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Nomura's Fred Fellows Starts Commercial Mortgage Fund (Update1)
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(Updates with more detail.)

Chicago, Jan. 29 (Bloomberg) -- Frederick Fellows resigned as a director and trader at Nomura Securities International Inc. to start a company for investing in high-yielding commercial mortgage-backed securities.

Fellows, 34, said his Chicago-based Cargan Investment Management LLC plans to invest in ``BBB''- and ``BB''-rated commercial mortgage issues. These were among the most battered of all fixed-income securities last year. The company will also invest in the equity of real estate investment trusts and commercial mortgage conduits, he said.

Fellows is one of many investors hoping to fill a void left after Criimi Mae Inc., the largest buyer of high-yielding commercial mortgage securities, filed for bankruptcy in October. Investors at a recent commercial mortgage conference in Naples, Florida, quipped that the most common conversation topic during coffee breaks was about people who were planning to start high-yield commercial mortgage funds.

Nomura's U.S. real estate finance arm, Capital Co. of America, a top U.S. commercial lender at the time, lost more than \$700 million in the six months ending Sept. 30 as demand for securities backed by commercial real estate loans weakened. Nomura Holding America, Nomura's U.S. unit and the parent of Capital America, lost \$1.16 billion in the period.

Fellows' brother Boyd was co-head of Capital America for three months, after the company's founder, Ethan Penner, resigned as chief executive to become vice chairman. Penner resigned as vice chairman a month later. Boyd Fellows was succeeded as Capital America's head in November by Michael Hurdelbrink, who is now overseeing the sale of Capital America's \$10 billion in commercial mortgage positions.

As Nomura's senior commercial mortgage trader, Frederick Fellows sold more than \$16 billion of new issue commercial mortgage securities, including \$1.5 billion in junk-rated securities, he said.

--Jonas Bergman and Jonathan Tower in the New York newsroom (212)
940-1941 fc/brs

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