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INTEGRATED TRADING SOLUTIONS

Optimizing Trade Efficiency

How to Choose an Outsourced Model

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Choosing the Outsourced Trading Model That's Right for You

How does an institutional investor know which outsourced trading model is best for them? Start by considering your ideal future state.

Recent trends in financial markets — including fluctuating interest rates, shrinking margins, expanding use of performance-based fees, and increasing regulation — have triggered the need for capital light, variable cost operating models. The ability to leverage another company's assets and expertise not only provides margin flexibility in the face of volatility, but also offers business agility and scale as change accelerates.

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Outsourced trading has gained traction not just because it helps reduce costs and increase efficiency, but also because it enhances expertise, scale, and capability. In other words, outsourcing is no longer recessionary but "future state".

An outsourced trading service provider takes on the costs and complexities of trading related activities and delivers them back as a service on a variable cost basis, customised for individual strategies, because one size does not fit all when it comes to trading. There are different models that institutional investors can implement. These include:

- **Full Integration**
- **Component Integration**

Component integration is commonly referred to as a hybrid or co-sourced model, as the institutional investor retains traders in-house.

How do you know which is the best model for you? When making a decision, start by considering your ideal future state. If you had a blank slate, how would you prefer to operate? From there, you can work backwards to find the right outsourcing solution and partner.

Full Integration

With full integration, the institutional investor does not conduct trading internally, instead fully leveraging and taping into the expertise of an outsourced provider. While this fully configured solution is used extensively by start-up asset managers or new fund launches, it is also being adopted by larger, more established institutional investors. Full integration offers the greatest benefits because the providers handle everything from trade execution to settlement. This transforms the operating model to one that is highly efficient, scalable, and combinable with services such as trade settlement oversight and foreign exchange execution.

There are multiple benefits to full integration beyond cost reduction. Because full integration can be readily combined with other services, such as middle and back-office outsourcing, this approach significantly increases efficiency. The institutional investor also benefits from enhanced trading capabilities as the outsourced provider has more leverage and resources to execute trades, owing to more trading volume, larger investment in trading capabilities, and specialisation. And institutional investors that choose to fully outsource are able to redeploy trading staff in other value-added roles. For example, the head of trading may serve as head of trading oversight, shifting their expertise to making strategic decisions and aligning trade activities with organisational goals. In this role, they may also strengthen the control framework, enabling robust risk management and compliance oversight.

Component Integration

With component integration, the institutional investor utilises an outsourced trading desk to augment their capacity and capability and elects to outsource only certain types of trading (i.e. one component of their investment mandate) but does so completely. This model allows institutional investors to tap into new markets and asset classes seamlessly while retaining a trading function. An example of a component relationship is a UK-based equity manager that outsources trading in another global region but retains traders for the UK. Another example is an income fund manager outsourcing bond trading but retaining equity trading in-house. An institutional investor no longer needs to staff a trading desk for every region and market in which they invest.

Alternatively, an institutional investor can choose to retain traders in each region and asset class in which they invest, but instead of staffing for their peak volume days, they staff for average days and outsource on higher volume days. Component integration can provide many of the same benefits as full integration and allows institutional investors to leverage the expertise and capabilities of a scale provider, while reducing overhead.

Weighing the Benefits of Outsourcing

The costs and benefits should be weighed carefully before making a decision to outsource your trading and you should be confident that you have considered all potential risks to these models as well. Once done, how do you know which model is the right one and that the decision to outsource is the right one for your organisation? In each, expertise, cultural fit, people, and customisation around specific needs are critical considerations.

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Selecting the right provider matters the most, since you will rely heavily on the outsourced trading desk in both models. The main consideration is the stability of the outsourcing provider. What is their ownership structure and how stable is the ownership? How much capital and insurance do they carry? How robust is their business continuity model?

A second consideration is alignment of interests and the potential for conflicts of interest. Does the provider trade on a principal basis or for proprietary accounts? Do they own execution venues that might be prioritised over others? How do they prevent information leakage? And, ultimately, how do they manage potential conflicts of interest?

Another consideration is expertise in managing the conversion to an outsourced model. A successful track record of transitioning to outsourced trading has increased significance in a full or component model.

One final consideration is communication. In any outsourcing application, communication is important. In a component model, where the institutional investor is spreading trade flow between internal and external trading desks, the interaction between the in-house and outsourced traders must be especially crisp.

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The Multiplier Effect: Increased Trading Efficiency through Outsourcing

The asset management industry is undergoing a shift, driven by the desire to reduce operational silos, control costs, and adapt to rapidly evolving market conditions. In this landscape, asset managers are increasingly re-evaluating their operational frameworks, seeking ways to simplify their service provider relationships while enhancing their strategic alignment.

One key trend emerging is the drive to consolidate service providers. Rather than relying on various providers for individual services, managers are turning to strategic partnerships that can streamline workflows, integrate services, and offer holistic governance across multiple aspects of their business. This 'multiplier effect' enables asset managers to bundle services, creating opportunities for a balanced operating model that can leverage fewer partners, ultimately fostering a more efficient and agile operating model.

We spoke with **Robert Arnott**, Head of Brokerage, APAC, **Stephanie Farrell**, Head of Integrated Trading Solutions, Americas and **Amy Thorne**, Head of Integrated Trading Solutions, EMEA about the added value asset managers can achieve by evaluating their current service provider stack.

How can asset managers benefit from an outsourced trading solution that goes beyond basic execution to encompass the entire trade lifecycle?

