



From the Editor

Your children and their friends have been using it to communicate to one another for the last several years, and you may have seen some of your colleagues using it to communicate with their peers, but now the technology to perform Instant Messaging (IM) is going mainstream. Andy Luro, Venture Managing Consultant, looks at the uses, benefits and risks of using IM in the financial services industry.

“About the Ones That Got Away”

In this article, Chito Jovellanos (President, forward look, inc.) shows how to improve an asset manager's ability to win potential mandates by addressing quality issues inherent in product marketing data.

Feedback and suggestions for future issues of Venture Navigator can be emailed to jcavalaro@venturefsg.com!

Contents

Instant Messaging Evolves into Mainstream Workflow Usage	1-4
About the Ones That Got Away	1, 3-4
Event Calendar	4

Instant Messaging Evolves into Mainstream Workflow Usage

Many financial services professionals consider Instant Messaging a recreational phenomenon, and why not? Anyone who has teenagers is well aware of the popularity of Instant Messaging among their peers at the sacrifice of attending to academic responsibilities. But Instant Messaging, IM, is rapidly being considered as an effective productivity and workflow tool in the financial services industry.

Wikipedia defines IM as follows: “a form of real-time communication between two or more people based on typed text. The text is

conveyed via computers connected over a network such as the Internet.”

For those early adopters of the Internet, exposure to an initial internet communication technology likely occurred a number of years ago when users encountered online chat forums on AOL. Though not as evolved as today's IM products, chat rooms allowed for groups of people to communicate through typed text in a real-time environment. Chat rooms allowed people to communicate with each other using an alternative forum as op-

(Continued on page 2)

About the Ones That Got Away

Losing out on potential investment mandates is now easier done than said. Over the past decade, there has been an increasing reliance by plan sponsors on consultant databases to screen and rate managers on investment process, style, consistency, personnel and fees. Sadly, our experience has been that many money managers share a growing inability to present themselves in the optimal context for a given search. For example, a fund manager was excluded in the early rounds of a EUR 75M emerging markets mandate simply because the manager could not report on dual-role positions and represent trading functions as separate and distinct from portfolio management. This under-

represented the fund's operational capabilities in local markets, which unfortunately for the money manager, was a key criterion for this particular plan sponsor.

Much of the effort to date to improve the quality of product data has focused on the fundamental issues related to basic accuracy and timeliness for existing client reporting. In the world of alternative investments and hedge funds, the data is particularly suspect in light of *survivorship bias*, and the less well known *reporting bias* (For more detail on these issues, see the

(Continued on page 3)



Instant Messaging Evolves into Mainstream Workflow Usage

Continued from page 1

posed to other communication methods available at the time, in particular email and phone. Email and phone conferencing each has its advantages and disadvantages. Interaction by phone is very much real-time with relatively short latency in regards to communicating information; each requiring call participants to pay attention and react quickly to others. One can likely recall moments on a conference call where one's attention focused temporarily elsewhere, necessitating the need to, somewhat embarrassingly, request a repeat of the missed conversation. Conversely, email has a lengthier latency that is dependent on the recipient to read and respond to an email. Response to a request may involve significant length in time, often hours, sometimes days. In addition, where an email is sent to many recipients, responses can lead to a multitude of email threads, all covering the same topic.

IM provides the best of both of these worlds. Users can choose latency for prompts and responses, managing distractions without losing the fluidity of information content flow between two or more people participating in a session. If an IM user wanted to reference an earlier portion of an IM communication, it is available by scrolling back to the text of interest. In addition, IM tools are now providing audit capabilities that close the gap between IM and email.

Organizations involved in software development and testing

have realized the benefits of utilizing IM. The most significant benefit identified in this space is the collaboration capability provided. Software engineers can now communicate effectively with each other, often sharing snippets of code for review and re-use. Quality assurance teams are realizing the benefits of coordinating testing activities through the use of IM, instantly sharing testing ideas and results.

IM, first created as a recreational tool, is fast becoming an indispensable business tool for some firms. Financial industry professionals are adopting use of IM as a productivity tool. As adoption in the corporate world increases, so do the offerings for secure IM tools. Firms now have a breadth of robust and secure IM tools to choose from offered by companies such as Reuters, Pivot Solutions, Parlano and WebEx. The Reuters IM tool is a high-performance service designed for financial market workflows. It is fast, secure and provides customizable forms for tasks such as the quick distribution of pricing information to clients and the sharing of market data with counterparties. Reuters IM also provides interoperability with AOL IM and MSN Messenger. Further, Reuters has integrated IM capability with many desktop products by merging task-related activity with the ability to quickly communicate information in a collaborative environment.

Others have further pushed the envelope to identify the potential of IM by interfacing directly into

data workflows. For example, IM can be used to capture user input and interface the data directly to downstream automated systems through the conversion of IM data into industry standard data formats for transmission. The securities trading desk is an area gaining rapid acceptance of IM as a workflow tool. Traders often require working multiple trade requests from portfolio managers with multiple brokers. IM allows the traders to communicate with multiple brokers concurrently possibly giving them an advantage to identify the best execution.

One company, Pivot Solutions, is rapidly gaining a market presence in supporting trading desks. Pivot Solution's product, IMTrader™, enables customers to enter trade orders into AOL Instant Messenger (AIM), and IMTrader™ converts the trade orders into Financial Information eXchange (FIX) formatted messages that can then be transmitted to a broker for execution. A resulting real-time order confirmation can then be sent to and received by the trader in AIM. With the trade order formatted as a FIX message by IMTrader™, compliance with Securities and Exchange Commission rules is maintained.

