



Bear Stearns Shuts Asset-Backed Hedge Fund After Loss (Update1)

By Jenny Strasburg

Jan. 9 (Bloomberg) -- Bear Stearns Cos., the fifth-largest U.S. securities firm, is closing a hedge fund that invested in asset-backed securities, abandoning a salvage plan after the fund plummeted at least 39 percent last year.

The Bear Stearns Asset Backed Securities fund, which in August held about \$900 million of investments backed by assets including home mortgages, dropped 21.4 percent in November alone, the New York-based company told investors in a Dec. 20 letter obtained by Bloomberg News. The fund lost more than \$300 million between August and the end of November.

Bear Stearns said it would return \$90 million in cash to investors immediately. The fund's remaining assets, which the company valued at about \$500 million as of Nov. 30, will be sold and the proceeds refunded over an unspecified period of time, according to the letter. Bear Stearns spokeswoman Jane Slater confirmed the letter's contents.

"Based on continued market deterioration, we believe that a furtherance of the strategy, even under a longer lock-up, would not be in the best interests of investors," Bear Stearns said in the letter. The fund's 39 percent decline last year through November could be revised "given the difficult market conditions that continue to exist," according to the letter.

The closure adds to the list of hedge fund casualties at Bear Stearns, which shut down two others in July as the value of their mortgage-backed securities sank. Their failure helped trigger the collapse of the subprime mortgage market, as investors stopped buying securities linked to home loans made to borrowers with poor credit histories.

August Statement

Bear Stearns's decision to shut down the Asset Backed Securities fund was a change from its statement in August, when it said it would keep the funds open after blocking withdrawals by investors.

"This says that Bear Stearns is still not being honest and forthright with clients whose assets have been entrusted to them," said Steven Caruso, a New York-based partner with law firm Maddox Hargett & Caruso PC whose clients include investors in the Bear Stearns hedge funds. Those investors include hedge funds, institutional money managers and wealthy individuals.

Colin Gordon will remain portfolio manager of the fund while assets are sold and money is returned to clients, according to the investor letter.

'Fully Paid'

The asset-backed securities fund Bear Stearns opted to close last month had less than 0.5 percent of its investments in securities linked to subprime loans, the firm said in August. Bear Stearns sought to restructure the fund last year in a way that would have barred investor withdrawals for two years. Faced with mounting losses, it abandoned that reorganization, according to the Dec. 20 letter.

"The fund is unleveraged and has fully paid for all of the securities it owns, so we believe we are well situated to sell assets and further distribute cash to investors in a reasonable time frame," Slater, the Bear Stearns spokeswoman, said today.

Bear Stearns gained \$3.65, or 5.1 percent, to \$74.82 in composite trading on the New York Stock Exchange at 4 p.m.

James ``Jimmy" Cayne, 73, stepped down as the securities firm's chief executive officer yesterday and was replaced by Alan Schwartz, 57. Bear Stearns has lost about 55 percent in New York trading in the past 12 months.

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Last Updated: January 9, 2008 16:12 EST



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