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Hedge Fund ALERT

JANUARY 23, 2013

THE GRAPEVINE

Lyxor Asset Management's U.S. arm has picked up **Gregory Berman** to lead selection of credit-product hedge funds for its multi-manager portfolios. Berman arrived at the Paris firm's New York office in December. He previously handled investments in a range of funds at **UBP Asset Management,** including vehicles employing credit and event-driven strategies. Before that, he helped set up and market collateralized debt obligations at **Bear Stearns.** He has worked at bond insurer **XL Capital** as well.

Special-situations fund manager **Revelation Capital** is losing one staffer, but has added three others. Portfolio manager **Constantin Lykhman** will leave the Bermuda shop this month. He's relocating to the U.K., but his employment plans couldn't be learned. Meanwhile, senior analyst **Nick Stansbury** has joined Revelation from **Standard Life,** where he focused on special-situations and activist plays as an investment director. Also new to the firm is analyst **Richard Butterfield,** from

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Funds of Funds Redeem From Caxton Vehicle

Investors in **Caxton Associates'** flagship fund withdrew $1 billion at yearend.

The redemptions leave Caxton Global Investment with about $6 billion. Disappointing performance may have played a role. The global-macro fund gained just 2% last year, compared with an average annual return of about 20% since its inception in 1983. On the other hand, the average global-macro vehicle performed even worse, with the HFRI Macro Index dropping 0.4% in 2012.

Funds of funds accounted for the lion's share of the quarterly withdrawals, although most of them submitted only partial redemptions. In any case, multi-manager vehicles make up a shrinking portion of the firm's investor base. Since reopening in 2009, the fund has attracted a growing number of pensions, sovereign-wealth funds and other institutions that now account for about half of its investors.

In a bid to raise more capital, Caxton cut its fees on Jan. 1. It now charges a 2.6%

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DGAM Fund Targets Uncorrelated Strategies

Fund-of-funds operator **Diversified Global Asset Management** has launched a vehicle that invests in complex strategies with little or no correlation to mainstream markets.

The offering, DGAM Opportunity Fund, began trading last month with something less than $100 million of seed capital from a sovereign-wealth fund in the Middle East. DGAM is pitching the vehicle as an appropriate choice for experienced hedge fund investors looking to complement their existing portfolios, as well as for newcomers seeking a conservative entry point. The Toronto manager expects the fund will have more than $250 million of assets within a year or so.

The vehicle seeks a return of 7-10 percentage points over Libor, with volatility of just 5-7%. It is designed to have virtually no correlation to stocks or hedge fund indexes and a slight negative correlation to bonds.

DGAM Opportunity Fund will invest in hedge funds that pursue a range of

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Omega Poised to Bar Entry to New Investors

Look for **Omega Advisors** to cap its main hedge fund in the near future.

Marketers representing the New York firm have told investors it will stop accepting capital once overall assets reach $8 billion. At last count, Omega was managing about $7 billion as of December — up from $6.4 billion nine months earlier.

Much of the increase in assets has been driven by performance, rather than inflows. The flagship fund, Omega Overseas Partners, rose 25.3% last year, versus a 7.4% gain for the HFRI Equity Hedge (Total) Index. The Omega fund, which invests in large-cap equities, has delivered a 13.8% average annual gain since its inception in 1992.

But sources said the firm hasn't made a final decision about closing off the fund to fresh capital. Founder **Leon Cooperman** will weigh several factors in the coming months, including "idea flow," investment opportunities and performance.

Cooperman opened Omega in 1991 after leaving **Goldman Sachs,** where his titles

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Brokerage Pros Knock on Wells' Door

Wells Fargo won't have to look far for candidates to replace the three high-profile prime-brokerage professionals who abruptly resigned from the bank last week.

As word emerged that **Stephan Vermut,** his son **Aaron Vermut** and **Ron Suber** were stepping down to join peer-to-peer lending company **Prosper.com,** industry professionals responded immediately with inquiries about Wells' plans for filling their posts. Indeed, many were scrambling to get their resumes on the desks of bank executives even before the departures were announced by Prosper yesterday.

Much of the interest is coming from prime-brokerage specialists laid off amid recent staff cuts at banks or from those who remain employed but have become dissatisfied with shrinking bonus payments across the industry. They're drawn to what they see as a rare opportunity to work for an already-established operation with the backing to become an even bigger player.

Wells' prime-brokerage division formed with the bank's purchase last year of **Merlin Securities,** for a price that sources pegged at less than $300 million. The Vermuts co-founded Merlin eight years ago and led the firm. Suber was head of sales.

