

# LaCrosse Global Fund Services

## More than just fund administration

STUART FIELDHOUSE

LaCrosse Global Fund Services may seem like a newcomer on the hedge fund administration stage, but it has been working diligently behind the scenes for over 20 years now. Although only recently stepping out into the spotlight of industry scrutiny, it originally functioned as the internal administrator for Cargill Global Capital Markets, the company's former proprietary financial trading unit.

In 2003, Cargill created Black River Asset Management, now a US\$10 billion global asset management company. Having experienced significant growth, it decided, in January 2007, to create LaCrosse Global Fund Services, a stand-alone fund administrator that could continue to service Black River's needs, but also make its expertise available to other hedge fund groups. This would include a range of services beyond basic fund administration, extending to fund operations and middle office provision.

Consequently, while for some LaCrosse may be a new name, it already has the operational reach, experience and infrastructure of a mature hedge fund administration business, with 10 global offices and over 300 employees.

### Seasoned heads

At the helm of the LaCrosse business are two of the most seasoned heads in the business, namely Stuart Feffer and Christopher Kundro. Both have over 20 years of experience in the industry, and they have worked together as a team for over a decade. They are arguably also two of the most influential voices in US fund administration as well. They first started working together at Capco, where they produced one of the seminal reports covering operational risk in hedge funds. More recently, they worked in the Wealth & Investment practice at Bearing Point. To have just one of them as CEO at LaCrosse would be a coup.

Feffer and Kundro have a history with Cargill, having worked on the restructuring of Black River as a separate investment management entity in 2003. "We helped them understand and define the operational requirements for supporting a hedge fund structure that had third party investors," says Kundro. "Then, in the summer of 2006, when Cargill began to think of LaCrosse as a commercial opportunity, they gave us another call and, knowing the opportunity with this organisation, we immediately joined them."

They have hit the ground running, going from US\$6 billion in assets under administration at the end of 2006 to more than US\$15 billion today. They took on their first external client in May 2007, and have not looked back since, with 13 clients

now live and six more in the pipeline. LaCrosse has been signing a new customer every month, ranging in size from several hundred million dollars in assets under management up into the billions.

Says Feffer: "One thing that attracted us to this opportunity is that we have helped larger hedge fund institutions in building a hedge fund infrastructure, and helped them select service providers. Typically our clients were relatively large, relatively complex and global in their trading and, as a result, they struggled to find an administrator. Knowing the opportunity with LaCrosse's organisation and capabilities, it was clear to us we could do something special and unique."

LaCrosse makes a big play on the fact that it does not just provide back office support but it is perfectly capable of tackling the middle office as well. This covers, amongst a range of services, customer and prime broker communications facilitation, distressed debt and OTC derivatives processing, and valuation services. "We do administration, but we do administration for the most part as part of that overall offering, we're really about a full operational service," says Kundro. "When we do administration only, most of the time it is because the underlying portfolios are complex, or there is some factor that means that all of those skills developed over the years supporting the wide diversity of asset classes, strategies and markets, is of particular value."

In particular, as the barriers to start-ups get higher every year, the LaCrosse principals have woken up to the fact that today's new hedge fund managers have to focus as much as possible on raising capital, managing money and keeping clients up to date. Other operational issues are increasingly being outsourced, wherever possible, to experts who can manage them seamlessly. Consequently, with its multi-disciplinary pedigree as a former integral part of Black River, LaCrosse can cover plenty of bases via one contact point and one service contract.

"We're not an administrator that happens to offer middle office and operations," says Feffer. "We're an operations and outsourcing firm that also happens to offer administration. We're one of the only firms in the industry that is perfectly prepared to take on a middle office and operations mandate without being the fund administrator."

This comes into practice in some emerging markets, where new hedge funds are looking for operational support that goes beyond simple administration. LaCrosse is helping those managers that have traditionally been managing

long/short equity out of an emerging markets base seeking to launch into more sophisticated strategies, and looking for an outsourcing partner who can facilitate this.

### Global coverage

It is worth dwelling on what 'global coverage' means in the LaCrosse context. The business is run out of four main processing hubs, namely Minneapolis, London (Cobham), Buenos Aires and Singapore. But there are also offices in Moscow and Istanbul, as well as four offices in Latin America, including Sao Paulo, Caracas and Bogota.

"Securities settlement has some unique requirements and still requires manual processing in many emerging market countries," says Kundro. "That's why we have people physically located in these regions." LaCrosse is in these countries not only to provide client service but also to support a client fund which actively trades the markets there.

"Emerging markets have definitely been a niche for us," adds Feffer, "not only in Latin America, but also in Asia and Eastern Europe."

Asia is recognised as a major new area of business growth, and is currently LaCrosse's fastest growing part of the business. The firm is seeing more complex Asian hedge fund strategies emerging, requiring the facilities of a service provider with a local office and expertise. LaCrosse recently signed a macro multi-strategy manager in the region, for example.

"We're starting to see more complex strategies in Asia," explains Feffer. "Asia is evolving from being primarily a long/short equity market to one that is supporting a much broader and more diverse range of strategies."

Singapore was chosen as the hub for its Asia Pacific operations because of the knowledge and experience of its regulator and the fact that it remains a very high growth area in terms of alternative investments. Indeed, in Kundro's words, "I wouldn't be surprised if it has passed Hong Kong in new hedge fund growth." LaCrosse has over 50 employees in Singapore and has just taken on extra space for 100 more. In addition, it is centralising some of its processes through its Singapore operation, including CFD processing.

