

# Hedge Fund www.HFAlert.com ALERT

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**JANUARY 28, 2009**

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## THE GRAPEVINE

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**Atlantic Investment** let go its head of client relations this month, following severe losses last year. The New York firm cut **Brian Rice**, who had arrived only 20 months ago from **Deutsche Bank**. He is being replaced by staffer **Rema Davis**. Atlantic got crushed last year by concentrated bets on small- and mid-cap stocks. The firm, run by **Alex Roepers**, has \$1.5 billion under management, down from a peak of \$4.7 billion in 2007.

Despite suspending redemptions, **GoldenTree Asset Management** is still aggressively trying to raise capital. **Steve Tananbaum**, a founding partner of the New York firm, spoke yesterday at a capital-introduction meeting hosted by **J.P. Morgan** in New York. GoldenTree recently set up new share classes with reduced fees to lure prospective investors and retain current ones.

**David Einhorn's Greenlight Capital** has lost two analysts: **Jeff LeBlanc**, who left to work outside the investment field, and

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## 2003 Report Raised Red Flags About Nadel

A study six years ago found evidence of inadequate internal controls and compliance procedures at the fund shop run by **Arthur Nadel**, who was arrested and charged with fraud yesterday after disappearing for two weeks.

The 16-page report, prepared by **CarbonBased Consulting**, was commissioned by Nadel's firm, **Scoop Management** of Sarasota, Fla. CarbonBased highlighted numerous operational shortcomings that it said were so obvious that they should have been apparent to sophisticated investors conducting their own due diligence of the firm.

The report, which was obtained by **Hedge Fund Alert**, raised questions about Scoop's trade-reconciliation procedures, accounting, investor relations and other issues. It's unclear why Scoop commissioned the report or whether it acted on the findings or disclosed them to its investors. **Brian Shapiro**, president CarbonBased,

**See FLAGS on Page 4**

## Top Salesmen Depart From 3 Prime Brokers

The top sales executives at three major prime brokers have left their jobs in recent weeks, underscoring the turmoil in the prime-brokerage arena as the hedge fund industry contracts.

The departures at **Morgan Stanley**, **Credit Suisse** and **Bank of America** reflect the diminishing role of sales at a time when few new hedge funds are getting off the ground. "Just as the landscape for hedge funds has changed, the internal landscape for how to service them is changing," said **Fred Shilling**, a former prime-brokerage sales executive at now-defunct **Bear Stearns**.

At Morgan Stanley, **Gerard Coughlin** is leaving his post as head of U.S. prime-brokerage sales. He will step down in March to join fund operator **George Weiss & Associates** in a product-development role. Coughlin will be replaced at Morgan

**See BROKERS on Page 6**

## 2nd Blue River Bond Fund Posts Big Loss

**Blue River Asset Management**, which shut down a municipal-bond fund last year after it fell sharply, has posted a double-digit loss in a similar fund.

The firm's Blue River Arbitrage Strategy Investments fund was down 45.2% at yearend. The vehicle was launched in March 2008, even as the Jersey City, N.J., firm was liquidating an earlier vehicle, the Blue River Advantaged Muni Fund, because of poor performance.

Like its predecessor, Blue River Arbitrage seeks tax-exempt income through a municipal-bond arbitrage strategy. The firm, which is headed by **Robert Bigelow 3d** and **Paul Sinsar**, had \$542 million under management as of Dec. 31.

Blue River Advantaged Muni, which was the firm's flagship fund, began liquidating after falling 84.4% in February 2008. The steep losses didn't stop Blue River from raising \$100 million for the follow-up fund with aid from **J.P. Morgan**.

For now, the fund operator intends to keep Blue River Arbitrage going, and may seek fresh investor capital in the next couple of months. Those plans could change, however, when the fund's initial lock-up period expires in March, allowing investors to redeem assets. ❖

## Guidance Targets Commodity Traders

Fund-of-funds shop **Guidance Capital** is planning a vehicle that would invest with commodity traders.

Guidance Commodity Long/Short Fund is slated to launch March 1 with \$50 million to \$100 million. It will start by investing in seven hedge funds that mainly trade futures contracts tied to energy, metals and agricultural commodities.

Some of the underlying managers may also trade forward contracts, which trade over the counter. But Guidance won't direct money to vehicles that invest in commodity-oriented stocks.

