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Hedge traders return to fold

By Deborah Brewster in New York
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When Rob Gendelman quit his hedge fund last month and joined big fund manager Legg Mason, he was not alone in his return to the corporate world. Although traders are still trekking out of Wall St to set up their own hedge funds, there is a growing number making the return trip.

Mr Gendelman was a well-regarded fund manager at Neuberger Berman before setting up his own long/short hedge fund, Cobble Creek.

He was recruited to Legg Mason by Brian Posner, the head of Legg's ClearBridge unit (formerly Citigroup Asset Management), himself a former fund manager who ran his own hedge fund for a few years before rejoining corporate life.

"Actually, Brian and I were on a conference panel together three years ago, about mutual fund managers who went off to run hedge funds," says Mr Gendelman.

"Now we're both back again. . . What I found in hedge funds was the focus on short-term performance was so overwhelming that I could not run the fund in the way I wanted. And if you haven't raised the money, you can't hire the talent you want."

This view is echoed by others who have jumped to hedge funds, then back again.

Russ Gerson, the chief executive of search firm Gerson Group, says: "We have a trend of individuals going back to the corporate world, and the institutions are also making it easier by creating the right remuneration packages for them."

Dean Barr was global chief investment officer at Deutsche Bank when he quit to set up his own hedge fund. Last year he joined Citigroup Alternative Investing.

Fergus Schiel, a Fidelity fund manager, returned to the Fidelity fold last year after spending two years away from the company running his own fund.

The trend is not confined to individuals. Wall St banks and asset management firms are buying stakes in hedge funds under terms that allow the managers to continue to operate as before, under a larger corporate umbrella.

Mr Gerson says he has two mandates from big companies to find hedge funds for them. He also has a $1bn hedge fund which wants to expand but does not have the capital, so is looking for a company to buy a stake, he says.

Such a move allows the institution to add a high-margin business run by people with a good record in money management. The hedge fund managers, meanwhile, can focus on money management.

"They're probably not going to earn quite as much, but then they don't have to deal with managing the infrastructure and the marketing," says Mr Gerson. "Also, when you take into account the acquisition premium [typically two to seven per cent of revenue] and a remuneration structure allowing a share of the economics, the difference is not always that great."

Mr Gerson said the trend was also part of a wider convergence among traditional asset management firms, hedge funds and private equity.

"A couple of thousand hedge funds shut down last year - where do you think all those managers went?" said one disaffected hedge fund manager, a former proprietary trader at a Wall St bank. He has just closed his fund after two gruelling years of breaking even, and is discreetly looking for work back on Wall Street.