

Outsourced Trading, Beyond Execution

Outsourcing Influencers Community:
A conversation with Cowen Outsourced Trading,
Russell Investments and OSMO – September 30th, 2020

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We held an interesting panel on September 30th – with industry participants **Massimo Labella** from **Cowen Outsourced Trading**, **Jason Lenzo** from **Russell Investments** and **Ian Forrest** from **OSMO** – focussing on the latest outsourced trading products available. We discussed how these activities could help buy side firms understand what they could use to enhance their current execution, and beyond execution activities and what outsourcing options are available for future consumption.

Whilst there was a general consensus that the concept of outsourcing had pivoted in Europe and grown in stature during Covid, Ian Forrest summed up the reason why the pandemic would shift perceptions when he said, **“Everyone has had a free demonstration of what outsourcing is”**.

During lockdown colleagues and functions, who previously interacted freely in the office, were forced to work remotely. Portfolio Managers were separated from Traders and both were distanced from the middle and back office functions. Actually, the process has worked better than many might have expected and has added support that the outsourced services proposition is more practical than many had feared.

The panellists generally agreed that equity-only outsourced trading was the model of the past and that multi asset, multi-regional players who operated outside just execution were likely to get the best traction with Asset Managers and Hedge Funds going forward.

Co-sourcing is definitely the word of the moment, which is where Outsourced Providers support Asset Managers to deliver results in areas which are non-core for the manager. That could be in a particular asset class (i.e. FX or Fixed Income), a particular geography, or for a particular trading strategy.

Often, we find that managers have a robust process in their core asset class (say equities) but their alternate trading, such as FX and Fixed Income, is nowhere near as strong in terms of process or results. Moving this non-core execution out to a well-chosen outsourcer creates a quality of process and execution similar to their core market. This also helps managers answer their MiFID II responsibility to treat execution quality equally across asset classes.

Firms often appear to **prefer a single outsourcing partner**, the challenge is that 90% is easy and the client doesn't want to be left with the remaining 10%, with the result that sometimes managers decide to only outsource this difficult 10%.

A **divergence between Asset Managers and Asset Owners** was identified, with the former looking to outsource services and the latter more likely to be bringing some of them back in-house.

Discussing new products, **Russell Investments** mentioned their **EPI offering** which reduces turnover, taxes and fees by creating virtual portfolios for the asset manager which effectively makes the potential for outsourcing multi directional.

The industry is familiar with outsourcing non-core asset classes or geographies and more recently non execution outsourcing – such as the **OSMO** middle and back office offering – adding this EPI solution adds outsourcing of portfolio implementation too.

In addition to their multi-asset outsourced execution products, **Cowen Outsourced Trading** also discussed their sizeable post-trade services teams based in Belfast and their Westminster offering which assists with commission and RPA management.

The key insight gained from this **Outsourcing beyond Execution** webinar is that services far-beyond the traditional equity-only trade execution are possible, and that the outsourcers are continuing to innovate and offer new solution opportunities.

In our second webinar in the series we will discuss the outsourcing industry opportunities with three new providers: JonesTrading, Wells Fargo and Outset Global. We will consider a different range of services 'beyond execution' in the Outsourced Provider space and we invite you to come and join us in our next webinar.

Outsourced Trading beyond Execution part 2

November 25th, 2020, at 3pm (UK), 4pm (CET), 10am (EST), 7am (PST)

Wells Fargo Randall McDonald

JonesTrading Andy Volz

Outset Global Adam Bandeen

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