

THE CONTRARIAN

Paul Touradji's \$1.8 billion hedge fund was one of the few winners in 2008. Meanwhile, some former employees are suing him over pay and alleging abuses.

By **CHANYAPORN CHANJAROEN** and **ANTHONY EFFINGER**

Photograph by **BILL CRAMER**

PAUL TOURADJI had a good year in 2008, a 12-month span that most other traders would like to forget. His flagship hedge fund, Touradji Global Resources Fund LP, returned 8.6 percent trading oil, copper and aluminum.

The average hedge fund lost 19 percent, and some expert managers, such as Chicago-based Citadel Investment Group LLC, saw their funds drop more than 50 percent. Touradji's biggest competitor, New York-based Ospraie Management LLC, closed its largest fund. That left New York-based Touradji Capital Management LP, with \$2.7 billion in three funds, vying with London's Clive Capital LLP for the title of world's largest commodity hedge fund firm.

Touradji prospered by concluding that commodity prices had been pushed to unsustainable heights by what he called a "buying orgy" in a March 2008 letter to investors. Slowing car sales in China and declining demand for gasoline in the U.S. told him that the froth had to come off. So he sold commodities short. That July, oil peaked at \$147 a barrel. By December, it had collapsed



Touradji at his Park Avenue offices, which his firm rents from Tiger Management



Asked about the lawsuits, Touradji's one-time mentor **Julian Robertson** says, 'It happens.'

to \$32. Copper fell 54 percent for the year. "We nailed it," Touradji, 37, says.

This year, Touradji's flagship fund was up 2.2 percent through June, though its assets under management declined to \$1.766 billion from \$2.05 billion in the period, an investor says. Touradji says he reversed his gloomy view and bet correctly that commodity prices would rise. His return was small because he remained unwilling to risk much money, he says.

"I think he's the best commodities man in the world," Julian Robertson, founder of Tiger Management LLC, one of the most successful hedge fund firms in history, says about Touradji. Robertson, 77, served as Touradji's mentor when the younger man worked for Tiger as an analyst and trader from 1996 to 2000.

Behind Touradji's success as an investor lies some high hedge fund drama. A former employee named Gentry Beach sued Touradji Capital in December in New York, alleging that the firm owed him about \$25 million in compensation dating back to 2005 and that Touradji had threatened to have him killed after he demanded the money. Rob Vollero, another former employee, joined the suit in January, demanding an equal amount of back pay.

Beach's father, Gary, sued too, alleging in state

court in Harris County, Texas, that Touradji had tried to force him out of Houston-based Playa Oil & Gas LP, a venture the two men had set up to drill for crude in East Texas, North Dakota and the Louisiana bayou—and denied him his share of the company's revenue.

Former employees deposed by lawyers for both sides in the Playa case describe Touradji Capital as a brutal place to work, even for a hedge fund firm, where egos are large and tempers short. Touradji's mood rose and fell with his fund's performance, ex-employees said in interviews. During one good run, he bought every employee a Cartier watch. When the firm's bets didn't pan out, he would sometimes smash equipment and force traders to make public confessions to their colleagues, ex-employees say.

"It was a very volatile environment," former private equity manager Holbrook Dorn told lawyers in a deposition for the Playa case taken on Jan. 27. "Paul Touradji was particularly volatile."

ANOTHER FORMER EMPLOYEE, Chuck Ray, says in his deposition: "It was a daily basis: yelling, screaming, breaking things on his computer, telling employees they're idiots." Neither Dorn nor Ray has taken any legal action against his former boss.

The depositions dredge up alleged incidents of an uglier sort. Gentry Beach's sister, Taylor Beach Miele, an analyst who joined Touradji Capital along with her brother in 2005, gave a deposition in the Playa case in which she says she was told by another employee that one night in late 2006 Touradji picked up a stranger's Citibank debit card in a bar after a company Christmas dinner and used it to buy bottles of Cristal champagne, which sell for \$250 and more in stores. The employee told her the story the next day and showed her the card, Miele says.

Miele also recounts in her deposition a time when she walked by Touradji's desk on the trading floor and saw him yelling through the phone at someone: "He obviously didn't like what they were saying, so he took the handle of the phone and he banged it on the desk as hard as he possibly could until the receiver broke and shattered plastic all over the desk."

