

Agency FX Trading Programme



A reduction in cost by outsourcing and centralising with one specialist provider

Client case study



The organisation

A multi-billion pension fund providing retirement solutions for its members. The pension fund requested Russell Investments evaluate and change its foreign exchange process. After deploying the Russell Investments Agency FX programme, we saved the client \$8.5m on \$14.4bn in assets traded after shifting FX execution to Russell Investments FX desk.

The challenges

The main challenge for the pension fund was to understand how much they were paying for foreign exchange transactions.

This large pension fund outsources asset management to 23 various asset managers with international exposure. The panel of managers have various methods for executing foreign exchange trades; from directly negotiating with dealing counterparties to indirect execution facilitated by the account's custodian.

The panel of asset managers vary in ability to settle FX trades. Some managers are still manually allocating orders, faxing settlement instructions to custodians, or settling trades outside of continuous linked settlement (CLS). (CLS facilitates the exchange of net currency values among member institutions through simultaneous transactions, thereby reducing settlement risk).

In addition, the panel of asset managers do not have the ability to provide point in time transaction cost analysis, either internally conducted or performed by an independent third-party provider.

In summary, the pension fund was potentially facing sub optimal FX execution, but had no clear insight into the quality of the FX trades.

The cost to trade foreign exchange is affected by the way the investor chooses to execute the order. Direct negotiation with multiple banks typically results in lower costs.

Review and advice

Russell Investments reviewed the transactions being executed by the asset managers and based on a study of our trading cost conducted by FX Transparency, and the FX trading we evaluated, concluded we could save the client significant amounts through improved execution quality.

FX Transparency conducted a transaction cost analysis (TCA) on all trades executed by Russell Investments in 2019 showing that we incurred average execution cost of 0.62bps, ~75% lower than the median of all negotiated FX trading in their universe of 2.46bps and ~95% lower than the median of all custodian executed FX trades of 11.64bps.¹

In addition, we determined the amount of transactions could potentially be reduced between 10% and 30% by centralising and netting a significant volume of execution.

Russell Investments advised the client that by centralising the FX trades onto our trading platform, they would experience lower costs due to reduced turnover, and higher execution quality.

A strategic solution

Russell Investments took over FX trading from 23 managers, who send us orders via a variety of protocols, including SWIFT, FTP and FIX, therefore not changing their process to execute in the market. Through a combination of cutting-edge execution strategies, crossing and netting flow, Russell Investments reduced execution cost by approximately 5.955bps, saving this pension \$8.575m annually (based on their \$14.4bn trading volume in 2017 through to 11 October 2018).

Russell Investments seeks to settle all FX trades via STP (straight through processing) and inside of CLS whenever

¹ FX Transparency 2019 – Peer Universe Total Principal Traded 2019 of \$16 trillion.

possible, greatly reducing fees and any possible charges the client may incur due to FX settlement failures. Russell Investments time stamps all FX trades. Subsequently TCA was performed both internally and by a third party to confirm validity.

Greater transparency and control

Russell Investments FX Trading gives complete visibility into currency transactions. We provide detailed performance reports that include time stamps for all of our clients' executions. These improvements in transparency and control put the client in a stronger position to meet the growing demands of regulators, clients and beneficiaries.

Reducing your transaction costs

We help keep costs low because our agency approach introduces more choice and oversight into the execution process. We capitalise on a variety of liquidity sources to match clients' trades and save spread costs. When a match is not available, we transact through competing, multi-venue trading platforms on a client's behalf, monitoring execution quality in real time.

Russell Investments' investment takes in currency orders from the panel of asset managers, netting buys and sells at the market mid-rate, eliminating trades previously taken to the market.

What makes our agency FX different from principal trading?

	Our agency FX trading service	Principal trading provider
Costs	COMPETITIVE PRICING: Through our agency approach and trade netting, we've reduced spot FX trading costs to well below 1bps.	PROPRIETARY COSTS: All costs may not be disclosed or may be hidden in reports about other account activity. The nature of the principal market structure makes it difficult to identify transaction costs.
Reporting	TRANSPARENCY: All execution costs are clearly disclosed, including our agency FX provider costs. Reporting includes the exact time of trade execution.	AMBIGUITY: Specific time-stamped reporting on FX trading may or may not be offered.
Legal obligations to the client	ALIGNED BY DESIGN: Typically, contracted as an investment adviser under the Investment Advisers Act of 1940 to protect your best interests.	MAY BE CONFLICTED: Typically contracted as a principal, often seeks to profit from client trading. Russell Investments always trades as an agent working for the client to get the best price at the time of trade.
Trading practices and risk management	FOCUSED ON BEST EXECUTION: Uses a multi-venue platform with independent counterparties, analysed by an internal credit team to help manage risks.	DRIVEN BY PROPRIETARY TRADING: Buys and sells for its own accounts. Counterparty risk typically concentrated with one provider.
Market anonymity	CONFIDENTIALITY: We act as your agent, so the markets sees our name only.	RISK OF INFORMATION LEAKAGE: Without and agent, you bear the risk of information leakage—which can significantly impact costs.



Results

Of the \$14.4bn executed, \$1.65bn was crossed at the mid-market rate, saving the pension \$95,000 in 2018.

All trades were settled via STP with the majority through CLS. The client incurred zero cost in relation to failure of any FX trades. All trades executed by Russell Investments were time-stamped and had TCA performed on them, providing the pension reports on a monthly basis.

Total execution cost, post netting, resulted in 0.51bps on average. Based on the data in the FX Transparency Universe, this client saved over \$8.5m trading through Russell Investments.



For more information

Call Russell Investments on +44 (0)20 7024 6000 or visit russellinvestments.com

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