S Carolina's $3bn absolute return mandate p12 ■ What went wrong at Peloton? p18

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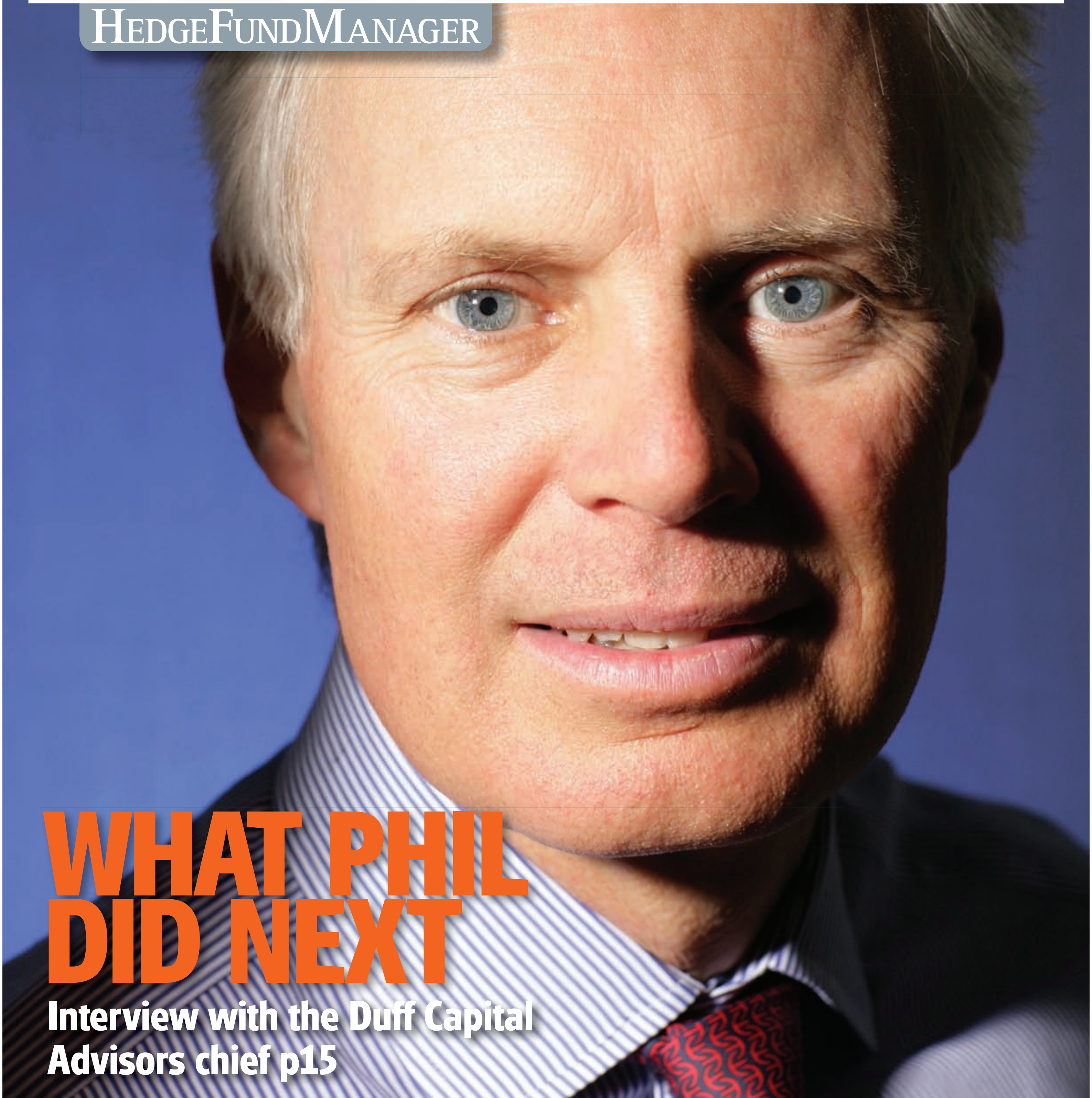

WHAT PHIL DID NEXT

Interview with the Duff Capital Advisors chief p15

FrontPoint vet Phil Duff is hunting hedge fund talent to bring into his new firm. By Elise Coroneos

Building a new front line

ANALYTICS: DCA's Azimuth Asset Management deal included the purchase of the company's intellectual property, which includes what Duff believes is the best risk product available

Driving into Manhattan one afternoon in early March, Phil Duff is on his way to meet with a team that he hopes to bring under the roof of the new home he is building to nurture teams of hedge fund talent.

In a somewhat ironic twist, this legendary seeder of hedge funds, who made a name for himself by co-founding, building and then selling FrontPoint Partners to Morgan Stanley in 2006, is now himself the beneficiary of seeding.

His latest venture, Duff Capital Advisors (DCA), is on a roll, having recently secured $500m of permanent equity capital from Lindsay Goldberg, a New York-based private equity firm.

Now, with permanent capital in place with which to build the business, Duff is on the hunt for hedge fund and private equity teams to which he can deploy capital under the DCA banner.

The capital will go towards achieving two main goals, Duff told *HFMWeek* in an exclusive interview.

"Firstly, it is going to support the growth and expansion of our business, and secondly, it will allow us to make acquisitions," he said.

