



Interview with Dermot Butler, Chairman of Custom House Global Fund Services Ltd *Eurekahedge*

Dermot Butler, Chairman of Custom House Global Fund Services Ltd (CHGFS), has more than 35 years' experience in the financial services industry. Butler has worked as both a stockbroker and stock jobber (market-maker or specialist) on the London Stock Exchange; and subsequently, as a commodity broker and as a principal dealer in commodity options on the London Metal and London Commodity Exchanges.

He was a founder member of McDonnell & Co Ltd (McD), a Bermuda-based fund management company set up in 1983. It was one of the first fund management companies to outsource all of its investment management functions. By the end of 1988, McD had over US\$100 million in assets. Early in 1989, Butler moved to Dublin and established the Custom House Group of Companies, of which, today, the parent company is CHGFS

Butler has written numerous articles on various aspects of alternative investments and the hedge fund industry. He is a regular speaker at conferences on subjects relating to the management, administration and regulatory of offshore funds. He is a director of several fund companies, many of which are listed on the Irish Stock Exchange, and was, for six years, until last September, the deputy chairman of AIMA (The Alternative Investment Management Association).

1. What geographic areas do you cover and which are your strengths and why?

Custom House offers a fully global service on a 24-hour/5-day week basis, through offices in Chicago, Dublin and Singapore, as well as offices in Guernsey, Luxembourg and the Netherlands. The latter three offices came, following the merger of Equity Trust's fund services business into Custom House in September of last year. As a result of this merger, Custom House was reorganised so that its parent company is now CHGFS, domiciled in Malta. CHGFS is also a Category 4 license holder as a Custodian of Funds of Funds and is a recognised fund administrator by the Malta Financial Services Authority.

This global structure enables us to process our trades where it is most efficient, both in terms of providing the service that the client wants and in terms of costs. We are able to do this because our main administration offices operate off the same fully integrated administration system (PFS-PAXUS), with each office having its own servers, but feeding into central servers in Dublin. In effect, this means that Custom House's week starts at midnight Sunday Dublin time, when Singapore opens its doors on Monday morning and finishes at midnight Friday Dublin time, when Chicago goes home for their weekend.

2. Two years ago you started a large operation in Singapore. How has this worked out for you?

Whilst Singapore is the lowest cost centre in the Custom House Group, closely followed by Malta, the 'follow-the-clock, follow-the-sun' structure enables Custom House to offer daily dealing NAVs to their clients and indeed, it provides daily dealing NAVs for over 25% of more than 400 funds and sub-funds that Custom House administers. It is able to do this because Custom House starts capturing the trades and reconciling and pricing all of the positions in the fund during Singapore's day. The 'book' is then rolled to Dublin and/or Chicago for the calculation of the NAVs and forwarded to customers on T+1.

From a cost and talent combination among all the Custom House offices, Singapore wins, and indeed we describe it as "Custom House's India". We have found the staff in Singapore to be very capable and focused; and we are happy that it is a very good base to service Southeast Asia and Australasia.

You may ask why we don't close up every other office and do everything from Singapore and that is because it just isn't practical or sensible. For example, it makes sense to do Luxembourg funds in Luxembourg and the Bewaarder work we do for Dutch funds in the Netherlands. We need the Dublin and



Chicago offices to enable us to provide the daily dealing (T+1) NAVs. Furthermore, the growth in demand for independent administration for self-administered US hedge fund partnerships means that Custom House will probably service those outside of Chicago.

3. Do you have the ability to seamlessly administer all strategy classes including, for example, those with side pockets, illiquid investments, OTC instruments and exotic derivatives?

Custom House is able to administer all strategy classes, including those with side pockets and illiquid investments, such as private equity and real estate, as well as exotic OTC derivatives. However, Custom House has always refused to introduce in-house pricing models, so that it can receive data from third parties and price complex OTC derivatives.

This is because the principals of Custom House believe that an administrator's function is to review and verify independently-sourced prices, whether, in the case of OTC derivatives; those that are provided by an external source, such as a price vendor; or by either the counterparty or the manager – in which case, there is a conflict of interest if either the counterparty or the manager provide the prices. But sometimes they are the obvious choice when we would require their involvement in the pricing process to be disclosed to investors in the Offering Memorandum.

