

MIDDLE OFFICE



With the need for prudent cost control now more important than ever, Yannis Matsis, chief executive officer of Point Nine, tells *HFMWeek* why outsourcing middle office operations to a scalable, trust-worthy and reliable third-party provider is the most efficient option



YANNIS MATSIS

is co-founder and chief executive officer of Point Nine. Yannis has 15 years of banking experience, building and managing global derivative trading and structuring teams.

Prior to Point Nine, Yannis was managing director at Mizuho International and managing director at ING Barings.

When we speak of middle office or back office functions within a hedge fund, we are generally referring to the general operation of the fund; the processing and reporting requirements of transactions following execution.

For most small-to-medium-sized funds, building an operations team and developing a technology platform in-house to carry out these duties can be costly and time-consuming.

Although the revenue model of a fund is based on the assets under management, the cost basis is a function of the number and complexity of transactions. Small hedge funds typically process transaction notionals far in excess of the assets under management, due to leverage and high-volume turnover.

“For such funds, developing its own middle or back-office function can be inefficient in terms of monetary and time resources,” asserts Yannis Matsis, CEO of Point Nine. “The cost of a large operations department does not always correspond with the returns from a fund’s trade, so drawing upon the expertise of a scalable technology provider can therefore be a more efficient option.”

The main force driving fund managers to a third-party is the possibility of obtaining cost savings, more efficient operations and lower operational risk, believes Matsis.

“There is nothing subjective within middle office operations; a job is either performed correctly or it is performed inaccurately,” he explains. “And once suitable technology is in place; objective processing can be carried out automatically.”

Put simply: one system, one IT team, one disaster recovery process and one set of experienced middle- and back-office professionals is much more efficient than two sets of each, as it saves time to focus on increasing operational efficiencies and reducing operational risk through robust processes, such as a reduction in break rates and improved reporting.

Outsourcing to a third party with a readily built platform manned by trained staff can remove the burden of buying new technology, training in-house personnel and paying those personnel.

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Yannis Matsis, Point Nine

“We provide a single platform that can be applied repeatedly to various funds without proportionately increasing costs,” says Matsis. “Ensuring that the incremental cost is not parallel to the amount of trades subject to change.”

Where manual processing of transactions incurs costs correlating with the number of trades performed, automating such process is not met proportionately with the same operational costs if dealt with by Point Nine’s automated, centralised system, Matsis points out.

“Our scalable platform can be adapted cost-efficiently,” he confirms.

Additionally, a middle-office function developed in-house may face other logistical constraints when it comes to the adaptation or expansion of its platform.

“Funds relying on third-party software vendors are held hostage to the vendors’ own pipeline and speed of delivery,” says Matsis.

It is crucial that a third-party middle-office provider relies on its own technology and financial software solutions.

“An outside vendor must have the technological capability to facilitate a manager’s plans to introduce new products into the trading portfolio,” Matsis asserts.

Point Nine offers comfort to a fund manager through developing its own technology as op-

posed to licensing software from an outside source. This allows for the development of tailor-made solutions that fit the needs of the client, Matsis believes.

“We direct our resources in line with the focus of the client,” says Matsis. “We reprioritise our technological development depending on the volume of transactions, the evolution of asset classes or product development of a particular fund.”

“Because we control the technology, we are not constrained to the priorities of any external third-party financial technology vendor,” he adds.

Meeting expectations

Essentially, Point Nine’s main focus is on balancing state-of-the-art technology with well-trained staff.

“Quality technology manned by experienced professionals who understand the system and the intimate technicalities of the fund’s transactions, will ensure a fast and reliable system that can flag up the need for human oversight where the automation may require assistance,” he says.

This calibre of service, Matsis believes, is needed to bolster the reputation of a sector of an industry in which success hinges on reliability, as hedge fund managers struggle with the idea of parting with full control of a fund.

“Even though in the current climate a cost-effective middle-office solution is more attractive than ever before,” Matsis points out, “there is still a trust issue at stake.”

Convincing clients that Point Nine can meet the expectations of their funds is an important part of the process, according to Matsis: “A manager needs to trust that the outsource provider is reliable and sophisticated enough to deal with the transaction of the specialised products within the fund’s portfolio,” he says.

Ultimately, it is the acknowledgement of these demands that separates Point Nine from its competitors, Matsis believes. And today, at a time when a cost-effective yet sophisticated middle-office solution is in greater demand than ever before, Point Nine’s priority is providing tailor-made solutions within a flexible and scalable technological platform to satisfy fund managers’ increasingly high expectations. ■