THE TRADE

Outsourced Trading Survey

Russell Investments

In partnership with:

ERGO CONSULTANCY

The future is as bright as the present

Service providers are very highly thought of by their outsourced trading clients as it seems the pandemic ushered in a new era of appreciation and uptake of the external function. This inaugural survey reveals the motivations behind outsourcing, customer sentiment and where improvements can be made, if any, to increase satisfaction.

The inaugural Outsourced Trading survey was born out of a desire to dig deep into one of the most prevalent themes among the buy-side in recent years, gain insights into the service provision they receive, and where they feel the direction of travel is for this burgeoning space.

Over 200 asset managers, hedge funds and other users of outsourced trading providers had their say, in this first-of-its-kind piece of research and there are countless takeaways – some expected and others which may surprise you.

Through a combination of questions about the industry, ratings for areas of service provision and the opportunity to provide written feedback (both for clients and providers) we now have a view of where the industry stands as we near the end of 2023. Not to look too far ahead, we eagerly anticipate the opportunity to build on this year's research in 2024 so we can draw even more comparisons about how the industry is changing year-to-year.

Overall, 14 providers received enough responses for analysis. We have been in contact with the prominent players who did not actively participate in this year's survey, and we hope to see some of those featured in 2024. The most responses were received by UBS, Vontobel and Northern Trust. For those who just met the threshold, we do point out in the write-ups that the sample sizes are relatively small, and we expect to raise this bar for inclusion next year.

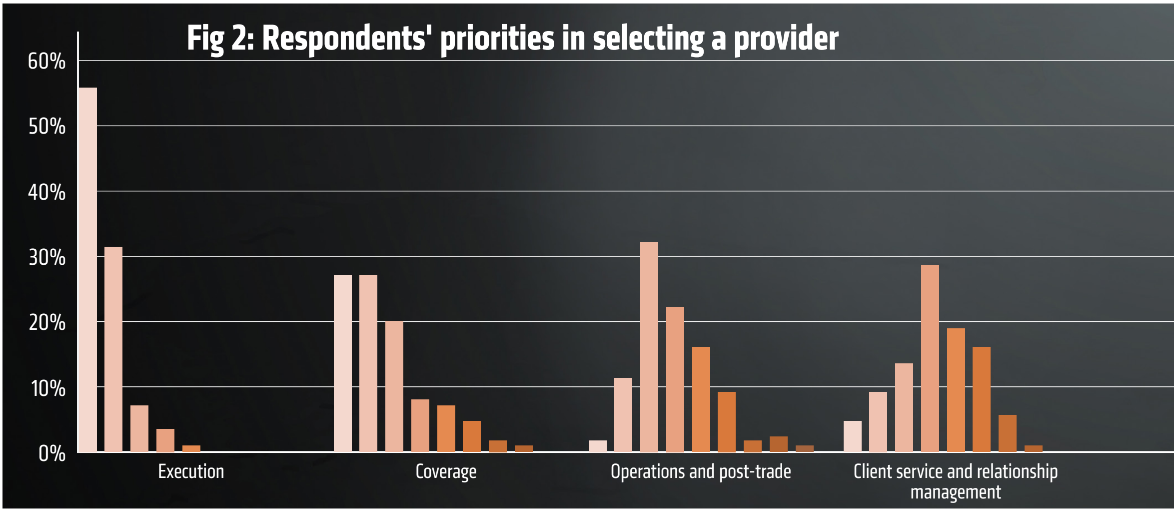


Fig 1:	Survey average
Coverage	9.13
Execution	9.31
Operations and post-trade	9.04
Client service and relationship management	9.33
Execution decision support	8.84
Onboarding	8.63
Business model and other factors	8.81
Cost versus value for money	8.78
OVERALL	8.98

Responses came from across the world but the top three locations were the US, followed by Switzerland and the UK. Just over a third of respondents were asset managers, followed closely by hedge funds, while asset owners accounted for around 5%. Those who described themselves as 'Other' consisted largely of private banks, wealth managers and other types of 'platforms'.

