

## Hedge funds seek specialist help with distressed debt

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Hedge funds, cashing in on the credit crisis by buying distressed credit, are turning to third-party hedge fund administrators to help them handle the back-end processing of these complex securities.

Stuart Feffer, co-chief executive of LaCrosse Global Fund Services, a hedge fund administrator based in Chicago, said: "We are being approached by firms that are lining up to go after one aspect of this credit crisis – investing in distressed assets or distressed credit in various forms. Servicing the distressed credit products is becoming a sub-specialty for us."

Funds are buying distressed credit assets to hedge with an interest-rate swap, a credit-default swap or a currency exposure. Rather than expand their own operations teams, many hedge funds are calling in specialist administrators to provide operational support and ensure the products are properly valued and accounted for.

Feffer added: "We've launched a couple of clients and we have a few in the pipeline and we are being approached at an increasing pace – we are approached a couple times a week somewhere in the world." Fund administrator Fulcrum has also received interest in distressed credit products from existing clients, according to Tim Thornton, head of strategy and product development in London. He said specialist understanding of these products was essential, particularly for valuations and helping hedge funds communicate with investors.

However, distressed debt is not an area in which all fund administrators and asset servicing companies will want to compete, according to Gary Enos, executive vice-president and head of relationship management and client service for State Street's Alternative Investment Services business.

He said: "New distressed credit products are getting more scrutiny and administrators have to look at whether or not they want to bring it on." State Street has serviced credit funds and structured products for more than two years.

Although most administrators will be involved in long-short and distressed products as part of fund managers' 130/30 and 120/20 funds, many providers will want to avoid going overweight on specific strategies, preferring instead to build businesses that mirror the broader market, said Enos. Securing independent valuations is one of the most complex aspects to servicing these products, he added.

Isabel Schauerte, analyst at financial consultancy Celent, agreed. She said: "Issuing valuations of hard-to-value instruments on time and with the highest degree of accuracy requires platforms, human capital and processes not all players can line up."

Leading administrators, however, must be able to understand all new investment instruments, according to Schauerte.

She said: "The administration of less complex strategies is becoming commoditised and, as such, the margins available are falling. As a consequence, large administrators need to keep pace with the demands of more complex clients or risk being marginalised."

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