Touradji denies in depositions and through his lawyers that he owes Vollero or the Beaches any money or that he tried to force Beach's father out of Playa. In a deposition taken in March, he says he doesn't recall the debit card incident.

"This is a shakedown," says Touradji's lawyer, Sean O'Brien of Arkin Kaplan Rice LLP in New York.

Touradji is more measured. "We have a high bar and a unique culture, and not everyone fits here," he says in an interview in his 47th-floor offices on Park Avenue

in midtown Manhattan. About 15 traders and analysts have left the firm since 2007, three people familiar with the matter say. Many people were let go when the firm stopped making private equity investments, Touradji says. As of mid-July, Touradji Capital employed 24 traders, analysts and support staff.

Jim Stellakis, a trader for Touradji for two years until June 2006, says his former boss is no more of a hothead than other hedge fund managers. "I've worked with people who fly off the handle," says Stellakis, who says he left the firm on good terms and keeps in touch with Touradji. "That wasn't the case. He yells like every boss. I've had jobs in paint stores where people yell."

Touradji's public fight with Vollero and the Beaches is unusual in the hedge fund world, where most pay disputes are argued in private, says Hank Higdon, managing partner at Higdon Partners LLC, a New York-based company that finds employees for fund firms.

"Very few things are litigated," Higdon says. "No one wins in this situation." The hedge fund is forced to defend itself, and the employee bringing the suit risks being blackballed in the industry, Higdon says. "Firms don't like to hire people like that."

Vollero and Beach went to work for Touradji without written contracts, even though Touradji had had an earlier dispute with a hedge fund partner. He shut down a firm, New York-based Catequil Asset Management LP, in 2004 after he and the man who founded the firm with him, Robert Ellis, clashed. Ellis filed a complaint in Delaware Chancery Court accusing Touradji of abusing employees and withholding money from him after they agreed to part ways.

Touradji denied the allegations and in a counterclaim said Ellis hadn't met his obligations to the firm. The two settled, according to Touradji, who declined

to disclose terms. Ellis declined to comment.

Another Catequil employee, energy trader Paolo Vico, said that Catequil had denied him incentive pay for 2003. The American Arbitration Association awarded Vico \$562,152 in compensatory damages in 2006, according to Liddle & Robinson LLP, the New York firm that's also representing Gentry Beach and Vollero. Vico declined to comment on the matter. So did Touradji.

While heading Catequil, Touradji got into a dispute with investment bank Morgan Stanley, according to people with knowledge of the matter. The argument broke out in 2001, when Touradji denied making a nickel options trade that went against him, the people say. The New York-based bank told him it had an audiotape of him making the trade and threatened to sue if he didn't settle, the people say. Touradji eventually did settle, and he and his firms have been blacklisted ever since from doing direct commodities trades that involve credit risk for Morgan Stanley, the people say.

Touradji's firm did make an equity trade in an oil stock with Morgan Stanley last year, and may make trades through clearinghouses that do not involve counterparty risk, the people say.

Morgan Stanley spokesman Carlos Melville declined to comment on the matter.

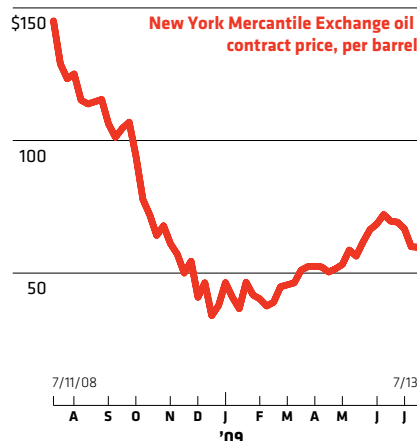
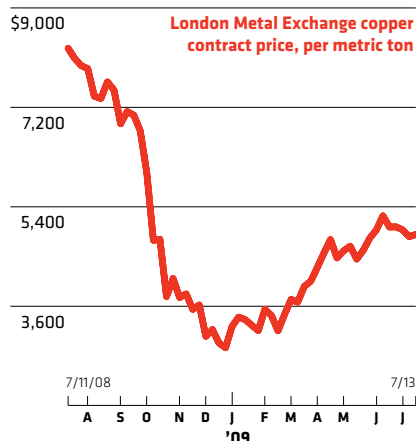
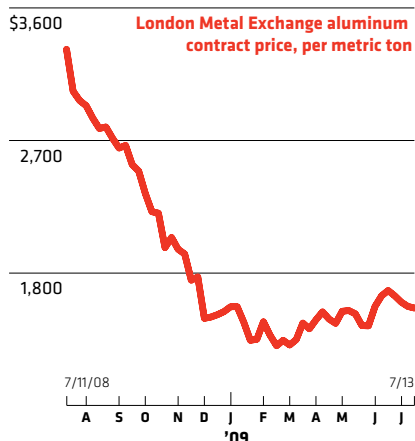
Touradji says the 2001 dispute never happened and that Touradji Capital does commodities trades with Morgan Stanley.

