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Hedge Fund ALERT

DECEMBER 17, 2014

Guggenheim in Talks to Sell Hedge Fund Unit

Guggenheim Partners appears to be considering a management buyout of its multi-strategy hedge fund operation.

The unit, dubbed Guggenheim Global Trading, launched in 2012 with $500 million of proprietary capital from its $220 billion parent. The operation currently manages about $600 million, including a small amount from outside investors.

Talk was circulating this week that senior executives of the hedge fund unit, including co-heads **Patrick Hughes** and **Loren Katzovitz,** were in advanced discussions with Guggenheim about buying out its ownership stake. Guggenheim holds a roughly 75% stake, with senior management owning the rest.

It's unclear what led to the buyout talks, though presumably Guggenheim wouldn't be willing to sell the business if it were generating large profits. Returns were unavailable, but the negotiations coincide with the layoffs of seven portfolio managers.

An investment banker specializing in asset managers pegged the value of

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Centurion Tapping Brakes Amid Rapid Growth

At a time when most managed-futures shops are struggling to retain investors, **Centurion Investments** is getting ready to cut off subscriptions for its short-term systematic trading program.

On Jan. 1, the New York firm expects to take in $65 million from an unidentified institutional investor — at which point assets under management will exceed $370 million. The latest pledge, on top of a $50 million investment the firm landed this month, prompted founders **Stefan Behling** and **Umran Zia** to reconsider their capital-raising strategy.

The plan now is to close the subscription window for 3-6 months once assets reach $400 million. That will give Centurion's investment team time to "digest" the fresh capital.

When it comes to fund raising, Centurion is an anomaly among managed-futures

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Bayview Offering More-Liquid MBS Vehicle

Mortgage specialist **Bayview Asset Management** is marketing a structured-product hedge fund that offers investors more liquidity than its other vehicles.

The new offering, Bayview Liquid Credit Strategies, invests in residential and commercial mortgage bonds, as well as other types of asset-backed securities including collateralized loan obligations. The Coral Gables, Fla., firm already is active in those markets via its Bayview Opportunity Fund series.

But those are closed-end funds that lock up investor capital for relatively long periods, while the liquid-credit fund "is our first pooled evergreen vehicle," Bayview chief executive **David Ertel** wrote to investors last month. The letter didn't detail the liquidity terms of the new fund.

The launch likely will catch the eye of institutional investors, given Bayview's

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The next issue of **Hedge Fund Alert** will be published Jan. 7. Happy Holidays!

THE GRAPEVINE

Distressed-debt specialist **Matthew Dundon** has left **Pine River Capital** to join **Advent Capital** as a managing director on a "global opportunities" team that pursues what the New York firm sees as the most appealing investments across debt and equity markets. Dundon started on Dec. 15. He spent five years at Pine River, following seven years at **GMP Securities** predecessor **Miller Tabak Roberts.** He also has worked at law firms **Alston & Bird** and **Willkie Farr.** Advent, led by **Tracy Maitland,** started this year with $7.5 billion of assets. Pine River was managing $14.8 billion at the end of April.

Nomura appears to be shuttering its proprietary trading desk in New York, leaving at least one former hedge fund professional looking for work. Portfolio

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New LP Stanches Bleeding at Phalanx

Phalanx Capital just took in $12 million from an ultra-wealthy individual — a welcome infusion following a difficult stretch for the firm's Asia-focused hedge fund.

The **Bank of Japan's** surprise announcement on Oct. 31 that it would pump trillions of yen into the economy sent the Nikkei sharply higher — resulting in a one-month loss of 14.8% for the Phalanx Japan AustralAsia Multi-Strategy Fund. The fund, which invests in convertible bonds, corporate debt and volatility swaps, was betting on continued weakness in the Japanese economy. Year to date, Phalanx was down 19% at the end of November.

"We were poorly positioned for the Bank of Japan surprise," founder **Chris McGuire** acknowledged. "The Nikkei had done something it's never done in 30 years — it's never rallied up more than 10% in a day and a half."

