GUIDING THROUGHOUT TRANSITION

ANDREW VOLZ, OF JONESTRADING, DISCUSSES THE WAY IN WHICH HIS FIRM GUIDES CLIENTS AND HELPS OPTIMISE THEIR BUSINESS

Andrew Volz serves as managing director, head of prime brokerage services for JonesTrading, based in the New York office. Prior to JonesTrading, Volz spent six years at Wells Fargo Prime Services, a technology-focused prime services firm that Wells Fargo acquired in 2012, previously known as Merlin Securities.

HFMWeek (HFM): What have been the most significant recent changes to the prime services industry?

Andrew Volz (AV): The most recent impactful change is that we appear to be entering a new phase in the prime services business. This would be the fourth shift in the last 20 years, and each phase has essentially swung the balance of power from the funds to the primes and vice versa. Phase 1 was pre-crisis when the prime brokers had a more captive client base and were mainly in control of which funds they were willing to work with. Phase 2, post-crisis, caused funds to look critically at and diversify their prime services providers with a general trend towards a multi-prime configuration. From 2014 to 2016, we were in the third phase of the prime services business as it evolved to cope with new regulations. During this time, in a post-Basel III world, the whole prime financing business was brought upon a balance sheet and tested against standard bank criteria for profitability, causing primes to once again become critical in their servicing of clients. Now in 2017, it once again feels like the industry may be entering into a new phase with the large primes seeming less critical towards client on-boarding and retention. This is likely the result of the pendulum having swung too far during the initial adoption of the Basel III rules and the optimism about deregulation.

I also think this optimism about the business has caused a recent wave of consolidation among many of the smaller prime services providers. This trend has resulted in less competition among the traditional emerging manager-focused primes and a considerable amount of concentration to a few corresponding clearing firms.

As much of what we do is focused on consulting with our clients about their existing and future infrastructure, we speak with a large number of emerging and evolving managers. The current environment feels similar to 2013, with a general perception that if a large bulge bracket prime will accept you as a client, then that cachet is important as an implied endorsement of the fund manager. Managers need to be sure that their short- and long-term objectives are aligned with their prime services provider and use hindsight to understand how those objectives can potentially change.

HFM: What should a newly-launching manager look for in a prime services provider?

AV: First, it's important to understand what a prime services provider can provide. Depending on the platform, prime services can provide a combination of balance sheet, technology, trading services, business consulting services (start up, recruiting, business process and so on), capital raising and access to other products within the firm. Depending on the size of the launch and the resulting infrastructure, it is critical to maximise the benefits achieved from a prime services relationship.

A larger launch may be primarily focused on balance sheet and research as they may have full in-house technology and operational support. Smaller launches should closely evaluate what is core to their business, primarily their investment process and initial capital providers. They should also look to outsource as much as possible outside of those areas. For example, at JonesTrading we have the ability to provide EMS/OMS/PMS systems along with operational support and fully outsourced trading. This can allow a one- or two-person fund to efficiently manage their portfolio with minimal overhead. We also help funds find cost effective space and IT solutions with reduced long-term commitment risk. Our clients also often engage effectively outsourced COO/CFO/CCO services with firms that we work with closely.

It's great to see these managers achieve success and grow into their own larger organisation with support from their early stage partners, and we help with the transition as those events occur.

HFM: Can a prime broker have an impact in the capital raising process?

AV: The short answer is yes. However, whether it is a positive or negative impact is a more intricate question. Successfully raising capital requires an alignment of a complex number of factors including performance, timing, infrastructure, strategy alignment and good old-fashioned selling. The common misconception among some managers is that simply taking as many meetings as possible will equal a higher probability of raising assets. We do not think this is the case. In our opinion, the marketing plan starts before the fund launches, with a focus on fund structure, fees, messaging and planning. At each stage of the funds lifecycle and depending on strategy, there are a finite number of investors with the appetite and the ability to invest. Early on, managers should be focusing on their own network plus strategic capital providers including seeders, separately managed account (SMA) platforms, early stage funds of funds and the like. As they build their infrastruc-

ture, the landscape opens to include family offices and ultimately growing into the institutional investor community. On top of all that, a thoughtful approach to consistent monthly and quarterly updates to previously engaged investors along with an intelligent utilisation of industry publications, databases, conferences and other resources is critical to successfully raising capital.

Being too early to an investor and being dismissed as a result can hurt the chances of raising assets in the future.

HFM: How are you advising your clients in setting up their ventures?

AV: The main piece of advice we give is to treat the fund venture just like any other business. Understand the initial assets and revenues as well as the initial expenses and right-size the business to give the longest possible roadmap on which to achieve success. We enjoy engaging managers early in their process and helping them structure their businesses across technology, operations, marketing and service provider selections.

The other piece of advice is to be flexible from a business, technology and operational perspective to allow for growth in various avenues of capital. We see clients growing their limited partnerships through success in all of the areas previously mentioned, but with early stage managers we most often see growth through different types of platforms and SMAs. In order to effectively manage these separate pools of capital, it is important to set up the building blocks early. A mistake can just as easily be made by taking on too much or too expensive infrastructure as it can by taking on too little. In a world where it seems that the number of vendors are growing as quickly as the number of funds, we look to be an expert resource for our clients during this process.

> "MANAGERS NEED TO BE SURE THAT THEIR SHORT- AND LONG-TERM OBJECTIVES ARE ALIGNED WITH THEIR PRIME SERVICES PROVIDER"

HFM: Why would a manager pick JonesTrading for prime services?

AV: We are a boutique firm whose objective is to build strong relationships with a select number of funds. We work with existing and established managers and are, in many cases, engaging them during times of critical change such as launching, growing, shrinking and restructuring.

From a value proposition perspective, we look to partner with our clients to ensure that they have the best possible chance of success which is aligned with our firm's objectives. As previously mentioned, this involves helping our clients optimise their business across all required areas.

One area that we particularly differentiate in is trading. Most emerging managers rely on their prime services providers for 50%+ of their execution. JonesTrading has been a top-quality execution broker for over 40 years. Our position in the execution business has allowed us to optimise our execution offering, providing the best possible execution services to our clients with the lowest possible cost while limiting market impact.

From an industry perspective, we see managers are monitoring trading performance more closely than ever before. This is partially driven by concerns around Mifid II and how those rules might translate into the US. We believe the need to capture the largest percentage of the identified alpha on each trade will continue to push active managers to evaluate the performance of their executing brokers.