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Hedge Fund ALERT

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SEC Loath to Clarify Insider-Trading Rules

Hedge funds aren't likely to get the regulatory guidance they're seeking on how the **SEC** defines insider trading.

With an increasing number of industry players coming under scrutiny, the **Managed Funds Association** wrote to the SEC in mid-January requesting a "clear, definitive rule book" on what constitutes insider trading. A month later, the regulator has yet to respond to the request.

A top SEC enforcement official said this month that his agency has provided clear guidelines on how far portfolio managers and analysts can go in obtaining information about the companies they invest in. It's one thing for an analyst to "talk to a scientist . . . [or] doctor" to stay abreast of technological developments, the official said in an interview with **Hedge Fund Alert**. "But talking to a company official that gives you numbers ahead of public release is always going to get you into trouble."

Hedge funds, of course, see things differently. While there have been some clear-cut

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Coatue Hires Counsel From Expert Network

Vincent Tortorella has resigned as chief compliance officer of expert-network firm **Guidepoint Global** to take a similar position at hedge fund operator **Coatue Management.**

It's unclear whether last month's move was prompted by the federal government's widening insider-trading probe, which led to the arrest of a Guidepoint expert, **Yves Benhamou,** in November. "His life was pretty difficult for the last three months, responding to subpoenas on one side and irate clients on the other," a person familiar with Guidepoint said of Tortorella. "It's not an enviable position to be in."

However, a market player familiar with Tortorella said the career change was driven mainly by the opportunity to work for a prominent hedge fund manager. Coatue was founded in 1999 by **Philippe Laffont,** known as a "Tiger cub" because he previously worked under hedge fund guru **Julian Robertson** at **Tiger Management.** Coatue

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York Recruits Traders to Head Equity Desk

York Capital has nabbed investment staffers from **Sigma Capital** and **Meru Capital** to take over as co-heads of equity trading, filling a position vacated by one of York's most senior executives.

Edward Zatorski retired this month as head of equities trading after 15 years at the $14.9 billion hedge fund firm. To fill his shoes, York recruited **Sean Holub** from Sigma and **Zachary Williams** from Meru. Zatorski will continue working for a while on a consulting basis to ensure a smooth transition.

"When there were four employees at York, Ed was one of them," said a person close to the firm. "This was a very, very comprehensive search that went on for many months."

Sigma is a New York unit of **SAC Capital,** the Stamford, Conn., hedge fund operation headed by **Steve Cohen.** Meru, founded by alumni of **Old Lane Partners,** was one

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THE GRAPEVINE

Morgan Stanley is thinking about reshuffling top management of its prime-brokerage business in London. There's no word on the specific changes the bank is contemplating, but the plan could affect **Martin Byman** and **Warren Holmes,** who co-head the European unit. It's also possible the plan could mean a change for **Dom Freemantle,** who oversees capital-introduction activities in Europe. **Alex Ehrlich** leads Morgan Stanley's worldwide prime-brokerage operation.

Scott Bessent left **Protege Partners** at yearend, when his role was scaled back, and now plans to start a global-macro fund. At the start of this year, Bessent, who had been director of investment strategy and research at Protege since 2007, began working at the New York firm as a consultant — a role he plans

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Big Banks Open Arms to Small Funds

Goldman Sachs, J.P. Morgan and **Morgan Stanley** are spreading the word that their prime-brokerage units are eager to do business with startup managers.

The marketing efforts are aimed at countering reputations the banks earned during the financial crisis for turning their backs on smaller, less-established fund managers in favor of their biggest, most profitable clients. The banks' apparent pullback — along with the collapse of **Lehman Brothers** and disappearance of **Bear Stearns** and **Merrill Lynch** as free-standing firms — opened the door for smaller brokerages, or "mini primes," to enter the hedge fund arena.

The Wall Street banks insist they never gave up on startups and smaller fund operators. But there are signs that Goldman, J.P. Morgan and Morgan Stanley are now going out of their way to make emerging managers feel welcome.

In recent months, J.P. Morgan has helped two dozen managers launch their debut funds. The list includes **Global Credit Advisors** and **Pamli Capital,** both of New York, which launched with less than $20 million apiece.

