



Observations From the Field

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By Steve Lewczyk

Our head of marketing at Nirvana has asked me to write my thoughts/views from time to time on our website's blog. I never fancied having the time to compose my thoughts for others to pick apart. I hope to send you my thoughts from time to time and hope my friends in the industry will comment back as your support and feedback has always been treasured.

We've recently decided to actively market and sell more now that our early clients are successfully using Prana. I'm back and forth every other week now. Mike Conti, our latest addition to the Nirvana team who covers NYC, is getting up to speed and doing a fantastic job getting us in front of the right audiences.

Everyone knows the current market is causing tremendous pain for those running money and those serving the financial services industry. I have great hope that things will get better eventually and we'll prosper. When this will happen I don't know, but it will happen. Always has. Always will. In the meantime, it's good to run lean and mean while Nirvana begins to earn the trust of the hedge fund market.

Fear is driving the street. I've been in the financial services and financial technology industry for over 20 years and I've never experienced fear a palpable as today. When will the credit crisis end? Will my fund make it to next quarter? Will the redemptions continue? What happens to my fees? How do I keep my current investors and attract new money? It is clear to all the hedge funds we talk with that the landscape going forward is changed. Not only has counterparty risk made choosing prime brokers a more important decision than ever before, current prime broker/hedge fund relationships are strained. With asset values decreasing, borrowing costs increasing and operational risks growing, hedge funds are very concerned about the best way to navigate their current relationships with their prime brokers. In addition, the prime brokers that have survived to date are pruning less profitable relationships to reduce their operating costs. With so much change in such a short period of time, hedge fund managers have had little time to digest this change let alone plan for how to navigate going forward.

A few themes that we are hearing hedge funds raising repeatedly:

- 1) I need an alternative prime service provider to hedge counterparty risk



2) My investors want to know that I have a plan if my prime is in trouble; and

3) A single prime just can't serve me well in this environment because my needs have changed so rapidly.

The last comment really made me perk up. The primary service provider to hedge funds has been and will continue to be the prime broker. But because even emerging hedge funds are operating in a multi-prime environment today, services to this segment will need to evolve. It is expensive for prime brokers to offer innovative solutions to all of its clients in the current environment. Specifically, hedge funds are now looking for things like risk management capabilities, aggregated real time P&L, deeper futures and options trading capabilities, value added services around investor reporting (real-time vs. traditional T+1 or static reporting), tools that help reduce operating risks. The quick answer that most hedge funds respond with is Excel. What's great about Excel is it's cheap, easy to deploy and easy to use. The big downside of Excel is data integrity. Using Excel for even a short period of time, things break down. Very few new investors will be comfortable with new mandates to hedge funds using Excel to aggregate prime data and make trading and investment decisions with a tool so prone to data errors. Buying software from a third party is another option many hedge funds are considering. Costs, time to implementation and lack of trained internal personnel are key barriers that prevent widespread adoption of the current vendors who serve the hedge fund space. Plus, we hear every day that hedge funds only need additional functionality and that they are not interested in displacing technology from their primes or current technology vendors. This presents quite a conundrum for the hedge fund. Do I increase costs while my revenues are dropping or do I make due with Excel and risk not growing the fund?

There is one innovative group that is evolving and becoming ready to address the problem: the mini-prime. Mini-primes are bundling the services of the larger prime, adding technology to address the real time reporting, risk and PNL requirements, adding capital introduction services and some even offer fund administration. This group is quickly adding marketing and sales professionals to tell their stories and deploy their solutions. In the next few months, you will see more mini primes rebrand their offerings to position themselves as the solution for the new breed of hedge fund.