

WHAT YOU NEED TO KNOW ABOUT:

OUTSOURCED TRADING

Jeff LeVeen of JonesTrading examines the ins and outs of outsourced trading and how it is creating efficiencies for hedge fund managers



Jeff LeVeen is a managing director and head of the Outsourced Trading group at JonesTrading. Jeff has spent 18 years in the financial industry previously as a senior NASDAQ market maker, and institutional sales trader.

Outsourced trading desks are gaining traction within the institutional investment community, as hedge fund managers continue to seek investment opportunities globally, reduce the significant costs of trading infrastructure and require the expertise to trade multiple asset classes.

WHAT IS OUTSOURCED TRADING?

In outsourced trading, a hedge fund manager engages a broker/dealer to manage the entire trade life cycle from pre-trade analysis, soft dollar/commission management, syndicate management and corporate access to post-trade allocations.

BENEFITS OF OUTSOURCED TRADING

Outsourced trading provides hedge fund managers with the ability to focus on what they do best – manage a portfolio – while leaving the nuances of trading to a professional team of traders. When a fund engages an outsourced trading firm, they get the opportunity for best execution, good-quality market colour, commission management, and trading support insuring that day-to-day trading runs smoothly. As a fund launches, resources are often limited. Outsourcing a fund's trading allows that vehicle to focus its resources on the investment team and when executed successfully, outsourced trading is done with an internal feel.

HOW DOES OUTSOURCED TRADING WORK?

The outsourced trading desk, acting on the hedge fund manager's direction, executes trades on behalf of the fund with the prime broker(s) and other broker/dealers that provide value-added services to the fund (soft dollar/commission management and dedicated single point of coverage). Our outsourced trading differs from our competitors because we believe in a single point of coverage that leads to more efficient and uncompromised execution prices. In fast-moving markets, seconds mean the difference between a great and a poor execution. We have access to virtually every possible exchange, dark liquidity pool and industry



algorithm. We provide 24/7 dedicated coverage to help money managers execute across all major global markets. The desk has the expertise in international equities, and understands the nuances of trading illiquid exchange-traded funds (ETFs) in size as well as derivatives.

GLOBAL TRADING NETWORK

At JonesTrading there are more than 100 registered representatives, most of whom are sales traders, and many who have experience as heads of desks. They provide over 1,500 of the top buy-side firms the ability to generate and access liquidity and trade large blocks with each other across a variety of instruments – knowing that JonesTrading will solely represent their interests and never be in conflict with them. JonesTrading is a powerful mechanism for liquidity generation – fuelled by our clients, and backed by the market expertise and experience of a network of traders who understand the organic nature of market activity. Our traders

use their knowledge in every trading situation to assist clients in meeting investment goals and in improving overall portfolio performance.

COMMISSION MANAGEMENT SERVICES

A key component of providing outsourced trading services is to accurately track commissions generated and the allocation of those commission dollars to the proper trading partners for services provided to the hedge fund manager. At JonesTrading, our business is supported by our state-of-the-art web-based technology portal and dedicated support team.

MIDDLE-OFFICE REPORTING

Integrated within the infrastructure decisions for a hedge fund manager is the internal technology that helps the firm maintain an efficient workflow between the front, middle and

back offices of the organisation. In many cases, and especially for firms using multiple prime brokers, fund managers are using manual spreadsheets, which are fraught with potential risks and which increases the likelihood of errors. As a best practice, hedge funds should have centralised accounting and portfolio management software, internal or outsourced, in place to gather these trade files and reconcile their exchange-traded securities.

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