"There is no line in the sand in terms of assets under management," said **Neil Sherman,** managing director and head of global sales for J.P. Morgan's prime-brokerage business. "We always ask what we can deliver to the client — not only in prime services, but also in sales, trading, research and financing across the capital markets, in operational services within the investment bank, our treasury and securities-services division, in the private bank or in the commercial bank."

Morgan Stanley, too, has been working with a number of startups of late — some of them so small that an executive at one mini prime now sees the big investment bank as a competitor.

"On a superficial level one might say Morgan Stanley has lowered its threshold, but the reality is the talent pool is as good as it's ever been," said Morgan Stanley prime-brokerage chief **Alex Ehrlich.** "But it's harder, post-2008, for startups to raise money."

A Goldman spokesman, while acknowledging that the bank dropped some smaller hedge funds during the financial crisis, said there is no "floor" on assets under management that Goldman is willing to work with. The bank focuses on the "forward picture" — that is, a manager's growth potential.

After the market debacle of 2008, Goldman became the poster child for Wall Street banks seen as too big to care about smaller hedge funds. "With Goldman, it was, 'Beat it. We can't help you,' " said an executive at a mini prime.

J.P. Morgan was credited with taking a gentler approach with its clients, even when they were being shown the door because of their small size. In those cases, the bank would try to pass the manager off to a mini prime that would then use J.P. Morgan to clear trades.

J.P. Morgan's handling of smaller fund operators was shaped by its March 2008 acquisition of Bear, which had a long history of working with startup managers. **Alessandra Tocco,** a Bear alum who is now global head of capital introduction at J.P. Morgan, noted she has two clients that each started out at Bear with less than $5 million of assets and now rank among the world's largest hedge fund firms. Tocco said J.P. Morgan embraced Bear's willingness to work with startups and made a decision to continue offering cap intro and other unprofitable services that are vital for fund launches. ❖

Barak Expands Commodities Strategy

An Africa-focused commodities manager is teeing up a vehicle that would seek to exploit arbitrage opportunities between agricultural and non-agricultural products globally.

Barak Fund Management of Port Louis, Mauritius, has reached a deal with a seed investor for $4 million of up-front capital. The vehicle, Barak Commodity Derivatives Fund, is set to begin trading next month. The strategy would entail trading derivatives tied to a wide variety of "soft" and "hard" commodities whose prices tend to be correlated.

At the same time, the firm is tweaking the terms of its flagship vehicle, Barak Structured Trade Finance Fund, which lends money to commodity traders in Africa. Despite strong returns — a 16.5% average annual gain since launching in February 2009 — the fund manages just $17 million. Limited partners include funds of funds and wealthy individuals around the globe, though Barak has yet to land a U.S. investor.

To broaden the fund's appeal, Barak co-founders **Jean Craven, Prieru du Plessis** and **Ziyaad Jhetam** have sworn off the use of leverage, raised the threshold for triggering so-called gate provisions and agreed to cover some administrative charges formerly paid by investors.

Although the fund has never employed leverage, the original offering memorandum permitted it to borrow from banks to boost its buying power. The revised legal documents prohibit such borrowing — a nod to investors still on edge more than two years after high leverage levels led to catastrophic losses for many hedge funds.

The original fund documents also permitted Barak to suspend or limit withdrawals if quarterly redemptions exceeded 20% of overall assets under management. Now, the threshold has been raised to 40% — meaning the firm is willing to tolerate heavier withdrawals before erecting gates.

As for administrative fees, limited partners previously had to pay as much as 1% of their assets upon investing in or withdrawing from the fund. From now on, Barak will cover all "entrance" and "exit" fees.

Barak also is expanding the fund's investment strategy to include non-agricultural commodities. Barak's partners work in an office in Johannesburg, South Africa, feeding investment decisions to a trader in Mauritius.

Before setting up their own shop, Craven was head of the soft-commodities desk at **Standard Bank of South Africa,** with du Plessis working alongside him. Jhetam also worked at Standard Bank, but in a different unit. He previously worked at **Peregrine Capital** of Sandton, South Africa. ❖