These acquisitions include people, teams and, in some instances, whole businesses – as was the case with the recent acquisition of New York's Azimuth Asset Management.

> **'I have always been interested in building new ventures that anticipate industry change and how products will be bought and sold differently in the future'**

Managers aboard

"I have always been more interested in building new ventures that create business propositions that anticipate how the industry is going to change and how products will be bought and sold differently in the future," says Duff, explaining his reasons for starting over after FrontPoint.

"There have always been various hedge fund and seeding platforms mimicking FrontPoint, but we will offer an alternative to those seeding platforms because we have a real integrated business that also has a capital and client acquisition strategy."

As such, DCA will be similar to FrontPoint in that it will look for hedge fund managers to which is can deploy capital. However, it will be broader in its scope on a number of fronts.Firstly, Duff's plan is to raise between $1bn and $1.5bn to invest across about 15 to 20 investment teams beginning this spring.

While the funds managed by investment teams that come on board will be wholly owned by DCA, the teams will, on a case-by-case basis, have the opportunity to own an equity stake in the firm and take a cut of the management and incentive fees of the funds they manage.

Although DCA's official mandate is for these investment teams to include hedge funds, private equity and real asset managers, Duff's early focus will be on establishing the hedge fund teams, particularly in the relative value and credit areas.

"Going out on your own has become increasingly difficult. Hedge funds are going out of business every single day. The typical hedge fund has about a 3.5-year average life.

"Of the funds that started in 2007, at least 20% of them won't make it through 2008. It is an extraordinarily high attrition rate. So what I say to investment teams is 'look, we are going to stack the odds in your favour to be successful over the long term'," Duff explains.

The manner in which investment teams are brought on board will not be like that of traditional seeding firms, Duff says.

As well as bringing on board hedge fund teams in start-up mode looking for more structure and support, Duff is also targeting existing teams at established outfits who are looking to come under the DCA name.

Duff would not be drawn on what percentage of the business he envisages will ultimately lie in hedge funds, private equity or real assets. However, a business plan is in place that projects out the number of teams across the different asset classes the firm will bring in on an annual basis. "The only thing you can say about that projection is that it will be different, because it will be opportunistic," Duff says.

An active advisor

Leading the charge to acquire talent is Kevin Becker, who most recently managed his own long/short equity hedge fund, Claiborne Capital Group, and prior to that was a senior partner at SAC Capital and a managing director at Tiger Management.

In addition to acquiring and growing these manager teams, DCA intends to differentiate itself by acting as an advisor to investors, with its bulls-eye target being the lucrative area of US pension funds.

This advisory arm will be more than just an add-on to DCA's products, aimed at pension fund clients outside DCA's investor base as well as those already invested in DCA funds.

"We'll manage assets, we'll manage liabilities and we'll provide hedging products for both assets and liabilities, but we're going to combine all those different product types along with advice and a focused set of data and analytics," says Duff.

In his sight is the estimated $2trn gap between the current assets invested by private and public sector pension funds in the US versus the present value of their future liability.

Duff believes that there is a growing demand among pension funds for organisations such as his that will help close liability gaps, especially in a world with lower return expectations and higher correlations among assets.

"In some cases we may seek to close the gap as an agent by assuming the liabilities and acquiring the assets of a plan as a principal, where we become the main beneficiary and take over the assets of those future liabilities," says Duff.

DCA's acquisition of Azimuth is aimed at beefing up the firm's advisory

> ‘Going out on your own has become increasingly difficult’

Phil Duff, founder, Duff Capital Advisors

business. While Azimuth brings with it three funds of hedge funds with assets totalling some $250m, it is the firm's intellectual property that is the apple of Duff's eye.

This property includes an analytics system with a focus on illiquidity risk and crisis risk, each of which Duff believes are ignored or underemphasised in existing products. By owning the intellectual property of what he sees as the superior risk product on the market, Duff will seek to license subscriptions to Azimuth's system – and others that DCA has in development – to its pension fund clients.

Duff, who has an obvious interest in risk, having been on the board of RiskMetrics since 2000, believes that risk allocation, as opposed to asset allocation, is a growing industry trend. "Historically, chief investment officers have largely focused on asset allocation, and for a growing number of them, the decision-making framework is shifting towards risk allocation," says Duff.

> ‘Hedge funds are going out of business every single day. It is an extraordinarily high attrition rate. The typical fund has a 3.5-year average life’

People power

Already, Duff has attracted a high-profile team with which to build his vision. The list of DCA recruits is notable, not only for the stature of those included, but also for the number of former Morgan Stanley and FrontPoint alumni.

This includes Eileen Murray, who was previously at both Morgan Stanley and Credit Suisse First Boston as head of global finance, operations and technology, and sat on both firms' executive committees, executive boards and management committees.

Others with a history at Morgan Stanley – which bought FrontPoint from Duff and former partner Paul Ghaffari for a reported $400m – are Lisa Polsky, a former risk officer whose resumé also includes running derivative and hedge fund businesses at Citigroup and Bankers Trust; Perry Poulos, a former director of global operations and technology; Shelly Leibowitz, a chief information officer; and Scott Cooper, who was integral to Morgan Stanley's international equities and corporate finance business. ■