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Hedge Fund ALERT

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Hutchin Hill Offers LPs Novel Fee Structure

Hutchin Hill Capital is introducing an alternative incentive-fee formula that will charge investors on a sliding scale.

Until now, the New York firm has charged limited partners a straight 15% of gains with no hurdle, in addition to a 2% management fee. But starting Jan. 1, clients will have another option designed to better align their interests with those of the firm. How? By tying the manager's performance allocation to the funds' profitability.

Under the new fee structure, Hutchin Hill will keep just 5% of clients' net gains of up to 4%; 10% on gains of 4-8%; 15% on gains of 8-12%; and 20% on anything over 12%. That's similar to the way the firm's portfolio managers are compensated.

"When investors do well because we deliver strong or exceptional net returns, we believe we should do well," the firm wrote in announcing the plan to limited partners last month. "And when investors receive low net returns, we should receive

See HUTCHIN on Page 10

Unigestion Livens Up Credit-Fund Strategy

Unigestion has altered the approach of a fund of funds that invests with credit-focused managers.

The Geneva operation completed the shift a few weeks ago, moving all $100 million of equity in its Horizon Credit Hedge vehicle into a new basket of "alternative credit" positions. Translation: The vehicle has replaced its former emphasis on credit-crisis opportunities involving illiquid debt with a new focus on active strategies.

The makeover encompasses funds that trade a range of credit instruments, including those employing long/short, relative-value, global-macro and distressed-asset techniques.

The Horizon fund launched in June 2009 with an eye toward taking advantage of opportunities stemming from the global credit crisis over a cycle of 3-4 years. The

See STRATEGY on Page 5

Family Office Shows Managed-Futures Fund

An investment advisor that runs $550 million for several wealthy families will soon open a quantitative managed-futures vehicle to outside investors.

Promus Capital of Chicago plans to offer its Triad Futures fund in the first quarter, pending registration with the **CFTC.** One of Promus' founding families has been running the strategy for 20 years. The firm is showing a 12-year track record with a 13% average annual return. This year, the fund is down about 13%, following gains of 16.4% last year and 25.1% in 2010.

The fund, led by portfolio manager **Tim Clark,** currently has about $10 million of assets. Based on early investor interest, Clark believes Triad Futures has the potential to grow to $100 million in short order.

Under new CFTC rules, private funds that manage more than a minimal amount of futures must register as commodity pool operators by Jan. 1 (see Regulatory Roundup on Page 6). Promus' Triad Trading unit also plans to register with

See FAMILY on Page 10

THE GRAPEVINE

Balyasny Asset Management has picked up a portfolio manager. Short-selling specialist **Neal McConnell** starts in the $4 billion firm's Chicago office this month, handling a portfolio consisting mainly of industrial and consumer stocks. In 2013, he'll move to San Francisco. McConnell previously was a partner at **Walker Smith Capital.** Balyasny's flagship Atlas Global Investments vehicle lost 0.1% in November, bringing its year-to-date profit to 2.8%. That lags the fund's three-year-return of 7.2% and falls well short of its average annual gain of 21.8%.

Healthcare-company analyst **Prashanth Jayaram** joined **Citadel** last month to work on the Chicago firm's Citadel Kensington Global Strategies and Citadel Wellington portfolios. Jayaram most recently spent three-and-a-half years at **Maverick Capital.**

Separately, **Michael Bolte** started this month as a senior analyst covering

See GRAPEVINE on Back Page

Stakes Rising in Quant Tournament

Four quantitative traders emerged from a field of some 3,000 applicants from 58 countries to win the latest Battle-Fin competition sponsored by **Lion's Path Capital.**

In the tournament's final round, the winners generated returns averaging 9.15% from Oct. 1 to Nov. 30, versus a 1.3% loss for the S&P 500 Index. Their prize: Lion's Path will make allocations of up to $5 million apiece, allowing the managers to pocket 20% of their gains. Meanwhile, the finalists in the next Battle-Fin competition have begun trading with a shot at winning even larger slugs from Lion's Path.

The New York hedge fund backer conceived of the tournament series this year as a way to identify the most talented managers from an ever-expanding field of quantitative investors. Winners join Lion's Path's seeding program on terms similar to other managers the firm has backed.

The first Battle-Fin competition wrapped up in September. The winners of the just-completed second tournament are **John LaChance** of **Alexandria Capital,** who won the "elite" division and will now trade a $5 million account for Lion's Path; **James Liu,** whose **AML Capital** won the "professional" division and a $3 million account; **Martin Rosenburgh** of **Continuum Investment,** which won a wildcard slot in the "professional" division good for a $1 million account; and **Steve Longo** and **Andrew Borden** of **Solytix Capital,** who won the "launch" division and will start out with $250,000.