The fund's sharp loss, combined with investor withdrawals, dropped the firm's assets from about $150 million in September to less than $105 million at the end of November.

Phalanx is hoping the new investment — from an unidentified backer described as a prominent U.S. investor — marks a return to form for the Chicago firm. Since launching in 2005, McGuire's team has delivered an annualized return of 28.7%. That includes a whopping 45% gain in 2008, when the average hedge fund lost 19%.

The drop in assets in the October-November period resulted in the layoffs of three staffers, including a risk manager, a human resources specialist and an operations professional. That left Phalanx with a staff of eight. ❖

BattleFin Pooling Quant Talent

BattleFin is planning a second fund.

The multi-strategy vehicle, BattleFin Fund 2, would select a group of 10 quantitative specialists to develop its trading algorithms. The plan is to start off with an undisclosed amount of internal capital in March.

From there, BattleFin would seek an outside backer to supply acceleration capital — one with deep-enough pockets to bring the most promising strategies in the portfolio to more than $100 million apiece. Presumably, the firm would offer the product to a broader audience later on.

BattleFin founders **Tim Harrington** in Rowayton, Conn., and **Brian Tomeo** in Miami have been reviewing potential programmers for the fund, whose allocations would come at their discretion. The plan is to evaluate finalists at a "Discovery Day" and "Big Data Combine" the firm is hosting on Jan. 27-28 at the Palms Hotel & Spa in Miami Beach.

The focus is on data scientists who are able to identify profitable trading algorithms but haven't formed their own shops. Some could come from a pool of traders selected for a "Data Science Incubator Platform" that BattleFin is developing.

That program calls for candidates to submit proposals showing how they would use data from sources including **Dow Jones, I-Sentium, Psychsignal** and **Ravenpack** to produce trading profits. Those chosen will receive up to a year of free access to those services, with the idea that they could gain an edge by acting on information that isn't in widespread use by other quantitative managers.

BattleFin views Fund 2's format as a way to attract fledgling quants before they've built track records elsewhere or have moved into other businesses where startup money is more readily available. Its formation follows the July launch of BattleFin Fund 1, a vehicle that directs money from a small group of investors mainly to stock pickers who have hung their own shingles.

Those individuals include: **Jim Creighton** of **Maniford Partners; Boris Dinaburg** of **BD-Algotrade; Jeff Ferro** of **Ferro Investment; John LaChance** of **Alexandria Capital;** and **Paul Sinsar** of **Seismic Funds.** There also is a component designed to hedge BattleFin bets while directing capital to managers who aren't ready for stand-alone allocations.

Fund 1's managers will be on hand at the Miami Beach event. In all, BattleFin expects as many as 40 managers and programmers, along with up to 30 potential investors in its products.

The firm is best known for running a series of competitions in which traders compete for access to capital from third-party backers. It currently is conducting its seventh such tournament, pitting some 65 equity traders against one another for shares of a $25 million pot from **Discovery Capital.** That contest started in September and wraps up this month. ❖

Startup Preps Financial-Stock Fund

Finance-sector specialist **James Warner** is raising capital for an equity fund he plans to launch in the first half.

Warner set up his Dallas management company, **Black Ox Capital,** shortly after leaving **Citadel** unit **Surveyor Capital** in August. He is marketing his planned Black Ox Partners vehicle with help from the capital-introduction groups at five prime brokers.

Warner envisions a portfolio of 30-40 stocks that will be strictly market neutral. "There's a growing sense of urgency to take less market directionality," Warner said of investors' hedge fund preferences these days.

To attract initial backers, Warner is offering discounted fees. Investors willing to commit more than $25 million will be placed in an "anchor" share class with fees of just 1% of assets and 10% of profits. A "founders" class, with a $1 million investment minimum, charges 1.5% of assets and 15% of gains. However, the management fee will drop to 1% when assets under management reach $150 million — and to 0.5% if the firm reaches $250 million.

