OMS Solutions: The Buysides Key to the Trading Highway

By **Editorial Staff** - July 5, 2006

Last year Investment Technology Group Inc. decided that asset management firms were ready for an investment technology makeover. In July 2005, the agency broker and transaction research firm announced its purchase of Macgregor, the granddaddy of buyside trade order management firms, for about $230 million. Two months later, it brought transaction cost analysis firm Plexus Group into its fold. ITG's plan is to integrate these systems with its suite of trading and analytical products to give buyside clients a comprehensive end-to-end solution for all their investment and

trading technology needs. In January the company formed a subsidiary, ITG Solutions Network, to usher in the new dawn. Ian Domowitz, who ran ITG's products and research unit, was named CEO of the division.

The flagship offering will eventually include portfolio management, execution, compliance and post-trade analysis, all integrated within one system. What isn't-or won't be-offered through the one-stop OMS solution can be roped onto the platform through licensing arrangements or interfaces with other vendors. ITG Solutions Network "will be broker-neutral and vendor-neutral with respect to the integration of systems into the Macgregor platform, as well as through the vending of our analytics into other platforms," Domowitz promises.

So is an all-inclusive OMS platform what's in store for the buyside? Will ITG's grand vision be replicated by other brokers or technology providers? The answer is probably yes-on both fronts.

"The better OMSs are evolving into execution management systems," says Tom Driscoll, vice president for sales and marketing at OMS provider Charles River Development. Over the last year, Charles River has added more algorithmic trading, real-time third-party transaction cost analysis and smart order routing to its platform. The firm recently integrated Nasdaq's Level II data into its direct access display; the next version of the Charles River's Investment Management System, due out in the fourth quarter, will enable traders to trade directly off that data.

Although the phrase "execution management system" is something of a catch-all, it's often used to refer to a platform that offers multi-broker algorithmic trading, direct access to multiple market centers and electronic communications networks, smart order routing, and an order management capability. FlexTrade and Portware, for example, are considered high-performance execution management systems.

Seamless Workflow

Driscoll adds that buyside customers also want a more seamless workflow of execution through downstream trade processing, including FIX allocations, confirmations, and settlement. "These processes have been moving out of the back office and into the OMS over the last few years," he says.

There's little doubt about what's churning competition in the OMS world and pushing vendors to build out their applications. The buyside doesn't want a smorgasbord of technology systems and broker or vendor front-ends on their desks. They want fewer systems that will integrate more of their tasks more efficiently and seamlessly, improving the entire investment process from front to back.

David Quinlan, president of OMS vendor Eze Castle Software, agrees that ITG has drawn a line in the sand. "I share a vision where you converge these pieces and parts onto a single platform," he says.

"Clients want more TCA, more electronic distribution of research, full automation for all clearing and settlement-and they want it all to happen inside one environment," Quinlan says. This means that as the market for front-to-back investment and trading technology matures, firms like Eze Castle will have to "make acquisitions of some of these tools and embed them into our systems," adds Quinlan. The Boston-based firm has 270 clients, 70 percent of which are hedge funds.

Trading Trek

OMSs have come a long way over the last 15 years. Order management used to mean generating block trades across a group of accounts, sending it to a trade blotter, and-as of the mid-1990s-using FIX connections to send the orders electronically to brokers, says David Csiki, managing director of INDATA, a Greenwich, Connecticut-based OMS firm with 150 institutional buyside clients.

Now every aspect of the trading process has become more complex. Portfolio managers want more sophisticated modeling and integrated analytical data from proprietary and third-party sources. On the execution side, traders want to reach not only their brokers but direct market access providers such as Morgan Stanley's Passport, Goldman Sach's REDIPlus, and Lava Trading, which provide automated access to algorithms, market centers and alternative trading systems. Compliance and pre-trade analytics are also increasingly important, as is the goal of straight-through processing on the back-end.