Robertson, who retired from Tiger in 2000, wouldn't comment on the lawsuits against his former protege, other than to say, "It happens." When Touradji started his namesake fund company in 2005,

Morgan Stanley refuses to make commodities trades with Touradji Capital that involve credit risk, people familiar with the matter say. Touradji says that isn't true.

PLAYING THE COMMODITIES BUST

Touradji profited from shorting aluminum, copper and oil, which all fell at a record pace in 2008. He was a buyer in 2009.



Source: Bloomberg



thousands of miles a year. Andreas Hommert, a metals analyst, has traveled to China to gauge demand for air-conditioning equipment. Analyst Austin Brown has been to Zambia to look at its copper mines. The two men have a running bet on who has eaten the most-exotic food with their foreign hosts. Hommert leads, with a Chinese dish composed of badger, snake and cat.

Another secret, Touradji says, is to remain objective. "Our job is not to fall in love, or out of love, with one market," he says. He's skeptical, for instance, of basing

Touradji adversary **Gentry Beach**, right, poses with his pal **Donald Trump Jr.** and their wives in New York.

Robertson invested in it and rented space to Touradji in Tiger's Park Avenue offices, alongside a group of other managers, many of whom got their start at Tiger and now work for other firms. Touradji remains there, paying rent and managing part of Robertson's fortune.

Touradji, who has a full head of black hair and a thin goatee, favors dark suits with French-cuffed shirts. In conversation with a reporter, he's soft-spoken and strives to explain his hedge fund investments in language that a layman can understand. His offices are decorated with maps of the world. One is marked with colored tabs showing the locations on six continents where his team has visited to gather information.

Unlike many commodities investors, Touradji is no trend follower. He says he makes most of his money by betting against conventional wisdom. In March 2008, London-based Red Kite Metals' founders Michael Farmer and David Lilley told Bloomberg News that metals prices would rise on soaring demand. That same month, Touradji wrote to investors that prices had been inflated by speculators. "We have just (and it's not quite over yet, so be careful) witnessed the most unprecedented influx of money into the commodity markets ever," Touradji wrote.

SOON AFTERWARD, COPPER, aluminum and oil all fell at a record pace, with oil dropping 68 percent in the six months starting on July 1, 2008. The Reuters/Jefferies CRB Index of 19 commodities slumped 50 percent in the same period.

Touradji says he prospers because he does more research than most hedge fund investors, a practice he learned from Robertson. Touradji analysts log

a trading strategy on the "peak oil" theory, which says the world's petroleum production has reached its apex. Trading based on that notion would have been disastrous in 2008 as oil prices tumbled, he says.

Touradji says he never expected to work on Wall Street. He was born in Iran in 1972. His father, a physician, took the family out of that country just before the 1979 Islamic revolution. "It's the best trade he ever made," says Touradji.

Touradji, who speaks unaccented English, grew up in suburban Baltimore and attended the University of Virginia's McIntire School of Commerce in Charlottesville. That's where he met the man who would turn him into a trader: Michael Bills, at that time recently retired from Tiger to teach corporate finance at the university. In the summer of 1992, Bills arranged for Touradji to visit Robertson at Tiger.

"I had never heard of Tiger," Touradji says. "I thought I was going to go to work in the oil industry." During the visit, Touradji took a seat at the trading desk and sat in on a call, with his line on mute, as a Tiger staffer summoned the Brazilian finance minister to the phone. "At this point, I am just hooked," he says.

After graduating with a degree in finance, Touradji went to work at O'Connor & Associates, now a part of Zurich-based UBS AG. O'Connor was a so-called quant shop where people used the latest models and algorithms to trade futures and options. He then worked for London-based Barclays Plc, where he traded options on stock indexes. Robertson hired him in 1996.