"There's a lot more quants than you would necessarily think," said Rosenburgh, who pursues a market-neutral, low-volatility strategy. He launched Continuum in April and runs $2 million in addition to his Lion's Path account. The competition "taps into something of an unmet demand," he said.

Lion's Path's quant-focused business is led by **Tim Harrington,** who previously worked at **SAC Capital** and **J.P. Morgan Ventures,** and **Storm Boswick,** who founded **Brompton Cross Capital** and worked at SAC's **Sigma Capital** unit. In addition to quant funds, Lion's Path backs long/short stock pickers. ❖

TPH Envisions Series of Launches

Energy-focused investment bank **Tudor Pickering Holt** is planning an aggressive expansion of its fund-management business.

The effort would boost the assets managed by the Houston firm's TPH Asset Management unit to as much as $2 billion from the current $325 million via the addition of three or four alternative-investment vehicles. At least one of those entities would deal in the equity of public and private energy companies, with the others zeroing in on energy-related debt and commodity plays.

The initiative is meant in part to exploit growing energy-exploration efforts in North America. TPH, which launched in 2010, runs $200 million through private equity funds and $125 million though a hedge fund business that encompasses a long-only fund, an infrastructure-focused equity vehicle launched in late November and a market-neutral equity portfolio the firm has been incubating. Those totals also include separate accounts employing the shop's private equity and hedge fund strategies.

To aid in its expansion, TPH is seeking to add an undisclosed number of investment professionals to its staff. The operation last month hired **Diego Kuschner** and two analysts to oversee its new infrastructure-focused fund, which started with $100 million — half from Tudor Pickering and half from a financial institution in Asia.

The new recruits previously worked at **EQ Partners,** a New York investment shop that Kuschner founded in 2009 and shuttered upon his move to TPH. That operation ran $50 million for its clients, which TPH now hopes to woo for its own funds. Kuschner, who once worked in **Barclays'** energy-banking unit, generated average annual returns of 12-13% through EQ. ❖

Firm Preps 'Short-Volatility' Offering

An investment shop specializing in "short-volatility" trading is starting a hedge fund.

Archipelago Capital of New York, which currently manages about $10 million of client assets via separate accounts, is targeting the second quarter for the launch of a vehicle. Some of the firm's existing clients are expected to roll their accounts into the fund, which will write short-dated options on exchange-traded funds while simultaneously buying long-dated options. Short-volatility portfolios can be highly profitable when volatility is low, but are vulnerable to outsized losses when the market swings wildly.

"With volatility declining over the last 2-3 years, it's been a great strategy," one source said. "But eventually you get steamrolled."

Archipelago is hoping to raise $50 million for the fund. It has assigned newly hired business-development director **Alison Inafuku Edge** to lead a marketing campaign focused on institutional investors and funds of funds. She's also interested in talking to backers of emerging managers about a possible seed deal.

Although performance figures were unavailable, Archipelago's strategy apparently has produced double-digit returns since its inception in 2009.

Founder **Herbert Moore** will be the fund's portfolio manager. Before opening his own firm in 2008, Moore worked at New York fund operator **Ansbacher Investment,** where he specialized in trading options and derivatives as part of a volatility-arbitrage strategy. His resume also includes stops at **SFC Associates** and **Azimuth Trust.**

Moore will be assisted by advisor **Ezra Zask,** the founder and president of New York-based SFC, and vice president **Vicky Zhou,** who also spent time at SFC. ❖

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Inflows, Profits Lift Deer Park Road

Deer Park Road Corp. has raked in more than $200 million of fresh capital in the past three months for a fund that targets deeply discounted structured products.

The firm's STS Partners Fund, which had $509 million of assets on Sept. 1, now has about $750 million — thanks in part to performance gains, but mostly due to a slew of new subscriptions. To be sure, structured-product vehicles across the board have benefited from unusually strong inflows this year, as yield-hungry investors have chased double-digit returns. But Deer Park Road, led by **Michael Craig-Scheckman,** has been especially profitable.

