

SEWARD & KISSEL LLP

April 28, 2009

Memorandum to Our Investment Management Clients and Friends

SECURITIES AND EXCHANGE COMMISSION SANCTIONS HENNESSEE GROUP LLC AND CHARLES GRADANTE FOR MISREPRESENTING DUE DILIGENCE PROCEDURES IN RECOMMENDING INVESTMENT

The SEC issued an order on April 22, 2009 imposing sanctions and fines against Hennessee Group LLC (“Hennessee”) and its CEO, Charles Gradante, for violating section 206(2) of the Investment Advisers Act (the broad anti-fraud statutory provision), in that they misrepresented to their clients that they performed certain due diligence procedures with respect to Bayou Fund LLC and its successors (collectively, “Bayou”). Bayou was a Ponzi scheme that collapsed in 2005.

Hennessee is an independent hedge fund consulting firm that recommends to its clients customized portfolios of diversified hedge funds. Its marketing materials set forth a process for evaluating and selecting hedge funds known as the “Five Level Due Diligence Process”. Hennessee represented that it would not recommend investment in hedge funds that did not satisfactorily complete all five levels of its due diligence evaluation, and routinely touted the excellence and rigor of the process.

Between 2002 and 2005, Hennessee placed \$56 million of its clients assets into Bayou. However, Hennessee failed to perform two of the five levels of due diligence, i.e. a portfolio trading analysis and a verification of Bayou’s independent auditor. In fact, Bayou refused to provide information regarding its trading requested by Hennessee, and so Hennessee obtained no quantitative information about Bayou; however, it did not so inform its clients investing in Bayou. In addition, Hennessee disregarded many red flags about Bayou’s audit relationship and conducted no due diligence on its auditor, which turned out to be non-existent.

The SEC found that Hennessee and Gradante breached their fiduciary duties to their clients in that they misrepresented the services that they were providing and failed to disclose all material departures from the representations that they made to their clients. The order censures Hennessee and Gradante; requires them cease and desist from further violations of the Act; requires them to disgorge all fees paid to them on account of their clients investments in Bayou, plus interest, a total of over \$700,000; and fines them an additional \$100,000.

We believe that investment advisers can expect that the SEC will be carefully examining any statements made by the investment advisers regarding their investment and due diligence processes. We recommend that our clients take this opportunity to review their offering and marketing materials to ensure that descriptions of such processes contained therein are consistent with current practice.

If you have any questions concerning this memorandum, please contact an attorney in the Investment Management Group at Seward & Kissel.

Seward & Kissel LLP

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