

A smart order router - built by the buy-side, for the buy-side

Pohjola Asset Management Execution Services Ltd (PAMES)

In 2011, Pohjola Asset Management Ltd (PAM), Finland's leading fund manager, launched its Smart Order Routing and Algorithmic Trading Service in partnership with Investment Technology Group Inc. (ITG). The origin of this offering was PAM's desire to reduce slippage costs when trading equities for their funds.

In order to take full control of the routing logic, PAM build its own buy-side controlled SOR (Smart Order Router) with ITG. As it quickly became apparent that there is demand for this type of offering from other institutional traders, a separate entity, PAMES, was established to market and further develop the buy-side SOR.

PAMES, which is a fully owned subsidiary of PAM, currently offers the SOR to institutional traders and asset managers. The aim of PAMES is to work with like-minded buy-side companies and to provide a low cost, highly efficient execution facility that delivers dramatically improved trading performance.

Performance

After taking control of the routing logic PAMES has seen a proven improvement in execution quality as well as significant performance gains versus trading benchmarks.

Examples from PAM's Nordic performance in the first three quarters of 2013:

- Slippage reduced from around -24 bps in 2011 to around -18.0 bps in 2013.
- The average success rate was 99.04%. 74.90% of the time the price achieved was better and 20.61% of the time equal to the benchmark price¹ available in the market at the time of execution.
- Average improvement compared to benchmark price¹ was 11.38 bps and spread capture 61.97%.

PAMES develops and markets Smart Order Routing and Algorithm Execution Services to buy-side clients.

- Created, used, and controlled by the buy-side
- Sole focus on Best Execution
- 100% anonymity with no information leakage
- Orders not waiting for crossing opportunities
- No internalization or market making activity
- Possibility for customization based on customer execution preferences
- Possibility to work with like-minded buy-side companies leveraging each other's expertise and creating value for each other
- Minimized latency in the Nordics: SOR located in Stockholm, next to the local exchange (Nasdaq OMX)
- An ultra-low latency data centre in Stockholm houses next generation hardware and is segregated from ITG's other client business

Performance summary	% By # of Trades	% By Value Traded
Percentage Success	98.66%	99.04%
Percentage Better	72.52%	74.90%
Percentage Equal	25.46%	20.61%
Percentage Worse	1.34%	0.96%
Not Benchmarked	0.67%	3.53%

Average Improvement	11.38 bps
Value	(€2,185,871)
Spread capture	61.97%
SOR Improvement Potential	0.06 bps
Value	(€10,659)

¹ Benchmark price is provided by Intelligent Financial Systems Ltd. (IFS). It is the best price that could have got by sending a single aggressive order to the trading venue with the best price available at the time the trade executed.

Powered by ITG

PAM wanted to work with an agency broker in the development of the SOR, and after reviewing a number of participants, PAM selected ITG as their partner. ITG is responsible for the operation of the SOR including support and maintenance of all related software and infrastructure. PAMES controls the development of the SOR, its settings, the venues to connect to, and who can access the SOR. ITG tech and quant teams implement the possible changes to the SOR in accordance with specifications provided by PAMES.

Legal and Compliance

PAMES acts as a tied agent of ITG and governance of PAMES falls under ITG's regulatory passport. ITG is responsible for all commercial contracting with the end customers. Existing customers of ITG do not need any additional (tri-party) documentation to transact with the SOR. ITG remains the executing broker and settlement counterpart and all settlement is with regular ITG agents.

"Our router does not look at trading fees and is not conflicted by ownership of alternative trading venues"

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Commission & CSA's

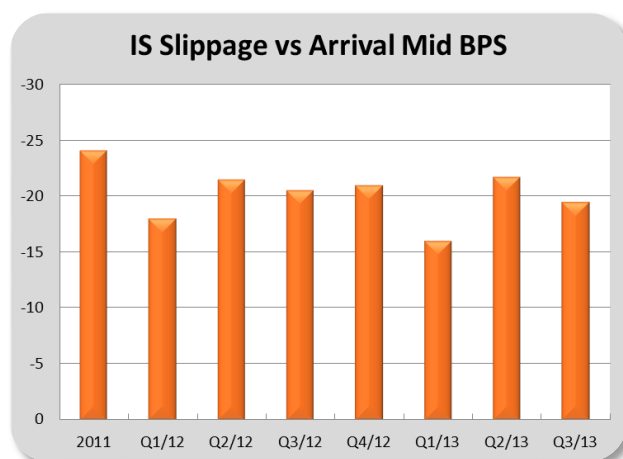
ITG have a revenue sharing model with PAMES, and a monthly reconciliation of transactions/revenues takes place. CSA's are supported.

Connectivity & Service

PAMES's SOR handles Pan-European, USA, Canadian, and Russian orders via the leading EMS/OMS's. Algorithmic, Smart DMA, High Touch, and Portfolio Trading orders are all supported. ITG handles the day-to-day support and onboarding. PAMES cannot see their client flow and it is 100% segregated from ITG's other client business.

Analytics

Intelligent Financial Systems Ltd. (IFS) have been developing systems for financial markets since 1997. They assist PAMES in analysing the SOR performance and provide tools for product development. If requested, IFS can provide similar service for PAMES clients. PAMES clients will regularly receive independent third-party analysis of the SOR performance from IFS.



Pooling our resources.



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