The fund is up about 25% so far this year, on top of gains of 25% last year, 35% in 2010 and 50% in 2009. The Steamboat Springs, Colo., firm doesn't charge a management fee, but it does take an unusually large cut of investors' profits: 60% of the first 4% of gains and then 20% of any additional gains. The investment gains and inflows first were reported by sister publication **Asset-Backed Alert.**

Craig-Scheckman, aided by a 14-member staff, is laying the groundwork for a second hedge fund that would take a more conservative approach to investing in distressed securities. While STS Partners only buys deeply discounted bonds — with effective yields of 22% or more — the new fund would have the flexibility to invest in lower-yielding paper. That, in turn, means the vehicle's return target would be lower. A launch is scheduled for March or April.

STS Partners, which Craig-Scheckman began trading while working as a portfolio manager at **Israel Englander's Millennium Management,** has made big bets on subprime-mortgage securities. It also has purchased bonds backed by commercial mortgages, credit-card accounts and aircraft leases. In addition, Deer Park Road has sought to capitalize on financial turmoil in Europe via investments in collateralized loan obligations from issuers in the region.

Craig-Scheckman spent 13 years at Millennium, leaving in 2006. Deer Park Road launched in 2003 as a unit of Millennium, which spun it off three years later. ❖

Gains Push Omega to New Height

Omega Advisors' assets under management are at an all-time high.

Leon Cooperman's firm now runs $7 billion, up from the $6.4 billion it had reported as of Feb. 28 — even though investor withdrawals have been outrunning new commitments in recent months.

Strong returns drove the increase in assets under management. The firm's flagship vehicle, Omega Overseas Partners, was up 25.5% as of Nov. 30, according to a factsheet sent to investors. By comparison, the S&P 500 Index delivered a gain of 15%. The performance marked a sharp improvement over the Omega vehicle's relatively flat returns last year. The long/short, large-cap equity fund has posted an average annual return of 13.8% since it began trading in 1992.

Despite the recent gains, Omega has seen some significant withdrawals, which a source attributes largely to investors who've lost their appetite for equities and are turning to fixed-income investments. The source said Cooperman is among those who see a bond bubble that eventually will burst, so he has continued to de-emphasize fixed-income investing while focusing on stock selection.

Omega runs four investment vehicles. Some 20% of the money it manages is general-partner capital. An investor said the firm is "fully capable" of managing an additional $1 billion to $1.5 billion of assets with its current team and strategy. The firm also runs a small number of separate accounts.

Cooperman, who once led **Goldman Sachs'** asset-management business, runs Omega with **Steve Einhorn,** a former Goldman partner. ❖

BofA Prime Brokerage Courts Startups

A unit of **Bank of America's** prime brokerage that focuses on startup hedge funds is beginning to gain traction.

The progress is reflected by recent signings of two fund managers: San Francisco-based **Invenio Capital** and **Racon Capital** of Milwaukee. Both firms plan to launch funds in the first quarter.

BofA's emerging-manager unit, headed by **Omeed Malik,** was set up early this year. The bank is betting that it can attract a select group of small or startup hedge funds that will grow quickly and eventually become highly profitable for its prime brokerage.

While prime brokers generate most of their revenue by financing trades, the business has become so competitive that firms always are looking for ways to differentiate themselves. BofA's prime brokerage is the only one affiliated with a large financial institution that has employees dedicated to working with small hedge fund shops. They can advise clients on administration, legal and compliance matters, and also help them build technology infrastructures.

Invenio plans to launch a long/short equity fund next month. The firm was founded by **Joe Voboril,** who ran a portfolio for a short-only hedge fund shop, **Kingsford Capital,** before leaving in January.

Racon, which is launching a global-macro vehicle, is run by **Michael Keogh,** a former portfolio manager at **Stark Investments** of St. Francis, Wis. His firm has six employees, all of whom joined from Stark. Keogh was a trader at **Cargill** before moving to Stark in 1996. ❖

Colorado State Mulls Deployments

Colorado State University Foundation is considering some additions to its hedge fund portfolio.

The possible commitments would go to 2-3 managers in the coming months. They would help fill a gap in the $237 million organization's book of investments, given that it maintains a 30% target allocation for hedge funds but only has 25% of its capital, or $82 million, parked in such vehicles.

The hedge fund allotment is part of a 45% bucket for alternative investments. Colorado State University Foundation's portfolio is run by a small in-house team led by **Allen Padilla,** but the organization only invests with managers suggested by consultant **Monticello Associates.** That Cleveland operation's past recommendations have included fixed-income, equity and multi-strategy vehicles worldwide.

