

Hedge Fund & Investment Technology

Incorporating BuySideIT

INTERVIEW

Alexei Miller, DataArt

The Russians are coming

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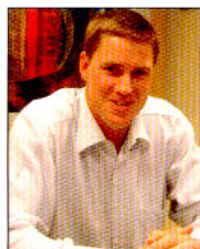
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Full of eastern promise

Outsourcing on the buy side is alive and well and living in Russia. Or that's how it seemed to me when I travelled to St Petersburg recently to attend the AGM of DataArt, a relatively small financial services consultancy, which has chosen to base its development and engineering operation there.

To describe DataArt's approach as novel and refreshing doesn't really do the start-up justice: it's a firm that believes passionately in its ability to deliver value to its clients, while showing a transparency in running its operation the likes of which I haven't seen before on the buy side. Maybe it's a cultural thing, but somehow I don't think so, given the Russian propensity for economy of information inherited on the back of 70 years of communist rule.



Victor Anderson
Editor (UK)

No, I think DataArt's transparency stems from its genuinely approachable upper management, which seeks to focus squarely on its clients rather than on marketing and slick presentation. This transparency extends to the firm's approach to project management, which has a direct impact on its clients: DataArt firmly believes in its representatives walking the walk – the person who consults with a client on a specific IT project is the same person who manages that project, from dealing with client feedback to actually writing code. This goes for Alexander Makeenkov, head of DataArt finance; Eugene Goland, the firm's president; and Alexei Miller, executive vice-president of DataArt (see the interview on page 22) – all of whom cut their teeth as software engineers.

DataArt's model might not suit every buy-side player. In fact, the firm is candid about its unsuitability to a large number of buy-side firms. But those niche players who do want specialist technology – built to their specifications, with close co-operation from the consultancy and a speedy time to market – could do a lot worse than speak to the folks at DataArt.



The Russians are coming

It goes without saying that the two largest hedge-fund markets – comprising the funds themselves plus the consultancies and technology vendors that serve the space – are in the US and the UK. Which is why when Victor Anderson travelled to St Petersburg, Russia, and met Alexei Miller, executive vice-president of DataArt, a hedge fund-focused technology consultancy, he was surprised to find a burgeoning operation that has the expertise and ambition to challenge the industry's established players

You have a number of clients in the hedge fund space using your software but you mentioned that you're looking at setting up strategic relationships with technology vendors currently serving this market. Is that correct?

Yes, we're looking forward to establishing technology partnerships with off-the-shelf product vendors, but we're being careful – we want to remain independent so that our systems integration services are not influenced by any particular affiliation.

Are there any specific organisations that you are talking to at the moment?

In our case these partnerships are driven by technology considerations rather than business ones. We have encountered certain technologies at our hedge-fund clients, and of course we do integrate

our software with those systems. We've already integrated with and spoken to a number of well-known companies such as Sophis, Reuters and Integrated Business Solutions.

Getting back to your clients for a moment: you have five hedge-fund clients. Are they based in the US or UK?

They're all based in the US, which is where most of our hedge-fund expertise is concentrated, although we're in the process of establishing relationships with some UK clients.

I suppose it makes more sense to get traction in one market at a time than to try and conquer two markets simultaneously?

Yes that true, especially for a company of our size.

What type of functionality have you been asked to build software to support by your hedge-fund clients?

It varies depending on the client, but we've done a lot of work in the CRM (customer relationship management) space, the investor reporting space, as well as in more mission-critical areas such as trade order management, pricing, decision-support and risk management. We've also done a lot of work in integrating third-party systems ensuring that disparate systems can talk to one another.

DataArt sees itself as a technology consultancy – in fact you mentioned the term 'consultancy' a bit earlier – and not a technology vendor. What is the difference in your opinion between the two, and what sets DataArt apart from the vendors working in the hedge-fund space?

A vendor is a company that brings a specific set of technologies and functionality to the table that they believe, for whatever reason, will bring value to their clients. We are a technology consultancy that mostly speaks to clients who are interested in creating bespoke software to support their unique processes. We do not compete with technology vendors in terms of readily available functionality. Technology vendors don't like to customise their solutions for each client, while for consultancies like us this is the main business. In reality, the question that our clients face is not really whether to build or buy – we don't compete with the build option – we come into the picture when clients have made up their minds that they need a customised application. Then they have a number of choices: either to hire people in-house, to use local consultants, or to use a hybrid approach like ours, where we use offshore resources as well.

Prior to moving into the financial services industry, DataArt was active in the telecoms industry. How did the company make the transition? Was it a conscious decision to start providing software in this space, or was it a case of reacting to client needs?

We've been active in a number of verticals including telecom, life sciences, media and publishing. We continue to serve those areas, but the financial services industry has been our biggest growth area over the past three years.

