

# Securities Industry News

## Ranking Relationships

August 6, 2007 - Randy Cass started First Coverage with the communications needs of both buy- and sell-side firms in mind. The year-old software company offers a Web-based application that streamlines interaction, improves workflow and increases transparency between the buy side and institutional salespeople. The software filters information and measures and ranks relationships, so that the buy side receives more-relevant data.

First Coverage is "enabling the sell side to create custom communications, and it's great," said Denise Valentine, senior analyst with Boston-based Aite Group. "The more companies that do this, the greater pressure it will put on the industry to produce quality research. It raises the bar for everyone."

Cass, a former portfolio manager (PM) who is chief executive of Toronto-based First Coverage, stresses that its system, available in both buy- and sell-side editions, focuses on



Cass

the need of buy-siders to "organize and measure the value of their relationships." At the heart of the application is its Idea--for Initiate, Disseminate, Evaluate, Aggregate--Exchange, which controls how information moves between the two sides. The company says that more than 100 firms are using the technology. While the majority of its clients are in Canada and the U.S., companies in Europe, Asia and Australia are using the software as well.

To establish its U.S. presence, First Coverage in February opened an office in Boston and brought on as president Roland Beaulieu, who had been an entrepreneur in residence for GrandBanks Capital of Newton Center, Mass. He was previously CEO of NewRiver, an Andover, Mass.-based electronic compliance and intelligent document fulfillment company, and spent 13 years with Thomson Financial. Thomson veterans David Allen and Andy Parven recently joined the Boston office as senior salespeople and former derivatives trader Jonas Burton was named director of product management.

Before founding First Coverage with Collin Webster, the company's CFO, Cass managed portfolios at the Ontario Teachers' Pension Plan Board--the second-largest pension fund in Canada--from 1999 to 2003. Previously, he was a foreign exchange trader at Toronto

Dominion Securities. He has an LLB from the University of Toronto and an MBA from the Richard Ivey School of Business at the University of Western Ontario. Cass recently talked to *Securities Industry News* markets reporter Dawn Kissi about his company and its mission.

**What prompted you to start First Coverage?** I was working as a portfolio manager at one of the largest pension funds in Canada and came to realize that until I was certain I was getting the best information from the best people on the sell side, alpha was being eroded from the returns of the funds I managed. Without more effective and efficient communication between myself and the sell side, it was impossible to identify the relationships, ideas and services being offered that would help me generate the greatest possible returns. I also realized it was impossible for the buy side to allocate commissions to the sell side with complete transparency and accountability for the value that was generated. Wanting to resolve these issues for the buy side, sell side and the end investor led to the founding of First Coverage.

**What does your company bring to the trading business that has not been done before?** Today, some buy-side firms rely on the sell side for trade ideas, but others just want access to research or to be invited to speak with corporate executives and industry thought-leaders. First Coverage is the only system that enables its users to define what criteria are most important to them in terms of the sell-side coverage they receive, allowing them to then evaluate those firms accordingly. For the first time, this process allows the buy side to objectively compare firms and individuals against each other and ensure they are establishing relationships with the ones that can generate the most value.

**Who are your clients?** Our clients range from small boutique hedge funds to some of the largest funds in the world. We have seen a rapid adoption of our system, with more than 100 firms using the platform and tens of thousands of ideas crossing the system. With so much data crossing the system, we have been able to validate our vision--that enhanced transparency and accountability between the buy side and sell side will lead to greater alpha. We recently found that the ideas entered into First Coverage have been outperforming relevant benchmarks by more than 300 basis points.

**What are your plans in the U.S.?** The U.S. is a very important market for us and we are extremely excited to have Roland Beaulieu, the former COO of [Thomson Financial's] StreetEvents, heading our American operations. We have already begun to establish a pretty significant U.S. client base in addition to our recently opened office in Boston.

**How do you view the state of the buy-side-sell-side relationship?** In my opinion, the top factor that will impact the relationship today and in the near future will be the continuing erosion of commissions to the sell side, unless they are able to demonstrate they can add quantifiable value. As investors, boards of trustees and regulators begin to pay more attention to the issue of commission allocations, the sell side will have to prove the value delivered to receive current commission levels. The good news is that our data has already demonstrated that the sell side does add value, and our system has shown that that value can be quantified.

**How do you plan to further develop your technology?** First Coverage today is about the ability of PMs to objectively evaluate their sell-side coverage for the first time. This is a huge step forward for the buy side; however, PMs are still constrained by only being able to receive information and services from the sales representatives with whom they have existing relationships. We hope to evolve First Coverage into a system where the buy side will be able to find the best relationships, ideas and services for their unique needs, beyond the ones they already know about.