

Amaranth Losses Swell to \$6 Billion After Transfer (Update5)
2006-09-21 10:16 (New York)

(Adds analyst's comments in fourth paragraph.)

By Katherine Burton and Justin Baer

Sept. 21 (Bloomberg) -- Amaranth Advisors LLC, the hedge-fund company that imploded after wrong-way bets on natural gas, said losses swelled by \$1.4 billion this week because it had to unload assets at a discount to avoid a shutdown.

Amaranth funds plunged 65 percent, or more than \$6 billion, this month as of Sept. 19, founder Nicholas Maounis said in a letter to investors late yesterday. The Greenwich, Connecticut-based firm handed over its energy-trading portfolio to outside investors and sold unidentified holdings to stem further losses and ``avoid termination of our credit facilities and the risk of a consequent forced liquidation by our creditors,'' he said.

Amaranth, which had \$9.5 billion of assets as recently as last month, has become the biggest hedge fund collapse since Long-Term Capital Management LP failed in 1998. The company agreed yesterday to allow Chicago-based Citadel Investment Group LLC, the \$12 billion hedge-fund group run by Kenneth Griffin, and JPMorgan Chase & Co., the No. 3 U.S. bank, to take over its energy positions, said two people with knowledge of the decision.

``Amaranth's other alternatives weren't that great,'' said Craig Pirrong, energy markets director of the University of Houston's Global Energy Management Institute. ``The number of folks that can take those relatively illiquid trading positions off their hands are pretty limited, and they were only willing to do it for a sizeable price concession.''

Separately, Citigroup Inc., the biggest U.S. bank, was in talks yesterday about buying a stake in Amaranth, two people involved in those discussions said.

Maounis said the trades were transferred to a third party. He wasn't more specific.

Imaginary Flower

Shawn Pattison, a spokesman for Amaranth, declined to comment. Officials for Citadel, New York-based JPMorgan and Citigroup also declined to comment.

Amaranth's borrowings, or leverage, now amount to \$1.30 for every dollar of assets held, Maounis said in his letter, down from about \$4.50, according to an Amaranth documents sent to investors in June. Both ratios are far below the levels at Greenwich, Connecticut-based Long-Term Capital when it ran aground eight years ago and helps explain why financial and commodity markets haven't been disrupted by the losses at Amaranth.

Long-Term Capital, founded by former Salomon Brothers Inc. Vice Chairman John Meriwether, leveraged its \$2.3 billion of capital into a portfolio of about \$125 billion of securities before the value of those investments plummeted.

Amaranth, named for an imaginary flower that never fades, transferred its natural-gas derivatives at ``significant losses'' and sold other assets to avoid defaults under trading agreements, said 43-year-old Maounis in the letter, a copy of which was obtained by Bloomberg News. Derivatives are financial instruments based on an underlying asset, in this case contracts for delivery of gas.

Talks With Citigroup

Maounis said Amaranth ``continued to meet all margins calls,' ' or demands for repayment of the loans it used to finance the failed trades.

Amaranth's bets on rising natural-gas prices went haywire last week when prices fell 12 percent. Earlier this week, Maounis estimated his funds' losses at about 50 percent, or \$4.6 billion. The firm now has less than \$3.5 billion of assets.

Amaranth yesterday was pursuing a cash infusion that it may need to stay in business. Citigroup was in talks that may give it control of Amaranth, people familiar with the discussions said. Should a deal be reached, Amaranth would become part of the Citigroup division that oversees \$42 billion in hedge fund, private-equity and real estate assets, said the people, who declined to be identified because the talks may break down.

Citigroup was among the 16 banks that rescued Long-Term Capital. The experience rattled then-Chief Executive Officer Sanford Weill, who already had an aversion to businesses that produced erratic earnings. He ordered Citigroup to scale back its dealings with hedge funds in subsequent years.

Management Changes

``It was anathema to him to be involved in any business that doesn't throw out a predictable flow of cash every year,' ' said Punk, Ziegel & Co. analyst Richard Bove in Pinellas Park, Florida, who rates Citigroup shares a ``buy.' '

For Charles Prince, who succeeded Weill as CEO in October 2003, a deal with Amaranth would thrust Citigroup further into the fast-growing hedge fund business. The bank probably would get a share of the Amaranth's management and performance fees.

Assets at Citigroup Alternative Investments unit have surged 50 percent since the end of 2003. The division now manages more than \$17 billion in eight hedge-fund groups.

Citigroup's hedge funds lost money in three of the past six quarters. In the second quarter, the funds lost \$43 million, compared with the 0.78 percent advance of the Credit Suisse/Tremont Hedge Fund Index. Hedge funds are private pools of capital that allow managers to participate substantially in the gains on clients' investments.

Lewis Kaden, Citigroup's chief administrative officer, has been running the alternative investments unit since March, when Michael Carpenter quit to start his own venture. Citigroup replaced Tanya Styblo Beder, head of its Tribeca Global Management LLC hedge fund, with Dean Barr earlier this month.

--Editor: Edelman (ehs/tbq/lae).

Story illustration: For more news on hedge funds, see {NI HEDGE <GO>}. For Bloomberg's hedge-fund home page, see {HFND <GO>}.

To contact the reporters on this story:

Katherine Burton in New York at (1) (212) 617-2335 or kburton@bloomberg.net;

Justin Baer in New York at (1) (212) 617-1869 or jbaer1@bloomberg.net.

To contact the editors responsible for this story:

Larry Edelman at (1) (617) 210-4621 or ledelman3@bloomberg.net;

Erik Schatzker at (1) (212) 617-3849 or eschatzker@bloomberg.net;