The Fort Collins, Colo., foundation helps fund the development of its namesake school's facilities and manages the institution's endowment. ❖

Strategy ... From Page 1

vehicle, which sought annual returns of 20%, initially had baskets for distressed-debt, long/short, convertible-bond arbitrage, macro and multi-strategy managers — but directed much of its attention to long-only managers.

Dissatisfied with that approach, some investors pulled their money to pursue high-yield debt plays when credit-market conditions improved around the end of 2010. As interest rates have fallen and fixed-income opportunities have dried up, however, those clients have come back to Unigestion with requests for the creation of a product with similar yields but less risk. Hence, the new version of Horizon Credit Hedge.

To aid in risk reduction for shareholders, Unigestion has replaced the fund's two-year lockup with a one-year window. Meanwhile, the firm is seeking to boost yields via investments in funds that pursue counter-cyclical plays such as short-selling of bonds that were issued prior to the crash with deferred-coupon structures.

Unigestion had already moved to make the fund more liquid, allowing investors to withdraw capital quarterly as of year-end 2010, rather than twice yearly. The vehicle has gained 5.5% this year, compared to 3.6% for the HFRI Fund of Funds Index.

In addition to the Horizon fund, Unigestion's credit-product business encompasses about $300 million run through separate accounts. The firm, which works mainly with institutional clients, runs $12.8 billion overall. That includes $3.7 billion spread among 13 multi-manager hedge fund pools with a combined 75 underlying vehicles. **Nicolas Rousselet** runs the shop's hedge fund team, which comprises 26 employees in Europe, Asia and the U.S. ❖

REGULATORY ROUNDUP

Futures Commission Casts Long Shadow Across Fund Industry

A year ago, it was the **SEC** that dominated fund operators' compliance agendas, with new regulations including mandatory registration and the dreaded Form PF. Now, suddenly, it's the **CFTC** that has hedge fund lawyers working overtime.

Of greatest concern is a Dec. 31 deadline for managers to register with the CFTC as commodity pool operators if they trade more than a minimal amount of non-security-based swaps. Lawyers have been scrambling to determine whether their clients qualify for exemption under the so-called de minimis trading rule — and if not, how they might adjust their portfolios to avoid registration.

Additional questions surround the obligations of funds of funds and managers that invest heavily in structured products. Until two weeks ago, many fund-of-funds operators appeared to be in the impossible position of having to register with the CFTC based on the swaps exposure of underlying vehicles — even though in many cases they lacked the data to make such a determination. On Nov. 30, the futures regulator granted a six-month extension for multi-manager shops to comply.

Meanwhile, industry professionals realized only in the past month or so that investments in many securitizations would force managers to register with the CFTC because of swaps embedded in those deals. Just last week, the commission took steps to ease the burden for structured-product fund operators, but for a while there the situation bordered on panic.

Indeed, a number of industry lawyers are quietly grumbling that the CFTC, in attempting to tackle too many issues at once, has created an atmosphere of confusion and chaos. In addition to the new registration requirements, other mandates weighing on fund managers include commodity-futures position limits and an effort to shed light on the murky swaps market by routing trades through exchanges.

"I would say the CFTC has just a hellish job," one source said. "The political reality around them is nightmarish."

At the same time, hedge fund executives are trying to make sense of a slew of other regulatory and tax obligations — many of which are set to take effect in the next 6-12 months. What follows is an update on some of the more pressing compliance issues facing the industry.

Futures Trading — CFTC

For nearly a decade, managers that traded futures and swaps — whether for hedging purposes or as part of their core strategy — have been able to avoid registration with the CFTC under a blanket immunity for private funds. But that exemption disappeared under rules the commission adopted in February, exposing hedge funds to a slew of disclosure requirements.

Funds that use derivatives mainly for hedging still can avoid registration if the margin on those positions amounts to less than 5% of overall assets. Managers have until Dec. 31 to file for that exemption.

For firms that don't qualify, one option is "registration light," a streamlined version that carries less-onerous reporting requirements. That route is available to firms whose clients are "qualified eligible persons" — that is, investors with securities portfolios of at least $2 million. But such operations are prohibited from marketing to the general public, which means they wouldn't be able to exploit the recently enacted Jumpstart Our Business Startups (JOBS) Act.

Another recent wrinkle: On Nov. 15, the **National Futures Association** waived a key requirement for registered managers that trade swaps but not futures. Specifically, the self-regulatory body ruled that employees of those firms don't have to take the rigorous Series 3 exam. Why? Because it doesn't ask about swaps. Some industry lawyers say it's only a matter of time before the NFA introduces a swaps-focused exam.