4. What date do you aim to get the final NAV back to the fund manager? Is this date dependent on the size and complexity of the fund?

We are often asked what date we aim to get the final NAV back to the managers, which is similar to the "how long is a piece of string" question. As already explained, we currently provide over 100 daily NAVs on T+1. Obviously, we cannot do this for funds of funds (FoF) as the date that we can get the final price out for a FoF is dependent upon the efficiency of the administrators of the underlying funds. On the other hand, funds that deal in exchange-traded instruments are relatively easy to value and we should get the prices out within two or three days of month-end.

5. How many funds do you provide daily NAVs for? Are they all equity long/short?

In the context of the daily dealing funds, we act for more than 100 (25% of all the funds administer), and they cover a wide variety of strategies. Some of these include exotic or complex OTC derivatives, and in those cases, we have made arrangements to get prices from a source acceptable to both a manager and Custom House on a daily basis.

6. What's the smallest and largest fund that you work with?

Custom House – notwithstanding the fact that Equity Trust is now the majority shareholder in the group (50.18%) – is still independent of any major banks or financial institutions. And as such, it is one of the few remaining independent hedge fund administrators large enough to be acceptable to institutional investors and managers.

In that context, the top 10% of managers that we act for manage 80% of assets under administration (AuM) at Custom House. Thus, although we have (as a group) circa US\$33/34 billion of AuM with approximately 420 funds (including sub-funds); to suggest that the average size of our funds is circa US\$80 million would be very misleading.

The largest of our managers has assets under Custom House's administration of circa US\$9 billion, whereas the smallest have assets of under US\$10 million.

7. Often smaller funds claim that they do not get the service required from administrators and the administrators do not get the minimum incentive fees needed to cover the work. Have you successfully solved this chicken and egg conundrum?



Unlike the larger hedge fund administrators – most of whom have been acquired by well-known banks – Custom House is keen to act for funds with less than US\$200 million, or even US\$100 million and indeed, we will take on funds smaller than that.

The criterion for any fund client is that we have a minimum fee, which may make it substantially non-economical for a fund with only US\$10 million. If, however, we feel confident that the manager has a 60% chance of attracting capital and becoming a US\$100 million or larger fund in the foreseeable future; then we will often offer a discount on our minimum fees for a period of six months or until they reach, say, US\$20 million in assets. This doesn't mean we have solved the small fund problem, but we've certainly done a lot to help those managers.

8. How does the integration of Equity Trust into Custom House Group shape its strategy and focus? And what is Custom House's outlook for the rest of 2009?

When the Equity Trust fund services business merged into Custom House, it was with the expectation that we would grow beside each other and have the ability to cross-sell our mutually compatible services and indeed, we have already found that to be the case. We started negotiations in 2007 and obviously the future was looking much rosier then than it does today.

Nevertheless, we feel that hedge funds, including CTA funds, private equity funds and real estate funds are still attractive (albeit the attractions may have changed); and we anticipate a number of new start-up funds for the rest of this year.

2009 will be painful for players in this market, certainly through to the end of the second quarter and perhaps, the third quarter; but if we are able to contain costs and maintain our service and efficiency, we feel that we should be able to pick up business from:

- i. New funds starting up;
- ii. US self-administered funds that are being increasingly pressurised by investors to appoint an independent administrator; and
- iii. The crumbs from Lazarus's table – ie those existing funds that are being cast aside by the larger administrators who, as we've just discussed, are not interested in the US\$100/200 million funds.

One last point – Custom House failed to secure a contract with a decent-sized client early last year, because we were not associated with a major bank or financial institution and that was considered, by that potential client and their advisors, to be a counterparty risk. That very client has since told us that, today, we would have won the contract for exactly the same reason (namely because we are not associated with a major bank or financial institution); they considered Custom House to be "counterparty positive". The World really has changed!

Contact Details

Dermot S. L. Butler
Custom House Global Fund Services Ltd
+353 1 878 0807
dermot.butler@customhousegroup.com
www.customhousegroup.com