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Notes on Work For A Fine Arts Institution

A Fine Arts ("FA") Institution met and subsequently invested in a hedge fund which had been recommended to it. The professionals heading the hedge fund appeared to be accomplished, experienced individuals. The hedge fund presented results demonstrating a successful track record (above average returns), and explained that their proprietary trading programs enabled the achievement of these above average trading results. Within two years of its initial investment, the FA Institution sensed that problems were developing with their investment in the hedge fund, yet could get no clear answers from the hedge fund managers.

H. S. Grace and Company, Inc. ("HSG & Co.") was brought in by the FA Institution and its outside counsel to assist in evaluating the matter. HSG & Co. is quite familiar with hedge funds and, from the outset, was concerned about the professional backgrounds of the individuals as well as the type of investment program they purported to have in place. HSG & Co. examined the hedge fund's reported trading model, and evaluated the manner in which the hedge fund attempted to discern valuable insights from the mathematical analysis of trading data.

Early in the analysis undertaken by HSG & Co., it was noted that a number of withdrawals had taken place in literally the second year of the hedge fund's existence. This was of concern, because if the hedge fund was highly successful, why was a significant portion of its initial capital being withdrawn in the subsequent year? HSG & Co.'s examination of the individuals sponsoring the trading programs led to the identification of inaccuracies in their presentations regarding both their own professional backgrounds and the operation of the funds under their control. This was in addition to their "supposed" set of professional advisors. Substantially questions arose as the HSG & Co. analysis progressed, leading to a concern about whether the results presented as having been obtained by the hedge fund in the early days of its operations may have been fabricated.

Close examination of the hedge fund's proposed investment strategy enabled HSG & Co. to make clear to counsel that their strategy was simply dependent on timing - the

identification of prices for a particular stock and various puts and calls related to that stock at a point in time. HSG & Co. became increasingly concerned that the hedge fund was not following the program they had put forward. Interestingly, the hedge fund labored in court to keep from having to identify their actual trading activity, taking the position that to do so would be to allow others to fully understand their proprietary trading model. HSG & Co. demonstrated that the proposed strategy was dependent only on timing, and any information viewed would be information viewed in hindsight without any damage being done to the hedge fund's investment strategies.

The court appointed a Master Receiver and HSG & Co.'s concerns were confirmed. It was quickly determined that the hedge fund had invested in a wide range of vehicles far removed from the proposed program.

Shortly after the Master Receiver was appointed, the hedge fund offered to settle. HSG & Co. stressed its belief that a careful examination of the losses purported to have been experienced by the hedge fund was required to ensure that there was a complete accountability for all invested funds. The apparent wide range of investment vehicles utilized by the hedge fund created the opportunity for the funds of investors to simply disappear down black holes. HSG & Co. joined counsel in stressing the need for a careful examination of the trading activities and a determination made of what actually happened to investors' funds placed into the hedge fund.

A satisfactory settlement was achieved between the parties.

If you would like to know more...

If you would like to know more about this case, or about the kinds of business-based analysis of claims and damages that can be obtained from [H.S. Grace & Company](#), you are invited to contact members of our group, [Al Fenichel](#), [Steve Grace](#) and [H. Stephen Grace, Jr.](#) at (713) 572-6800. Follow [H.S. Grace & Co., Inc.](#) on LinkedIn. [H. S. Grace & Company, Inc.](#) (HSG) is a litigation support and consulting firm established in 1993 that works with in-house counsel, outside counsel, insurance carriers and corporate attorneys, as well as company boards and senior management. HSG specializes in assisting clients both before and during [litigation](#) in analyzing and assessing the validity of claims involving representations and warranties, directors and officers responsibilities, financial reporting, business judgment, merger and acquisition disputes and other complex issues. The firm provides [expert testimony](#) from our detailed analyses of the business decisions and actions, issues reports of how the actions of all parties involved affect causation and evaluation of damages and provides guidance to support settlement strategies and negotiations. HSG has approximately [30 consultants](#), including experienced testifying experts, who have had significant experience as senior executives (e.g., CEOs, COOs, CFOs, SVPs, Treasurers, technical professionals and board members), many of whom hold advanced degrees and professional certifications. Our experienced team members look deeply into claims and allegations to determine not only what happened, but how and why, to speak authoritatively about appropriate business practices, and to assist clients in achieving favorable outcomes. HSG has represented banks and other financial institutions, real estate partnerships, energy companies, pharmaceutical firms, healthcare companies, insurance carriers, retailers, technology companies and others in a broad array of [complex commercial litigation](#).