At Tiger, one of Touradji's first trades was a 1997 bet that coffee prices would fall because growers in Brazil were planting millions of new bushes. Robertson sent

him to Bahia state in eastern Brazil for two weeks, where he walked through the plantations and talked to farmers. Later, he paid for satellite images, which, augmented by ground surveys, showed that Brazil probably had 4 billion coffee bushes, not the 3 billion that experts had estimated. He says he started selling coffee short at \$1.80 a pound and covered the trade under \$1.

Robertson had pushed to make the bet bigger several times, and, by the end, the trade was huge, says Touradji, declining to be more specific. “Both his investment acumen and tolerance for risk are better than mine,” Touradji says of Robertson.

At Tiger, Touradji worked alongside Dwight Anderson, who went on to start Ospraie Management, Touradji’s rival until Anderson liquidated his biggest fund last year after losing 39 percent on bad bets on stocks of commodities producers. Touradji’s future partner Ellis was head of Tiger’s commodities trading desk. They teamed up in 2000 to form Catequil, named after the Incan god of thunder and lightning. The firm thrived, amassing \$1.6 billion in about four years.

Over time, Touradji’s treatment of employees led to departures, Ellis said in a complaint filed in Delaware Chancery Court on Oct. 8, 2004. Their relationship soured. The partners kept arguing about Touradji’s management style until July 2004, when Ellis said he wanted to leave, according to his complaint. Negotiations on the split broke down, Ellis said, and Touradji countersued, accusing Ellis of slacking off. “Ellis became derelict in his duties and, to the extent he worked, he demonstrated incompetence,” Touradji alleged. After dissolving the firm, Touradji and Ellis settled on undisclosed terms. Ellis now runs Ridgefield Capital Asset Management LP in Ridgefield, Connecticut.

Touradji set up his current firm in January 2005.

That May, he hired a team of equity traders from New York-based Solstice Equity Management LLC, a firm that invested money for the oil-rich Bass brothers of Fort Worth, Texas. Its leaders were former Morgan Stanley investment bankers Gentry Beach and Vollero. Beach, now 33, is a fixture on the New York social scene and pals around with Donald Trump Jr., 31, son of the celebrity developer. Miele worked at Solstice too, as an analyst, and moved to Touradji with the rest of the team.

TOURADJI AGREED TO pay Gentry Beach and Vollero \$200,000 each a year and let them split 15 percent of the profit they made managing a portion of the Global Resources fund’s money, Beach and Vollero say in a complaint filed in New York State Supreme Court in Manhattan on Jan. 26. All the pay agreements were oral.

Touradji decided that his new firm would expand into private equity. In early 2005, Beach introduced Touradji to his father, Gary Beach, a Texas petroleum wildcatter who held leases on land thought to be rich in oil. The pair formed Playa Oil & Gas to drill for crude. Gary Beach became chief executive officer of the company. Touradji Capital, through an entity called DeepRock Venture Partners LP, invested \$41 million. The two signed a written agreement that Touradji would get 80 percent of any distributions and Beach would receive the rest. In his deposition, Touradji says Beach championed his father’s company and negotiated Touradji’s investment in it. Gentry says in his deposition that he had a limited role.

Things went well for Touradji in 2005, the hedge fund firm’s first year. The flagship Global Resources fund returned 21.9 percent after fees. Trading their portion of the fund’s money, Gentry Beach and Vollero earned a 40 percent return, or \$95 million, in the six months ended on Dec. 31, 2005, they say in their complaint.

The trouble started when Beach and Vollero tried to get paid for that period, they say in their lawsuit. Their share of the \$95 million was \$14.3 million, they say. After paying their team, including Miele, \$1.4 million, Beach and Vollero were owed \$6.42 million each, they say.

Touradji paid them \$2.4 million each, telling them, they say, that the rest would be reinvested in the Touradji Global Resources Fund and distributed in 18 months. The \$25 million each of them is demanding in the lawsuit includes profits they say they earned for the firm in subsequent periods and gains their money made while it was invested in the Touradji fund.

