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Fidessa LatentZero: Bringing Sell-Side Tech to the Buy Side

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LatentZero was founded in 1999 as a vendor of front-office trading applications and technology for the buy side. Last year it was acquired by Fidessa Group, a provider of multi-asset-class trading systems to the sell side. Headquartered in London, with offices in Boston and New York, Fidessa LatentZero has revenues of \$270 million, more than 1,100 employees, and a client list that includes nine of the world's ten largest asset management firms.

Customers such as San Diego-based global investment firm Nicholas-Applegate Capital Management say they are impressed with the firm's combination of buy- and sell-side know-how and product developers with extensive experience in the investment industry.

Securities Industry News special reports editor Carol E. Curtis recently spoke with chief executive Richard Jones about Fidessa LatentZero's expansion into the hedge fund business, the changing face of hedge fund technology and how the current credit crisis and market volatility are driving funds' implementation of new tools and systems. Jones, 42, was formerly information technology director of Jardine Fleming Investment Management in Asia and strategic adviser with the former Coopers & Lybrand Management Consultants. He is based in the U.K.

Who are your current customers, and what are your primary products? Fidessa LatentZero's core customer base is tier-one institutional asset managers on the buy side, which have increasingly been launching alternative funds, and tier-one global equity brokers on the sell side. We have a number of hedge fund customers and increasing approaches from numerous independent hedge funds interested in using our software. Our main products include our Capstone suite of front-office applications for the buy side, and Minerva, our order and execution management system (OEMS). We also offer a version of the Minerva OEMS that is designed to meet the specific requirements of hedge funds, along with our stand-alone EMS workstation.

How are hedge funds different from your other clients? They want to deploy software very quickly--and there are a lot of them. We have seen competitors [try to serve this market] and struggle. So we are initially focusing on larger hedge funds to get our model right, without overstretching.

Can you name some of your hedge fund clients? We prefer not to cite specific names; hedge funds like their privacy. But they are large and well known, based in the U.S., the U.K. and Europe.

Describe the solutions you provide to them. We have three main offerings for hedge funds--the core product is the Minerva OEMS. ... We also offer a hosted EMS workstation that gives out-of-the-box access for equities and listed derivatives to a comprehensive set of brokers, algorithms and DMA [direct-market access] venues, with integrated, real-time full-depth market data. Obviously it works with Minerva, but it can also receive orders from and send executions to any third-party OMS via FIX. The final part of our offering for hedge funds is our global connectivity network, Fidessa Express.

What experience do you bring to the table? We are a world leader in supplying multi-asset trading, portfolio analysis, decision support, compliance, market data and global connectivity solutions for the sell side and the buy side. On the sell side, the Fidessa suite is used by 85 percent of tier-one global equity brokers. In the compliance area, Nicholas-Applegate Capital Management is one example of a recent purchaser of Capstone Sentinel, our pre- and post-trade compliance system. A key factor in their decision was our strategy of bringing the quality of technology seen on the sell side to the buy side.

How do you intend to attract a broader base of hedge fund clients? We believe our OEMS, EMS workstation and global connectivity products are an attractive proposition for hedge funds. They are specifically designed for hedge fund investment and trading workflows, and offer out-of-the-box implementation for rapid deployment. The OEMS and network provide full asset-class capabilities, which is

not the case for most hedge fund solutions. Our solution is entirely broker-neutral, which for a sector that is understandably keen to maintain a veil of discretion over its activities and does not wish to be tied to a relationship with one broker, is obviously very attractive. Furthermore, the OEMS offers integrated compliance, which we believe will be a crucial factor for hedge funds this year.

Have you observed changes in your business as a result of the credit crisis and the collapse of Bear Stearns? We have seen some delay in the product selection process. But the projects tend to restart after a couple of months. We have also had hedge fund clients that have had to make decisions pretty quickly, and we have benefited from that. Market downturns are often an opportunity to put in systems infrastructure. The longer-term players tend to get on with it. In situations such as this, there is naturally a desire to improve margins wherever possible. Technology such as ours enables them to do that.

Are there other changes? We have seen customers increasingly looking for risk exposure management tools. We have a position analysis tool, and our derivatives module now enables users to measure their underlying and primary exposure, and we are seeing people looking increasingly for these kinds of solutions. Managing risk requires software, and there is a greater recognition that compliance software goes hand in hand with risk management.

Do you think the worst part of the crisis is over? Realistically, if you look at prime brokers, the nervousness may be overdone, since another firm will often step in and take them over in the worst case, like Bear Stearns. There is, understandably, a lot of speculation in the air and we'll probably see some movement of hedge fund cash away from prime brokers into AAA-rated money market funds. But I'm not so sure that there is really much to worry about; someone will buy them up.

Where do you see hedge funds' need for technology heading? First of all, the hedge fund business will ride out the market volatility, certainly those that have developed the technological infrastructure to support them. We see hedge funds as a strategic sector, pushing forward with existing customers. Whereas a couple of years ago there was some doubt that hedge funds would take up technology from vendors on a wide scale, I think that market has moved on very rapidly. ... There is little question that hedge funds will benefit from compliance technology, in particular, plus the execution and order management capabilities developed for institutional asset managers. Since buy-side systems now match those on the sell side in terms of quality, speed and functionality, there is a real and attractive alternative to the sell-side-provided systems that were the only solution previously. We have a number of larger hedge funds in the U.S. and Europe as clients, and we will be marketing to a wider range of hedge funds moving forward.

Will you be expanding your offerings? We will add more trading capability, including additional sell-side-style trading tools, and we'll continue to add new asset classes as required. For example, we are currently seeing demand for equity OTC derivatives, which we have now added to the product. We will also shrink-wrap the product further to make it faster to deploy, enabling us to reach smaller funds.

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