WATSON WHEATLEY

CASE STUDY

HEDGE FUND
PRIME BROKER AND MARKET VALUE RECONCILIATION

INTRODUCTION

A new London based hedge fund with over $400m AUM that uses Paladyne Portfolio Management System required an automated reconciliation system. Initial data volumes were relatively small but anticipated to grow over time. A full reconciliation at the most granular level was required to tie out any discrepancies with Prime Brokers, Administrators and DTCC.

REQUIREMENT

The client needed to put in place a solid and scalable reconciliation process ready for increased volumes and growing assets without the need for additional operations staff.

Watson Wheatley's iRecs was identified as the best fit for the company due to its ability to heavily automate the daily reconciliation process and its flexibility to add additional interfaces very quickly.

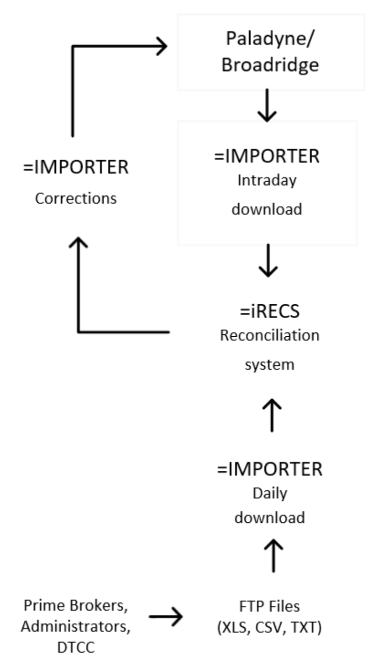
A file based interface was required to the Paladyne PMS in order to read static data, trades, positions and cash as well as market value information. Watson Wheatley's data collection tool allows downloading and decryption of data from prime brokers, administrators and DTCC. The data import process needed to be completely automated with all files being loaded to iRecs on receipt.

A very high level of automated transaction matching was required and clear reporting available regarding breaks. Additionally the system needed to generate output files containing corrections for upload back to Paladyne.

Watson Wheatley's unique Total Equity Reconciliation for margin traded instruments was needed to completely tie out the prime broker margin balances and solve any FIFO/book cost issues.

Finally the reporting tools in iRecs were required to display portfolio market values against prime brokers and administrators. DTCC reconciliation was also added to allow the client to comply with EMIR regulations.

- $400m AUM Hedge Fund
- Daily Trades, Positions, Total Equity
- Paladyne PMS
- Market Value, Administrator & DTCC/EMIR Reconciliation



SOLUTION

System installation and configuration was completed in 12 days by Watson Wheatley.

iRecs was able to interface with Paladyne via .csv file extracts which were set to run daily in the early hours of the morning. All previous business date cash balances and positions were retrieved along with new trades, transactions, accounts, securities and identifiers.

Watson Wheatley's data collection service retrieved the remote files from external suppliers each day and decrypted data where required.

Watson Wheatley’s Importer software was used to construct import maps to read the files containing the equivalent data from each prime broker and administrator. The created import maps were invoked automatically on receipt of the files and data was passed directly to the iRecs database.

All data received by iRecs was automatically validated for continuity of positions (based on underlying trades) and continuity of margin balances (based on underlying cash flows and calculated trade P&L).

iRecs was configured with standard match rules for total equity derivative reconciliation along with bespoke work flows to correctly identify, annotate and route key break items. Additional match rules were added to allow different logic for other instrument classes and match by tolerance.

Users were provided training in daily use of the system, troubleshooting and handover.

The system was run in parallel with the existing Excel based reconciliations for a few weeks before the users cut-over to exclusive use of iRecs.

Watson Wheatley provided both on-site and remote support to the users throughout for any issues that they encountered.

BENEFITS

The data import process has been highly automated with the use of Importer requiring only occasional manual intervention. Minor and infrequent changes to Importer maps has been required over time to accommodate the availability of new security identifiers and alterations to file layouts imposed by the prime brokers or administrators.

New prime brokers have been added since live date very rapidly with the use of existing templates.

iRecs achieves automated match rates in excess of 95% with over 300 transactions per day delivering fully annotated breaks to the team members for remedial action.

iRecs has provided the company with a complete reconciliation of all aspects of its securities trading. The overriding value of this has been in correcting the inaccurate data of its internal systems and prime brokers with the minimum of resources and in a timely manner.

Daily market value reconciliation against both prime brokers and administrators has allowed the client to use the system to assist in striking a fund NAV at month end.

iRecs has enabled the client to grow their business to three times the original AUM and twice the transaction volume with no requirement for additional operations staff.

In addition iRecs has allowed the expansion of the reconciliations performed by the team to ex-date dividends and regulatory reconciliation. The iRecs license model allows clients to increase volume, interfaces and reconciliations without additional license costs.

Ongoing support has been minimal due to the best practice implementation and deep understanding of the client's data.