



## **GETTING PERSONAL: Sleuth Helps Hedge Funds Cut Risks**

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NEW YORK (Dow Jones)--Investors grew concerned last year when a hedge fund's performance slipped and they had difficulty contacting the manager. An investment adviser turned to gumshoe Kenneth Springer for help.

Springer, president of New York-based investigative firm Corporate Resolutions Inc., had the manager trailed and found he had an alcohol problem.

"He left the office and went for a drink, and not just one time," said Springer, a former special agent of the Federal Bureau of Investigation, who founded Corporate Resolutions in 1991.

It's a sign of the growth of the hedge fund industry - and of its opacity - that investigative services like those of Springer's firm are in demand. Hedge-fund-related business has growing consistently in recent years, Springer said. Hedge funds, investment pools generally used by the wealthy and institutions, are more loosely regulated than mutual funds.

Funds of hedge funds hire Springer and his ilk to investigate potential managers. "There's increased vigilance on the part of investors in funds of hedge funds, and also on the part of family officers," he said.

Sometimes the gumshoe is on the other foot, as hedge-fund managers hire investigators to scope out potential investors to make sure they know the source of the funds they'll be accepting.

Banks also hire investigators to vet individuals they're lending to. Many times in the private banking arena, especially in Latin America and Europe, they want to ensure that the money is from a legitimate source and not earned from an illegal activity.

Business Is Good

Business has boomed for investigators in the past two years, said Robert Seiden, chief executive and president of **Fortress Global** Investigations Corp. "The work that we do for hedge funds has increased dramatically as the regulatory environment" has changed, said Seiden, citing greater attention to turning up suspicious financial activity.

Peter Turecek, a managing director in the business intelligence and investigations unit at Kroll, said institutional investors are demanding more due diligence from funds of funds, and "more

work is coming from hedge funds as they look at private equity deals and private investments in public entities."

Springer, who grew up in Garden City, Long Island, is no acid-tongued Sam Spade. With his blue shirt, tie and trim slacks, and neatly salt-and-pepper hair, he could blend into the world of investment professionals. He spent 12 years with the Federal Bureau of Investigation, investigating white-collar financial crimes, and Corporate Resolutions conducts parallel investigations with the FBI.

About five years ago, Springer began working with funds of funds. "That is becoming a staple in our business now," he said.

Now he also conducts background checks for venture capital and buyout firms.

Investment firms that suspect a theft often call in the FBI, but many times they also hire an outside investigator like Springer, which gives them a "quicker comfort level" that they'll "get the fox out of the chicken coop," he said.

#### Clues Often Overlooked

Through electronic and traditional sources of data, personal contacts, and other old-fashioned detective work, Springer ferrets out discrepancies, "reputational" issues and patterns of litigation. He said he doesn't use "pretexting," the practice of obtaining personal financial information under false pretenses, which has been considered out of bounds since the 1990s.

His background checks explore whether a person has an undisclosed criminal record, exaggerated credentials, liens, bankruptcies or lawsuits. If someone has trouble handling his own money, Springer said, "what makes you think he's going to do a better job with your money?"

He also looks for patterns of job turmoil. "Someone could be a great CEO," he said, "but if all the people leave, in our business, we call that a clue."

In the U.S., Springer might check for sexual harassment or discrimination cases. The firm is also called in to check out internal allegations made through anonymous letters or emails.

While larger funds of funds, like Man Group (EMG.LN), have their own investigators, smaller firms are at the biggest risk, Springer said, and often have a false sense of security.

"People think that just because a fund is registered with the Securities and Exchange Commission, they don't have to do their own due diligence," he said. Registration, he said, is no guarantee.

Hedge funds can be full of unpleasant surprises. Amaranth Advisors LLC collapsed in September due to bad energy bets, and Bayou Management LLC and Wood River Capital Management LLC collapsed due to alleged frauds. In most such cases, clues abound but go unread, Springer said, such as the departure of key employees, or lawsuits filed against prior employers.

#### More Pension Business

Corporate Resolutions, whose annual revenue is just below \$5 million, charges about \$3,500 to check out a fund and fund manager, and normally gets back to a client within five business days with an update and three weeks with a written report. International cases take about a week longer, Springer said.

This year, he's expecting more work from pension funds, which are investing more in hedge funds. He also expects more cases related to hedge fund "side pockets," arrangements in which managers set less-liquid investments aside from the main fund. It's important to be sure that such arrangements, some of which have caught the eye of regulators, are being used to deal with liquidity issues rather than to hide bad investments, he said.

Hedge funds generally realize that they're operating in a new era of openness, Springer said. While some big funds will say, "If you don't want to invest, fine, but I don't want to answer your questions," that's changing, he said. "If they want people's money, they have to be more transparent."

About 13% of the time, a fund chooses not to invest with a fund manager based on information his firm has uncovered, Springer said. Springer has discovered, for example, disciplinary actions looming for hedge funds.

Corporate Resolutions also offers his clients an ethics hotline, which allows employees to make anonymous reports. "I think we are going to see more of that with hedge funds trying to get public money or go public," he said. "It's a good selling point."

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