

Hedge Fund ALERT

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Firm Joins Outsourced-Trading Field

Outsourced-trading shop **Capital Institutional Services** is setting its sights on hedge funds.

The Dallas firm, founded in 1977, currently provides trade-execution services to about 500 clients including family offices, insurance companies, mutual funds and pensions. It now wants to compete in the hedge fund arena, where an increasing number of vendors is vying to take over managers' trading operations.

Capital Institutional recently recruited two executives to lead the effort: trader **Matt Krebs** and salesman **Robert McHeffey**. Krebs joined from **BTIG**, which touts itself as a leader among outsourced-trading firms catering to hedge funds. McHeffey, who earlier worked at Capital Institutional from 2013 to 2016, rejoined the firm after a stint at blockchain technology company **tZero**.

For starters, McHeffey is negotiating referral agreements with auditors, technology vendors and other service providers that do business with hedge fund managers. At the same time, Capital Institutional is beefing up its daily stock-market briefing, called "Morning Notes," to make it more relevant to hedge funds.

The firm joins at least 10 other outsourced-trading operations targeting fund managers, according to a database maintained by **Hedge Fund Alert** (see listing on HFAlert.com by clicking "Market" and selecting "Outsourced Traders"). Other recent entrants include **Jefferies** and startup **Dalzell Trading**.

The activity reflects the evolution of the outsourced-trading market from a niche business to a "mainstream offering," according to a new report from **Greenwich Associates**.

"Managing an equity trading desk has become increasingly complex for institutional asset managers," the report says. "The execution process itself has become more complicated, with liquidity fragmented across dozens of venues." And costs are rising, "leaving little room for an institutional trading desk to increase headcount and/or resources."

"For these reasons," the report continues, "many asset managers are turning to outsourced-trading desks to help them



manage some or all of their workload, gain access to international markets or new asset classes, reduce costs and expand their broker network."

In its pitch to hedge funds, Capital Institutional is emphasizing its exclusive focus on outsourced trading, with no potential conflicts of interest from other revenue streams such as proprietary trading. "The reason you have never heard of us is the reason you should trade with us," Krebs said. ❖

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