



The outsourced trading advantage

Evidence from early adopters

April 2024

Preface

Outsourced trading is an emerging strategy that is not widely understood. Last year, we interviewed a dozen asset managers about their experience outsourcing some or all of their trading needs and published the findings in a report, Outsourced trading as a strategic advantage. Those interviews led us to suspect that the benefits of outsourced trading were significant and wide-ranging, but we needed more proof.

So we embarked on what we believe is the largest and most comprehensive survey of its kind to date in the industry on outsourced trading. And it is of the moment. In January, we surveyed 300 institutional investors from around the world, including both current and potential adopters.

This report lays out our survey findings. While there are many interesting insights from the survey data in these pages, our findings around the reported benefits from outsourced trading stand out. The vast majority of those already outsourcing report

benefits in the form of greater efficiencies, reduced costs and improved investment performance. Satisfaction with outsourcing is high, with four in five respondents saying they are “satisfied” or “very satisfied.”

Yet, when we asked potential users about outsourced trading they had reservations, for instance around costs and control, that turn out not to be material to current users. All this suggests that potential users may have concerns about outsourced trading that are not warranted. What’s more, they may not appreciate the clear advantage experienced by adopters of outsourced trading.

At State Street, we believe that providing excellent service starts with knowing the market better than anyone else. With this ground-breaking survey, we hope to shed light on the emerging trend of outsourced trading and provide clarity into both the significant benefits it can offer as well as the barriers to adoption.



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Key findings

Outsourced trading is an emerging trend that is providing users with a distinct advantage over the rest of the market.

This report, based on a survey of 300 institutional investors around the world, examines the experience of current users and the perceptions of potential users, to provide a picture of both the benefits and concerns related to outsourced trading.

The findings are revealing:

- Current users of outsourced trading consistently report benefits such as increased efficiencies (reported by 55 percent of current users), reduced costs (reported by 33 percent), and improved investment performance (more than 80 percent reported improved investment performance to some degree). Breaking down efficiency benefits further, among the 55 percent citing increased efficiencies, 70 percent report enhanced risk management from outsourcing.
- Among these early adopters, who report clear and tangible benefits, satisfaction is very high, with 79 percent saying they are either “satisfied” or “very satisfied.” This rises to 83 percent in Europe, Middle East and Africa (EMEA) and 81 percent among very large funds (those with assets under management (AUM) over US\$50 billion).
- Potential users have differing views and reservations about outsourced trading compared with actual users. Potential users are most concerned about cost effectiveness (61 percent), loss of control over trading activities (56 percent), and a lack of understanding about the benefits of outsourced trading (56 percent). The overall perception is that keeping trading functions in-house may be more cost-effective, with 47 percent of potential users citing this as by far the most important reason for not outsourcing. In comparison, only 27 percent of current users say costs are a concern.
- Eight in 10 of those currently using outsourced trading do so for one or two asset classes only, yet the majority of current and potential outsourced trading users plan to expand to more asset classes in the next five years. None of the current users said they were planning to reduce usage of outsourced trading over the same period.
- Flexibility, customization and technical integration capabilities are key attributes sought in outsourced trading partners. Users view their outsourced trading providers as strategic partners, extending beyond mere transactional support. For these respondents, outsourcing is a strategic play that can improve the overall efficiency and performance of investment operations. Potential users who are hesitant may underestimate the value of this relationship and perceive it as more transactional.



CHAPTER 1

The benefits of outsourced trading

Outsourced trading is not new but it's nascent. For decades, back- and middle-office outsourcing has been common practice as financial institutions sought ways to streamline their operational and reporting obligations.

Post-financial crisis, smaller hedge funds moved toward front-office outsourcing, and the practice became most prevalent in North America and, to a lesser extent, Europe.

The pandemic marked the next watershed in outsourced trading's evolution. Front-office functions had typically been retained in-house, largely due to the belief that traders and portfolio managers needed to sit within close proximity. However, the rapid shift to remote and hybrid working proved that it was possible to maintain a trading desk with people in disparate locations.

Today, outsourced trading is an emerging strategy for financial institutions, namely asset managers and asset owners, seeking to optimize their trading operations by outsourcing all or parts of the execution process.

Proven benefits

When we interviewed a global group of fund managers in 2023 about their experiences and perceptions of outsourced trading,

those who engaged in the practice reported a multitude of benefits ranging from expansion of trading activities to portfolio optimization.

We also found that outsourced trading has evolved from a practice pursued by smaller investors lacking capacity or expertise, into a strategic offering that can bolster and enhance the operations of firms of all sizes. Outsourced desks allow international funds to remain focused on portfolio management and generating alpha while gaining access to scale, insights, liquidity and technology.

Through our 2024 survey of 300 institutional investors around the world, we provide greater insights into the transformative potential of outsourced trading (See [Box 1: Survey methodology](#)). We find that current users report three major benefits: a multitude of efficiency gains, reduced costs and improved investment performance. And there are many other reported benefits, including enhanced regulatory compliance, market intelligence, expansion into new markets and growth.

Box 1: Survey methodology

In January 2024, we surveyed a total of 300 institutional investors: 241 asset owners and managers who currently use outsourced trading and 59 asset owners and managers who do not currently outsource their trading, but are considering doing so.

The survey participants consist primarily of organizations who currently use outsourced trading for at least one asset class. The majority of the survey questions investigate their experience using outsourced trading.

The second, smaller group of respondents are potential users of outsourced trading – organizations who are not currently outsourcing but plan to do so. We investigate reasons for not utilizing outsourced trading and compare their perceptions of outsourced trading with that of current users.

Non-users of outsourced trading — organizations who do not outsource and have no plans to do so — were excluded from the survey.

In the survey, we use the following definition with respondents: “Outsourced trading refers to the practice of outsourcing all or some

of your organization’s trading activities to a third-party trading desk. For example, you may use an external desk in certain markets, across certain asset classes, or deploy all trades via a separate entity.”

Respondents were evenly split between four geographic regions: EMEA, Asia Pacific (APAC), North America and the United Kingdom. Three quarters of responders were asset managers, the remainder were asset owners.

Funds surveyed had an average size of US\$50 billion in AUM and can be divided into three main categories: under US\$30 billion (50 percent of total respondents), between US\$30 billion to US\$50 billion (15 percent), and over US\$50 billion (35 percent). We surveyed a range of executives in different roles from portfolio managers to heads of trading, with 22 percent of those surveyed either portfolio managers or chief investment officers, 41 percent heads of global trading or heads of derivatives, foreign exchange (FX), domestic equities and foreign equities, and the remaining 37 percent COOs and heads of investor relations.

A multitude of efficiency gains

Outsourcing may have emerged as a defensive play for resource-conscious funds, but the number – one benefit reported by 55 percent of current users was improved

efficiency, while the third-most widespread benefit was operational efficiencies, reported by 45 percent of current users (Exhibit 1).

Exhibit 1: Improved efficiency is the top benefit from outsourcing

Q: What benefits have you actually seen from using outsourced trading services? (rank up to 5)



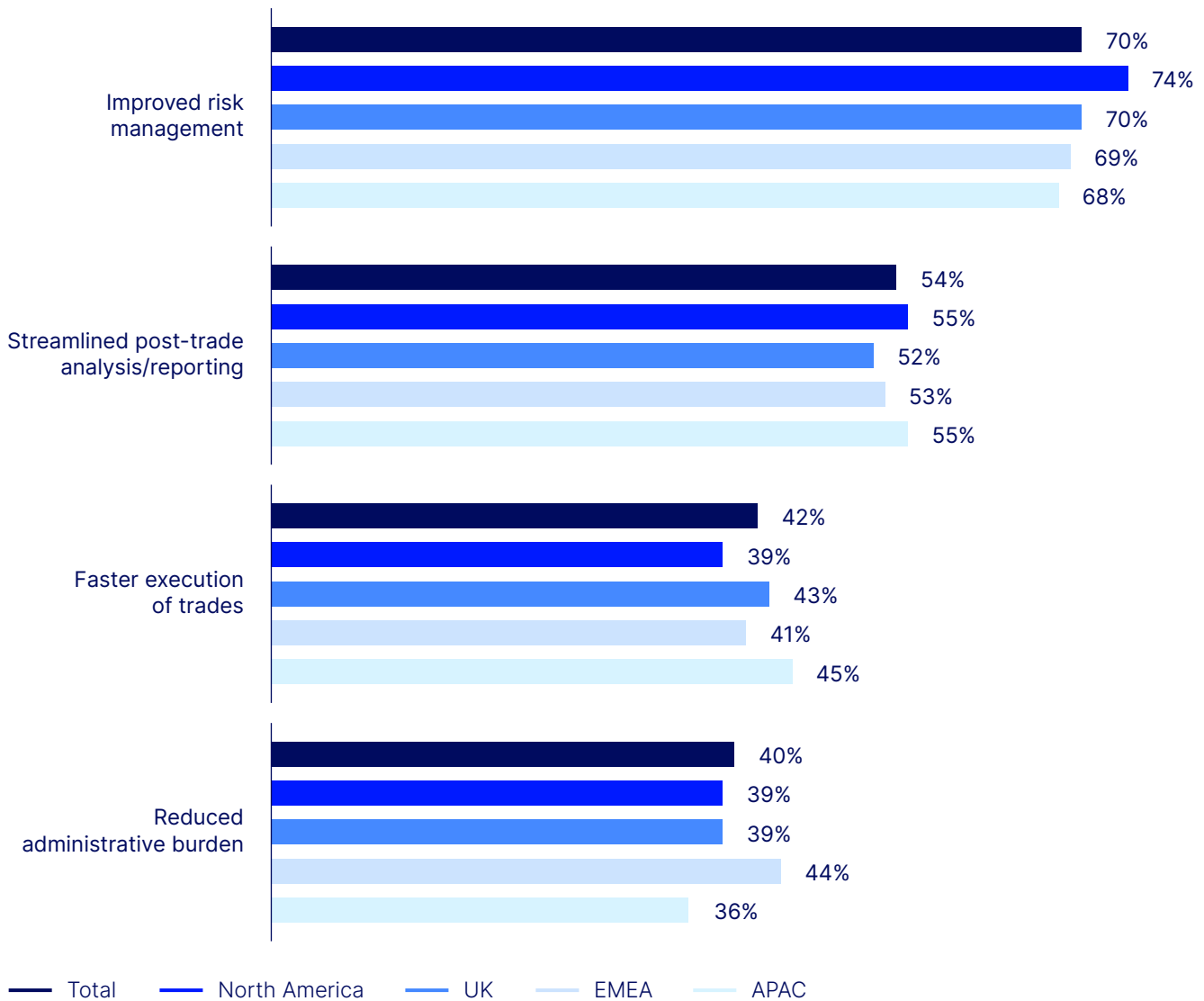
Source: **241** respondents who use outsourced trading

