

Woodfield Wire

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

Woodfield's monthly e-newsletter publishes articles about hedge fund-related topics and best practices. To subscribe, please send an email to newsletter@woodfieldllc.com. We welcome your comments and ideas.

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How Is an Expert Fund Administrator Like a Great Airline Pilot?

When I first heard about Captain "Sully" Sullenburger's amazing feat of landing a plane in the Hudson River with minimal injuries and no loss of life, I was stunned. That stunned feeling turned into jaw-dropping awe when the cockpit tapes were released and we could hear his calm, clear voice saying, "We're going to be in the Hudson."

Even though Sully has been flying for more than 40 years and is a specialist in aircraft safety, he's never before had to land a plane in a river. **But he knew how when he was called upon to do so, and that's what matters.** His years of training, practice, skill and intuition brought him to that moment of amazing success.

Chances are you will never need awe-inspiring heroics for your fund. But if you do, you want that calm, "we're going to be in the Hudson" assurance that what you need can be done. It may not be easy, but it will be done.

Tricky Landings

So what kinds of things can go wrong? There's no limit to the types and frequency of issues that can arise, but here's a small sampling of things we've encountered:

- **Unmatching values at month end.** We've seen situations where the ending value of a portfolio on a brokerage statement does not match the beginning-of-month value for the following month. Usually (but not always) this occurs because the broker made an adjustment but did not provide a corrected statement for the previous month. In such a case, the fund accountants will work with the broker to determine the exact reason for the discrepancy. This can be very time-consuming, like looking for a needle in a haystack.
- **Prime broker discrepancies.** Most of the prime brokers we work with do a great job but occasionally we'll see problems with the data they provide. I'm not talking about a simple trade discrepancy between the broker and the manager - that happens every day. But consider a case in which the broker changed reporting platforms and suddenly was unable to provide accurate cost data for the securities in the portfolio - data that is critical for properly valuing a portfolio each month.

- **Cost basis complications.** Some funds will accept contributions of securities rather than cash. If these securities are transfers, the broker typically will list the cost basis as the original cost of the security on the date it was *purchased*, rather than the cost on the date it was *contributed* to the fund. But GAAP (Generally Accepted Accounting Principles) dictates that the latter be used for the fund's cost basis. So when a broker lists the transferred securities according to original cost, it causes problems: the accountants need to track the entire portfolio on a position-by-position basis for as long as the fund holds those securities.
- **Restating of returns.** Occasionally the returns of an underlying investment held by a fund are "restated" (i.e., a new statement of the returns is published, usually to correct an error) long after the original publication of the returns. This requires the accountant to rework the accounting reports for that month and every month thereafter. Moreover, this usually occurs in connection with the audit of the underlying fund so the restatement must be done within tight time frames so the fund can finalize its audit and K1s.
- **Audit problems.** The vast majority of the auditing firms we work with do an excellent job for their clients. But we've encountered situations where the auditor did not understand some of the complexities of a fund, which led to all sorts of problems in completing the audit. And then there was the time when the entire audit team was replaced by a different group of people midway through the audit. The fund administrator had to spend extra time educating the new team, respond to new requests and pitch in under tight time constraints so they could make the audit deadline.
- **Custodial problems.** Recently a large investment firm stopped allowing IRAs (Individual Retirement Accounts) for which they have custody to be invested in private investment funds. We helped affected clients find different custodians for the displaced funds.
- **Liquidation of a fund.** Unfortunately, 2008 was a difficult year for the hedge fund industry and a number of funds were required to close. Closing a fund isn't always easy and can require special work with regard to the accounting for the liquidation of assets.

These are just a few examples of the kinds of things that can occur. They may never happen with your fund, but something different might.

A good fund administrator is conscious of how the money is coming in and going out, how transactions are accounted for, how investors are classified in terms of eligibility for allocations, and a host of other issues. **If something doesn't look right, the administrator will raise a red flag.** There's always a new and unexpected problem that requires skill, experience and the willingness to work through the problem.

"But My Fund Is Easy."

Many of Woodfield's new and prospective clients say, "The accounting for my fund is really easy. You won't have any problems." But as the examples above show, **unexpected complications can arise.** You may not realize it when you invest in professional administration for your fund, but **what you're really buying is expertise:** the ability to deal appropriately and swiftly with whatever comes up.

Having an expert administrator on your team is like riding with an experienced pilot who boards the plane ready to handle anything-blue skies, flocks of birds, storms, crazy passengers or routine delays. In either case, you can relax, knowing that **the experience is there to navigate through whatever difficulties may arise.**

About Us

[Woodfield Fund Administration LLC](#) provides third-party accounting and fund administration services to hedge funds, fund of funds, commodity pools, unit investment trusts, real estate funds, family offices and other investment entities. Our clients range from small startup funds with just a few investors to large asset managers with capital in excess of \$1 billion. They choose us because of our focus on **accuracy, completeness, timeliness, personal attention, customized services and reasonable cost.**

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