PENSERRA

AFTER HOURS QUARTERLY

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Procuring Market Intelligence Abroad

Commerce is increasingly becoming more global. Now more than ever investment managers are seeking market insights on both domestic and foreign soils before making investment decisions. Deriving these insights requires a multifaceted approach.

CULTURE MATTERS: Different cultures have different norms that can have a large impact on the success of surveys and gathering market intelligence. For example, in China a surveyor requesting answers from survey respondents will have to provide a lot more credentials and information than the same type of respondent in other countries. Prepared surveyors who know these norms and have the requisite aptitude and demeanor can provide better market intelligence.

LOCALIZED VS. CENTRALIZED: Different companies employ different techniques in their quest to gather market intelligence. A centrally located workforce has its advantages, such as easier training (everyone in one spot) and maintaining and enforcing consistent techniques. This latter point is beneficial for the highly regulated investment industry.

A localized workforce of surveyors and market intelligence gatherers has its advantages as well. Localized resources understand the culture and the means in which to get the best results. They can interpret data/answers in the way the respondents intended, and if trained properly, they can translate that information appropriately. They can also have better results because they understand the norms mentioned earlier.

> *"Localized resources understand the culture and the means in which to get the best results…"*

LOCAL LAWS: Different countries have different laws regarding calls for business purposes. For example, in the United States and the United Kingdom, there are opt-out laws in part administered and operationalized by do-not-call lists. However, in China and parts of the EU such as Germany and France, have more restrictive opt-in laws where consumers may not be called unless specifically permissioned to do so. There are also different rules regarding disclosure and what can be asked. Knowing the local laws is very important to the success and compliance of a foreign survey.

BOTTOM LINE: Gathering market intelligence abroad is not as easy as one might think. In most cases, investment managers do not have the resources to gather this type of information efficiently.

Procuring Market Intelligence Abroad (cont.)

Partnering with a company that is dedicated to that function may not only save time and money but also procure better results. Penserra has been conducting surveys abroad for many years. We have developed local resources familiar with country-specific regulations and leverage their expertise to guide the market intelligence process. These internationally located crowd resources, are part of an overall infrastructure that adapts to both client and regulatory needs. The nuances of foreign information gathering can be difficult but the data from these markets can provide a useful edge in the investment process.

For additional information please contact George Schmilinsky at Tailor@penserra.com.

Crossing – A tool, not a strategy in Transition Management

Crossing has gotten more than its share of attention over the years when discussed in the context of portfolio transition events. For a period of time, crossing was the star of all transition management strategies – crossing reduced spread and impact costs, and more crossing was almost universally acclaimed as better than less crossing. As bid/offer spreads contracted and the number of crossing venues expanded, more focus was centered on the opportunity costs associated with waiting to cross. Crossing took on more the role of one of several tools to manage transaction costs – the value of crossing becoming more related to the skill and experience of the transition provider. The advent of high frequency trading and the resulting participation in crossing pools then took a turn in the spotlight – the new concern that dark pools and crossing venues were becoming more the domain of 'shady' characters looking to pick the pockets of institutional order flow as opposed to sources of additional liquidity.

Though continuing to evolve, crossing is still a valuable tool for transition providers to manage trading costs – any security crossed at the bid/offer midpoint or better theoretically incurs zero spread and impact cost. When combined with the reality that it is rarely if ever prudent to wait to cross, or incur opportunity cost in hopes of saving a portion of the bid/offer spread later, crossing becomes an integral part of the quantitative framework for creating a transition strategy. It is important to understand the types of activity that can fall under the umbrella of 'crossing', to be aware of the crossing tools being used by any retained transition provider, and be able to evaluate the benefits and shortcomings of crossing tools included in any transition proposal.

What follows is a list of the primary types of crossing available to transition managers. Based on an evaluation of the positives and negatives, transition managers can then choose which types of crossing makes sense for their clients and their trade strategies.

Crossing – A tool, not a strategy in Transition Management (cont.)

Internal Crossing - Department of Labor (DOL) Exemption

Cross trades making use of the DOL exemption are by definition, crosses between a client transition portfolio and a transition provider's internal index or model driven funds. The crossing price is generally set as the trade date closing price (market-on-close) and no commissions are charged.

Pros - Spread and impact are reduced and there are no commission costs.

Cons - Executions at the closing price subjects the crossed security in question to a full day of active market risk when using an implementation shortfall T-1 close benchmark – the increase in opportunity cost is almost always greater than the anticipated spread and impact cost savings. In addition, the inability to constrain crossing results to specific dollar targets opens the door to scenarios where unequal dollars crossed on the buy and sell side creating an exposure mismatch that actually increases short term active risk and generates shortfall in excess of the savings associated with crossing.

Though generally offered at zero commission, the appeal of DOL exempt internal crossing often fades as the practical implications of greater opportunity risk plays out in the form of increased implementation shortfall.

