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Who's Your Prime Broker

Prime Brokerage

So you want to start a hedge fund. You want to put your theories, strategies and algorithms to play in the market without the hassle of building the entire organization from scratch. Enter the Prime Brokers who have the trading platforms, risk management, lines of credit and the back office support you need to enter the business of alternate investment management.

Prime Brokerage is a \$6 billion dollar industry that has been ruled by Morgan Stanley, Goldman Sachs and Bear Sterns who between them control 65% of the market. Prime Brokers make their money by lending hedge funds money and securities. Typically a brokerage will charge a borrower between 75 to 100 basis points above its own borrowing cost.¹

The Prime Broker provides the execution, securities, custodial duties, margin financing, position reports and in some cases office space to allow hedge fund managers to get down to the business of executing their trading strategies. For funds that have international aspirations it is beneficial to go with a Prime Broker that can settle trades outside of the US. It is essential that the Prime Broker that is chosen understands the strategies of the client and that the client understands the service offerings of the broker.

Hedge Fund Manager	Prime Broker	Investment Capital
		\$ \$ \$
<ol style="list-style-type: none"> 1. Execute trades 2. Provides all trade information to their Prime Broker <p>Note: Hedge Funds with more than \$1 Billion in Assets typically have more than 1 Prime Broker</p>	<ol style="list-style-type: none"> 3. The Prime Broker reconciles positions between client and brokers and consolidates all securities 4. Reports back to fund manager 	Prime Brokers who already have established relationships with investors will introduce them to their Hedge Fund Manager clients



Source: MorganStanley.com

¹ Schiffrin, Michael, Forbes.com

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Who's Knocking at the Door?

Banks and brokerage firms are positioning themselves to pounce on the opportunity to provide these services to the swelling number of Hedge Funds. Estimates by Hedge Fund Research Inc say that 7,436 hedge funds were active at the end of 2004.² The leaders in this game will be those companies that can anticipate and deliver services to meet the needs of the clients. Whether it's settlement in Singapore or a fully furnished office space with Bloomberg screens and a receptionist to boot, Prime Brokers must be creative to keep and win new clients.

-  Service provided
-  Service not provided

Blanks Services may be provided

Services:	Intangible	Traditional				Non-Traditional				
	Prime Brokerage Industry Mystic	Capital Introduction	Back Office Support	Risk Management	Securities Lending, Clearing and Settlement	Open International Accounts	Credit Cards for Managers	Use of Derivatives for investment strategies	Trust Structure with Risk Control	Hedge Fund Hotel
Morgan Stanley										
Goldman Sachs										
Bear Sterns										
Citigroup										
Deutsche Bank										
UBS Warburg										
CSFB										
Bank of America										
Merrill Lynch										
S3 Asset Management										

² Peltz, Michael, Bloomberg

G R E G O R Y S. D A V I S

August 5, 2005

Sources

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Schiffrin, Michael, "Nobody Wants to Kill the Golden Goose", Forbes.com, December 14, 1998