

The Next Generation of Transaction Cost Analysis

Whether you are a board member, trader or compliance officer, transaction cost analysis (TCA) has become an integral component of the investment management industry. The challenge for the next generation of TCA is to provide focused, analytical frameworks targeted at unique users across an entire organization so that by collective effort a firm is empowered to hone its competitive edge. ITG Post-Trade Analytics™ recognizes that next-generation TCA tools must incorporate new asset classes, highlight key metrics such as the expected value of affecting change and, most important, optimize a user's ability to rapidly consume complex performance metrics without being overwhelmed by copious amounts of data.

A primary area receiving significant attention from the investment management community is the impact of foreign exchange settlement related to cross currency investments. Dramatic currency volatility and large fund flows into international securities have raised concerns about implementing best execution processes for managing these transactions. Measuring implementation shortfall from equity investment inception to settlement and the effectiveness of sourcing the required currency is a challenge that can now be

addressed by ITG TCA® for FX. Evaluating the timeliness of funding versus the netting of exposures is pivotal to maintaining fund performance. In addition, better appreciation of the cost related to demands for dealer liquidity enables better working relationships between counterparties. Also, the foreign exchange markets are experiencing growing corollaries to the equity marketplace's dramatic shifts in fragmentation via electronic execution. Leveraging sub-second market data from FXall, a leading global institutional

electronic trading platform, comparisons can be made between the effectiveness of various execution strategies, including choices related to venue, deal size, time of day and counterparty. ITG TCA for FX takes the next generation of transaction cost analysis into the foreign exchange markets.

Another area that merits material consideration is the search by asset managers for novel changes to maintain their competitive positioning. Significant market share movement can often stem from even slight changes in timing and execution slippage. While in a narrow sense, it is important to beat a benchmark, the most important consideration is to simultaneously outperform your peers. With appreciation for dissimilarities in market condition, regional focus, order size, market cap and side, ITG's Situational Ranking Report (SRR), part of the ITG Peer Analysis™ suite of reports, profiles eight dimensions of order flow using statistical distributions of raw implementation shortfall results. In contrast, traditional peer analytics have viewed all participant activity equally, within a single trading universe and without regard to differentiating characteristics of their trading activity. With approximately 200 investment management organizations contributing to ITG's Peer Universe, ITG Peer Analysis™ provides the most comprehensive TCA research tool available.

With the growing involvement of fund boards and investors, explaining the wide variety of TCA performance metrics in layman's terms has become an acute concern. The recently unveiled suite of ITG's Interactive Dashboards provides focused analysis instead of a blizzard of numbers. Interactive Dashboards depict the interplay of portfolio manag-

er, trader and broker. The dashboard format allows the presentation of several aspects surrounding each analysis. Order arrival times, market momentum profiles, broker/trader pairings, impacts of outliers and segmenting discretionary instructions all serve to add context to transaction costs. Delivered via email, ITG's Interactive Dashboards feature high-resolution graphics that improve the intuitive grasp of complex market concepts and reduce the time needed to review and explain reports. One example from the suite of ITG's Interactive Dashboards, the

Empowering next-generation TCA consumers to deliver next-generation results.

Trader Order Management Toolkit, enables traders to view historical portfolio manager cost profiles in order to better gauge whether there is a momentum-based cost trend associated with their order flow. Moreover, the ability to view both portfolio manager and broker cost profiles on the same dashboard stimulates next-generation decision making.

ITG's continued investment in our Post-Trade Analytics product suite enables us to introduce enhancements that support the drive for best practices and service the ever-growing demand for more information and better insight. By delivering transaction cost analysis for new asset classes, developing increasingly sophisticated peer analytics and introducing superior reporting formats, the universe of next-generation TCA consumers is empowered to deliver next-generation results. ■



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Jon Fatica is a Managing Director responsible for the ITG Post-trade Analytics™ product suite, including ITG TCA®, ITG Peer Analysis™ and ITG Alpha Capture™. Prior to joining ITG in 2002, Mr. Fatica managed consulting engagements in the financial services industry. He has held positions at Lazard Asset Management as fixed income portfolio manager, Bankers Trust as VP in risk management and fixed income trading, and at J.P. Morgan and First Boston in financial and strategic planning senior roles.