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## 'Boutique' Prime Brokers Take on Trappings of Majors

August 25, 2008 *By John Hintze*

In a sign of their maturity--and desire to draw larger clients--two prime brokers that clear through bigger custodians and a long-term hedge fund service provider are adding offerings that historically only the largest firms have supplied.

So-called mini-primers began to emerge several years ago, as the number of hedge funds increased and the larger, self-clearing prime brokers focused their attention on the top 10 percent. Executives at Gar Wood Securities and Merlin Securities, however, dislike the mini-prime moniker, preferring to be known as "boutiques," which may be a more accurate description as they expand beyond acting as introducing brokers for larger custodians.

Chicago-based Gar Wood plans to offer fund administration and risk reporting services by year-end, while Merlin this week is launching the kind of highly sophisticated risk management system not seen outside of the biggest prime brokerages. Conifer Securities--not technically a prime because it doesn't support hedge fund accounts--has long offered middle- and back-office services, including fund administration, and it plans to bolster its order management and reporting services before next year.

Merlin's risk management service, which is now part of its overall package, was developed in-house and will incorporate data generated by MSCI Barra, a leading provider of equity and fixed-income indexes used by the largest asset managers, to determine value at risk (VAR) and other risk measurements such as the options greeks. Ron Suber, senior partner and head of global sales at New York-based Merlin and a former Bear Stearns managing director, said only the major primes--not including his old employer--use data from MSCI Barra, which is majority owned by Morgan Stanley.

"Now that Merlin offers it, we can go after much larger, more sophisticated funds," Suber said. Reports are available intraday for multi-asset-class investments listed worldwide, he added.

Gar Wood's new risk system--also built internally--will provide online query tools and allow users to run reports providing risk analysis and performance attribution. Merlin's system was originally created to do the latter, so Gar Wood is playing catch-up in that regard, as well as in its ability to offer reporting across multiple prime relationships. The system will also include VAR and other risk-analysis data generated by the RiskAPI product of technology supplier PortfolioScience, providing what-if scenarios and the options greeks.

### **Administration Services**

Gar Wood's reporting system will be closely tied to its forthcoming fund administration service. All the major prime brokerages built or acquired administration businesses several years ago, and while a few mini-primers have done the same, Merlin has not.

Gar Wood CEO Robert Jersey, who worked with Merlin's Suber in the late 1990s at Montgomery Securities, a prime broker pioneer for small and midsize hedge funds, said fund administration will be offered separately from prime services, although those customers will receive a discount. "Clients can use fund administration to ease the operational burden and enhance performance reporting," Jersey said, adding that the service will also provide subscriptions and redemptions, as well as tax and client reporting.

San Francisco-based Conifer is also bolstering its reporting functionality, seeking to give clients more control over content and frequency. Dan Osborne, COO of Conifer, said the firm recently conducted a buy-versus-build analysis. "We're down to the point where we're very close to a decision," Osborne said. If the firm opts for a third-party solution, he noted, implementation would happen relatively quickly, probably by the start of the fourth quarter.

Efforts are currently under way at Conifer to replace its proprietary order management system (OMS) with Eze Castle Software's. A unit of agency broker BNY ConvergeX Group, Boston-based Eze Castle offers portfolio management, profit-and-loss and advanced trading tools, which will give Conifer's clients and three trading desks richer functionality and connectivity to exchanges, alternative trading systems and execution management systems.

"We're very much agnostic from a technology standpoint," Osborne said. "Eze Castle allows us to be more flexible from a trading perspective and also in the middle office." Eze Castle's Tradewinds middleware provides links to virtually all prime brokers, clearing brokers and custodians, "so we can streamline connectivity," said Osborne. Conifer expects to be done deploying the Eze Castle solutions to customers by the end of the year.

Conifer's proprietary OMS did not offer the same level of functionality in global, cross-asset-class trading, capabilities that have long been attractive to the largest hedge funds and have become increasingly important to smaller firms. "Clients are trading globally and in more exotic instruments, so we've looked at how best to support our continued growth," said Osborne.

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