

STATE STREET GLOBAL MARKETS®

Transaction Costs – Do They Matter?

Daniel Wiener

Agenda

- Why we should be looking at trading costs
- Complications with Transaction Cost Analysis
- The future of Transaction Cost Analysis

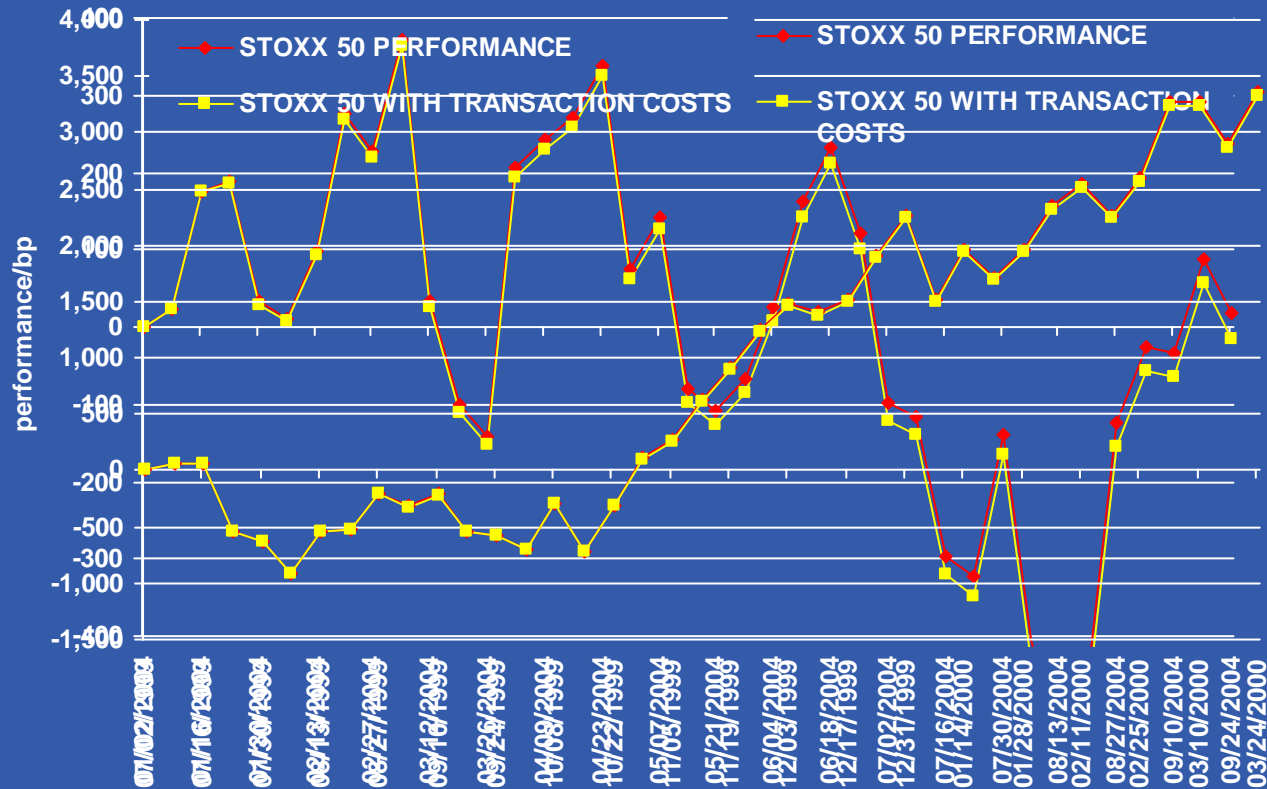
Does trading really have an impact?

