

Alternative investment firms seek sell-side technology to support fund growth, says report

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A new category of software vendor that have traditionally targeted the sell-side is moving into the alternative investments space, addressing various aspects of the trade life cycle of both established and growing hedge funds, according to Gravitas Technology, a service provider to the alternative investment industry. This group of enterprise platforms includes Murex, Calypso, SunGard Front Arena, Sophis and Misys Summit.

As hedge funds move toward multistrategy and global trading, Gravitas says, they need more intra-day front and middle-office functionality for P&L, positions, cash, pre-trade analytics, compliance, risk and reporting.

As the trading style at many funds becomes similar to that of a global asset manager, sell-side software vendors are positioning themselves to fill the gaps left by traditional hedge fund technology, which tend to be equity-focused in what is now a multi-asset class environment.

According to Gravitas, firms that lack the capability to handle derivatives, commodities and other instruments with straight-through processing are exposed to operational risks resulting from inadequate automation and controls.

'Sell-side systems present a compelling option for hedge funds that are dealing more and more with instruments that are not addressed fully by their existing systems,' says Jayesh Punater, chief executive of Gravitas Technology.

'We are now starting to see traditional sell-side platforms offering solutions that work synergistically with a hedge fund's current infrastructure.'

Bringing sell-side technology to the buy side is not new, Gravitas says. Algorithmic trading, direct market access and execution management systems all originated with sell-side firms and were adapted to meet the needs of hedge funds.

Gravitas Technology, which provides vendor evaluations and recommendations in line with its consulting, software, infrastructure and integration businesses, says it is seeing two major trends emerging as sell-side technology moves into the hedge fund space.

In larger funds, enterprise systems are being used in the front and middle office to provide risk management, position, real-time P&L and valuation. In smaller, growing funds, this technology is being offered on a hosted basis with wide access to new functionality.

As hedge funds grow, they find that their risk management needs grow exponentially with the complexity and volume of their investments. The risk tools available in order management systems may be appropriate for long/short equity trading, but are often inadequate for credit, OTC derivatives, bank debt and commodities because they lack robust risk and compliance attribution functionality for these products.

Gravitas says one multi-billion-dollar hedge fund manager opted to use Murex as a middle office valuation engine, to work with the firm's enterprise-wide order management system across asset classes. Murex allows portfolio managers to conduct valuation, what-if analyses and risk reporting across asset classes, while the existing system is still used to enter trades, because it offers sophisticated blotters and other tools unmatched by other systems.

In many small and growing firms, Gravitas says, spreadsheets and manual tasks are still very much the norm. Using new technology to automate key aspects of the trade life cycle gives growing hedge funds more time to focus on planning and executing alpha-producing strategies.

In the course of its consulting and integration work, Gravitas says it is encountering hosted offerings from sell-side vendors such as Calypso with Sky Road custom hosting and SunGard Front Arena.

These application service provider solutions offer hedge fund managers enterprise system functionality on a hosted basis that is affordable for smaller funds. For hedge funds that are finding their enterprise order management system too expensive or difficult to maintain, a secure ASP version of one of these systems is now an option.

For example, through Sky Road, a strategic partner vendor, the Calypso system is now available via an ASP solution for firms with sophisticated cross-asset trading strategies. The Calypso Sky Road solution includes front-to-back-office functionality, portfolio and risk management, custom analytics, market data integration, automated prime broker and fund administrator connectivity and workflows and disaster recovery.

'As the hedge fund industry becomes more institutionalised, firms are broadening their approach to technology and operations,' Punater says. 'Traditional vendors are not necessarily meeting the needs of multistrategy, multi-asset hedge funds, creating opportunities for other providers to introduce options that will help firms manage risk, increase trading volume and grow their assets exponentially.'

Founded in 1996, Gravitas Technology offers an integrated view of technology that combines business consulting services, software services, systems integration, and project management services. The firm's strategists and practitioners offer experience in the hedge fund, prime brokerage and fund administration sectors, allowing Gravitas not only to advise firms but provide implementation and remediation services to customers including hedge and private equity funds, brokerages, investment banks and traditional asset managers.

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