"As OMSs become more specialized, the blotter function is becoming a dashboard that allows buyside traders to manage their order flow through different execution venues," says Csiki. INDATA's Precision Trading, the firm's standalone OMS and part of the INDATA Investment Management System product suite, represents 50 percent of the firm's new business prospects; the rest focus on other modules such as front to back office, investment accounting, and customer relationship management.

Over the last year, the buyside has increasingly clamored for OMSs to support trading across asset classes. Traders want to be able to easily trade domestic and international equities, futures, and foreign exchange. As fixed-income trading becomes more electronic, they want that roped onto platforms. Some traders also would like full options trading, which a few OMSs are now beginning to roll out on their platforms.

The high-end OMSs come from Charles River, Macgregor, Linedata Services, Eze Castle Software and LatentZero. But no OMS vendor has a lock on the market. Bloomberg has been building out its Portfolio Order Management System, which pulls in trade analytics and data from other parts of the Bloomberg empire. Eze Castle has done well by targeting hedge funds and expanding its functionality to reduce the workflow around credit derivatives and other over-the-counter derivatives transactions. INDATA has been gaining recognition for its scalable platform that's less costly than some of its competition.

LatentZero, a trade OMS vendor based in London and Boston, has also amassed a following. The firm, which has 70 buyside clients, is known for its multi-asset-class, highly customizable platform that can process high-volume transactions. In recent months the company has also headed down-market, extending itself to smaller and more traditional asset management firms.

Advent Moxy

The most widely used OMS provider, however, is Advent Software. Its trade OMS, Moxy, integrates with Advent's popular suite of accounting and back-office products and has 730 clients.

Across the board, OMSs have been extending their platforms to sweep more of the desktop workflow into their ambit. "OMSs are listening to their client base and are evolving in the right direction," says Nenad Yashruti, head trader at Freestone Capital Management, a $1.8 billion asset manager in Seattle. "They're becoming more customizable and are adding the TCA features we need." Freestone uses Advent's Moxy

trade OMS, which integrates ITG's post-trade analytics. The firm also uses Quantitative Services Group's TCA product through FutureTrade, an execution platform.

Before Moxy, Freestone managed its orders through Excel spreadsheets. "We chose Moxy because we were using Advent's other suite of products so it was a natural fit to keep it all in one-portfolio management, trading, back-office systems and reporting," Yashruti says. He adds that the price was also more reasonable, given Freestone's size, compared with platforms from competitors like Charles River and Bloomberg.

Jared Goldstrom, a portfolio manager and trader at American Independence Financial Services, a $550 million firm in New York, notes that as OMSs continue to make the desktop workflow more automated and electronic, and as they support more asset classes, smaller and mid-size shops will benefit. "You just won't need as many people and it will cut down on overhead," he says.

The Tools of the Trade

American IFS uses a portfolio management and order management system from Upstream Technologies, which includes a suite of portfolio optimization and risk modeling tools. Goldstrom says equities orders are executed seamlessly through interfaces with Credit Suisse's Automated Execution System and Lava Trading.

Justin Kane, director of equity trading at Rainier Investment Management, a $10 billion asset manager in Seattle, says it's increasingly important to have tools such as TCA and algorithms within an OMS, but that choosing the right OMS depends on a money manager's client base, type of order flow, turnover, and the asset classes in which it trades.

Kane says he's used Macgregor, Bloomberg and Charles River over the years. "They're all getting better and, lately, more competitive," he says. But he points out that high-end, expensive systems may be overkill for some firms. In addition, OMSs that are heavily customizable "may take you further, but they will take longer to implement and you may need a bigger IT staff to manage them."

Rainier uses Charles River's trade OMS platform. The firm considered eight systems before making the switch from Advent's Moxy earlier this year. The money manager had doubled in size over two years and wanted a more scalable system that could handle more asset classes and integrate with the execution platforms and pre-trade TCA the desk was already using as standalone products, Kane says.

