

Perspectives+

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+ Bogotá + Buenos Aires + Caracas + Istanbul + London + Minneapolis + Moscow + New York + São Paulo + Singapore

In this issue:

- + Starting a hedge fund in Latin America
- + LaCrosse's own national champion
- + LaCrosse in the News

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Starting a hedge fund in Latin America

A step-by-step guide to starting a hedge fund in Latin America

Latin America has emerged as a region with enormous potential for growth. Currently holding a 3 percent share of the global hedge fund market and growing, the region is home to 330 funds with more than USD60bn in assets under management (EurekaHedge, February 2008). The vast majority of these funds are located in Brazil, where 80 percent of fund managers in the region can be found, followed by Argentina (7 percent) and Chile (1 percent). Managers located in the U.S. and Europe with funds trading in the region account for the remaining 12 percent.

If you are interested in starting your own fund in the region, this list of important operational

requirements for setting up and supporting a hedge fund in Latin America will help you prepare and build the necessary infrastructure. The list is intended to cover the whole region, taking into account that Brazil is the flagship market.

1) Design the optimum vehicle based on key fund attributes, local regulations and tax efficiencies

Once a manager has identified the key fund attributes and the instruments to be traded, it is important they fully understand all local regulations and taxation requirements. The type of investment strategy and instruments that the fund trades such as *(Continued on page three)*

LaCrosse's own national champion

A firsthand account of LaCrosse's James Smith's victory at the inaugural British Disabled Triathlon Championships

As an integration developer in the IT department at LaCrosse, James Smith is used to taking on a variety of different challenges. But compare those with the variety of challenges he faced on June 1, namely a 750 meter swim, followed by a 20 kilometer bike ride, and a five kilometer run, a day at the office is, well, just another day at the office.

James was born with cerebral palsy, which affects the motor control functions down the right hand side of his body. Always active, and encouraged by his parents and an able-

bodied twin brother, he grew up playing tennis and swimming, and eventually progressed to mountain biking on a tandem bike for the "adrenalin rush." So when the opportunity to participate in the inaugural British Disabled Triathlon Championships arose, he jumped at it. *(Continued on page two)*



LaCrosse's James Smith crosses the finish line at the inaugural British Disabled Triathlon Championships.

...triathlon (continued from page 1)

Now, after a grueling day of competition, James Smith is the British National Champion within his disability category (Tri 4).

What follows is a firsthand account of his experiences leading up to the event, and the thrill of winning this year's Inaugural British Disabled Triathlon Championships.

A triathlon is an endurance sports event consisting of swimming, cycling and running. I was extremely proud to take part in the inaugural British Disabled Triathlon Championships sponsored by Corus and Wrigley's Airwaves® on June 1, 2008. A fabulous event, OneStepBeyond and British Triathlon could not have done more for disability sport.

The experience started a few days earlier when my twin brother Jonathon and I arrived at Rother Valley, in South Yorkshire, for the event, so I could familiarize myself with the course and help with the setup of the seven events which ran all weekend. The weekend was designed to introduce the young, the old and everyone in between to triathlons.



Preparation for the sprint triathlon consisting of a 750 meter open water swim, 20 kilometer bike ride and then a 5 kilometer run could not have gone better. I had my 18-month-old nephew Alfie and 3-year old niece Millie to distract me—they did a great job.

On the morning of the event it was down to business. The preceding triathlon was off at 8 a.m. I went down to watch the swim and then it suddenly hit me; looking out over the lake I could see the first 1.5 meter buoy to swim round not too far off the shore, but looking for the second buoy was a shock! I couldn't believe how

far away it was. It was just a small orange blob visible through the rain. My stomach started to churn with the realization... I have to swim THAT?



The five-hour wait until my race flew by, checking equipment, doing all the official "stuff" and attempting to squeeze into my wetsuit. As I waddled to the start line at the edge of the lake, Morgan Williams of British Triathlon said "Don't look so nervous." I smiled and asked him to swap places. The starting horn went and I took one step into the lake and caught my right foot. Stumbling forward, I decided I might as well dive in to save face, forgetting how shallow it was. I hit the bottom of the lake with my stomach. Thankfully I had a wetsuit on! After the initial shock, I settled into my swimming rhythm.