When we asked participants for further details as to how outsourcing has contributed to more efficient operations, respondents cite improved risk management (70 percent),

streamlined post-trade reporting (54 percent), faster execution of trades (42 percent) and reduced administrative burden (40 percent) (Exhibit 2).

Exhibit 2: Outsourcing drives efficiencies, with improved risk management as the top benefit

Q: How has the use of outsourced trading contributed to more efficient operations?



Source: 104 respondents who selected “operational efficiency” as a benefit of outsourced trading

Improved risk management stands out, with nearly three quarters reporting it as a benefit of outsourced trading. In increasingly competitive and highly regulated financial markets, the expertise and infrastructure of a third-party trading desk can help organizations streamline their trading operations and minimize operational risks. This could become a key benefit of outsourced trading as firms grapple with new regulations that diverge across markets and regions.

A larger proportion of asset owners (typically under strict regulatory scrutiny) than asset managers recognize the benefits of outsourced trading when it comes to reporting (67 percent versus 51 percent). As reporting requirements ramp up — take the revised Markets in Financial Instruments Directive (MiFID II), for example, which imposes rules relating to fairness, transparency and efficiency, among other things, on financial institutions operating in the European Union — outsourced trading adoption could accelerate as a compliance tool.

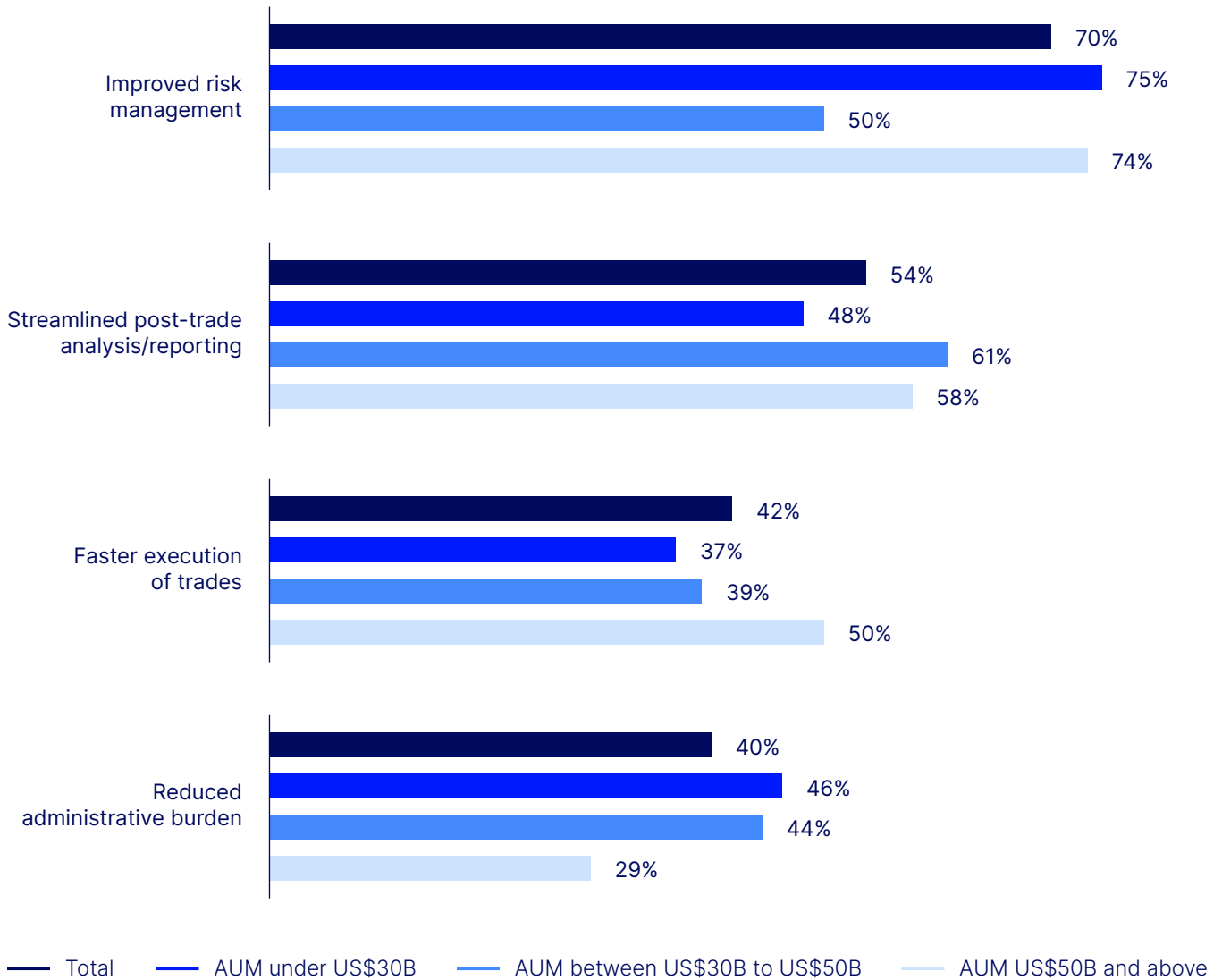
Faster execution of trades could be attributed to the outsourcing desks' better access to liquidity from a wider network. This is particularly relevant in fixed – income markets where a small asset manager with limited coverage may struggle to achieve economies of scale.

Interestingly, the ability to trade around the clock and mitigate time zone interruptions ranks at the bottom of the list despite emerging as a key benefit during our 2023 qualitative study. Outsourcing trades to a third party means orders can be sent at any time, regardless of the firm's originating market — a point of clear operational efficiency.

Firm size also impacts how respondents interpret these efficiency gains (Exhibit 3). Mid-sized firms identify streamlined post-trade analysis as their top efficiency benefit (61 percent), perhaps reflecting their resource allocation pressures across middle- and back-office functions. This group is also more likely to feel the financial impact of regulatory pressures. While no fund is immune to these costs, larger funds can amortize the impact of compliance and reporting costs with higher revenues.

Exhibit 3: The role of outsourcing in operational efficiency, split by firm size

Q: How has the use of outsourced trading contributed to more efficient operations?



Source: **104** respondents who selected "operational efficiency" as a benefit of outsourced trading

Outsourcing could become a valuable enabler for asset managers looking to expand their trading activity by allowing them to take on more assets and execute at scale.

For example, asset owners and those based in North America say assistance in entering new markets is important for them when adopting outsourced trading.

