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## FINANCE

## CacheMatrix opens door to money market fund choice

BY RENEE MCGAW  
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George Hagerman was frustrated.

In early 2003, a major corporate client had just ended a direct relationship with Janus, where Hagerman had spent roughly nine years developing and managing the distribution of institutional money market funds.

The client wanted to join a Web portal offered by a large New York bank, which would enable its corporate treasurer to trade funds offered by a variety of fund families, not just Janus.

"She said, 'Look, I love the direct relationship with Janus ... but I have multiple choice now. I'm trading a bit in Janus funds, but I also have all these other funds that I want to trade,'" Hagerman said. "So she pulled the money out of Janus, went into the bank and then came back into Janus [through the portal]."

"I thought, 'I have to create CacheMatrix and be able to do this across the board.' It's a frustrating thing when you develop a lot of relationships and then they leave," he said.

In November 2003, Hagerman left Janus to found Denver-based CacheMatrix LLC. The company provides an online trading platform that combines market analysis, online trading and account management for a variety of money market funds.

Interest in Web-based money market portals has risen in recent years, thanks primarily to two factors: rising short-term interest rates and the Sarbanes-Oxley Act of 2002.

The Federal Reserve raised its target for the federal funds rate — the money banks lend each other for overnight loans — 17 times between June 2004 and June 2006. As a result, the short-term interest rate has climbed to 5.25 percent from 1 percent.

Five percent is a psychological threshold, prompting companies to put more money into money market funds, Hagerman said.

Money market mutual funds managed 27 percent of U.S. businesses' short-term assets in 2006, just below a record-high 28 percent



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**George Hagerman is CEO of CacheMatrix LLC. He founded the Denver company in 2003 after leaving the Janus mutual fund company.**

in 2002, according to Crane Data of Westboro, Mass. Sixteen percent of that money is estimated to flow through Internet portals.

Sarbanes-Oxley, with its stringent audit provisions, has made portals more attractive because executives "can send their auditors to one centralized location," Hagerman said. The portals provide audit trails, including when transactions were made in each fund and who made them.

Chief financial officers and treasurers often must keep a certain percentage of corporate funds in short-term, liquid vehicles. That money may have to be diversified across a variety of funds, or kept in only certain types of funds — triple-A rated funds, for instance. A Web portal allows them to quickly assess the options, Hagerman said.

A casual observer might think that all money market funds are alike, with yields rarely varying by more than a few basis points.

"But on a daily basis, five basis points on \$100 million is a lot of money," Hagerman said.

CacheMatrix licenses its software to banks, which in turn offer it to their institutional clients. It now has seven clients, double the number it had a year ago. Those include Comerica Bank, based in Detroit; Minneapolis-based U.S. Bank; Chicago-based LaSalle Bank; Barclays of Great Britain; and London-based hedge fund administrator GlobeOp Financial Services.

"It has really started to crystallize in the last year," Hagerman said.

So far, none of its clients is Denver-based. "We've approached a lot of the local banks ... but I think there's sort of a size issue," Hagerman said. The banks currently offering money market portals are national or super-regional, and no Colorado-based bank is that large.

"Some day," Hagerman said.

The three largest portal players are Bank of New York's MoneyFundsDirect, Mellon Bank's LMS and Sungard STN, according to Crane Data.

"The success of [Mellon Bank's] portal means that any bank competing with

Mellon has to have some technology to compete with. And since we're agnostic — we don't sell directly into the marketplace to corporations; we're only focusing on banks — this is really beneficial because the banks can come to us," Hagerman said. "Speed to market is really important [for banks] ... and

we can get them up and running with very low effort, compared with starting from scratch, getting their technology team, getting all the resources together — that would take years."

Mutual funds pay banks a fee

for providing the portal services, which include back-office support, and the opportunity to put their funds in front of the bank's institutional customers. The banks pay CacheMatrix's fees, which can be assessed either as flat fees or based on the amount of money that moves through the portal.

"The corporation, in the end, gets the same yield, and it doesn't cost the corporation anything to trade a fund through a portal, because essentially the mutual fund is paying a service fee," Hagerman said. "It's one of the few products out there where a corporation isn't paying a fee to trade online."

CacheMatrix syncs its software system with the bank's existing system, a process that can

take three months to a year or more, depending on the size of the bank and complexity of its existing platforms, Hagerman said.

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Hagerman declined to provide revenue data, but said that he expected CacheMatrix to turn a profit in 2007. "Literally billions of dollars a day are being traded through our technology," a number that doubled in the first five months of 2007, he said.

The company employs 26 people in Denver and six in Bangalore, India.

CacheMatrix recently added a foreign currency option, allowing users to trade money

market funds in euros or other currencies.

It's also testing a new product that it hopes to roll out by late September and market to mutual fund companies.

Called MBOX, it would allow the mutual funds — with the bank's permission — to see which corporations are trading their funds throughout the day. Normally, banks collect their clients' orders and perform one massive "omnibus" transaction at the end of each day, and mutual fund managers don't know what's coming until it hits, Hagerman said.

"It's very frustrating for the mutual funds to get one big fat trade at the end of the day," he said. "It could be \$1 billion. The portfolio manager is literally waiting, waiting, waiting and then gets this big trade and has to go invest that cash."

But with MBOX, mutual fund managers "can see moment to moment, instantaneously, every trade that is coming through, purchases or redemptions. It allows them more visibility to what's going on, from a transaction standpoint, so they can adjust their portfolio throughout the day instead of waiting until the end of the day," Hagerman said.

The product also will allow funds to see where the trades are coming from, and credit their salespeople accordingly.

"Right now, it's all being funneled up into one regional bank. The salespeople aren't getting credit for it, because you can't see who is behind the trade or from what region it's coming from," Hagerman said.

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