While in the lake, Jonathon noticed a large cut in the front tire of my bike, so he had the tough job of changing the tire and getting my bike ready for me to ride when I appeared out of the deep. As I emerged from the lake oblivious to Jonathon's heroic, mechanical efforts, my right leg cramped up and, being dizzy due to standing up so fast, I fell back into the lake. After another two attempts to get out of the lake a marshal kindly helped me up.

In transition, Jonathon noticed I had a very black toe and suspected that I had broken it. Keeping his suspicions to himself to save me from worrying, he gave me a cheeky slap on the backside as I exited transition which distracted me from my pain as it made me cross! I calmed down on the bike though, and concentrated on catching the racers in front of me.

Cheered on by a fantastic crowd and marshals, thinking to myself "they're all cheering for me,"

I was spurred on even more. On the third lap I had to change my back wheel because of a puncture which took me only 3 minutes due to Jonathon's quick thinking in borrowing a back wheel from his bike.

Exiting transition for the last time, legs burning, crowds cheering, I got a little carried away and probably pushed too hard. Further round the course and away from the crowds all I wanted to do was vomit, but I knew I only had 5 kilometers to run. Marshals clapped and the meters went by, and finally I could hear the loud tannoy system telling me that all I had was a 100 meters uphill sprint. Getting my legs to sprint was a feat in itself, but trying to stop after the finish line was nigh on impossible! There was only 10 meters in which to slow down to stop and the barriers loomed. Luckily, Julian Wills, British Triathlon Equity Manager and the brains behind the project, who has worked so hard to introduce disabled athletes to triathlons, grabbed my arm to save me from doing more damage to myself.

The whole experience of triathlons has been a great eye opener. I would recommend doing them to anyone. The training for three disciplines is so varied, it keeps it interesting, coupled with the fact that the three sports are so different; your entire body has a workout.

I have never enjoyed training so much and feel a million times better for doing it. A triathlon is all about bettering yourself. The triathlon organizers and community have fantastic attitudes and their respect to fellow competitors is clearly shown in all triathlon events. I'm proud to be associated with British Triathlon!!

James Smith — Disabled National Triathlon Champion (Tri 4)



...Latin America (continued from page 1)

futures, equities, derivatives, etc., can result in varying degrees of taxation. The type of funding (local versus external) and the fund's structure (leveraged versus unleveraged) can also result in serious tax consequences and should be weighed in order to maximize returns.

Should a manager operating an offshore fund choose to operate an onshore vehicle in Brazil, they can do so in two ways: directly through a prime broker or via a special account known as a "2689 account," which allows nonresidents to invest in financial and capital markets in Brazil. Trading activity via a 2689 account in equities, cash dividends and venture capital is usually tax-exempt in Brazil.

2) Design a master-feeder structure and then choose the optimum domicile for the fund

A master-feeder structure is typically used to capture a pool of assets in a tax-efficient way from hedge fund investors based inside or outside the U.S. Onshore and offshore feeder funds are established and invest directly into the master fund, where all trading activity takes place. U.S. investors place their assets in the domestic feeder while non-U.S. and U.S. tax exempt investors utilize the offshore feeder.

When seeking out the optimum location to domicile the fund, it is important to recognize that one jurisdiction may be more advantageous

than another, depending on the country where trading will take place. One domicile can be more convenient in tax terms than another, so it is important to explore a number of options.

According to Brazilian legislation, if the fund manager chooses to domicile the feeder in one of these traditional tax havens, or a country where taxes are lower than 20 percent, the investment will be taxed as a local investment without taking out the tax benefit derived from the 2689 mechanism. For this reason, the most common domiciliary jurisdictions for funds trading in Brazil are Delaware and Uruguay.

3) Analyze the cost of maintaining a back office in-house versus outsourcing to a third-party

Traditionally, everything from trading to back-office support was performed in-house. This concept has evolved as fund managers seek the most convenient and cost-effective structure to support their fund. Using an independent fund administrator for these services can help reduce costs and provide institutional investors with a greater level of comfort.