Internal Crossing - Fiduciary

Some transition managers acting as a fiduciary offer the opportunity to cross transition legacy and target portfolios against trade flows from other clients for whom they are also acting as a fiduciary. The key questions are what internal mechanism is created to match trades, who sets the cross prices, and when those prices are set.

Pros - Again reduced spread and impact and zero commission costs to the TM client.

Cons - Revolve around muddying the role of fiduciary with concerns about how and when crossing trades are matched and how crossing prices are set.

Internal Cross - Indications of Interest (IOI)

Crossing based on indications of interest, or sales trading order flow, is a crossing technique used by some transition managers. Traders will shop larger block orders to trading counterparties who may have interest in those names. Indications include the security name, general size to trade and side of the market (buy/sell).

Pros - Transition providers with large networks of counterparties may be able to source additional liquidity.

Cons - Significant information leakage that can adversely affect shortfall performance. In addition, there is potential for conflicts of interest as transition managers get paid on both sides of IOI trades and may have unique incentive both in terms of how much IOI trading to do and how to set the crossing prices.

External Cross - Affiliated Dark Pool

Some transition managers own proprietary dark pools or have a financial interest in a collective dark pool. External cross trades in affiliated dark pools generally incur the negotiated commission rate and can represent legitimate sources of additional liquidity.

Crossing – A tool, not a strategy in Transition Management (cont.)

Pros - Additional liquidity that reduces spread and impact costs.

Cons - The potential financial conflicts associated with routing trade volume first to a venue in which the transition provider has an interest.

External Cross - Unaffiliated Dark Pools or Alternative Trading Systems (ATS)

Dark pools and ATS can be valuable tools for managing trading costs when screened for appropriate counter-parties and used by providers not optimizing order routing for rebates. There are roughly 60 of these liquidity sources available to global equity traders. Orders can be limited to executions at mid-point or better. Trading technology allows smart routers to 'sweep' these venues to see if an immediate mid-point or better cross is available. The end result is that every order that makes it to the open market has been screened instantaneously through multiple liquidity sources to determine if a lower spread and impact execution is available.

Pros - The value to external dark pool crossing is that they provide a tool to help actively manage trading costs.

Cons - The existence of predatory counter-parties and the potential to increase opportunity cost. This concern can be managed by experienced traders and thoughtful transition strategy.

The bottom line is that crossing continues to be an important tool for managing trading costs, but not all crossing should be considered equal. More specifically, some types of internal crossing have the potential to be problematic for transition management clients. Transition clients should consider requiring revenue attestation documentation to increase transparency and better understand the revenue implications and potential conflicts involved in the use of certain crossing tools. When used by experienced traders and transition managers, transparent crossing strategies can provide significant benefit and should be considered as part of any thorough transition plan.

For additional information on our Transition Management Services please contact transitions@Penserra.com

The Top 3 Blunders an ETF Sponsor Can Make

This article is directed at the nascent or would be sponsor of an ETF, which is to say someone looking at launching their own ETF and wondering what can go wrong. There are, of course, many things that can go wrong if you don't prepare properly, but I wanted to share the top 3 things that I have seen over the years and continue to see. This article should also be of interest to ETF investors as the problems outlined tend to result in low asset levels for a fund, wide spreads, premium pricing and associated high risk of fund closure.

The Top 3 Blunders an ETF Sponsor Can Make (cont.)

One - ETFs are sold not bought

There is a perception that because an ETF can be easily bought through any broker in any brokerage account that it will be. I think this is especially true of people coming from the mutual fund world where you need to have selling agreements in place with intermediaries which can be onerous and costly. The thinking is you just list an ETF for trading on an exchange and anyone can buy it. It is the rare anomaly when things play out that way and generally speaking ETFs are sold, not bought. The single most important driver of AUM and business success in the ETF space is a sensible distribution strategy. It also happens this is the hardest part to get right.

Two - ETFs are not investment strategies

ETFs are vehicles that deliver investment strategies. ETFs have become such a hot, trendy, successful product that people often think of the ETF as the strategy itself. For many investors the ETF is the better mousetrap as a vehicle to deliver an investment strategy. I would caution sponsors looking at launching new ETFs to make sure that the first things explored are whether the strategy is a good strategy and does it fit within a sensible distribution strategy. If the answer to either of these questions is unclear you should probably not move forward with product development.

"ETFs have become such a hot, trendy, successful product that people often think of the ETF as the strategy itself…""

Three - The "ET" in ETF is Important

ETF stands for exchange traded fund and the exchange traded part is very important. For the investor to have a positive experience trading an ETF you want to see efficient pricing, tight bid-ask spreads, and good size behind market quotations. This typically doesn't happen by accident and actually takes a strategy and some dedicated capital markets resources to make it work properly. The best sponsors will have on-going relationships with many of the largest APs and liquidity providers and will constantly set and review expectations and performance with each of them, ensuring that pricing, spreads and liquidity are in line with expectations. Sponsors should also make "ETF trading best practices" a key part of the sales process and client communication, and investors should be aware of such practices, the most basic of which is to use limit orders.