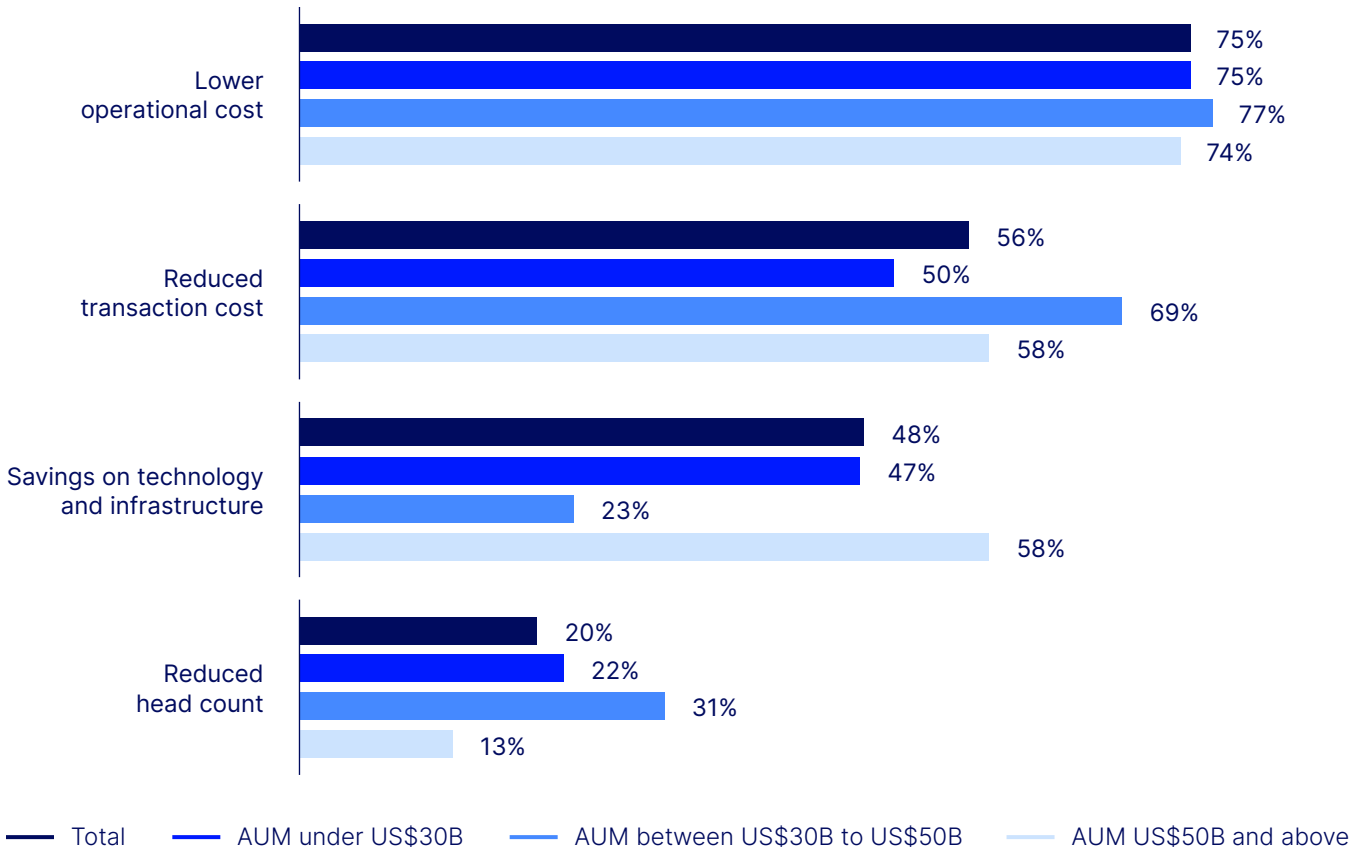
Cost savings

In a global financial market characterized by tighter margins, cost reduction remains a primary driver for outsourcing any aspect of a firm’s operations. Among current outsourced trading users, cost reductions surpass their expectations: 28 percent of them expected it to be among the top benefits while 33 percent reported it as an actual realized benefit.

When we investigate this in more detail, we can see where these savings are being achieved. Of those 33 percent of businesses who saw cost reduction overall, outsourced trading has delivered lower operational costs for 75 percent, reduced transaction costs for 56 percent and savings on technology and infrastructure for 48 percent (Exhibit 4).

Exhibit 4: Lower operational costs are the primary driver of cost savings from outsourced trading

Q: In what ways has using outsourced trading reduced costs for your organization?



Source: 80 respondents who selected “reduced costs” as a benefit of outsourced trading

Investors face the reality of having to do more with less. Outsourcing their trading activities to a specialized provider can help achieve economies of scale, optimize resource allocation and mitigate the fixed costs associated with having an in-house trading team.

Mid-sized firms of between US\$30 billion and US\$50 billion in AUM report reduced transaction costs as a key cost reduction category, while larger firms report more savings on tech and infrastructure costs.

While only 20 percent have reduced headcount as a result of outsourcing, this is higher (35 percent) among asset owners than asset managers (15 percent), pointing to a broader trend of asset managers utilizing outsourced trading to lower their operational costs and asset owners being more likely to outsource to reduce headcount.

But the real spectrum of benefits extends beyond cost cutting, and the survey results point to diverse efficiency gains from adopting outsourced trading.

Improved investment performance

In addition to improvements in efficiency and a reduction in costs, our survey reveals a compelling benefit for those outsourcing some aspect of their trading — its potential to enhance investment performance. The vast majority of current users, some 85 percent of respondents from North America and 86 percent from Europe report “slight” or “significant” improvements in their investment performance (Exhibit 5).

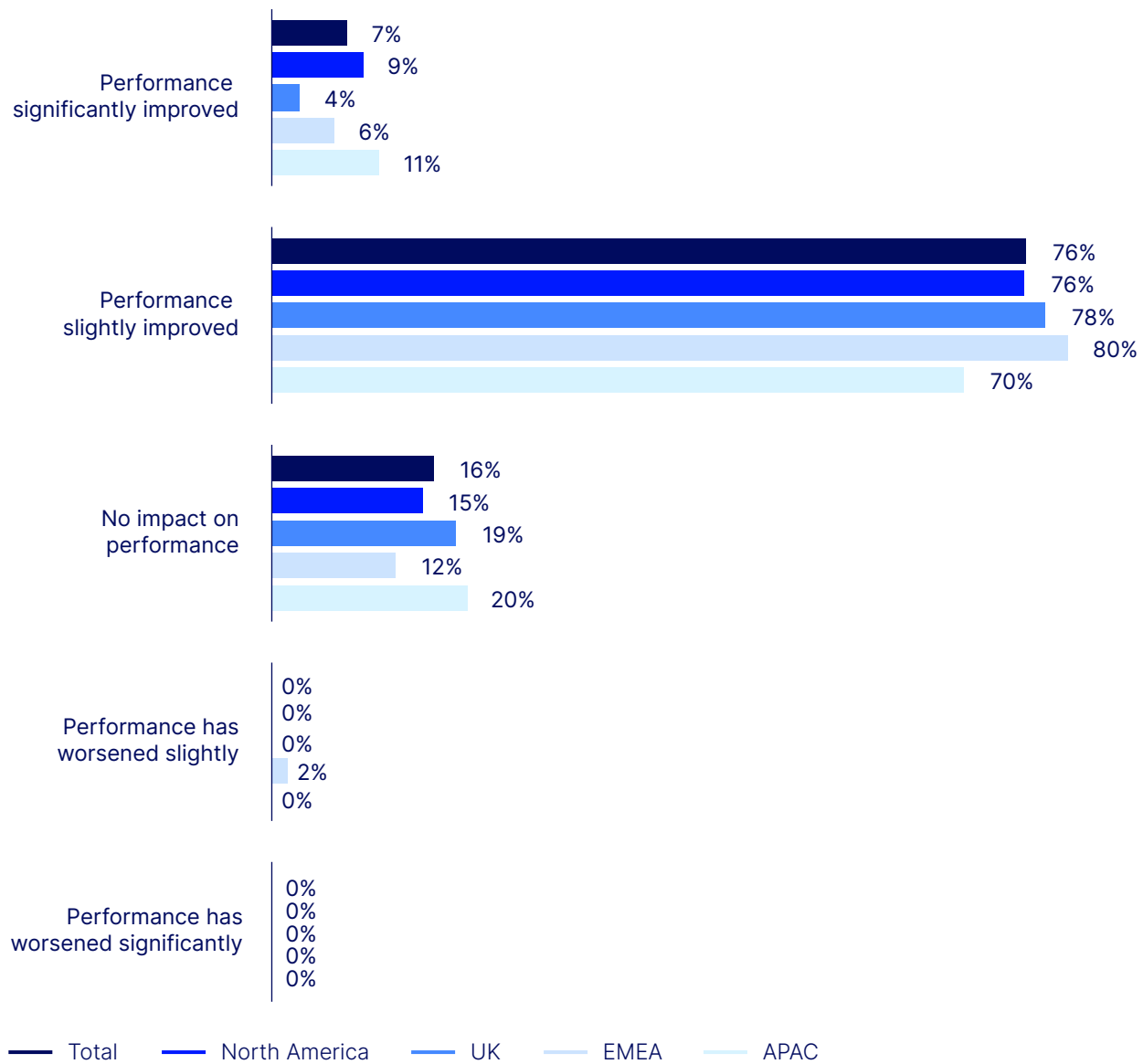


83%

The majority of current users report an improvement in their investment performance of some kind: 76 percent say their performance slightly improved while 7 percent say their performance significantly improved.

Exhibit 5: More than 80 percent of current adopters report an improvement in investment performance

Q: How would you rate the impact of outsourced trading on your organization's investment performance?



Source: **241** respondents who use outsourced trading

Note: The total number of respondents that said "performance has worsened slightly" was 1 out of 241 which is 0.41% of total respondents and was rounded down to 0%. That respondent was EMEA based so 1 out of 65 or 1.53% of EMEA respondents and this was rounded up to 2%.

While it's possible that external trading expertise can help to drive better investment outcomes, this survey does not quantify the direct link with performance uplift. However, it is striking that among the organizations who currently use outsourced trading, only one reports a slight decline in investment performance since outsourcing their trading functions.

Almost all mid-sized funds report an uplift in investment performance, with 94 percent indicating an improvement. Smaller funds appear to experience the least benefit, although this is still high at 75 percent. And some 91 percent of current users who are asset owners report an improvement in investment performance with outsourced trading.

Early adopters — a positive experience

Adopters have taken a cautious approach to outsourcing so far — eight in 10 currently leverage outsourced trading for just one or two asset classes (See [Chapter 3](#) for more detail). Yet, among these adopters satisfaction is very high, with 79 percent saying they are either “satisfied” or “very satisfied.” This rises to 83 percent in EMEA and 81 percent among very large funds.

Despite the evident benefits of outsourced trading, potential adopters report concerns. In the next chapter we take a closer look at our group of potential users and examine the differences between current adopters and those who have yet to adopt outsourced trading.

94%

Of mid-sized firms report an improvement in their investment performance from outsourced trading.

CHAPTER 2

What's holding potential users back?



Outsourced trading is becoming more prevalent among a select proportion of the market and the benefits, as discussed in Chapter 1, are clear and tangible, ranging from reduced costs to improved risk management. Yet in our group of potential users, we find certain barriers to adoption.

One in particular stands out: concerns around the cost of outsourcing. Yet, as outlined in the previous chapter, a third of outsourced trading users report reduced costs, and more than half report improved efficiencies as top benefits. Another hurdle is trust, making that leap of faith in another provider. And finally, potential users readily admit that a big barrier to adoption is a lack of understanding about the experience of adopters, especially when it comes to the practicalities and benefits of outsourcing.