Market	Total transaction cost
US – Large Cap	-91 bp
US – Small Cap	-180 bp
Europe – UK	-93 bp
Europe – ex UK	-163 bp
Asia – developing	-144 bp
Asia – Japan	-106 bp
All Emerging Markets	-200 bp

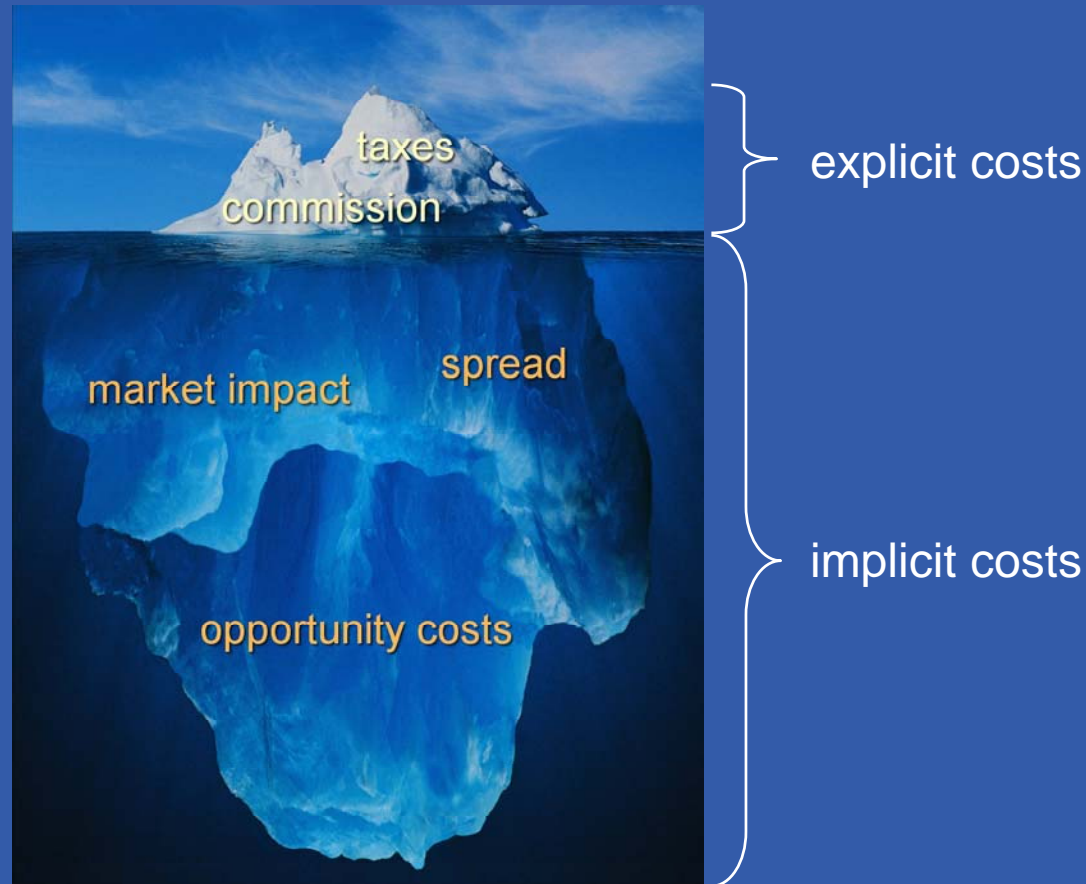
What is the effect on fund performance?

trading cost	-91 bp
fund turnover	25%
impact on fund performance	-40.5 bp

Trading Costs Are More Significant Now



Where do the costs come from?



Different ways of measuring transaction costs

- Value benchmark
 - Implementation Shortfall
- Pier group benchmark
 - Volume Weighted Average Price

Issue 1 – Comparing Like for Like

Which is the best trade?

