

“(R)evolution of the Buyside”

FIX Conference - Australia

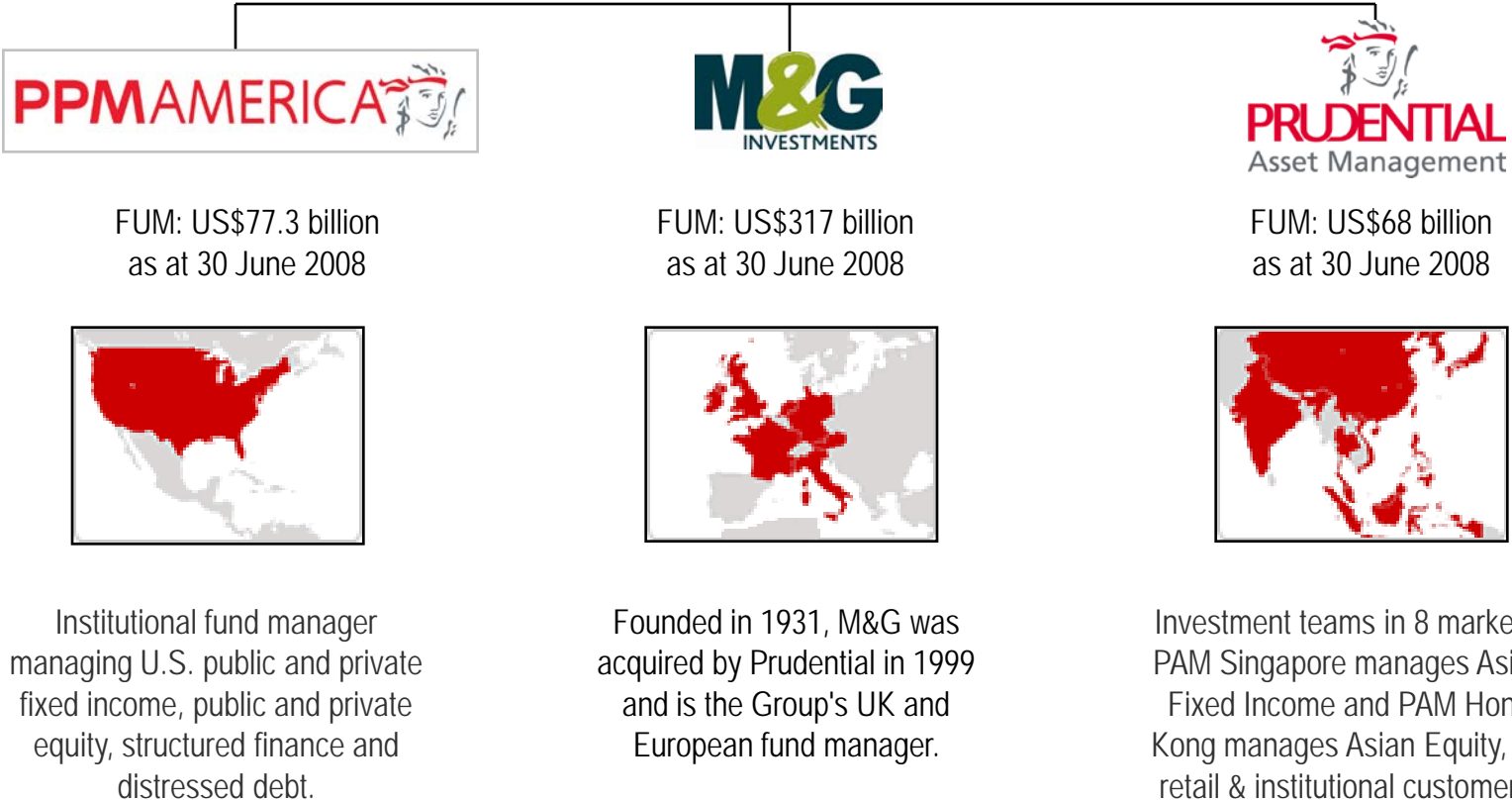
March 2009

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Prudential Asset Management (Singapore) Limited

Today's Presentation

- About Prudential and my background
- Dealing desk evolution
- Developing a dealing desk
- Is your desk equipped?
- DMA/Algos
- Access to Liquidity
- TCA - How to use the data
- Perils and Pitfalls
- Summary

Investment Businesses on Three Continents



Institutional fund manager managing U.S. public and private fixed income, public and private equity, structured finance and distressed debt.