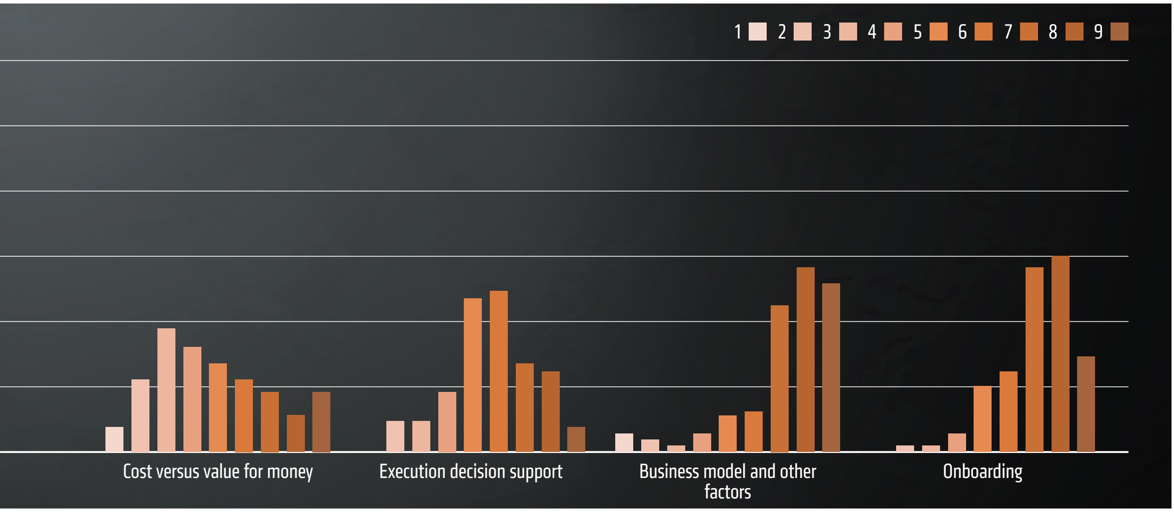
To cut straight to the point when it comes to client perception, clients of the outsourced trading firms who received responses are very, very happy with the service they receive (see Figure 1 above). The overall average of the survey on a 10-point scale was 8.98, a score which would look stellar on any review for a service, goods or restaurant you might be considering for an evening meal.

The overall sentiment of service provision shows that those who have outsourced trading – 42% fully outsource and 49% co-source – believe they are receiving an excellent service, though there are plenty of takeaways about expectations and desired areas of improvement.

The highest scores by category were for Client Service and Relationship Management, Execution and Coverage – which interestingly were ranked as the most critical areas of service provision (though in reverse). What this tells us - to be succinct - is that providers are delivering the best services in the most critical areas for their clients.

To discover this, we asked respondents to rank the most important areas of service provision (see Figure 2) and Execution and Coverage were ranked first in 86% of answers and ranked second in 59% of the responses. Client Service and Relationship Management, and Operations and Post-Trade, and Cost Versus Value for Money came in next, while perhaps surprisingly, Execution Decision Support was fairly low in the priority order.

Another thing we discovered from the research was that IPO Process and Allocations were very low on the list and, in fact, didn't receive as many ratings (due to being non-applicable for many respondents) as we had hoped. Therefore, despite asking respondents for their views on this, we did not include it in the



final calculation and write-up. We will evaluate this category and consider how best to move forward with it next year.

We concluded that four of the major areas of the survey were indeed Coverage, Execution, Operations and Post-Trade and Client Service and Relationship Management and put particular emphasis on these areas when writing up the analysis of each provider's results.

It's worth noting that around 5% of respondents felt some improvements should be made by their providers around asset class coverage or global trading locations, and the same percentage had negative sentiment around quality of broker panel, execution quality or anonymity/disclosure of order flow when it came to marking Execution. There were a few more grumbles about trade matching and settlement under the category of Operations and Post-Trade, while under Client Service and Relationship Management, 99% of respondents seemed very happy with their daily front-office interaction, though a little less pleased with back-office contact (however, overall it doesn't seem to be a widespread issue). The highest level of negativity around a factor was execution advice, consultancy & education under the category of Execution Decision Support.

When looking at other pieces of research on the outsourced trading space, we found that most asked a general buy-side audience (users and non-users of the outsourced trading) why they would use the service. This survey differs in that we are only assessing the views of those who have made the decision to outsource. Therefore, the problems that respondents were looking to solve through outsourced trading make for some interesting reading (see Figure 3): solving operational inefficiency came in top, while pursuing growth while controlling costs, and regulatory change and compliance challenges made up the top three reasons. Respondents were able to select any that applied, and around a quarter also selected technology limitations, talent concerns and rising costs as reasons for the decision to outsource.

In the area for written comments under this section, many respondents also added coverage of global trading hours, which – had it been in the overall list – may also have received a lot of votes. Others added 'access to expertise' and 'risk management/contingency solution'.

