

ACCOUNTING

In the face of this year's fierce market tumult, the best accounting firms have stepped up and differentiated themselves.

"Clearly, it's been a challenging time for the entire investment management business," says Howard Altman, co-managing principal in charge of financial services at Roseland, New Jersey-based Rothstein Kass & Co. But times like these reaffirm the value of sound accounting firms. "It's just the nature of a professional services firm that if you're not on top of your client's business, you're not going to succeed."

Hedge Fund 100 Favorites

Rank		Firm
2008	2007	
1	1	Deloitte Touche Tohmatsu
2	2	PricewaterhouseCoopers
3	3	Ernst & Young

Top Accounting Firms

Rank		Firm
2008	2007	
1	2	Rothstein Kass & Co.
2	1	BDO Seidman
3	3	Deloitte Touche Tohmatsu
4	7	KPMG
5	6	Ernst & Young
6	5	PricewaterhouseCoopers

Rothstein Kass moves up one place this year to clearly emerge as the favorite accounting firm, according to hedge fund managers both small and large.

Part of the reason is the firm's aggressive move to help clients interpret standards that fall under the rubric of Financial Accounting Standards Board Statement No. 157, better known as FAS No. 157, the new accounting rule that sets more stringent standards for valuing assets. FAS No. 157 carries enormous implications for hedge funds. It requires them to divide assets according to liquidity and to document how they estimate the value of assets. The rule also makes it easier for investors to press for more detail than some have traditionally received.

"We've recognized — and have for months — that we need to proactively communicate with our clients about this," Altman says. "We're doing that literally every day, to make sure their questions are being answered."

The firm has maintained its service standards in part by growing alongside clients. In mid-August the payroll head count at Rothstein Kass was roughly 860; Altman expects that by the end of 2008 it will approach 950. This month the firm is opening its eighth domestic office — in Irvine, California.

BDO Seidman, which drops one place this year, to No. 2, attributes its popularity to what Robert Castro, managing director of financial services for the Chicago-based firm, calls its "bedside manner."

Castro says that to help keep standards high, the firm aggressively seeks feedback from clients. He also says it helps that the firm is selective about taking on new clients and turns away fund managers when it seems that client service could be sacrificed because staff would be stretched too thin. BDO Seidman, in addition to rave reviews, gets lots of business too: Castro estimates that the firm's hedge fund client base is up about 20 percent this year.

Deloitte Touche Tohmatsu, No. 3, is the highest ranked of the Big Four firms (Deloitte, KPMG, Ernst & Young and PricewaterhouseCoopers). New York-based Cary Stier, head of Deloitte's U.S. asset management services, says FAS No. 157 places a greater onus on hedge funds to produce accurate valuations, a circumstance that

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

Big Firms Favorite Providers

The voting from hedge fund managers with \$1 billion or more in assets shows that the competition is fierce among firms that are servicing the biggest hedge funds.

Rank		Firm
2008	2007	
Accounting		
1	1	Rothstein Kass & Co.
2	3	Deloitte Touche Tohmatsu
3	—	KPMG
4	2	BDO Seidman
5	4	Ernst & Young

puts Deloitte at an advantage over competitors because the firm hasn't spun off its specialized consulting business, as have some other big firms, Stier believes. "We've got a deep capital markets group," he says. "It also means we have a very extensive financial advisory services group, and they have deep expertise around valuation."

KPMG jumps three places, to No. 4. The global firm, which employs more than 3,000 investment management professionals, earns especially high marks for regulatory and compliance work.

Sean McKee, New York-based audit sector leader for KPMG's asset management practice, says FAS No. 157 has created more demand for the firm's expertise. "We understand that communication is of the utmost importance," McKee says. "One of the interesting challenges with 157 is getting everybody reconciled with their thoughts. This includes the managers, the auditors and the administrators — who's going to handle what responsibilities? It's a challenge." — *Katie Gilbert*

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.