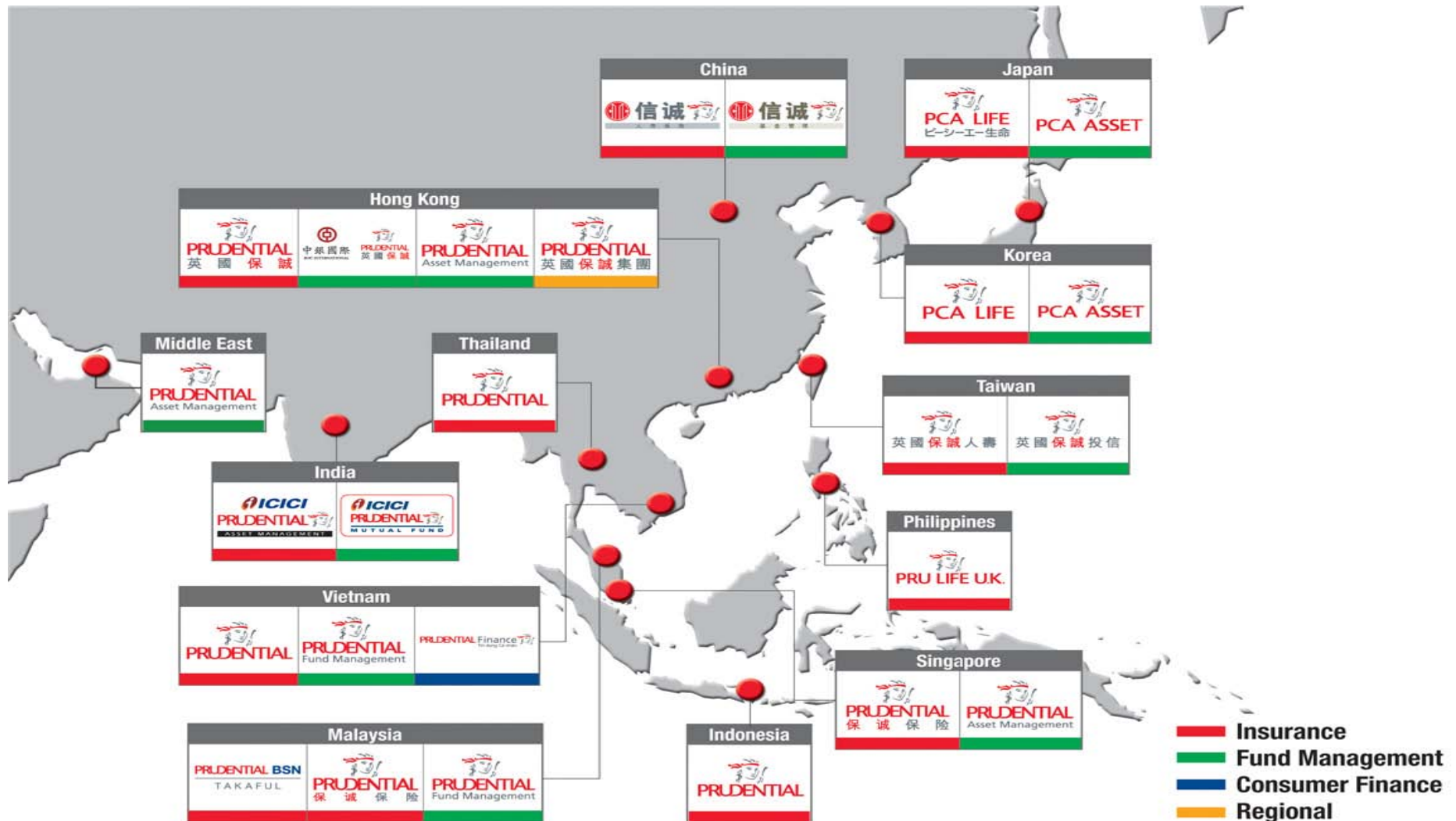
Founded in 1931, M&G was acquired by Prudential in 1999 and is the Group's UK and European fund manager.