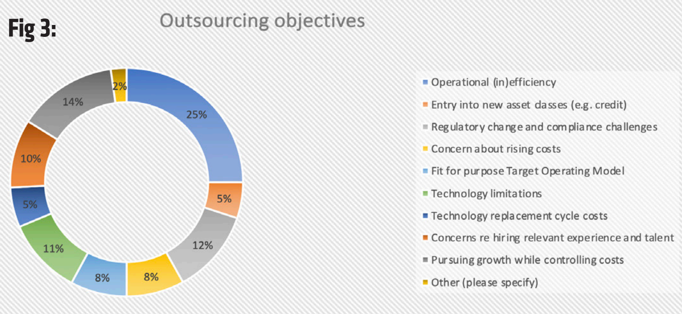
An area we also wanted to explore was which service models respondents are using, and the results showed that the majority use a combination. For those that use one model, the most common was Anonymous Agency/Matched Principal (client not disclosed to counterparty), followed by Disclosed Agency/Matched Principal (client name disclosed to counterparty). Only nine respondents said they use Agency/Matched Principal (client name sometimes disclosed) while 30 said they use receipt and transmission orders (RTO).

We thought it would be interesting to ask participants if they have ever considered changing provider and 17% said yes (see Figure 5), though we did not ask those to elaborate any further – perhaps we'll dig a bit deeper into that next year.

Overall, we can conclude that scores were incredibly high across the survey, and while it is not a direct comparison, these scores are higher than general results from The TRADE and Global Custodian's other surveys – whether it be on algorithmic trading and EMS, or custody and fund services.

Going forward there are numerous drivers for a further uptick in the number of firms outsourcing trading, from cost pressures and talent issues, to regulation and market structure changes like T+1. This trend is evidently not region-specific, nor confined to a specific profile of investment manager. From the provider questionnaires, outsourced trading providers anticipate more uptake of their services in the future as many

Fig 3:



look to expand locations and asset classes, while preparing for large investment managers to start considering co-sourcing in the near future.

We would like to thank all of this year's respondents and service providers for their input into this year's survey, and our partners in this project Ergo Consultancy, with whom we created the questionnaire and categories alongside, and who were integral in communication around the project and with providers throughout the running of the research.

The written responses we received from respondents – most were very positive – enabled us to add much more colour to the write-ups in this year's survey, so we also want to add how much we appreciate respondents going into more detail about their feedback, while the commentary from providers was also invaluable and has helped us shape both the survey and accompanying feature for this piece of research.

Fig 4: Optimal Trading Arrangement

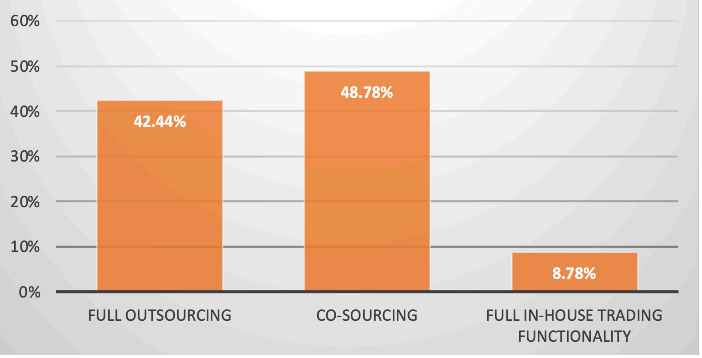
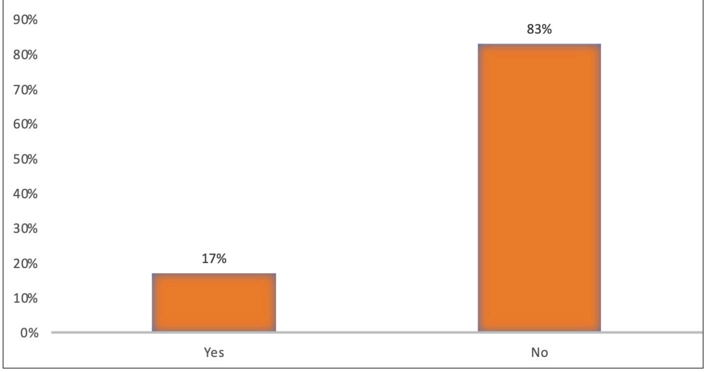


Fig 5: RESPONDENTS THAT HAVE CONSIDERED CHANGING THEIR PROVIDER



Methodology

This inaugural Outsourced Trading survey, conducted jointly by The TRADE and Global Custodian in consultation with Ergo Consultancy, set out to gather and collate client perceptions of outsourced trading providers about the service they are receiving.

