

MULTI-STRATEGY SUPPORT

Cannizaro chooses a web-based managed service to support its multi-strategy investment portfolio.

Cannizaro was established in 2006 as a specialist investment and advisory group focused on alternative investments from Asian markets. The group wanted an efficient risk management solution that could be used as the driver of its investment process. After surveying a variety of web-based products, Cannizaro selected Algo Risk Service to help analyze and assess the risks involved with its multi-strategy portfolio.

AT A GLANCE

ORGANIZATION:

Cannizaro

INDUSTRY:

Cannizaro was founded in 2006 as an independent alternative investment manager. The group manages an Asian multi-product arbitrage fund with low systematic risk and a high alpha objective with a 9+ year track record.

HISTORY:

Founded as a spin-out from the Lionhart investment group, Cannizaro's investment management team has been established in the Asian markets for over 20 years.

BUSINESS CHALLENGE:

To integrate risk management, analysis, and reporting functionality with the firm's multi-strategy investment portfolio.

SOLUTION:

Algo Risk Service

WHY ALGORITHMICS:

Cannizaro chose Algo Risk Service to help analyze and assess the pre-trade and ongoing risks associated with its diverse portfolio of investments.

Algorithmics



A CLOSER LOOK AT: MANAGED SERVICES

OVERVIEW

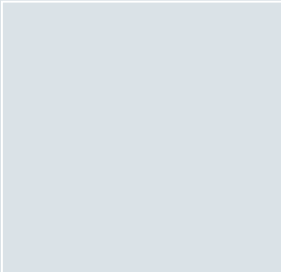
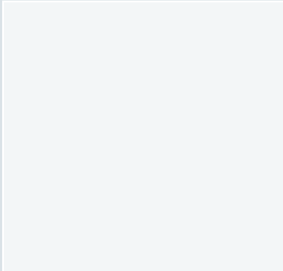
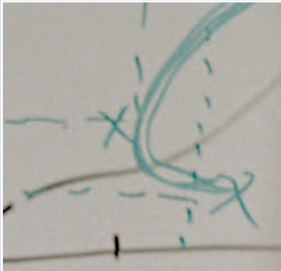
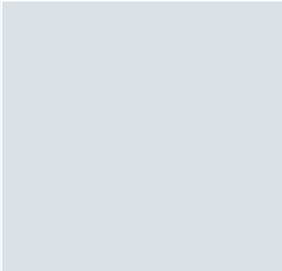
Algo Risk Service is a web-based managed service that provides access to leading-edge risk and portfolio analytics. Aimed primarily at buy-side organizations such as hedge funds, Algo Risk Service delivers state-of-the-art risk measurement and investment support tools, without the costs or challenges associated with in-house deployment.

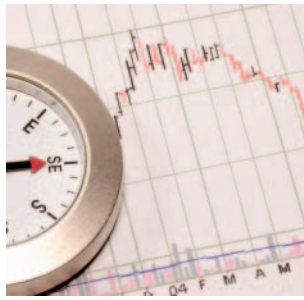
ALGORITHMICS AND MANAGED SERVICES

As a managed service, Algo Risk Service is hosted by Algorithmics and delivered online, configured to address each client's specific business requirements. Algorithmics dedicates a client engagement manager to each client, providing a single point of contact to understand and support a firm's unique needs.

FOR MORE INFORMATION

www.algoriskservice.com or sales@algorithmics.com

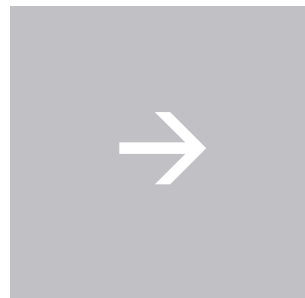
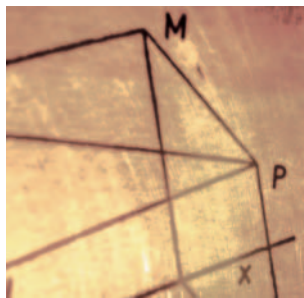




With a track record

dating back to 2000, the Cannizaro Asia Master Fund targets stable and consistent investment returns through a diverse portfolio of investments drawn from multiple countries in the Asia region. Cannizaro, a specialist investment and advisory group that spun-out from the Lionhart investment group in 2006, manages the fund.

“We not only want to measure the risk of the portfolio and existing positions, but also to have the ability to analyze the impact on portfolio risk of new investment strategies,” explains Stephen Wilson, Cannizaro’s COO. In order to realize the group’s goals of low systematic risk and a high alpha objective, Stephen envisioned risk management playing a more central role in the group’s operations. Part of this strategy called for a more integrated approach to managing risk, one that moved away from monitoring investments on a spreadsheet towards the use of more advanced analytics.



A TRIAL RUN

With over 20 years investment experience, including 18 years in Asia, Stephen brings a deep understanding of fund management to his role as COO. One of his first tasks upon joining Cannizaro was to oversee the acquisition of a risk management system that fit with the group's activities. Under his direction, Cannizaro set out to test a variety of web-based solutions through a series of one-month trials, to examine how the products would react in their own environment.

"We were looking to acquire a system that would help assess the risk of new trades, and also have the capacity to assess risk on an ongoing basis once they became part of the portfolio," he explains. An important component of the trial was to get the solution into the hands of the portfolio managers themselves. "I really wanted to get them involved. They are the ones who evaluate the risk/reward of any particular trade, and, in a sense, we view them as our risk managers," he observes.

