



# Exclusive: SEC sets its sights on Vision Capital

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By [Matthew Goldstein](#)

NEW YORK (Reuters) - Vision Capital Advisors, a \$600 million hedge fund led by two visually impaired managers, is under investigation by U.S. securities regulators, according to a confidential document reviewed by Reuters.

In a wide-ranging investigation, the Securities and Exchange Commission issued subpoenas in the summer to several investment firms that have done business with New York-based Vision Capital, said people familiar with the inquiry.

The hedge fund invests mainly in private placements by small cash-strapped public companies.

The subpoenas sent out by the SEC's New York office seek emails, transaction documents and other communications between Vision Capital and the investment firms going back to early 2005 -- the hedge fund's first year in business. Reuters reviewed a copy of one of the subpoenas.

SEC spokesman John Nester declined to comment.

"We are cooperating with the SEC's request for information." Vision Capital spokesman Jonathan Gasthalter said.

The focus of the SEC investigation is not clear. But people familiar with Vision, including investors and former employees, said regulators might be examining the methodology the hedge fund has used to put valuations on the equity stakes it has taken in hundreds of struggling small-cap companies.

Vision is led by Adam Benowitz and Randolph "Randy" Cohen, who have been friends since childhood. The pair picked the name Vision Capital because they each suffer from a significant visual impairment: Benowitz is blind in one eye, and Cohen has a degenerative eye disease.

Cohen, currently a visiting professor at the Massachusetts Institute of Technology's Sloan School of Management, was an associate professor of finance at Harvard Business School for nearly nine years.

Benowitz and Cohen caused a bit of a stir on Wall Street in fall 2008 when they considered offering a job to Stanley O'Neal, the former Merrill Lynch chief executive officer who was ousted from the investment firm at the beginning of the financial crisis.

The managers burst on the scene in 2005, when Vision posted a 105 percent gain. They followed that up with an even better 188 percent return in 2006.

But returns fell sharply in more recent years. And since last year, investors have been unable to pull money out of most Vision funds. The managers have told investors that it may be many years before they can redeem their money due to the illiquid nature of Vision's investments in all those small-cap companies, said people familiar with the firm.

Since opening for business, Vision Capital has invested some \$266 million in 104 financing deals with small-cap companies, according to Sagient Research, a private placement tracking service.

These so-called PIPE deals, or private investments in public equity, are popular with hedge funds because buyers usually get preferred stock or bonds that convert into shares at discounted prices. The deals often include sweeteners, such as warrants, that permit the investors to buy additional shares at prices well below what ordinary investors would pay on a public market.

Many of the PIPE deals Vision invested were rich in warrants. Over the years, some in the hedge fund industry have criticized Vision's managers for putting too high a valuation on the warrants obtained in these financing transactions, given that many small companies doing PIPEs often falter.

"I would not be surprised if the SEC is looking at their very aggressive valuations," said Erin Arvedlund, a financial journalist who wrote a book about convicted Ponzi king Bernard Madoff and once worked as an analyst and marketer for Vision Capital. "This is an issue that has dogged not only PIPEs hedge funds, but all hedge funds."

Arvedlund said one of the reasons she left Vision Capital in the summer of 2007 was concern about the manner in which the fund was valuing some of the warrants it obtained in return for its cash investments in those small public companies.

Critics of the fund's valuation have said the high valuation on the warrants led Vision to post higher-than-normal unrealized gains on its investments.

In an interview with Reuters several months ago, Cohen said dismissed the criticism of the fund's valuation methods. He did acknowledge, though, that the fund did have high unrealized gains, and the criticism about that point "is a fair comment."

(Reported by Matthew Goldstein; Editing by Lisa Von Ahn)