In any case, an estimated 1,000-plus hedge fund firms now must be registered both with the CFTC and SEC — underscoring seismic shifts in the regulatory landscape. Although "dual registration" has long been viewed as a worst-case scenario for fund managers, the reality isn't quite so bad, said

See ROUNDUP on Page 7

REGULATORY ROUNDUP

... From Page 6

Jonathan Saxton of compliance consultant **Kinetic Partners.**

"If you are SEC-regulated and need to be CFTC-regulated, it's not double the work," he said. "It will be more work, but some of what you are doing already for the SEC is fine for the CFTC."

Funds of Funds — CFTC

Thanks to a reprieve from the CFTC, fund-of-funds managers now have an additional six months — until at least June 30 — to determine whether they need to register as commodity pool operators. But the commission's Nov. 30 "no action" letter didn't address lingering concerns about the practicality of calculating the swaps exposure of multi-manager vehicles.

In fact, some industry professionals are convinced that the managers of underlying funds won't always be willing to share data about their exposures — making it impossible for funds of funds to comply with the CFTC directive. In that case, the operator of a multi-manager vehicle might choose to withdraw from certain funds. That, in turn, might put pressure on single-manager funds to be more forthcoming with details about their derivative portfolios. The CFTC plans to issue guidance aimed at helping funds of funds calculate their swaps exposures.

Even with the deadline extension, fund-of-funds managers must notify the CFTC before yearend if they intend to seek a reprieve. They're being told to e-mail the agency at noaction@cftc.gov.

Structured-Product Funds — CFTC

As has been the case with many financial-crisis reforms, the CFTC's efforts to tighten its registration requirements have had unintended consequences. Only three months ago did the securitization industry discover that under the new rules, many structured-product transactions would have to be registered as commodity pool operators because they encompass currency or interest-rate swaps.

More recently, the **Managed Funds Association** realized that hedge funds that invest in those types of products would have to account for the embedded derivatives when calculating their own swaps exposures. On Nov. 30, the trade group fired off a letter to the commission requesting relief for structured-product managers in the form of a nine-month extension to the Jan. 1 deadline. The CFTC has yet to respond directly, but on Nov. 7 it issued an "interpretive relief" letter in response to lobbying by the securitization industry. The letter grants a broad exemption covering most types of securitized products — and, by extension, funds that buy those investments.

Still to be determined is whether issuers of certain synthetic transactions and securitization vehicles that are actively managed will have to register with the CFTC down the road.

Swaps Trading — CFTC

Many regulatory initiatives stemming from the financial crisis will make it more expensive for hedge funds to do business. One that won't is a mandate aimed at making the swaps market more transparent by requiring a wide swath of over-the-counter contracts to trade and clear via electronic platforms.

Come March 11, the most active derivative traders — including the likes of **Citadel** and **D.E. Shaw** — will be required to clear many types of swaps via **CME Group, LCH.Clearnet** and other approved venues. The deadline for less-active hedge funds is June 10.

The clearing requirement initially covers certain interest-rate, index and credit-default swaps. Later on, both the SEC, whose territory is security-based swaps, and CFTC, which covers all other swaps, will expand the list. Still to come: a separate rule requiring many swaps to trade over electronic exchanges.

The move is among the few Dodd-Frank Act mandates that have been widely embraced by the hedge fund industry. Managers such as Citadel have long argued that greater transparency will lead to tighter spreads, and thus lower trading costs.

See ROUNDUP on Page 8

REGULATORY ROUNDUP

... From Page 7

Position Limits — CFTC

The commission's efforts to impose position limits on large commodity traders hit a roadblock in September when a federal judge threw out the new rules in response to a lawsuit by the **International Swaps and Derivatives Association** and **Sifma.** The limits were set to take effect in October.

On Nov. 16, the commission appealed the judge's decision — promising to tie up the matter in court well into next year.

At issue is what justification the CFTC has for limiting the size of traders' positions. In October 2011, the futures regulator set limits covering 28 commodity futures in an effort to curb blatant speculation and prevent market manipulation. Moreover, the commission said it was required to do so by the Dodd-Frank Act. The lawsuit challenges the CFTC on both counts, arguing that a.) there's no evidence of excessive speculation in the first place, and b.) position limits aren't mandated by Dodd-Frank.

Leverage — FSOC

The **Financial Stability Oversight Committee** — a creation of the Dodd-Frank Act — has been in the news lately for its efforts to reform money-market funds. But next year, the committee is expected to turn its attention to hedge funds, with particular focus on the way managers use borrowed securities and repurchase agreements to finance their trades. The result could be higher borrowing costs.