Investment teams in 8 markets. PAM Singapore manages Asian Fixed Income and PAM Hong Kong manages Asian Equity, for retail & institutional customers.

More than 450 investment professionals in global asset management teams

Source : Prudential Asset Management, M&G, PPMA

Strong Regional Presence



My Career



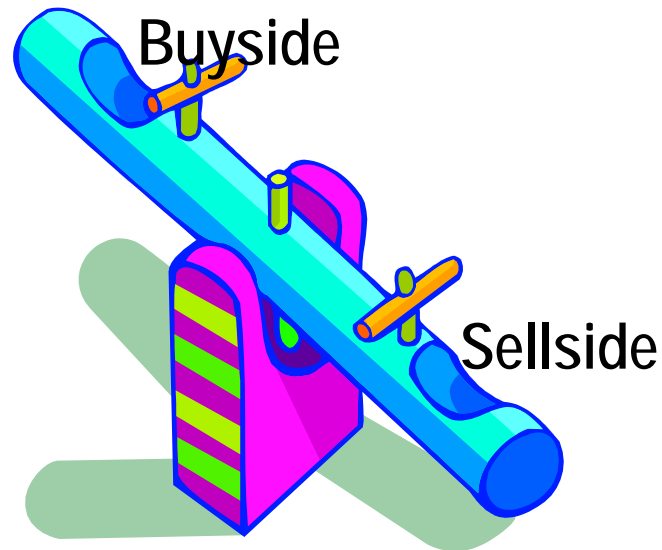
- **Currently based in Singapore**
- **Previously in Abu Dhabi**
- **Scottish Widows in Edinburgh**

My Role

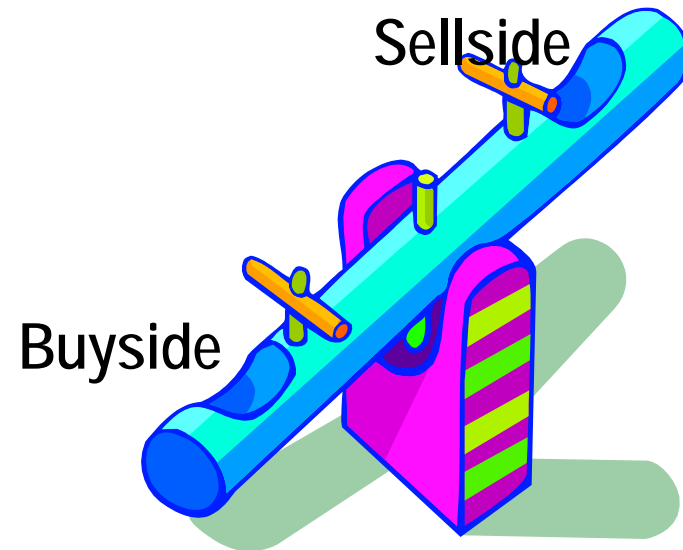
- Head up a team of 9 dealers
- Multi-asset – equities, fixed interest, derivatives, forex
- Pan-Asian and Latin American Equities
- Other instruments to give more global exposure
- Ensure team is well equipped in terms of systems and training to adequately perform their duties
- Ensure trading is carried out as efficiently as possible

Dealing Desk (R)evolution

Then



Now



"Seesaw of Responsibility"

Dealing Desk (R)evolution

Then

Sellside

- Had to use broker for market access
- Better knowledge
- Better systems

Now

Buyside

- DMA/Algos
- Increased transparency/flow of information
- Advanced Execution Management Systems
- Increased focus from clients and regulators on buyside dealers
- TCA

“Empowerment of the Buyside”

Developing a Dealing Desk

- People Stable, experienced, reliable
- Workflows Desk undertakes appropriate tasks
- Systems Able to cope with changing environment
- Access to Liquidity Are you missing out on liquidity pools?
- TCA Measure your dealers and relationships
- Algos/DMA Relevant? Able to access?

