

Perspectives+

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Why managing the collateral process is critical in today's difficult markets

Improving a fund's collateral process can help add value in difficult markets

Understanding the collateral process, as governed by the master agreements that exist between two entities, is essential in today's credit environment. Obtaining credit is becoming increasingly difficult, making it harder for a fund to maintain adequate liquidity to support trading activities. Banks often act quickly to protect their exposure at the first sign of trouble, and operational issues that arise around collateral calls can act as a red flag, indicating that a fund may be in distress. As a result, funds must now be acutely aware of the challenges involved in managing the collateral process.

Master agreements

It is important that all parties fully understand and are in compliance with the provisions in the

master agreement as they lay out the framework for the trading relationship between two counterparties. These include the International Swaps and Derivatives Association, Inc. (ISDA) OTC agreements and GMRA and MRA repurchase agreements. The master agreement addresses margining parameters, including eligible collateral, minimum transfer amounts (MTAs), thresholds, dispute resolution, notification and payment times, and collateral interest transfers. It also clearly describes settlement instructions and termination events.

Managing the collateral Process

There are a number of issues and challenges associated with managing the collateral process. Optimizing this *(continued on page three)*

Hedge Funds for Habitat - NYC Build Day

Volunteer builders raise over \$20,000 to fund construction costs

The much anticipated Hedge Funds for Habitat – New York City Build Day was held on March 21. Hedge Fund and private equity leaders traded their briefcases for tool belts to help Habitat for Humanity - New York City build 41 affordable homes in Brooklyn. Participants also raised \$20,000 to help fund construction costs.

The event brought together over thirty volunteer-builders from the hedge fund industry—many with no prior construction experience—to hang drywall in rooms, saw wood, measure and cut metal studs and help frame walls. Volunteers worked side by side with some of the low-income families who will *(continued on page four)*



Volunteers from the Hedge Funds for Habitat - NYC build day joined Josh Lockwood, Executive Director for Habitat for Humanity - NYC to ring the closing bell for the NASDAQ on March 21.

LaCrosse upgrades facilities in the U.K.

Enhanced offices in the London suburb of Cobham ready for July move-in

The third in a three part series profiling LaCrosse's expansion into new facilities, this piece examines our new offices in the U.K..

This July, LaCrosse Global Fund Services will move into new, expanded facilities in the United Kingdom. Only 30 minutes from central London and 5 minutes from Cargill's Knowle Hill Park (where the LaCrosse U.K. team is currently located), the new office's strategic location makes it ideal for LaCrosse's growing central operations and its client service hub in the European market.

Located in the 53,162 square foot, state-of-the-art Munro House office complex in Cobham, the upgraded LaCrosse offices will occupy 12,500 square feet, covering the entire ground floor of the complex's south wing. The offices are situated on six acres of landscaped terrain and neighbor the Cobham Rugby Grounds.

The office has been designed by building and design company Area Squared and will be refurbished to accommodate 100 new workstations, five private offices, a large conference room, three other meeting rooms and a canteen with break-out area. The office will be light and airy to complement the open floor plan and the furnishing has been carefully selected to create warmth and make the office an ideal working environment for our staff.



External views of Munro House.



Calendar of Events

April 14 - 16 — GAIM Cayman The Ritz Carlton, Cayman Islands
LaCrosse Co-CEO Christopher Kundro speaks on "Conducting Due Diligence on Emerging Market Fund Managers".

April 16 - 18 — Eurohedge Summit 2008 Paris, France
Visit the LaCrosse exhibition booth

April 24 — The SOF Derivatives Operations and Processing Forum New York, New York
Don Murphy, Director of Client Service for LaCrosse, speaks on "Operational Support for Growing Hedge Funds"



...Collateral Management (continued from page 1)

process can help ensure that a fund maintains adequate liquidity. For example, it is generally easier to manage excess cash that is held centrally than if it is held with multiple counterparties. This helps ensure a fund's cash or securities is not needlessly tied up with a counterparty. By checking a fund's exposure daily and calling back any excess collateral, capital can be efficiently deployed to fund trading. For example, the LaCrosse collateral group calls back any available fund collateral on behalf of its operations outsourcing clients to ensure the cash is on hand and not sitting idle at the counterparty.

Another hazard to avoid is assuming that a counterparty's calculations are correct. When a counterparty is calling for margin, it is important that trades, independent amounts, market value and collateral posted to the fund's details are all reconciled. A bank's margining system may not be up to date, especially in busy markets. It is important that a fund dispute all differences and pay only the undisputed amount. LaCrosse's collateral group reconciles each counterparty collateral call to the fund's data before making any payment. Not only does this verify the counterparty's data, it also allows us to prove existence of our clients' positions.

