

Is Outsourced Trading Right For You?

As margin pressures mount, institutional investors are reviewing their operating models, with a focus on front office operations. As investors assess their trading functions, they should focus on opportunities for cost savings, improved governance, operational and technological resiliency, and revenue generation. Many view outsourcing as a viable option for their trading operations.

How do you know if outsourced trading is right for you? Asset managers and asset owners who are weighing the benefits of outsourcing their trading functions should consider the following:

COSTS

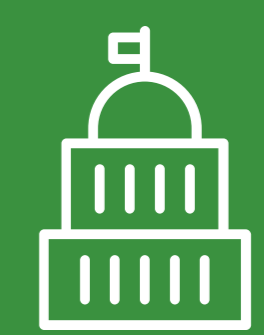


In order to best assess efficiencies, investors need to take stock of their cost structures. They should ask:

- What is the cost of trading, execution, research and compliance?
- What are the headcount costs?
- What are the ongoing technology costs?
- Are there opportunity costs that occur when the trading function is in-house?
- How do all these costs compare to an outsourced solution?

Asset managers and owners should consider their governance models, and whether they are fit for purpose:

GOVERNANCE



- Are control and oversight models comprehensive?
- Will they meet obligations for international best practice, especially as international standards become widely adopted globally?
- Does the trading function meet governance requirements in terms of key person risk, duplicate roles, and overnight orders?

OPERATIONAL TECHNOLOGICAL RESILIENCE



As pressure grows on fees, revenue will become variable, increasing the potential for varied cost structures and 'pay as you use' systems. Investors should consider:

- Will the fund remain operationally resilient in the future?
- Can remote working/working from home be effectively facilitated?
- Are economies of scale being leveraged?
- Is there enough transparency, not just on operational governance, but also on evidenced-based decision making, data measurement and analytics?

Asset managers and owners should consider whether their systems are robust despite margin pressures, economic model shifts, and regulatory obligations:

REVENUE



- How might fee structures change?
- How does competition and an altered market structure affect business models?
- How can a business be scaled without adding resources or costs?

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