Systems - Is Your Desk Equipped?

- TCA accuracy depends upon quality data
- OMS/EMS – several out there, do full due diligence
- Access to Liquidity Pools
- Appropriate counterparty lists
- Freedom to deal where appropriate

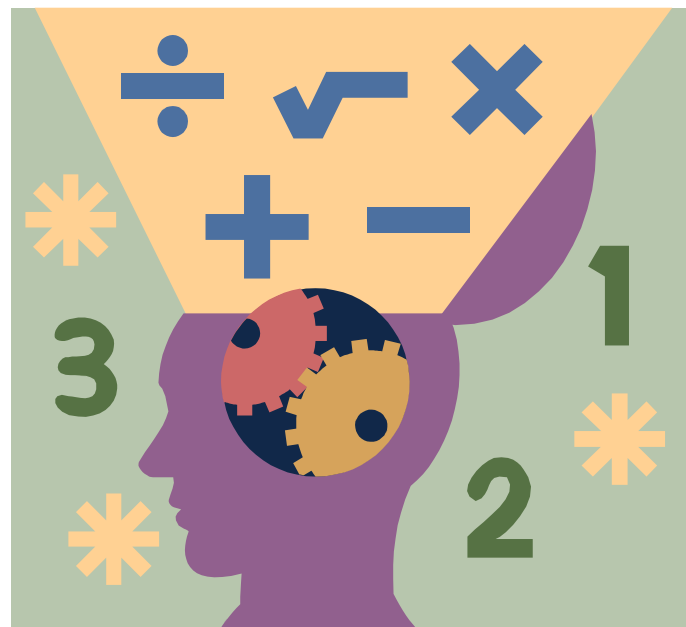
Tasting the Liquidity



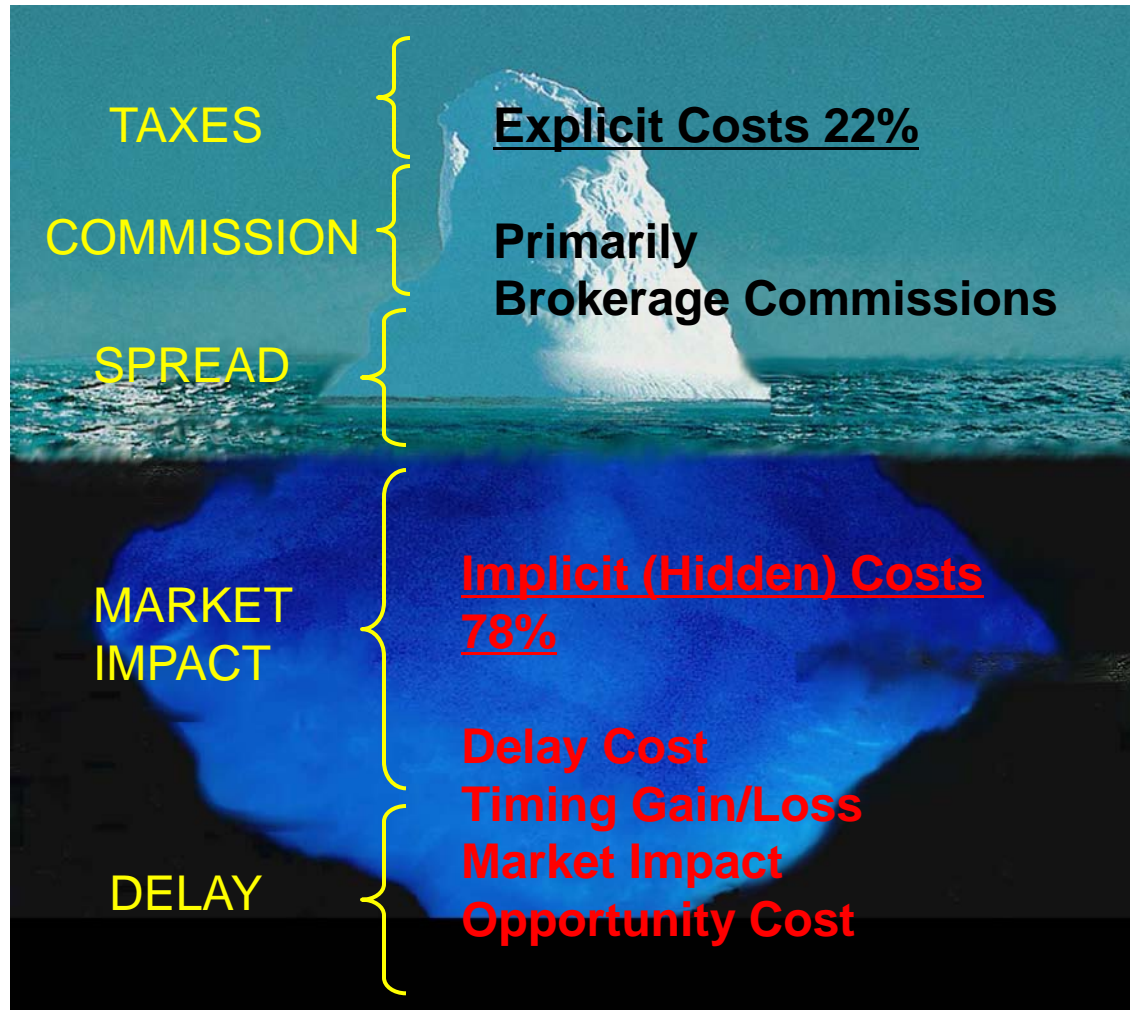
- Liquidity slowly moving away from traditional exchanges
- U.S./Europe trends tend to move to Asia
- Asia more complex - multi-market/regulations
- Japan – JapanCrossing, CBX, SBI Japannext, Kabu.com and others
- Regional – Liquidnet, Blocsec, Chi-X, ITG Posit
- Australia – AXE ECN

DMA/Algos

- Increasingly popular
- Trade management
- Anonymity
- Cost reduction
- **But manage the process**
- **Not a “plug and play” panacea**



Transaction Cost Analysis



Choosing a Benchmark

Clarify Role of Dealers

- Dealing is an integral part of the overall investment process, not a 'stand alone' operation
- Dealing role is to **access liquidity and avoid market impact** – with the application of common sense. In effect to implement an investment decision that has already been made
- Choose a benchmark that best suits your profile and overall investment process
- Seek external advice

Benchmarks

- VWAP Treats dealing as a stand alone operation. Does measurement against a fairly random intra-day price really tell you execution quality?
- I.S. Treats dealing as a part of the overall investment process, making dealers aware of the execution impact on underlying funds