Warner spent three years in Surveyor's Dallas office, where he managed a low-volatility equity portfolio focused on financial-service companies. Earlier, he worked at Dallas-based **Carlson Capital.** ❖

Eton Park Alum Setting Up Shop

A former **Eton Park Capital** executive is setting up his own investment shop.

Isaac Corre apparently will employ an event-driven strategy at his firm, tentatively called **Corre Capital.** He currently is assembling a staff.

Corre left his post as a senior managing director at Eton Park in January. He was a founding member of the 10-year-old firm, where he headed event-driven equity investments and had a hand in distressed-debt plays. He also sat on the operating committee. Prior to Eton Park's launch, Corre was a partner at **Scoggin Capital.**

Corre, a lawyer, has been lecturing at **Harvard University** since parting ways with Eton Park, a $9 billion multi-strategy shop based in New York. Separately, **Charter Communications** nominated him as a member of **Time Warner's** board in February as part of its failed takeover of the telecommunications giant. ❖

Global Sigma Going UCITS Route

Global Sigma, an options specialist that has racked up strong returns focusing on a single instrument, will soon offer the strategy to investors in Europe.

The Boca Raton, Fla., firm, led by former **Millennium Management** and **SAC Capital** trader **Hanming Rao,** is setting up a UCITS vehicle in Ireland. The plan is to begin trading in the first quarter, with an initial fund-raising target of $100 million.

A UCITS fund — the acronym stands for Undertakings for Collective Investment in Transferrable Securities — is the **European Union** equivalent of a mutual fund, subject to a slew of rules covering leverage, liquidity, transparency and other functions. Global Sigma is working with an unidentified European advisor that is providing administrative, legal and marketing support.

The European push is led by partner **Paul Eckel,** who oversees investor relations for Global Sigma.

The firm's assets have roughly doubled during the past year to about $220 million, including about $80 million in the flagship AGSF Fund — with the rest in separate accounts. The fund has generated a 21% annualized return since launching in April 2013, with an unusually high Sharpe ratio of 7.9. Rao has been managing the same strategy via separate accounts since 2009, delivering an 18% annualized return.

Global Sigma's marketing materials emphasize the firm's narrow investment focus: shorting weekly-expiry S&P 500 options. Rao employs mean-reversion analysis to select over-priced put and call contracts, while using S&P 500 futures as a hedge.

"Quite frequently, potential investors ask if we believe the strategy could be applied profitably to other instruments, such as gold, energy or other commodities," Eckel said. "We have conducted research on other instruments, but the S&P 500 is, by a wide margin, the best product for us to focus on."

That said, the firm has begun experimenting with a similar strategy focused on U.S. Treasury futures. It is trading proprietary capital for now, but could begin marketing a new vehicle in the third quarter of 2015.

Rao, who holds advanced degrees in engineering and computer science from Harvard, took his first finance job in 2005, joining **Ellington Management** as a quantitative analyst. He then worked as a global-macro trader at SAC for two years before doing a brief stint at Millennium. An injury he suffered while playing soccer led to his exit from Millennium — prompting him to start his own business.

He launched Global Sigma in 2009 with $250,000 from a wealthy investor. In June, Rao moved the firm from Stamford, Conn., to Boca Raton. ❖

Purcell Set to Rejoin Viking Global

Viking Global executive **Tom Purcell** will soon be back at work following a six-month sabbatical.

Purcell took a break from his day-to-day duties around midyear to spend time with his family and to "recharge," Viking Global founder **Andreas Halvorsen** told investors at the time. Confirmation of his return contradicts market chatter that Purcell instead was planning to start his own hedge fund business.

Purcell had been co-chief investment officer alongside **Dan Sundheim.** But when his sabbatical began, Halvorsen named Sundheim sole chief investment officer.

It's unclear what role Purcell will play upon his return in January. He has continued to serve as a member of the firm's executive committee. As of the first quarter, Viking Global was managing about $28 billion.

