A new hedge fund's question: Where to invest if Israel strikes Iran?
Dan Primack

War profiteering has accompanied almost every armed conflict in human history, but rarely has it been so explicit.

With each passing day, Israel and Iran move one step closer to military conflict. A recent Atlantic article even put the odds of an Israeli strike by next July at better than 50%, based on an informal survey of American, Arab and Israeli government officials.

It's nightmarish: A non-official nuclear power attacking a regional enemy before it too has the bomb. Even were Israel to be successful, side-effects would almost certainly include death and global economic disruption.

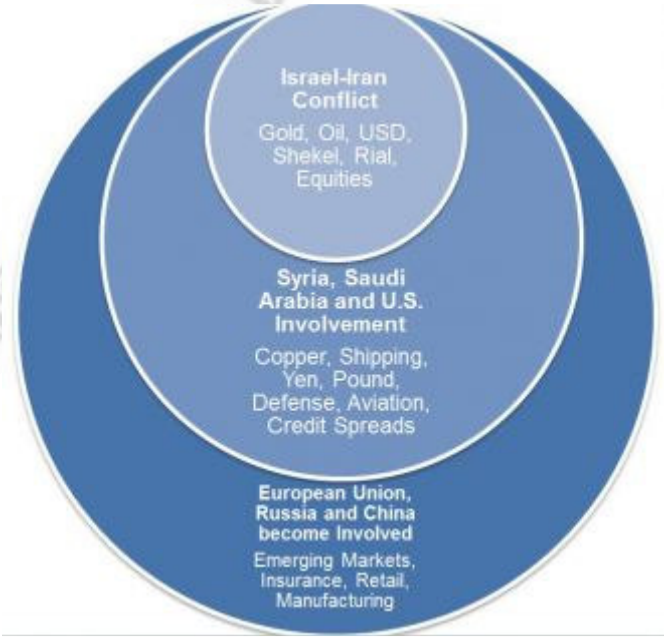
For Randy Slifka, however, war could equal returns.

Fortune has learned that the New York fund manager, whose father formed Halcyon Investment Management in the early 1980s, may raise a "geopolitical volatility fund" based on an investment thesis that Israel will strike. It's called GeoVol, and draft marketing documents suggest a bifurcated structure of two long/short portfolios in commodities, equities, currencies and debt:

•"Portfolio A" would aim for medium returns on between 25 and 30 positions, and would be "designed to preserve capital in case of no strike or a delayed strike, but provide significant upside when the event occurs."

•"Portfolio B" would aim for high returns on between 10 and 15 positions, and is "designed to maximize returns through the use of options, derivatives and leverage with a higher degree of risk due to option decay."

There have been plenty of funds predicated on economic events, including ones that make certain geopolitical assumptions. But a fund entirely based on war? That seems new.



Source: GeoVol marketing materials

"I've never heard of anything like it," said one hedge fund formation lawyer, who has not met with Slifka. "I guess you could call it novel."

Slifka began his career at E.M. Warburg Pincus. He then spent eight years as a principal and senior portfolio manager at Halcyon, before launching a series of funds where he is the sole investment adviser.

His colleagues on GeoVol include principal Nathan Troutman (ex-Vulcan), CFO William McEnroe and research and intelligence director Shai Baitel (ex-Israel and UN legal official). The draft documents name Alston & Bird as legal counsel and Goldman Sachs as prime broker, but neither has formally committed.

The listed target capitalization is $500 million.

When contacted by Fortune, Slifka would only say the following on the record:

"While Slifka Asset Management has generated strong investor returns by pursuing risk-adjusted strategies that account for special situations, including geopolitical events, the strategy in question is purely a concept. We developed materials to test this concept but no such fund currently exists."

Slifka also sent a revised page of marketing materials, which claimed that at least 20% of fund profits would be distributed to Israelis affected by a possible counter-attack.

My sense here is that Slifka honestly believes what he's selling: This fund would be a hedge in its most literal sense, protecting investors -- including those who have invested in other Slifka-managed funds -- from future market instability. I also believe that his devotion to the well-being of Israel is sincere, and that he'd be thrilled if Iran voluntarily halted its nuclear program.

The reality, however, is that Slifka is not a diplomat nor a full-time philanthropist. He's a fund manager, and the vehicle he's proposing is designed to make money based on a specific act of military aggression.

The road to war profiteering can be paved with good intentions, even if some of those profits are given to charity.

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