



Control plus flexibility... means more liquidity and better execution.

Mismi's ATS operates a call-market crossing network focused on U.S. equities. Yet that's where the similarity to other ATSs ends. Beyond the standard functionality one expects from any conventional ATS, Mismi offers unique features that actually enhance both liquidity and trade execution.

- > Mismi's unique portfolio-level constraints give traders unrivaled control and flexibility during trade execution.*
- > Control and flexibility enable participants to trade larger portfolios.*
- > And larger portfolios mean more liquidity—and enhanced execution rates—for all those in Mismi's dark pool.*

“Portfolio managers set out to build portfolios. But the market is oriented toward trading single names. Mismi bridges that gap, enabling you to maintain the integrity of your portfolio and your strategy during trade execution.”

Mismi's next-generation call-market crossing network gives traders greater control over trading outcomes, combined with the benefit of enhanced liquidity and execution rates.

Mismi achieves these goals through its unique optimization-based crossing algorithm that incorporates a broad set of portfolio-level constraints that a) give traders the ability to align execution with the underlying portfolio-investment strategy, and b) give capital and liquidity providers the ability to control their trade outcomes in a way that attracts more flexible liquidity to the cross.

Portfolio-level constraints can be used to control the exposure of the trade list according to a range of criteria, such as sectors, industry groups and by market capitalization. Constraints also control the total or active risk of the residual portfolio. Together they allow traders to manage their exposure to market conditions throughout the trade-execution process, and to maintain alignment with the investment strategy's predicted returns.

Mismi's innovative controls enhance execution rates by attracting larger portfolios and a far broader spectrum of liquidity, including participants who provide cash, e.g., mutual fund inflows or proprietary desk capital, as an investible asset. Such participants commit cash and a portfolio investment strategy that specifies how the capital is to be deployed in the cross. Mismi's advanced and proprietary optimization algorithms compute the optimal crossing outcomes.

Mismi's ability to incorporate portfolio-level controls into trading, and its respective applications, are unique in the marketplace.

Mismi's deep and flexible liquidity yields higher execution rates for its participants. In addition to its standard crossing functionality, Mismi's innovative portfolio-level controls can be used to achieve an "inline" execution of baskets of orders. These same tools also can be used to implement investment strategies in a crossing environment. Such strategies efficiently combine the portfolio-selection and trade-execution steps, and in the process create a new form of flexible liquidity in the dark pool.

Trade execution of a market-neutral portfolio

The screenshot displays the Mismi web-based user interface for portfolio construction. The top navigation bar includes '2008-08-28-A', 'Saved Portfolios', 'Pre-Cross Reports', 'Post-Cross Reports', and 'User Preferences'. The main interface is divided into 'Standard Constraints', 'Portfolio Controls', and 'Portfolio Construction'. Under 'Portfolio Controls', there is a table for 'Exposures' with columns for 'Sector', 'Sub-group', 'Estimated Weight of Trade (%)', 'Tolerance (%)', 'Add/Min', 'Lower Bound (%)', and 'Upper Bound (%)'. Below this table are fields for 'Total Risk', 'Active Risk', 'Additive Tolerance %', and 'Benchmark'. At the bottom, there is a summary of 'Total rejected orders', 'Portfolio Status', and 'Buys/Sells/Shorts'.

Sector	Sub-group	Estimated Weight of Trade (%)	Tolerance (%)	Add/Min	Lower Bound (%)	Upper Bound (%)
Industry	Commercial Banks	11	5%		-5	5
Industry	Thrifts/Mortgage	11	5%		-5	5
Industry	Diversified_Finance	0	5%		-5	5
Industry	Capital_Markets	0	5%		-5	5
Industry	Insurance	0	5%		-5	5

Order	Symbol	Size	Limit	Share Name	Execution Order ID
BUY	JMP	\$1,800		AMERIPRISE FINL INC COM	
SELL	MTG	88,600		MGIC INVT CORP WIS COM	
BUY	1111	10,000		1111 BANCORP INC COM	
BUY	FRE	67,600		FEDERAL HOME LN HTS CORP COM	
SELL	WLY	42,800		VALLEY NATL BANCORP COM	
BUY	WHL	10,000		WHL FINL INC COM	
SELL	SOV	67,300		SOVEREIGN BNK CORP INC COM	
SELL	MET	77,600		METLIFE INC COM	
BUY	CH1	16,000		CH1100 SP INVT C CORP COM	
SELL	MS	75,300		MORGAN STANLEY COM NEW	
BUY	JEF	31,100		JEFFERIES GROUP INC NEW COM	

Problem: Existing crossing networks or dark pools lack portfolio-level functionality to control the execution of the long and short orders of the portfolio. The residual portfolio coming out of the cross is no longer market neutral, leading to unintended exposure to industry groups, risk factors, etc., and a potential loss of perceived alpha.

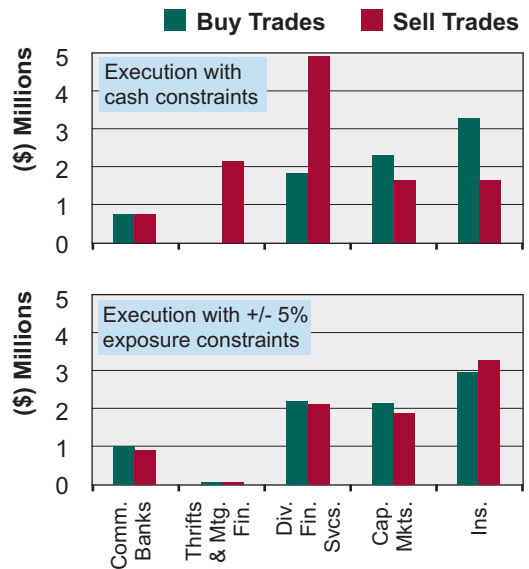
Solution: Mismi's functionality allows the trader to specify exposure constraints that ensure the exposure of its residuals to the target industry groups, such as Commercial Banks, Capital Markets, Insurance, etc., remain within a specified tolerance, say of 5%, from the exposure of the initial basket (see below). For a market neutral basket, this would ensure that the exposure of the residual list across all these subsets would be within minus 5% and plus 5%, therefore aligning the investment intent with the trade outcome.

Mismi's web-based user interface allows clients to define constraints and strategies.

Portfolio construction & capital interaction

Problem: Existing venues offer little or no control to participants that wish to enter the ATS with the intent to construct a portfolio with certain characteristics, or to liquidity providers that wish to enter the ATS with cash and a capital deployment strategy, as opposed to a predetermined set of orders. This constrains the scope of these trading venues and limits the extent and nature of their liquidity.

Solution: With its portfolio-level controls, participants can enter Mismi's environment and specify a set of target characteristics that the resulting portfolio should satisfy. For example, an investment manager with a \$5 million cash position may want to build a portfolio that tracks the S&P 500, with an active risk of 10% and no more than 30 names. In this scenario, the manager or capital provider does not preselect the names to be traded, but instead allows Mismi's proprietary crossing algorithm to optimally leverage the available liquidity to construct a portfolio with the desired characteristics, in effect, collapsing two steps—portfolio construction and execution—into one.



Mismi's exposure constraints maintain the original characteristics of the portfolio.



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