Purcell joined the New York firm in 1999, the year Halvorsen started the business with co-founding partners **Brian Olson** and **David Ott.** Olson left in 2005, and Ott has been working part-time for several years.

Prior to Viking, both Halvorsen and Purcell worked under **Julian Robertson** at **Tiger Management.** ❖

Fortress Vehicle Books Recovery

Fortress Investment's main liquid-asset hedge fund saw its performance improve last month, though the vehicle still isn't above water for the year.

The New York firm's Fortress Macro Fund posted a 3.1% gain for November, marking its strongest month since 2012. But the fund still was showing a year-to-date decline of 3.7%, dragged down by five months of losses.

The worst of those months was January, when the vehicle was down 5.9%, followed by dips of 2.2% in August and 1.75% in October. By comparison, the HFRI Macro (Total) Index was up 2.5% last month, bringing its year-to-date gain to 5.6%.

In a Dec. 15 letter to investors, Fortress said last month's performance was aided by long positions in Japan stocks and short bets against the yen as the **Bank of Japan** stepped up an already-aggressive stimulus program. The fund also benefitted from long positions in stocks in Europe and China, where there are signs of decreasing inflation.

Despite this year's swoon, Fortress Macro Fund has a history of strong performance. Since launching in 2009, the fund has posted double-digit gains in every year but 2011, when it took a 9.3% hit. Its best year was 2012, when it was up 17.8%.

As of Sept. 30, Fortress ran $3.1 billion through Fortress Macro Fund and related accounts. It also had $342 million in the Drawbridge Global Macro Fund, a less-liquid vehicle that is down 4.2% for the year. Fortress formed the larger fund after the Drawbridge vehicle lost 21.9% in 2008 and stopped accepting new investors. Both funds are led by **Michael Novogratz.**

Fortress was running $66 billion overall as of Sept. 30. ❖

Correction

A Dec. 10 article, "Quant Group Pitches Peer-to-Peer Fund," understated the assets of **Two Sigma Investments,** whose venture-capital arm is backing a peer-to-peer loan investor called **Theorem LP.** Two Sigma runs $24 billion. ❖

Canada Shops Mulling Merger

Toronto hedge fund shops **East West Investment** and **SW8** are pooling their resources ahead of a possible merger.

The discussions so far have covered a shared economic agreement in which the shops would split income on capital raised beyond the roughly $100 million they already oversee. In a possible precursor to such a move, they have begun sharing office space while combining their back-office staffs. A name change also is on the table.

The steps come as a response to an increasingly difficult environment for smaller fund managers worldwide, driven largely by rising regulatory and operating costs.

East West is the larger of the two firms, with more than $50 million under management. The shop, founded by former **CIBC** capital-markets head **Richard Phillips,** operates a quantitative fund called East West Canada Fund that invests primarily in large-cap stocks in Canada. That vehicle gained 5.6% over the first 11 months of this year.

SW8 runs more than $40 million. It was started by **Matt Skipp,** who previously worked on **RBC Capital's** trading desk and before that headed trading as a managing director at **BlackMont Capital.** His SW8 Strategy Fund uses global-macro themes and fundamental analysis to invest in equities in the U.S. and Canada. It was running a year-to-date loss of 2.5% at the end of November, but has gained 7.4% annually since its 2008 inception. ❖

Goldwater Sets Launch Date

Healthcare-stock specialist **William Hoh** is ready to start trading through his **Goldwater Asset Management.**

Hoh plans to launch next month, a year after he began setting up his New York operation. In the meantime, he has been building a staff.

