KKR-Backed Energy Hedge Fund Said to Triple Loss Amid Audit

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BlackGold Capital Management, the energy-focused hedge fund partly owned by KKR & Co., told investors that losses amid the oil slump in December were almost triple its initial report after an auditor examined how it valued debt holdings, according to two people with knowledge of the matter.

The $2 billion investment firm revised the loss to 17 percent last month from the 6 percent decline it previously reported, according to the people, who asked not to be identified as the information is private. The Houston-based fund cited difficulty in valuing some energy bonds at the height of the market's turmoil, they said.

The revision comes just weeks after KKR told its investors that it was pleased with how its hedge-fund investments were performing. The loss went from being less than the average 9 percent decline in junk-rated bonds of oil and gas companies in December to almost double that, Bloomberg bond index data show.

"The fund followed processes and methodologies deemed as best practices and confirmed by globally recognized valuation experts when preparing unaudited December 2014 estimates," Erik Dybesland, one of the founders of BlackGold, said in a statement. "The fund's audit for 2014 is expected to be completed shortly."

Kristi Huller, a spokeswoman for New York-based KKR, declined to comment.

Oil Havoc

The oil-price collapse wreaked havoc on credit markets and made it harder to trade junk-rated debt, exacerbating bond-price declines. BlackGold had switched valuation methods for December to estimating the fair value of some of the securities instead of using actual prices, the people said. It changed the calculations during the audit to report bigger markdowns, they said.

The hedge fund told investors it made revisions in February at the urging of its auditor, one of the people said. That left its main fund down 12 percent for 2014, compared with almost unchanged in a previous report.

KKR bought a 24.9 percent stake in BlackGold last year, which allowed it to share earnings, including fees on holdings and profits. It also acquired a position in 2013 in Nephila Capital Ltd., a hedge fund specializing in reinsurance investments like catastrophe bonds.

'We're Pleased'

The company's investments in such businesses were accretive to earnings "and we're pleased with the performance so far," Scott Nuttall, the head of global capital and asset management at KKR, said during a Feb. 10 earnings call with investors and analysts.

Despite the setback, BlackGold reported a net annualized rate of return of 20 percent since its inception in 2009, the people with knowledge of the matter said.

Its 12 percent decline in 2014 compared with a 13 percent loss for oil and gas companies in the Bloomberg high-yield bond index. That was brought on by the 46 percent slump in the price of oil, pushing several companies in the industry toward the brink of distress.

BlackGold was advised by external valuation firms in applying fair-value pricing on some of the positions that had little to no trades or disorderly selling in December, one of the people said.

Depressed Debt

Subsequent to the change in performance figures, the fund extended a redemption notice period by more than a month to March 27, during which time it saw no net outflows, the person said.

The tumbling valuations of energy companies have led investors to build up cash reserves to buy the industry's depressed debt.

Private-equity giants Oaktree Capital Group LLC, Blackstone Group LP, Carlyle Group LP, KKR and Apollo Global Management LLC have collected more than $20 billion in the past year for energy investing.

Hedge funds Sound Point Capital Management, Tudor Pickering Holt & Co. and Mudrick Capital Management are also raising capital to invest in energy companies.

BlackGold was founded by Dybesland and Adam Flikerski. Dybesland had previously worked at Lehman Brothers Holdings Inc., while Flikerski had a similar role at Bear Stearns Cos.

The fund is "well-positioned with ample liquidity, no leverage and strong partners to capture the current dislocations in the energy credit markets," Dybesland said in the statement.