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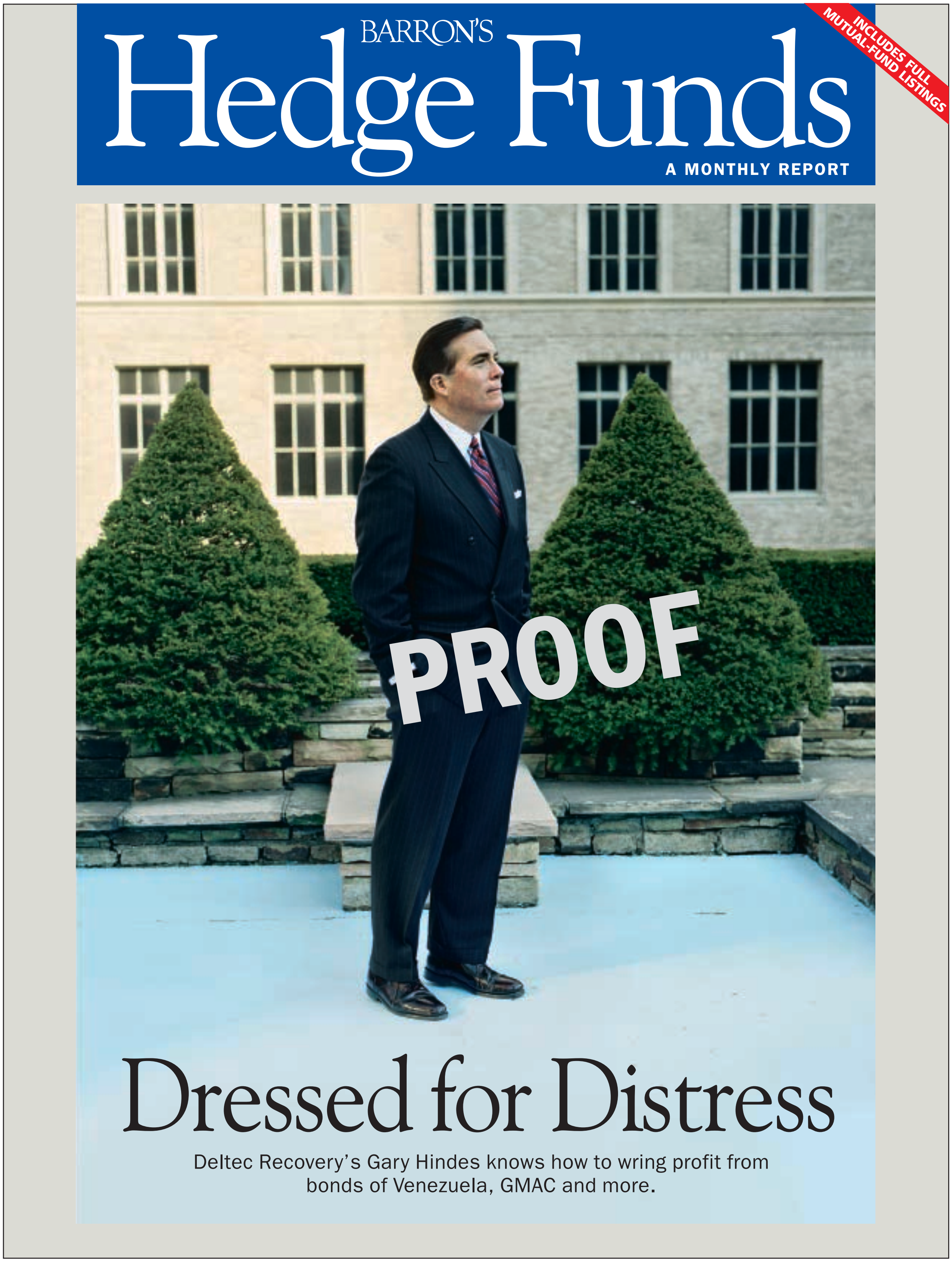



Suzanne Opton for *Barron's*

*(over please)*

# Master of Disaster

*A company's—or country's—woes can profit the Deltec Recovery Fund*

BY JACK WILLOUGHBY

MOBS RAN WILD IN THE streets of Caracas amid calls for the resignation of Venezuela's president, Hugo Chavez. There was violence. And the threat of revolution was in the air.