It's likely the committee will follow the lead of the **Financial Stability Board,** an international body established in the wake of the financial crisis to advise G-20 nations. Member institutions include the **U.S. Treasury, Federal Reserve** and SEC.

On Nov. 18, the Financial Stability Board released a blueprint for reining in the "shadow banking" system, including 13 proposals aimed at securities lending and the repo market. Among them: creating data repositories that would allow regulators to more closely monitor the financing activities of hedge funds; standardizing "haircuts" on repo contracts; and setting limits on how collateral can be invested.

"It's pretty broad," said a lawyer who has talked to government officials about the proposals. "So much of the focus on [the Financial Stability Oversight Committee] has been systemic-risk designation. Not as much attention has been paid to the ability . . . to propose rules relating to markets and products that pose systemic risk." It's a "not-so-veiled threat to hedge funds," he added.

JOBS Act — SEC

Congress gave the SEC 90 days to adopt rules implementing the Jumpstart Our Business Startups Act. Among other things, the legislation clears the way for private funds to be marketed to the general public. It's now been more than 250 days since **President Obama** signed the bill into law, and final rules still are nowhere in sight.

What's the holdup? The problem is that the Democrats on the five-member committee that oversees the SEC, apparently including outgoing **Chairman Mary Schapiro,** believe an early draft of the rules lacks sufficient investor protections. A key concern: ensuring that private funds only accept capital from accredited investors, even if they're free to market to anyone.

Complicating the situation is Schapiro's scheduled departure on Dec. 14, which will leave the commission evenly divided with two Republicans and two Democrats. If Obama names a liberal to fill the vacancy, Republicans in the Senate likely would try to block or delay confirmation pending implementation of the JOBS Act.

What other investor protections do the commission's Democrats want? Clues may be found in a little-noticed report from the SEC's Investor Advisory Committee, another creation of the Dodd-Frank Act. The Oct. 12 report recommends the SEC introduce a new filing to track fund offerings made under the JOBS Act; require certain marketing materials be submitted for review; and ensure funds follow standard procedures when reporting performance for marketing reasons.

Interestingly, the advisory committee includes several members with close ties to the hedge fund industry, including **Calpers** chief investment officer **Joe Dear, Pershing Square** partner **Roy Katzovicz** and D.E. Shaw executive **Darcy Bradbury.**

Form PF — SEC

Few financial-crisis reforms have proved as burdensome to fund managers as Form PF. Completion of the 42-page filing requires they collect and crunch reams of data measuring all aspects of their investment operations. The largest hedge fund operators — those with more than $5 billion under management — already have made their first two quarterly filings. But the initial filing deadline for smaller operations isn't until March 1 (for firms with $1.5 billion to $5 billion of assets) or April 30 (less than $1.5 billion).

Because the required disclosures are so extensive, managers could inadvertently run afoul of certain securities laws, said **Michael Minces** of **Blue River Partners,** a Dallas-based compliance consultant. For instance, some firms might be unaware there are strict limits on the investments that private funds can make in registered investment companies, or RICs, including many exchange-traded funds. Under the Investment Company Act of 1940, hedge funds are barred from owning more than 3% of a RIC, having more than 5% of their assets in a single RIC, or investing more than 10% of overall assets in any number of RICs.

Prior to Form PF, there was no easy way for the SEC to determine if hedge funds were in compliance with those restrictions. "Its a quagmire," Minces said. "Much of the hedge

See ROUNDUP on Page 9

REGULATORY ROUNDUP

... From Page 8
fund industry is not aware of these limitations, especially given the proliferation of ETFs. Historically, we haven't heard of the SEC nailing guys for those limitations. But historically, they haven't had the tools to do it."

Volcker Rule — SEC

Like numerous other Dodd-Frank Act provisions, the deadline for implementation of the Volcker Rule has come and gone with no final action. Indeed, banks were supposed to begin complying this past July — even though the SEC isn't expected to adopt a final version of the rule before March 2013.

For their part, most banks already are well on their way toward compliance, having dismantled some or all of their proprietary-trading operations and begun the process of withdrawing from funds they manage. Under Volcker, banks have to pare their investments of proprietary capital in funds they sponsor to a maximum of 3% of the vehicles' overall assets. That partly explains why **Citigroup,** for example, is spinning off its Citi Capital Advisors hedge fund unit.

