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Hedge Fund ALERT

Firms Peddle Middle-Office 'Lift-Outs'

A growing number of fund administrators are expanding their repertoire from basic valuation and reporting services to such middle-office functions as portfolio maintenance, risk management and profit-and-loss analysis.

GlobeOp, Omnium and **State Street** are among the administration firms poised to announce or implement middle-office "lift-outs" in the coming months. The contracts cover a range of functions, from monitoring and servicing derivatives portfolios to modeling new trading strategies.

"Years ago the administrator was a box-check to keep investors happy," said **John Buckley,** president of Omnium, a unit of **Citadel.** "Now, the administrator is moving into the value-add role of being a natural extension of the client."

Other fund administrators pitching middle-office lift-outs include industry leader **Citco,** as well as **Citigroup, Cortland Fund Services, LaCrosse Global Fund Services** and **Viteos.** These firms see middle-office work as a new source of revenue with higher margins than their bread-and-butter business of trade reconciliation, portfolio valuation and preparation of reports for investors.

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THE GRAPEVINE

Louis Bacon's Moore Capital is allocating $1 billion to a team of former **Citigroup** proprietary traders who joined the hedge fund manager earlier this year. Led by **Matt Carpenter** and **Matt Newton,** the team encompasses 10 portfolio-management units, each with about $100 million of Moore's money. The $15.6 billion firm has filled all but one of the portfolio-manager slots. Carpenter and Newton are now scouting for a manager to oversee an industrial-stock portfolio.

Paul Vabakos joined **Balyasny Asset Management** last month as a long/short technology stock trader. He will start out running a $100 million portfolio for **Dimitry Balyasny's** Chicago firm. Vabakos previously worked at **Peak 6 Investments** of Chicago.

Douglas Rudisch, a technology-stock portfolio manager, left **Brookside Capital** last month — apparently before lining up a

See GRAPEVINE on Back Page

Losses Prompt Tiger Global to Open the Door

For the first time in years, new investors are being allowed in **Chase Coleman's Tiger Global** hedge fund.

Coleman, a so-called Tiger cub who got his start under **Julian Robertson** at **Tiger Management,** began soliciting fresh capital for his $4 billion fund about three weeks ago, according to investors familiar with the fund-raising effort. The fund, which launched in 2001, never officially stopped accepting capital, but was long understood to be off-limits to new investors.

Why the change of heart? Because Tiger Global, for all its cachet, is now working on a three-year losing streak. After reaching its high-water mark in 2007 with an astonishing 72% gain, the fund lost 26% in 2008 and fell by a smaller amount last year. It was down around 3% this year through June.

That means the New York firm has been operating for more than two years without performance-fee revenue. Investors who sign on now won't be protected

See TIGER on Page 8

Elliott Proves to Be a Fund-Raising Machine

Elliott Management lined up another $1 billion of investor capital during the most recent quarter, bringing the firm's assets under management to just under $17 billion.

The New York firm, headed by distressed-investment guru **Paul Singer,** has had little trouble raising capital since the financial crisis. In the past 12 months or so, Elliott's assets jumped to $16.9 billion from $14 billion, according to a June 30 letter to investors. And the most recent total doesn't necessarily account for all of the second-quarter commitments — only some of which have been drawn down.

Elliott is among a handful of managers that have benefited as pension plans and other large institutions have sought to make up for credit-crisis losses by investing in blue-chip hedge funds. Indeed, a few months ago, the firm was getting ready to cut off new investments around the middle of this year. Typically, Elliott lines up commitments from investors, then draws on those pledges only when it has identified

See ELLIOTT on Page 4

DiRocco Rolls Out Software for Short-Sellers

Securities-lending pioneer **John DiRocco** is marketing software that automates the process of borrowing stocks and bonds, potentially lowering costs for fund managers.

The system, dubbed BorrowMaster, consolidates information from prime brokers, making it easier for managers to compare rates. Such data is currently available, though not in a form that's easy to access and analyze, DiRocco said. His firm, **HedgeSpeed Technology** of Wilton, Conn., charges about $10,000 a month for the software package and technical support.

"With the exception of the largest multi-strategy funds, managers don't have such tools to monitor lending rates of every block of stock or bond they want to borrow," said DiRocco, formerly the chief financial officer at hedge fund giant **Citadel.**

HedgeSpeed's software tracks the securities-lending market over time, so

See SOFTWARE on Page 8

A small number of fund managers tried outsourcing their middle-office functions prior to the financial crisis, but the trend stalled because of the significant upfront costs involved. Now, middle-office lift-outs are back in vogue — especially among smaller firms looking to keep a lid on payroll, said **Matthew Nelson,** director of market intelligence for technology firm **Omgeo.** "Outsourcing to a provider that already has connections into the hedge fund and is handling vital back-office services becomes a lot easier," he said. "There is already a trust established."

Pricing varies widely, depending on the size of the client and range of services provided. "Our 'elevator speech' is we can provide a professional staff for less than the cost of one or two senior people," said **Thomas Pearson,** president of Cortland Fund Services.

In addition to the potential cost savings, fund managers are feeling pressure from investors to engage third-party professionals to ensure the safety of their assets. Coming out of the financial crisis, many investors demanded hedge funds hire outside administrators to provide objective calculations of net asset value. Now, some of those same investors are making similar arguments with respect to middle-office functions.

"It does feel like the trend is increasing," said **Stuart Feffer,** co-chief executive officer of New York-based LaCrosse. "When we first launched our firm in early 2007, we had to do a lot of explaining about outsourcing. Now, it seems to be an option everyone at least has to consider."

GlobeOp announced last month that it won a contract to provide middle- and back-office services for the $15 billion **European Credit Management,** a unit of **Wells Fargo.** "Other large funds considering a lift-out model may find this pretty interesting," GlobeOp president **Vernon Barback** said of the deal. "The manager enjoys the operations leverage GlobeOp provides, reduces costs and wins the freedom to focus on core strengths."

In addition to the standard fare, GlobeOp will provide daily profit-and-loss statements, risk reporting and modeling of investment strategies.

With the contract, GlobeOp's assets under administration will jump to $146 billion.

Some, however, remain wary about outsourcing such critical functions as risk management. "Make the wrong decision and it can be, at best, a big waste of resources, and, at worst, financially disastrous," said an executive at an administration firm that doesn't offer middle-office lift-outs. ❖