The new fund's strategy builds on the commodity component of the Guidance Managed Futures Fund, which invests mainly with traders of currency, stock and bond futures. Since its April 1, 2006, inception, that vehicle has posted an average annual return of 10.8% — including a 14.1% gain in 2008.

The 2008 profit, which came amid losses for most hedge funds, represents part of Guidance's motivation for launching the new entity. The Chicago firm also sees an opportunity to capitalize on demand from institutional investors who are interested in commodity funds, but lost money on long-only vehicles in the sector last year.

Guidance manages \$490 million overall, about a third of which is in Guidance Managed Futures Fund. The firm also operates separate lineups of vehicles under the Black Terrain, Blue Terrain and Green Terrain banners.

The Black Terrain funds invest with aggressive managers, some dealing in futures. The Blue Terrain vehicles back long/short equity hedge funds. And the Green Terrain entities deploy capital to a mix of non-directional shops, including those that employ convertible-bond arbitrage, merger-arb, fixed-income arb, and market-neutral equity approaches.

All told, Guidance runs 11 funds. The vehicles are managed by **Peter Carl, Toby Elliman, Ming Pan, Chris Walvoord** and **Brian Ziv**. ❖

## Ex-Galleon Analyst Preps Fund

Veteran technology analyst **Rick Sherlund**, who quit fund operator **Galleon Group** late last year to set up his own shop, has begun staffing the firm.

Sherlund, who before joining Galleon was a top-ranked technology analyst at **Goldman Sachs**, started **Ketchem Creek Capital** this month in New York. The firm has lined up at least a half-dozen staffers so far, including **Jessica Kourakos**, who worked with Sherlund both at Goldman and Galleon. One of the other possible hires is also a Galleon alum.

Ketchem Creek is named after a gold mining operation in Alaska that Sherlund owns and operates apart from his investment-management business. Market players said the firm will likely focus on technology, telecommunications and media plays. Sherlund hopes to have a fund up and running by midyear.

At Galleon, where he started in 2007, Sherlund served as a

portfolio manager. He left in November. Before Galleon, Sherlund was a managing director and partner at Goldman, where he earned his stripes following **Microsoft** and other software companies. He spent 24 years at Goldman, most recently as co-head of technology research. ❖

## Tokio Setting Up Fund of Funds

**Tokio Marine Asset Management**, the investment arm of Japan's largest property and casualty insurer, is looking to team up with a New York investment advisor in order to set up its first fund of funds.

The Tokyo firm, which manages about \$45 billion, mostly for Japanese institutions, is expected to launch a multi-manager vehicle in partnership with **AIFAM**. Tokio already has client capital invested with five Asian hedge funds, but this would be its first multi-manager offering.

AIFAM, founded in 2001 as a fund-of-funds operator, has \$731 million under management. Led by **Tak Aoyama**, the firm recently expanded into single-strategy hedge funds.

Historically, hedge funds have been a small part of Tokio's strategy, which favors long-only equity and fixed-income investments, said **Yuichi Takayama**, who heads the firm's newly established London office. Conservative Japanese institutions traditionally have shown little appetite for alternative investments.

Now, however, some of Tokio's clients are interested in chasing higher returns to make up for recent losses in the stock market and to preserve capital, said Takayama, who joined Tokio last year from **Mizuho Trust & Banking**. The firm is targeting long/short equity and market-neutral strategies for the planned multi-manager vehicle. It will initially be open only to Japanese investors.

In the near term, Tokio expects rough going for Japanese hedge funds. Asian equities are expected to remain volatile at least until the last quarter of 2009. And **Bernard Madoff's** alleged \$50 billion Ponzi scheme is giving investors pause, pushing them toward regulated funds, Takayama said.

While Tokio's hedge fund experience is limited, its track record is strong. The four Japanese funds and one Singapore vehicle it invests in have consistently outperformed the benchmark indices for the region. **Yoichiro Iwama** leads the overall asset-management business, which is a unit of Tokio Marine & Nichido Fire Insurance Co. ❖

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## Job Losses Continue at Ramius Capital

**Ramius Capital** lost one portfolio manager and expanded the responsibilities of another as part of a broad shakeup of its single-strategy hedge fund business.

