



SKYBRIDGE  
CAPITAL

# Thinking big pushes SkyBridge into the top rank of global seeding platforms

The acquisition of Citi Alternative Investments is a bold move that defines the firm's ambition

**I**n May, SkyBridge Capital held its second annual hedge fund conference in Las Vegas, and aimed high for its keynote speaker. The man who addressed the invitation-only audience of 1,400 people was former US President Bill Clinton.

Anthony Scaramucci, who founded the New York-based seeding business in 2005, is not shy about declaring SkyBridge's ambitions in the hedge fund arena. The conference, he says, is "another way for us to embolden our brand and increase our bandwidth in terms of hedge funds".

Those ambitions have just received a huge boost with a deal that takes SkyBridge far beyond its current limits. In April, the firm announced that it will buy Citi Alternative Investments' hedge fund seeding, fund of hedge funds and hedge fund advisory businesses, with \$4.2 billion in assets. This will effectively quadruple the size of SkyBridge's operations to nearly \$6 billion when the deal is completed on 30 June.

It is in the seeding business that SkyBridge will gain the most concentrated firepower. Adding the \$600 million that Citi has invested in hedge fund start-ups to its own \$450 million in invested and committed capital takes SkyBridge beyond \$1 billion in seed funding. This will catapult the firm into the top ranks of seeding platforms in the world.

At the same time, SkyBridge has opened an office in Zurich, and is planning to launch a third seed capital fund, SkyBridge III, with a target of \$500 million in assets under management.

"People are a little shocked by the boldness of our ambition," Scaramucci admits. But he adds that investors also seem to be "reasonably impressed" by the way that he and his co-managing partner, Scott

Prince, have put together and implemented their business plan.

Scaramucci and Prince are high-flyers themselves and expect the managers they seed to be cast in the same mould. "We self-funded our business. We carry no debt on our balance sheet. We want to find people around the world with the same DNA," Scaramucci says.

Scaramucci, who has a JD from Harvard Law School, co-founded a hedge fund business, Oscar Capital Management, after spending seven years at Goldman Sachs. Oscar grew to \$800 million in assets and was sold to Neuberger Berman in 2001. He joined Lehman Brothers' investment team in 2003 after Neuberger was sold to Lehman.

Somehow, Scaramucci found time to act as technical adviser to movie director Oliver Stone for his sequel, *Wall Street: Money Never Sleeps*, and to write a related book with a moral compass called *Goodbye Gordon Gekko: How to find your fortune without losing your soul*. The book has just been published and the movie is due for release in September.

Prince, an MBA and Wharton economics graduate, made Goldman partner in 1998 and became co-head of equities trading and global equity derivatives before joining Eton Park Capital Management at its launch in 2004. At Eton Park, he was responsible for trading and derivatives and for building out the firm's global trading platform and risk infrastructure.

Along with the additional assets from Citi, SkyBridge will be taking on a team of 21 professionals led by Ray Nolte, who will become SkyBridge's chief investment officer. That will make 40 people in total, combined with SkyBridge's 19 professionals. Scaramucci says that there is very little overlap between the two teams so he expects to keep the Citi group

By Claire  
Makin

intact as well as hiring some additional sales people.

SkyBridge was founded on the premise that many large asset allocators want to share in the attractive economics of seeding hedge funds, but without the high risk of investing in individual start-ups. The firm currently manages two fund vehicles with an open-ended corporate structure (often called 'evergreen' funds in the venture capital world).

So far, SkyBridge has drawn mainly on its network of high-level connections to invest in its funds. Many of these investors also act as advisers to SkyBridge, and they include prominent individuals such as Frank Meyer, former chairman of Glenwood Capital, as well as institutions such as a well-known Middle East sovereign wealth fund, and Challenger Financial Services, a large Australian asset manager with which SkyBridge has an agreement to source capital as well as managers in Australia, Europe and Japan.

The Citi deal has vastly expanded SkyBridge's reach in terms of distribution. "We are covering the whole waterfront. We have a very big Rolodex now," Scaramucci says.

With the launch of SkyBridge III, the firm hopes to broaden its investor base in Europe (hence the new Zurich office) as well as benefit from the investment opportunities created by the post-credit crunch environment. The new fund is structured as a Luxembourg Sicav-SIF (Special Investment Fund) rather than a UCITS vehicle, which requires a minimum bi-weekly liquidity.