Charles River's strategy is to integrate to external execution management systems such as FlexTrade and Portware as well as build its own EMS functionality. "It comes down to giving buyside customers what they want," Driscoll says. "We'll develop our own functionality but we can't assume that's sufficient." Charles River has 180 clients that use its trading and order management platform, along with its portfolio management and compliance systems. Another 30 clients use just the firm's compliance systems.

A Castle Algo

Two years ago Eze Castle built out its algorithmic trading framework and enhanced its electronic trading offering by integrating with DMA platforms like REDIPlus and Lava Trading. Over the last year it has focused on multi-asset-class trading and is currently adding a full options trading capability to the platform. Eze Castle also recently rolled out EzeMobile, a remote access portal that allows key pieces of the OMS to be run through Blackberries and other handheld devices. Portfolio managers can see their real-time portfolio holdings, check their P&L, and send orders directly to a trader's blotter from the road.

ITG, meanwhile, is planning a complete rewrite of the Macgregor blotter into an execution management platform, although for now ITG's Triton execution system will gradually be integrated into the OMS. The

Macgregor platform currently has about 140 buyside clients. By mid-summer ITG's suite of pre-trade analytics tools will be part of the Macgregor platform. The firm is also expanding its transaction cost research products to include data on individual algorithmic trading strategies.

In February, a TABB Group report pointed out that currently about 7 percent of buyside order flow is executed through low-touch venues such as DMA, algorithms and crossing networks. However, it said low-touch executions and automation on buyside desks are expected to increase considerably in the next few years.

That prospect will only stimulate further competition among technology vendors of various stripes. OMSs are already offering some of the trading functionality that traditional execution management systems, or EMSs, provide. Some EMSs offer lightweight portfolio management for hedge funds or quantitative firms that don't need a full-fledged OMS. Adding to the confusion, execution platforms themselves run the gamut in terms of the asset classes and functionality they provide. And many of these platforms-such as FlexTrade, Portware, Lava Trading, TradeWeb, MarketAxess, FXall and others-are as different from one another in function and practice as dogs in a pound.

"On a tick-the-box analysis, some of them might seem to the same-but they're not," says Eric Goldberg, CEO of Portware, a trade management and execution system initially developed for program and algorithmic trading.

He adds that different views about what constitutes an execution platform has led to some of the confusion about the array of execution choices. "A real enterprise trading system is different from an order routing mechanism," he says. "It needs to give traders the ability to actually work orders."

Commodities

"There are a number of EMS functions that will quickly become commodities for OMSs, such as DMA and access to broker algorithms," says Richard Jones, CEO of LatentZero. Jones believes that OMSs will replace most EMSs as the former become more agile at upgrading their functionality and systems to handle the high-performance requirements of an EMS. He adds that his firm is well positioned in this regard.

Brokers, meanwhile, are pushing out their own front-ends to secure order flow from the buyside-or sometimes even white-labeling multi-broker platforms from technology firms. This can make for strange bedfellows.

ITG's DMA system Triton, for example, began including algorithms from other brokers earlier this year in response to customer demand. Portware says that a handful of large brokers are now white-labeling its execution platform and offering it to buyside clients who want access to multiple sellside destinations and liquidity pools. "The business has changed-brokers need to distribute their algorithms and they're willing to share space with other brokers," says Portware's Goldberg.

Peter Curley, product manager for Advent's Moxy, points out that everyone is vying for access to traders' desktops. "Sellside firms with deep pockets will fight to retain order flow through electronic tools," he says. Curley adds that the advantage of independent OMSs moving into the execution area is that they do not have any of the innate conflicts that brokers have, and are therefore a better long-term bet.

"The ultimate goal may be for buyside firms to have one system that's a front-end to execution systems from software companies and the sellside," says Curley.

However, the ITG-Macgregor deal notwithstanding, he stresses, that hasn't yet happened and isn't likely to happen anytime soon.