lowering fees as very important.
- **Buy-Side** sees almost all factors as being very relatively similar between 3.5 and 3.9, but all verging on very important.
- **Buy-side** only sees market data and research as less important than other factors.
Liquidity fragmentation and Access to liquidity are seen as being extremely important by both groups.

Liquidity fragmentation and Access to liquidity was also the most important factor by some margin last year.
~50% of Buy-Side have not reduced by more than 10% the number of brokers on their list over the last 3 years

A small minority of about 10% have reduced their lists by over 40%.
Over 50% of Buy-side expect to decrease their lists over the next 3 years

But around 20% expect to increase their lists.
All factors score more than 3 on a scale of 1 to 5

• Liquidity hunting is the most important
All respondents see “dark pools” as positive

Although only slightly under 40% see it as extremely positive
Anonymity gets almost the highest rating of 5 for extremely important; but ability to trade without moving the public market price and in the desired volumes are also very important.

All other factors are somewhat important.
Factors for Differentiating Between Algorithmic Providers for Buy-Side

Importance of Factors for Differentiating Between Algorithmic Providers

- Buy-Side rates access to multiple execution venues and to liquidity as much more important than other factors.
- All other factors are roughly the same significance.

Buy-Side rates access to multiple execution venues and to liquidity as much more important than other factors.

All other factors are roughly the same significance.

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Most Successful Algorithm for the Sell-Side

Aggressive is the most important; with Dark liquidity seeking second.

However, as a small sample (12), there is quite a variety of opinion from the Sell=Side on this point as 5 different algorithm types were chosen as the most successful one.
Unbundling in Practice for the Sell-Side

Sell-side: Unbundling in Practice

- Improved relations with clients and greater pursuit of execution flows are most important changes
- Lower execution revenues was ranked as the least important change

% Weighted Responses
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Buy-Side views on CSAs for % of Costs Paid for Execution

Commission Sharing Arrangements: Proportion of Costs Paid for Execution versus Research

- Self-Directed and Sales Trader Executed provide similar results.
- Results are spread across the spectrum with some buy-side paying over 80% of their costs for execution and some paying less than 20% of their fess for execution.
- The bulk of Buy-Side pay 20-50% of their costs on execution.
Everyone expects equities electronic trading to grow over the next three (3) years

Buy-side still expects to discuss electronic orders flow by telephone in the future

Self directed volumes is expected to grow, it’s still not a significant portion of the buy-side’s electronic flow in the future

Buy-side and sell-side generally agree on the key drivers for electronic trading growth (efficiency, reduction of costs and buy-side control)

A reduction of the numbers of brokers on the buy-side’s lists is observed but does not constitute a major trend going forward
Sell-side sees emergence of dark liquidity pools as positive. It seems to be related to the ability to remain anonymous and not to move the market prices for desired volumes.

Buy-side sees access to multiple trading venues and liquidity as the most important factors for algorithms providers.