

Portfolio Trading: Board Oversight of Best Execution and Soft Dollar Arrangements

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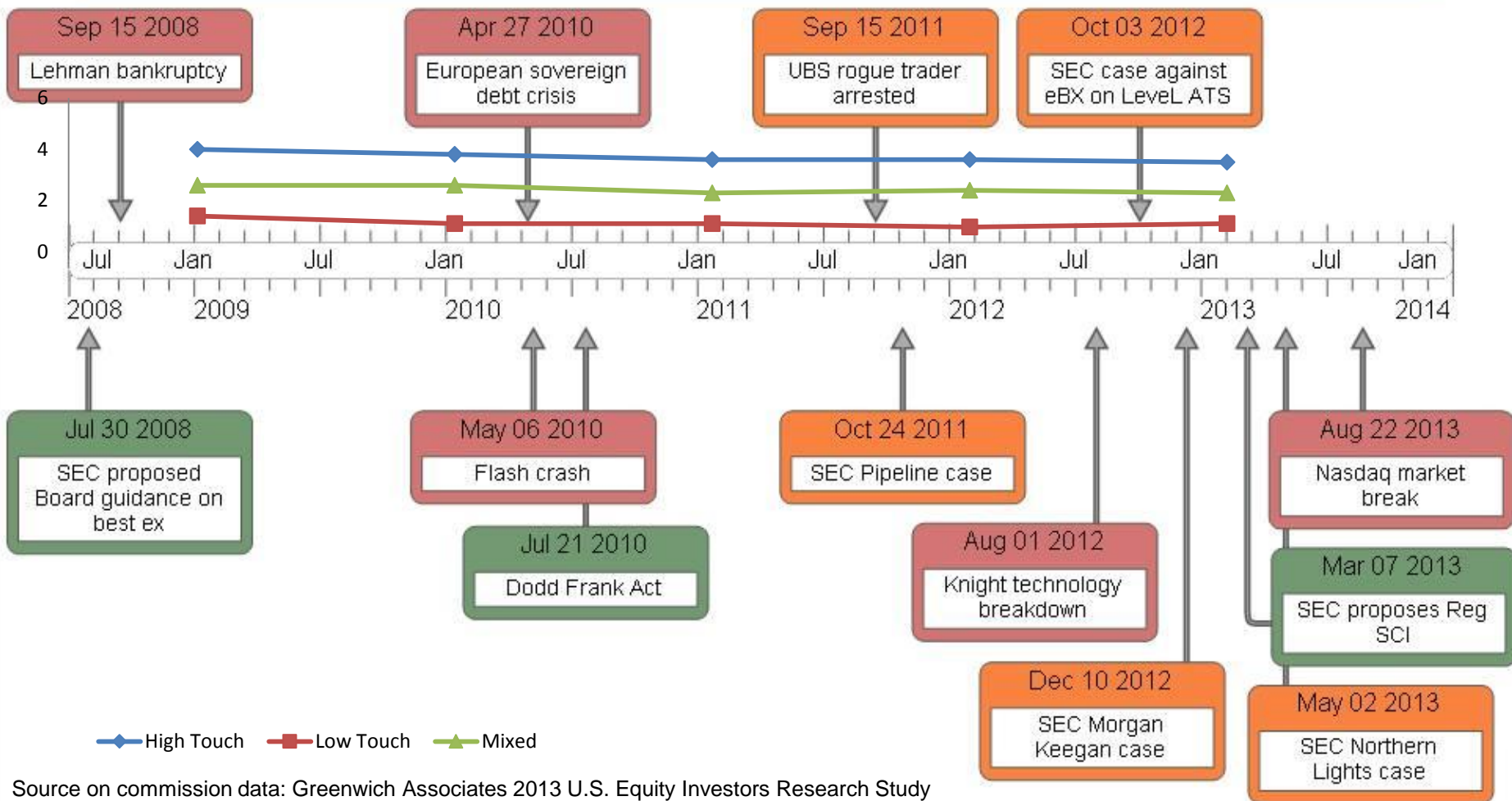
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Portfolio Trading: Board Oversight of Best Execution and Soft Dollar Arrangements

- Past Five Years
- Proposed SEC 2008 Board Guidance
- Monitoring Best Execution
- Monitoring Broker Selection
- Alternative Trading Systems & Venues
- Equitable Allocation
- Special Investments
- Special Issues
- Director Tools for Monitoring Trading
- Heat Map of Trader's Concerns
- Key Takeaways

Past Five Years



Source on commission data: Greenwich Associates 2013 U.S. Equity Investors Research Study

Proposed SEC 2008 Board Guidance

- Proposed guidance “would not impose any new or additional requirements”
- But tone and its catalogue of issues seen as upping the ante

Proposed SEC 2008 Guidance: Board Oversight - Data

- Identification of broker-dealers the fund uses
- Commission rates or spreads paid
- Allocation among broker-dealers of commissions
- Value of trades executed
- Fund's portfolio turnover rates

Monitoring Best Execution

- Costs
 - Explicit
 - Implicit cost & opportunity shortfall
 - Equity vs. fixed income trading costs
- Soft dollars
- Turnover
- Broken trades - How many is too many?
 - Causes
 - Remedies
- Analytical tools for directors

Monitoring Broker Selection

- Affiliated brokers
- Soft dollars
- Due diligence
- Trading anonymity

Alternative Trading Systems & Venues

- Impact of "dark pools"
 - Late day volatility - issue around market close NAV calculation
 - Liquidity

Equitable Allocation

- Investment Opportunities
 - IPOs - access and allocations
- Sequencing
 - Trading in relation to other accounts

Special Investments

- Foreign exchange
- Derivatives - pricing and cost analysis
 - Collateral - credit analysis
 - Leverage
 - Regulatory risk - compliance with central clearing regulations
 - Dodd/Frank

Special Issues

- Late day trading - still an issue?
- Cross trades
- Order complexity
- Technology issues
- Trade errors

Director Tools for Monitoring Trading

- Understanding Internal Process
 - Board reports – Management’s Process
 - Meeting with Trading Oversight Personnel
 - Benchmarking by 3rd Party Consultants
 - Role of the CCO – Where are the Conflicts?
 - Staying out of the “Weeds”

Heat Map of Trader's Concerns

Hot

- Too much SEC focus on equity trades, need more scrutiny fixed income trading
- HFT being considered as non-impactful to markets
- Filing miscues
- Effects of gaming
- Challenging process to upgrade/change best of breed OMS/EMSs
- Efficient Use of Pre-, Post-, and Real-Time TCA
- Finding liquidity
- Counter party risk

Hotter

- Finding meaningful, account specific TCA "apples to apples"
- Information leakage via execution venues
- Short swing profits
- Best execution
- Drastic increase in non-trading responsibilities
- HFT
- CSAs/ways to reduce executing brokers
- Integrating New Trading Tools/Strategies on the Desk
- Algorithm/high-touch variation of trades
- Measuring performance
- What is the right TCA measure for the group

Hottest

- Affording technology needed to compete
- Sourcing natural liquidity
- Insider trading
- Hidden liquidity aggregation
- Monitoring our brokers execution logistics
- Fragmented markets
- Need for more flexible Multi-benchmark TCA
- Managing/Understanding Routing/Order-Handling Procedures
- Identifying which systems to add/keep on desk
- Budget/Paying soft dollars and research
- Resource consumption by our PMs and Analysts

Key Takeaways

1. Benchmark your practices in relation to the SEC's proposed guidance
2. Focus on conflicts
3. Consider alternative sources of perspective and information
4. Focus on process and don't get in the weeds
5. Consider technology issues as they affect trading

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