Yes, but was your decision to move into financial services a conscious one?

At first we followed client demand and then made conscious investments into this sector. We realised that in the financial services industry we had the opportunity to utilise our best qualities – we had engineers in Russia with the necessary intellectual capital and we were used to working in industries where standards for software are very demanding. This complements the software culture of the finan-

cial services industry where you typically have to do a lot of algorithmic work, and the tolerance for mistakes is almost zero. So it was a natural fit for DataArt, which involved a lot of learning and adapting our processes to ones that are accepted in the industry, and that came through specific experience. Of course we are grateful to our first serious clients for 'educating' us – bringing us up to speed on how hedge funds work and what they expect.

We're also doing a lot of work with hedge-fund technology vendors, working as extensions to their technology teams, and in that case our cultures are very compatible because we are a technology service provider serving technology companies. So we speak the same language.

It doesn't take a genius to work out that the buy-side technology market is a very competitive space. What does DataArt offer its clients in terms of technology and services, and where do you believe your competitive advantage lies?

DataArt is one of the very few offshore vendors that has developed a structure to serve the financial services software market. Local consultants are extremely expensive. Most offshore outsourcers just

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Alexei Miller, DataArt

don't have the level of industry-specific knowledge. In other words, the common understanding that you can't send work offshore – it's too slow, too risky and people don't know how to deal with financial technology – is changing, and we are perhaps the first company to establish a methodology or process for specific financial services environments.

At the same time, by doing work offshore, clients are able to realise cost efficiencies – it's much cheaper. But it goes beyond that; we have a pretty large resource pool that allows us to ensure faster times to market and faster ROIs. We've all heard

Alexei Miller

Name: Alexei Miller

Position: Executive vice-president

Department size: 165

Joined DataArt: 1998

Based in: New York and St Petersburg, Russia

Studied: Masters in mathematics and computer science from St. Petersburg State University

about six- or nine-month-long integration projects, which are typical in the US and UK, but we have the resources and methodology to shorten that time even though we are talking about bespoke software.

So the offshore dimension is just a new offering to an already crowded market that I think in many situations is a viable alternative to local consultants. We are not replacing off-the-shelf products in the market

people experienced in financial technology communicate directly with the client, and yet they have hands-on involvement with the development process. We also heavily rely on technology: DataArt has developed a web-based project-tracking system, which brings complete visibility to the project. Using technology, especially when working remotely, is a tremendous help.



“When creating new systems, integration is always on our mind. I am often surprised at how poorly prepared many off-the-shelf-products are...”

Alexei Miller, DataArt

and in certain situations we are not capable of replacing the local consultants, yet in many situations where cost factors and time efficiencies are important we can add value to our clients

One of the things that impressed me most when I visited your St Petersburg operation was your hands-on approach to project management and consulting. In short, the person who closes the deal also manages the development project and liaises with the client. Is this one of your key differentiators?

Our approach has always been to be as direct and transparent as possible. This is something we have brought to the financial technology from our work in other sectors. Our methodology is oriented toward the fastest possible delivery while ensuring the quality required by the industry. It is more agile and responsive to change than traditional project management and it has several important components to it, the first being direct communication between the client and the developer. Our front-line

What other areas of the hedge-fund space is DataArt looking at getting involved with?

In terms of functionality we think there will be a lot of customised work in the investor-reporting areas driven by compliance and disclosure requirements. Obviously a lot of work is going into STP – bearing in mind that STP means different things to different people. Finally, I think systems integration will become a bigger part of our business compared with software built from scratch.

I'd like to pick up on your systems integration point very quickly. Surely, if you're engineering a lot of 'one-offs' or proprietary technology for hedge funds, interoperability with other systems and technologies is bound to become an issue?

When creating new systems, integration is always on our mind. I am often surprised at how poorly prepared many off-the-shelf-products are. We hear of nine to 12 month-long integration projects all the time. The base technology platforms available today, such as .NET or J2EE help a great deal to make systems more open, yet few vendors use them to their full potential. For example, web services is becoming the standard for integrating systems across many industries, however it is not very well adapted to the hedge-fund industry at the moment.

Do you see an increase in the number of buy-side firms happy to outsource or possibly offshore certain projects that typically in the past would have been run in-house or managed by local consultants/technology firms?

Certainly, we see an increasing interest in our resources. With the hedge-fund technology market so hyped up, and new software products appearing all the time, managers tend to buy a lot of technology, often without proper due diligence or regard to price. Off-shoring is rather exotic in this industry at the moment and when we talk with potential clients, we still have to deal with issues and fear factors that belong in the past. I believe that over time the market will calm down and start operating like a normal business segment, similar to many other segments, although with its own specifics. At that point outsourcing and off-shoring will be considered as just one of the standard business tools available to fund managers or technology vendors. ■