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# Hedge Fund ALERT

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## MFA Seeks Ties to Other Lobbying Groups

The **Managed Funds Association** is looking to boost its leverage in Washington by teaming up with a number of smaller hedge fund groups.

As the mouthpiece for the biggest fund operators, the association has had little need in the past to coordinate with regional organizations or other industry groups that represent mostly smaller players. But with a tidal wave of regulatory initiatives building in Washington, the MFA has begun discussions with other lobbying groups about forming a broad alliance.

The discussions will be part of the behind-the-scenes activity at the MFA's annual networking event Jan. 31-Feb. 2 in Key Biscayne, Fla. During the conference, association officials are expected to meet with representatives of the **Hedge Fund Association,** which represents some 200 small and mid-sized managers, as well as some regional trade organizations. Just last week, the MFA announced an alliance with a regional group: the **Connecticut Hedge Fund Association,** which represents

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## Ospraie Wooed Ex-LPs to Commodity Funds

Shrunken **Ospraie Management** has lined up nearly $450 million for two new commodity-related funds, thanks largely to favorable terms offered to investors who were in a vehicle the firm shuttered last year.

The New York firm was once the largest commodity-related hedge fund operator, managing $9 billion at its peak before its main vehicle, Ospraie Fund, lost nearly 39% in 2008. That setback stood to trigger a clause that required the firm to unwind the fund if it was down more than 30%, though Ospraie started liquidating the vehicle earlier when it realized it was nearing that threshold. The sharp decline for Ospraie Fund, which once managed as much as $4 billion, was typical of the performance of the overall commodity market in 2008, when **S&P's** GSCI commodity index was down nearly 43%.

As part of its rebuilding process, the firm set out in May 2009 to raise money for two commodity-related vehicles: Ospraie Equity Fund and Ospraie Commodity

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## Fin 48 Complicates Yearend Audit Process

A 4-year-old accounting rule is finally catching up to the hedge fund industry.

At issue is the **Financial Accounting Standards Board's** Interpretation No. 48, better known as Fin 48, which provides guidance on accounting for uncertain tax liabilities. Adopted by FASB in 2006, Fin 48 initially applied only to publicly traded companies. But starting with the 2009 tax year, the rule's reach was expanded to limited partnerships and private investment vehicles.

As a result, many fund managers and their accountants are just now coming to terms with the complicated provision. What they're discovering is this: Certain investment gains that didn't necessarily constitute taxable events in the past now must be booked as liabilities pending a review by the **IRS** or other tax authority. That, in turn, is putting a dent in net asset values.

"Some people believed that Fin 48 adoption would not be a big deal for hedge

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## THE GRAPEVINE

**Daniel Benton,** who shuttered his once-$9 billion **Andor Capital** in 2008, launched a fund of hedge funds this month to run his own money. The $200 million vehicle, called Benton Partners 2, is being managed from Andor's old offices in Greenwich, Conn. Benton was a star technology stock picker at **Art Samberg's Pequot Capital** before launching Andor in 2001. At the time he closed his firm, Benton said he was retiring.

**Steve Cohen's SAC Capital** deployed a half-dozen recruiters to scout for quant specialists at a high-frequency-trading conference in New York last week. SAC apparently is looking to hire traders for its quantitative-investment portfolios. More than 200 quants showed up for the oversubscribed event, co-sponsored by **Trading**

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## AlphaShares Bets Big on China

**AlphaShares,** an investment-management firm co-founded by **Princeton University** economist **Burton Malkiel,** started trading a long-only China stock fund on Jan. 1.

Red Dragon Fund is the second China-focused vehicle the Walnut Creek, Calif., firm has launched during the past year. Green Dragon Fund, which hedges its long positions with call options, began trading in April 2009 and now has $10 million under management. The fund gained 41% through yearend.

AlphaShares is pitching both vehicles to institutional investors, which Malkiel believes are generally underexposed to China's fast-growing economy. For the latest launch, the firm raised an undisclosed amount of seed capital.

Both funds invest in up to 100 Chinese companies. And both offer investor-friendly terms: Monthly liquidity with no lockup, a 1% management fee and no performance fees.

