

StoneX™



(FORMERLY INTL FCSTONE)

Reevaluating Prime Brokerage





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As a hedge fund, family office, or liquid alternatives firm, you are always on the lookout for improving efficiencies in how you conduct business and in the costs you incur for the services you need. Prime brokerage is an obvious expense warranting your attention, especially during market downturns. Whether structural, cyclical, or event-driven, extreme market sell-offs can force you to slash costs and cut headcount. The COVID-19 pandemic is a recent example, and the volatility that followed from the market plunge put added pressure on prime brokerage revenues and margins that already had been in decline since Q12019. But these periods also can have a silver lining. Changes in technology and strategy are evolving, and you may find that in reevaluating your prime brokerage relationship, better terms and enhanced services are on offer. Form the habit of revisiting that relationship on a regular basis, not only when tough times force you to take a hard look at costs, but also during periods when your business is more robust.

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During difficult periods, rather than clamoring for a bulge bracket firm or large money-center bank to pay more attention to you at a time when you most need their help, reframe the situation and use it to your advantage. Consider streamlining your operations by working with a prime broker who provides high-touch services that can reduce your internal headcount. Trimming payroll and lowering execution costs lets you concentrate your resources on servicing clients and encouraging them to stay the course while stemming withdrawals, vital to niche strategies, start-ups, and emerging managers.

Though cost-cutting pressure is more acute during periods of extreme market downdrafts, a regular reevaluation of your prime brokerage pays dividends even when markets are calm. Lowering your operations and employee costs means you can redirect resources to analysts and research to hone your strategy. And it frees you to devote more marketing dollars toward increasing your investor base.



MIDTIER FIRMS OFFER IMPORTANT ADVANTAGES

Midtier providers, eager for new business, frequently will make available an expanded service offering and discounted prices to compete, analogous to the personal service you derive from a personal advisor versus a behemoth money-center institution. You stand to reap benefits in the process. Before making the leap, however, contrast and compare the services you now receive versus what a more targeted, nimble, and focused provider stands ready to provide. Use this check list to get started, categorized by basic business requirements; capital introduction; trading, custody, execution, and reporting; and global macro/commodities market research and intelligence. If your prime broker scores low on any of these metrics, it may be time for a change.

Basic business requirements—Running a fund has its own challenges. You do not want to compound them with frustration in dealing with key service providers. At a minimum, you want your prime broker to have the basics in place.

- Service level—How long do you wait to have your telephone calls and emails returned? Do you spend endless time on hold, only to be informed that the answer to your query involves speaking to someone else or some other form of delay?
- Dependable back-office team—If you need an answer to a question on a report or client statement, does your prime broker have someone knowledgeable available to deliver it?
- Adequate infrastructure—does your prime broker have offices in key global markets, with enough employees to deliver a ‘customer-first’ approach? How accessible is the management team? Although mainly important when an issue arises, a delay in resolving it can be costly.
- Does your prime broker offer high-touch services, such as administrative, infrastructure, business consulting, and startup support?
- Is your prime broker introducing you to key service providers, including attorneys, auditors, administrators, and technology providers?
- Do your prime broker’s values align with yours, demonstrating a commitment to guidance, integrity, transparency, and trust?

Capital Introduction—A key driver in your prime broker relationship is attracting new investors beyond your initial seed capital so you can grow your fund. You have a winning strategy, but you need a prime broker who demonstrates an unwavering commitment to your growth.

- Does your prime broker gear this service to your specific firm size? If not, you may be making presentations to prospects who will never come aboard as clients. For example, potential investors may have restrictions on minimum investment size, and even though you have a unique strategy, you fall below their investment guidelines. You will have spent precious time and resources to create and deliver a solid presentation, only to come up empty handed. You should know potential investors’ parameters upfront.
 - Are you obtaining access to a range of investors, including advisors, plan sponsors, fund of funds, and single and multi-family offices?
 - Are introductions selective, based on surveys of investors, to match them with quality, and differentiated firms like yours?



- Are potential investors categorized by risk appetite, fund structures, return objectives, volatility tolerance, and other qualitative and quantitative factors?
- Does information disseminated include current industry trends and developments?
- Does cap intro include access to an advisor network?
- Are you being invited to conferences, asked to participate on panels, and gaining entrée to other high-visibility forums with exposure to the investors you hope to attract?

Custody, Trading, Execution, and Reporting—Markets move in nanoseconds, and your profits depend on immediate trading and best execution. If you sell short, you also must have the ability to borrow securities. And your investors demand accurate and timely reporting.

