

Amaranth to Discuss
Losses With Clients
**Bid to 'Earn Back' Investors' Trust
Could Also Help Alter Standards
On Disclosing Hedge-Fund Data**
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Fighting for its survival and the reputation of its managers, Amaranth Advisors plans today to answer questions from its clients, many of whom want to know if the Greenwich, Conn., hedge fund was saying one thing about its trading tactics and doing another.

The expected confrontation -- a scheduled telephone conference call -- could help set a new standard for how much information wealthy individuals and big institutional investors demand from hedge-fund managers. For years, investors have accepted a trust-me approach from hedge-fund managers, who insist on limited disclosure to protect their trading strategies while pocketing generous fees and performance bonuses.

The debacle at Amaranth could alter that dynamic. The hedge fund revealed this week that it lost about \$6 billion this month, or 65% of its assets, primarily at the hands of a 32-year-old natural-gas trader working thousands of miles from its headquarters. With investors seeking withdrawals, it has unloaded its energy investments to [J.P. Morgan Chase & Co.](#) and hedge fund Citadel Investment Group LLC and is selling other assets while negotiating to sell at least a stake to [Citigroup Inc.](#)

For months, the energy-trading community had buzzed about extraordinary risks taken by the Calgary-based natural-gas trader, Brian Hunter. Yet Amaranth's founder and chief executive, Nick Maounis, repeatedly assured investors that Mr. Hunter and others in the fund were operating cautiously and making diversified bets. If anything, Amaranth executives said, it had cut back on risk.

Last month, representatives of private Swiss bank Union Bancaire Privée visited Amaranth and expressed concern about the fund's dependence on energy trading for returns, a UBP official told its clients in a call Wednesday. The official said the bank "was told their risk taking was being reduced."

Muirfield Capital Management, a New York firm that invests clients' money in multiple hedge funds, including Amaranth, was given similar assurances. The firm told Muirfield that the energy team focused on opportunities to buy options in energy futures to minimize risks but earn big returns, a Muirfield official said.

The fund said it might spend 1% of the capital it allocated to energy for the right to buy or sell natural gas at a price much higher or lower in the future than the rest of the market expected. If an "outlying event happened, they would realize a lot of money," Amaranth

told Muirfield money managers, the official said, but if the bet didn't pan out, only a tiny fraction of the firm's assets would be lost.

On Aug. 29, less than two weeks before it disclosed the multibillion-dollar losses, Mr. Maounis said in an interview with The Wall Street Journal that the perception that Mr. Hunter was taking recklessly large bets was "greatly exaggerated" because he designed his trading strategies to limit big simultaneous losses.

Late Wednesday night, Amaranth told investors in a letter that the transfer of its energy portfolio and sale of other assets helped avoid a "forced liquidation." Next week the firm plans one-on-one meetings in an effort to "earn back its investors' trust," it said in the letter. A spokesman declined further comment.

Before this month, Amaranth enjoyed a reputation as a nimble money manager that was prescient about allocating capital to energy a few years ago when returns from its previous flagship business, convertible-bond trading, slowed. Its investors signed up for two main Amaranth funds that by their very name were supposed to be "Multi-Strategy."

In interviews in the weeks before this month's losses, several clients said they were comforted that energy trading wasn't Amaranth's sole business and that its other activities gave a financial cushion to ride out rough patches in that market.

For its part, Amaranth can argue that it was no secret that energy drove its profits. And a person close to Amaranth says the hedge-fund firm's offering documents make clear to investors the high risks involved in energy trading. The fund explicitly credited the energy team for blowout profits in April and blamed energy trading for a \$1 billion, or 10%, loss in May.

What happened after May's loss is likely to be a focus for investors.

An investment adviser with clients' money in the hedge fund recalls questioning Amaranth managers about that loss after it was disclosed. The adviser said he was told the fund "had misestimated the degree to which these markets could get illiquid at stress points and they couldn't trade out of things as quickly as they might have hoped." Amaranth, he added, said the experience prompted it to reduce its use of borrowed money and other leverage for energy bets "drastically...by as much as 50 or 60%."

There were some red flags. Mr. Hunter had taken control of about \$4 billion of the fund's \$9 billion under management after Amaranth's head of energy investing, Harry Arora, left in the spring. Mr. Arora had told the firm that while he liked some of Mr. Hunter's bets, he was uncomfortable with their size and concentration, says a person familiar with those discussions.

The market itself was growing more volatile. Gas futures have fluctuated more widely in 2006 than any year since 2001.

Outside the firm, investors also questioned whether Amaranth's natural-gas bets were too big. After a huge one-month energy gain earlier this year, investment-advisory firm Blackstone Group sent representatives to Mr. Hunter's Calgary offices to discuss his trading, a person familiar with the matter said. What they learned made them nervous, this person said, so Blackstone pulled all its clients' money out.

Later, UBP, the private bank, reduced its allocation to Amaranth's main multi-strategy holdings to 3%, from as much as 6%. Around that same time, Mr. Hunter said in an interview with The Journal that traders exaggerated the size of his trades and that dozens of financial and commercial players are betting right alongside him.

"At the end of the day what moves markets is supply and demand," he said in the August interview. Mr. Hunter hasn't returned phone calls this week.

Supply has certainly been in the headlines for the past two weeks. As news of higher gas inventories hit markets yesterday, natural-gas futures for October delivery fell further, by 3%, to \$4.781 per million British thermal units. Mr. Hunter has had a bullish bet on natural gas for winter delivery. The most widely traded gas contracts have fallen 57% year to date.

Amaranth is likely to face pressure from investors to allow them to withdraw funds. Many may have missed the deadline, which was set long before the losses were disclosed, to withdraw funds for its quarter ending Oct. 31. That deadline was Monday, the same day it first told investors of losses.

--Gregory Zuckerman contributed to this article.

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