The New York firm also continues to cut staff, laying off another 10 employees during the past month on top of 40 positions eliminated in October. The latest personnel moves follow a decision by Ramius in December to shutter its convertible-bond, distressed-debt and merger-arbitrage funds, which suffered sharp losses last year. Going forward, the firm will pursue those strategies through its multi-strategy vehicles.

**Robert Ryon**, who ran Ramius Convertible Arbitrage Fund, left the firm at the end of December. The four investment employees who worked for Ryon — two in New York and two in Hong Kong — had been let go in October.

The convertible-arbitrage fund has been liquidated, and the allocation for that strategy has been scaled back even on the multi-strategy side. Ryon's fund fell about 28% last year, or 41% including expected losses on assets held by now-bankrupt **Lehman Brothers**. During the same period, the HFRI Fixed Income-Convertible Arbitrage Index dropped 35%.

The latest job cuts include three layoffs last week: a trader and a senior analyst on the merger-arbitrage team and a senior trader on the activist team.

Meanwhile, **Jeffrey Smith**, who runs the firm's activist investments with **Mark Mitchell**, was given the additional responsibility of overseeing more-liquid strategies. The move went into effect in November. Both Smith and Mitchell are partners. The U.S. version of the activist Ramius Value & Opportunity Fund slid 20.8% last year.

The head of the distressed-debt portfolio, **Nick Vouloumanos**, was among those who lost their jobs in October. He was replaced as portfolio manager of Ramius Credit Opportunities Fund by **Ken Grossman**, a Ramius newcomer. Grossman joined from **Del Mar Asset Management**, a New York hedge fund firm. The U.S. version of Ramius Credit Opportunities fell 43% last year, or more than 60% including the fund's Lehman exposure. During the same period, the HFRI Distressed/Restructuring Index dropped 25%.

All five of Ramius' multi-strategy vehicles posted losses last year. Three of them fell about 27%, including their exposure to Lehman. A fourth was down 23%. Ramius shuttered the U.S.-domiciled Ramius Leveraged Multi-Strategy Fund after it slid 54%. The HFRI Multi-Strategy Index dropped 20% in 2008. ❖

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## Ex-Trivium Exec Preps Equity Fund

Following the closing of **Trivium Capital** late last year, one of the firm's managing partners has set up a new shop and is preparing to launch an equity fund around midyear.

**Ward Davis'** firm, **Caerus Global Investors** of New York, will trade in consumer stocks and options globally. In e-mails to potential service providers, Davis said the fund will capitalize on "heightened volatility and excessive, macro-driven investor panic."

Davis is busy assembling front- and back-office staffs. On board so far is **Kristy Harris**, who was hired as research manager after serving in a similar role at Trivium. The firm will begin marketing the fund, called Caerus Global Investors, in mid-February.

At Trivium, Davis and partner **Rob Feinblatt** traded in technology, healthcare, consumer and retail stocks before shutting down the New York firm in December. They initially tried to find a buyer, but had no luck. Trivium began liquidating in October. Feinblatt has yet to decide on his next move.

Launched in 2002, Trivium once managed \$980 million. By early last year, however, the firm's assets under management had dropped to \$735 million. Trivium was down 17% during the first half of 2008. By the time the firm began liquidating, its assets had shrunk to \$400 million. ❖

## Madoff Case Forces Fund to Cut Staff

**FIM Advisors**, a London fund of funds that had nearly \$3 billion invested with **Bernard Madoff's** firm, is shutting down its New York office and laying off staff.

Five employees in New York received pink slips this month, including three on the investment side and two junior staffers in operations. Among those cut were **Chris Dregoo**, head of research; **Eric Lazear**, head of operational due diligence; and **Michal Dziegielewski**, a strategy head.

The layoffs sparked speculation the end could be near for FIM, which oversees \$4 billion of hedge fund investments. The firm is being sued by investors who say fund managers should have detected Madoff's alleged \$50 billion Ponzi scheme.

FIM, which is run by **Federico Ceretti** and **Carlo Grasso**, invested client money with Madoff's firm via its Kingate Global and Kingate Europe funds of funds. Founded in 1981, FIM has 45 employees in London, New York and Bermuda.