Malkiel started AlphaShares in 2007 with **Kevin Carter,** who founded an electronic-trading outfit that he sold to **E-Trade** in 2000. He later founded **Active Index Advisors,** which was purchased by **IXIS Asset Management** in 2004.

AlphaShares has about $550 million under management, including separate accounts and exchange-traded funds based on proprietary Chinese stock indexes.

Malkiel, best known as the author of a popular investment book, "A Random Walk Down Wall Street," is AlphaShares' chief investment officer. After extensive research, he is convinced China's economy will continue to grow rapidly. He recommends that institutional investors commit a minimum of 5% of their assets to investments in China. U.S. institutions are typically about 1% exposed to China.

AlphaShares' portfolio manager is **Jonathan Masse,** who previously managed institutional assets for **Barclays Global Investors.** His team at Barclays oversaw $300 billion. ❖

## Orwicz Vehicle Comes Into Focus

Details are emerging about a hedge fund being set up by **Paul Orwicz,** a former senior portfolio manager at **SAC Capital.**

Via his newly established **Sursum Capital,** Orwicz is aiming for an April 1 launch of a long/short equity fund that would initially focus on the technology, media, telecommunications and energy sectors. That was his specialty at SAC, a $13 billion fund manager led by **Steve Cohen.**

There was early talk that Orwicz had landed a large amount of seed capital. What's known is that he plans to invest the "majority of his liquid net worth" in the fund.

Sursum, based in Greenwich, Conn., plans to set a $5 million minimum for investing in the vehicle. Investors will be allowed to withdraw once a quarter with 65 days' notice, but they face a 5% penalty if they redeem during the first 12 months following the launch.

Orwicz's investment style will combine fundamental research and active trading, much as it did during his years at SAC, which is based in Stamford, Conn. The Sursum fund typically will hold as many as 50 large-cap positions — mostly U.S. stocks but also American Depository Receipts of non-U.S. companies. International plays would likely make up less than 30% of the overall portfolio.

Orwicz had been one of the longest-tenured portfolio manager at SAC. He worked alongside Cohen from 1998 to 2004, then started running his own book. Orwicz's portfolio generated annualized compounded net returns of 41%.

Prior to SAC, Orwicz was a portfolio manager at **Israel "Izzy" Englander's Millennium Partners** and a co-founder of **Ganek & Orwicz Partners,** a market-neutral arbitrage hedge fund.

At Sursum, Orwicz has hired three analysts who worked under him at SAC: **Paul Kim, Eric Ogden** and **Dauvin Peterson. Tom Hoban,** previously the finance, operations and compliance chief at **Pilot Rock Investment Partners** of Old Greenwich, Conn., has the dual title of finance and operations chief at Sursum. **Knight Capital** alumnus **Tom Fiorita** is chief administrative officer. ❖

## CalSTRS Eyes Global-Marco Funds

**California State Teachers,** the nation's second-largest public pension plan, is looking for one or more global-macro fund managers to help it invest in hedge funds for the first time.

Within the past few weeks, CalSTRS staff began a search for at least one fund manager that specializes in global-macro investing. In November, the board of the $132 billion retirement system gave its staff the go-head to consider hedge funds as a new investment area.

CalSTRS is rebalancing the makeup of its portfolio after its asset size shrunk 25% in the year ended June 30. ❖

## Carlson Alumnus Shutters Firm

**Brookline Avenue Partners,** a five-year-old fund operator founded by a former **Carlson Capital** portfolio manager, shut its doors at yearend.

Word has it that the Dallas shop decided to call it quits after a major investor withdrew its capital. As of Nov. 30, Brookline Avenue's event-driven hedge fund had $145.8 million of assets.

**Richard M. Morano** founded Brookline Avenue in 2005 shortly after leaving Carlson, a Dallas firm run by risk-arbitrage specialist **Clint Carlson.** Morano ran a convertible-bond-arbitrage portfolio for Carlson. That same year, several other Carlson portfolio managers left to start their own hedge funds, including **Patrick McMullen, Richard Avakian** and **Christopher Floyd.**

Despite the financial crisis, Carlson has been on a hiring spree during the past two years, adding some two dozen staffers. The firm had $4.4 billion under management in the third quarter of 2009. ❖