

Bloomberg

Sentinel Sold to Citadel Too Cheaply, Customers Say (Update2)

By Erik Schatzker and Katherine Burton - Aug 17, 2007

Aug. 17 (Bloomberg) -- Sentinel Management Group Inc., the cash-management firm that froze client withdrawals three days ago, was accused of selling investors' assets at below-market rates to hedge fund company Citadel Investment Group LLC.

Sentinel customers Farr Financial Inc. and Velocity Futures asked a federal judge to block the transaction, claiming Sentinel was liquidating the holdings too cheaply. When the judge issued an order barring the sale in emergency hearing in Chicago today, lawyers for the two futures brokers said Sentinel may have already disposed of the assets.

[Penson Worldwide Inc.](#), a Dallas-based securities-clearing firm, also accused Sentinel today of selling some of its bonds to Citadel at a discount of as much as 30 percent. "It is our intention to pursue all legal remedies against Sentinel, Citadel and related parties," Penson said in a statement today.

Sentinel, based in the Chicago suburb of Northbrook, Illinois, told investors in an Aug. 13 letter that turmoil in the credit markets made it impossible to trade without incurring losses. The threats of legal action from the firm's clients may foreshadow a flurry of lawsuits across the industry, as asset managers battered by market declines are forced to unload holdings at fire-sale prices.

Investors have little chance of success in such cases, unless fund managers misled clients about their funds or signed contracts limiting their ability to sell assets, said [Ross Intelisano](#), a lawyer at New York-based Rich & Intelisano LLP.

The claims against Sentinel and Citadel probably will fail as well, he said. "Citadel and Sentinel made an arms-length agreement," said Intelisano, who specializes in hedge funds.

Citadel Steps In

[Bryan Locke](#), a Citadel spokesman, declined to comment today. A woman who answered the phone at Sentinel's office said the firm was not issuing a statement. She declined to provide her name.

Citadel, which manages \$14 billion, has already stepped in to capitalize on the credit market rout. The Chicago-based firm, led by [Kenneth Griffin](#), bought most of the assets of Sowood Capital Management LP last month, after the Boston-based firm's two hedge funds fell more than 50 percent.

Citadel also took over the energy trades of Amaranth Advisors LLC when the Greenwich, Connecticut-based hedge fund collapsed in September under more than \$6.6 billion in losses on natural gas bets.

Sentinel managed \$1.6 billion as of last month, according to a filing with the U.S. Securities and Exchange Commission. Holdings include short-term commercial paper, investment-grade bonds and Treasury notes, according to its Web site.

'Reckless Disregard'

In the court hearing today before U.S. District Judge [Ronald Guzman](#) in Chicago, lawyers for San Jose, California-based Farr and Chicago-based Velocity said Sentinel's sale should be blocked because the assets are being sold at a 15 percent discount.

'To liquidate such a portfolio at such a discount to market value constitutes, among other things, a reckless disregard of industry fair practice,' Penson said. The company said it expects to lose \$6.5 million unless the sale to Citadel is reversed.

Farr Financial's lawsuit seeks damages of \$15.2 million, which the company said is the value of the funds it had on deposit at Sentinel on Aug. 13.

Horizon Cash Management LLC, a rival firm in Chicago with \$3.2 billion of assets, has contacted some Sentinel clients and offered to manage their accounts, according to Horizon's president, [Diane Mix](#).

Penson said today that it remains 'well capitalized.' The company fell 5 cents to \$17.06 on the Nasdaq stock market. It has declined about 38 percent this year.

To contact the reporter on this story: [Erik Schatzker](#) in New York at eschatzker@bloomberg.net; [Katherine Burton](#) in New York at kburton@bloomberg.net.

To contact the editor responsible for this story: [Larry Edelman](#) at ledelman3@bloomberg.net.