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Hedge Connection Completes Agreement with M.S. Howells

By Jacob Bunge, Financial Correspondent

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NEW YORK (HedgeWorld.com)—Hedge Connection, the capital introduction platform that operates as a matchmaking service for hedge funds and investors, completed a deal with Scottsdale, Ariz.-based boutique prime broker M.S. Howells & Co. that will have Hedge Connection handling all capital introduction services for M.S. Howells' hedge fund clients.

Hedge Connection acts as a sort of Match.com for alternative investing, allowing hedge funds and potential hedge fund investors to create profiles that detail funds' strategies and investors' preferences, respectively. Investors are vetted by Hedge Connection staff and are free to browse the funds, which Hedge Connection also vets, and contact any managers that are of interest. Hedge funds, however, must purchase "trade tickets" in order to view investors' contact information. Hedge Connection only facilitates communication—it is up to the funds and investors to set up meetings.

According to the terms of the agreement with M.S. Howells, the firm's hedge fund clients will gain access to Hedge Connection through a hybrid administrative platform, which basically licenses the Hedge Connection service to M.S. Howells. Client funds will be listed on the Hedge Connection platform, where investors will be able to peruse the funds' particulars and fund officials will be able to search for investors interested in their chosen strategies.

As part of the deal, M.S. Howells will be allotted 40 trade tickets per month, which the prime broker will then distribute among its client funds as it sees fit. If, for example, M.S. Howells wants to reward a particular fund for a big trade, it can credit that fund's Hedge Connection account with a few trade tickets, giving the fund the ability to reach out to some new investors.

According to Mark Howells, chief executive of M.S. Howells, by outsourcing the capital introduction function to Hedge Connection, the prime broker is getting out of a non-core business and improving client relations at the same time.

"Capital introduction is often cited by hedge fund managers as the leading source of disappointment," Mr. Howells said in a statement. "We made a decision early on to focus on the areas where we deliver value to our clients—portfolio reporting, technology, execution services and hedge fund start-up services."

Hedge Connection first established a relationship with M.S. Howells nearly two years ago, and officials at the prime broker introduced the company to some of its client funds to see what managers thought of the Hedge Connection concept. Currently two other prime brokers are negotiating deals similar to M.S. Howells' agreement with Hedge Connection, and Hedge Connection President Lisa Vioni said that she expects more will follow.

"The one thing prime brokers get out of capital introduction is goodwill—you can't monetize it ... they spend money on it, but they don't know if it comes back to them," said Ms. Vioni.

Partnering with Hedge Connection allows the prime broker to be constantly in contact with the hedge fund and directly provide the benefit of contacting investors on an ongoing basis, she said. "My theory all along has been ... that at some point prime brokers are going to say, 'why are we doing this? It's so expensive and we can't monetize it, let's just outsource it.'"

The big prime brokers may already be scaling back—Ms. Vioni said that she suspects several of the largest firms now offer capital introduction services only to clients managing more than \$500 million, and one prime broker has confirmed this to her. The subprime mortgage woes of Bear Stearns & Co. Inc., among the biggest providers of cap intro services, may have that firm considering a similar limit to its services, Ms. Vioni said.

"I think the big guys will start to outsource more," she said, "whether through third-party marketers, Hedge Connection, or a combination of things."

But for now, Hedge Connection's partnership efforts are focused on boutique primes like M.S. Howells, which Ms. Vioni said have a greater need and desire for the service. "I'd rather develop this product with [primes] that have 30 or 50 hedge funds, rather than primes that have 1,000," she said. "It allows us to work things out and build."

Last month, Hedge Connection reported a 90% renewal rate among member funds [Previous HedgeWorld Story](#).

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