Once any disputes have been resolved and payments made, a fund should always monitor its receipts. Because a counterparty has agreed to the call does not mean it has been paid or paid to the correct entity. LaCrosse's cash and collateral management group verifies that all payments have been received and immediately contacts the counterparty for any exceptions.

Understanding your ISDA provisions

The ISDA defines events that can lead to its termination. These include NAV triggers, cross-default clauses and non-ISDA transactional default. It's important to know how these events can potentially terminate your ISDA or require the posting of additional collateral. The collateral community is small and rumors tend to spread quickly. Not responding to a counterparty's collateral calls within the parameters defined by the ISDA can make a bank nervous. While NAV triggers and defaults are based on the fund's performance, notification and payment terms are operational issues. CCM monitors these parameters to ensure that they are met.

Cash and collateral management services

LaCrosse Global Fund Services provides cash and collateral management solutions to hedge

fund managers around the world through our network of 10 global offices in both major and emerging markets. We can support the most complex collateral portfolios and can add value and expertise to help streamline the collateral process.

As part of LaCrosse's operations services, the cash and collateral management group will monitor collateral by the counterparty agreement and sweep any excess or idle cash into the fund's short-term vehicle of choice. Additional operations services include support for confirmation, settlement and position maintenance for cash, derivative and privately placed instruments. This includes equity derivatives, interest rate derivatives, credit derivatives, currency derivatives, commodity derivatives, structured products, distressed debt, private equity, loans and other private credit instruments.

...Hedge Funds for Habitat (continued from page 1)

own these affordable condos.

"It's great to see so many people from the alternative investment industry coming together to give something back to the city that has been so good to us," said Stuart Feffer, chair of Hedge Funds for Habitat-NYC and co-CEO of LaCrosse Global Fund Services. "The market has been tough, and it's terrific to get people away from their screens and behind some tools."

"We are grateful to this industry for giving both muscle and money in support of affordable homes," said Josh Lockwood, executive director of Habitat-NYC. "Supporters of Hedge Funds for Habitat-NYC understand how important it is to invest in the human capital of our city by ensuring that all New Yorkers have decent and affordable homes."

The complex in Brooklyn is Habitat's largest housing project to date, and construction is expected to be completed in 2009. Participants in the Build Day included: Investor Analytics, Pequot Capital Management, A.W. Jones, Black River Asset Management, Tremblant Capital and others.

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Stuart Feffer
Co-CEO, LaCrosse Global Fund Services

The much anticipated Hedge Funds for Habitat – New York City Build Day was held on March 21 in Brooklyn. Stuart Feffer, LaCrosse Co-CEO (top) lent a hand, while Habitat for Humanity - NYC Executive Director Josh Lockwood took a break to speak with the local media (bottom). The Atlantic Avenue complex (middle) will provide affordable housing to 41 families.



LaCrosse is proud to sponsor Hedge Funds for Habitat - NYC



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.

- + + "Hedge Fund and Private Equity Leaders Trade Briefcases for Toolbelts and Build Affordable Homes for Low-Income Habitat-NYC Families" (pdf) - March 21, 2008
Hedge Fund for Habitat-NYC Volunteer-Builders Also Raise \$20,000 for Affordable Homes
- + + Josh Lockwood, Executive Director of Habitat-NYC representing Hedge Funds for Habitat-NYC rings the NASDAQ Closing Bell.
Members of the LaCrosse team join Josh Lockwood and other volunteers to ring NASDAQ closing bell
- + + LaCrosse Global Fund Services introduces LaCrosse450+ suite of services (pdf) - March 19, 2008
New hedge fund regulations in Brazil provide local funds with global access
- + + "Brazil: Full Speed Ahead" - Latin Business Chronicle (subscription required)
Article includes quotes from Gustavo Rodriguez-Ponti Head of Latin America Operations for LaCrosse and Roberto D'Avila, responsible for LaCrosse's Business Development and Client Relationships in Brazil
- + + "Spanning the Globe" - Waters - February 1, 2008
Article includes quotes from LaCrosse co-CEO Stuart Feffer
- + + "Habitat for Humanity Pairs Up With Hedge Funds" - The New York Sun - February 21, 2008
- + + "Why some risk will always lie ahead" - FT Adviser - February 14th, 2008
Article includes quotes from LaCrosse co-CEO Stuart Feffer

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 \$14 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](#).

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