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Brian Hunter Returns With a Commodity Fund

By Emma Trincal, Senior Financial Correspondent
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CALGARY, Canada (HedgeWorld.com)—Brian Hunter, the commodity trader responsible for Amaranth Advisors LLC's blowup in September, launched his new shop called Solengo Capital Advisors.

The firm, based in Calgary, Canada, where Mr. Hunter lost more than $6 billion on bad natural gas futures trades in just a few weeks last year, will manage a commodities volatility fund.

Mr. Hunter brought on board several former Amaranth executives, according to marketing material obtained by Lipper HedgeWorld. Shane Lee, a former Amaranth trader who worked with Mr. Hunter in Amaranth's Calgary office and who, prior to that, traded natural gas at Chicago-based Citadel Investment Group LLC, was named natural gas co-portfolio manager.

Mathew Calhoun, another former Amaranth energy trader and a former trader for Shell Trading Gas and Power Co., will be the other co-portfolio manager.

Karl Koster, the former senior quantitative architect for risk management at Amaranth, will head system engineering at Solengo Capital.

Shondell Sabad has taken on the role of chief operating officer and chief financial officer. He joined from the crude oil trading desk of TD Securities LLC, where he was responsible for crude oil and crude oil options trading.

It took only six months for Mr. Hunter, the man many people believe is responsible for the biggest hedge fund blowup in history, to launch this new venture. The question remains whether he will successfully raise money from a crowd of skeptical institutional investors. Multibillion-dollar funds of funds, often affiliated with investment banks that are unlikely to be burned again, suffered the most pain when Amaranth went down. But the first line in the Solengo Capital brochure offers no equivoque: "Solengo Capital is structured to become a multi-billion-dollar commodity investment vehicle."

Not everyone thinks such a goal makes sense. "This is the part I find bizarre: Why would he want to raise billions when this market is so shallow in size? Did he not understand the lesson with Amaranth?" said Louis-Armand de Rougé, chief executive of the Paris-based office of Richcourt Fund Advisors Inc., a $1.3 billion fund of funds. "And let's not forget that he also lost money with Deutsche Bank. One maybe, but twice is a lot. But Wall Street, as we all know, has a short memory."

And indeed Mr. Hunter has a famous precedent on which to model his new venture: John W. Meriwether now runs several billion dollars in his JWM Partners fund, which he launched a year after the 1998 collapse of Long-Term Capital Management.

Not only does Mr. Hunter say in his brochure that he seeks billions for his new venture, he also intends to impose a two-year lock-up with a 60-day redemption notice. That feature no doubt will raise a few eyebrows on Wall Street, if not provoke some laughs.

To be fair, Mr. Hunter's business model includes some elements designed to better manage risk, which in all likelihood were created to reduce fodder for the eventual critics.

Solengo Capital will form a series of investment funds within the commodities market, according to the document. Each fund will be sector-specific, including crude oil, base metals and U.K. natural gas. Each of those sub-funds will function as a stand-alone portfolio with its own management team. In order to minimize risk, each sub-fund will have a maximum capital allocation, a measure that differentiates Solengo Capital from what Amaranth used to do in allocating a disproportionate amount of capital to energy.

In addition, each sub-fund will be subject to a maximum margin-to-capital ratio. No sub-fund will be allowed to trade more than 10% of the maximum margin over a period of five days.

Solengo will define its margin-to-capital ratio using the publicly available Standard Portfolio Analysis of Risk (SPAN) engine, a portfolio-based margin calculation method developed by the Chicago Mercantile Exchange. As a result, margin will be calculated across all asset classes and reported monthly. The method also guarantees that margin is calculated by a third party. The SPAN methodology is there to reassure investors.

"SPAN is a market standard for evaluating the risk of position-taking in very liquid futures markets," said Hilary Till, principal at Premia Capital Management LLC in Chicago and a research associate at the Edhec Risk and Asset Management Research Centre in Nice, France, in an email.

Each Solengo Capital sub-fund has a maximum capital allocation in excess of which no further investment can be made. At that point, gains above the capped allocation may be returned to investors in the form of dividends, less fees. In addition, the fund may hold a liquidity reserve of up to 10% for each of the sub-funds.

But perhaps the most innovative and investor-friendly feature is the one that allows investors to allocate funds by commodity class. The main fund will be diversified across all commodity assets covered by the Goldman Sachs Commodity Index and possibly more, according to the marketing document. Reallocation among sub-funds will be permitted only once a year though, with a three-month notice.

Mr. Hunter threw in other "goodies" to attract prospective investors: For instance, investors will be able to meet periodically with portfolio managers.

Those portfolio managers, if the fund succeeds, will do well. Mr. Hunter passes on up to half of the 2% management fee to them, or up to 1% of the assets under management. The performance fee is standard at 20% of the profits. In addition, the firm charges a one-time 0.25% first-year expense fee.

One downside may be that the firm itself will handle all investment fund administration, from payroll to accounting and expenses and billing.

There is no reference to wine or Italy in the prospectus, but the term Solengo designates a fine wine from Italy's Tuscan region.

Mr. Sabad did not return a call seeking comment.

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