FIM is the latest fund-of-funds firm to cut staff and operations as a result of its Madoff exposure. **Tremont Group** of Rye, N.Y., has laid off 40% of its staff and shuttered an investment unit, according to published reports. A Tremont spokesman confirmed that the fund operator was shutting down its Rye Investment unit, a single-manager platform. Tremont had more than \$3 billion invested with Madoff.

Until 2005, Tremont and FIM jointly marketed Kingate Global. ❖

## Flags ... From Page 1

confirmed Scoop had been a client, but declined further comment, citing confidentiality agreements.

Among other things, the New York consulting firm found that Scoop's daily trading activity was reconciled only once a month. As a result, Scoop didn't have a clear idea of the assets it held in each fund. Neither the accounting nor the performance of the funds could be certified for accuracy, the consultant said. It recommended that Scoop hire a nationally recognized accounting firm and enter into a relationship with a prime broker.

The consultant also found that Scoop allowed unqualified investors into limited partnerships with qualified investors. CarbonBased warned that comingling investors could lead to penalties, including possible closure of the firm. Scoop also failed to verify the identity of investors or conduct credit checks. The lack of security procedures meant the firm didn't comply with provisions of the Patriot Act.

Nadel's firm also had virtually no policies controlling how it spent money. Checks needed only Nadel's signature to be

cashied. Employees traded for themselves in separate accounts alongside the funds. Scoop didn't have licenses for all of the software it used, and its practice of sharing computer programs with staff opened it up to potential fines, the report said.

Nadel was charged with securities fraud and wire fraud yesterday in connection with six funds he ran through Scoop. Authorities say Nadel, 76, had been telling investors that certain funds had \$300 million of assets, when in fact they had less than \$1 million. ❖

## Corrections

A Jan. 21 article, "Clive Capital Feels 'ATM Effect' After Gains," overstated the amount investors sought to withdraw from London fund operator **Clive Capital** at yearend. Investors asked to redeem \$600 million. After honoring the redemption requests, Clive Capital now has \$2.5 billion under management.

An item in The Grapevine on Jan. 21 about a new hire at **Oak Hill Advisors** incorrectly described **Glenn August** and **Bill Bohnsack** as founders of the New York firm. They are senior partners. ❖

## CALENDAR

### Main Events

Dates	Event	Location	Sponsor	Information
April 21-23	GAIM Asia 2009	Hong Kong	ICBI	<a href="http://www.icbi-events.com">www.icbi-events.com</a>
April 26-29	Institutional Investment Conference	San Francisco	Institutional Investor	<a href="http://www.marhedge.com">www.marhedge.com</a>
April 26-29	GAIM Cayman 2009	Cayman Islands	IIR	<a href="http://www.iirusa.com">www.iirusa.com</a>
April 27-May 1	Fund Forum Asia 2009	Singapore	ICBI	<a href="http://www.icbi-events.com">www.icbi-events.com</a>
May 6-8	Emerging Managers Summit	Chicago	Opal	<a href="http://www.opalgroup.net">www.opalgroup.net</a>
June 16-18	GAIM International 2009	Monaco	ICBI	<a href="http://www.icbi-events.com">www.icbi-events.com</a>
June 22-26	Fund Forum International 2009	Monaco	ICBI	<a href="http://www.icbi-events.com">www.icbi-events.com</a>

