

Eye of the STORM

AS THE HEDGE FUND INDUSTRY STRUGGLES THIS YEAR, IT RELIES MORE THAN EVER ON ITS SERVICE PROVIDERS, RATED HERE IN THE FOURTH ANNUAL ALPHA AWARDS™.

LAW FIRMS

This year is on track to be the slowest new-fund market since 2001, but the lawyers who mid-wife start-ups say they have been as busy as ever. What's lacking in quantity is more than made up for in fund complexity, as funds look to do more business abroad. "Markets have become tougher in the U.S., so more managers are looking at foreign markets," says John Broadhurst, a partner at San Francisco-based firm Shartsis Friese, who oversees the firm's hedge fund practice. "This creates more tax planning and regulatory compliance work. We're doing a lot more consulting in that area."

a reputation for hand-holding.

In the 1980s, Shartsis Friese was one of the first law firms to advise the then-budding hedge fund industry. Clients were often castoffs from bigger firms that didn't consider them lucrative enough to take on. "The large law firms weren't particularly interested in that business and

JOHN BROADHURST,
CHRISTOPHER RUPRIGHT
PARTNERS, SHARTSIS FRIESE

When might a recovery begin?

Rupright: With the ample uncertainty about the scope and nature of potential government bailouts, regulatory changes and the economy, markets will continue to be very volatile.

Will there be lasting effects?

Broadhurst: In past cycles, when markets have suffered significant losses — 1987, the early 1990s and 2001-'02 come to mind — investors subsequently attempted to reduce volatility and limit downside risk. In the hedge fund world, this means seeking funds that hope to deliver high single- and low double-digit returns, with low volatility. However, this low-volatility approach loses momentum as markets improve. Investors seem then to migrate to funds that have the opportunity for significantly higher returns but are subject to dramatically higher risk. This requires investing with more leverage and in more obscure instruments and markets. The risk then goes up, at some point markets go down, significant losses are incurred, funds fail, and the cycle begins again.

Alpha Awards™ Top Firms

Accounting
Rothstein Kass & Co.

Administration
Goldman, Sachs & Co.

Law — Offshore
Walkers

Law — Onshore
Shartsis Friese

Prime Brokerage
Morgan Stanley

Shartsis Friese seems to have come through with flying colors: Hedge fund managers this year rate it the top onshore law firm. Though the 55-lawyer firm has traditionally catered to smaller hedge fund clients than its megafirm competitors, it is the favorite this year among hedge funds with \$1 billion or more in assets, suggesting that, in these trying times, even big funds are turning to law firms with

Top Onshore Law Firms

Rank		Firm
2008	2007	
1	—	Shartsis Friese
2	1	Sidley Austin
3	2	Seward & Kissel
4	4	Schulte Roth & Zabel
5	3	Akin Gump Strauss Hauer & Feld

were happy to refer anyone who came to them wanting to start a hedge fund to the few little specialty law firms like us,” says Christopher Rupright, a Shartsis Frieze partner.

Broadhurst credits Shartsis’ personnel scheme — the firm has 28 partners and just 27 associates — as one of the keys to its success. “We’re fairly top-heavy,” he explains. “When a client retains our firm, they’re going to get a whole lot of partner time. We try to make sure that we’re bang-on as far as returning phone calls and being extremely responsive.”

The effort has paid off. Shartsis Frieze ranks first in both Client Service and Document Preparation & Fund Formation. Close on its heels is Sidley Austin, the Chicago-based firm that slips to second overall after two years at No. 1. Where Shartsis Frieze boasts its hedge fund focus as a strength, Sidley Austin markets the fact that it doesn’t specialize, says Michael Schmidtberger, a New York-based partner.

“We’re not a hedge fund law firm,” says Schmidtberger, co-head of Sidley Austin’s 110-lawyer investment fund advisers and derivatives group. “The cornerstone of our practice is investment management in the broadest sense, and our hedge fund clients benefit from that breadth of perspective. This strength has been more acute in the credit crunch, but it has always been the case with our practice. We aim to treat the whole patient.”

