

Lawyers look for Bayou liability

By Deborah Brewster in New York

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The law firm representing investors in the collapsed Bayou hedge fund is focusing on third-party liability as it becomes increasingly clear the investors have lost at least half of their money.

Bayou, whose principals have gone to ground after failing to return investors' money in mid-August as promised, had been masking heavy losses by faking its returns from as early as 1998, according to lawyers and regulators investigating the fund. The US attorney's office last week filed a court claim to seize the group's assets, including \$101m held by Arizona authorities.

Ross Intelisano, whose Rich Intelisano firm represents eight investors who have collectively lost about \$14m in the fund, said: "We are extremely pleased because this means they will freeze Bayou's assets, and also focus on finding any assets that are floating around."

However, he did not expect that much more money would turn up. "It seems there were up to \$200m in trading losses which they disguised," he said. "There might be a few million more found, but I don't get any sense there is another \$100m in a secret bank account somewhere."

Mr Intelisano said the firm's main legal strategy was to look for any third-party liability. "We are also looking at whether anyone was put into the funds by consultants." The law firm is talking to about 30 Bayou clients.

The Hennessee group, which advised individual and institutional investors on hedge fund investment, had several clients invested in Bayou, which reported \$440m in assets. Last Thursday Hennessee wrote to its clients outlining how it discovered the collapse of the fund after an August 11 letter from the principals, Samuel Israel and Daniel Marino, saying they would return investors' money.

Hennessee said that, after being unable to contact Mr Israel, the group reported the matter to regulators including the Securities and Exchange Commission and the National Association of Securities Dealers, as well as the Federal Bureau of Investigation.