### Events in US

Dates	Event	Location	Sponsor	Information
Feb. 1-2	Global Asset Allocation Summit	Carlsbad, Calif.	Opal	<a href="http://www.opalgroup.net">www.opalgroup.net</a>
Feb. 2-3	Infrastructure Investment Forum	New York	Institutional Investor	<a href="http://www.iiconferences.com">www.iiconferences.com</a>
Feb. 3-4	Global Commodities Investment Forum	New York	Institutional Investor	<a href="http://www.iiconferences.com">www.iiconferences.com</a>
Feb. 4	Alternative Investments 2009	New York	CFA	<a href="http://www.cfainstitute.org">www.cfainstitute.org</a>
Feb. 4	Surviving a Hedge Fund Operational Due Diligence	New York	FTF	<a href="http://www.ftfnews.com">www.ftfnews.com</a>
Feb. 5	Battle of the Quants	New York	GCA, Trader Monthly	<a href="http://www.battleofthequants.com">www.battleofthequants.com</a>
Feb. 8-10	Network 2009	Key Biscayne, Fla.	MFA	<a href="http://www.managedfunds.org">www.managedfunds.org</a>
Feb. 8-11	Winter Inv. Mgmt. Forum for Endowments & Foundations	Scottsdale, Ariz.	NMS	<a href="http://www.nmsmanagement.com">www.nmsmanagement.com</a>
Feb. 8-11	ASF 2009	Las Vegas	ASF	<a href="http://www.americansecuritization.com">www.americansecuritization.com</a>
Feb. 11	Open Your Heart to the Children Benefit	New York	Hedge Funds Care	<a href="http://www.hedgefundscare.org">www.hedgefundscare.org</a>
Feb. 11-12	Federal Securities Institute	Miami	West Legalworks	<a href="http://www.westlegalworks.com">www.westlegalworks.com</a>
Feb. 13	Meet the Managers Forum	New York	Infovest 21	<a href="http://www.infovest21.com">www.infovest21.com</a>
Feb. 18	Electronic Trading of Futures & Options	New York	FTF	<a href="http://www.ftfnews.com">www.ftfnews.com</a>
Feb. 18-20	Investment Education Symposium	New Orleans	Opal	<a href="http://www.opalgroup.net">www.opalgroup.net</a>
Feb. 19	Hedge Fund Industry Social	New York	Alternative Assets	<a href="http://www.alternativeassetsevents.com">www.alternativeassetsevents.com</a>
Feb. 23	Do Opportunities Still Exist in Asia?	New York	Infovest 21	<a href="http://www.infovest21.com">www.infovest21.com</a>

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## Fund Administrator Buys Small Rival

Hedge fund administrator **Investment Data Services** is set to acquire the assets of **Tennyson Fund Solutions**, a small administrator based in the U.K., for an undisclosed sum.

Cape Town-based IDS is awaiting approval from regulators in South Africa before closing the deal. The purchase of Tennyson, which is based in Surrey, England, would give IDS a toehold in Europe.

Tennyson provides administration services to three hedge fund clients with a combined \$300 million under management. IDS has 165 clients, all in South Africa, with a total of about \$5 billion under management.

The combined firm will be rebranded IDS Tennyson. Four Tennyson employees will remain in England, but most of the European accounting work will be handled by IDS staff in South Africa.

For Tennyson, the deal settles uncertainty about the fate of the firm since its founder, **Tony Stocks**, died in October. Stocks, formerly the global head of administration at industry giant **Citico Fund Services**, founded Tennyson in 2007.

IDS was founded in 2002 by chief executive **Ian Hamilton**, **Stephen Gerber** and **Andrew Frankish**. The company targets hedge funds with between \$30 million and \$500 million under management — a market it believes is underserved. Larger administrators often charge fees that are too high for small and mid-sized funds. ❖

## Ex-Goldman Trader Preps Energy Fund

A former commodities trader at **Goldman Sachs** who recently left Wall Street after more than two decades has opened a hedge fund shop.

**Stephen Scala** set up **Silver Spring Partners** in Stamford, Conn., a few weeks ago, and is now assembling a core management team that so far encompasses at least three other positions. He hopes to begin fund raising shortly, and expects to launch the firm's maiden fund in the second quarter.

Details are sketchy, but the fund would focus on investments in the energy sector, building on Scala's experience in commodities. At Goldman, Scala reported to **Richard Ruzika**, the head of Goldman's commodities business.

Scala arrived at Goldman in the 1980s via the investment bank's acquisition of **J. Aron & Co.**, a commodities-trading firm. J. Aron was merged into Goldman's fixed-income business to create the fixed income, currencies and commodities group.

In recent quarters, the unit has generated large losses for Goldman, after posting big gains earlier in the decade. The unit's risk-taking capacity was drastically cut after Goldman morphed into a commercial bank during last fall's Wall Street meltdown. Despite the recent setbacks for the overall unit, the commodities operation has continued to perform well. ❖

## Brokers ... From Page 1

Stanley by **Ed Keller**, who is now head of equity research in the prime-brokerage unit.

Credit Suisse's **Jim Lafaman**, who ran prime-brokerage sales for the Americas, has been laid off. Meanwhile, BofA let go **Adam Langsam**, who headed sales in North and South America for the **Merrill Lynch** prime-brokerage unit. His departure came 18 months into a 2-year contract. Merrill veteran **Gary Yetman** is a likely candidate for the job.