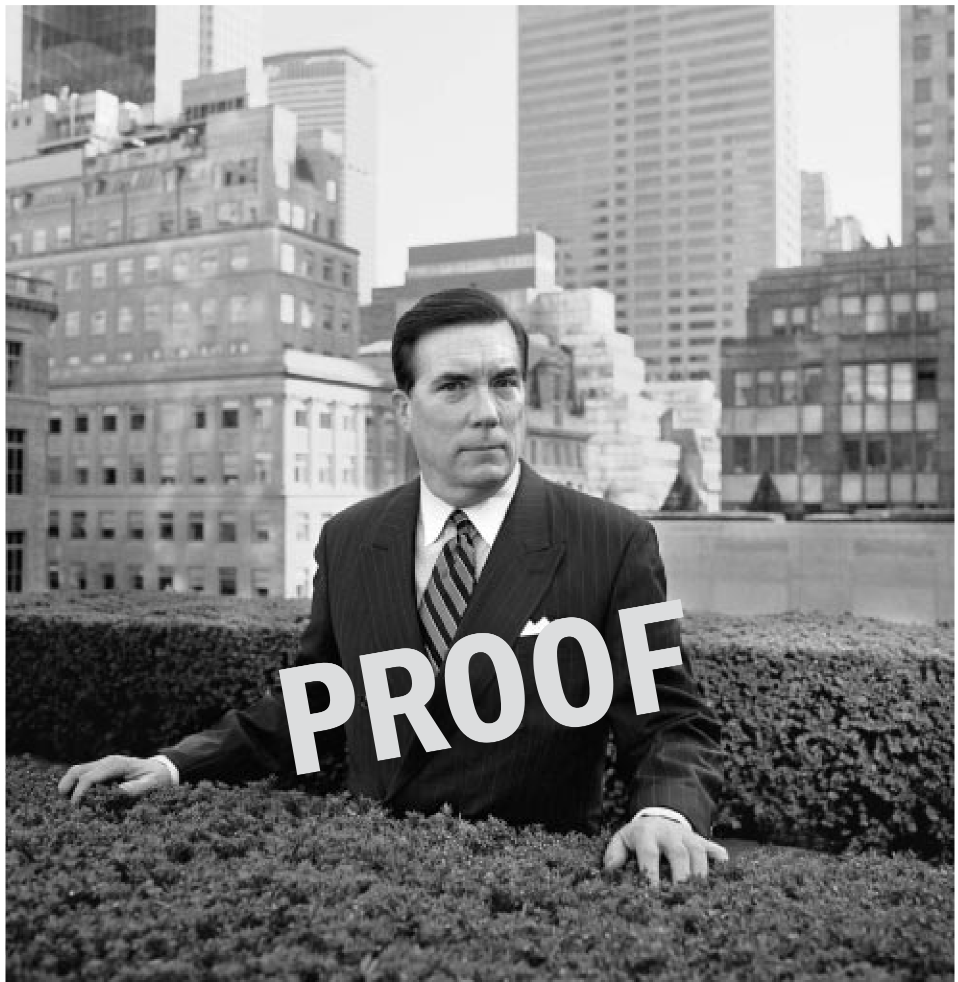
It was January 2003. The perfect time for the **Deltec Recovery** Fund to scoop up $1.5 million of Venezuelan sovereign bonds.

The little hedge fund paid 60 cents on the dollar for these U.S.-dollar-denominated debt securities, due in 2027 and paying 9.25% interest. Months later, Chavez was still in power (as he is today), and Deltec sold the bonds for 92 cents on the dollar. While waiting for the right moment to unload the paper, its investors had earned an effective yield of 15%. Further proof of the wisdom of Baron Rothschild's famous dictum: The best time to invest is when blood is running in the streets.

The fat profit wrung out of the Venezuelan bonds weren't unusual for Deltec Recovery's portfolio manager, Gary E. Hindes, who has consistently produced big gains by betting smartly on companies—or coun- tries—in financial distress.

For the past two years, the pickings have been good. And they're about to get better, judging by the way marginal credits appear to be loading up on low-rated junk debt. Says Hindes: "It's just a question of time. Everyone's waiting to see which company will be first to miss its first coupon."

Hindes is a master of disaster. He's functioned as a broker, creditors' committeeman, workout specialist and investment banker. He's now a managing director and distressed-debt specialist for Deltec Asset Management in New York, which has $682 million under management in a handful of specialized funds and accounts. "The folks at Deltec took me in when I told them in 2000 I thought the time was ripe to start a new distressed-debt fund," says Hindes. "So far, the partnership has worked well."




*Deltec Recovery Fund's Gary E. Hindes: "It's just a question of time. Everyone's waiting to see which company will be first to miss its first coupon."*

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He has certainly delivered.

In the four years through Dec. 31, Deltec Recovery returned 18.54%, on average. In 2004, the fund,

## FOCUS ON: Deltec Recovery

**Investment Style:** Distressed debt. Small size. Slow turnover; positions held for around two years. Investors commit capital for 52 weeks; must give 90-day notice of exit.
**Fees:** 1.5% of assets under management, plus 20% of the profits.
**Portfolio Restrictions:** Fund concentrates on 20 to 30 holdings. Single positions account for no more than 10% of assets at cost.
**Specialty:** Small positions allow quick exit if unpleasant surprises occur. Active in workout and bankruptcy process to protect investment. Managers share wide experience with various creditor and bondholder committees.

| | Total Returns | | |
|---|---|---|---|
| | From Inception* | 2003 | 2004 |
| Deltec Recovery | 18.54% | 37.67% | 26.00% |

*Annualized from inception on Feb. 1, 2001, through Dec. 31, 2004. Source: Deltec Recovery which has about $40 million in assets, produced a 26% return, versus 10.88% for the S&P 500.

