Tim Wildenberg, Neonet

Photos: Claudia Gannon

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A home from home

After nearly 30 years in the City, Tim Wildenberg has moved north for his ideal role: returning Stockholm-based agency broker Neonet to its core mission of delivering excellent electronic execution.

Chris Hall

The most perfect example of the rhetorical question may be the one put to a former magician's assistant who later married her employer on the spoof BBC interview show Mrs Merton: "What first attracted you to the millionaire Paul Daniels?" I was reminded of this just after I asked Tim Wildenberg, who formerly ran European electronic execution franchises for first UBS then Citi, what first attracted him to the role of CEO at Stockholm-based agency broker Neonet.

"It's very rare," replied Wildenberg, "to get the chance to run a business that epitomises everything you've been doing professionally for the past 16 or so years." The key difference, he suggests, between running 58-strong Neonet and Wildenberg's positions at bulge-bracket firms is focus. In a large investment bank, the execution services team may have access to significant resources, but it also has to fight hard for them, potentially slowing down responsiveness to client demand.

"At a large firm, conflicts of interest can arise. You might have to beg, borrow and steal resources from elsewhere so your chances of success are determined by the level of support you receive from above," he says. "At Neonet, we're all focused on offering great execution quality to our clients. Our FIX connectivity team isn't nine floors away, they're in the same room."

When execution services is pretty much all that you do, it focuses the mind on getting it right, fast.

Reversion strategy

Although they have taken different paths, Neonet and Wildenberg have similarly long pedigrees in electronic trading. In the mid-1990s, when working at Barclays de Zoete Wedd, the UK investment bank's former equity franchise, Wildenberg was involved in discussions about connecting the bank remotely to the Swedish firm, established in 1996 by Simon Nathanson, to support its European capabilities. Under Nathanson, Neonet quickly became known as a pioneer of direct market access (DMA). It joined exchanges first across Europe and then in major markets beyond, offering both buy- and sell-side firms remote electronic connectivity to equity markets beyond their own borders.

Business boomed but as DMA gave way to algorithms and firms wanted greater control over how their trades were executed in non-domestic markets, Neonet slipped off the pace. Acquisition by Orc, the Nordic derivatives trading technology specialist, offered the opportunity to leverage Neonet's equity market skills and product offerings, notably in the realm of smart order routing (SOR) and exchange gateway technology, but the expected cross-asset synergies were slow to emerge and a drive for technology services sales diluted Neonet's focus on execution excellence. In 2012, Orc's new owner, private equity firm Nordic Capital, separated out Neonet and CameronTec (another previous acquisition), before new investors – Hay Tor Capital (60%) and KAS Bank (20%) – gave the firm a new, narrowed direction and Wildenberg a mandate to put Neonet back on the map when he joined the firm in August 2013. Neonet's board membership – which includes Aquis Exchange founder and former Chi-X Europe CEO Alasdair Haynes and commission unbundling expert Neil Scarth of Frost Consulting – also reflects the firm's focus.

When BZW's equities and corporate finance businesses were sold by Barclays to Credit Suisse First Boston, Wildenberg joined Swiss Bank Corporation ahead of its 1998 merger with UBS, where he rose to lead the firm's successful Direct Execution franchise in Europe. UBS became a market leader under Wildenberg in the supply of execution algorithms and other electronic trading services to the buy-side, but he acknowledges the firm's prior investment in FIX connectivity and ongoing senior management support as critical to the growth of the business. After leaving UBS in 2011, Wildenberg spent two years honing Citi's electronic execution offering when Neonet came knocking.

Where Wildenberg worked

- Started City career in 1985 as blue button on LSE floor at W. Greenwell & Co
- Moved to Barclays de Zoete Wedd in 1986, becoming deputy head of European trading in 1995
- Joined UBS in 1997, rising to European head of Direct Execution
- Moved to Citi in 2011 as European head of electronic execution
- Appointed CEO of Neonet Securities in 2013
- Other positions held: founding director of FIX Protocol Limited, board member of Chi-X and Turquoise

Algorithmic re-engineering

Wildenberg does not intend to change Neonet radically, however. His first task has been to make Neonet better at its core business of execution, across its product range of DMA, algorithms, smart order routing and market connectivity, execution management systems and transaction cost analysis (TCA). The firm will continue to seek business from both buy- and sell-side clients.

"The sell-side like the independent and unconflicted nature of our business model, which means they're comfortable partnering with us. We are never going to compete with them by providing research. Similarly, the emphasis on unbundling and increased use of commission-sharing agreements (CSAs) on the buy-side mean that firms are very focused on buying agency execution services on merit," he says. "It feels like the right time to building up an execution-only business."

Neonet will continue to sell technology services to large brokers, many of which execute a healthy slice of their cross-border equity business in their own name but across Neonet's infrastructure.

One example of Wildenberg's approach to growing Neonet's business is the extension of an existing relationship with LiquidMetrix, the London-based execution analytics business. LiquidMetrix has made its name developing a number of sophisticated analytics to help firms identify factors influencing execution performance, notably in dark pools. Needing to prove to clients the efficiency of its SOR capabilities in routing orders to venues across Europe, Neonet partnered with LiquidMetrix in 2011 to provide its clients with independently verified third-party TCA and was an early user of its detailed execution analytics, including spread-capture metrics.

