Woodfield Wire
AN E-NEWSLETTER FOR HEDGE FUND MANAGERS AND OTHER INDUSTRY PROFESSIONALS

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Andrew D. Jones
Manager of Business Development
Woodfield Fund Administration LLC

What Does a COO Do?

Finding the right business manager is key to profitably growing your business.

By Jody Foster, President, Symphony Consulting LLC

Take the world's most gifted athlete and put him in the starting lineup of a competitive baseball team. What results would you expect? Many would expect success, given a proven track record of athletic prowess and spectacular poise under pressure. More seasoned baseball fans may recognize that the skills that make you excel at one sport do not necessarily translate into success at another sport. Just ask Michael Jordan.

Incredibly successful investors often set out to run their own firm. As the firm grows, more time is spent on administrative matters like compliance, vendor management, technology and trading matters, human resource issues and financial management. This is valuable time that could be spent investing clients' money and communicating with prospects and current clients. This often results in lower performance and client dissatisfaction. Entrepreneurs must focus on what they do best to maximize the value of the business. They must invest in a Chief Operating Officer (COO) to manage the operational aspects of the firm.

Recognizing you cannot and should not take on all administrative duties of the firm as well as investing and client servicing is the first step. You have identified the problem. The solution is bringing in a proven business manager to help you focus on adding the most possible value to your business. To grow into a successful, self-sustaining investment firm, you must make an investment in the future of your business. If this is done correctly, the COO will have a high return on investment in a short time.

What Exactly Does a COO Do?

The COO manages the business aspects of the firm. Responsibilities may include finance, middle office operations, legal and compliance, trading, marketing, human resources, facilities and technology. The COO can identify and manage service providers like an administrator, auditor, IT, consultant, attorney and accountant. The COO allows the founders to focus on their areas of expertise while taking over the management of the business. Beyond practical capabilities, the COO brings an additional level of credibility to the organization in this post-Madoff world. Institutions and high net worth individuals will not invest with a manager simply because of good performance. Firms must display professionalism in all aspects of their operations to attract investors.

Ultimate success requires the leadership of the firm to come together to draft a roadmap for the future. The COO is responsible for executing on this plan. For example, if the firm has a five-year goal to reach a certain asset level, the COO designs a plan to make this happen. Plans are made for hiring the right number of people to bring in and service this client load, a cost/benefit analysis is completed to see what functions are best done at the firm and those best outsourced, client strategy is designed to make the asset targets come to life, and compliance and oversight prepares for this growth. Once a plan is agreed upon by the leadership, the COO executes on the plan and is held to established benchmarks.

Two Types of COO

There tend to be two types of COO in the market and picking the right one for your firm depends on your current and expected needs. The first is a strategic thinker who specializes in imagining the firm in the future and works with other employees to execute on this plan. This type of COO works best with firms that are in their early stages or at a transition point. They have the ability to not only envision what needs to happen to be successful but also get the work done.

The second type of COO is the expert executor. This person is very detail oriented and takes on the current business processes and continually improves outcomes. For mid-sized firms who have staff in a variety of departments like finance, compliance, HR and IT, this type of COO helps manage and improve current processes across all areas.

Highly Valued Qualities to Guide the COO Recruiting Process

If you polled COOs across the industry and asked what they do, you would come up with a wide variety of answers. Some of this is due to the differing needs of fund managers; some is due to the expertise of the person. Regardless, there are some common traits among those who are successful. Here are some key attributes to look for when recruiting:

- **Knowledge of the investments business:** While understanding products and clients can be learned over time, it is important the COO understands the business to credibly speak to clients, current and prospective employees, auditors and service providers. If this person understands the nuances and stresses of portfolio management and client acquisition, they can more readily plan and execute.
- **History of integrity, ethics and curiosity:** Check references on these topics, as your COO is responsible for managing an ethical business and setting an example for others. The COO needs to have a high level of curiosity on all business-related matters to root out any unethical or unprofessional level of behavior.
- **Experience doing, not just overseeing:** This is especially important in smaller firms where every person wears a few hats. It is one of the most common mistakes made in recruiting. A COO must have the ability to execute and a history of successfully doing so. Ask probing questions in the interview to find out specifically what the candidate has accomplished.
- **Ability to think strategically yet follow up on all tactical matters:** The COO is the business leader who thinks about how the future will look and is committed to ensuring every detail is complete.

What Is a Flexible COO?

A flexible COO takes on business management responsibilities based on the firm's needs at that time and the cash flows available. For example, during the start-up phase, there may be many items to tackle at once and a flexible COO is needed two to three days a week for the first few months. Once the business is up and running, the COO may manage monthly finances, compliance and service provider issues two to three days a month. When the firm reaches a certain level of size and complexity, the flexible COO will recruit a full-time COO to manage the growing business.

For all those Michael Jordans out there who are successful asset managers, you must recognize your time is best spent investing and communicating with clients. You demand that the firms you invest in find ways to maximize value and you must also do the same. Bringing in a COO on a full-time or outsourced basis to manage all the business aspects of the firm is a big step toward maximizing profits and reaching your goals.

Jody Foster is President of Symphony Consulting LLC, which offers a flexible COO to emerging investment managers. She held executive positions at JPMorgan and Driehaus Capital Management prior to founding Symphony, and holds an MBA in Finance and Strategy from the University of Chicago Booth School of Business. Portions of this article have appeared on RIACentral.com.

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Woodfield Fund Administration LLC has successfully completed a Type II SAS 70 audit of our operations.

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Woodfield Fund Administration LLC | 3601 Algonquin Road | Suite 900 | Rolling Meadows | IL | 60008 | 847-255-3500
www.woodfieldllc.com