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Southern District of New York



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**MANHATTAN U.S. ATTORNEY CHARGES FORMER PORTFOLIO
MANAGER WITH FRAUDULENTLY OVERVALUING
HEDGE FUND ASSETS**

Defendant Allegedly Caused Overstatement of Assets by More than \$80 Million

Preet Bharara, the United States Attorney for the Southern District of New York, and Ronald J. Verrochio, the Inspector-in-Charge of the New York Office of the U.S. Postal Inspection Service ("USPIS"), announced that hedge fund portfolio manager MICHAEL BALBOA was arrested today on charges related to his alleged scheme to overvalue by more than \$80 million dollars the assets of Millennium Global Emerging Credit Fund (the "Hedge Fund"), the hedge fund at which he was employed. BALBOA, 42, a resident of the United Kingdom, was arrested this morning in New York, New York and will be presented before U.S. Magistrate Judge Gabriel W. Gorenstein this afternoon.

Manhattan U.S. Attorney Preet Bharara said: "As alleged, Michael Balboa, along with his co-conspirators, manipulated the valuation process at his former hedge fund to make it appear financially stronger than it really was and for his own personal gain. In so doing, he harmed the fund and deceived its investors."

New York USPIS Inspector-in-Charge Ronald J. Verrochio said: "The U.S. Postal Inspection Service is committed to protecting investors from schemes that defraud consumers. Postal Inspectors will aggressively pursue individuals who knowingly and willfully commit these illegal activities."

According to a Complaint unsealed today in Manhattan federal court:

BALBOA served as the portfolio manager for the Hedge Fund from December 2006 to October 2008, when it ceased operation. As of October 2007, the Hedge Fund consisted of two feeder funds – Millennium Global Emerging Credit Fund, Ltd. and Millennium Global Emerging Credit Fund, LP. The two feeder funds invested almost all of their assets in a master fund named Millennium Global Emerging Credit Master Fund, Ltd.

The Hedge Fund's strategy was to invest in a portfolio of corporate and sovereign debt instruments in emerging countries. The Hedge Fund utilized an independent valuation agent (the "IVA") to determine its "net asset value" ("NAV"), which is the value of the Hedge Fund's assets, less liabilities and estimated costs of sale/liquidation. The Hedge Fund referenced the role of the IVA in a variety of documents that were sent to its investors and prospective investors, including an offering memorandum, monthly newsletters, and responses to due diligence questionnaires ("DDQs"). In one DDQ, the Hedge Fund noted that "[t]here are no assets valued in house," and that the IVA "calculates the NAV of [the Hedge Fund] independently of Millennium Global." The Hedge Fund relied on the IVA's determinations in advising its investors of the Hedge Fund's month-end NAV and NAV per share.

From January 2008 through October 2008, MICHAEL BALBOA allegedly instructed two co-conspirators ("CC-1" and "CC-2") to provide the IVA with substantially inflated prices for one of the Hedge Fund's securities – payment-adjusted warrants from the Government of Nigeria (the "Nigerian Warrants"). CC-1 and/or CC-2 provided these overvalued prices to the IVA. Although the Nigerian Warrants traded between \$145 and \$258 from January 2007 to October 2008, CC-1 and/or CC-2 provided the IVA with price valuations or "marks" ranging from \$531.25 to \$3,500.00, at various times throughout this period. The IVA then used these falsely inflated marks in computing the monthly NAV for the Hedge Fund. This caused the IVA to overstate the NAV by tens of millions of dollars. These overstatements were communicated to investors through, among other things, monthly newsletters that outlined the NAV and NAV per share of the Hedge Fund.

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BALBOA is charged with one count of conspiracy to commit securities fraud and wire fraud, one count of securities fraud and one count of wire fraud. The conspiracy count carries a maximum sentence of five years in prison, and the substantive counts each carry a maximum sentence of 20 years in prison.

Mr. Bharara praised the work of USPIS, which investigated this case. He also thanked the U.S. Securities and Exchange Commission for its assistance. Mr. Bharara said the investigation is continuing.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Christopher L. LaVigne and David Leibowitz are in charge of the prosecution.

The charges contained in the Complaint are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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