Service providers were invited to ask their clients to complete a questionnaire via an anonymous link, which was also made available to readers of The TRADE and Global Custodian. In addition to gathering qualifying information, the questionnaire asked participants to rate the service received across nine service categories on a scale of one to 10. These scores were then aggregated for the provider tables on the pages that follow.

During the validation process, we withdrew one these categories – IPO Process and Allocations – as the inability to skip a category in the survey meant that non-users of this service were compelled to enter a haphazard and therefore unreliable rating. This oversight will be corrected in our 2024 survey.

In addition to the ratings themselves, two other factors informed the write-ups that accompany the charts and tables on the following pages: respondents were asked to rank in order of priority their considerations in selecting an outsourced trading provider; and providers themselves were asked to complete a separate provider questionnaire, covering the shape of their business and any recent developments they thought we should take into consideration.

Russell Investments

Russell Investments – like a handful of others in this survey – just meets the threshold for a write-up, so the sample size is fairly small. However, the results we do have are extremely positive. Perfect scores were logged in four categories - Client Service and Relationship Management, Onboarding, Business Model and Other Factors, and Cost Versus Value for Money. Overall, the firm outscores the survey average by 62bps.

Responding to the survey was a combination of asset managers, hedge funds and asset owners – all US-based – who use a combination of models, while some fully outsource and others co-source.

Coverage and Execution come in just below the survey average, with one client noting global trading locations as a reason for a slight markdown.

Only one client leaves comments, but the praise is high, referring to Russell Investments as "the best team and partner" and "always looking after us and steering us when markets turn".

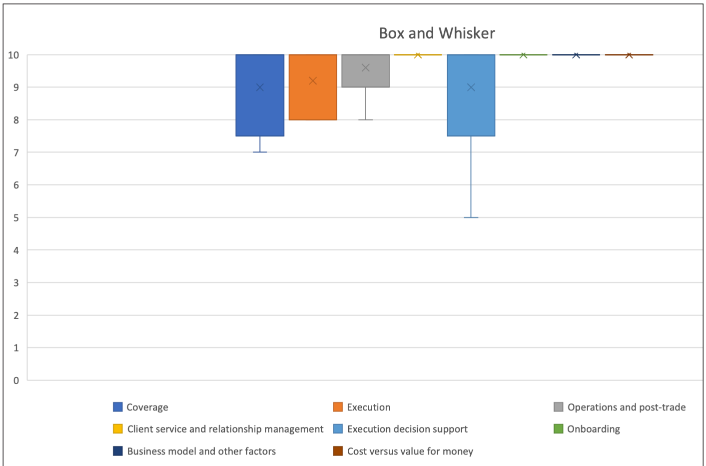
Russell Investments	Score	Survey average	Difference
Coverage	9.00	9.13	-0.13
Execution	9.20	9.31	-0.11
Operations and post-trade	9.60	9.04	0.56
Client service and relationship management	10.00	9.33	0.67
Execution decision support	9.00	8.84	0.16
Onboarding	10.00	8.63	1.37
Business model and other factors	10.00	8.81	1.19
Cost versus value for money	10.00	8.78	1.22
OVERALL	9.60	8.98	0.62

Russell Investments has one of the most interesting client bases within this survey, as the majority are $10 billion AUM and over, with a significant portion in the category of what we would refer to as large investment managers <$50 billion.

As the firm elaborates: "Historically (pre-2015), most consumers of outsourced trading were smaller hedge funds who used the trading resources of their prime brokers. As regulatory and business considerations became more challenging, we saw many traditional asset management firms (long-only active and passive) explore the value of outsourcing. Key considerations were reduction in business expense and regulatory requirements, reduced commissions, and improved execution quality."

Another interesting nugget is Russell Investments' take on execution quality. While it points out its importance, the unit states that future-proofing a business is not just their execution needs, but potential middle- and back-office requirements. "To that end, a key development is our partnership with SS&C to be able to provide a full end-to-end solution, even if the focus initially is pure execution," they note.

That partnership with SS&C provides custom, settlement solutions for its clients as something they can lean on to ensure trades get settled effectively and efficiently, and in light of the complex landscape, around T+1 migration.



The Box and Whisker graph shows how the scores are distributed. The box shows the bulk of responses, X marks the average, and the lines and dots show any outliers.