“These are petty groundless claims brought for the

Touradji in 1993, when he was a senior at the University of Virginia. Bottom, the rotunda at the Charlottesville campus





The team: clockwise from top left, Austin Brown, Paul Crone, Andreas Hommert, Gil Caffray, Touradji

purpose of competing unfairly with a brilliant hedge fund manager,” O’Brien, Touradji’s lawyer, says. “There was no written agreement for these kinds of dollars.”

Touradji was generous with perks. In July 2006, he took the whole company—then about 20 people—to Germany for the World Cup soccer tournament. Five months later, Touradji took everyone to a restaurant in lower Manhattan for a Christmas holiday dinner. Miele says she left early, around 10:30 p.m., and that others stayed. The next morning, a co-worker named Tracy Nestora showed her a debit card with an unfamiliar name on it, Miele says in her deposition.

“She told me that the night before they had been at a bar and the person at the next table had left it behind, and that Paul Touradji had picked it up on their way out and used it at a third location to charge bottles of Cristal and other drinks for the whole group and made some joke about how drinks were on this guy,” Miele says in her deposition. Miele says she told Nestora to cut up the card.

Nestora left Touradji Capital and now lives in the United Arab Emirates. When reached by telephone, she declined to comment. Touradji says he doesn’t recall any such incident. “Sounds like an odd thing to do,” he says in his deposition. “So, no, I don’t remember that.”

The next year, 2007, turned out to be Touradji’s best ever: His flagship fund earned 55 percent and his investors got 41 percent after fees. Yet Touradji saw impending disaster. On a sunny day in January 2008, he says, he gathered his employees and predicted that in the coming year hedge funds would be

wiped out like a fleet of fishing boats caught out to sea in a Category 5 hurricane. “There’s a storm coming,” Touradji recalls telling his people. Their task, he said, was to stay afloat. One of Touradji’s responses was to sell many of his positions and go to more than 80 percent cash.

In May 2008, Touradji says in his deposition, he removed Gentry Beach from the private equity management team because Playa was doing terribly. Gentry says in his deposition that his role at Playa was limited. Playa had drilled several wells and found little oil. A well drilled on its most promising property, a parcel called Bayou Bouillon that sat atop a geologic formation in Louisiana called a salt dome, was dry.

That same month, Touradji said he would pay Gentry Beach everything owed him if he would make a “public apology” to other employees for the Playa failure, Beach says in his complaint. Touradji Capital was at that point losing money for the year, and Touradji claimed it was because Gentry Beach spent too much time managing unprofitable private equity investments that he had suggested, according to a former employee.

IN A CONFERENCE ROOM, Beach stood up in front of everyone and made the apology, according to two people who witnessed it. When he finished, Touradji said he hadn’t heard enough sincerity in Beach’s voice, according to one of the people, and asked for more. Touradji still didn’t pay, Beach says in his complaint.

O’Brien says Beach apologized to the firm of his own volition and wasn’t coerced.

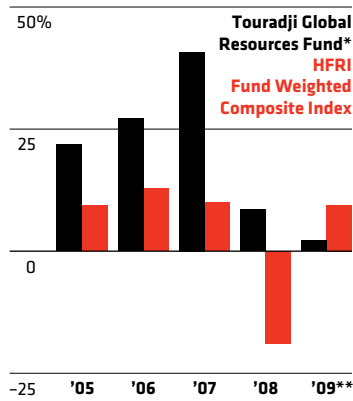
Gary Beach, in his complaint, says Touradji successfully pressured him around that time to amend their agreement on Playa. The new terms were that Beach would get his 20 percent only after Touradji Capital got back its \$41 million investment. He signed reluctantly, he says, on May 9, 2008.

That summer, with oil prices soaring and relations strained among investors, Playa sold many of its oil leases for a total of \$43 million, says Gary Beach’s lawyer, Robert Theriot at Liskow & Lewis in Houston. Touradji Capital got back its \$41 million and is owed nothing more, Theriot says.

Relations with the Beaches blew up completely in September 2008. Gentry Beach had been pressing

END OF A RUN?

Until this year, Touradji’s flagship outperformed the hedge fund index.



*Onshore. **Through June 30.
Sources: Hedge Fund Research, investors

Touradji for alleged unpaid compensation. On Sept. 25, Touradji took him into his office and threatened him, according to Beach's court complaint. Touradji said he would ruin Beach's career and marriage and would have him killed unless he did what Touradji wanted, according to the document.