There are many more things that can and do go wrong, but the ones I list here are the most common and most overlooked or misunderstood of the lot. The good news is that with some thoughtful product development and careful planning you can properly address these and other risks that lurk around the still young and fast growing ETF space.

For additional information please contact Dustin Lewellyn at ETF@penserra.com.

WHAT'S NEW AT PENSERRA?

In the September 2015 issue of aiCIO magazine Penserra was pleased to be rated very favorably in their annual transition management survey. Penserra was ranked second only to BlackRock in Client Satisfaction Scores surpassing other firms like Russell, State Street, and Northern Trust. In our debut on the survey, we were mentioned as: "The sleeper to watch: Penserra, who with a satisfaction score of 4.71 is the highest of the regional providers – its region being the US. With renewed focus on improving service and hiring industry talent, this is the firm to watch."

In addition, we are pleased to welcome two new employees to Penserra in the third quarter. Daniel Carter joined the firm as a Crowd Engineer for Tailor Research in our Orinda office. He was most recently with Verisight and holds a Bachelor's Degree from CSU Sacramento. We also hired Kyle Melthratter for Institutional Sales to focus on Tailor Research sales and marketing. Previous to joining the firm Kyle spent five years at Scottrade as an Investment Consultant. He holds a Bachelor's Degree from CSU Sacramento and holds a Chartered Financial Analyst (CFA) designation.

UNITED STATES

1	**BlackRock**	4.75
2	**Penserra**	4.71
3	**Abel Noser**	4.62
4	**Russell**	4.54
5	**State Street**	4.35
6	**Loop Capital**	4.29
7	**Northern Trust**	4.29

(Source: CIO Magazine, p.48)

Penserra Research Universe

Ticker	Full Company Name
AAP	ADVANCE AUTO PAR
ACAT	ARCTIC CAT INC
BECN	BEACON ROOFING S
BGFV	BIG 5 SPORTING
BIG	BIG LOTS INC
BOOT	BOOT BARN HOLDIN
BWS	BROWN SHOE CO
CAB	CABELA'S INC
CASY	CASEY'S GENERAL
CCK	CROWN HOLDINGS I
COH	COACH INC
CONN	CONN'S INC
CTB	COOPER TIRE & RU
DKS	DICK'S SPORTING
DLTR	DOLLAR TREE INC
DSW	DSW INC-CL A
ETH	ETHAN ALLEN
FINL	FINISH LINE-A
FRAN	FRANCESCAS HOLDI
FRED	FRED'S INC-A
GMCR	KEURIG GREEN MOU
GME	GAMESTOP CORP-A
GT	GOODYEAR TIRE
HIBB	HIBBETT SPORTS I
HOG	HARLEY-DAVIDSON
IRBT	IROBOT CORP
KATE	KATE SPADE & CO
LL	LUMBER LIQUIDATO
LULU	LULULEMON ATH
MW	MEN'S WEARHOUSE
ORLY	O'REILLY AUTOMOT
PIR	PIER 1 IMPORTS
PLAY	DAVE & BUSTER'S
PLCE	CHILDREN'S PLACE

Ticker	Full Company Name
RCII	RENT-A-CENTER
RDEN	ELIZABETH ARDEN
SAM	BOSTON BEER-A
SBH	SALLY BEAUTY HOL
SFM	SPROUTS FARMERS
SHOO	STEVEN MADDEN
SKX	SKECHERS USA-A
SODA	SODASTREAM INTER
SSI	STAGE STORES INC
TCS	CONTAINER STORE
TFM	FRESH MARKET INC
TUMI	TUMI HOLDINGS IN
ULTA	ULTA SALON COSME
VRA	VERA BRADLEY INC
WGO	WINNEBAGO INDS
Y	ALLEGHANY CORP
ZAGG	ZAGG INC

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ABOUT PENSERRA

Founded in 2007, Penserra is an institutional financial services firm with offices located in the New York, Chicago, and San Francisco areas. Through state of the art technology, Penserra Securities LLC delivers products and services in equity, fixed income, interest rates, and credit markets. Our networks deliver global connectivity to customers seeking unparalleled liquidity and flow in orderly marketplaces. Penserra Capital Management LLC is a Registered Investment Advisor with the Securities and Exchange Commission and affiliate of Penserra Securities LLC. Advisory and fiduciary services including transition management and ETF sub-advising offered through Penserra Capital Management LLC.

Penserra Securities is a certified Minority-Owned Business Enterprise (MBE).

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