Banks have until July 21, 2014, to become fully compliant, but they can seek up to three one-year extensions. Meanwhile, the rule has proved to be boon to the hedge fund-seeding business, insofar that it has forced many bank proprietary traders to reinvent themselves as private-fund managers in need of startup capital.

Offshore Funds — IRS

No later than June 30, managers of offshore funds will have to take the first steps toward compliance with the Foreign Account Tax Compliance Act, or Fatca. Firms whose investors include U.S. taxpayers will have to notify the **IRS;** others will need to apply for exemptions. Then, over the next two years, managers will be obliged to conduct extensive record searches to determine which investors in their offshore vehicles are from the U.S. — and to disclose those accounts to the IRS.

The penalty for non-compliance is severe: Both the income and gross proceeds of a manager's U.S. assets would be subject to an automatic 30% withholding tax. That applies to U.S. firms, of course, but also to non-U.S. fund operators that invest in the States.

Non-U.S. managers are supposed to file with the tax authorities in their home countries. The IRS is in the process of soliciting help from its counterparts abroad, but so far has an agreement in place only with the U.K. It's hoping to sign deals with 16 more countries in the next few months.

AIFM Directive — EU

Years in the making, the Alternative Investment Fund Managers Directive will finally become effective July 22, establishing a uniform framework for managing and marketing hedge funds across the **European Union.** E.U.-based firms that meet strict guidelines concerning custody of assets, risk management, marketing and transparency will be granted a "passport" to do business anywhere within the 27-nation bloc.

The situation is more complicated for managers based outside of Europe. U.S. firms with European clients won't be allowed to apply for a passport until 2015. Until then, they'll have to meet country-level standards wherever they want to market their funds. But Germany, for one, has said it will only permit offerings compliant with the directive, and it's likely other countries will follow suit.

Exactly what steps non-E.U. managers would have to take to become compliant remains unclear — in part because European authorities have repeatedly delayed release of the final version of the rules. At this point, they're unlikely to be adopted until early next year.

Among the uncertainties facing U.S. managers: Would they need to establish a physical presence in the E.U.? Or could they simply form an affiliation with an E.U.-based entity?

"Up until very recently, the way that a lot of non-E.U. managers expected that they would be able to manage funds for European investors was by linking up in some informal way with Europe-authorized managers," said **Dechert** lawyer **George Mazin.** "The noise that's now coming out of Europe is that type of delegation will not be permitted."

What's clear is that large U.S. managers that already have operations in Europe will have a leg up on smaller firms that lack a physical presence across the Atlantic.

European Securities — EU

Firms that trade in Europe are still trying to grasp the implications of the E.U.'s efforts to rein in short-selling. Rules that took effect Nov. 1 require full disclosure of short positions, ban "naked shorts" in most instances and place strict limits on credit-default swaps referencing European sovereign debt.

The CDS restrictions are potentially troubling for managers hoping to profit from Europe's debt crisis, but the rules are anything but straight-forward. For the most part, only investors that hold long positions in a sovereign bond will be permitted to purchase protection against a default.

"People are struggling to make sense out of it," one source said. "There's a lot of questions about what's covered and what's not."

Another looming concern for firms that trade in Europe is a proposed transaction tax that would amount to a 0.1% levy on stock and bond transactions and 0.01% of the notional value of derivatives. Ten E.U. countries — Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain — are in favor of a transaction tax, while the Netherlands, Sweden and the U.K. oppose it. ❖

Hutchin ... From Page 1

materially less too." The firm added that "we also have been told by many investors that when net returns are low, every basis point counts, so taking a lower incentive allocation helps by increasing the investor's net return."

Although Hutchin Hill's flagship fund was up 10.2% this year through Dec. 7, performance was spotty during most of the year. Through Sept. 30, the fund had gained only 3.2% year-to-date. The firm also has seen a slight drop in assets under management to about $1.1 billion, from $1.2 billion in the first quarter, despite the launch of a $100 million fund.

The new fee formula coincides with several other changes the firm unveiled last month. The flagship Hutchin Hill Capital Master Fund is being rechristened Hutchin Hill Diversified Alpha Multi-Strategy Fund to differentiate the fund from the firm itself and highlight the multi-strategy nature of the vehicle. At the same time, Hutchin Hill is considering offering "benchmarked products" that would combine alpha from the multi-strategy fund with a range of benchmarks chosen by investors. The firm would charge a performance fee only on gains above the benchmarks.

Hutchin Hill was founded in 2008 by **Neil Chriss,** previously a portfolio manager at **SAC Capital.** ❖

Family ... From Page 1

the futures regulator as a commodity-trading advisor. An exemption for family offices the CFTC issued Nov. 29 doesn't apply to multi-family operations like Promus.