The acquisition gave Wells a sizeable footprint in the business, as Merlin already offered technology, analytics and capital-introduction services to more than 500 hedge funds. As one of the largest banks in the U.S., however, Wells clearly offers room for growth. Its market capitalization of $184 billion is roughly equal to that of **J.P. Morgan** — which is among the biggest players in the prime-brokerage business.

At Prosper, Stephan Vermut is serving as chief executive. Aaron Vermut will join as president, but first will stick around at Wells to oversee a transition period of undisclosed length. Suber is leading his new employer's sales efforts. Their additions coincide with the arrival of $20 million of fresh funding from a group that includes **Sequoia Capital.**

Industry sources said they were unsurprised by the moves, given an entrepreneurial streak shared by the Vermuts and Suber. But staffers at Wells were caught off guard by the exits of the longtime prime-brokerage specialists — especially after the bank spent months integrating Merlin's business and technology into its own operations. The unit, rebranded last month as Wells Fargo Prime Services, also initiated a clearing and custody business and launched an effort to cross-sell banking products to Merlin's hedge fund clients. ❖

Young Analyst Prepping Hedge Fund

A 23-year-old stock picker who worked briefly at **Morgan Stanley** is launching a hedge fund with an unusually large amount of initial capital.

Farris Hassan set up New York-based **Farris Fund Management** in December. Sources said he expects to begin trading in the next few weeks with more than $200 million of "friends and family" money. The planned Farris Hedge Fund is a catalyst-driven, multi-asset vehicle with an open mandate — meaning Haasan has leeway to trade anything he thinks will generate strong returns.

Despite the broad mandate, Hassan's initial focus will likely be long/short equity investments in U.S. utilities and unregulated power companies. Those are the stocks he analyzed as part of a three-person research team at Morgan Stanley, where he worked from June 2011 until October 2012. That unit had a catalyst-driven bent, frequently recommending stocks the analysts viewed as likely to be impacted by a discreet event.

Hassan has hired two analysts and expects to expand his staff once he has established a track record and is ready to market to a wider audience.

Hassan began doing stock research for his father, an Iraqi-born physician, when he was just 9 years old, and started trading at 15. But he's better known for a headline-making trip he took to Iraq when he was 16. Then a junior at Pine Crest School in Fort Lauderdale, Fla., Hassan hopped a flight to Baghdad via Lebanon, ostensibly to practice "immersion journalism." ❖

Amici Vehicle Opens to Outsiders

A healthcare-focused equity fund with a 16% average annual return over the past five years is opening to outside capital for the first time.

The vehicle, Amici Healthcare, is run by **Amici Capital,** a $2 billion fund operator that this month changed its name from Porter Orlin. The fund, which launched in December 2003, currently manages about $25 million of the firm's money. The portfolio manager for the past five years, **Jim Flynn,** has delivered twice the return of the S&P 500 Index, on average, with half the volatility.

The New York firm, led by **Paul Orlin** and **Alex Porter,** has begun booking appointments with institutional investors to market the healthcare fund. The firm has been on a fund-raising tear, with assets under management up from about $1.4 billion less than a year ago.

It's no wonder, given the firm's consistently strong returns. Its flagship program, a global-equity vehicle known as Amici Strategy, has delivered a 14% average annual return over 19 years, with little correlation to the S&P 500. Its worst year was 2008, when it lost 6% — compared to an industry-average loss of 19%.

The firm's only other hedge fund, Amici Global, invests in non-U.S. stocks. It gained 26% in 2012, versus 7.4% for the HFRI Equity Hedge (Total) Index.

Porter has been managing hedge funds since the 1970s. He got his start at **A.W. Jones & Co.,** whose founder, **Alfred Winslow Jones,** is credited with creating the first hedge fund.

Porter teamed up with Orlin in 2004. They changed the name of their firm to highlight the Amici brand. ❖

Zimmer Team Pitching Utility Fund

The former co-head of **Zimmer Lucas Capital** launched his own fund operation this month with about $200 million.

Stuart Zimmer, who recently split with former partner **Craig Lucas** after 15 years, is now doing business under the **Zimmer Partners** banner. The firm's debut vehicle is a utility-focused equity fund that Zimmer carried with him from Zimmer Lucas. That vehicle, now called ZP Utility Fund, manages money for former Zimmer Lucas investors who stuck with Zimmer following the split.

The fund, formerly called ZLP Utility Fund, has delivered a 23% average annual return since its inception in 1997. It has been closed to new investors during much of its lifespan, however — including last year, when the fund went to cash while Zimmer and Lucas worked out the terms of their separation.