Shilling, who runs **MSH Consulting** in Queens, N.Y., said banks are now focused less on selling prime-brokerage services and more on servicing existing clients. They're also increasingly focused on damage control when hedge funds blow up. That means greater scrutiny of fund managers and closer monitoring of their positions. In the third quarter of 2008, according to **Hedge Fund Research**, the number of fund liquidations exceeded the number of launches for the first time since the firm began tracking the data in 1996.

Fund managers gripe that staff turnover at the banks has made it harder for them to get attention from their prime brokers. Fearful of layoffs, some prime-brokerage staffers are spending more time on job searches than on servicing clients, the fund managers said.

Even **J.P. Morgan**, which has weathered the financial crisis better than most of its peers, has laid off staff in its prime-brokerage operation. In December, the bank cut three senior staffers, including top salesman **Douglas Stern**, who was a managing director, and **Roger Mack**. ❖

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**LATEST LAUNCHES**

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
<b>Guidance Commodity Long/Short Fund</b> Domicile: Cayman Islands	Brian Ziv, Toby Elliman, Ming Pan, Chris Walvoord and Peter Carl Guidance Capital, Chicago 312-602-1450	Fund of funds: commodity futures trading	Law firm: Reed Smith Auditor: Ernst & Young Administrator: NAV Consulting	March 1	\$50-100

To view all past Latest Launches entries, visit The Marketplace section of HFAAlert.com

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## THE GRAPEVINE

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**Vlad Artamonov**, who will “pursue an independent course,” according to the New York firm. Meanwhile, **Richard Owen**, formerly of **Blackstone's** European M&A and restructuring team, joins Greenlight's London office this month as its first research analyst. Greenlight's three funds all posted double-digit losses last year — the first losing year since the firm began in 1996.

Portfolio manager **Matthew Karchmer** is soon to leave **Fortress Investment** for **Israel “Izzy” Englander's Millennium Partners** of New York. Karchmer works on Fortress' flagship Drawbridge Global Macro fund, with a focus on consumer and industrial stocks. He has been with the New York firm since 2002, and was one of the few equity players who survived a round of layoffs in early 2008.

**Jason Huemer** left **SAC Capital** last week as global head of marketing and investor relations. He had served in that role for the past three and a half years. On

Monday, he started at **Atlas Capital** as one of four principals. Based in White Plains, N.Y., Atlas is a global macro and emerging-markets hedge fund. At **Steve Cohen's** Stamford, Conn., firm, Huemer's duties are being taken over by **Chris Rae**, director of marketing for North America, and **Patrick Mermagen**, director of investor relations.

**Michael Maffatone**, an information-technology executive at **Caxton Associates**, has left the New York firm founded by **Bruce Kovner**. Caxton Global, the firm's flagship fund, gained 2.7% in 2008. But that fund, as well as the firm's other vehicles, were hit with heavy redemptions as investors sought liquidity. The firm's Web site says it currently manages \$6 billion, down from \$12.5 billion in March 2008, according to **SEC** documents.

**Tye Schlegelmilch**, whose **Sonterra Capital** launched its debut hedge fund in October, has changed liquidity terms for investors. In a Jan. 12 letter, Schlegelmilch noted “a lot has changed in the world” since he started marketing the industrial- and energy-stocks fund in

March 2008, and investors are “rightfully frustrated by gates and lock-ups.” Sonterra had planned to require new investors to stay in the fund for at least one year, with quarterly redemptions thereafter. Now, the New York firm is allowing monthly redemptions. Sonterra has \$117 million under management.

**Kevin Brown** has joined **Alphacet**, a Stamford, Conn., firm that makes trading and research software for hedge funds and banks. Brown formerly worked as a quantitative equities analyst in the New York office of **Brevan Howard Asset Management**. At Alphacet, he is working with customers to manage data and develop models under **Hans Mollet**, head of services. Separately, Alphacet has assembled a six-member advisory board that includes **Ross Garon**, a managing member of quant shop **Tykhe Capital**.

**BlueCrest Capital Management's** head of investor relations, **Piers Westerman**, has left the London firm. He had joined BlueCrest in 2001. Fund operator **Man Group** of London has a 25% stake in BlueCrest, which manages some \$15 billion.

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