Gap in perceptions between users and potential users

Our previous research revealed how certain fund types — particularly wealth managers and very small funds — prefer to trade via a tightly held network of brokers and are reluctant to divulge client information or investment strategies to a third party when so much of their portfolio is actively managed.

However, our 2024 survey reveals that potential users have very different views on outsourced trading, and specific reservations, compared with actual users. For example, when we asked both users and potential users for their perception of outsourced trading adoption in their own region, 49 percent of potential users believe adoption is low or non-existent, whereas only 5 percent of actual users hold the same belief.

This mismatch in perceptions between adopters and potential adopters is present throughout the survey, and many of the perceived barriers appear less material once outsourced trading is embedded into an organization, suggesting fears may be unfounded.

Identifying the barriers

The survey respondents who have yet to embrace outsourced trading — 20 percent of the total sample — cite varying reasons (Exhibit 6).

Chief among these barriers are concerns about cost-effectiveness (61 percent), loss of control over trading activities (56 percent), and a lack of understanding about the benefits of outsourced trading (56 percent). The overall perception is that maintaining an in-house trading desk is more cost-effective. Firms in North America and large firms rank this as by far the most important reason for not yet outsourcing.

In addition, nearly half of would-be users cite a lack of trust in outsourced trading providers as a hurdle. The technical complexity of integrating operations with a third party is a worry for 44 percent of respondents, while regulatory barriers are a hindrance for 34 percent.

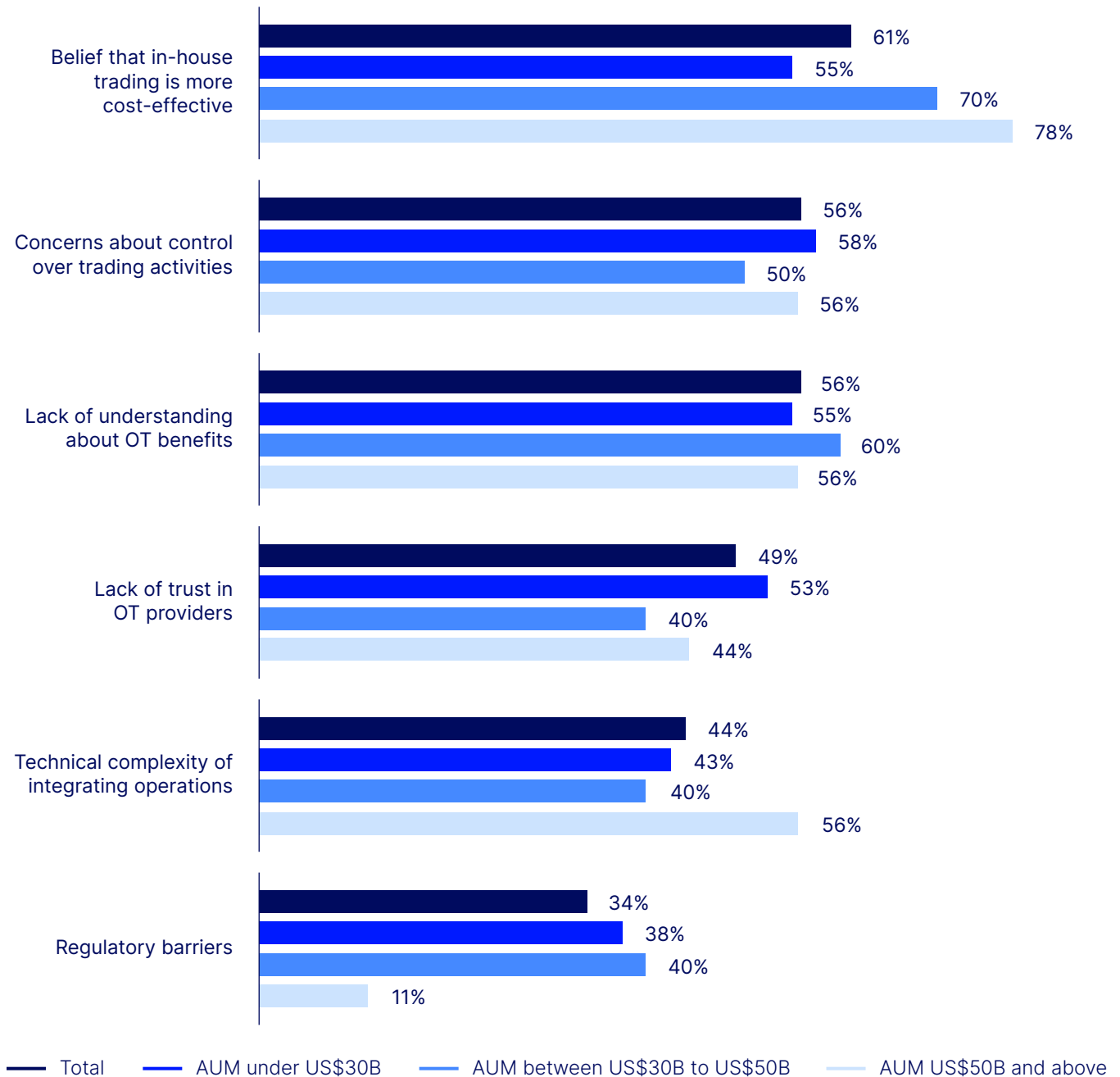
However, once outsourced trading is implemented, we see many of these concerns dispelled, suggesting that there may be misconceptions held by those who do not have direct experience with outsourcing.

44%

The technical complexity of integrating operations with a third party is a worry for 44 percent of potential users, while regulatory barriers are a hindrance for 34 percent.

Exhibit 6: The number one reason respondents are not yet outsourcing: In-house is perceived to be more cost-effective

Q: What are the primary reasons your organization has not adopted outsourced trading?



Source: 59 respondents who do not outsource but plan to

Dispelling myths

With half of potential users saying they feel uninformed about outsourcing and the ways it can benefit their business, the experiences of adopters should provide compelling evidence to debunk some misconceptions.

As shown in [Chapter 1](#), adopters are consistently realizing cost savings, streamlined operations, improved investment performance and enhanced risk management through outsourcing.

Costs of outsourced trading — an unfounded concern?

Among potential users who choose not to outsource their trading needs now, the main reason is a belief that in-house trading is more cost-effective (61 percent rank it among their top three reasons).

When we asked both groups what challenges or concerns they face or expect to face, we can see clear differences in opinion — 47 percent of potential users cite higher costs as a concern compared to 27 percent of current users (Exhibit 7).

