

Would You Like a Side of Stuffing with that Hedge Fund?

Directed Gain Tax Rules Reward Loyal Investors.

Mt. Kisco, NY | November 19, 2009 -- The latest release of TKS Solutions' Penny - It Works system handles the complex calculations involved in allocating book tax differences to withdrawing partners.

The Ingredients are Here for Another Year of Stuffing

Although 2009 has seen some recovery in the markets, uncertainty about the depth and breadth of the recovery remains. This climate means there is continued skittishness among investors, and analysts are forecasting that alternative investment funds will likely experience a higher than normal rate of redemptions.

U.S. tax laws provide a means of rewarding investors that stick with a fund by taking advantage of directed gains -- commonly referred to as "stuffing".

Stuffing stems from the differences between the rules of financial reporting and tax reporting. For tax purposes, investors only pay taxes on income related to stocks when they are sold. However, when an investor leaves a hedge fund, they also have to pay taxes on any gains that related to stocks that went up in value but were not sold.

To ensure that investors who remain with a fund aren't double-taxed (once when the stock is sold and again when they leave the fund), alternative investment vehicles have the option of replacing unrealized (non-taxable) income with taxable gains for the departing investors.

As long as the character of the gains stay the same (long-term versus short-term) this doesn't harm the departing investor, as he or she would pay the taxes anyway. But the investors who remain in the fund get a corresponding reduction in taxable income, and hence a lower tax bill.

The Rules are Straightforward - But the Mechanics are Hard

Since it is simply a matter of corresponding tax offsets, one would think every fund would utilize directed gains. As practical matter though, in order to accurately and fairly apportion the gains, it is necessary to track the investment of every partner against the stock purchase and sale dates, and pro-rate the gain and loss across every investor then in the pool.

Because many investors will invest in a fund in multiple tranches, and some will do partial rather than full redemptions, detailed time-sensitive tracking is required in order to calculate the amount of gains attributable to each investor.

This level of granular tracking is not something that spreadsheets or simple accounting systems can handle. Penny®, a specialized partnership and shareholder account solution for the alternative investment industry, handles both the tracking and the calculations required to accurately direct to loyal and departing investors.

Says Ron Kashden, president of TKS Solutions “Funds can have significant unrealized gains built up in their portfolio, but experience an overall off year. In these circumstances, stuffing helps loyal investors and general partners mitigate potentially crushing tax burdens.” TKS’ Penny® accounting software provides the functionality required to accurately track gains and losses by investment and partner to ensure that the tax burden is allocated fairly. This year, funds whose back-offices use Penny® will be giving thanks.

About TKS Solutions

TKS Solutions offers unified partnership and shareholder accounting solutions for the financial industry. Its flagship software Penny®- It Works, helps firm better manage their investment partnerships and funds by providing automated and instant access to detailed investor data. Penny’s open architecture and proven features easily integrate with portfolio accounting and customer relationship management systems, data warehouses and in-house proprietary solutions, creating a comprehensive and unified view of all investor data, as well as greater transparency for investors. TKS Solutions works with partners worldwide to serve its customer base of leading hedge funds, fund of funds, private equity firms, administrators and management companies, ranging from \$50 million up to \$60 billion under management. For more information, please visit www.PennyItWorks.com.