ECB Foreign Exchange Contact Group
Best Execution and Transaction Cost Analysis
Frankfurt am Main, 18 June 2019, Christoph Hock, Head of Multi Asset Trading
The central multi-asset trading desk of Union Investment delivers as a team best-in class execution and market intelligence to our portfolio managers as our internal clients.

We generate additional alpha across all asset classes and minimise execution costs by using sophisticated trading strategies, which are constantly optimised through continuous transaction cost analysis in general and in comparison with respective peer groups.

We also offer additional services, which create added value for our portfolio managers, hence for our private clients, institutional clients and Union Investment.

Our multi-asset expertise helps us to interpret tactical market information and provides our portfolio managers with market intelligence that supports them in making their bottom-up and top-down investment decisions.

Sources: Union Investment
Evolution in market structure and trading environment with big impact on how to deliver best-in-class execution to clients

**Regulation**
- MiFID II / MiFIR (ESMA)
- Basel III
- Dodd-Frank (Volcker Rule)

**Clients and portfolio manager**
- “Best-in-class”-service for investors and portfolio managers
- Transparency and best execution
- Minimisation of transaction costs and reduction of execution risks (market impact)
- Comprehensive cross asset-class market intelligence

**Capital market and technology**
- Liquidity bottleneck
- Strong electronic trading in equity market, increasing role of electronic trading in the bond and FX market
- Market structure and new venues

**Union Investment**
- Strategic importance of multi asset
- Minimising operational risks
- Institutional client international strategy

**Brokers and competitors**
- Industry consolidation
- Focus on profitability
- Key account management and process consolidation

Sources: Union Investment
Trading desk as “service & solutions desk” reflects the increasing market requirements for best execution

**High-touch trading**
(high level of specialisation due to high complexity, low liquidity, high market impact)

**Electronic (flow) trading**
(little impact on market, high liquidity, highly automated execution)

**Order execution advice for portfolio managers**
- Selection of venues and ISINs
- Liquidity as key topic
- Market intelligence (bottom-up, top-down)
- Use of derivatives

**Additional Services**
- Best execution
- Broker vote
- FX-specific services
- Sales support institutional clients
- Transaction cost analysis
- Broker contracts
- Special topics

Sources: Union Investment
Investment in trading intelligence as a key requirement: data, EMS, high touch/low touch, pre-, live- and post-trade TCA, statistics
Best execution is a process - it is not only about achieving the best price in a single transaction

Best execution approach and execution factors

The obligation to execute a client’s orders on terms most favorable to the client. Current best execution evaluation was commonly based on the trades price, but best execution is broader than just “best price”

Formal Order Execution Policy (OEP) detailing, amongst other things, the venues available for execution of orders, various controls and behaviors the client should expect. Also:

- **Price of financial instrument** – what is the best price?
- **Cost of order execution** – what is cumulative cheapest cost?
- **Speed of order execution** – what execution time constraints apply/how can they be minimized vs urgency?
- **Likelihood of execution and settlement** – where will we get a fill?
- **Order size** – how does size impact the best execution strategy?
- **Type of trade** – what is the underlying purpose for the trade, and does this impact our choices?
- **Any other relevant metrics** – e.g. market conditions

Top 5 Reporting: Complete reporting relating to Top 5 venues/counterparties (i.e. execution platforms including SI) where orders are executed. To be produced annually.

Thematically linked to unbundling of research – execution has to be independent.

Client can still give specific instructions on execution that may or may not be fully consistent with the concept of “best execution”.

Sources: Union Investment
Pre-Trade Information in combination with post-trade analysis is key to deliver best-in-class execution to clients

BestX® Best Execution Analytics – Pre Trade Screens

BestX® Best Execution Analytics – Post Trade Screens

Sources: BestX
An innovative quantitative solution supports best execution and market microstructure analysis

- realtime market liquidity forecaster
- realtime transaction cost estimator

Sources: Morgan Stanley
Best execution is not only about quantitative measurement – the FX Global Code enables asset managers to deliver highest standards.

Review of the FX GLOBAL CODE –
Documentation Union Investment

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FX Buy-Side Europe 2019
Movenpick Hotel Amsterdam City Centre, 31 & 32 June 2019

Featuring best practice in the FX market
- Why should the buy-side sign up to the Code?
- How do firms go about signing up to the Code?
- How can we make it more attractive for the buy-side to sign up? What about a section specifically for Asset Managers to sign up to?
- How can the buy-side get a voice in the future evolution of the FX market?
- Will there be measures to confirm adherence for adopters?
- Will there be enough input from the buy-side into the FX Code of Conduct as we have it today?

Moderator: Julian Gladwin, Co-Founder, jailed Global Advisors Limited
Tobias Weinmann, Co-chair of the BAPC’s working group on buy-side outreach, FCA
Damir Hooda, CEO, Horvath Consulting Ltd and Executive Committee Member, ACS UK
Christopher Block, Global Head of Trading, Union Investment
Alexandre Dafa, Head of Financial Markets Trading, Total SA

Sources: FXGlobalCode.com; Union Investment; PWC; FX Week
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