A list of vendors was compiled based on recommendations from prime brokers and the personal experience of Cannizaro members. After assessing close to half a dozen products, the group chose to subscribe to Algorithmics' Algo Risk Service. "What really stood out for us was its user-friendly interface, which was well suited to the needs of a portfolio manager," Stephen states. "In addition to liking the construction of the platform, we were also pleased that the Algo Risk Service interface featured a hierarchical structure, which resembles the style of trades we perform as a multi-strategy fund."

As a managed service, Algo Risk Service provides the benefits of an outsourced system. Cannizaro, which already had a positive experience subcontracting IT technology and trade settlements to outside firms, liked that the system required very little overhead and did not need a full-time employee to run the service. From an operational perspective, the flexibility of the range of instruments uploaded to Algorithmics for display was a positive feature.

"We took a close look at some competing solutions, but they forced you to fit their criteria for instruments," he recalls. "For example, convertible bonds had to be modeled to their definitions. If a firm is working exclusively with more standardized instruments, such as long/short equities, then this restriction would not be an issue. However, the ability to tailor instrument coverage to our own specifications through Algo Risk Service was very appealing."

A STRUCTURED DEPLOYMENT

The deployment schedule began in December 2006, and Cannizaro quickly gained confidence that the process could work smoothly. "[Algorithmics] appointed a project manager, who worked with us from the very beginning to the very end, and who was available anytime. We established a good relationship early on and agreed that, given the host of different instruments that needed to be analyzed and imported, that we would bring the system online in a logical fashion," Stephen relates.

Working with Algorithmics, Cannizaro identified a list of instruments that they planned to cover, and the order in which those instruments would be added. "We started with exchange listed equities, for which the pricing and risk, or market exposure, is readily available. Once we gained confidence that the system was working the way it was expected to, we began adding more complex instruments, specifically those relating to convertible bonds." Convertible bonds require different types of valuations for the bond portion and the equity element, in addition to other variable factors such as puts/calls, different types of payouts, and maturities. Settling the parameters for convertible bonds and evaluating the results took up a good portion of the implementation timeframe, but the process delivered its own rewards.

ANALYZING RESULTS

As the portfolio started to build up within Algo Risk Service, Cannizaro's portfolio managers could observe the interaction between different instruments as they went through the portfolio. "Let's say we just brought equities in, with an exposure to Hong Kong for \$50 in long equities. But then you add future strategies and see how the different approaches can work together in terms of net effects on the portfolio, and how the risk elements start to work as well. Had the entire universe of instruments been added at once," Stephen points out, "not only would we have to wonder if the numbers were right, but we would have been unsure how to verify which information was represented properly, with all the different layers of information we use."

With this emphasis on performance and their desire to use Algo Risk Service for a long time frame, Cannizaro did not approach the



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project with a hard completion date. “One of the really positive aspects of working with Algorithmics is that they supported our concept from a scheduling perspective. Even though we did not have a targeted live date, I never felt it took longer than it should have or that extra delays took place. We gained the flexibility, within this process, to examine a particular issue, test it, turn it around, and then move on. It took about five months for the complete setup and we were quite happy with the time frame,” he reveals.

ESTABLISHING CONFIDENCE

Cannizaro takes great steps to maintain openness with its investors, who are welcome to visit its offices and walk through the group’s portfolios. “One of the things we have found to be very useful is to do a real-time walk through of our portfolios using Algo Risk Service. It’s really quite impressive to pull up the system on a big screen during a meeting and demonstrate our exposures for questions like, ‘can you run this scenario if the markets went down 10 percent, and credit spreads would go up?’ Being able to respond to these

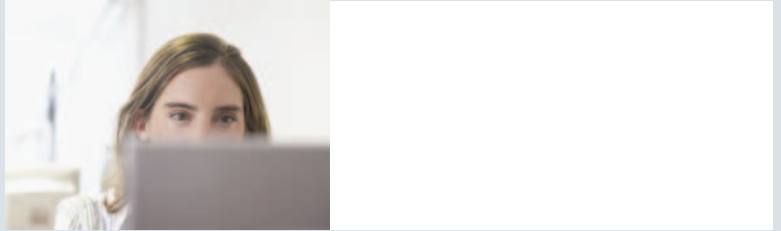
inquiries in real time and show them outputs is very impressive. Our investors like to see that the risk in the portfolios is being taken very seriously, particularly with the complexities involved with our fund. We have never been told that our risk management systems are not good enough,” he shares.

Since subscribing to Algo Risk Service, Cannizaro has met its goal of integrating risk management into its investment approach, and has been able to meet all their investors’ requirements. The group has also found that, from a marketing standpoint, it can provide a certain comfort to demonstrate that they are up to speed with a comprehensive risk management system in place that supported their multi-strategy approach.

On a related note, Stephen reflects on market stability. “Obviously, you want to be involved with a company that will hopefully be around as long as you are,” he notes. “While vendor stability wasn’t an overriding consideration when we subscribed to Algo Risk Service, it has become a more conscious concern. Having just recently renewed our contract, the fact is that the business risk of working with Algorithmics is less than with a smaller or less proven firm.”

About Algorithmics

Algorithmics is the world's leading provider of enterprise risk solutions. Financial organizations from around the world use Algorithmics' software, analytics and advisory services to help them make risk-aware business decisions, maximize shareholder value, and meet regulatory requirements. Supported by a global team of risk experts based in all major financial centers, Algorithmics offers proven, award-winning solutions for market, credit and operational risk, as well as collateral and capital management. Algorithmics is a member of the Fitch Group.



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