

# Multi-Strategy Hedge Fund: Simplifying Valuation & Risk Analysis with FINCAD

Our client is a large Asian multi-strategy hedge fund that manages capital for global institutional investors including pension funds, wealth funds and foundations. With an impressive performance record, their investments are focused in the IR, FX, equity, fixed income and credit markets.

## THE CHALLENGE

The fund set out to identify a provider that could help it introduce best-in-class valuation and risk analytics that could offer comprehensive coverage for all instrument types and currencies utilized by the rates and FX trading desks.

Python plays a significant role in the client's technology stack, so accessing derivative analytics through Python was a key consideration. They also preferred to work with a provider with deep quantitative knowledge that could help them go to market quickly and without high costs.

## SOLUTION

Following an evaluation of marketplace providers, the fund identified FINCAD as the ideal partner, providing best-in-class valuation and risk analytics with comprehensive coverage for all asset classes associated with their rates trading desk. FINCAD was ultimately selected based on its:

- **Ability to model individual securities**, with customized risk reports for each;
- **Ability to run multiple scenario analyses** for different market conditions, with the option to adjust the full range of model inputs;
- **Ability to build granular, high performance P&L** explained reporting using FINCAD's Algorithmic Differentiation, for better insight into the effectiveness of hedging strategies;
- **FINCAD's powerful Python framework**, with a flexible market data connectivity framework; and
- **Expert Support** from a deep bench of financial engineers and quantitative developers.

- **Object-oriented library** for maximum modeling flexibility, with superior curve-building capability;
- **Granular P&L reporting** capabilities;

FINCAD enabled a rapid implementation timeline, which helped the fund to quickly begin using their solution. There is a small team of portfolio managers and quant developers using FINCAD's solution currently, and there are plans for swift expansion. The fund has also enlisted FINCAD's expert consulting services to assist them with implementing their solution. A dedicated team of quantitative experts helps with training, prototyping, and answering any technology-related questions.

## THE RESULTS

Working with FINCAD for accurate valuation and risk, has enabled the hedge fund to:

- **Improve performance using FINCAD's world-class analytics.** The fund initially rolled out this capability in their rates desk, and has plans to expand it to other desks, including FX and credit.
- **Instill simplicity into valuation and risk using FINCAD's powerful Python framework.** Together, Python's native data handling and FINCAD's analytics help users to compute values, sensitivities and cash flows of a derivative in just a few lines of code.
- **Trade all current and future instruments.** FINCAD offers comprehensive coverage of currencies for developed countries and emerging markets.
- **Gain unmatched flexibility for curve construction** to suit the broad needs of multi-currency rates traders, as well as the precise needs of STIR desks, including steps and turns at the short-end. Switching to ARR's and Libor fallbacks is straightforward with FINCAD's logical and easy to use curve-building framework.
- **Determine how their trading strategies perform over time.** FINCAD is used to do back testing of trading strategies using the fund's own historical data and defined trading rules that they are able to write themselves in FINCAD's Python interface.
- **Generate all their required risk sensitivities and profiles,** such as: delta, vega, gamma, theta, DV01, duration, etc. FINCAD provides the ability to run simulations and powerful scenario analysis.
- **Make better investment decisions** with the ability to perform accurate P&L analysis, pre-trade analysis and post-trade analysis.

“The FINCAD team is highly professional. They provided us with expert guidance and support, enabling us to deliver our centralized valuation and risk project on time and cost-effectively.”

QUANTITATIVE DEVELOPER, MULTI-STRATEGY HEDGE FUND

## LOOKING FORWARD

Plans for the immediate future consist of continuing to expand the use of FINCAD in order to achieve the fund's goal of implementing a centralized pricing and risk solution across all desks. The fund also anticipates that by using FINCAD for accurate pre-trade analysis, they will be able to identify a greater number of promising business opportunities. This is especially important, given the uncertain macro environment that continues to exist as a result of the COVID-19 pandemic.



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