U.S. hedge fund walloped on bad gas bet

Canadian investments take market hit; Amaranth may have lost 35% of capital

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FROM TUESDAY’S GLOBE AND MAIL

A major U.S. hedge fund with strong links to Canada appears to have lost about $3.3-billion (U.S.) -- 35 per cent of its capital -- after betting the wrong way on plunging natural gas prices.

The losses at Amaranth Capital Advisors LLC are raising questions about the strategies of the Calgarian who heads its extensive natural gas trading, and have already scorched several Canadian companies in which it has invested.

In fact, Amaranth, the largest shareholder of Cinram International Income Fund, yesterday advised the Toronto DVD and CD maker's trustees to find a buyer for the company or take it private, following a 5-per-cent fall in the price of Cinram's units stemming from speculation the hedge fund would be forced to sell to help cover losses.

Nicholas Maounis, chief executive officer of Amaranth --which takes its name from a mythical flower that is always in bloom -- warned in a letter to investors yesterday that the firm's "multi-strategy funds sustained significant losses in their energy-related investments" last week "following a dramatic move in natural gas prices."

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Mr. Maounis, who founded the Greenwich, Conn., firm in 2000, said he expects the year-to-date losses may top "35 per cent."

This would total more than $3.3-billion, based on the approximately $9.5-billion in capital Amaranth manages, although it is not known how heavily the firm may have borrowed to lever its investments.

In the letter, a copy of which was obtained by The Globe and Mail, Mr. Maounis also said that Amaranth has taken a number of steps "to preserve investor capital," including "aggressively reducing our natural gas exposure."

Amaranth's troubles appear to stem from decisions by Brian Hunter, who heads the firm's gas-trading operations from an office in Calgary. Trader Monthly magazine said earlier this year that Mr. Hunter was paid between $75-million and $100-million in 2005 after capturing about $800-million in profit.

He would not comment yesterday when reached at a Greenwich telephone number. "I'm sorry I can't talk to you," he said.

Natural gas prices have tumbled more than 40 per cent since the start of last month, including a drop of 12 per cent last week alone after the U.S. Energy Department disclosed stockpiles were 12 per cent higher than a year earlier.

Another much smaller -- $400-million -- U.S. hedge fund, MotherRock LP, went out of business last month after betting the wrong way on gas...
prices.

Mr. Maounis also said in his letter that Amaranth has "met every margin call to date" and is "in discussions with our prime brokers and other counterparties and are working to protect our investors while meeting the obligations of our creditors."

Amaranth's Canadian unit, Amaranth Advisors (Canada) ULC in Toronto, is headed by Manos Vourkoutiotis.

His career, according to an article last year in Report on Business Magazine, included stints at RBC Dominion Securities Inc., Gordon Capital and Paloma Partners, also of Greenwich, from which Mr. Maounis spun off Amaranth six years ago.

Mr. Vourkoutiotis could not be reached yesterday and a spokesman for Amaranth Canada would not comment on how Amaranth's Canadian investments may be affected by the firm's financial woes.

Besides the 15-per-cent stake in Cinram, Amaranth has holdings in a number of other Canadian companies. These include about 35 per cent of Counsel Corp., a Toronto investment company with which it has had a loud and litigious relationship, 13 per cent of Dynatec Corp., a mining and metallurgical services company, 15 per cent of Frontera Copper Corp., a mining and exploration company seeking to develop a copper mine in Mexico, and 10 per cent of Vicwest Income Fund, whose operating unit makes metal building products.

The talk on Bay Street was that Amaranth was selling some of these holdings into the market, and shares or units of Dynatec, Frontera and Vicwest all fell in unusually heavy trading on the Toronto Stock Exchange.

As for Cinram, its units fell as far as $20.82 (Canadian) on the TSX, down $2.01 from Friday's close, before finishing at $22, down 83 cents. With nearly 1.8 million units traded, volume was more than five times the daily average.

In a letter to Cinram's trustees that Amaranth Canada released publicly
after the market closed, Mr. Vourkoutiotis acknowledged that speculation about his employer's intentions had caused the "intense selling pressure" on the CD and DVD maker's units.

"We believe that the trustee can materially enhance unitholder value by concluding, as we have, that Cinram simply will not receive an appropriate valuation in the public markets," he said.