The Triad fund trades liquid futures tied to commodities, currencies, stock indexes and fixed-income securities. Prior to this year, the fund had only two down years, dropping 4% in 2009 and 5.2% in 2004. It gained a whopping 32.5% in 2008, when the HFRI Fund Weighted Composite Index fell 19%.

The investment program was set up by former professional football player **Johnny Musso,** who played for the **Chicago Bears** in the late 1970s. He began trading with his own money in 1992, then opened the strategy to a few other families about a decade later. In 2008, Promus was founded by Musso's sons, **Brian** and **Zachary Musso,** to manage money for those families. In addition to the Mussos, Promus advises the families of **Terrence Toth,** former chief executive of **Northern Trust's** investment-management division, and **Andrew Code,** a co-founder of private equity firm **Code Hennessy & Simmons.**

Clark, whose expertise is automated-trading systems, joined Promus in May. He previously worked at Chicago-based **Endeavor Trading,** which agreed in March to be acquired by **Sun Holdings.** His resume also includes positions at **Futrex Trading** and **TradeLink,** both based in Chicago. ❖

LATEST LAUNCHES

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
(Unknown) Domicile: U.S. ✒See Page 3	Herbert Moore Archipelago Capital, New York 646-593-8361	Short: volatility		1H-13	
Triad Futures Domicile: U.S. ✒See Page 1	Tim Clark Triad Trading, Chicago 312-662-5492	Managed futures: diversified	Prime broker: Interactive Brokers Law firm: Ruddy Law Administrator: Liccar	Jan.	Under $10

To view all past Latest Launches entries, visit The Subscribers section of HFAlert.com

THE GRAPEVINE

... From Page 1

healthcare-company stocks within **Citadel's Surveyor Capital** unit. He formerly was at **Wells Fargo.**

Internet-stock analyst **Herman Leung** joined **Partner Fund Management** of San Francisco about two weeks ago. Leung previously worked in an investment-banking capacity in the San Francisco office of Philadelphia-based **Susquehanna International.** Partner, which runs $6.3 billion, was started in 2004 by **Andor Capital** co-founder **Christopher James.**

Pershing has added a director to its prime-brokerage unit. **Richard Aliberti** joined the Jersey City, N.J., division of **BNY Mellon** last month in a relationship-management and business-development role. Aliberti most recently was a senior relationship manager in **Goldman Sachs'** prime-brokerage area.

Startup futures broker **Thales Trading** hired **Peter Lacalamita** this month as a managing director handling sales and relationship management. Lacalamita previously spent about 10 years in **J.P. Morgan's** prime-brokerage area, where he served in various senior roles. New York-based Thales was founded in July by veteran commodities prime-brokerage professionals **Marc Cohen** and **Stephan Solomon,** previously of **Newedge.**

Joel Greenblatt's Gotham Asset Management this month installed **Louis LaRocca** as general counsel. LaRocca joined the New York equity shop from **Clovis Capital,** where he held the same title for about a year.

Pine River Capital has hired an executive to help market its funds. **John Wasilewski** joined the Minnetonka, Minn., firm in November. Wasilewski worked at **Bridgewater Associates** from 2005 to 2010 as a senior operations associate and as a marketing associate focused on funds of funds, family offices and public pension systems. After that, he spent time in business-development roles at **GRMC Solutions** and **Private Capital Group.** Pine River manages $10.5 billion through a range of funds. It recently stopped accepting contributions for its flagship Pine River Fixed Income Fund, a $3.5 billion vehicle that trades mortgage bonds.

Recruiting firm **Atlantic Group** has added four placement professionals to its staff. **Eric Andrews** and **Linda Merill** joined the operation's New York headquarters this month. Andrews is concentrating on middle- and back-office personnel, mostly for hedge funds. Merill is charged with starting and leading a technology-search practice that also would work mainly with hedge funds. Meanwhile, **Andy Golden** and **Natasha Moore** joined a newly opened office in Stamford, Conn., with a focus on middle- and back-office hedge fund professionals.

A $1 investment in **Weintraub Capital's** Prism Partners fund when the firm started trading in May 1992 would have turned into $10 by Oct. 31. Those returns prove that Weintraub achieved its mission of preserving client capital, founder **Jerry Weintraub** wrote last month in a letter announcing he was shuttering the equity-focused operation. Weintraub was running about $1 billion of equity.

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