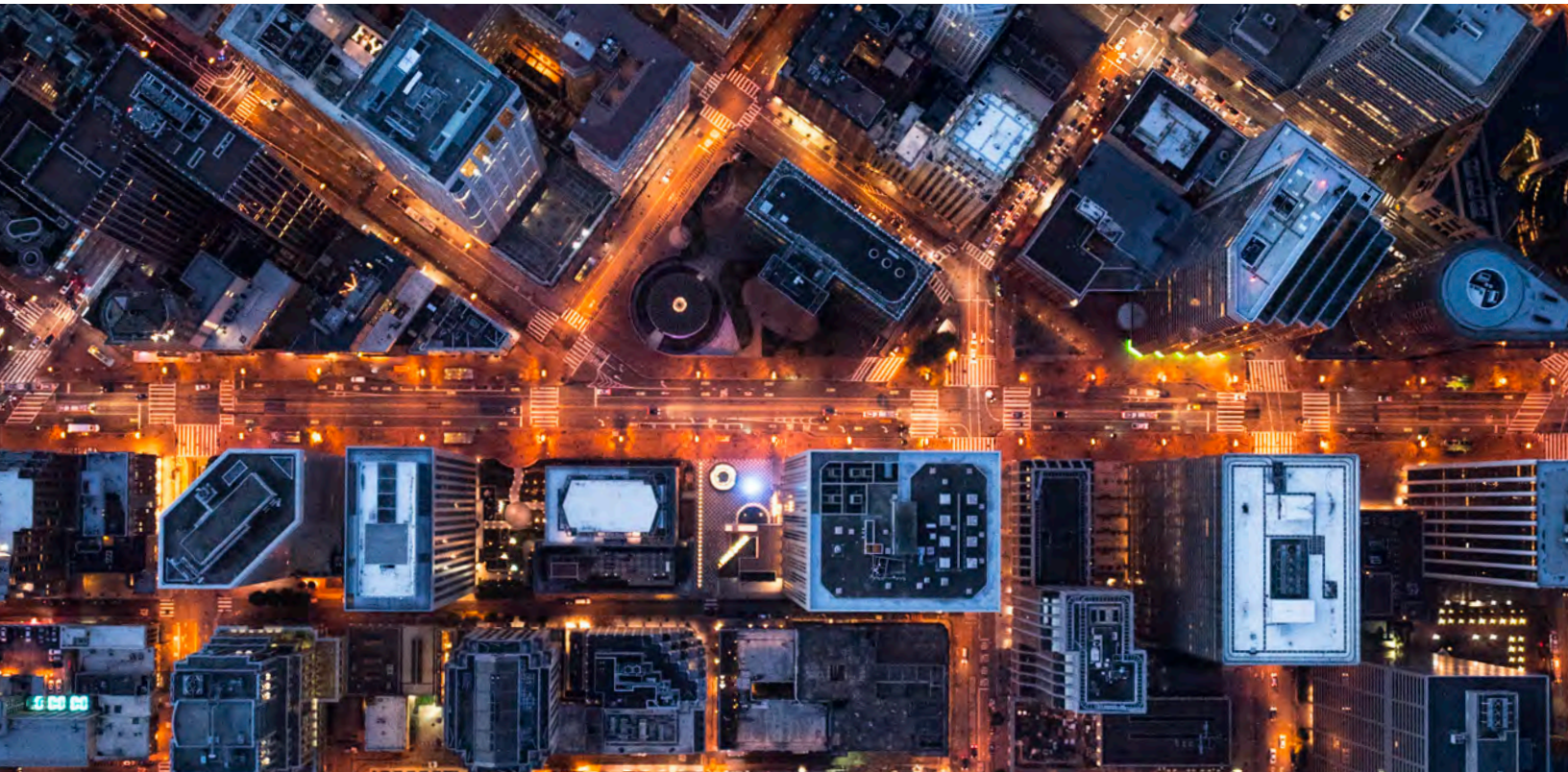
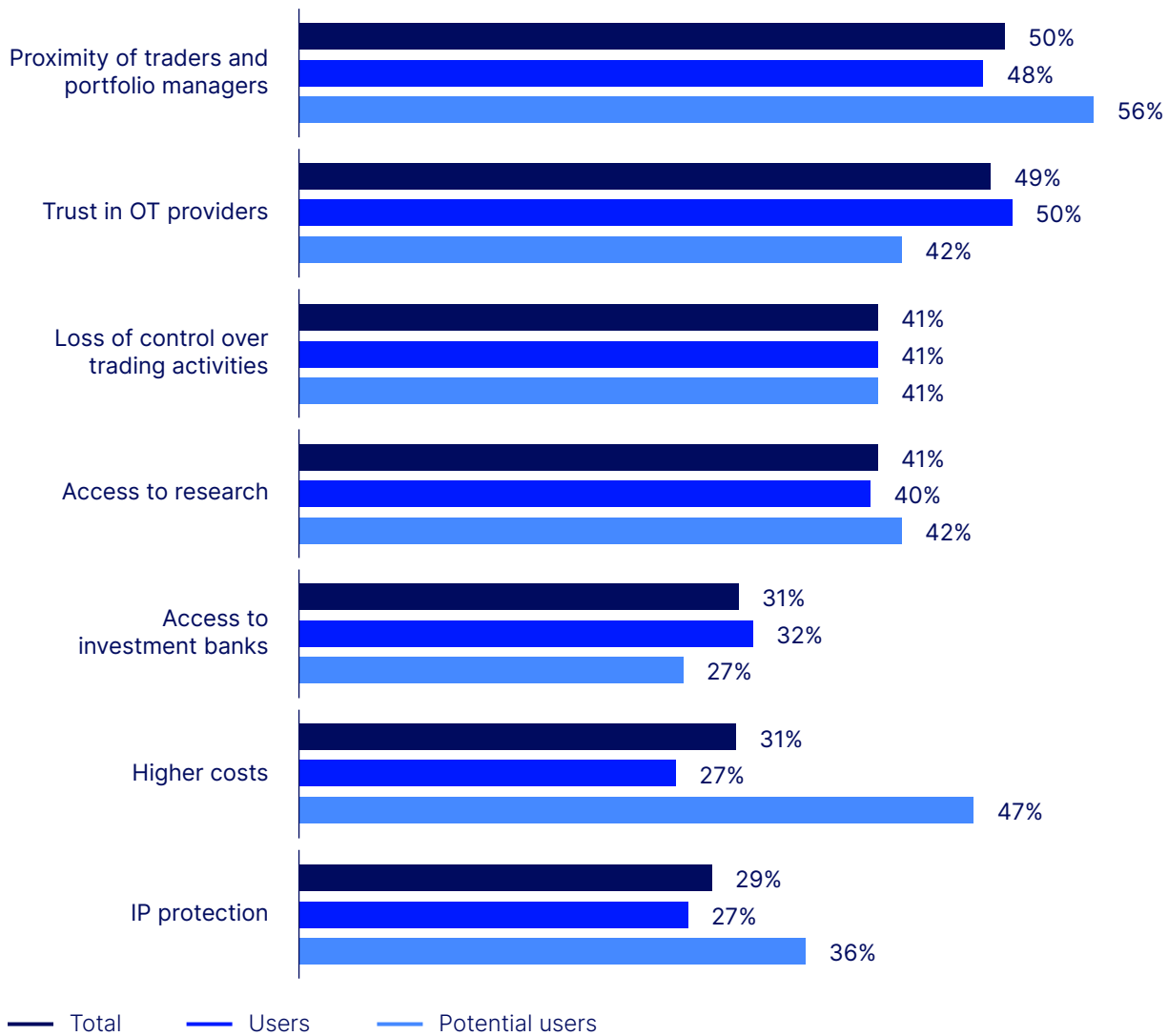


Exhibit 7: Those considering outsourcing disproportionately perceive the proximity of traders, costs and intellectual property (IP) protection to be issues

Q.12. What are the main challenges or concerns you or your organization has faced or expects to face when using outsourced trading?



Source: All **300** respondents

Concerns over cost seem to be alleviated once outsourced trading is implemented. As a reminder, in [Chapter 1](#) we can see that, among adopters, cost reductions surpass

expectations somewhat — 28 percent expected it to be among the top five benefits and 33 percent ranked it as an actual achieved benefit.

Issues of proximity, control and trust

For financial institutions that have relied on in-house operations, the idea of outsourcing aspects of their trading represents a leap of faith.

Historically, traders and portfolio managers have been located in the same office, or at least the same building, and the front-, middle- and back-office teams have operated within physical reach of each other.

Despite COVID-19 accelerating the trend toward remote work, proximity is still top of mind for respondents, with half ranking this as the top concern. However, hesitancy is higher among potential users.

After proximity, trust ranks as the second-most significant barrier to adoption. When we asked all 300 respondents about the challenges they faced when they were initially adopting outsourced trading or expect to face as they adopt outsourced trading, trust was identified by half. Trusting in third-party outsourced trading providers is crucial for organizations considering outsourcing their trading activities. Given that current users in our survey have no plans to reduce their exposure to outsourced trading

and the majority are satisfied with their experience, it suggests that trust is a hurdle that is overcome with experience (See [Chapter 3](#) for more on future plans).

Loss of control over their operations is the third-most pressing concern, with adopters and potential adopters ranking this equally as a concern or challenge (41 percent).

Then there are concerns about risks associated with outsourced trading. However, when we look at a related but more specific issue — concern about IP protection — potential users express a higher level of concern compared to current users (36 percent versus 27 percent). It should offer some comfort to potential users that this ranks at the bottom of the table for users.

It's unlikely that organizations using outsourced trading have a more cavalier attitude toward safeguarding their information, controlling trading activities or trader/manager locations. It's more likely that these concerns do not materialize once outsourced trading is adopted.

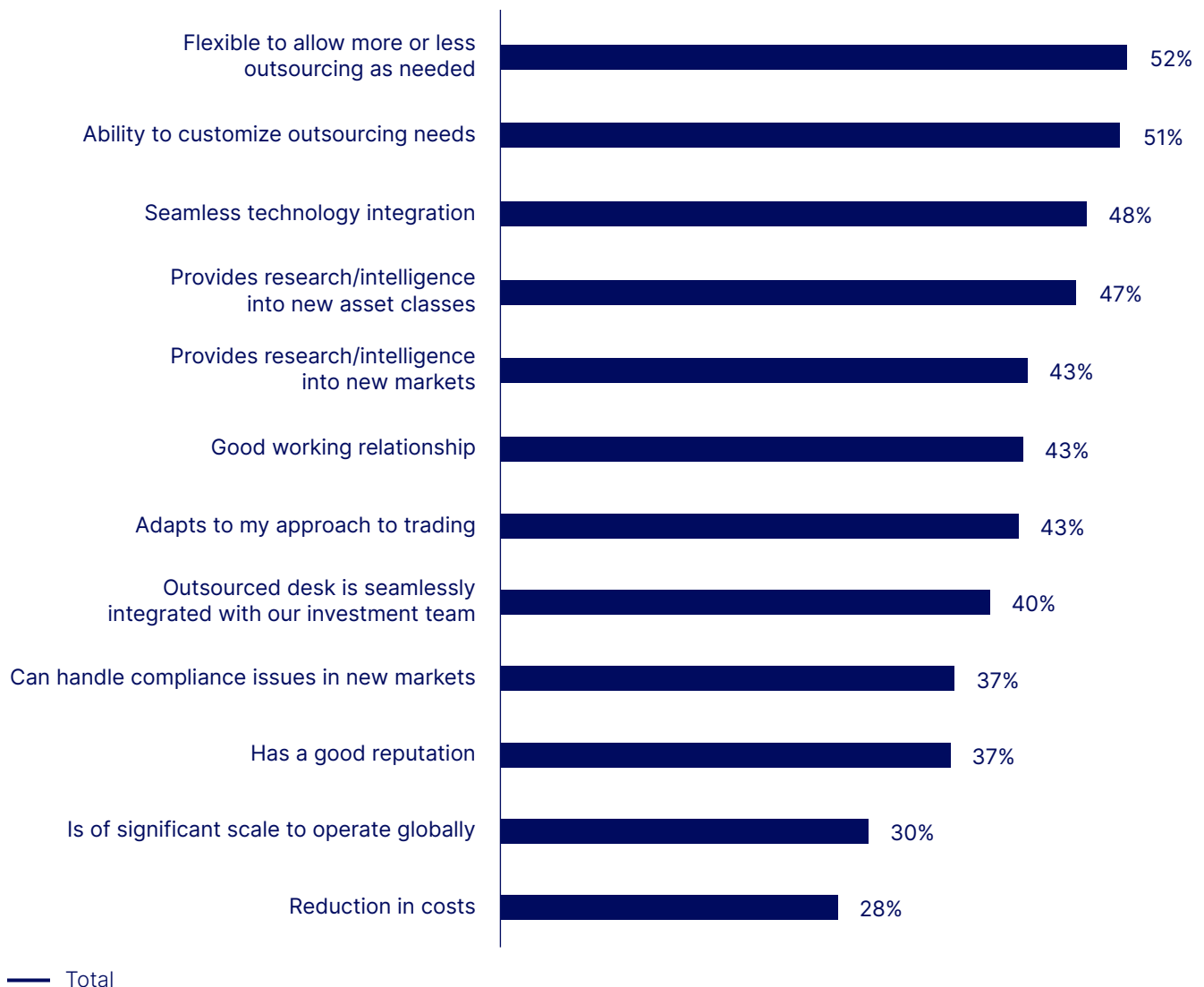
Technological integration — key for all

One aspect where adopters and potential adopters appear to agree is the importance

of technological integration when onboarding an outsourced trading provider (Exhibit 8).