Among Hoh's colleagues is partner **Pablo Garcia,** who previously held senior healthcare-related trading positions at **Fidelity Investments** and **SAC Capital.** At launch, Goldwater also will employ former **Soros Fund Management** analysts **Ken Leslie** and **Andrew Tom.**

Leslie most recently worked at **Suffolk Capital,** and earlier spent time at **UBS.** He has served as a senior medical research associate at **Memorial Sloan Kettering Cancer Center** as well. Tom most recently was at **J.P. Morgan,** and earlier woked at **OrbiMed Advisors.**

Hoh started working on Goldwater after leaving **Arrowgrass Capital.** Before that, he spent time at **Kensai Asset Management,** Soros and SAC. ❖

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experience in the mortgage sector. The firm, founded in 2008, was managing $5.5 billion as of the first quarter. In addition to running hedge funds, Bayview advises other investors on their mortgage-related holdings and operates a mortgage-servicing business.

"We believe we are differentiated from other credit managers because we are able to integrate sophisticated research and trading capabilities . . . with insights and trends garnered from our in-house origination and loan-servicing platforms," Ertel wrote.

Bayview applies a combination of fundamental and relative-value analysis in its investment-selection process.

In the letter, Ertel acknowledged the hefty profits earned by structured-product managers in recent years as the values of mortgage securities recovered from the financial crisis. But he believes mortgage bonds "still offer value relative to other fixed-income products."

The HFRI Fixed Income-Asset Backed Index was up 8.2% year to date as of Nov. 30 — outperforming all but one of the other 30-plus strategies tracked by **Hedge Fund Research.** ❖

Guggenheim ... From Page 1

Guggenheim Global Trading at perhaps $5 million to $10 million, "if even that," given the modest amount of outside capital in the hedge fund. The valuation reflects a "going rate" of 5-10% of a manager's third-party assets.

The hedge fund unit, based in Purchase, N.Y., manages a single vehicle called GGT Multi-Strategy Fund. Originally, Guggenheim planned to plow as much as $2 billion of proprietary capital into the fund. It began accepting contributions from outside investors last year.

Guggenheim Global Trading models itself on classic multi-strategy operations like **Balyasny Asset Management** and **Millennium Management,** which give portfolio managers wide latitude when it comes to selecting and managing investments. In laying off seven of their 15 portfolio managers this month, Hughes and Katzovitz targeted underperforming strategies including convertible-bond arbitrage and merger arbitrage.

Let go were merger-arb specialists **Steve Eick** and **Paul Horowitz;** convertible-bond traders **Gregor Dannacher** and **Michael Cohen;** energy-stock picker **Jamie Waters;** industrial-stock manager **Vinay Datta;** and an emerging-market specialist.

Also shown the door was **Marjorie Kaufman,** who joined earlier this year as head of marketing. She previously worked at venture capital shop **Golden Seeds,** but is perhaps best known for an earlier marketing stint at **Kingdon Capital.** In 2010, founder **Mark Kingdon** let her go in a high-profile dismissal.

Hughes and Katzovitz joined Guggenheim in 2002 to set up a business that steers capital to a range of outside hedge fund managers. They had previously worked together at **RBC Capital** and **Kidder Peabody.** ❖

Centurion ... From Page 1

firms. As of Oct. 31, managed-futures funds had experienced net outflows totaling $31 billion since the start of the year, according to **eVestment.**

Since launching in 2012, Centurion has delivered consistent returns that are negatively correlated both to traditional asset classes, including the S&P 500 Index and the Barclays U.S. Aggregate Bond Index, and to alternative investments, as measured by the Barclays Hedge Fund Index. Centurion's main fund gained 4.1% in the last five months of 2012, 5.3% in 2013 and 6.1% year to date as of Nov. 30. By comparison, the Newedge Short-Term Traders Index fell 6.3 in 2012, gained 3.6% in 2013 and was up 9.6% year to date through November.

Centurion's computer models are designed to capture short-term price inefficiencies in 52 liquid commodity and financial markets globally, with an average holding period of six hours. Nearly 90% of its assets are managed according to momentum-investing strategies, with the rest residing in mean-reversion portfolios.

