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UPDATE: Hedge Fund Mgr's Assets Are Frozen In Fraud Case

WASHINGTON (AP)--Federal regulators on Wednesday filed civil fraud charges against Edward Ehee, the head of three San Francisco-based hedge funds, accusing him of funneling millions of dollars from investors nationwide into his own mortgage payments, vacations and bank accounts.

At the request of the Securities and Exchange Commission, a federal court in San Francisco froze the assets of Ehee, 43 years old, the two fund management firms he controls, and the hedge funds: Compass West Fund, Viper Founders Fund and Viper Investments. The assets of Ehee's wife, brother and father, who are said to have received thousands of dollars of investors' money from him, also were frozen.

Ehee's attorney, Izzy Ramsey, said he was reviewing the SEC's complaint and had no immediate comment.

The SEC said it is seeking unspecified civil fines and restitution of money taken.

It was the latest in a series of enforcement actions by the agency against hedge funds, high-risk investment pools that operate with minimal oversight by regulators. The funds have been growing rapidly, and related fraud has been on the rise. The SEC has charged fund managers with defrauding investors of a total exceeding \$1 billion in the last five years.

Although the Viper Founders Fund ceased operations in late 2002, Ehee continued to raise money for it as recently as last May, using bogus account statements and financial reports, the SEC said. In the manner of a classic Ponzi scheme, Ehee used the money raised from new investors to pay off earlier ones, providing them with phony account statements showing that their money was generating returns, according to the agency.

Ehee allegedly fabricated an audit opinion letter from an accounting firm to deceive investors.

Hedge funds function as a sort of mutual fund for individuals, pension funds and university endowments. They traditionally catered to the very wealthy but are increasingly luring ordinary investors.

Unlike mutual funds, which generally invest in stocks and bonds, hedge funds often invest in complex derivative securities and wide-ranging assets from commodities to real estate. Some funds even buy up companies whole, while others buy and sell stocks like day traders - but with billions of dollars at stake.

U.S. hedge funds hold an estimated \$1 trillion in assets.

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