

# Outsourced trading should be more than just trade execution

*Jack Seibald and Michael Rosen, of Cowen, extoll the virtues of their outsourced trading system*

**A**s outsourcing as a business concept has increasingly gained traction throughout the economy, it's also become more widely accepted in the investment management business in recent years. In fact, institutional investors now seem quite comfortable allocating capital to investment managers who diligently employ outsourced solutions for CFO, COO and operations, compliance, information technology and cyber-security services. In many cases, allocators see the engagement of independent third parties for such services as additional sets of eyes and ears on the managers that will help to ensure operational integrity.

Outsourced trading is another such service that's been available to investment managers in some form for some time, but, like other outsourced services, it is now being used more frequently by investment managers. While more brokerage firms have entered the space, most practitioners still offer this service primarily as a trade execution only solution. In our view, this leaves managers free to find solutions for other necessary trade and operational support services.

At Cowen, we've taken a much more holistic approach to outsourced trading. We view ourselves as an extension of a client's business, and as such, are invested in functioning as if our team is operating inside the client's firm. Just as internal teams of traders and support personnel at large firms are focused on



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solving for all non-investment related functions, our team is dedicated to the idea that the fund manager's time is best utilised when it's focused on the investment decisions. That doesn't mean that the service we offer is all or nothing, it's simply that we can customise the solution to meet each client's specific needs.

## A client's trading desk

The key benefit of Cowen's Outsourced Trading solution is that we can be a high-touch, complete outsourced trading solution, or supplement an existing trading operation, depending on the client's specific needs. Our clients get to leverage our established and experienced team of "buy-side" traders, support staff, and trading and reporting infrastructure, and of course, the existing relationships we have developed over the years with scores of institutional brokers that provide clients with research, corporate access, and capital markets flows. The solution offers exceptional value to investment managers as it

truly functions as the client's trading desk, but avoids the cost of building and operating an in-house trading infrastructure. Moreover, our agency-only model avoids the potential conflicts that may arise at other firms that make markets in securities or trade for their own accounts. And perhaps most importantly, our solution allows clients to concentrate their resources on alpha-generating functions, including research, portfolio construction and risk management.

The key differentiator in our solution is that our traders and operational support staff truly function as an extension of the client's firm. Our staff will not only manage trade executions, but also provide complete operational support as if we were working for the investment manager directly. Our team processes all documentation related to opening trading accounts, opens broker relationships as desired by the client, performs daily trade recaps with all brokers, and reconciles activity daily with the client's prime broker/custodian. We offer our clients the ability to execute a portion of their trading volume through Cowen using our Global Suite of Algos with access to 110 markets around the world, or to route trades to their away brokers for a negotiated service fee, or some combination of each. Cowen's Outsourced Trading business is currently connected with over 200 brokers globally.

When we execute client orders, we never act as principal, but rather route orders directly to the markets

for best execution based on clients' needs. When directing client orders to away brokers, our trading staff routes orders in the client's name directly to designated brokers, representing ourselves to those brokers as the client's traders, and the designated broker executes the orders. This reinforces the client's "brand" in the broker-dealer community, but also leverages our existing outsourced trading relationships with such brokers for purposes of research, conference attendance, corporate access, and corporate financing activities. Our solution provides full transparency as the cli-



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ent knows at the time of execution which broker is making the trade, and conversely, the executing broker always knows the client initiating the order at the time it is received. In contrast, others in the outsourced trading business often don't do this, but rather execute the orders in their "name" and only after the fact notify the designated brokers which client the earlier executions were for. In addition, our team also assists the client in developing commission budgets and continuously monitors the progress to optimise the services the client needs to manage his/her portfolio, such as research and corporate access, just as it would if it worked directly for the client.

#### **A plethora of traders**

Cowen's solution also provides clients with access to the firm's geographically diverse team of traders located in New York, Stamford, San Francisco, Boston, Atlanta, London and shortly in Hong Kong, as well as the firm's comprehensive trading technology and portfolio reporting solutions. Our team has multi-asset class experience in markets around the globe, trades with over 200 brokers utilising approximately 100

live fix connections already in place, and connects via existing electronic interfaces to more than 25 prime brokers and custodians to expedite trade reporting. The infrastructure that we've built provides our clients with the ability to see order fills as they occur as well as real time P&L data for their entire portfolio. It also allows us to deliver to them fully reconciled portfolio reports on a T+1 basis. Finally, our technology solutions enable us to connect via FIX to any order management system the client selects and thus accept orders in the manner the portfolio manager is accustomed to sending them.

Beyond trade execution and full operational support, Cowen Outsourced Trading also provides clients multi-custodian shadow reporting for pooled vehicles and managed accounts that allows portfolio managers to manage their portfolios on an aggregated basis. This service includes the daily reconciliation of all transactions and cash utilising Advent Geneva, the performance of security level reconciliation for realised and unrealised P/L and position quantities, and the delivery of portfolio accounting reports via Cowen Prime's secure web portal and/or automated e-mails. All client account data is maintained and will be readily available for enhanced portfolio and/or risk analytics and reporting, should those be contracted for separately.

#### **Commission management**

Through our affiliate, Westminster Research Associates (WRA), a comprehensive commission

management solution is also made available to clients, facilitating the aggregation of commissions generated across multiple firms and the centralised payment and record-keeping for research and other brokerage services acquired. WRA also serves as a Research Payment Account (RPA) administrator that facilitates authorised payments for research under the Mifid regulations, and provides managers the tools to create budgets at the firm, fund, and strategy levels, and to allocate research payments against these budgets and generate Mifid II compliant reports for internal control, regulatory, and client reporting purposes. Outsourced trading as a service fits neatly into the segregation of trade execution and the payment of research mandated under the Mifid II regime, and the combination of Cowen's full service outsourced trading service and WRA's RPA offering makes for a complete one-stop solution for clients.

Perhaps most important, at Cowen we have the technology and experienced personnel that allows us to customise our systems and workflows to replicate the environment that the portfolio manager is familiar and comfortable with. Our traders and support team adapt to the client's style of managing his or her portfolio, and will serve the client as aggressively or passively as desired. This solution didn't just happen by accident, but rather was carefully crafted over time based on the experiences our team gained as portfolio managers and through our service to hundreds of clients. **HFM**