

Conference Corner: Hedgies Exchange Ideas in Sin City

- By Ronald Orol

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The credit crunch, alternative energy companies, real estate development and disruptive active fund managers, all of these topics and dozens more were the focus of last month's Alternative Asset Summit in Las Vegas. The two-day event, hosted by the director of Alternative Asset Events, Victor Park, brought together 150 hedge fund managers and institutional investors at the Wynn Hotel for panels and social networking activities that included basketball, a tennis tournament and poker night.

Dubbed "the conference for industry professionals," officials from Sadis & Goldberg, Rothstein Kass, Amber Partners, HedgeOp Compliance and Columbus Avenue Consulting discussed the challenges of bringing the right mix of theory and practice to fund operations.

Doug Hirsch, a partner at Sadis Goldberg in New York, discussed the importance of "firm handshake" agreements being binding as part of his "New Era of Hedge Fund Litigation" panel. Hirsch told participants that "firm handshake" oral agreements that include a subsequent "exchange of value" can be binding, so hedge fund managers should be careful. Exchange of value discussions, Hirsch says, can include talks about portfolio performance targets, individual performance and capital raising considerations.

Andrew Parker, an attorney at Parker Rosen in Minneapolis, discussed the trials and tribulations of representing a portfolio manager who had no written compensation agreement and was facing litigation initiated by a prominent family. "Courts find verbal agreements binding, particularly where there's any hint of arrogance or inconsistency on the part of the hedge fund owner," Parker said. "Further, the reputational and collateral damage done to the hedge fund owner by the mere allegation, let alone filing of a lawsuit, typically triggers massive scrutiny on their businesses as most regulatory bodies start with any news that bears the appearance of impropriety in the press and is typically not worth the trouble vs. settling."

On another panel, John Siciliano, managing partner of Grail Partners, spoke about new forms of competition. "There is a new breed of competition emerging and new solutions are required to survive – public markets, minority sales, and succession planning, among others," Siciliano said. "It can be difficult to navigate the dizzying array of strategic options but firms must address these critical issues in order to position themselves for long-term success." Grail Partners recently advised Buchanan Street Partners on its majority sale to The TCW Group and FrontPoint Partners on its sale to Morgan Stanley.

Michael Patanella, a partner in the financial services industry group at Grant Thornton in New York, discussed how new FASB No. 157 Fair Value Measurement might affect hedge funds. Patanella explained how SFAS 157 redefines the definition of fair value and establishes a new hierarchy of three levels used to classify a hedge fund's portfolio. He also discussed new disclosure rules intended to increase the transparency of a fund's portfolio. Despite opposition from investors, FASB has indicated that it would not postpone the effective date of the new SFAS 157 rule for public companies, but left the door open for non-public entities, which includes hedge funds.

Finally, two high-profile activist investors, Bulldog Investors' Phillip Goldstein and Lawndale Capital's Andrew Shapiro, explained their strategies of buying large stakes in undervalued companies and agitating for change to improve value. Shapiro discussed his governance approach to activism and how in 2001 and 2002 it led him to double digit positive returns while the equities markets were battered. Meanwhile, Goldstein explained why he left his 25-year engineering career to start a hedge fund that eventually became an activist fund. Goldstein talked about how he is challenging the so called "13F" SEC rule requiring all investment professionals managing more than \$100 million to disclose their positions through the SEC on a quarterly basis. "It's intellectual property theft," Goldstein said.

The event supports the not-for-profit group the Navy Seal Foundation.

*Ronald Orol is a Washington-based Senior Writer for The Deal and author of the newly published book, "Extreme Value Hedging: How Activist Hedge Fund Managers Are Taking on the World".*