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## Web Exclusive

Syz & Co.'s alternatives arm, **3A**, has been on a hiring spree in recent weeks.

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## At Press Time

Blackstone To Seed Mortgage Strat 2

## The Americas

Aladdin Touts Credit Offering 3

Iraq Fund Seeks Capital 3

Aureos Takes Billboard Stake 3

Toronto Firm Gains From Gas Plays 4

Wexford Taps Bear Stearns Pros 5

Mass. Plan Mulls Hedge Funds 5

Selvala Sets Up Shop 6

## Europe

Russian Firm Seeks Investors  
For PE Fund 6

London Commodity Shop  
Eyes Growth 7

Horseman To Close Fund 6

Credaris Readies L/S Credit Strat 9

Mulvaney Gains From Gas Longs 9

Pentium Preps Natural  
Resources Fund 9

## Departments

Data Zone 11

Mandate Scoreboard 12

Search Directory 14

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## HEDGE FUNDS PILE INTO VANILLA OPTIONS

Hedge funds are returning to the equity derivatives markets after laying low for a few months, with an uptick of interest in basic structures.

"Having spoken with other hedge funds, more managers are going to use options to express their investment views, as they allow you to limit losses and play a binary outcome" said Louis Gargour, cio at LNG Capital. "Given the increase in market volatility this year, people are putting on smaller positions with wider stop-losses," he added. Jeff Coggs, portfolio manager at Tiburon Partners in London, agreed, describing the growing use of options as "a knee-jerk reaction" to market volatility.

*(continued on page 15)*

## New Commodities Allocation

## KENTUCKY PLANS MULTIPLE INVESTMENT CHANGES

The Kentucky Retirement Systems is planning to ramp up its exposure to alternatives and international assets. The \$17 billion fund has established its 2008-2009 investment plan and created a 5% allocation to commodities. It intends to double real estate to 5%, raise private markets, including buyouts, to 5.6% from 4.3% and hike venture capital to 1.4% from 1%.

Kentucky will have 5% each in high-yield and emerging markets equity and debt.

*(continued on page 15)*

## SENIOR OFFICIALS LEAVE GREYLOCK

Peter Stiler, Fran Rodilosso, Lucia Skwarek and Ravin Gupta have all left emerging markets hedge fund firm Greylock Capital Management; Stiler, Rodilosso and Skwarek left in early April and Gupta last month.

Stiler was a partner and portfolio manager for 10 years, and Rodilosso and Gupta were managing directors for seven years each. Skwarek headed up the firm's equity team for three years. Greylock, meanwhile, has filled some of the holes with former Bear Stearns execs.

Stiler co-managed the *Greylock Global Opportunity Fund*, the firm's flagship strategy that

*(continued on page 16)*

## REECH PLANS MULTIPLE LAUNCHES



*Christophe Reech*

Reech Alternative Investment Management Group is preparing to launch a raft of natural resources and credit funds this year. The firm had already outlined its plans to launch a single hedge fund in both asset classes (*iialternatives.com*, March 31) but in fact it will roll out a handful in each category.

*Volcano Relative Value Fund*, which focuses on crude oil, will launch on July 15—the first in a series of four or five natural resources funds which will roll out in the next three years, Founder and CEO Christophe Reech

*(continued on page 16)*

# HEDGE FUNDS

(continued from page 1)

Michael Warren, investment director at Thames River Capital, said his firm is now using options defensively to take the directional bias away from its *Warrior* series of funds of hedge funds.

Options can be a suitable instrument to implement a view in the very short-term, rather than buying and selling a large volume of stocks at a high transaction cost, said Steve Solmonson, president of Park Place Capital. Pricing must be accounted for, however. "It is a Catch-22 situation," he observed. "People want to use them when the volatility is up and they are therefore more costly."

Investors want to stick with trades that offer high liquidity. They are taking options on indices and blue-chip single stocks, avoiding the swap-based trades that were popular last year.

"We are seeing people moving away from what I describe as complex derivatives," observed a hedge fund sales staffer. He noted hedge funds were happy to trade indices or blue-chip single stock names, adding, "Once they start getting into a situation where they are beholden to one or two banks to make a price, they are a bit more reluctant."

Solmonson urged caution. "While they can be a tool for risk management, sometimes they can make things more risky due

to their complexity and the levels of leverage they use," he said.  
*—Harriet Agnew & Irene Chapple*

# KENTUCKY PLANS

(continued from page 1)

International developed markets will go to 22% from 18.6% and will include a new 3% allocation to small-cap. "The small-cap market has traditionally been viewed as less efficient as compared to its large-cap counterpart, given limited analyst coverage," wrote CIO Adam Tosh in his annual plan. He also wants more exposure to global bonds. The moves will be funded out of domestic equity and fixed income.

KRS started seeking high-yield managers last year but the process got delayed due to the retirement of Kenton Bottoms, director of fixed-income. Tosh plans to resume this search soon to take advantage of undervalued securities. After that, he will seek managers to handle global and emerging market bond strategies. Tosh will also consider carving out an allocation to bank loans. He is looking for fixed-income strategies "that enhance returns and mitigate the fund's interest rate risk sensitivity," according to the investment plan.

Treasury inflation-protected securities will be cut to 5% from 11.3% to fund the move into commodities. KRS will consider active or passive strategies that deliver similar returns

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