

Fund manager claims to be victim of credit squeeze

Bloomberg News

NEW YORK: Peloton Partners, the hedge fund manager that is liquidating a \$1.8 billion asset-backed fund, says that it is a victim of Wall Street's reduced lending.

"Credit providers have been severely tightening terms without regard to the creditworthiness or track record of individual firms, which has compounded our difficulties and made it impossible to meet margin calls," the Peloton co-founders, Ron Beller and Geoff Grant, said Thursday in a letter to clients.

Peloton, based in London, joins Thornburg Mortgage and Sailfish Capital Partners on the growing list of funds and companies that have had to sell securities or shut down after banks restricted how much they could borrow, or demanded more collateral as the value of securities backed by mortgages slumped.

The world's biggest financial institutions are cutting off lines of credit to hedge funds after at least \$163 billion of asset write-downs and market losses.

"More hedge funds will blow up this year than ever before," said Michael Hennessy, managing director for investments at Morgan Creek Capital Management in Chapel Hill, North Carolina. "Financing is much harder to get. The bubble has burst."

UBS, Goldman Sachs, Merrill Lynch and Deutsche Bank were among the companies that lent money to Peloton, according to people with knowledge of the matter, who de-

clined to be identified. Officials at the banks declined to comment.

Peloton said Thursday in another letter to investors that it had halted redemptions from its \$1.6 billion Multi-Strategy Fund, which has a "very large position" in the asset-backed fund that is being liquidated, known as the ABS Fund.

Beller and Grant, who founded their firm in 2005, are seeking buyers for mortgage securities held by the ABS Fund.

The fund provided clients with an 87 percent return last year after the managers bet on a sharp increase in delinquencies on loans to homeowners in the riskiest subprime category. Beller said in January that the firm bought securities backed by mortgages that were safer than subprime.

Yet the price of top-rated Alt-A securities, which rank above subprime, dropped 10 percent to 15 percent this month, according to Thornburg Mortgage, the finance company in Santa Fe, New Mexico, which said Thursday that it might have to sell more securities to meet further margin calls, after burning through cash.

"Risk managers everywhere are revisiting how collateral is being priced so you're seeing margin calls," said Kenneth Hackel, managing director for fixed-income strategy at RBS Greenwich Capital Markets in Greenwich, Connecticut. "As risk appetites decline, the price of assets that are used as collateral decline."

Beller led Goldman's fixed-income currency and commodity sales group in London before leaving in 2001 to help reorganize the New York City school system. Grant was co-head of Goldman's so-called macro proprietary trading group. Grant, who works in Santa Barbara, California, declined to comment.

Sailfish's Multi-Strat Fixed Income Fund, which had \$1.9 billion in July, collapsed as

'More hedge funds will blow up this year than ever before.'

credit bets went sour and the firm, based in Stamford, Connecticut, unwound positions in a declining market.

Morgan Stanley analysts predict that the "substantial and sharp moves in the credit markets" will lead to the closures of several hedge funds that invest in credit markets, which could put further pressure on prices of mortgage-related securities and derivatives.

Particularly at risk of further credit losses is UBS, which has so far written down \$19 billion, according to Huw Van Steenis, a Morgan Stanley analyst in London. "We feel that UBS has been consistently behind the curve in marks and, worryingly, the worst may not be over," he wrote in a report.

■ Write-downs at a KKR unit

KKR Private Equity Investors, the publicly traded buyout fund of Kohlberg Kravis Roberts & Co., wrote down stakes in seven investments as a slowing economy hurt earnings and declining bond prices eroded the value of holdings, Bloomberg News reported Friday.

The fund marked down its stake in Dutch chip maker NXP by 25 percent and in ProSiebenSat.1 Media, the biggest broadcaster in Germany, by 27 percent, the company, listed in Amsterdam, said Friday. KKR also cut by more than 80 percent the value of its holding in ATU, the German car-repair company it bailed out last week.

"Capital is not nearly as plentiful as it was a year ago and the cost is much higher," Henry Kravis, a co-founder of Kohlberg Kravis, said during a conference call with investors. "It's possible to get deals done in this environment. It just takes more work and a lot of creativity."

Falling bond and loan prices indicate that private equity firms may struggle to profit from their investments, after a record \$14 trillion of takeovers in 2006 and 2007. A slower U.S. economy is also hurting sales at the companies they own. KKR is raising €7.7 billion, or \$11.7 billion, for its biggest European takeover fund.

Publicly traded private equity funds like KKR mark the value of their holdings to market each quarter and disclose the results, unlike traditional private investment partnerships.