LaCrosse Global Fund Services, with its strong operations and middle-office capabilities, can help a fund manager focus on investments and trading by eliminating the need to create a costly in-house structure to provide information to investors and authorities. Depending on the

fund's size, outsourcing is usually a more cost effective model, particularly as assets under administration grow.

4) Appoint key service providers: fund administrator, prime broker, lawyers, external auditors, custodians and IT Service providers

It is important that a fund wishing to operate in Latin America conducts an exhaustive due diligence examination on any service provider it seeks to partner with. Additionally, there are a number of factors that need to be considered that are unique to funds wishing to operate abroad and that may not be covered during the due diligence process. Time zone differences (appoint service providers that can handle information and support a fund manager at the necessary time) and spoken languages (Spanish and Portuguese for Latin America) are both important. The local expertise and knowledge of local instruments that a provider can offer may be even more desirable. Ultimately, a fund should have a full understanding of the service providers it chooses to partner. This ensures the administrator can effectively offer the services a fund requires and that it provides the fund with a good cultural fit.

The selection of an administrator is critical as it interacts with investors, banks, prime brokers and other service providers with a high level of impact. The *(Continued on page four)*

Save the date!!!

What: **Hedge Funds for Habitat — NYC Build Day**

When: **Friday, September 19, 2008**

Where: **Ocean Hill-Brownsville, Brooklyn**

NE corner of Atlantic Avenue and Eastern Parkway to the NW corner of Atlantic Avenue and Sherlock Place,

Contact: For more information, call 212-991-4000 or email akone@habitatnyc.org



LaCrosse is proud to sponsor Hedge Funds for Habitat - NYC



...Latin America (continued from previous page)

administrator should have extensive trading experience and an established presence in Latin America. They should be able to offer personalized, quality service and broad geographic coverage on a global scale. They should also have the capacity to efficiently service new business and have the appropriate systems and infrastructure in place capable of supporting the fund.

5) Implementation of the fund structure

The fund manager should work with its lawyers to set up the fund's structure while the administrator ensures that the structure is operative by opening cash and custody fund accounts with banks, brokers and custodians. In addition, the manager will look for office space, determine staffing requirements, and complete all other logistical and administrative tasks needed to establish an asset management company in the local market.

At the same time, the fund manager will work with the lawyers to draft the fund's offering memorandum, including the fund's investment policies and internal risk management procedures. They should also draft the fund's compliance manual, service level agreements and all other related documents.

In order for a fund operating in Brazil to operate through the 2689 mechanism, the fund manager must select a local administrator, responsible for reporting to local authorities while interfacing with the custodian and counterparties. Depending on the fund structure, if a fund manager in Brazil wishes to trade offshore (current regulations permit a fund manager to invest up to 20 percent of a fund offshore, 100 percent if they accept investments from qualified investors only), they can designate a separate administrator for the offshore portion of the fund.

6) Due-diligence and anti-money laundering

Fund managers will need to be prepared for due diligence reviews by potential investors. All policies and procedures should be clearly documented and implemented including a clear anti-money laundering procedure for investors as

Comprehensive services for funds operating or trading in Latin America

LaCrosse Global Fund Services provides specialized services to firms operating in or trading assets in Latin America. These include local accounting and operational support as well as either Spanish or Portuguese speaking local client service.

For the Brazilian Market, LaCrosse has introduced *LaCrosse450+™*, a specialized service offering for fund managers looking to take advantage of the new regulations permitting investment in offshore asset classes (CVM 450). It combines *LaCrosseAdmin+™* with *LaCrosseMBO+™* (for more information on these services, click [here](#)), local Portuguese-speaking client service based in São Paulo, Latin American accounting/operations expertise based in Buenos Aires, and global asset class support from our North American, European and Asian hubs. *LaCrosse450+* can be used in conjunction with any Brazilian based custodian/administrator to enable the manager to take advantage of opportunities across Latin America and around the world. The service includes operational and accounting support for local managers trading foreign assets, as well as administration for offshore vehicles used by foreign investors to trade in Brazil. We can interface with all major overseas custodians, prime brokers and derivatives counterparties, as well as with a number of the local custodian banks and administrators in Brazil.

