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Hedge Fund Technology

Imagine Software's
Steven Harrison

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Imagine Software:

Capitalizing on a Craving for Innovation

By Katherine Heires

Steven Harrison

The hedge fund industry's continued growth and increasing diversity have been good news for Imagine Software. Hedge funds' appetite for ever more complex derivatives and multi-asset trading strategies has expanded the market for the New York-based systems provider's flagship Imagine Trading System, a real-time portfolio pricing, derivatives trading and risk management platform, which is offered both in an enterprise version and as a hosted online service, Derivatives.com.

“It’s very difficult to have every trading option included in one risk management system,” admits Steven Harrison, Imagine’s president and chief operating officer. “But we make our best effort to do just that.”

The client roster of more 100 consists mostly of hedge funds such as Empyrean Capital Partners of Los Angeles, Arnott Capital of Sydney, Australia, and such New York-based funds as Millennium Partners, Montrachet Capital Management and AM Investment Partners. Other customers are traditional investment managers, insurance companies and banks such as Germany’s WestLB. Imagine is also gaining business from new funds focused on Asian markets, and the product is available through clients of New York-based Credit Suisse Prime Services, which formed a strategic alliance with Imagine in 2004.

Geoff Allan, VP of prime services at Credit Suisse, said Imagine will often collaborate with his company in new-product development, particularly in fixed income, and on occasion will team up on client education, co-hosting Web seminars. A Webcast in early May was titled “Utilizing Intra-Day Scenario and Stress Analyses to Ensure Sound Risk Monitoring,” a subject that Imagine CEO and head quant Lance Smith views as timely due to the recent increase in market volatility.

Allan says the seminar was a response to the growing demand by hedge funds for real-time analytics. “Hedge fund managers will now often ask if a system runs in real time to determine the extent the system can be used to capture intraday or pre-trade risk,” he notes.

Harrison says hedge funds and their prime brokers tend to be the most demanding customers, with their constant craving for innovation and efficiency in portfolio management capabilities. “We are seeing more and more demand for FX exotics and fixed-income derivatives as well as cash management functions, and so we are currently working on building out our product in these areas,” he says.

The portfolio management system currently supports trading in multiple asset classes, including equities, options, fixed income and commodities as well as funds of funds. According to Boston-based research firm Celent, Imagine also supports a range of investment strategies, including convertible arbitrage, long/short with derivatives, volatility and global macro.

The 13-year-old firm Imagine’s multifaceted product offering appears to reflect the skill range of its four founders, whom the company’s marketing director describes as “a techie, a quant, another techie and a lawyer/business development guy.” They are, respectively, Harrison, Smith, chief technology officer David Miller and head of business development Scott Sherman.

Harrison and Smith worked on the equity proprietary trading desk at what was then Salomon Brothers; Harrison was the desk’s CTO, and Smith was the head quantitative analyst. Harrison now oversees all aspects of Imagine’s Internet-based service offering, and Smith leads the development of risk and analytics tools. Miller is a software development and database expert who was formerly a developer with Bear Stearns & Co. in New York and senior developer for equities in Sakura Global Capital’s New York office. Sherman was a securities lawyer at New York firm Shea & Gould and a principal at now-defunct New York money manager and venture capital firm James A. Stewart.

Originally a supplier of enterprise software to investment banks, Imagine expanded in the hedge fund market five years ago when it launched the application service provider (ASP) version of its software. The Internet-based product includes real-time “what if” and value-at-risk analyses and Monte Carlo and historical simulations. It also has real-time market data from Reuters and access to Imagine’s proprietary convertible securities database. “It’s very easy to implement an ASP solution, and so start-up hedge funds can now purchase a sort of shrink-wrapped deployment of our heavy-duty enterprise product that grows as they do," Harrison says.

Denise Valentine, a senior analyst with Celent, points out that while an ASP offering is a definite plus, Imagine is on a crowded playing field. Among portfolio management players with derivatives and risk-analytics capabilities, she counts such competitors as San Francisco-based Calypso Technology, FNX Solutions of Philadelphia and Paris-based Sophis. For Imagine to remain competitive, she believes it needs to build out its accounting support. On the plus side, she says Imagine has an excellent reputation, is able to help start-up funds launch fairly quickly and, due to its founders' active management style, retains a "small-firm-type ambiance."

Mark Friedman, a principal with AM Investment, says Imagine's strong suit is its risk management system and the scope of the risk analytics on Derivatives.com. He also praises the firm's openness to product modification and its ability to customize databases. He admits that his favorite time to use the system is at 2:00 a.m., "when I can look at the risk across all the funds and see what everyone has been doing."

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Donald Dale, managing principal at D3 Partners, a derivatives and volatility arbitrage fund in New York that was spun off from Montrachet Capital Management last year, assessed numerous risk and pricing systems several years ago before selecting the Imagine ASP. He appreciates the product's price for his four-person fund, the stability of its data management system–it has two backup locations–and the company's responsiveness to new-product requests.

"My trading niche is probably one of the more fast-changing areas, and so their ability to adapt and add new pricing instruments early on is impressive and has certainly allowed their business to grow," Dale says. ■

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