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News Rocks Hedge Funds

Fear and Loathing (at Industry Conference) in Las Vegas

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STR/Reuters

Emotions ran from worry to relief as hedge-fund players, gathered in Las Vegas on Wednesday, got word that Galleon founder Raj Rajaratnam, shown in a courtroom sketch, was found guilty of insider trading.

LAS VEGAS—It was the big news hedge funds had been waiting for. And it conveniently broke when some 1,700 people in the business happened to be gathered here to size up what it meant for their industry.

"It's bad for the business," said Donald Lucardi, a director at a [Citigroup Inc.](#) unit that sells the bank's hedge funds to investors.

The Galleon Trial

**Galleon Chief Convicted on All Charges
From Plaza to Starbucks: Illicit Acts Find
New Home**

**Investors Doubt Verdict Will Fix Market's
Flaws**

**Rajaratnam Found Guilty: Quotes from the
Trial**

Earlier: Galleon Boss Spun Network Into
Empire

Earlier: Fund Chief Snared by Taps, Turncoats

glare could be especially harsh on "long-short" funds that often try to get an information edge to score gains on stock trades. Galleon, now out of business, was such a fund.



Will Raj Rajaratnam's guilty verdict affect the hedge fund managers? In an interview with WSJ's Shira Ovide, White & Case partner Greg Little weighs in on the legal implications of the ruling in the Galleon insider trading case and what it could mean for the hedge fund industry.

Mr. Lucardi was one of many who learned around breakfast time Wednesday at a hedge-fund industry conference, known as SALT, that Galleon Group founder [Raj Rajaratnam](#) had been found guilty on insider-trading allegations after a weeks-long trial.

Some said the verdict—guilty on 14 of 14 counts of conspiracy and securities fraud—would embolden prosecutors and lead to more scrutiny of the mostly private industry that controls more than \$2 trillion. They said the

"What happens if you see a domino effect on long-short equity funds?" one person said, elaborating that the outcome could lead some hedge-fund investors to avoid these types of funds altogether.

Some at the conference said the verdict helped spook the markets on Wednesday. The Dow Jones Industrial Average fell 1% to 12630.03, amid a sharp decline in oil prices.

Others saw the outcome of the case in a more-positive light, suggesting that Mr. Rajaratnam would be viewed as a bad apple among hedge-

fund managers, rather than a symbol for the industry as a whole.

"It was nonpublic, material information; it seemed pretty clear," said Keith Amburgey, a Naples, Fla.-based investor who places money with hedge funds.

Mr. Rajaratman's lawyer on Wednesday said his client plans to appeal.

Lee S. Ainslie III, managing partner of Maverick Capital, said: "Our biggest fear is Raj was found not guilty," adding that such a scenario could have ratcheted up criticism of the industry amid a perception that it pushes the boundaries of the acceptable.

The verdict comes amid relatively good times for hedge funds. Industry assets recently hit an all-time high, exceeding levels reached before the financial crisis, with good markets since the



Today's verdict capped a trial featuring 45 wiretapped calls showing how Raj Rajaratnam traded on insider tips, provided to him by a web of contacts. Chad Bray and Francesco Guerrera discuss. (Photo Credit: Louis Lanzano/AP)

crisis proving good for many hedge funds.

Even equity hedge funds, including long-short ones, enjoyed net inflows in the first quarter of this year, after enduring net outflows for the prior three quarters, according to industry-tracker Hedge Fund Research Inc.

But attendees at the SALT conference said the verdict also was a reminder that hedge funds need to behave. And it comes amid another probe into how funds have used so-called expert-network firms to get information from

current and former employees of public companies.

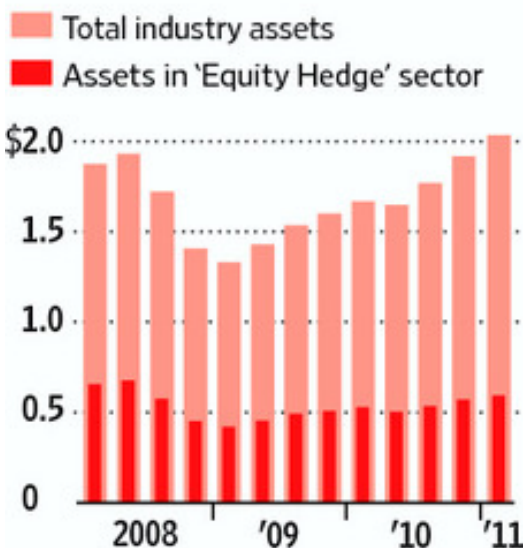
Israel "Izzy" Englander, chairman and chief executive of Millennium Management LLC, said he thinks managers are going to need to take another look at how they deal with expert networks in light of that insider-trading probe and the Rajaratnam verdict.

"Rules are being rewritten without being rewritten," he said.

Ozzy Samad, who runs Azroc Inc., a small hedge fund in Pittsburgh that trades stocks and options, said the verdict could help "level the playing field."

On the Rise

Hedge fund assets, in trillions



Note: Equity hedge sector includes strategies with equity and equity derivative positions.

Source: Hedge Fund Research Inc.

"It is good to be knowledgeable," he said. But as a result of the case, "everyone is more aware there is a line you can't step over."

Yana Kramer, who does business development at WyeTree Asset Management out of London, called the verdict "another message that just because someone may invest with a big guy, that it doesn't mean that they're safe."

Several emphasized the importance of compliance programs. Robert Levin, who works as an adviser to high-net-worth individuals at Emerging Star Capital LLC, says his clients have veered away from funds that haven't embedded internal risk-management controls. "I think the temptation for returns is so high, that some may lose sight of how important those controls are."

Overall, few were surprised by the verdict. Asked one

person over breakfast at the Bellagio hotel just before the jury announced its decision: "What do you think, guilty or guilty as sin?"