In a bid to raise capital in Europe, Centurion recently signed on with a Geneva-based multi-manager operation called **ML Capital.** This month, ML launched an Irish-domiciled vehicle structured as a Qualifying Investor Alternative Investment Fund, or QIAIF. The fund quickly took in $50 million for Centurion from **Old Mutual Global Investors,** the alternative-investment arm of London-based wealth manager Old Mutual.

The QIAIF model offers managers several advantages over other alternative-investment fund structures available in the **European Union** — including the freedom to invest directly in commodities. That was a key reason Centurion agreed to join ML's program, becoming the first manager to participate in its QIAIF.

Behling is Centurion's chief investment officer. Before going into business with Zia, he was head trader at **Crabel Capital,** a $1 billion currency and futures manager. Zia, Centurion's chief executive, previously held the title of global head of foreign-exchange prime brokerage at **Bank of America.** ❖

LATEST LAUNCHES

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
Clearfield Capital Domicile: U.S.	Phil Hilal Clearfield Capital, New York www.clearfieldcap.com	Long/short: equity (special situations)	Law firm: Schulte Roth	2015	
Global Sigma UCITS Fund Domicile: Ireland ☛See Page 3	Hanming Rao Global Sigma, Boca Raton, Fla. 203-539-1728	Options	Prime broker: INTL FCStone	1Q-15	

To view all past Latest Launches entries, subscribers can click on the Databases tab at HFAlert.com

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manager **Michael Rome** was displaced this month, along with an undisclosed number of his colleagues. Rome had arrived at Nomura in April 2012 with a focus on industrial-company stocks. The move followed his November 2011 dismissal from a portfolio-manager slot at **Diamondback Capital,** which at the time was preparing to unwind in the wake of heavy investor redemptions. He started there in 2008, after three years as a portfolio manager at **SAC Capital.**

BDO USA, an affiliate of Brussels accounting firm BDO International, installed **Ignacio Griego** in its San Francisco outpost this month. He is spearheading efforts to expand the shop's presence as a service provider to hedge fund operators on the West Coast. In addition to counseling those firms on fund structures, asset values and partnership allocations, Griego aids clients with tax, operational and regulatory issues. He also advises on audits of management companies and their portfolio companies. He most recently worked at **KPMG.**

Gary Beckham left his post as chief compliance officer at **Lyxor Asset Management** around the beginning of this month, destination unknown. Beckham had joined the **Societe Generale** unit's New York office in 2008 from **ING Investment.** His replacement: an unidentified lawyer who is expected to arrive in the next few days. Separately, an unnamed credit analyst is leaving to join **Investcorp,** which previously lured away former Lyxor U.S. head **Lionel Erdely** at the end of 2013. Lyxor deploys $22 billion to hedge funds.

Former hedge fund marketer **Rudy Orman** took a job this month as a managing director at **Carrington Investment,** the broker-dealer arm of mortgage company **Carrington Holding.** Orman is working in a business-development role at the Santa Ana., Calif., operation, although his exact duties are unknown. Orman left mortgage servicer **Residential Credit Solutions** on Oct. 1 after four years on board. He also has worked at **Marathon Asset Management, Goldman Sachs, Countrywide** and **HSBC.**

Melissa Gottlieb joined **SkyBridge Capital** of New York last month as head of investor relations. Gottlieb previously worked as a consultant, with clients including **Bloomberg** and **Jana Partners.** She also worked at hedge fund operator **Sandell Asset Management** from 2004 to 2011. SkyBridge, led by **Anthony Scaramucci,** operates a fund-of-funds business with $12.1 billion under management. It also runs the "SALT" conference series.

Biotechnology-stock investor **Wainscott Capital** logged a 1% return in October, bringing the year-to-date return of its lone hedge fund to 10%. The gain would follow profits of 26.8% in 2012 and 32.2% in 2013. In a letter to investors last month, founder **Tom Gilbert** said the New York firm's hedging approach aided in this year's returns. "We were particularly pleased to see that in several of the worst days of early October, our portfolio was up slightly due to the calibration of our short positions," he wrote. Wainscott runs $10 million.

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