

DE Shaw, Blackstone Upend Post-Trade for Alternatives, Eye Broader AM Space Next

Major hedge funds adding a new revenue stream by opening up their proprietary technology to the outside world isn't new, but it's always notable. This is especially the case with Arcesium, the Blackstone Alternative Asset Management-DE Shaw tie-up. Tim Bourgaize Murray explains.

It would seem strange to introduce Arcesium—the new technology company formed this week by Blackstone and DE Shaw—by first talking about one of these firms' arch rivals, Chicago-based Citadel.

When Ken Griffin's tech team announced it would begin commoditizing its execution and order management technology around two years ago, it represented a major marker in the space.

Until then, and still today, the traditional thinking about leading hedge funds and proprietary systems usually goes in two parts: one, selling technology is expensive and it isn't their expertise, and more importantly, two, why would they wish to give away the advantage they've sweated for and spent real money to achieve?

Not that it hasn't been done before, but Citadel's commoditization move was a big one. And back in New York, Blackstone and DE Shaw's new independent platform represents yet another, perhaps even bigger, leap for buy sides trampling into the tech development business, this time on the back end — with \$36 billion DE Shaw providing the underlying platform, and BAAM serving as the first headlining client.

Direct Trading, Special Situations

An industry source familiar with the tie-up says it goes back a number of years, beginning with DE Shaw's 2010-2012 Financial Operations Roadmap study.

The idea was to first map inefficient processes at a granular level, the source says, before re-engineering them so as to be purely exceptions-based. After several years' work, the firm—already one of the best development shops on the Street—knew it had something good. Indeed, something sellable.

Brian Gavin, BAAM's senior managing director and COO,

tells Buy-Side Technology that this is when Blackstone—facing a similar problem for its preeminent \$64 billion BAAM fund-of-funds arm—became involved.

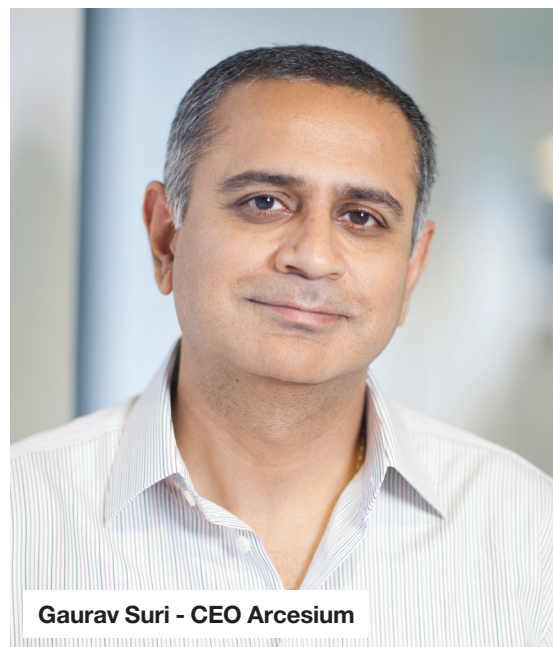
"Identifying a comprehensive technology solution that can be tailored to efficiently handle the complexity of BAAM's multi-billion dollar direct trading and special situations business had been a key strategic initiative for BAAM," he says.

"We conducted extensive diligence on existing technology solutions in the marketplace, and when approached by DE Shaw regarding the externalization of their technology, BAAM included what is now known as Arcesium as a potential solution. We found Arcesium's technology to be flexible and capable of handling a wide range of asset classes, counterparties, and complex fund structures. Also, the servicing component staffed by Arcesium's experienced staff ensures continuity in the application and use of the system."

Unique Structures

The resulting platform—covering the full trade lifecycle both for asset classes that are difficult to deal with and traditional long-only strategies—is built with modular API-based technology, allowing BAAM and future clients to plug and play with different components as desired.

"The first step with any new clients [therefore] is carefully understanding their existing environment and integrating



Gaurav Suri - CEO Arcesium





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Arcesium's system with the front-office systems they may use for trading and with those of their fund administrator," says Gaurav Suri, Arcesium's new CEO and chief technologist at DE Shaw.

Above all, though, Gavin says Blackstone was interested in a single source of truth, which, according to the industry source, is offered in both 'as-on' and 'as-of' views through the new system.

"By that, we mean a single reference and security database used for the entire platform," he says. "There is no need to reconcile data between multiple systems to ensure that they are all accurate. BAAM felt that Arcesium was best equipped to handle all of the asset classes we will trade and to be able to support our unique account and fund structuring. DE Shaw has developed this technology over many years and the platform has been critical

in supporting the complexity and growth of their business."

Arcesium's security master and portfolio data warehouse integrate well with external systems and a wide range of data providers, Gavin argues, and the system can update the security master and a user's order management system (OMS) in an automated fashion along with offering automated checks to ensure completeness for each security. "Both the data warehouse and security master offer tremendous flexibility in reporting and creating custom tags for our securities and data," Gavin explains.

Broadening Out

While the natural target for the new platform is alternative investment houses like Blackstone, the idea is to eventually cast a larger net, including conventional asset managers, hedge funds, and administrators. This, among other reasons, is why BAAM makes a useful pilot partner, according to Gavin.

"Given BAAM's position as the largest provider of hedge fund solutions, we can offer insight into functionality that

other funds will find valuable based on our understanding of their needs and the needs of their investors," he says. "Being Arcesium's first client, BAAM will have the ability to work with Arcesium to offer a customized solution to best fit our workflow and reporting needs, and we feel that most of these solutions will benefit other Arcesium clients down the road."

For now, this is a deal Suri and his team at DE

Shaw can relish. After more than two decades of quantitative and technology leadership on the buy side, the firm can add one more new line to its resume.

"We've long believed that the proprietary back- and middle-office systems we've developed over the firm's 25-year history are best-in-class," Suri says. "Arcesium is an opportunity for the firm to offer those systems, and the highly-qualified personnel who support and implement them, to a wider marketplace." ■

—Tim Bourgaize Murray



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THE BOTTOM LINE

- The launch of Arcesium, a collaboration combining DE Shaw's post-trade platform with BAAM's funds and expertise, has the potential to upend the already highly-saturated middle-office space on the buy side
- Among the points of emphasis for the partners in the project were modular, API-based componentry; a focus on unique and complex fund and accounting structures; and bulked-up technology and support personnel, which is projected to grow to 400 in the new company's first year.

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