Gentry Beach filed a report on the alleged death threat with the New York City Police Department on Sept. 25, and quit the firm. The NYPD confirms that it got such a complaint. Charges were never filed.

O'Brien says Touradji never threatened Beach.

The next day, Gary Beach distributed \$2 million from Playa to Touradji Capital and \$500,000 to himself. Touradji says in a counterclaim that the distribution was improper because all such payments were supposed to be cleared with Touradji.

Gary Beach, in his deposition, says he made the distribution because he believed Touradji was preparing to push him out of the company. He's asking a Texas court for \$8.2 million of the \$41 million distributed to Touradji before that last payment, when the split should have been 80–20, too, he says. A trial is set for Sept. 21.

Vollero stayed at Touradji Capital until December. That month, Gentry Beach and Vollero say in their complaint, Touradji promised to pay Vollero everything he was owed if he would agree to present a "unified front" in Touradji's fight with Beach.

Vollero demurred and early this year joined Gentry's lawsuit against Touradji.

Touradji ended 2008 on a high note. Declines in crude oil, copper and aluminum accelerated, just as he had predicted. The Global Resources fund ran up its 8.6 percent gain even though it had most of its capital in cash, Touradji says. "We saw a lot coming," he says.

IN JANUARY, Touradji hired Gil Caffray, one of his former bosses at Tiger, to run his company as CEO. Touradji says he had been too busy trading to manage the company properly and made some bad hires.

Caffray, 55, says he may have to fire some of the holdovers, and that he is definitely hiring. "We are continuing to upgrade our talent across the firm," he says. "It's a good environment."

Given Touradji's track record, the biggest risk for him and his investors may not be in the markets. Touradji has navigated many ups and downs there. The biggest risk may be in court, where former employees are saying he's unwilling to share the wealth. **B**

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'Very few things are litigated' when disputes arise in the hedge fund world, headhunter Hank Higdon says. 'No one wins in this situation.'

Tracking the Complaints

You can use the Bloomberg Law Search (BLS) function to search for documents related to legal proceedings brought against Paul Touradji by former employee Gentry Beach.

Type BLS <Go>. Click on United States and then on All United States. The search criteria will appear under Selected Sources at the bottom of the screen. Tab in to the field under Enter Search Terms and enter *TOURADJI AND BEACH*. Type <Go> 1 <Go> for your search results.

To see the docket for Beach's case against Touradji, including a calendar of court dates and a summary of proceedings, click on the docket titled "Beach, Gentry T. v. Touradji Capital Mgmt, LP, Docket No. 603611/2008." Click on the underlined 1 under Docket Proceedings to request, for a fee, a copy of the initial complaint filed on Dec. 9, 2008.

You can use the Commodity Price Forecast (CPFC) function to track analysts' forecasts for commodities such as oil, aluminum and copper. Type CPFC <Go>, as

shown below, for spot prices and estimates on oil and gas. Click on the tabs at the bottom of the screen to access forecasts for agriculture and metals. Type CTOP <Go> for a listing of the top commodities-related stories and MNI CMD <Go> for the most-read commodities stories over a specified period.

Type HFND <Go> for the Bloomberg Hedge Fund Home Page, which contains links to information on hedge fund filings, rankings, performance and news.

BETH WILLIAMS

95) Chart		96) Products		97) Download		Page 1/2		Commodity Price Forecast				
Center	Author	Composite	As Of	07/21/09	Ticker	Type	Actual					
		Spot	Q3 09	Q4 09	Q1 10	Q2 10	2010	2011	2012	2013		
1)	NYMEX	WTI	Forecast	60.00	65.00	68.50	71.00	71.75	85.50	94.00	77.75	
			Current Fwd	64.62	62.48	70.11	71.46	73.02	73.23	76.79	79.19	81.34
2)	ICE	Brent	Forecast	60.00	65.00	68.00	72.00	69.00	84.00	93.50	85.00	
			Current Fwd	67.11	67.25	69.11	71.17	72.77	73.16	76.95	79.29	81.60
3)	ICE	Gasoil	Forecast	522.00	598.00	592.50	525.00	660.50				
			Current Fwd	550.75	539.67	566.78	591.09	611.32	619.98	675.78	705.28	720.93
4)	NYMEX	Henry Hub										