Custody

- Securities custody—how flexible is your prime broker’s securities custody platform? Can it move quickly on trades and generate timely reports? Are you able to hold all of the types of securities you want to?
- Does your prime broker offer a multi-custodial/risk-enhanced platform?
- Is your prime broker’s securities-lending capacity able to find hard-to-borrow securities and with competitive pricing?

Trading

- Securities trading—Does your prime broker have relationships with global clearing firms, giving it the capability to trade all securities at one spot? Can it trade futures, OTC, and structured products seamlessly?
- Composition of traders—does your prime broker’s OST team use buy-side traders only? This is a critical advantage. Buy-side traders have a specific background working with portfolio managers and are working on your behalf, so they are integral to the success of your strategy and goals. They are experienced in the systems and routes your fund needs, have a background in hedging risk, and understand market behaviors. Contrast them with sell-side traders, who sell and distribute research to the buy side in exchange for commission dollars derived from executing trades. They generally lack the depth of experience and exposure to fund systems, hedging risk, and market behaviors.
- Does your prime broker use secure, cloud-based technology that can improve performance and reduce costs?
- How does your prime broker implement physical trading in select commodities?

Execution

- Customized execution—Are you being shown the latest and best execution algorithms, with multiple brokers, segregated by client and trading situations?
- Does your prime broker offer futures and FX trading when the need arises? (You may not trade futures now, but when a new hire or new analyst comes on board whose strategy demands this capability, you will wish you were with a firm that had it.)



- Is 24-hour, full-service outsourced trading available via your prime broker's trading desk?
- How comprehensive is the capabilities suite?
 - How well does your prime broker integrate multiple clearing, execution, and EMS/OMS options?
 - Does the OMS link to the investment book of record, benchmark systems, and mandate tracking systems within the buy side to handle multiple asset classes?
 - Is fixed income trading a core competency?
- Can your prime broker execute in all major global markets?
- Does your prime broker have expertise in both FX and traditional asset classes?

Reporting

- Can your prime broker deliver performance analytics?
- Are monthly reports accurate and delivered on time?
- Do your clients receive consolidated multi-product and multi-currency reports, distributed on a flexible, technology-backed platform?
- Are performance and risk reporting delivered via daily email, with the ability to access measures of VAR, risk by position, and risk by portfolio?

Global Macro/Commodities Market Intelligence and Research—Successful firms prosper when built on a solid strategy coupled with the knowledge of how to exploit current market situations, trends, and events. That underscores your need for access to the latest thinking and the ability to convert it into an actionable strategy.

- Market intelligence platform—Is your prime broker providing the latest intelligence and commentary that provides an outlook for commodity markets, a wide variety of asset classes, and the global economy as a whole? You must make quick decisions based on the latest information available, and your prime broker should supply it. Does it include sourced, collected, and data-driven information to help you design a marketing and sales strategy?
- Research—How accessible, sophisticated, and timely are your prime broker's third-party research and data? Are they disseminated across diverse platforms such as audio, video, blogs, and more traditional white papers? Can the research and data be easily downloaded and readily converted to populate your quarterly reports so you can furnish them to your investors in a timely manner?



CONCLUSION

Managing overhead and operational costs are key determinants of your firm's ultimate success. Prime brokerage is a significant cost, and you should make sure you are deriving maximum benefit from the dollars you pay. Difficult market fluctuations can subject prime brokers to margin pressure, forcing them to concentrate on larger firms that generate higher revenue. You can take advantage of the situation by regularly evaluating, in both good and challenging times, the services you receive. In doing so, you may uncover inefficiencies previously hidden under the umbrella of prime broker complacency, and use that discovery as leverage to obtain an expanded slate of services and lower your costs with a new provider. One that is hungry for your business and who will pull out all the stops, not only to obtain it but also work hard to keep it. One that puts you in an excellent position to negotiate better terms and forge a stronger relationship, tailored to meet your particular needs and requirements.

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STONEX CAN HELP YOU

StoneX Financial Inc.'s Prime Brokerage should be on your short list and merit your consideration. Our enviable reputation is founded on successfully serving midmarket clients, providing insight, guidance, and access. Our state-of-the-art technology platform gives you immediate feedback on pricing and tailored solutions, conveniently conveyed in a one-stop shop.

With StoneX, you'll have more than a provider—we'll be your partner, one who cares about you and delivers results for your business.

[Click here \(https://stonex.inc/contactprimeservices\)](https://stonex.inc/contactprimeservices) to contact StoneX Prime Services and start the process of putting our team to work for you.



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