Exhibit 8: Funds want a seamless, flexible and customizable outsourcing solution

Q: What are the key attributes when choosing an outsourced trading partner?



Source: All **300** respondents

Ensuring a third-party desk operates seamlessly with existing portfolio management or reporting tools is paramount. This finding echoes concerns raised in our previous report, where we found that technical integration with existing portfolio management and reporting systems are critical considerations for funds.

Specifically, the ability of a third-party desk to communicate with a fund's existing electronic trading setup is key for all respondents (79 percent). Real-time reporting and automated portfolio rebalancing also rank highly and almost equally among both groups.

However, we can see that potential users may underestimate the importance of compliance, reporting and portfolio management system

integration in an outsourced trading partner (54 percent and 64 percent, respectively) with current users placing greater emphasis on these aspects (81 percent).

As an emerging practice, there are many ways in which outsourced trading providers can work with clients to integrate their technology, but there is evidently a lack of understanding about the capabilities of third-party desks to do so.

Although this survey effectively debunks several misconceptions about outsourced trading, it also highlights an education gap among potential users, indicating ongoing misconceptions within the industry.

79%

Of total respondents say the ability of a third-party desk to communicate with a fund's existing electronic setup is key.

CHAPTER 3

Where does outsourced trading go from here?



While current adoption rates may still be relatively modest, most respondents say they intend to expand outsourced trading usage and our survey findings indicate a promising outlook for future adoption.

Eight in 10 of those currently using outsourced trading do so for one or two asset classes only, yet the majority of current and potential outsourced trading users plan to add more asset classes in the next five years. None of the current users in our survey said they were planning to reduce usage of outsourced trading.

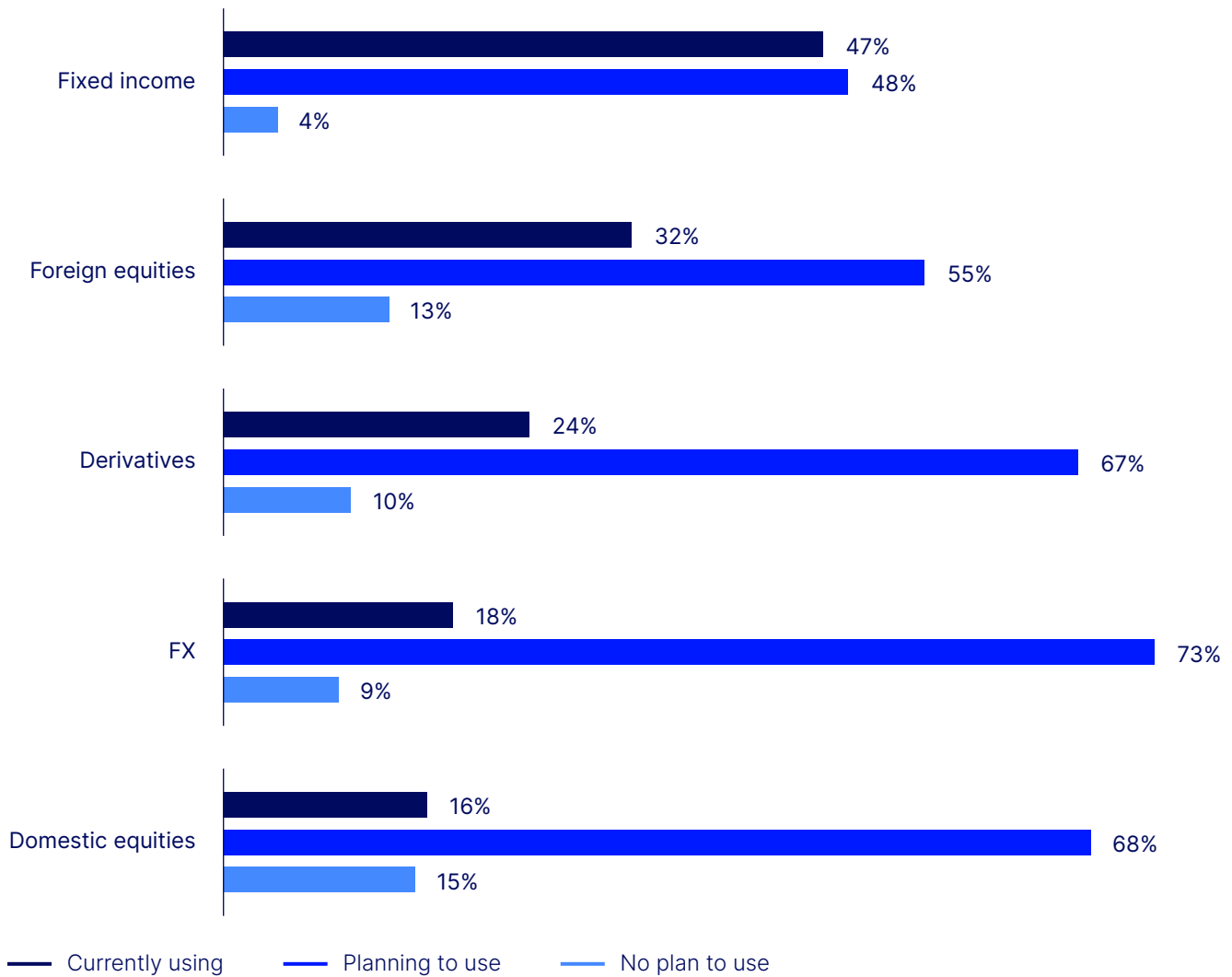
Growth in asset class outsourcing

Fixed income emerges as the most outsourced asset class, with nearly half (47 percent) of respondents engaging an external desk, followed by foreign equities (32 percent), derivatives (24 percent), FX (18 percent) and domestic equities (16 percent) (Exhibit 9).

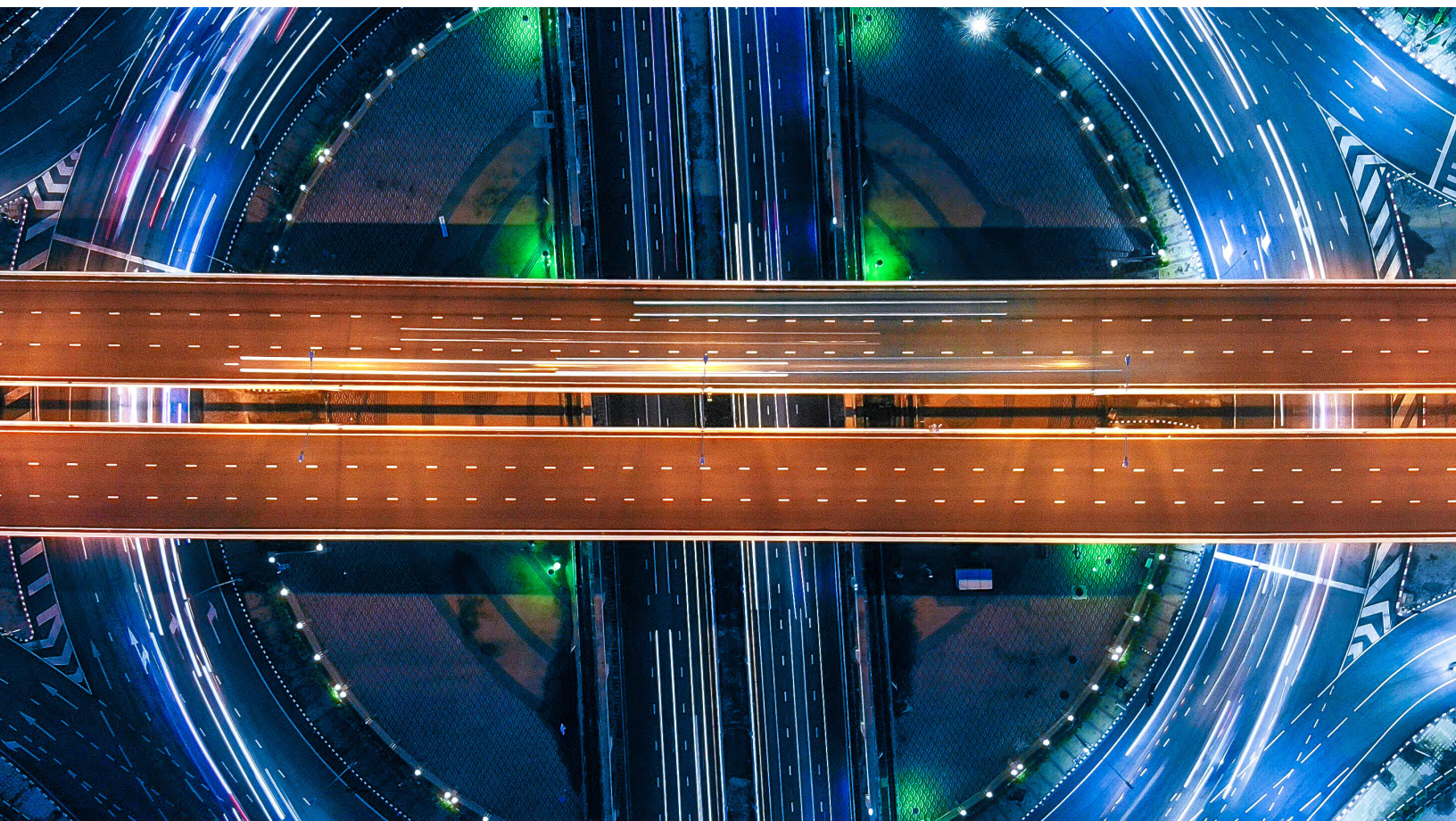
There is a clear trajectory toward greater outsourcing across the board, and outsourced trading providers are likely to move in step with this demand. Outsourcing more complex asset classes such as derivatives and swaps, for example, would be a logical progression as the industry matures and funds become familiar with the practice. Nearly three quarters plan to outsource FX (73 percent), followed by domestic equities (67 percent) and derivatives (68 percent) in the future.