It is also notable that LaCrosse has chosen against setting up an office in Ireland, although it continues to review the possibility for the future. It already had skilled people, systems infrastructure and a presence on the ground in the Surrey town of Cobham, when it started to take on third party

business. This was a legacy of the Cargill set-up; the costs of establishing and running an operation in Dublin did not make sense when there was already a mature operation in close proximity to London's hedge fund community. "We can support a Dublin-based fund, we can support a Cayman-based fund, but that doesn't mean we need people in Dublin or Cayman," says Feffer.

### The valuation issue

You can't interview a hedge fund administrator these days without asking about pricing policies for OTC and other hard to value securities. After all, it has become a major consideration for funds of funds and other investors in the last 12 months. Administrators everywhere are being grilled on their valuation protocols vis-à-vis client fund managers.

LaCrosse is not breaking a sweat here: it is still delivering its NAVs on time, say its CEOs, who put this down to the presence of its internal valuations group. It has experience from supporting some highly complex fund structures, including leveraged feeders, collateralised debt obligations and multi-layered entities. It also maintains good relations with the market making desks at various firms (again a legacy of its Cargill days) to ensure the valuations are valid. This means it is not necessarily limited to what is easily available. In Feffer's words, "We can dig a little bit."

Says Kundro: "Last summer all of our valuations were provided on time. We want to ensure that when someone sees we have struck an NAV, it is a quality NAV. It is hardly understood in this industry, not least by institutional investors, that not all NAVs are created equal."

In April, LaCrosse implemented SunGard Front Arena, a cross-asset trading solution, to help it to manage 10 instrument classes in four time zones. This extends to the pricing of swaps and options for different clients and real-time modelling of complex securities. It also now uses CMA's consensus-based price verification data (DataVision) to help it deal with CDS, indices and tranches. The data is sourced from 30 leading buy-side firms, including hedge funds, asset managers and investment banks.

### Not a 'vanilla' administrator

Where to now for Feffer and Kundro? "A fund a month would be perfect," says Feffer of his growth plans. "We will probably increase that pace, but it is important to remember that we're not a typical vanilla administrator."

"So far all of our new business has been launches," says Kundro. "We're going to start to take on some

conversion business. This will be something new for us, but something we are also confident we can handle."

Feffer and Kundro are fans of doing the job well at the price of astronomic growth. This was one reason why LaCrosse has shied away from 'NAV lite'. If a client and his investors were going to receive an NAV, it would be on time and it would be accurate. And yes, the strategies they were managing might be complex, but part of the reason many hedge funds turn to LaCrosse already is that it is familiar with complex instruments and can provide fast and accurate calculations. "It's not only the people and the systems, it's the culture and the operations around it," explains Feffer. "We shrug off, for example, any requests to do NAV lite. We believe that regardless of what occurs behind the scenes, when we put our name to that NAV, it means we have played an active role in the calculation of that NAV."

Like some of its competitors, LaCrosse is aware of the increasing amounts of time being consumed by responding to due diligence enquiries from the investing clients of the funds they service, but Feffer and Kundro see this as part and parcel of the maturing of an industry. They welcome on-site due diligence visits, as they give the firm the opportunity to demonstrate its strengths.

In addition, the Cargill and Black River institutional pedigree has helped LaCrosse grow. A third of LaCrosse's new business originates from referrals by investors in Black River funds or third party funds that it is already supporting. In addition, some of the most respected prime brokers have started sending business their way, a major stamp of acceptance of the LaCrosse brand. "This is an organisation that is extremely well-practised in getting investors comfortable with what we do and how we do it," Feffer points out. As a self-administering manager, Black River was very used to hosting due diligence expeditions and this culture has persisted with LaCrosse.

### Conclusion

Things are changing in US hedge fund administration. The days of self-administration are numbered. And it is the investor community that is behind this evolution in operational practices. "The institutional investors are driving everything these days," observes Kundro. "Four or five years ago the hedge fund market was dominated by wealthy investors, but it is a very different market today. It's now overwhelmingly institutional, even in the US. Institutional investors are comfortable with the third party administration model and, most of all, they now understand how critical operational risk is."

Back in their Capco days, Feffer and Kundro used to be able to demonstrate how 'hedge fund operational risk' would only have a single hit on Google. Now it fills pages. The world of hedge fund investing has changed since they co-authored their study on the subject and the duo say it has been good for them to have the opportunity to move out of consulting back into nuts-and-bolts hedge fund operations and put their opinions into practice. With LaCrosse they have been able to play a role in the deployment of an operational outsourcing solution that is alive to the needs of sophisticated hedge funds and has the technological and geographical resources to meet those needs effectively.

If it can be said that there is a 'new generation' of hedge fund servicing firms appearing to compete for business against the established giants, then LaCrosse must be counted high amongst them. **THF**

## Biographies

### STUART FEFFER AND CHRISTOPHER KUNDRO

Stuart Feffer and Christopher Kundro are Co-Chief Executives of LaCrosse Global Fund Services. They have worked together for more than 12 years and have become well-known figures in the alternative investment community for their work in setting up hedge fund platforms and their expertise in operational risk and the valuation issues facing hedge funds today. They were the co-authors of a series of studies on operational risk in hedge funds that have been recognised by international regulators, the academic community and the alternative investment industry as having raised the industry's consciousness on the issue. As consultants, they have advised a number of fund managers on their selection of fund administration providers and the establishment of sound operational and valuation policies.

Prior to joining LaCrosse, they worked as Co-Heads of the Wealth & Investment Management practice at BearingPoint and, prior to that, also as Co-Heads of the Private Clients and Investment Management practice at Capco.

Feffer has held positions at The Geldermann Group, The Sachs Group and Deloitte Consulting. He has an MA and PhD from the University of California, Berkeley, and a BA from the University of Chicago.

Kundro has held positions at Bankers Trust, Salomon Brothers, First Union and Deloitte Consulting. He has an MBA from the University of Bath and a BA from Rutgers University.