Zimmer's new firm is looking to quickly ramp up assets under management. Playing a key role in that effort is **Joe DiMartino,** who had been president of Zimmer Lucas. He's now leading a capital-raising campaign for the ZL Utility Fund with the aim of doubling its assets by the end of the second quarter — and expanding it to $500 million by yearend. There are no plans to launch additional funds.

Zimmer has always functioned as the sole portfolio manager of the utility fund. The vehicle invests in the stocks of utilities and mid-stream energy companies such as pipeline operators. He plans to cap the fund once it reaches $750 million to $1 billion of assets.

After finalizing the terms of his separation from Lucas, Zimmer moved the utility fund out of cash and began actively managing it again on Oct. 1. The vehicle was up 13.5% from Oct. 1 to Jan. 18. It gained 7% in 2012.

Zimmer and Lucas split over "philosophical differences." Lucas has since started his own firm, called **Nexus Asset Management,** that will invest client capital in energy-focused hedge funds run by other managers.

Zimmer Lucas also ran two other hedge funds and a fund of funds. It had about $900 million under management at the start of 2012.

Before founding Zimmer Lucas, Zimmer worked alongside DiMartino as an analyst for hedge fund pioneer **Michael Steinhardt.** ❖

Institutions Ready to Back Contour

A capital-raising campaign by **Contour Asset Management** is about to bear fruit.

The equity-fund operator, with about $750 million under management, is on the verge of booking subscriptions from 4-5 institutional investors. The expected inflows are the result of a concerted marketing effort led by founders **David Meyer** and **Seth Wunder.**

Indeed, the New York firm will soon be looking to hire a marketer to assume responsibility for fund raising so that Meyer and Wunder can devote themselves to managing their Manticore Fund. Not that performance has suffered; on the contrary, the fund gained 22% in 2011 — when the HFRI Equity Hedge (Total) Index lost 8.3% — and added another 8% in 2012.

Manticore Fund, including both a Cayman Islands vehicle and a U.S. version, takes long and short positions in technology, media and telecommunications companies. It launched under the auspices of Stockholm-based **Brummer & Partners,** then spun off in 2010. Brummer maintains an ownership stake.

As it begins searching for an in-house marketer, Contour also is about to hire an investor-relations professional to replace **Alexandra Simon,** who left late last year.

Meyer joined Brummer in 2004 as an analyst covering technology stocks for the firm's Zenit Fund, then transferred to Manticore a year later. Wunder arrived in 2009. He previously was a founding member at **Tracer Capital.** ❖

Former TCW Stock Picker Goes Solo

An equity portfolio manager who previously worked at **TCW** has set up his own hedge fund firm.

Jay Gibbons opened **Swanson River Capital** of Greenwich, Conn., last month with plans to launch a long/short equity vehicle in the next few weeks. He expects to begin trading with about $5 million, including his own money and contributions from family and friends.

The fund will target small-cap stocks that escape the attention of most analysts. The strategy is similar to the approach Swanson took during an 11-year run at Los Angeles-based TCW. In addition to running a portfolio of small- and mid-cap value stocks, he conducted research on industrial, energy and materials companies for the firm's hedge funds. Gibbons worked in TCW's New York office.

Gibbons plans to work alone until his fund establishes a track record and can be marketed to a wider audience. ❖

CMBS Specialists Join Forces

Two fund shops specializing in commercial real estate-debt securities combined operations on Jan. 1.

Karen Kulvin and **Andrew Smith,** who founded **Aqua Investment** of New York in 2008, are now working at **Exigent Capital** as portfolio managers. That New York firm, which has about $50 million under management, is led by **Eliezer Brender** and **Eric Davis.**

Exigent, which was founded in 2009, mainly invests in commercial mortgage-backed securities, with a focus on the interest-only strips of those deals. Following the financial crisis, the firm made purchases through the **Federal Reserve's** Term Asset-Backed Securities Loan Facility.

Exigent, which takes a macro approach to identifying investment opportunities, runs several vehicles, including Exigent IO Credit Opportunities Fund and Exigent Advantage Fund, which launched this month with $8 million. The firm also manages separate accounts.

Aqua ran two CMBS-focused hedge funds in a joint venture with **BlueGate Partners.** One of those vehicles, Aqua BlueGate CMBS Venture 2, raised about $40 million of equity in 2010 to target investments via the Fed's TALF program. Aqua recently notified the **SEC** that it was withdrawing its investment-advisor registration.