And now the two firms are collaborating on a new suite of execution algorithms. Wildenberg says Neonet already has a "perfectly fine standard algo offering" but customer feedback suggested that improvements in the firm's algo execution performance would yield a greater share of business. As such Neonet and LiquidMetrix have spent much of the last few months with their collective heads under the bonnet. Wildenberg says the result is not the next great leap forward in algorithm development (that comes later, apparently), but rather a fine-tuning exercise that concentrates on the fundamental requirements of an algo platform to deliver better results.

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"As well as the technology, the connectivity and the computing power to make the necessary processing decisions, you also need the quantitative overlay, i.e. the combination of historical data analytics capabilities with the knowledge and expertise to optimise the execution strategy."

Wildenberg describes the working relationship with LiquidMetrix as close, with the latter's quantitative analytics – including their AlgoFuel pre-trade statistics – gradually being integrated into Neonet's algorithms. "LiquidMetrix are respected for their post-trade analytics, but this initiative allows them to demonstrate their quant modelling skills without having to move into the business of writing algos themselves. For the moment it's an exclusive relationship that would be hard to replicate with other parties. We're very much joined at the hip."

The new algorithms have been tested on a universe of 2,000 European stocks and are now being used internally by Neonet as well as selected clients. The firm is now using those results to put together a meaningful data set to demonstrate performance improvement, says Wildenberg.

"The edge is in the ability to analyse the market microstructure and anticipate changes to improve the result, which might be a matter of identifying the optimal time to cross the spread or taking decisions on how far ahead or behind a given benchmark you're prepared to go."

Survival of the fittest

Neonet's resurgence coincides with a secular change in the equity trading environment. Volumes have struggled to reach pre-crisis levels, even though values have, leading many to suggest a permanent change

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to the landscape has taken place, with low volumes and wafer-thin commissions the norm. On the sell-side, diminishing margins in derivatives and fixed income mean equity trading businesses must stand on their own two feet or be jettisoned, the regulatory demands for greater transparency on research and execution payments only adding to the squeeze. On the buy-side, clients still value liquidity, but the larger asset managers are increasingly looking beyond brokerage partners for many of their trading needs, while many of the smaller firms are struggling to justify continued investment in their trading desks.

This might not seem the most promising of scenarios for growing a business that relies on transaction volume in the equity markets. Wildenberg believes the simplicity of Neonet's business model gives it a very clear focus on what is required to succeed and thrive.

"We're lean by nature. I cannot subsidise my business so I have to understand my costs," he says. "We're willing to operate at a price point that other firms might not be comfortable with. This means we can and do care for the clients that other brokers currently care less about. And the longer the current environment lasts, the more significant the effects will be on the bigger players. The large banks still have major cost control problems, while our ability to respond to client need is unparalleled. There is clearly an opportunity for a firm that can provide good service and high execution quality at a competitive price point without having an ulterior motive for wanting the business."

Wildenberg suggests that although some large buy-side firms will continue to want their execution needs to be serviced by traditional sales/electronic/portfolio trading triumvirate, many brokers will rethink their value add and reconsider whether and how they continue to compete in the execution business. "The current pressures on the business means that banks will not be able to afford to run these silos offering broadly the same services as their rivals to the same client base."

While Neonet's success in winning technology service business as part of Orc

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means the firm has slightly more of a sell-side bias to its revenues than Wildenberg would ultimately like to see (the firm has already seen a shift from execution technology revenue to execution revenue), the legacy has its advantages that will continue to support the firm's growth. Neonet's extensive exchange membership and technology infrastructure means it continues to be well placed to support the execution capabilities of the sell-side, e.g. a mid-tier broker that wants to deploy its own technology in its domestic market but outsource connectivity and routing to adjacent other markets. Moreover it already has the infrastructure to on-sell its services, at a time when an increasing number of brokers are reconsidering whether their value-add to the end-client lies elsewhere.

"We attract a range of different players," says Wildenberg. "Some very large firms use us as their back-up connection. Big Bank A will always prefer to outsource connectivity to us rather than Big Bank B because they know it's our technology end to end and they won't want Bank B to know when and if they have a problem."

Pace of change

Wildenberg welcomes the UK Financial Conduct Authority's (FCA) determination to enforce greater transparency about how asset managers pay for brokerage services, but admits it is unclear how quickly the industry will change. "Some asset managers regard it as a storm in a teacup, while others are already working out how to pay research from their own pockets. And while the FCA is going in the right direction, there is a risk to the UK financial services business if there isn't a broader wholesale acceptance globally. The large banks in the research and execution space are operating on large volumes and thin margins. Even a tiny change in behaviour by clients over the purchase of research will have a massive impact on their viability."

UK lobby group the Investment Management Association has also pointed out that Europe needs to embrace the transparency principles espoused by the FCA for them to take root fully on the buy-side, but Wildenberg notes growing interest of asset managers in use of CSAs and also alternative sources of research input. "I think we will see further development of independent research provision. Neonet is a good vehicle for the collection of revenues for independent research providers of course, but beyond that increasing numbers of asset managers are already using research from sources that are more specialist and qualified than a bank, and at a cheaper price."

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