PRESS RELEASE

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Asset managers are taking a hit of 1.2-2.7% p.a. to fund performance, with the largest players losing up to USD 18 billion p.a., due to trading inefficiencies

Quinlan & Associates sees a need for structural and cultural overhaul of buy side trading desks as asset managers struggle to outperform in the face of significant economic wastage

Hong Kong, 2 August 2021 – Quinlan & Associates, a leading independent strategy consultancy specialising in the financial services industry, has released a report evaluating the role played by buy side trading desks in the asset management industry.

The report, titled *Trading Up: Optimisation, Outsourcing, and the Reinvention of the Buy Side Trading Desk*, looks in depth at the modern buy side trading function, analysing its true costs and present shortcomings, and explores the options of outsourcing and/or internal optimisation as potential solutions.

'Despite significant and ongoing outlay in running trading desks, along with the expanded remit of traders and the adoption of enhanced technologies, we have failed to see a fundamental evolution in the buy side execution model since the advent of algorithmic trading in the mid-2000s,' said David Rogers, Partner of Quinlan & Associates and lead author of the report. 'Our interviews with industry professionals on both the buy and sell side confirms this.'

The authors estimate that some of the largest asset managers are losing up to USD 5 million p.a. – ~35% of their total running costs – on explicit cost wastage, due to idle time, operational issues, and structural problems. 'Depending on seniority, a buy side trader can cost up to USD 800,000 per year, with overall direct costs going as high as USD 14 million p.a., for some of the larger global asset managers,' added Mr. Rogers

'More worrying are the implicit costs associated with maintaining a suboptimal trading construct,' continued Mr Rogers. 'We estimate that many asset managers are taking a 1.2-2.7% p.a. hit to their fund performance, irrespective of absolute performance, resulting in an implicit opportunity cost of USD 18 billion p.a. for the very largest funds. In a climate characterised by widespread underperformance, we see an urgent need for change.'

The authors discuss three key paths through which the buy side trading model can become more operationally and culturally efficient: outsourcing (i.e. outsourcing of the fund manager's business, in part or in whole), internal optimisation (i.e. optimisation and rationalisation of practices with existing human and technological capital), and a hybrid solution (i.e. targeted outsourcing and optimisation based on personalised needs).

On the topic of outsourced trading, the report goes into specific detail on the rapid growth in the industry over the past year, with multiple participants – ranging from small independents to established global financial services firms – entering the space, noting that the latter group has the capacity to significantly disrupt the status quo through structural change. However, the authors believe that outsourcing is not necessarily the panacea that it advertises itself to be, given that many providers are not skilled experientially or technologically to cope with even a moderate increase in trading volume or complexity.

'Larger asset managers will likely not use the service; as such, we believe recent growth estimates for the industry to be overstated. Further, when larger firms such as the brokers themselves enter the segment, we predict a drastic reduction in the number of participants over the long term, particularly the private, independent operators. There is also potential for the sell side's core offering to be meaningfully altered,' said Mr. Rogers.

The report concludes that there exists significant scope across the spectrum of asset managers to reduce costs and deliver better investment returns through optimising trading practices, including fixing inefficient structures, sub-optimal cultural dynamics, and most importantly, poor technological adoption and/or implementation.

About Quinlan & Associates

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry. The Company is the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting, communications, and employee training, Quinlan & Associates translates cutting-edge advice into commercially executable solutions. With a team of top-tier financial services and strategy consulting professionals, and a global network of alliance partners, Quinlan & Associates provides its clients with the most up-to-date industry insights from around the world, positioning the Company as a global leader in its field.

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