Sourcing Liquidity Takes Center Stage as Confidence in Equity Inflows Returns, according to Global Survey of Buy Side Traders

Conflicts of interest are among the top concerns for institutional investors

Trading venue consolidation is seen as inevitable; confidence in regulators globally remains low

NEW YORK, March 25, 2015 – Sourcing sufficient liquidity to get large trades done is the top concern of institutional traders globally, according to a survey conducted by Liquidnet, the global institutional trading network. Even as confidence in equity inflows returns, 84% of the survey’s respondents were either “concerned” or “very concerned” about being able to source liquidity in the current market. Liquidnet’s annual Institutional Voice survey canvassed the views of more than 115 buy-side equity traders around the globe.

Market confidence key to equity inflows

The survey found that nearly two thirds of US and EMEA asset managers expect an increase in equity inflows in 2015, with US asset managers marginally more confident that these inflows will be significant.

Market confidence will be a key trigger for greater inflows according to two thirds of respondents, far ahead of the rise in interest rates which was seen as a driver for only one in 10 respondents. Geographically, US and Western Europe are seen as having the highest investment potential; however, markets such as China and India are catching up in third and fourth place respectively.

“Buy-side confidence in equity inflows reflects the improving macroeconomic conditions. But along with this increased confidence, the need to source the right liquidity has become more important than ever. Access to global liquidity pools and new sources of liquidity will be crucial to buy-side firms achieving best execution for their investment decisions. The other side of the trade may often be an investor on another continent, but they will only discover each other if they’re directly connected on the same global network” said Brennan Warble, Head of US Equities at Liquidnet.

Conflicts of interest dent investor confidence

Access to liquidity was cited as the most important factor for buy-side firms when selecting a trading venue, followed by transparency and trust. In the US, access to liquidity was a higher priority compared with Europe where venue transparency was seen as marginally more important.

High frequency trading (HFT) strategies remain a key concern for equity investors worldwide. 76% of respondents still believe that HFT strategies negatively impact some of their orders, with 88% concerned about predatory traders in some dark pools. Broker or venue conflicts of interest are also among the top concern for investors, with two thirds ranking this as a high concern.
Trading venue consolidation is inevitable

Preserving alpha remains a priority for institutional asset managers worldwide, with the majority citing the ability to source block liquidity as a key factor impacting best execution, followed by information leakage and venue and liquidity fragmentation. The majority of asset managers surveyed believe consolidation in trading venues is inevitable, in particular among US dark pools where they expect the number to decrease by 33% in 2016.

“Conflicts of interest exposed over the past year have been a real eye-opener for the buy-side and this has led to greater scrutiny of trading venues. What has become apparent in this process is that only a handful of venues can provide the trust, transparency and liquidity that the buy side needs to deliver performance,” added Tony Booth, Head of EMEA Sales at Liquidnet.

Low confidence in regulators around the world

While the buy side expects to see changes to the current market structure, less than 10% of the US firms surveyed had confidence in the SEC’s ability to make decisions that will positively impact market structure. In EMEA, fewer than 4% of the firms surveyed had confidence that MiFID II would have a positive impact. Additionally, 72% of the firms in the region were concerned about the FCA’s proposed changes to the way research is paid for.

Survey methodology

Liquidnet’s Institutional Voice Survey was developed to gauge insights and market sentiment of institutional traders working for the world’s leading mutual, pension and hedge funds. The results from this year’s survey are based on more than 115 responses from Liquidnet’s network of leading asset management firms based in North America, Europe and the Asia-Pacific region. Participants were polled during a five week period ending January 12, 2015.

ABOUT LIQUIDNET

Liquidnet is the global institutional trading network where more than 770 of the world’s top asset managers and other like-minded investors come to execute their large trades with maximum anonymity and minimum market impact. As the global leader in large block trading, Liquidnet provides access to unique trading opportunities in 43 markets across five continents. Liquidnet approaches every market with the same bold vision to provide a better, more efficient way to trade on a massive scale. It is this focus on size, combined with the strength of its network, disruptive technology, and commitment to transparency, that is revolutionizing the way equities and corporate bonds are traded, and the way public and private companies raise capital. For more information, visit www.liquidnet.com and follow us on Twitter @Liquidnet.