

N.Y. hedge fund helps P.R. investors tap into Facebook shares pre-IPO

85% to 90% of Honne investors are from Puerto Rico;
limited partnership buys stocks from ex-Facebook employees

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The Puerto Rico-born former stockbrokers Daniel Ortíz and Gabriel de Jesús, along with Derek Cheung, last year formed Honne LP, a New York-based limited partnership hedge-fund firm that invests long and short in misunderstood situations, attempting to profit regardless of the stock market's ups and downs.

Honne started with about \$4 million in global investments from a small, elite group of clients—mainly from Puerto Rico—and grew exponentially within a few months.

“In a post-[Bernard “Bernie” Lawrence] Madoff era, the investment community in Puerto Rico is scared of the stock market; they see it as a gamble. [The wealth management arm of Bernard L. Madoff Investment Securities LLC turned out to be an elaborate Ponzi scheme.] People also have painful memories of the dot-com bubble of the '90s, the mortgage crisis and the island's banking debacle. However, if you really know what you are doing and take the necessary measures, it can be a great tool to increase wealth,” de Jesús, one of the firm's two managing partners, told CARIBBEAN BUSINESS.

De Jesús said 85% to 90% of Honne's investors are from Puerto Rico, thanks to relationships he and Ortiz built over the years as stockbrokers on the island.

INVESTING IN FACEBOOK

Honne's most recent investment involves acquiring private shares of Facebook.com. Last week, the Internet social-media network announced it hoped to raise as much as \$5 billion through an initial public offering (IPO) of stocks. Facebook will probably make its stock-market debut in three or four months as one of the world's most valuable companies.

Since Facebook deviates from the fund's investment discipline, Honne formed the Social Network Fund LP as a new limited partnership. Under this partnership, Honne buys Facebook shares in weekly private auctions from former employees of the social-media company. Because the partners are buying private Facebook shares at pre-IPO prices, they expect the trade to be very profitable.

“Money isn't created out of thin air in the market; it is transferred from one person to another. We are looking to raise more assets from the island to have more Puerto Ricans on the receiving end,” added Ortíz, the firm's other managing partner.

Honne recently sealed a deal with Brickstone Equities, which will provide the hedge-fund firm a capital injection of \$25 million annually over the next five years. This influx of new cash will not



From left, Derek Cheung, Gabriel de Jesús and Daniel Ortíz, who last year formed Honne LP, a New York-based hedge fund mainly targeting Puerto Rico investors.

only decrease the expense ratio for investors, but also will allow the fund to get involved in more investment ideas, with larger amounts of money behind them, de Jesús commented.

PURSuing OVERLOOKED FIRMS

Some new investment areas of interest include private pre-IPO investments and debt. Honne is looking to invest in overlooked firms with less than \$100 million in market capitalization, noted Derek Cheung, Honne's money manager.

Cheung specializes in spin-offs, workouts, post-bankruptcies and short sales. He is known for spotting frauds, such as Longtop Financial Tech, Lithium Exploration and China-Biotics, which lost more than 90% of their market capitalization after being exposed. ■

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