



"How soon, how soon, how soon?"

In this week's Provider Profile, SCI talks to outsourced buy-side technology provider Sky Road

Sky Road, founded in 2005, describes itself as a custom hosted technology solution for hedge funds and asset managers. Built on top of Calypso technology, the firm says it aims to provide hedge funds with "the next generation of ASPs".

Sky Road's co-founders, chief technology officer Joe Clifford and president John Borse, first worked together when they built an interest rate platform for NationsBank CRT (now part of Bank of America) in the mid 1990s. They subsequently joined hedge funds Citadel and Ritchie Capital. At Ritchie Capital, they were to build a multi-strategy trading infrastructure. "This was built using Calypso at the core and I really liked the extensibility of the technology," recalls Borse.

Borse recognised that Calypso had also become the leading credit derivatives trading platform, and saw an opportunity to support hedge funds' trading of credit and other asset classes via a hosted platform based on Calypso. The concept of using Calypso and building it out for the specific purposes of each client seemed "a great business model" to Borse and so in 2005, with an amicable split from Ritchie Capital whereby the new firm would continue to support Ritchie Capital's operations, Sky Road was formed.

The new Sky Road platform, described by Borse as "standing on the shoulders of Calypso" also connects hedge funds to administrators, prime brokers and other intermediaries. "Funds that wanted to get hold of this great platform via the Internet and adapt the technology became the basis of our business model," says Clifford. "No two clients are alike; we take a real partnership approach with clients to support each fund's individual requirements."

This individuality is further underlined by Clifford. He says: "The way that hedge funds put strategies together is different from sell-side firms, and the view of risk demanded from investors in hedge funds is also different from the sell-side. Our adaptation has been to match operational and risk strategies of buy-side clients, including SIVs and CDPCs, using a common platform. Managers need to see asset classes in one system, not silo'ed across different systems. So we evolved the platform with our clients."

Sky Road is keen to foster this approach to appeal to all styles of trading in the hedge fund community, through the strength and adaptability of the Calypso platform. "Our first client was a global macro fund, but recently the demand has been predominantly in credit, although fixed income arbitrage and global macro are coming back. So the strength is in the cross-asset capability of the platform," explains Borse.

Part of the demand for technology to deal with structured credit trading derives from the complexity of the asset class, says Clifford. "The technology provides CDS, index and tranche transaction processing. As the fund ramps up, the processing of market data and the intra-day calculation of market shocks on P&L, and associated mark-to-market risk management becomes crucial."

A familiarity with techniques used in each individual client's trading environment is therefore vital to supporting each effectively, especially those trading bespoke structured credit, according to Borse. "Knowledge of assumptions in the models used, such as CDOs, is important," he says.

This expansion of trading coupled with investor demand for greater transparency means that such intra-day reporting is increasingly necessary. Sky Road provides a solution that allows all market players to report in real-time. "We spend a lot of time with market data providers to foster better reporting, such as our relationships with Markit Partners and Reuters," says Clifford.

Another of Sky Road's advanced functions is to bring together the fund's existing infrastructure and connectivity and link all the components to allow the fund to trade competently by providing a fully outsourced technology function. "Once the fund is up and running we interact and advise them as a

virtual team pretty much daily. We let the fund leverage off their in-house technology teams and allow them to stand on our shoulders in the same way as we stand on Calypso's shoulders," says Borse

Similarly the technology required to support today's credit trading leaves old techniques behind; funds can get away with spreadsheet management to manage their books in equity trading, but trading and connectivity issues makes this impossible in credit derivatives, argues Clifford. "An ability to trade is the simplest requirement of the system, but then there's connectivity to market intermediaries such as T-Zero, SwapsWire and the DTCC; the strong derivatives background of Calypso's technology makes this possible," he claims.

Today's markets therefore demand a great deal from technology providers. As Borse explains: "We help them get their arms around the myriad complex products they trade. But time has been compressed. People need problems solved yesterday and will not settle for a six month installation as they would have done so previously. The overwhelming question our clients ask is 'how soon, how soon, how soon?'"

"The pace of evolution in the market is such that many of the smaller teams we support actively avoid building proprietary technology, especially as commoditisation emerges more," says Clifford. "It's very important to get the technology decision right."

Borse concurs by concluding with a warning shot to firms under prepared for a market down turn. "At some point the credit cycle will change and the tight credit environment we've had will change with it. Then we'll see who hasn't been employing good risk management."

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