Exhibit 9: Fixed-income trading is most commonly outsourced, followed by trading in foreign equities

Q: How long have you used outsourced trading / When are you planning to adopt outsourced trading for the following asset classes if not already outsourcing all?



Source: All **300** respondents



Global expansion of outsourced trading

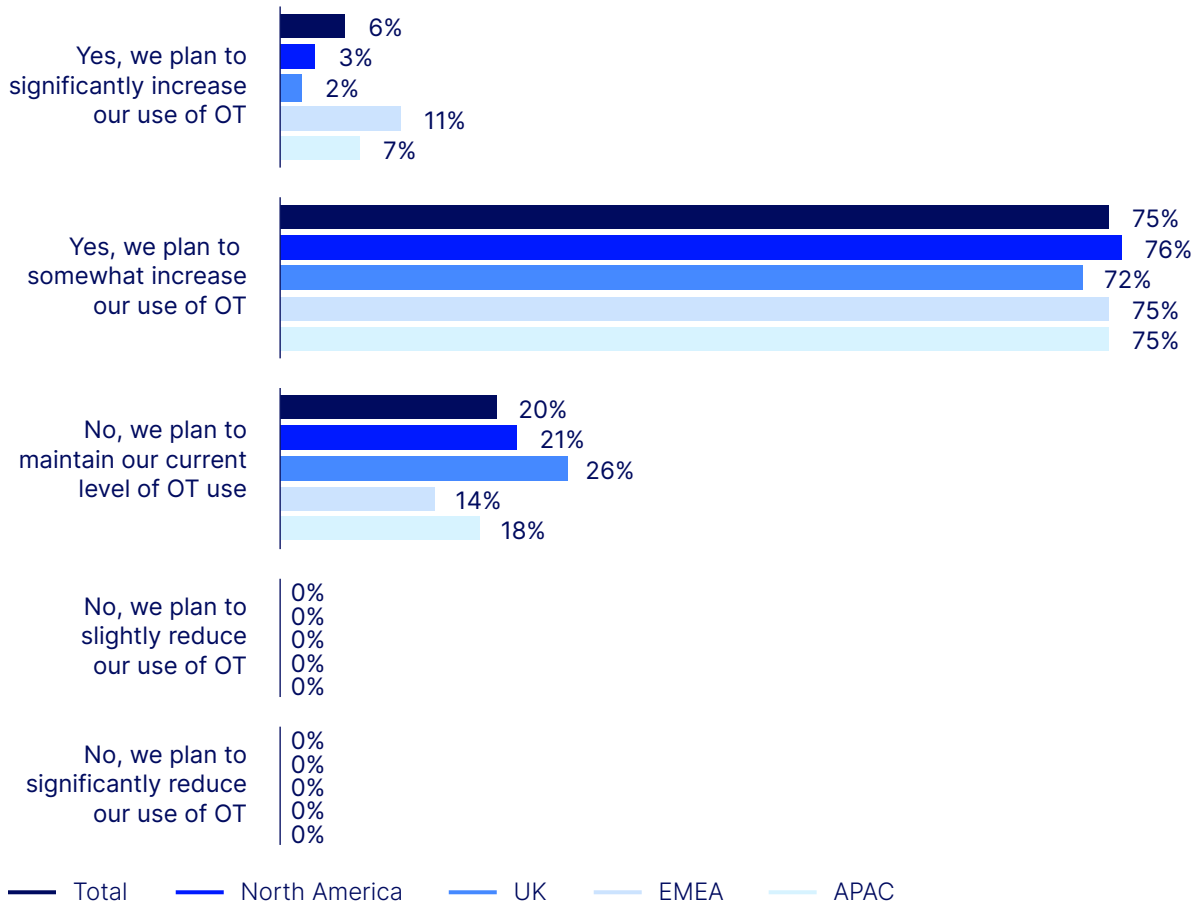
Our survey findings underscore the untapped potential within the market, and while there is significant room for growth in demand for outsourced trading across the industry, that growth may be found in surprising areas.

In line with the levels of adoption in each region, expansion plans are particularly prevalent in EMEA and funds of all sizes say they will “somewhat” expand their use of outsourced trading (Exhibit 10).

Asset owners are also much more likely to say they will increase outsourced trading usage (87 percent) and expect it will enable them to reduce headcount. While this cohort will expand from a lower base of current adoption levels, it represents a possible strategic shift in how they allocate internal trading resources.

Exhibit 10: Most current adopters say they will expand their use of outsourced trading and none plan to cut back

Q: Does your organization have plans to expand its use of outsourced trading in the future?



Source: **241** respondents who use outsourced trading

Selecting an outsourced trading provider — flexibility is top of mind

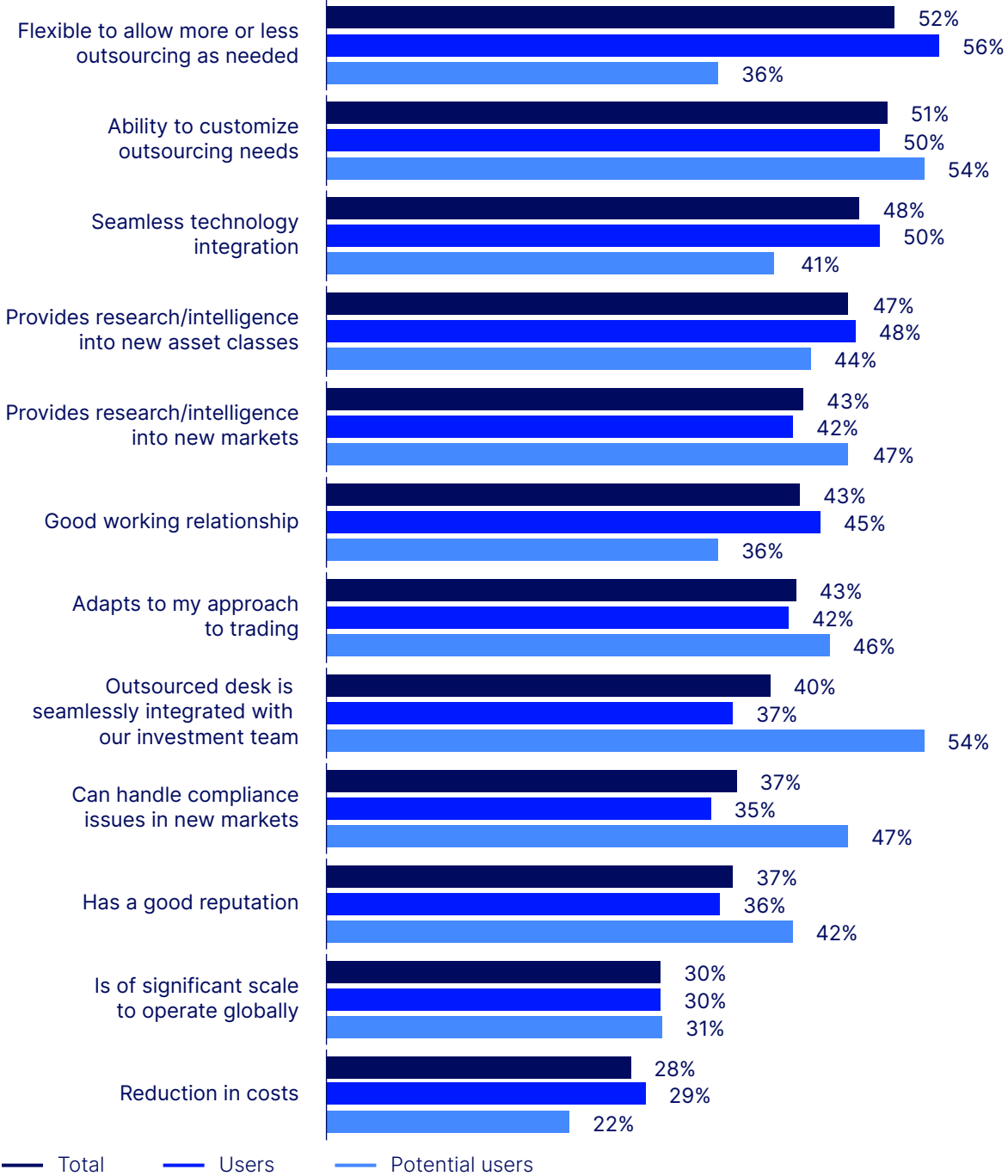
Given that most companies are still in the market for outsourced trading partners, provider selection criteria and relationship dynamics will play a pivotal role in shaping the future landscape of outsourced trading.