Dealing is the implementation phase of the investment cycle

Implementation Shortfall

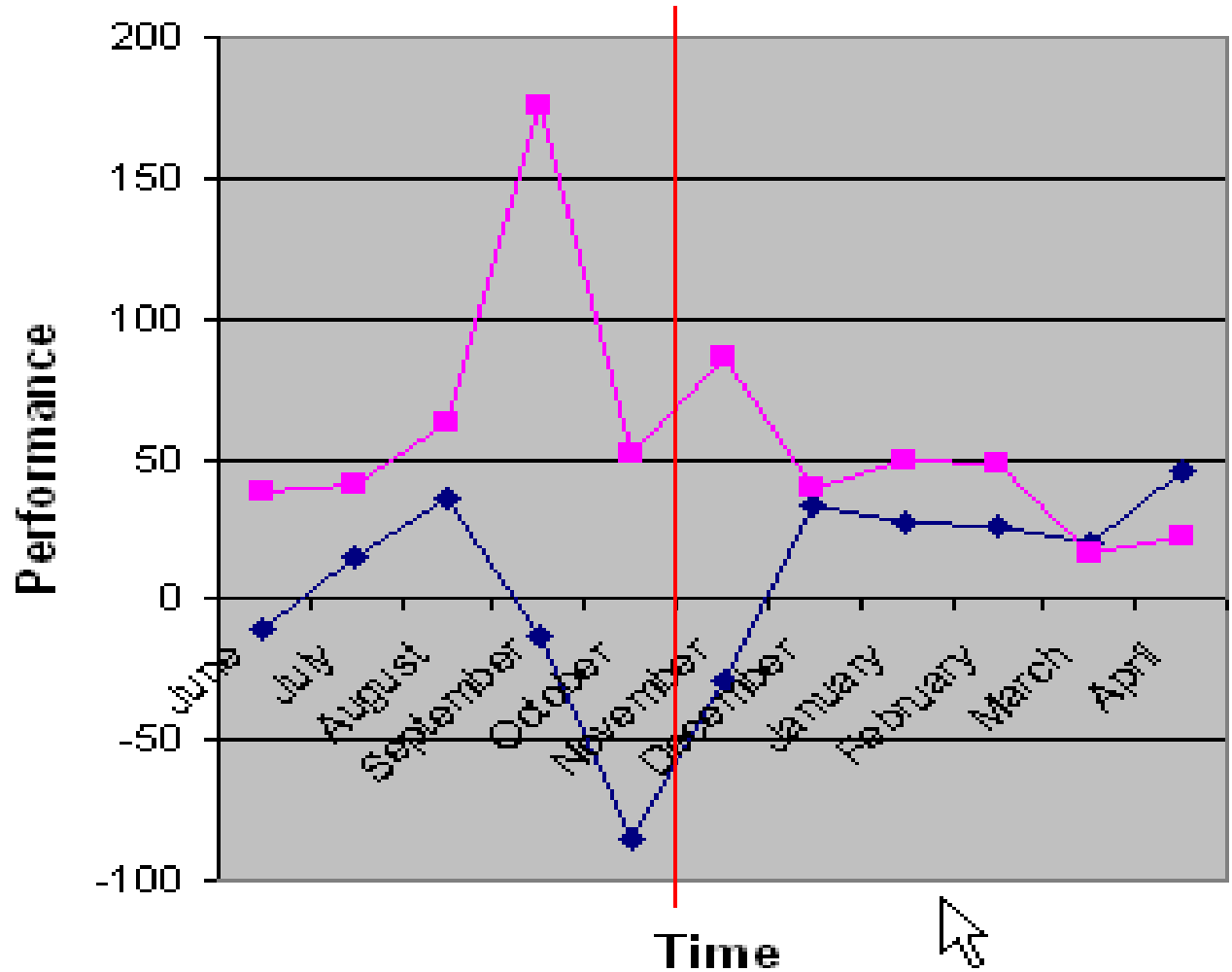
- **Dealing is an integral part of the overall investment process**
- Very simply – difference between decision price and execution price
- Can break into three main sections
 1. Decision point and order reaching dealers
 2. Delay/discretion dealer → broker
 3. Broker → execution
- Can help highlight costs but does not necessarily distinguish between good and bad trades

How to Use the Data

- **Be clear on what you are trying to measure**
- Data cleansing
- Large enough dataset
- Process buy-in from all involved parties
- Internal and external measurements
- Measurement of relationships, not brokers
- Act on the data!