The existing funds are invested in seven underlying managers, which range in strategy from long-only concentrated equity to real estate. Scaramucci describes the lineup as "vibrant and successful" although he is wary of painting too rosy a picture of the seeding business. During the financial crisis, SkyBridge shed five managers for various reasons. "There is a failure risk in these businesses. I don't want to over-dramatise their success," he says.

The team is looking for managers in the \$50 million to \$100 million bracket, which it can push up to critical mass by injecting capital. The average ticket size is \$35 million. Since 2006, SkyBridge has helped its seed managers raise \$2 billion in assets.

Connecticut-based Westport Capital Partners, a diversified property manager, received \$35 million in backing from SkyBridge in 2006 and now has \$700 million in assets under management.

Investors' capital is locked up for three years,



Anthony Scaramucci

after which they have quarterly or annual redemption rights. In return, as long as they leave their capital in the fund, they receive a share of the underlying managers' revenue (typically 20% of management and performance fees). Unusually, managers are contracted to provide this revenue share in perpetuity, although they do retain the right to buy it back starting in year seven at a predetermined price (currently 4 times revenues).

A third source of revenue for SkyBridge and its clients

is through the potential sale of an underlying seed manager. SkyBridge prefers not to take equity stakes. "We remove ourselves from interfering with the way a manager wants to run his or her business," Scaramucci says.

In return for funding, SkyBridge offers seed managers a full range of "soft, non-commodity" services. These are designed to add value, Scaramucci says, so the focus is on marketing, risk management, and access to SkyBridge's

conference and network of connections around the world.

A separate team at SkyBridge's registered broker-dealer, Hastings Capital Group markets the funds. Hastings has no connection with a firm of the same name that has been cautioned by the Australian and Bermudan authorities, Scaramucci says.

Despite its arms-length involvement, Scaramucci talks about 'co-branding' with SkyBridge's seed managers. By this, he does not mean adding SkyBridge's name to a manager's letterhead, but leaving a recognisable imprint on the way seeded managers conduct their business. For instance, SkyBridge demands a strict risk control and monitoring regime from managers.

SkyBridge aims to seed three or four managers a year. To qualify for seeding, managers must have an exceptional track record, a scalable strategy that is proven to make money across market cycles, and the ability to build a business. They must also have "a lot of Churchillian will and grit", Scaramucci says. "It is a very difficult business. It looks great on paper, but all battle plans go by the wayside in contact with the enemy."

Above all, SkyBridge is looking for talent. "If a manager has talent, we'll be agnostic about strategy," Scaramucci says. Being 'agnostic' includes an open-minded attitude to illiquid strategies such as private equity, real estate and infrastructure, which have become unpopular with fund of funds investors fixated on liquidity following the financial crisis.

This is faddish and short-sighted, according to Scaramucci, who believes that including less liquid strategies in a portfolio makes sense in terms of return. "Sentiment is against 'illiquids' right now, but that is probably where the extreme profits are going to be made," he notes.

He also insists that a mix of liquid and illiquid strategies is essential for proper diversification. Up to 10% of SkyBridge's portfolios may be invested at the less liquid end of the spectrum (currently two of its seven managers run real estate funds).

Looking ahead, Scaramucci is optimistic about prospects for the seeding business, and says that raising capital for SkyBridge III will resume once the Citi deal has been finalised. SkyBridge has already 'soft-circled' \$100 million in demand from clients, and is aiming for an initial close at \$200 million by the end of December.

The ultimate target for the fund is \$500 million, which will be used to seed between eight and 12 managers. Scaramucci is optimistic that the weight of assets from the Citi deal, on top of SkyBridge's existing funds and proven business model, will attract further inflows. "People see that we have been able to get through the crisis, and we are now seeing capital coming our way," he says.

### SkyBridge Capital: at a glance

#### Seed capital (average amount):

\$35 million-\$40 million

**Platform:** SkyBridge Capital

**Managers retain own brand:** Yes

**Own office:** Yes

**Exit strategy:** Managers can buy out

SkyBridge's interest starting in year seven

**Lock up:** Three years

**Interest:** Share of revenue and performance fee

**Fee sharing terms:** Typically 20%

**Duration:** In perpetuity

**Equity stake:** No

**Number of managers in portfolio:** Seven

**Total seeded assets:** \$450 million in two funds

**Risk control:** Yes

**Marketing & distribution:** Yes

**Legal & compliance:** No compliance; must approve legal changes to documents and fund structure

**Finance & accounts:** Advice if needed

**Business management:** No

**IT & tech support:** No

**Pre-selected service providers:** No