Another tool on the market utilizing IM in support of the trading desk is LiquidityBook provided by Block Orders Execution LLC.

(Continued on page 3)

Instant Messaging Evolves into Mainstream Workflow Usage

Continued from page 2

Users may enter trade orders directly in AIM resulting in the translation of the order into FIX messages. The FIX messages can then be transmitted to a broker's order management system (OMS) or designated Direct Market Access (DMA) target for execution. Similar to IMTrader™, LiquidityBook provides order confirmation, independent research reports and audit trails.

To avoid compliance violations, the orders originating from IM are typically integrated into the firm's OMS. As long as the firm logs,

records, and archives all IM communications, use of the IM platform meets SEC regulatory compliance rules similar to those rules required for email. Per SEC rule 17a-4, instant messages must be archived and retrievable and cannot be changed from their original content.

Use of products like IMTrader™ and LiquidityBook for the trading desk is most prevalent in hedge fund firms and smaller asset management shops where typical trade automation costs can be prohibitive. Larger firms are

somewhat hesitant to jump on the bandwagon due to the perception that auditable controls are lacking. However, it's only a matter of time before there is adoption by some of the leading asset management firms who see the opportunity, and the rest will begin to follow.

At the recent Fall 2006 NICSA Technology Summit, a panel of industry executives discussed emerging technologies, with much of the discussion centered on Instant Messaging. Though large firms may be shying away from

(Continued on page 4)

About the Ones That Got Away

Continued from page 1

Additional References cited at the end of this article).

Further up the value chain, the adoption of tools in support of marketing initiatives (e.g., pitchbook and RFP documentation) typically attempts the relatively basic objective of centralizing control of content, rather than optimizing its reach.

To establish where your firm stands in the eyes of a potential client, a simple two-step check would be beneficial :

Validate how your firm's products and strategies would look to plan sponsors and their consultants who have an active search underway. "Google your firm" through the lens of the consultant database[s] and see for yourself how well or how poorly your products and ser-

vices would hit the mark for plan sponsors.

For example, by simply reviewing your firm's submissions to the various databases, you can establish fairly readily whether it will result in a well-populated versus a 'sparse' matrix. Generally, the former will be better than the latter since it maximizes the opportunities for alignment with potential searches. Notwithstanding, the goal should be to focus on the data specific to the investment styles your firm wishes to compete for, rather than pumping out more data for data's sake.

Depending on the outcomes of the prior assessment, establish what other data elements you need to expressly deliver context-aware views for searches.

The core question that needs to be answered always ties back to reporting on your product's performance. All other data should be collected and managed essentially to support the delivery of performance data to prospective and current clients. Examples of descriptive product categories that should be searchable are:

Accounts and Clients: count, gains, losses, representative accounts, etc.

Client Type: Corporate, Endowment, Foundation, Insurance, Public Plan, Taft Hartley, Residency, etc.

Asset Class: domestic equity, do-

(Continued on page 4)



Instant Messaging Evolves into Mainstream Workflow Usage

Continued from page 3

adopting use of IM due to recent industry scandals, technologies such as IM will become more prevalent with technology teams as it becomes a competitive necessity. According to research statistics by

IT-Analysis.com, “60% of office workers are IM users,” most often for internal communication and collaboration. As younger generation workers enter the workforce, the common use and

recognition of the value provided by IM and new vendor products utilizing IM technology will further drive adoption and use.

About the Ones That Got Away

Continued from page 3

mestic fixed income, international equity, emerging market debt, real estate, commodities, energy, etc.

Mandate (Strategy): Core, Balanced, Value, Long-Short, Sector, etc.

Style: Quantitative, Fundamental, Event-Driven, etc.

Time Periods: daily, weekly, monthly, quarterly, yearly (especially 1, 3, 5, 10); since inception, since initiation, etc.

Personnel (i.e., the people delivering the stated performance): analysts, traders, portfolio managers, hybrid roles (e.g., manager | trader), tenure (firm | fund), joiners,

leavers, etc.

Fees: account minimums, performance, negotiated, etc.

AUM: by product, strategy, firm-wide

Investment Vehicles: Separate, Commingled (including pools and LLC's)

Plan Category: defined benefit, defined contribution, etc.

Tax Status: taxable, tax-exempt

In summary, it pays to improve the quality of product information provided to consultant databases. Over and above basic

accuracy of core performance data, the ability to maximize your firm's 'information profile' will markedly minimize the opportunity costs of missing out on meaningful participation in a plan sponsor's search.

Additional References

1) Ibbotson RG & Chen P. 2006. The A, B, Cs of Hedge Funds: Alphas, Betas and Costs. Yale ICF Working Paper No. 06-10. 21p

2) DailyII.com. 7 Sep 2006. Databaseless Comparisons May Dog Hedge Funds.

Event Calendar

We will be exhibiting, sponsoring, and/or speaking at the following industry tradeshows. If you plan on attending any of these events and would like to schedule a meeting to learn more about Venture, please contact us at 781.932.7544.

NICSA 25th Annual Conference & Expo	February 18—21, 2007	Doral Golf Resort & Spa, Miami, FL	NICSA Operations Committee Member and Conference Attendee, Larry Fleischman attending	www.nicsa.org
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About VENTURE Financial Systems Group, LTD.

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