

Connect to control

When AQR Capital Management, the \$20 billion quantitative hedge fund and investment manager based in Greenwich, Connecticut, made the decision earlier this year to significantly upgrade its trade-matching processes, the manager had no vendor but Omgeo in mind from the get-go. And with Omgeo having developed a single point of entry for buy-side firms to access the breadth of its matching platforms, the value proposition to AQR was all the more compelling. **Stewart Eisenhart** reports



Formed in 1998 by veterans of Goldman Sachs Asset Management's quantitative research unit, AQR has a primarily institutional client base, but has also recently launched a mutual fund business. The manager runs roughly 40 investment strategies, including global macro, equity long-short and statistical arbitrage. Of the firm's \$20 billion under management, \$8 billion are run in hedge funds and \$12 billion in separately managed accounts.

According to Joe Trentacosta, vice-president at AQR, the firm's diversified equity trading style necessitates a complex, high-volume trading desk infrastructure, but matching processes had previously not supported those activities in

a fully automated fashion.

"Because our equity trading style is very diversified, we hold a lot of names. All of our managed accounts are benchmark-aligned, mainly the cash-equity and global-equity mandates," Trentacosta says, adding that before signing with Omgeo, AQR had no set process for matching with its brokers.

"We were running things on Excel, which was high-risk for a firm with our trading style," he says. "We probably do in the region of 250,000 trades a month. Before the Omgeo implementation things weren't totally manual, but they weren't very controlled either – we relied too heavy on email and Excel."

A one-umbrella solution

When it came time to seek out a platform to make matching and

post-trade operations more efficient and less operationally risk-prone, AQR's choice of Omgeo was made all the easier following the vendor's launch of Omgeo Connect, developed to provide investment managers with a single point of access (via ASP) to various market infrastructures, data sources and counterparties.

Through the Connect interface, AQR controls all aspects of its trade and settlement management processes, and has access to Omgeo's post-trade tools, without incurring the considerable costs of installing and maintaining such capabilities in-house. Omgeo Connect now enables access to the firm's Omgeo CTM, OASYS TradeMatch and TradeSuite systems.

Trentacosta claims the Connect implementation has resulted in a fully integrated process from trade affirmation to settlement at AQR, with greater control over exception management on a daily basis.

"The Omgeo Connect system puts all their matching engines under one umbrella," Trentacosta explains. "Ultimately they want everybody under one matching engine anyway, but the beauty of

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Connect is that you don't have to have two, three or four different systems based on region or security type to manage your broker bench."

Looking to the future

AQR can also access future matching engines rolled out by Omgeo through Connect, Trentacosta says; although the manager currently focuses on cash trading and doesn't deal in fixed income, AQR is interested in foreign exchange and futures matching capabilities under development at Omgeo, he adds.

The key reason AQR honed in on Omgeo rather than other trading technology vendors, according to Trentacosta, was direct access to OASYS – a prospect other providers could not offer.

"We didn't consider anyone else, and the reason was that Omgeo owns OASYS," he says. "The most automated you can be is by interacting with that application, and you can't do that through other vendors – they just sell matching systems, so you'd still need to get your data and broker files from other sources."

Thus, AQR would have to run its matching processes without the breadth of integration with confirmation capabilities available through Omgeo.

"Just that knowledge alone meant it made no sense to look elsewhere," says Trentacosta. "We could have gone down that route, of building our own matching system, but that wasn't the crux of the problem – it's more about integration with the brokers and confirmations."

All in good time

As Omgeo Connect is offered on a hosted basis, implementation efforts proved fairly straightforward once AQR had made its decision to deploy the system. The manager assigned two staff members to oversee the implementation, and also had access to an Omgeo staff member dedicated to the installation.

"There was a learning curve on both sides," Trentacosta recounts, explaining that the project took three to four months from start to finish. "They moved at a decent speed for an organisation of their size, so considering all those variables, it was a pretty good time frame."

Michael Heraghty, product manager of Omgeo Connect, notes that the AQR implementation followed a typical timeline for clients of the system: first a pre-implementation study to see whether deploying Connect would significantly impact middle-office processing, followed by connectivity work and any associated configuration changes necessary, and finally testing and migration.

"As with most integration projects there will always be some amount of time both parties will need to devote to learning new business or operating models to ensure a smooth transition into production – and the AQR integration project was very much in line with this approach," Heraghty says.

"Since the Connect application is highly configurable, with the ability to tailor to a variety of back- and middle-office workflow scenarios, the AQR integration project was a relatively straightforward process," explains Heraghty. "It was approached very much in the same manner as if we were working with an investment bank, an asset manager or an investment company."

BBH also involved

Establishing Connect connectivity also sometimes involves another firm, Brown Brothers Harriman, which provides two-way communication feeds between clients and Omgeo.

AQR was already a BBH client – the firm posts and supports the manager's Swift messaging process – and expanded that relationship as part of the Connect implementation.

"We're a client of BBH separately, where they post and support our Swift messaging for us," says Trentacosta. "However, in this case we elected to use BBH to run our file for us from our OMS to Omgeo, and through the joint interface established between Omgeo and BBH, which facilitates the sending of Swift messaging for Omgeo Connect, our Swift settlement instructions are delivered to our custodians through the BBH gateway."

All return settlement confirmation and status messaging goes back into Connect through BBH, Trentacosta continues, enabling all exception management processing to be performed directly through the Omgeo Connect platform. >