Other Services in Latin America cover most markets in the region and include a full set of operations, middle-office and fund administration services based in the region, with local market and instrument expertise. LaCrosse can provide valuation and accounting support for a full range of Latin American fixed income, equity, currency and commodity instruments, as well as provide support for local and offshore entities used to facilitate trading activity. LaCrosse can also support funds operationally, handling post trade processing and position maintenance, prime-broker and custodian interface, trade confirmation and confirm review, as well as cash and collateral management in the region.

Local offices in Latin America include operational and client service hubs in Buenos Aires and São Paulo, with additional offices for support of specific markets in Bogotá and Caracas. We are also able to support funds which are managed outside the region, through client service liaison located in any of our other global locations: London, Minneapolis, New York, Istanbul or Moscow.

specified in the compliance manual. It is important to note that some investors will include the fund administrator in their due diligence review.

7) Research and understand all local valuation and accounting issues

Depending on the strategy, a fund and its administrator will require local accounting and valuations expertise. Some investors have specific requirements that need to be complied with. For example, depending on where the investor is lo-

cated, the accounting will vary from US GAAP to IFRS. Several Latin American financial instruments have specific peculiarities- the way they are marked to market, settlement standards, margin allocation controls in clearinghouses, etc.

Looking at Brazil, for certain local instruments, the fund manager needs to ensure that the selected administrator has the capability to deal with products on a 252 day-per-year basis.

LaCrosse in the News

A roundup of news stories and press coverage on LaCrosse Global Fund Services. Click on the links below to open the articles in your web browser.

- + July/Aug., 2008 **The Hedge Fund Journal** "LaCrosse Global Fund Services" A profile of LaCrosse and co-CEO's Stuart Feffer and Chris Kundro
- + July 22, 2008 **Global Custodian** "The Hedge Fund Low" LaCrosse co-CEO Stuart Feffer explains the current hedge fund environment and discusses the markets future for Global Custodian.
- + July 16, 2008 **CNBC Europe** LaCrosse Global Fund Services co-CEO Stuart Feffer discusses the pace of global hedge fund launches on CNBC
- + June 17, 2008 **Buy-Side Technology** "Administrator takes SunGard Front Arena for multi-asset support" Profile of LaCrosse's partnership with SunGard; includes quotes from LaCrosse COO Kok-Ying Lee
- + June 12, 2008 **Lipper HedgeWorld** "Hedge fund sweat equity" Profile of LaCrosse's partnership with Hedge Funds for Habitat - NYC
- + June 6, 2008 **Hedge Fund Manager** 10th Biannual HFMWeek HF Assets Under Administration Survey
- + June 1, 2008 **Trader Monthly** LaCrosse's partnership with Hedge Fund for Habitat – NYC included in the Trader Ticker
- + June 1, 2008 **Waters** "Hot, hot, hot: Direct market access and algorithmic trading take Brazil and Mexico by storm" Article includes quotes from Roberto D'Avila, head of client relationships and business development in Latin America

About LaCrosse Global Fund Services

LaCrosse Global Fund Services is a provider of operations, middle-office and administration services to managers of complex hedge funds globally. The firm has more than 300 employees in 10 global office locations: Bogota, Buenos Aires, Caracas, Istanbul, London, Minneapolis, Moscow, New York, Sao Paulo and Singapore.

Current assets under administration and supported operationally are in excess of USD \$15 billion, encompassing strategies traded by global portfolio managers who cover global equities, fixed income, commodities, currencies, emerging markets and related derivatives.

LaCrosse began as a spinout of the middle- and back-office operations that had supported Black River Asset Management and, prior to that, Cargill Global Capital Markets. Today it is an independently managed subsidiary of Cargill providing services to the alternative investment industry. For more information, visit LaCrosse at www.lacrosseglobal.com.

To see a complete list of asset classes supported by LaCrosse Global Fund Services, please click [here](#).