When we asked all 300 respondents what their key required attributes are in an

outsourced trading provider, they chose flexibility (52 percent), customization (51 percent), integration capabilities (48 percent) and research intelligence into new asset classes and markets (47 percent respectively) as the top five attributes (Exhibit 11).

Exhibit 11: Outsourced trading users prize flexibility and integration, while potential users look for customization as well as integration

Q: What are the key attributes when choosing an outsourced trading partner?



Source: All 300 respondents

What users and potential users want in outsourced trading providers

There are disparities between what users and potential users value most in an outsourced trading partner.

For users of outsourced trading, flexibility rises to the top with more than half (56 percent) ranking this as their top attribute in a provider. The ability to outsource one component of their trading at a time — a region, an asset class — could prove transformational and help to ensure best execution in specific locations. However, potential users may be underestimating the importance of this aspect with just over a third (36 percent) rating flexibility as a top attribute.

Technology integration is important for users — these firms acknowledge the practical aspects of outsourced trading, having implemented it already. For potential users, just over half (54 percent) say the most critical qualities are seamless integration with their investment team and customization. This is followed by the provider's ability to handle compliance in new markets (47 percent), provide research and intelligence (47 percent) and maintain a reputable image (42 percent).

The significance of these attributes among potential adopters reflects their earlier concerns, primarily centered around trust, control and IP issues. They seek providers capable of addressing these concerns and mitigating associated risks.

Finding alignment on customization

One aspect where both groups align is the importance of customizing outsourcing needs. As firms become more accustomed to outsourcing, they value a provider's flexibility to adapt to changes in investment strategy or business priorities.

Similarly, both groups emphasize the importance of research and intelligence into new markets and asset classes. Outsourced desks have the scale and expertise to provide insight into almost any asset class or market, which would be difficult to replicate outside of the mega-funds. This benefit may not be top of mind when fund managers explore outsourcing, but it may be an important offering for resource-constrained teams or those exploring new markets.

Key qualities for an ongoing relationship

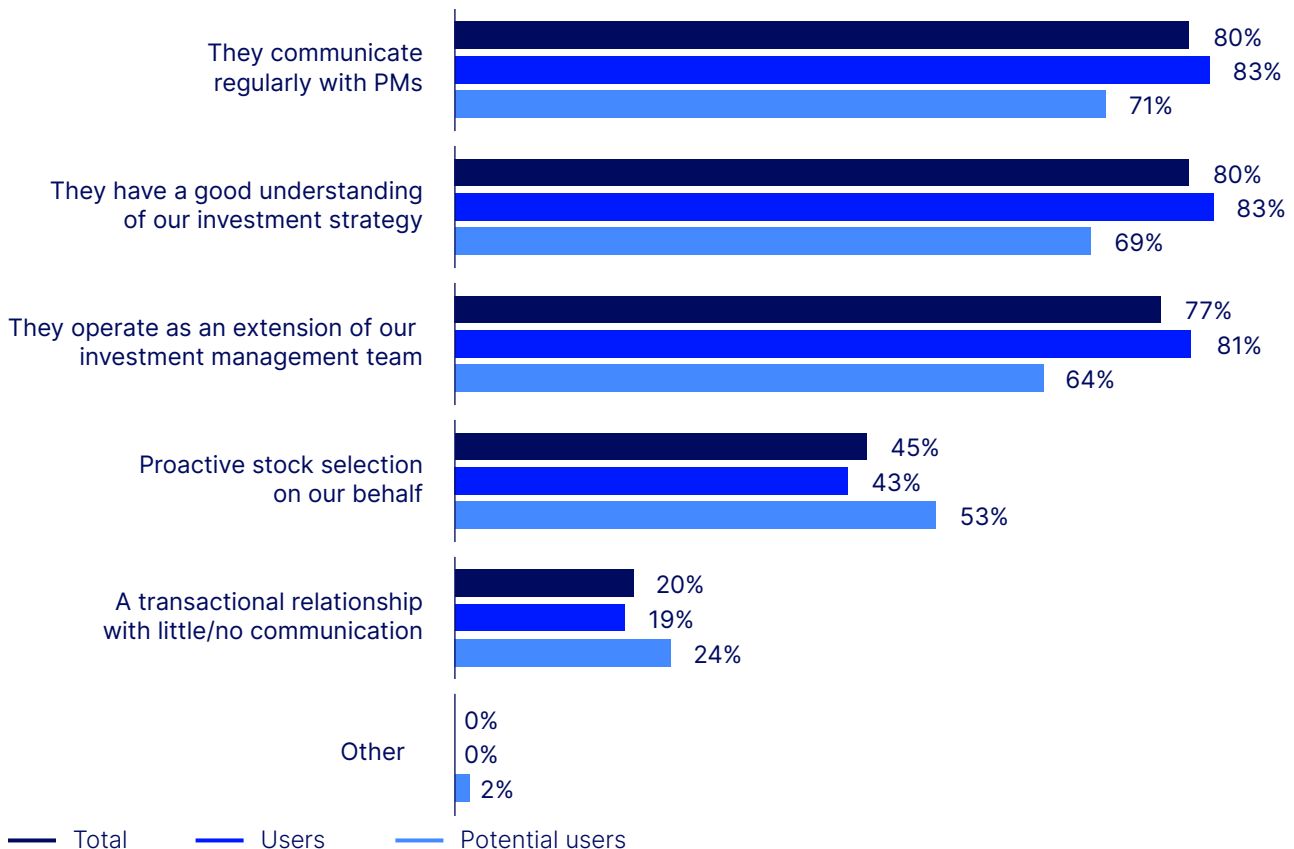
As more institutional investors understand and explore the potential of outsourced trading, they will look to providers that offer long-term solutions and, more importantly, are easy to work with (Exhibit 12).

Firms that outsource value regular communication with portfolio managers

(83 percent) above all else. This should reduce concerns over proximity of portfolio managers and traders that potential users share. Furthermore, they want their providers to have a good understanding of their investment strategy (83 percent) and to operate as an extension of their investment management team (81 percent).

Exhibit 12: Users see the benefits of communication, understanding of their investment strategy and seamless operation to a greater extent than non-users

Q: What are the key qualities of an ongoing working relationship with an outsourced trading partner?



Source: All 300 respondents

Users view their outsourced trading providers as strategic partners to the business, extending beyond mere transactional support to contribute to the overall efficiency and performance of investment operations.

For these respondents, outsourcing is a strategic play that can improve the overall efficiency and performance of investment operations. However, our survey shows that potential users may underestimate the importance of this relationship and perceive the interaction with the outsourced trading team as more transactional (24 percent).

Once outsourced trading is adopted, firms clearly take a partnership approach to onboarding and working with their provider, and this collaborative approach seems vital to reap the benefits laid out in this report.

Despite lingering concerns among those who have yet to explore outsourced trading, we hope this research brings clarity regarding the extensive benefits outsourced trading can offer. The increasing demand indicates a paradigm shift in the industry, with outsourced trading positioned to become an important competitive advantage among institutional investors globally.

83%

Of firms that outsource value regular communication with portfolio managers above all else.

Conclusion



Our survey findings indicate that current users of outsourced trading have an advantage over the rest of the market. They are reporting benefits in the form of increased efficiencies, reduced costs and improved investment performance.

However, potential users seem to be unaware of those benefits. Additionally, there are challenges that need to be overcome through increased education and improved perception.

Potential users have different views on outsourced trading and specific reservations compared to actual users, many of which relate to trust. Educating this segment of the market about the many use cases, benefits and key considerations when onboarding an outsourced trading partner will be key.

Once a decision to outsource is made, new users need partners that can act as an extension of their operations. This means regular communication with portfolio managers and a deep understanding of their institution’s investment strategy.

For organizations yet to embrace outsourced trading, there are critical factors to consider when integrating an outsourced trading provider:



**Benefits
beyond cost**



**Technical
integration**



**Relationship
dynamics**



**Risk
mitigation**



Benefits beyond cost

While cost reduction remains a primary driver for outsourced trading adoption, it is crucial to acknowledge the broader spectrum of benefits it can provide and the fact that cost concerns often subside for those who are using outsourced trading. Broader operational benefits include enhanced risk management, streamlined post-trade analysis, improved workflows and ultimately, improved investment performance.



Technical integration

In an increasingly digital environment, seamless integration with existing systems and technologies is paramount for the successful implementation of outsourced trading. Addressing challenges related to technical integration, such as compatibility with portfolio management systems and automated trading platforms, is critical. Platforms that offer full trade life cycle support and integrated compliance and workflow automation will benefit even the largest and most complex institutional portfolios.



Relationship dynamics

A good relationship between organizations and outsourced trading providers relies on effective communication and understanding of the fund's investment strategy. Rather than adopting a transactional approach, organizations should seek a collaborative model and a partner that can deliver tailored solutions for longer-term success. This will help to overcome concerns about loss of control, trust and transparency, and IP risk.



Risk mitigation

Outsourcing remains a leap of faith for large parts of the market, with many only just beginning to outsource one or two asset classes. However, it's important to remember the benefits. A third-party trading desk can help organizations minimize operational risks across the front, middle and back office by ensuring continuity and reliability for regulatory compliance and data security. Over time, institutions will reap the benefits of outsourced trading and, as the market matures, the perceived risks will subside.



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