

OUTSOURCED TRADING IS GAINING GROUND IN FIXED INCOME MARKETS

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Outsourced trading first developed in the equity markets as a solution for small and emerging managers. Today, managers of all sizes regularly capture the benefits of outsourced equity trading—and momentum is now spreading to fixed income markets, driven by changes in investor mindset and evolutions in market structure.

As a premier outsourced trading firm and one of the first to offer a flexible partnership model for fixed income trading, we have a unique perspective into how these developments are unfolding on the ground. Here we discuss six catalysts for the rapid adoption of outsourced fixed income trading and explore how these factors are supporting a strong runway for future growth.

1. Shifting mindsets around remote work – After spending 18+ months working remotely due to COVID-19, investment teams have demonstrated that portfolio managers, traders, and research analysts are just as effective managing assets while working remotely as they are working together in the same office. They’ve successfully collaborated and navigated volatile markets—all from home.

As investment teams have become confident working in this new organizational structure, the temporary alternative has given way to a more permanent solution. Managers now recognize they can achieve tight-knit team integration without physical proximity—an important realization that transforms outsourced trading into a viable option.

2. A growing need for geographic diversification – From a business continuity perspective, CIOs and COOs are increasingly recognizing the value of diversifying the geographic locations of their trading desks. COVID-19 has played an important role in this development, having laid bare the health risks of the traditional open trading floor. In addition, the Texas power crisis in February 2021 pushed firm leaders to accept that geographic diversification means more than having satellite offices around a major city. In reality, it should mean having functional offices across the country, or even beyond. Managers are identifying outsourced trading as a key part of the solution, thanks to its ability to provide a simple and inexpensive means to gain geographic diversification and mitigate business risks.

3. A higher bar for fixed income traders – Today, the role of a pure execution fixed income trader is largely obsolete. Traders must add value to a manager’s investment process, driven by an ability to provide critical market intelligence in a global multi-asset environment where information flows quickly. The continued electronification of fixed income markets is an important reason why the bar for traders has been pushed higher. As the fixed income world moves away from its historical roots as a predominantly OTC market, traders are required to be proficient users of flexible trading protocols and electronic trading tools. Electronification also allows fixed

income managers to automate certain workflows. As a result, the trader's implementation of the manager's investment decision plays a more critical role than ever before in fund performance enhancement and consistency as well as genuine alpha generation.

In this context, asset managers and their clients are capturing significant benefits by leveraging an outsourced trading partner and optimizing trading workflows. Meraki Global Advisors' outsourced trading solution offers investment managers access to traders who are committed to delivering the high degree of intensity and focus that today's market demands as well as proven expertise in the latest fixed income trading platforms.

- 4. Rising operating costs** – In recent years, growth in operating costs has been a driving force behind industry consolidation. When these ballooning costs are combined with fee compression, firms looking to remain independent must identify ways to optimize efficiencies and reduce unnecessary expenses. Outsourcing many operational functions, including trading, is one way to generate these sought-after efficiencies. Outsourced trading turns what is typically a fixed cost into a variable one: Managers don't pay for periods of inactivity during which no trading takes place.
- 5. Increasing awareness around the benefits of specialization** – In a highly competitive marketplace, small- to medium-size firms are seeking ways to secure the benefits of specialization that are typically only available to larger competitors with sufficient scale. In most cases, firms must reach a critical size before individual contributors can stop wearing multiple hats and people can be hired for specialized roles. Outsourced trading empowers portfolio managers and research analysts to stop executing trades and focus solely on their core competencies. Small teams can thereby achieve a depth of knowledge and skill on par with the specialization previously reserved only for larger firms.
- 6. Greater difficulty accessing liquidity** – In our view, this is the most critical factor driving the growth of outsourced fixed income trading. Over the last five years, large broker-dealers and investment banks have fixated on technology implementations, expense cuts, and revenue growth—all made possible by focusing primarily on their largest institutional investor clients. Often, the small- and medium-size investment firms are allotted junior sales coverage and receive limited access to market information and trading desk axes compared to their larger peers.

In this environment, outsourced fixed income trading offers an attractive solution, allowing small- and medium-size firms to benefit from the expertise and relationships of their dedicated senior trader at the outsourced trading firm. At Meraki Global Advisors, for example, our traders have more than 15 years of buy- and sell-side experience and have cultivated strong relationships with the dealer community.

In sum, a powerful combination of forces is paving the way for widespread adoption of outsourced trading in fixed income markets. Given all its advantages, we fully expect to see outsourced trading become a larger part of the asset management ecosystem in the years to come.

Meraki Global Advisors is a leading outsourced trading firm that delivers global multi-asset trading, leverage management, and capital introduction services to a sophisticated and diversified client base that includes hedge funds, traditional asset managers, family offices, corporates, and private equity firms. Independent and unconflicted, we help our partners manage complex strategies across the globe and in every asset class by fully integrating into their investment processes. Recognized as the buy-side desk of our clients' investment teams, we trade a range of fixed income asset classes for our clients, including but not limited to HY, distressed, bank loans, IG, EM, CDS, CP, rates, swaptions, and ETFs with their valued street counterparties.

To learn more about Meraki Global Advisors' outsourced trading capabilities and how we're delivering targeted strategies designed to help fixed income investment teams thrive in a challenging environment, visit our website www.merakiglobaladvisors.com or email ms@merakiglobaladvisors.com.