Before founding Exigent, Davis spent time at **Merrill Lynch** and law firm **Paul Hastings.** Brender, Exigent's chief investment officer, previously worked in private equity, and counts **J.P. Morgan** among his former employers.

Kulvin's resume includes a management position at commercial real estate firm **LNR Property.** Smith previously focused on investments in commercial real estate debt at several buy-side shops, including **Fortress Investment.** ❖

Tellco Favoring Single Managers

Swiss asset manager **Tellco** expects single-manager vehicles to account for the entirety of its new hedge fund investments this year.

The outlook represents a departure from Tellco's usual practice of investing both in single- and multi-manager funds on behalf of its clients, which include pension systems, corporations and wealthy individuals. The reason: Like many of its peers, the shop has found it increasingly difficult to find funds of funds it wants to back.

The result is that Tellco expects to invest directly with as many as eight hedge funds this year. The firm does not plan to withdraw capital from funds of funds as part of the shift.

Tellco's hedge fund unit was set up in 2009 and now runs $100 million, mostly through its Tellco Absolute Return and Tellco Alternative Strategy funds of funds. Those vehicles invest the bulk of their capital in funds run by U.S. and U.K. managers that have included **BlueCrest Capital, Brevan Howard Asset Management, Caxton Associates, Milennium Management** and **Paulson & Co.**

Tellco's investments in outside funds of funds, meanwhile, include stakes in vehicles run by managers including **Balestra Capital** and **EnTrust Capital.**

Tellco typically turns over about 30% of its hedge fund portfolio each year. It allocates 40% of its hedge fund capital to commodity vehicles, with another 40% earmarked for multi-strategy funds and 20% reserved for opportunistic selections. ❖

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specialized strategies, including hard-to-execute relative-value plays involving energy and other commodities; debt investments requiring unusual access, such as bank deleveragings; and esoteric assets including catastrophe bonds and intellectual-property rights. The manager also will apply an options overlay designed to protect investors from extreme market drops.

Following a one-year lockup, limited partners will be permitted to withdraw quarterly with notice of 95 days. Fees are scaled to the size of the investment.

DGAM, founded in 2004 with a mandate to design customized multi-manager portfolios for institutional clients, runs $2.3 billion on a discretionary basis. Last year it launched a non-discretionary business called DGAM Advisory Services whose first client is **MLC,** the wealth-management arm of **National Australia Bank.** DGAM's non-discretionary assets total $3.7 billion.

The firm is led by **George Main,** who previously was chief investment officer at **Northwater Capital.** President **Graham Thouret,** chief investment officer **Warren Wright** and chief operating officer **Jeff Lucassen** co-founded DGAM with Main. Wright oversees the new fund. ❖

Gardenia Offers Japanese Stock Fund

Gardenia Global Advisors has launched a vehicle that replicates the Japan-specific investments of its flagship equity fund.

The New York firm, led by Japan specialist **Michael Herzig,** began trading the new fund on Jan. 7 with a small amount of "friends and family" money. It takes long and short positions in the stocks of Japanese companies.

The firm's main vehicle, Gardenia Relative Value Fund, targets mid- and large-cap stocks in both the U.S. and Japan. The strategy of the new offering, Gardenia Japan Opportunity Fund, essentially is to coinvest alongside the Japanese book of the flagship fund.

Gardenia Relative Value, which launched in January 2008, gained 2% that year, followed by 16.5% in 2009. It lost money the next two years, dropping 2% in 2010 and 3% in 2011. Herzig acknowledged his timing was off on some stock picks. But he stuck with his investments, and last year the fund gained 14%.

In discussions with investors about the new fund, Herzig is highlighting the fact that less than 1% of global hedge fund assets are invested in Japan. The fund uses leverage of up to 200% of gross exposure.

Investors pay a 1.5% management fee and 20% of gains. The fund permits quarterly withdrawals with notice of 45 days.

Gardenia's main fund launched with a seed investment from **Lydian Asset Management,** which later withdrew the money as the firm unwound in 2010. The fund currently accounts for most of Gardenia's $22 million under management.

Before founding the firm in 2007, Herzig clocked 16 years at **Merrill Lynch** in a variety of roles. Working with him at Gardenia is research director **Jeff Bahrenburg,** who also spent years at Merrill. At one point, he oversaw Merrill's Japanese strategy. ❖

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management fee, down from 3%, and a 27.5% performance fee, down from 30%. But even after the reductions, Caxton's fees remain above the industry average of 2% of assets and 20% of gains.

Caxton has long been a top performer in the global-macro space. In 2008, the main fund gained 13%, compared to a 19% drop in the HFRI Fund Weighted Composite Index.