Schmidtberger says its broad expertise gives Sidley Austin the tools to untangle an array of hedge fund problems that this year have included restructurings triggered by redemptions and a heightened demand for the often complicated acquisition of distressed assets as managers seek to take advantage of the economic downturn. The firm

represented Lone Star Funds in July, when Merrill Lynch & Co. sold \$30.6 billion in collateralized debt obligations to the Dallas-based buyout fund for \$6.7 billion.

New York-based Seward & Kissel (No. 3, down from second) has confronted similar demands. “There are fewer launches than there were several years ago, but the quality of the launches tends to be more serious and better funded,” says John Tavss, managing partner of the investment management group. “Clients are needing more help.”

Seward & Kissel — which in 1949 helped establish the first hedge fund, A.W. Jones & Co. — draws on its partners’ depth of experience. Each partner in the investment management group has been with the firm for at least ten years.

“We know the issues,” Tavss says. “We devote considerable resources to educating ourselves and our clients regarding business and regulatory developments.”

New York-based megafirm Schulte Roth & Zabel holds on to fourth place overall and is the third-favorite firm among hedge fund firms that manage at least \$1 billion. In addition to its huge hedge fund practice — of its 480 lawyers, 108 focus exclusively on hedge funds — the firm has a substantial structured-product arm, which has served it well this year as a growing number of distressed funds look for opportunities in discounted assets.

Akin Gump Strauss Hauer & Feld drops two places, to fifth, in this year’s ranking. The firm’s hedge fund group has 72 lawyers and has made a push in recent years to expand into emerging markets. In January 2007 it opened a Beijing office with a full-time fund-formation lawyer, to complement the firm’s offices in London and Moscow.

How We Compiled the Rankings

Alpha compiled its 2008 Alpha Awards™ rankings of the top hedge fund service providers based on voting in the spring and early summer by more than 1,000 hedge fund firms, which manage more than \$1.5 trillion. We also tapped directories and industry data sources and contacted hedge fund management firms from client lists supplied by service providers. We met with service providers in the winter and early spring to discuss changes within their businesses. Hedge funds were asked to rate the quality of service they received for the 12 months ended March 31, 2008, from their accounting firms, administrators, law firms and prime brokers. For each type of provider, service quality was broken down into broad attributes, which included a series of specific points of service. Respondents — whose identities are kept anonymous to ensure their continued cooperation — also rated the importance of each service attribute, the results of which were then used to help calculate the overall winner in each major category, thereby rewarding firms that do well in the tasks hedge funds prize most. Only responses from single-manager or multistrategy hedge fund firms were considered in the prime brokerage ranking. *Alpha*’s hedge fund service providers survey was conducted by Associate Editors Julia Leikin and Timothy Roberts, under the guidance of Assistant Managing Editor Sathya Rajavelu.

Top Firms by Aspect of Service

As part of the Alpha Awards™ survey, we asked hedge funds to rate their providers on various aspects of service. Here are the top-rated firms in each of those categories. To qualify, service providers had to receive sufficient votes among hedge funds with less than \$1 billion in assets and those with \$1 billion or more. Up to three firms are shown, with the current and previous year's rankings.

