

EnergyRisk
AWARDS2016



**Broker of
the Year**



Broker of the year

OTC Global Holdings

As regulatory change and relentless competition put the squeeze on the brokerage business, a wave of consolidation has hit interdealer-brokers in recent months. In January, New York-based BGC Partners completed its merger with GFI Group, also based in New York, and London-based Tullett Prebon's acquisition of the global brokering business of Icap, also based in London, is expected to close later this year.

Against that backdrop, OTC Global Holdings (OTCGH) has stood out for its ability to stay independent while growing its business and adding new coverage areas. The Houston-based firm, which has traditionally focused on energy, saw its top-line revenue grow 4.5% in 2015 and expanded into metals for the first time. The firm has also been resilient as the commodity derivatives markets have undergone radical change, with banks playing a much more limited role than when OTCGH was founded in 2007, says Javier Loya, the firm's chairman and chief executive.

"Our model really focuses on relationships," he says. "As our clients change with more hedge funds and trading companies entering the space, we need to have a diverse group of brokers with skill sets covering all the commodities to be able to best service that client, as he evolves from working at a desk at a bank to now working at a multi-commodity strategy fund or by himself at a startup fund trading three different commodities."

OTCGH has just under 300 employees, located in Chicago, Houston, New York, New Jersey, London, Geneva and Singapore. By design, the firm operates as a network of boutique brokerages rather than a large conglomerate. Each of OTCGH's 18 portfolio companies has its own independent branding, while sharing back-end technology and other resources.

Loya says his model gives brokers the efficiencies of a large firm without compromising their brand or entrepreneurial spirit. "As the industry has experienced consolidation, we've seen teams of brokers that were kind of unsure of their future," he explains. "Then they come to join a team like us that offers the kind of boutique, bespoke feel that allows them to be successful, but has the amenities of a large firm."

Clients praise the company as a key source of liquidity in certain energy



"Our model really focuses on relationships. As our clients change with more hedge funds and trading companies entering the space, we need to have a diverse group of brokers with skill sets covering all the commodities to be able to best service that client" Javier Loya, OTCGH

markets. Those include natural gas options and calendar strips, same-day power options and financial transmission rights, says Ernest Scalaman-dre, founder and managing member of AC Investment Management, a New York-based fund of funds that specialises in commodity hedge funds and also invests directly in commodities itself.

"OTC Global Holdings is almost without peer in certain areas in terms of its reach within the trading community and its ability to find liquidity," Scalaman-dre says. "You'd be missing a big chunk of the market if you didn't go to them."

OTCGH has been opportunistic in building its business as other brokerages have cut back. In May, for example, its portfolio company Aalpha Energy launched a crude oil options desk in London. The desk is led by Tim Sykes, who previously built out the oil options business at PVM, the London-based oil brokerage acquired by Tullett in 2014. The move came a year after Aalpha set up a three-person desk in London to handle the Dated Brent market. Aalpha – which is one of OTCGH's newer portfolio companies, formed in 2014 – operates in London, New York and Houston, and it has also established a satellite office in Geneva and is working to open a Singapore office to serve Asian clients.

Another notable development was OTCGH's May 2015 formation of its Elite Metals desk, part of Elite Brokers, another OTCGH portfolio

company. The creation of the New York-based desk marked OTCGH's first move into the metals space. Its brokers will focus on brokering futures and over-the-counter options in precious metals for clients including hedge funds, investment banks, commodity trading houses and corporates.

Technology has been another area of focus for OTCGH. In February 2015, it bolstered its electronic trading platform, EOXLive, by enhancing the price information available on natural gas options trades, an area where OTCGH is seen by many traders as a market leader.

"It's hard to believe, but if you want to trade natural gas options of any significant size, you can only do it at EOXLive, which is a project we've been working on for many years," Loya says. "It aggregates our seven brokerage shops that broker natural gas options, so at one place, you can see all the markets and access all the liquidity pools." ■