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LIONGUARD CAPITAL MANAGEMENT INC.
COMMENTS FROM GLOBAL TRADING FORUM

Hello Investors,

In March of 2015, Credit Suisse hosted their 10th annual Global Trading Forum. The event attracted Senior Traders from most of North America's largest pension, mutual, insurance, and alternative funds. The emphasis of the conference was on trading techniques, trading technologies, emerging trends, and the ever popular subject of compliance.

Credit Suisse was honoured to have several important speakers including the ex-Federal Reserve Chairman Ben Bernanke and the ex-Chairman of the United States Securities and Exchange Commission, Mary L. Shapiro. There were many panel discussions hosted by senior members of the Credit Suisse team and panellists from the largest funds in North America.

Although the attendees traded for funds that ranged from several million dollars to those literally in the trillions, all those in attendance learned from each other and from the many topical seminars. In this write-up, I would like to comment on my observations from this trader's forum.

Block trading vs algorithmic trading

Electronic trading seems to have plateaued in terms of what the algorithms can and cannot do. After seeing several discussions on new improvements, I walked away thinking that improvements over the last years were minimal. After years of incredible progress in programming electronic "Algos" designed to try and mimic human trading behaviour, many veteran traders spoke of the lost art of "Block Trading." A block trade occurs when a large buyer and seller agree on a price and quantity (i.e. 50,000 shares of XYZ at $50 a share). They can then cross the trade using the broker who connected the buyer and the seller. The benefit being the minimal market impact on large traditional orders.

After the financial crisis, the tolerance for risk was very low. At the same time many junior traders replaced senior veterans and began trading solely through electronic means. It became much safer to spread an order out over the trading day than to try and execute at once with a block. However, there seems to be a renewed interest in block trading in the current equity markets. As one panellist put it "there is much more value in having a trader with a network of reliable counterparts (brokers) than a trader who merely puts orders in the machine…anyone can do that…" On the flip side, some senior traders never saw the benefit of electronic trading and stuck by their traditional methods.

"Blended" trading approach

Both extremes (traditional block trading & electronic trading) have their short comings. In my opinion, a balance between the two, depending on circumstances, is the best choice. Traders with very low tolerance for risk, or with tighter controls from management, tend to not risk pricing a block and watching the price drift in a way that makes their execution look worse and worse. Such traders' performance is rated based on implementation shortfall (slippage), arrival price, volume weighted average price (VWAP) and other methodologies. Therefore, a trader should have a full toolbox at his/her disposal to execute as efficiently as possible given prevailing market conditions, portfolio manager constraints, and when appropriate benchmark considerations.

Unbundling of commissions costs

Another topic of great interest was the potential unbundling of commission dollars. Under the current (traditional) setup, the broker dealer is rewarded for all of the services it provides to its client in the form of commission dollars. It may provide micro or macro research, set up meetings with senior management of various companies, provide capital to facilitate executions which helps reduce slippage risk etc. Brokers also often host industry conferences and other events.

It has been estimated that on a given five cent a share of commission, roughly two cents goes to execution (direct trading costs) and the rest helps pay for all other services. This "one stop shopping" has worked in the past, however there is growing pressure (in particular in United Kingdom) to unbundle commissions forcing portfolio managers to pay for every service individually out of their research budget. In such a case, executions costs would be reduced to two cents or less a share. At this time it is premature to assess whether such a business model will ever be fully accepted in North America.

Regulatory environment and Dodd-Frank

On the regulatory front, one attendee asked the ex-SEC Chairman, if she thought the equity markets had become the "whipping boy" of the investment industry, especially in light of the fact that it had virtually nothing to do with the financial crisis. Mrs. Shapiro was eloquent in her response agreeing that over the counter exotic derivatives linked to fixed income instruments played a large part in the crisis, however the equity market touched almost all Americans directly. It was therefore important to re-establish confidence in the (equity) capital markets through the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

LionGuard Capital Management Inc. perspective

At LionGuard, we strongly believe in always staying on top of regulatory and trading related matters with the goal of protecting our client's interests. In a similar fashion, as we always strive to conduct the best fundamental research and analysis, we constantly attempt to provide the most efficient execution of trades. Reducing costs via blended trading and keeping an open mind to new trading approaches contributes to our bottom line and improves net returns on invested capital for our clients.

For example, with the help of electronic algorithms, we are able to conduct trading in illiquid companies thereby reducing potential slippage. Furthermore, by using several different trading techniques, sometimes at the same time, we are able to get the best possible price irrespective of liquidity conditions. We have also developed a solid and trusted network of sell side partners, who share our vision of always putting client's interests first.

Should you have any questions on any of these topics, or should you wish to cover any of them in greater detail, I would be pleased to discuss them further with you, either in person, or over the phone.

Sincerely,

Mr. Erik Ross DMS FCSI
Senior Vice-President
LionGuard Capital Management Inc.