One reason for the success: Hindes takes business personally. When trouble emerges, he's likely to roll up his sleeves and rumble. Deltec Recovery often becomes actively engaged in bankruptcies and workouts to advance and protect the fund's interest. "We get involved when reorganizations are not going in a direction we want," says Hindes. "Often, the management is protecting its interest at the expense of the creditors."

Hindes, who lives in Wilmington, Del., knows better than most that bankruptcy can be the graveyard for dreams or fertile ground for their reincarnation. The difference can be decided only by sorting through the wreckage, determining value and nurturing the likely survivors.

Hindes' first bankruptcy experience came in his teens. The South Side Chicago boy, eager to establish a suburban newspaper in Oak Forest, Ill., tasted failure when his publication collapsed. It took him 17 years to pay back creditors.

His relentless style, success and unaffected manner have won him respect among top value investors. When Peter Cundill, a Canadian value investor, first met Hindes, "we talked the same language. He had a good feel for markets and did not gouge—a good little business." As a result, Cundill personally invests in the Deltec Recovery Fund. Hindes, for his part, parks almost all of his 401(k) money, well over $100,000, in the fund.

Lack of a college degree almost kept him from becoming a broker. He'd always assumed that such a job was beyond his reach. But after an Air Force sergeant he knew, who also had no degree, joined Dean Witter Reynolds, Hindes immediately got a position at Blyth Eastman Dillon in Philadelphia. There, he concentrated on special situations involving busted railroads—the airlines of the day. At the time, investors, burned by the stock-market slump of 1974, didn't want to hear of stocks, and special situations offered risk but also the prospect of juicy returns.

His first big score came in the paper of Chrysler Financial, the subsidiary of the auto company, which almost went belly-up in the early 'Eighties. "Here was a bank that was making money with debt that was fully secured being rated as and trading like a troubled auto company," says Hindes. (The situation might sound familiar today to investors in **General Motors Acceptance** Corp. bonds.) "We made 89% in six months. I never thought I'd do better than that."

Special situations required a willingness to dig behind the daily headlines into the deep recesses of the county courthouses and SEC documents. Earlier, Hindes had sharpened his analytical ability as a reporter for Delaware's Dover State News.

Potential investments start on an informal watch list. Using trade publications, his own firm's research and bankruptcy contacts, Deltec identifies the extent of a company's problem and how to play it. "Sometimes it can be the sudden decrease in the price of a solitary bond issue that tips us off," says Hindes. "It can come from a number of sources. We've been at the business so long that we often hear about cases before they actually get to court. . . . We invest in those securities that are the most inefficiently priced."

Deltec might be the perfect place for Hindes. The company has plied the emerging markets for decades, in search of above-average returns. It started in Brazil in 1946, a venture of investor Clarence Dauphinot and Kidder Peabody. In its first 30 years, Deltec developed a major presence in South America. In more recent decades, the firm has concentrated on domestic U.S. securities from its New York office.

Hindes eventually adopted Wilmington as his new home. Shortly after his career as a statehouse reporter ended, he moved into Democratic Party politics, starting as a legislative aide. In the mid-'Nineties, he served as state party chairman. "What makes him a success in business is his attention to detail. He does his homework," says Sen. Tom Carper, a Delaware Democrat. "He's helped me when I ran for various offices. We have sort of pursued parallel career tracks."

Hindes' personal pet project is the Wilmington branch of the national Head Start program.

Deltec Recovery Fund's rules are fairly restrictive. First, it must be invested primarily in publicly traded debt securities. No holding can account for more than 25% of the fund's assets in any sector. The maximum position size at cost is 10%. And non-U.S. investments can account for no more than 20% of the fund.

The minimum investment is $250,000. Investors get only one chance each year to take their money out of the fund, and even then, only in stages through a specific period. The fund charges 1.5% of asssets under management, plus 20% of any profit earned.

Unlike many hedge funds, Deltec Recovery avoids the use of leverage. It allows no short sales, unless they are fully hedged, and Hindes doesn't plan to let the fund grow too large, capping it at around $200 million.

"Even in distressed debt, there is a herd mentality," says Hindes. "We try not to follow it."

Exhibit A: Remember when the leaders of **Adelphia Communications** were being led off in handcuffs? Deltec was busy buying Adelphia bonds for 30 cents on the dollar. Later, he resold them around for 98 cents.

The fund also did well in obligations of Glendale Federal Savings Bank. The California thrift got into major difficulties in the 'Nineties and was acquired by Citigroup. This paper, now traded as Citibank litigation warrants, once was quoted at $7. But opaque court rulings drove the price below $1 by the summer of 2000. Deltec determined that the warrants were worth $1.85 and built a 1.7-million share position at a price of 88 cents, wrote Hindes in a letter to investors. The fund later was able to add to its position at 90 cents. Ultimately, a court affirmed the $1.85 valuation.

Deltec Recovery also scored big in the depressed bonds of California power producer Calpine, particularly the May 2008 8.5%s. Calpine, which has a troubled past, nevertheless has efficient plants in Texas and California and is a low-cost energy producer that eventually should become healthy again. Its bonds, which now trade around 73 cents on the dollar, offer a yield to maturity of 20.42% and a current yield of 11.56%.

"Not too shabby," wrote Hindes. Not too shabby indeed. ■