

## Galleon to Wind Down Hedge Funds

By JOSEPH CHECKLER

NEW YORK -- Galleon Group is winding down all its hedge funds and looking at alternatives for the business, company founder Raj Rajaratnam told employees and investors in a letter Wednesday.

One of those alternatives is selling all or part of Galleon to another firm, according to a person familiar with Galleon. The person said that some parties have already expressed interest in a transaction, although it's unclear what parts of Galleon might be sold.

Mr. Rajaratnam was one of six people arrested and charged last Friday in a massive insider-trading case. The charges had already caused many Galleon investors to try to withdraw their money. The deadline for redemption requests in most of Galleon's funds was Nov. 15.

"I have decided that it is now in the best interest of our investors and employees to conduct an orderly wind down of Galleon's funds while we explore various alternatives for our business," Mr. Rajaratnam wrote. Galleon has about \$3.7 billion under management. Mr. Rajaratnam and other investors make up more than \$1 billion of that, according to Securities and Exchange Commission documents.

The person close to Galleon added that Galleon's redemption process will remain unchanged. Investors won't get their money back until Jan. 1, 2010, barring unforeseen circumstances.

The future of the firm after that is uncertain.

In many past instances of hedge-fund industry consolidation, large hedge funds have taken over a fledgling's distressed assets for discounted prices.

When bad natural gas bets caused Amaranth Advisors LLC to collapse in 2006, Ken Griffin's Citadel Investment Group and J.P. Morgan Chase & Co. swooped in to buy the natural gas book at a discount. The investment ended up being very profitable for Citadel, according to a source familiar with Citadel.

Citadel also bought the assets of failed hedge-fund company Sowood Capital in 2007, which collapsed during the credit crisis.

In the case of Galleon, though, most holdings are equities that could be liquidated in three or four days without moving the market much. Selling those assets at a discount might not be necessary for Galleon.

**"At the end of the day, I don't think anyone is going to be buying the firm outright," said Robert Olman, president of executive search firm Alpha Search Advisory Partners, which also has a hedge fund consolidation advisory business.**

**However, Mr. Olman has heard from some parties interested in some parts of Galleon's business, if they become available.**

**One very important part of the business that could garner interest from buyers is Galleon's investment team.**

**Mr. Olman said the executive search part of his firm had already received resumes from Galleon employees. Alpha only places hedge-fund employees with seven years or more experience as senior analysts, experience managing a portfolio, or senior-level risk managers, typically chief risk officers.**

**Mr. Olman added that he conducted an informal survey of his clients, who said hiring former Galleon employees would not necessarily be a problem, despite Mr. Rajaratnam's charges.**

In Mr. Rajaratnam's letter to those employees and investors, a copy of which was reviewed by Dow Jones Newswires, he said he is innocent of all charges.

Since Mr. Rajaratnam's arrest, Galleon managers have sold some stock to take cash where they could. Many of Galleon's holdings are stocks of large companies like Ebay Inc. and Apple Inc., which usually don't move much when one small shareholder sells.

But Galleon has somewhat significant stakes in some other U.S. stocks, like drug company OSI Pharmaceuticals Inc. and management adviser Huron Consulting Group Inc. It's possible that those stocks could drop in the short term if Galleon sells, but movements in these shares have been consistent with the overall market in recent days.

Galleon also owns stocks of several companies based in Sri Lanka, where Rajaratnam was born. Many of those stocks dropped in the days following his arrest.

All of Galleon's main hedge funds are up double digits in 2009, so the "orderly" wind-down will consist of selling many stocks that have gained this year. That's more desirable than having to sell while stock prices are dropping.

Hedge-fund managers that are closing funds often attempt these slower, more orderly sell-offs of their holdings to avoid disrupting the stocks or the markets.