Despite the weak performance of global-macro vehicles last year, investors continued to allocate capital to the strategy. Net inflows totaled $10.3 billion, according to **Hedge Fund Research.** At yearend, global-macro hedge funds were managing a combined $488 billion.

Caxton was founded in 1983 by **Bruce Kovner** and **Peter D'Angelo. Andrew Law** took over as chief executive upon Kovner's retirement in 2011. The firm manages $7.5 billion overall. ❖

Omega ... From Page 1

included chief executive of the bank's asset-management business. He runs Omega with another former Goldman partner, **Steve Einhorn.**

About half of the firm's 30 employees work on the investment side. The most recent investment professional to join is **Peter Boockvar,** who arrived in recent weeks from **Miller Tabak & Co.** He supports Omega's macro-strategy team. ❖

LATEST LAUNCHES

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
Farris Hedge Fund Domicile: U.S. ☛See Page 3	Farris Hassan Farris Fund Management, New York 954-249-3959	Equity: long/short	Law firm: Herrick Feinstein	Feb.	$200+
Gardenia Japan Opportunity Fund Domicile: U.S. ☛See Page 7	Michael Herzig Gardenia Global Advisors, New York 212-218-3907	Equity: long/short	Prime broker: Nomura Auditor: McGladrey Administrator: NAV Consulting	Jan. 7	
Swanson River Capital Domicile: U.S. ☛See Page 4	Jay Gibbons Swanson River Capital, Greenwich, Conn. 203-769-1835	Equity: long/short		Feb.	$5
Three Vines Partners Domicile: U.S.	Daniel Weinbach and Peter Weinbach Three Vines Asset Management, Southport, Conn. 203-895-2519	Equity: long/short	Prime broker: Morgan Stanley Law firm: Seward & Kissel Auditor: Rothstein Kass Administrator: ALPS Fund Services	Jan. 2	$2.1

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Bank of Butterfield. And information-technology specialist **Craig Doran** returned after two years working for a charitable organization. Revelation runs $173 million.

Fund-of-funds operator **Cross Shore Capital** has a new head of investor relations. **Paul Fox** joined the Boston firm this month, after 12 years at **Arden Asset Management** of New York. At Arden, he served as an executive director responsible for client services and client development. Cross Shore manages $500 million, with a focus on long/short equity strategies. Its clients include wealthy individuals, foundations and endowments.

Albert Fried & Co. has added another staffer to its newly formed prime lending services group. **Salvatore Cangialosi** started at the New York brokerage firm in the past two weeks. His duties include recruiting hedge fund clients. He also handles corporate- and treasury-securities lending and financing efforts in the U.S. and abroad. Cangialosi most recently worked as a director covering fixed-income securities lending at **Credit Suisse,** where he was employed for 20 years. His arrival at Albert Fried follows the hiring of **Vincent Avena** and **Paul Stegmann** to oversee the new prime lending group, which aims to ramp up efforts to sell securities-lending and other financing services to hedge funds.

Startup **Armilla Advisors** installed **Pascal Stalder** this month as a senior consultant. Armilla, founded in December by risk-management specialist **Kris Houlihan,** helps institutional investors interpret data about their hedge fund holdings and adjust portfolios to reflect their risk appetites. Prior to joining the Newport Beach, Calif., firm, Stalder was deputy chief investment officer at **Arizona Public Safety Personnel Retirement.**

The **Chicago Mercantile Exchange** is seeking a professional to market its products and services to hedge fund managers across North America. The recruit would work in New York, promoting a range of listed futures- and options-related products to existing and prospective clients. In addition to derivatives exchanges in Chicago and New York, Chicago Mercantile parent CME Group operates online trading services, handles settlement and clearing of trades and owns a majority stake in **Dow Jones Indexes.**

Vice president **Howard Loebmann** has left **Grosvenor Securities,** where his clients included hedge funds. Loebmann had joined the Chicago broker-dealer in June 2004. He exited in recent weeks, destination unknown.

Wynnefield Capital appears to be carrying on with business as usual, even as the **SEC** continues to pursue an insider-trading complaint against the firm. The small-cap value shop will hold a celebration in New York on Feb. 7 to mark the 20th anniversary of its launch, and is moving ahead with recent marketing efforts. The SEC's case, meanwhile, was reinstated by an appeals court in September after being tossed out by a federal judge in 2010. Wynnefield, founded by **Joshua Landes** and **Nelson Obus,** runs $270 million — down from a peak of $460 million in 2006. Its main fund is posting average annual returns of 14.4%.

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