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Start-ups: Hedge funds tempt staff away

By **Helen Avery**

At first glance, it is not the right time to leave the safety of a large corporation to start up a business alone. But this is exactly what a number of financial professionals are now doing.

Arie Assayag, head of SG Asset Management´s alternative investments business, left in April, taking 15 Societe Generale's staff with him to set up a new hedge fund, Premium Asset Management, joining dozens of other bank employees that have this year left to join hedge funds or start up their own. Boaz Weinstein, Deutsche Bank's co-head of global credit trading, announced his plans to leave the bank and set up a hedge fund with 35 Deutsche Bank staff back in January. The German bank's quantitative trading group, Equitech, has also left to set up independent quant hedge fund Roc Group. Cital, DE Shaw, Artradis and Tosca Fund are among many hedge funds attracting senior management from banks.

Star traders

Star traders are also among those to be leaving large well-established financial companies for hedge funds. Hakan Kocayusufpasaoglu, Credit Suisse's derivatives trading director, left to start a macro hedge fund a few months ago. In April, Fabrizio Gallo, who ran Morgan Stanley's proprietary trading desk, left, saying that he wanted "to spend more time with his family". It is expected that Gallo might pop up at a hedge fund, or possibly start up his own.

Jeremy Todd, director at Pershing, Bank of New York/Mellon's prime services unit, says the number of funds launched this year has been high although he concedes that the number of start-ups is generally higher in the first two quarters of a year. Of encouragement to traders to establish operations of their own is news that pension funds such as Calpers are looking to start-up managers to counteract declining hedge fund returns. In public documents, Calpers said it was considering providing start-up monez to new teams of traders and portfolio managers in the hope that the best would become bigger independent firms later on. Calpers has about $175 billion in assets, so even small portfolio allocations can result in large amounts being handed to managers.

Todd says demand has waned for hedge funds but it is still there. "On a relative basis, institutional investors have realized that on average hedge funds lost half as much as the indices last year. They may be unhappy with their performance but if the choices they have are to invest in equity indices, to hold cash that yields yero or to find smart traders or managers that have a good chance of generating higher risk-adjusted returns than the market, then they are more likely to do the latter."

Rather than the $1billion initial raises that well-known traders used to command when starting up a hedge fund, $200 million to $500 million is more likely in today's environment. That is still a large enough sum on which to earn sufficient fees to tempt people away from banks, where salaries are being frozen and bonuses slashed, points out one hedge fund manager.

One headhunter says the portfolio managers at large hedge funds are also looking to start up their own outfits lured by fees. "Managers of funds that have lost money are now not earning performance fees. Some do not want to wait to get back above the watermark to start earning their 20% again, so are simply leaving and starting up elsewhere."