Accounting		
2008	2007	Audit
1	1	Rothstein Kass & Co.
2	3	Deloitte Touche Tohmatsu
3	2	BDO Seidman
2008	2007	Client Service
1	2	Rothstein Kass & Co.
2	1	BDO Seidman
3	4	Deloitte Touche Tohmatsu
2008	2007	Hedge Fund Expertise
1	1	Rothstein Kass & Co.
2	5	Deloitte Touche Tohmatsu
3	—	Ernst & Young
2008	2007	Regulatory & Compliance
1	1	Rothstein Kass & Co.
2	5	KPMG
3	—	BDO Seidman
2008	2007	Tax
1	1	BDO Seidman
2	2	Rothstein Kass & Co.
3	3	Deloitte Touche Tohmatsu
Administration		
2008	2007	Client Service
1	1	Goldman, Sachs & Co.
2	—	Admiral Administration
3	2	Citco Fund Services
2008	2007	Fund Accounting
1	1	Goldman, Sachs & Co.
2	4	Citi
3	2	Citco Fund Services
2008	2007	Hedge Fund Expertise
1	1	Goldman, Sachs & Co.
2	2	Citco Fund Services
3	4	Citi
2008	2007	Investor Services
1	1	Goldman, Sachs & Co.
2	—	Admiral Administration
3	2	Citco Fund Services
2008	2007	Middle-Office Services
1	2	Goldman, Sachs & Co.
2	4	GlobeOp Financial Services
3	1	Citco Fund Services
2008	2007	Technology & Reporting
1	1	Goldman, Sachs & Co.
2	2	Citco Fund Services
3	5	GlobeOp Financial Services
Law — Offshore		
2008	2007	Business Planning & Corporate Finance
1	1	Maples and Calder
2008	2007	Client Service
1	2	Maples and Calder
2	1	Ogier
3	3	Walkers
2008	2007	Document Preparation & Fund Formation
1	1	Ogier
2	2	Maples and Calder
3	3	Walkers
2008	2007	Hedge Fund Expertise
1	3	Walkers
2	2	Maples and Calder
3	1	Ogier
2008	2007	Regulatory & Compliance
1	3	Walkers
2	2	Maples and Calder
Law — Onshore		
2008	2007	Business Planning & Corporate Finance
1	1	Sidley Austin
2	3	Schulte Roth & Zabel
3	2	Seward & Kissel
2008	2007	Client Service
1	—	Shartsis Friese
2	1	Sidley Austin
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2008	2007	Document Preparation & Fund Formation
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2	—	Shartsis Friese
3	4	Schulte Roth & Zabel
2008	2007	Regulatory & Compliance
1	1	Sidley Austin
2	4	Schulte Roth & Zabel
3	2	Seward & Kissel
Prime Brokerage		
2008	2007	Business Consulting
1	1	Morgan Stanley
2	3	Goldman, Sachs & Co.
3	—	UBS
2008	2007	Capital Introduction
1	—	Merrill Lynch ¹
2	3	Goldman, Sachs & Co.
3	1	Morgan Stanley
2008	2007	Client Service
1	5	Citi
2	1	Morgan Stanley
3	2	Goldman, Sachs & Co.
2008	2007	Financing
1	2	Deutsche Bank
2	—	Merrill Lynch ¹
3	1	Morgan Stanley
2008	2007	Global Fixed Income
1	3	Goldman, Sachs & Co.
2	4 ²	JPMorgan Chase & Co.
3	5	Deutsche Bank
2008	2007	Hedge Fund Expertise
1	2	Goldman, Sachs & Co.
2	1	Morgan Stanley
3	—	UBS
2008	2007	Operations
1	1	Morgan Stanley
2	3 ²	JPMorgan Chase & Co.
3	4	Goldman, Sachs & Co.
2008	2007	Reporting & Reporting Technology
1	1	Morgan Stanley
2	3	Goldman, Sachs & Co.
3	2 ³	BNP Paribas
2008	2007	Securities Lending
1	—	Deutsche Bank
2	2	Morgan Stanley
3	3	Goldman, Sachs & Co.
2008	2007	Trading Technology
1	1	Morgan Stanley
2	2	Goldman, Sachs & Co.
3	5	UBS

¹ In September, Merrill Lynch & Co. agreed to be acquired by Bank of America Corp.
² Rank in 2007 was for Bear, Stearns & Co., which JPMorgan Chase & Co. acquired in May; JPMorgan did not rank last year.
³ Rank in 2007 was for Banc of America Securities, whose prime brokerage business BNP Paribas acquired in September; BNP Paribas did not rank last year.

On the Web

Visit www.alphamagazine.com to see which providers are most highly rated by Alpha's Hedge Fund 100, the biggest single-manager hedge fund firms in the world. The 2008 Hedge Fund 100 and other hedge-fund-related features and rankings are also available on the site.



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One Maritime Plaza
Suite 1800
San Francisco, CA 94111-3598
415-421-6500