

Hedge Fund Focus Hasn't Hurt Eze Castle Integration

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Continuing volatility in the financial markets has taken a toll on hedge funds. During the first eight months of 2008, Hedge Fund Research says the average fund lost almost 5 percent--the worst numbers the industry has seen in nearly two decades. In the first quarter, 170 hedge funds closed their doors and fewer are starting up, according to research firm Financial Insights.

Yet technology provider Eze Castle Integration (ECI) is riding a growth wave, even though 95 percent of its clients are in the troubled hedge fund sector. The privately held company last month reported a 26 percent revenue increase in the first half of the year, a period in which it signed on 60 new clients. In a statement, John Cahaly, CEO of Boston-based ECI, said that despite his clients' continuing problems, "We expect further growth through the remainder of 2008, with increased services and solutions to fit the needs of our ever-growing client base."

Eze Castle Integration's ability to buck the headwinds facing the industry is no surprise to Sean O'Dowd, senior research analyst for capital markets at Framingham, Mass.-based Financial Insights. "There are still a large number of hedge funds that need infrastructure issues resolved," he says. "And this is what Eze does well: business continuity, disaster recovery and their sweet spot, e-mail archiving services."

Cahaly and Sean McLaughlin formed Eze Castle 13 years ago, naming it after a memorable trip to Eze, a village on the French Riviera. Their vision, says Bob Guilbert, managing director of ECI, was to create an electronic trading blotter than runs on Windows. Accomplishing that, they began working on other software applications and IT infrastructure to support trading activities.

As the company grew, its client base broadened to include hedge funds. "Eze developed a good reputation, and there were a lot of referral-based introductions," says Guilbert, who was VP of business development at server virtualization technology provider Virtual Iron Software before joining in 2005.

Eze Castle supported many early-stage funds in the Boston area before adding offices in New York and Greenwich, Conn.--cities with a heavy concentration of hedge funds. In 1999, it split into Eze Castle Software, a provider of order management systems, and ECI, each growing independently. In 2006, Eze Castle Software became part of Bank of New York Co. spin-off BNY ConvergEx Group.

Broad Offerings

Eze Castle Integration, meanwhile, continues to provide a variety of IT solutions to hedge funds, broker-dealers and funds of hedge funds. In the e-mail and instant message archiving space, Eze offers a product that captures incoming and outgoing messages behind the scenes and transfers them to a secure offsite facility where they can be retained for three to seven years in a format that cannot be altered or erased--Worm, or write once, read many. Complementing its disaster recovery services, Eze Castle's business continuity offerings encompass risk assessment, business impact analysis, strategy and plan development, as well as plan testing, training and maintenance.

The company also offers a managed suites service, which provides firms with office space in midtown Manhattan, including technology and business support. "The firm took a floor in New York and built a set of suites for hedge funds to start quickly," says Guilbert. "We sold out all ten suites in 45 days. Hedge funds can ... sign the contract Friday and be open for business by Monday." According to Guilbert, the suites are a major driver of growth and "competitive takeaways," or clients that have left the competition to sign on with ECI.

Adam Honoré, Denver-based senior analyst at Aite Group, says that ECI's long experience with hedge funds is a clear advantage. "Horizontal players who may have a few hedge fund clients don't have that domain experience. Hedge funds

are very word-of-mouth when it comes to technology, so it is easier for Eze Castle to walk in the door than it is for some of their competitors."

As it goes up against service providers like Accenture, Capgemini, Infosys Technologies, I-flex Solutions and Tata Consultancy Services, ECI has an edge, Honoré continues, because it is a known quantity among funds. "There is such a huge trust factor," he says. "Everyone wants to know you are not going to take their 'special sauce' down the road to the next restaurant."

According to Honoré, Eze is also smart about its partnerships with vendors, teaming up with companies such as Symantec Corp., Iron Mountain Corp. and Microsoft Corp. "They tend to choose good technology," he observes.

Still, points out Honoré, one negative is that hedge funds are very exacting customers. "A problem with hedge funds is that they have an expectation that technology should be free, so sales cycles can be somewhat long, and they are also very secretive. Working into the business is a challenge."

Eye on Expansion

Guilbert, however, expects that ECI will see growth from existing clients seeking end-to-end services including telephony, disaster recovery and business continuity. The vendor is also adding locations--it opened in London in 2007 and bolstered its U.S. presence this year with an office in Chicago and data center in San Francisco. "There are two dimensions of growth: geographic expansion and the evolution of technology," Guilbert says. "Hedge funds are seeking leading-edge technology for competitive differentiation. We see virtualization and storage area networks as key areas. The storage business is growing rapidly."

The biggest challenge, he says, is finding employees who possess the necessary technical abilities and communication skills to serve Eze Castle's picky clientele. "Hedge fund people are very demanding," he notes. "It is difficult to find individuals with the skills we need out of the box." And once found, they can just as quickly be hired away. ECI has only 285 employees, yet 25 former staffers are CTOs of hedge funds.

Analyst O'Dowd, for one, thinks Eze Castle Integration will continue to thrive, no matter how problematic the picture becomes for hedge funds. "In a world of service providers, there are a number of firms that I see growing their laser-like focus," he says. "Eze Castle can continue to reap the benefits of what continues to be an underserved market, IT-wise."

Honoré agrees: "I would not be too worried about hedge fund failures. Hedge funds are intensely tech-focused, so you have to have partners like Eze Castle if you can't do it yourself."