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Galleon to Liquidate Funds; Said Approached on Assets

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Raj Rajaratnam, the billionaire founder of Galleon Group charged last week by federal prosecutors with insider trading, told investors he will liquidate his hedge funds.

Galleon, which managed about $3.7 billion, is exploring various alternatives for the business, according to a letter sent to investors today. New York-based Galleon has been approached by unidentified parties interested in buying the company and an undetermined amount of its assets, according to a person familiar with the firm.

"I want to reassure investors of the liquidity of our funds and assure Galleon employees that we are seeking the best way to keep together what I believe is the best long/short equity team in the business," Rajaratnam, 52, said in the letter. "I want to reiterate that I am innocent of all the charges."

Rajaratnam, one of six people arrested Oct. 16 for alleged insider trading, is free on $100 million bail. Within three days of his arrest, investors asked to withdraw about $1.3 billion from Galleon, the person said. Founded in 1997, the firm was one of the three largest managers of technology hedge funds along with Lawrence Bowman's Bowman Technology Fund, which closed in 2001, and Daniel Benton's Andor Capital Management LLC, which shut down last year.

Redemption Requests

"The redemptions coming in were likely so large, and no one wants to be the last out the door," said Brad Balter, head of Boston-based Balter Capital Management LLC, which allocates investments to hedge funds and is not a Galleon investor. "As an investor, you don't want that in your portfolio, even if the charges haven't been proven."

Galleon investors include Rochdale Investment Management LLC and Colgate University. The Colgate University endowment portfolio has invested with Galleon since 2005 and is "actively monitoring" the situation, spokesman Anthony Adornato said yesterday. Garrett D'Alessandro, chief executive of New York-based Rochdale, didn't return a call seeking comment.

Notz, Stucki & Cie., a Geneva-based money manager, said today it has a "minimal" investment of about $6 million in Galleon's Buccaneer's fund and it sees "no reason" to withdraw the money. The fund isn't managed by anyone connected with the insider-trading investigation, spokesman Claude-Olivier Rochat said in an interview.

No 'Madoff Problem'

"The funds are there, it's not a Madoff-type problem," Rochat said. Notz Stucki specializes in funds of hedge funds and in April offered to compensate clients with as much as 14 percent of their total Madoff losses, without admitting any liability.

Galleon, which managed $7 billion at its peak last year, operates five hedge funds. Investors in Galleon's $350 million technology fund, which is run by Rajaratnam, can withdraw their money on a monthly basis. Clients of the firm's other hedge funds, including its largest, the $1.2 billion Diversified fund, can take their money out every quarter. Investors must give 45 days notice for all funds.

Galleon has 124 employees with offices from New York to Singapore, according to the firm's marketing documents dated September. Senior portfolio managers include Jeff Bernstein, who runs the Diversified Fund, and Leon Shaulov, who heads the Buccaneer's Fund, a short-term trading fund.

David Lau and Justin Pollock manage Galleon's long-short equity and macro hedge funds out of Asia, while Sanjay Santhanam heads the firm's joint venture Edelweiss Capital Ltd., an Indian provider of financial services.

Traders, Analysts

"The only things of interest are the talented traders and analysts as well as the technological infrastructure that's designed to support a $7 billion equity fund," said Robert Olman, president of Roslyn, New York-based Alpha Search Advisory Partners, which advises hedge funds on consolidation.

Hedge funds in trouble have sold assets to rivals before. In 2006, Citadel Investment Group LLC took over the energy positions of Amaranth Advisors LLC, the hedge-fund firm in Greenwich, Connecticut, that lost $6.6 billion betting on natural gas. The following year, Chicago-based Citadel bought most of the assets of Sowood Capital Management LP, a Boston-based hedge-fund manager that closed after losses on corporate bonds and loans.

"A hedge fund in distress when markets are stable offers nice buying opportunities for other investors because the troubled fund becomes a forced seller," said Tammer Kamel, president of Toronto-based Iluka Consulting Group Ltd., which advises clients on investing in hedge funds.

Galleon doesn't know when it will complete the liquidations, the person said, adding the process will follow the firm's standard redemption policies.

Wharton Graduate

Born in Colombo, Rajaratnam graduated in 1980 with a degree in engineering from the University of Sussex in the U.K and three years later a master's of business administration from the University of Pennsylvania's Wharton School.

After his first job at Chase Manhattan Bank, he joined Needham & Co. in 1985, a New York-based investment bank that specialized in technology and health-care companies. He started as an analyst covering the electronics industry, rising through the ranks and became president of the firm in 1991. A year later, he started a fund, Needham Emerging Growth Partners LP,
according to Galleon's documents.

In 1997 he left Needham with colleagues Krishen Sud, Gary Rosenbach and Ari Arjavalingam to form Galleon Group.

The cases are U.S. v. Rajaratnam, 09-02306, and U.S. v. Chiesi, 09-02307, U.S. District Court for the Southern District of New York (Manhattan).