How to use the Data

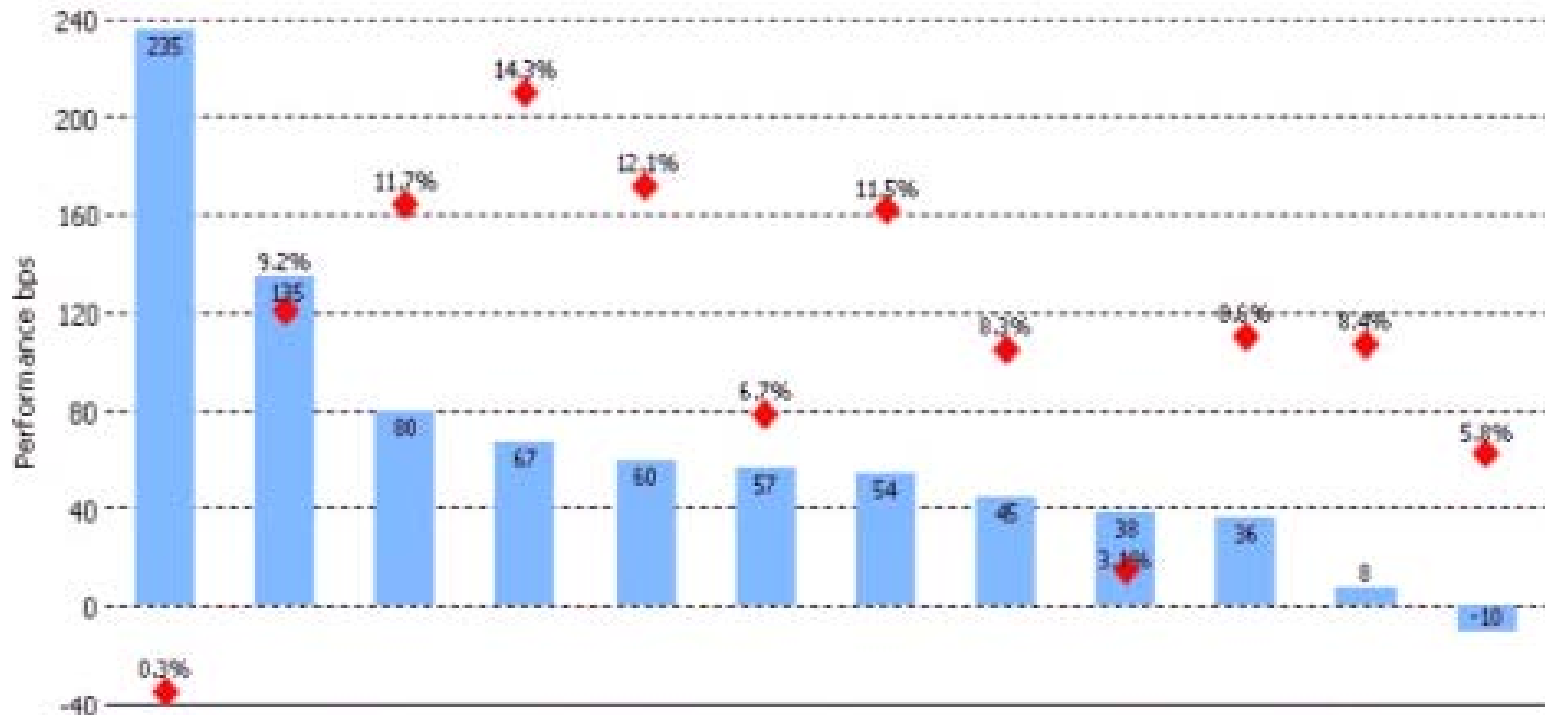
- Program and single stock performance on a 'difficulty adjusted' basis
- Line represents 'going public' with data
- **Be transparent and act on data**



For illustrative purposes only

How to Use the Data

Overall Performance by Core Broker - I.S. Trades



- Overlays performance and percentage of t/o received
- Direct business to consistent better performers

How to Use the Data

- Get Tough but be fair
- Don't just get reports and file them
- “Acting on Results” doesn't necessarily mean removing brokers from execution lists – can mean changes in process or coverage



Perils and Pitfalls

- Nothing is as simple as it seems!
- Very little is “plug and play” despite what you may get told
- Involve I.T., legal, compliance, operations
- Regulatory disclosures
- Internal buy-in to changes in workflow and benchmarks
- Counterparty Risk

Summary

- The dealing landscape has changed and will continue to do so
- Responsibility has shifted to the buy-side
- Increase buy-side accountability with appropriate measurement
- Client and regulators forcing buy-side to “up their game”
- Be professional and transparent
- People, workflows, systems – the key ingredients



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