

Managers buying, selling and hiring after the crisis

Some gain new strategies or cash; others grab talent



By Christine Williamson

November 15, 2010

Hedge fund managers are exploiting the post-crisis period to find both buyers and sellers, as well as talented investment and client service teams.

Managers of hedge funds and funds of funds are holding court, considering minority, majority and 100% stake offers from a wide variety of financial services companies and private equity managers that have been actively pursuing acquisitions since the summer, confirmed Daniel Celeghin, a partner at Casey Quirk & Associates LLC, Darien, Conn., a consultant to money managers.

Eric C. Weber, managing director and chief operating officer of investment bank Freeman & Co. LLC, New York, agreed: "The level of discussion has been picking up in the last few months, now that it's clear who survived the storm. More conversations now likely will lead to more deals next year."

A number of broad needs are driving what sources call a significant increase in activity by both sellers and buyers: cash for business growth; new investment strategies; investment and institutional marketing talent in new geographic areas; and expertise in specific investment strategies.

Larger hedge fund managers, including York Capital Management Global Advisors LLC, are motivated to sell stakes by the desire for cash infusions or to tap into a larger company's distribution network.

York Capital, an event-driven and credit-focused specialist with \$14 billion under management, accepted Credit Suisse Asset Management's offer of an initial \$425 million for a minority stake. Terms were not disclosed.

Other hedge fund managers, like Polar Capital Partners Ltd. and FrontPoint Partners LLC, that maintain multistrategy platforms to which investment teams are added through liftouts or acquisitions, are taking advantage of the current desire by investment teams or smaller hedge fund companies to find a strong partner.

"There are huge opportunities right now to hire portfolio managers and investment teams we wouldn't have been able to touch pre-2008," said James Brandt, sales and marketing director of Polar Capital in London.

In just the last two months, Polar Capital acquired HIM Capital Holdings Ltd., which manages \$230 million in a specialist financials sector fund; added a global emerging markets investment team through the liftout of a team from AXA Framlington; and formed a global convertibles team through the hire of a team from Vicis Capital LLC.

Polar Capital managed \$3.1 billion as of Oct. 31, 35% of which was from institutional investors.



Benefits for both

Among the deals that brought the buyer both hedge fund expertise and exposure to new markets while giving the seller access to significant marketing teams was the acquisition of London-based credit and fixed-income specialist hedge fund manager BlueBay Asset Management PLC, which manages \$40 billion, by Royal Bank of Canada for \$1.34 billion.

New York-based multistrategy and hedge fund-of-funds manager Mariner Investment Group, which runs \$11.7 billion, was the prize in ORIX USA Corp.'s acquisition of a majority stake in Mariner's parent company MIG Holdings LLC. Neither the size of the stake nor the deal price was disclosed. ORIX USA is a subsidiary of Tokyo-based ORIX Corp.

Sources also pointed to the acquisition of a majority stake in Brazilian hedge fund manager Gavea Investimentos by Highbridge Capital Management, J.P. Morgan Chase & Co.'s hedge fund business, as a great example of a firm buying local market expertise along with a big pot of new assets.

Terms of the deal were not disclosed, J.P. Morgan executives said in a statement that the addition of Gavea's \$6 billion in hedge funds and private equity assets will swell Highbridge's total to \$28 billion.

Gavea will continue to operate independently, with Arminio Fraga, chairman and chief investment officer, and Luiz Fraga, co-founder and co-CIO of private equity, taking seats on Highbridge's board and executive committee. Arminio Fraga also will join the Highbridge investment committee.

Several large money management companies bought hedge fund businesses to plug gaps in their investment strategy spectrum, including AllianceBernstein LP which added \$8 billion of hedge and private equity funds of funds when it acquired SunAmerica Alternative Investments in a deal that closed in October. Terms of the deal were not disclosed.

Another such deal involved alternative investment manager Altegris Advisors LLC — with about \$2 billion under management — being acquired by Genworth Financial Inc. for \$35 million.

Casey Quirk's Mr. Celeghin said more deals are still being considered and many buyers and sellers got "very close to the altar without actually getting married" in the past few months.

One of the easiest deals to execute lately, Mr. Celeghin said, is the kind that Credit Suisse Asset Management negotiated with York Capital.

"For big hedge funds, when a buyer comes forward with a lot of cash seeking a minority stake and no controlling interest, there's not a lot of downside for the hedge fund manager, not many reasons to say no," he said.

"None of the biggest hedge funds will say "we're not for sale.' They may not be actively engaging investment bankers or be out there seeking stake takers, but they're willing to talk about it," Mr. Celeghin noted.



"The situation is a lot different for small hedge fund managers, those under a few billion dollars that are dealing with all kinds of business issues. In this market, there are a lot of sellers seeking solutions in the form of cash infusions, mergers with companies that have the distribution networks they desperately need or strategic partnerships. But there aren't a lot of buyers."

A wide variety of hedge fund, hedge fund-of-funds and alternative investment managers are eagerly trolling through rich pickings and adding to their investment arsenal through a variety of arrangements, from seeding new teams and joint ventures to shared economic arrangements and outright talent raids.

"The name of the game right now is consolidation and convergence between traditional and alternative investment managers. Everyone is looking at everything," said Matt Jabinsky, director, hedge fund and alternatives practice at executive recruiter Sheffield Haworth Inc., New York.

Where the capital is

"The high-performing hedge fund portfolio managers are going to where the capital is, be that a traditional asset manager getting into hedge funds or joining a larger hedge fund team through a variety of creative seeding arrangements," Mr. Jabinsky said, noting that hedge funds like Millennium Management LLC, S.A.C. Capital Advisors LP and Citadel LLC are among the funds actively setting up new teams with assets to manage and shared economics.

With so many hedge fund professionals "still sitting on the beach without permanent employment yet" after widespread layoffs in 2008 and 2009, executive recruiter Robert E. Olman said some hedge fund managers — which he said he couldn't identify — are using a "try-and-buy" approach. Mr. Olman is managing partner of Alpha Search Advisory Partners LLC, Roslyn, N.Y.

"Some hedge funds are hiring out-of-work portfolio managers, analysts and traders as consultants and are paying them by the trade idea. If the idea works out, if everyone gets along well, it might lead to a permanent hire later. It's a way for hedge funds to leverage up their research without taking on a lot of permanent employees," he said.

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