Stephanie Farrell: Leveraging a solution that encompasses the entire trade lifecycle, rather than one that stops at execution, enables greater efficiency. A comprehensive outsourced trading desk with 24/6 "follow-the-sun" global coverage across equities, fixed income and options offers continuous market access. Additionally, having robust middle-office capabilities, from comprehensive trade settlement support to streamlining post-trade processes, helps reduce operational burdens on managers. And finally, a provider that supports global foreign exchange (FX) is essential for managing base currency exposure and enabling seamless cross-border transactions.

Rob Arnott: Traditional trading models often focus narrowly on execution, with limited integration between pre-trade, execution, and post-trade processes. This fragmented approach may require asset managers to coordinate multiple providers, which creates operational silos and inefficiencies. Asset managers should consider full trade lifecycle support, including pre-trade analytics, post-trade settlement and trade cost analysis (TCA) to streamline processes and improve operations.

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> Head of Integrated Trading Solutions, Americas, Northern Trust

Northern Trust's Integrated Trading Solutions (ITS) combines all these elements, extending beyond traditional trade execution to deliver a holistic solution that simplifies workflows, enhances efficiency, and provides strategic value at every stage of the trade lifecycle.

What unique or regional challenges are asset managers facing and how can an outsourced trading provider help?

Arnott: A key regional challenge is the differences in global market structures. For example, in the APAC region, where markets are bundled, asset managers should consider outsourced providers that support service adoption in a way that aligns with this bundled approach. In addition, the ability to facilitate commission sharing agreements (CSAs) is vital as it allows asset managers to collect soft dollars for research within these bundled markets, enhancing value without disrupting established practices.

Amy Thorne: Another market structure challenge from an EMEA as well as APAC perspective has been the shift to T+1 settlement in the U.S. The reduced settlement cycle increased the pressure on asset managers to execute trades quickly and accurately. By outsourcing, firms in these regions can efficiently tap into the U.S. markets without the burden of expanding their internal capabilities. They gain access to experienced traders and advanced infrastructure, ensuring timely execution and the ability to adapt swiftly to market changes, all while focusing on their core investment strategies.

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> Head of Brokerage, APAC, Northern Trust

How can consolidating service providers help asset managers build a more effective and efficient overall operating model?

Farrell: Asset managers are increasingly evaluating their service provider relationships, seeking to consolidate and form strategic partnerships where multiple aspects of their business flow through a central provider. This creates what I like to call the 'multiplier effect' which helps improve operating models. By working with a single provider across the trade lifecycle — including middle- and back-office functions — managers can streamline workflows, reduce operational complexity and enhance governance.

This integrated approach can optimize operations by aligning processes, enabling better oversight, greater efficiency and strategic alignment. It also reduces the time and effort required to manage multiple providers, allowing managers to focus on driving value across their organization.

Thorne: Asset managers should look for an outsourced trading provider with a holistic approach that is modular and scalable, so they can leverage the specific services they need while maintaining flexibility as their business evolves. This approach reduces the reliance on multiple providers, streamlining operations and making it easier to adapt to changing market conditions and business needs.

Can you share a specific example where Northern Trust's approach led to a significant positive outcome for a client?

Farrell: Since joining our platform, one of our clients has completed three acquisitions. These acquisitions have expanded their market presence and as a result increased their need for our solutions. They've expanded into options trading and have been able to seamlessly transition onto our options trading desk. They have also entered new markets, including energy and master limited partnerships (MLPs), which was possible by the depth of expertise and infrastructure of our trading team, enabling us to effectively support their growth. This has been a great example of an outsourced trading relationship that has expanded into a more holistic partnership, beyond just trading, where we support their overall strategic initiatives.

Thorne: We've also experienced more interest in our trading solution from clients who had been focused on equities-only but wanted to enter fixed income. For them to expand into this new asset class on their own would have required increasing staff, expanding expertise and upgrading technology. However, they were already a part of our outsourced trading platform and were able to simply leverage the other sides of our desk. They were able to enter the fixed income market efficiently and quickly, reaping the benefits without having to build new capabilities or hire fixed income traders. This resulted in a much quicker go to market, allowing our clients to be more offensive in their decision-making.

Arnott: In APAC, a Global Family Office (GFO) client with complex trading needs across multiple markets chose our ITS solutions to streamline their workflows and enhance execution. Unlike traditional asset managers, GFOs often operate with lean internal teams while managing a diverse range of asset classes and global markets, making operational flexibility and efficiency critical.

Their key challenges were managing workflows when their offices were closed on public holidays and needing additional support matching trades. With our global, 24/6 desk, staffing gaps and trade allocations are no longer an issue for them. Trades are pre-allocated, and our matching and clearing services enable seamless settlement. This has been especially beneficial with the transition to T+1 settlement in the U.S., as we manage SWIFT messaging and custody integration as part of our service.

They were also concerned about costs associated with services like research and corporate access. To address these concerns, we implemented a CSA for their Australian and New Zealand trades. While they originally requested payments to 12 brokers, we suggested they conduct an analysis of their brokers to determine if there was value in keeping relationships with all of them. As a result, they refined their list to three, significantly reducing their overall commissions while maintaining access to the insights they needed. Ultimately, outsourcing provided them with a more streamlined, cost effective and resilient trading solution tailored to their unique needs.

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>
> **AMY THORNE**
> Head of Integrated Trading Solutions, EMEA, Northern Trust

Reimagining Operational Efficiency

In today's evolving market, outsourced trading is increasingly seen as a strategic move because it enhances execution efficiency, reduces operational complexity and allows asset managers to focus on core investment decisions. Asset managers are also recognizing the benefits of consolidating providers, fostering a more holistic relationship with a single partner where they can leverage their scale, expertise and market access.

Managing multiple relationships can lead to operational inefficiencies, higher costs and fragmented workflows that can hinder agility and decision-making. By streamlining to a single, integrated provider, asset managers can gain a clearer, more coordinated approach to their operations and entire trade lifecycle.

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