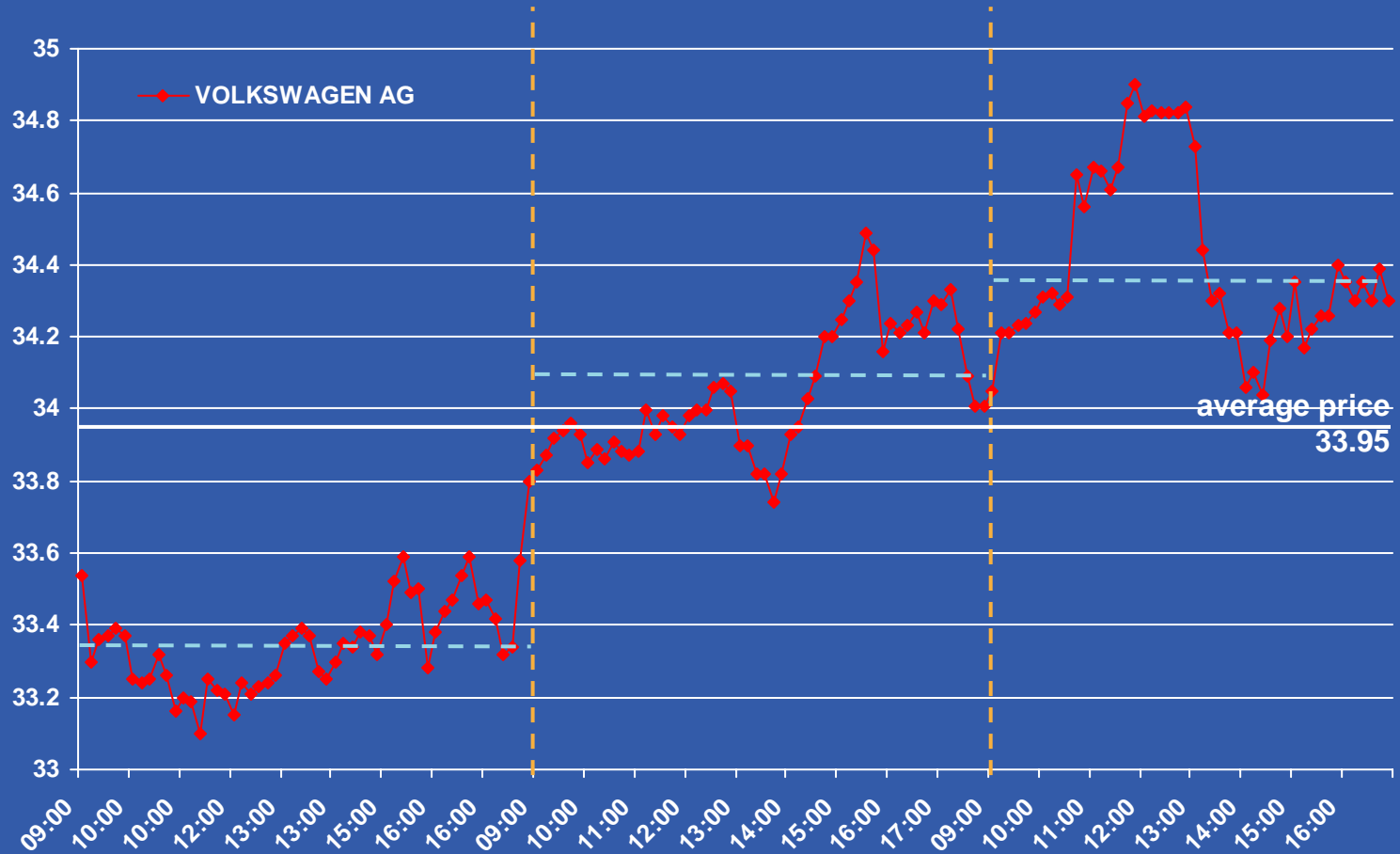
22 bp

Investing €50 million in an
S&P500 basket

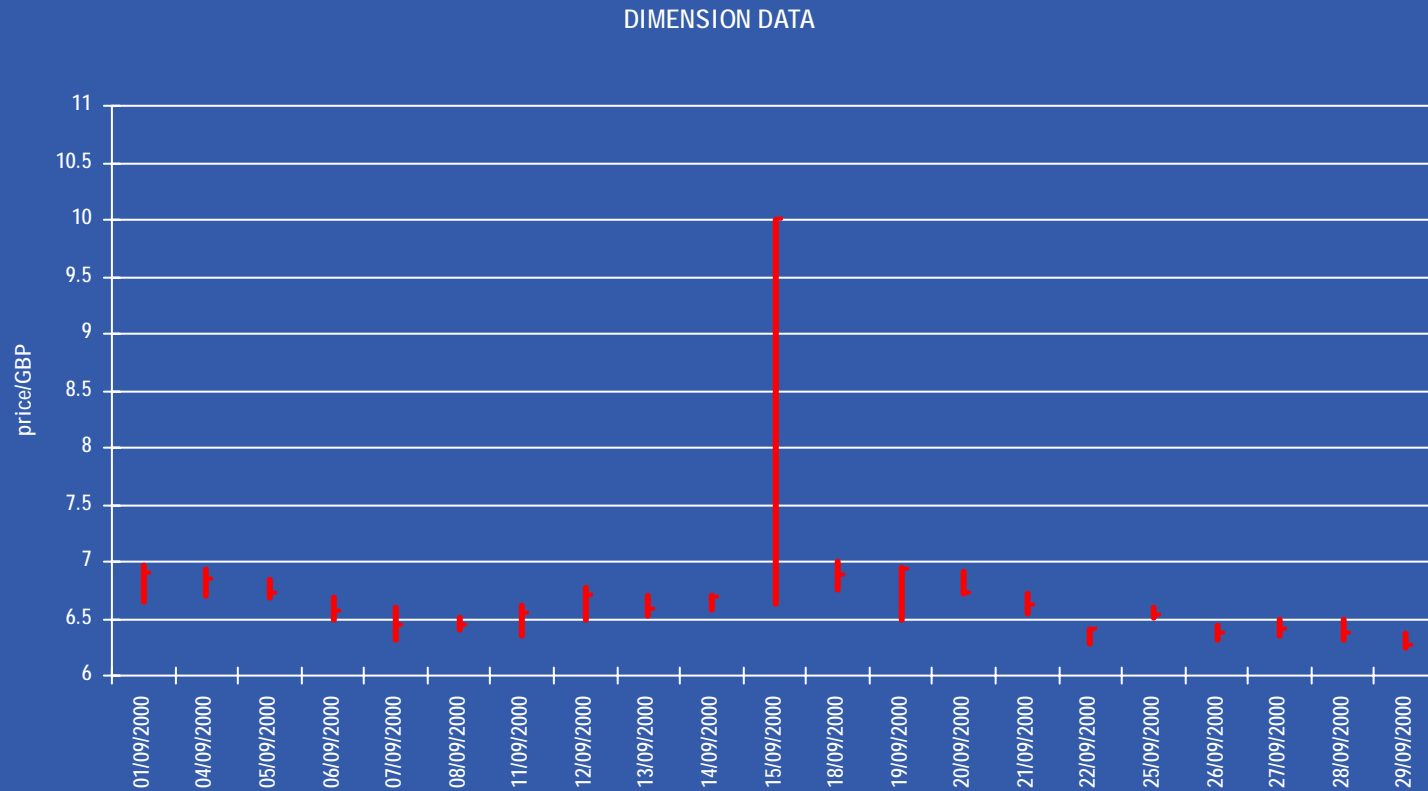
94 bp

Investing €250 million in
European small cap

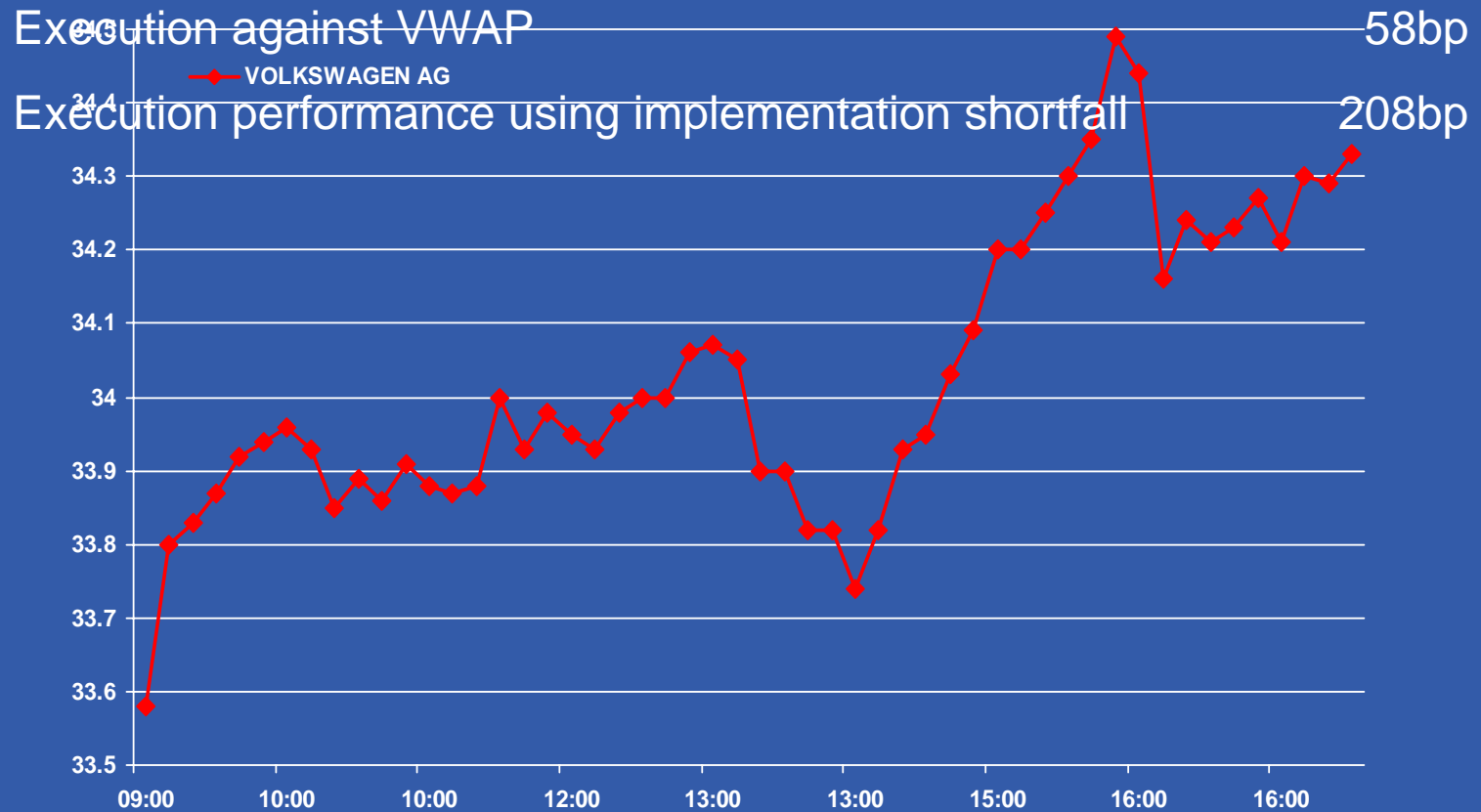
Issues 2 – Gaming the Benchmark!



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Issues 3 – Too many assumptions?



Conclusions

- Trading is a vital part of the investment process
- Recognise the true costs of trading
- Tracking trading costs is vital
- Monitor trading processes

The future of Transaction Cost Analysis

- Improved standards
- Multi-asset class capability
- Creating understanding and awareness of the trading process