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AFA Offers Hedge Funds a One-Stop-Shop Solution

NEW YORK — Increased trading volumes resulting from transactions with multiple brokers were proving to be overwhelming back-office processing activities at **Senvest International**, the broker-dealer arm of Montreal-based **Senvest Capital**, recalls Robert Katz, Senior Technology Analyst at the firm.

Senvest turned to **Advanced Financial Applications Inc. (AFA)** and its Integrated Order Processing (IOP) solution in 2005 to address its post-trade issues. “AFA allowed us to tie into different brokerage firms on one system that [at] the end of day gives allocations and uploads files to our prime brokers for reporting in a very simple method,” says Katz. “This really cut back on the number of trade breaks we had the next day. At that time, AFA was one of the only systems or trading platforms that would electronically tie in multiple brokerage firms that we trade with, instead of having to place trades by phone.”

After applying AFA’s Integrated Order Processing solution to tackle its increasing trading volume, Senvest reduced the administrative time its back office spent on trades, and also obtained electronic trade confirmations useful for regulatory compliance, according to Katz.

Gil Morales & Company LLC, a Los Angeles-based money management firm with about \$50 million in assets under management, sought a platform that could resolve issues that surfaced with files from trades being uploaded overnight. The firm turned to AFA to eliminate this issue. “Often, you’ll come

in the morning and find that an error was made uploading your files,” says Gil Morales, Principal of the firm. “If that happens and the data coming in the morning is all wrong, we can manually go in and correct it, referring to the previous day’s records, add that in at the average cost of the trade, and have that in the system. Then it’s ready to go until we resolve the file issue. AFA put in this feature deliberately because I need to see what my position is.”

AFA used multiple broker routes to make intra-day profit-and-loss statements available for Morales & Company. “If there are any errors from the prime broker regarding our positions, I can manually change them to correct them, which is something a lot of systems don’t allow or require programmers to be involved,” says Bill Griffith, Director of Trading at Gil Morales & Company. “We’re not a very complex [manager]. We don’t have 30 different funds to run; we have two funds. For our use, this is perfect. I’ve used a number of order management systems in the past, and by far this is the quickest and easiest to use.”

Formed in 1999, AFA shifted from a broker-centric Comet product in 2004, launching the IOP solution, which is delivered over its **IMPACT Pro** platform that reaches institutional investment managers and hedge funds, either directly or through broker-dealers.

“**IMPACT Pro** is a hosted, Web-enabled solution that takes a trade from conception to execution, all the way up to

AFA’s hosted, Web-enabled solution, IMPACT PRO, takes a trade from conception to execution, all the way up to prime broker settlement.

Its Integrated Order Processing component combines both EMS and OMS capabilities, and is optimized for sub-billion-dollar hedge funds.

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“We partnered with AFA over competing firms, since it has the best combination of technology, functionality and support.”

prime broker settlement, export of that data, and prime broker processing of the trade file,” says Nilesh Nanavati, President, AFA.

“The idea is to cover trade execution, which is traditionally known as front office; the middle office, which is trade allocations and the position-seeking capability; and then what we call back office, the processing of the end of the day trades with various third parties, whether they’re clearing firms or prime brokers.”

AFA has been building its Sponsored Broker Program, recently adding BNY ConvergeEx and Kildare Capital Inc., a Philadelphia investment banking and institutional trading boutique.

Participants in the program offer AFA’s IMPACT Pro platform to their buy-side clients. “The ability to trade on one platform that handles multiple prime brokers is the unique flexibility offered by the IMPACT Pro platform,” says Daniel Kinsella, Senior Vice President of Institutional Trading at Kildare Capital. “We partnered with AFA over competing firms, since it has the best combination of technology, functionality and support.”

BNY ConvergeEx algorithms are distributed through IMPACT Pro, and BNY ConvergeEx’s participation in the Sponsored Broker Program builds on this relationship. “IMPACT Pro will broaden the scope of our product distribution capabilities and help our clients implement their trading strategies in a more seamless way,” says Carey S. Pack, President, BNY ConvergeEx Execution Solutions.

Although the barriers to entering the execution management systems (EMS) market are low, order management presents more opportunities because that function is more difficult for firms to perform, according to Patrick Lynch, Chief Executive Officer of AFA. The platform connects to 35 brokers, all the primes and most of the mini-primes, adds Lynch. The platform is independent and has all their file formats.

AFA can connect IOP, which functions as an EMS and OMS, with the platforms of sell-side firms such as Goldman Sachs or Morgan Stanley, that typically would not share file formats, explains Lynch. “We give their clients the functionality they crave right now because everyone is going to multiple prime brokers,” he says. “If an investor wants an account handled by Morgan Stanley as the prime broker, but the counterparty uses Goldman Sachs and its REDI platform, the investor will demand that the counterparty prime it at Morgan Stanley as a separately managed account. This is cause for concern because the counterparty will have to do allocations across prime brokers. It becomes fairly manual when they have to ship it from the REDI system to Morgan Stanley.”

IMPACT Pro is designed to cater to sub-billion-dollar hedge funds. “Prime brokers give hedge funds everything from Bloomberg connections to real estate, as well as execution management systems,” says Nanavati. “But an EMS stops at trade fills and doesn’t really go into trade allocations and multi-prime broker connections. A large concentration of the hedge fund market is in that sub-billion-dollar segment that has EMSs, but not really OMSs. Being able to view in aggregate all positions from all parties becomes the OMS for that segment of the marketplace.”

Since Senvest Capital began using IOP, AFA has kept the solution up to date, according to Senvest’s Katz. “AFA has been good at moving the product forward, adding options and other reporting pieces to the software,” he says.

Similarly, AFA provides fixes as needed in its solution, explains Morales. “At one point, we were telling AFA what fixes we needed on a daily basis, and what features we needed added, and they would put those on it right away,” he says. “They’re very responsive in that regard. Most of the big prime brokers and their platforms don’t offer that.” □