

Agency FX trading program



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

Client case study



The organization

A multi-billion dollar pension fund is providing retirement solutions for its members. The fund requested that Russell Investments evaluate and change its foreign exchange (FX) process. After deploying the Russell Investments agency FX program, we saved the client \$8.5 million on \$14.4 billion in assets traded after shifting FX execution to Russell Investments' FX desk.

The challenges

The challenge for the pension fund was to understand how much it was 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 and/or settling trades outside of continuous linked settlement (CLS).¹ In addition, the panel of asset managers does not have the ability to provide point in time transaction cost analysis, neither internally conducted nor 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.

Review and advice

Russell Investments reviewed the transactions being executed by the asset managers and concluded the amount of transactions could be reduced by between 10% and 30% through centralizing and netting a significant volume of executions. Russell Investments advised the client that by centralizing the FX trades onto our trading platform, it could potentially experience lower costs due to reduced turnover and higher execution quality.

Based on a study of our trading cost conducted by FX Transparency and based on the FX trading we evaluated, we concluded we could further 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 2017 showing that we incurred an average execution cost of 0.74 bps, which is well below the median of both negotiated FX trades of 3.0 bps and custodian executed FX trades of 10.39 bps.

FX trading costs

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.

A strategic solution

Russell Investments took over FX trading from 23 managers that sent 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 5.955 bps, saving this pension \$8.575 million annually (based on their \$14.4 billion trading volume in 2017 through 10/10/2018).

Russell Investments sought to settle all FX trades via straight through processing (STP) and inside of CLS whenever possible, which greatly reduced fees and any possible charges the client may incur due to FX settlement failures. Russell Investments timestamps 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, stakeholders and beneficiaries.

Reducing transaction costs

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

Russell Investments' took 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.

Cost savings

Based on the data in the FX Transparency Universe, this client saved over \$8.5 million trading through Russell Investments.

Results

Of the \$14.4 billion executed, \$1.65 billion was crossed at the mid-market rate, saving the pension \$95,000.²

All trades were settled 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 0.51 bps on average. Based on the data in the FX Transparency Universe, this client saved over \$8.5 million by trading through Russell Investments.

¹ CLS facilitates the exchange of net currency values among member institutions through simultaneous transactions, thereby reducing settlement risk

² Savings were realized in 2018.

What makes our agency FX different from principal trading?

	OUR AGENCY FX SERVICE	PRINCIPAL TRADING PROVIDER
Costs	Competitive pricing: Through our agency approach and trade netting, we've reduced spot FX trading costs to 0.45 basis points as measured by FX Transparency in 2018.	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: We are contracted as an investment adviser under the Investment Advisers Act of 1940 to protect your best interests.	May be conflicted: Other providers are typically contracted as principals, often seeking 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 the trade.
Trading practices and risk management	Focused on best execution: We use a multi-venue platform with independent counterparties, analyzed by an internal credit team to help manage risks.	Driven by proprietary trading: Other providers buy and sell for their own accounts. Counterparty risk is typically concentrated with one provider.
Market anonymity	Confidentiality: We act as your agent, so the market sees our name only.	Risk of information leakage: Without an agent, you bear the risk of information leakage—which can significantly impact costs.

Why Russell Investments?

Russell Investments' agency foreign exchange trading program can offer substantial benefits to pension schemes seeking to reduce investment costs and improve fund performance, including:

- Reduce total plan fees
- Improve governance on FX transactions
- Streamline settlement risk

About Russell Investments

Russell Investments is a global asset manager with a unique set of capabilities that we believe is essential to managing your total portfolio and to meeting your desired outcome. At Russell Investments, we stand with you, whether you're an institutional investor, a financial adviser, or an individual guided by an advisor's personalized advice. We believe the best way to reach your desired outcomes is with a multi-asset approach that combines asset allocation, capital markets insights, factor exposures, manager research and portfolio implementation.

For more information

Call Russell Investments at **800-426-8506** or visit russellinvestments.com/institutional

Important information

This case study represents a unique situation faced by a large pension fund seeking to evaluate and revise its foreign exchange process to reduce costs. Case studies are problem-solving stories. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

The case study provided is for illustrative purposes only and is meant to provide an example of a type of financial issue a client may have and our process and a methodology to address it. Individual client results will vary based on individual circumstances and market conditions. The results presented were based on a period of fluctuating marketing conditions and the underlying asset allocation, market criteria and assumptions, or the investment advice/strategy followed may have changed materially. There is no guarantee that all clients will experience the same results.

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Diversification does not assure a profit and does not protect against loss in declining markets.

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