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Bear Stearns manager to spin off new firm

BSAM plans to take a stake in new venture formed by leader of systematic equity team

By Mark Bruno

NEW YORK — Bear Stearns Asset Management, engulfed in recent weeks by issues surrounding two faltering hedge funds, is now set to part with one of its top traditional equity managers and more than a dozen members of his team.

James O'Shaughnessy, senior managing director and director of the systematic equity team, intends to launch his own firm, O'Shaughnessy Asset Management, later this year, with about 15 other portfolio managers, analysts and distribution professionals from Bear Stearns.

BSAM manages \$11.5 billion in systematic equities, roughly one-quarter of the firm's \$43 billion in total assets under management.

In an interview with Mr. O'Shaughnessy and Margo Cook, senior managing director and head of BSAM's institutional business, Mr. O'Shaughnessy confirmed he will be leaving at the end of September in a "friendly" entrepreneurial transaction.

As part of an agreement between the two parties, BSAM will take a minority ownership stake in Mr. O'Shaughnessy's firm, Ms. Cook said. She declined to disclose the size.

Mr. O'Shaughnessy said he will be permitted to take with him "slightly less than half" of the systematic assets he currently oversees — specifically, those assets belonging to the mutual funds Mr. O'Shaughnessy and his team now manage on behalf of the Royal Bank of Canada.

Mr. O'Shaughnessy's new firm will be a subadviser to BSAM's remaining systematic equity assets, which are from institutional and high-net-worth clients.

Aside from the RBC funds, one of the

team's largest assignments is as a subadviser on the \$1.1 billion Dreyfus Premiere Alpha Growth Fund. Officials at Dreyfus Corp., New York, have been notified of Mr. O'Shaughnessy's departure, confirmed spokeswoman Patrice Kozlowski, adding that the firm is "in the process of evaluating options with respect to the long-term management" of the fund.

The structure and terms of Mr. O'Shaughnessy's departure should "allow a seamless and smooth transition," said Ms. Cook. "It made sense to BSAM and Jim to let him keep his team together and keep him on as a subadviser."

In addition to several portfolio managers and analysts at BSAM, Mr. O'Shaughnessy, who will be chairman and chief executive officer of his new firm, will be joined by Christopher Loveless, BSAM head of platform sales, who will be the new firm's president.

A pure play

Mr. O'Shaughnessy, who joined BSAM in 2001, said he approached BSAM executives several months ago to discuss his plans for an entrepreneurial venture.

"I very much wanted to have a firm that was focused solely on systematic, quantitative investing, something that's a pure asset management play," he said. "To (BSAM's) credit, they were very receptive."

The current issues surrounding BSAM — last month, its High Grade Structured Credit Enhanced Leveraged Fund was completely wiped out and its sister High Grade Structured Credit Fund lost almost all of its value, the firm told clients last week — played no role in Mr. O'Shaughnessy's decision to start his own

firm. "None whatsoever," he said.

Nonetheless, his departure will have an impact on BSAM, as systematic equity strategies make up more than half of the firm's \$19.2 billion in equity assets under management. "We're not looking to replace that as a style; that's why it was important to me that we are able to continue to offer his approach to quantitative management to the market," Ms. Cook said.

Despite encountering a "skip in the road" with the near-disintegration of the two structured credit hedge funds, Bear Stearns remains focused on growing its asset management business, she added.

As proof of Bear's commitment to growth, Ms. Cook pointed to the hiring late last month of former Lehman Brothers vice chairman Jeffrey Lane as BSAM's new chairman and chief executive officer. "It's the loudest announcement that we can make that we are not just here to stabilize the business," Ms. Cook said. "You don't bring on somebody like Jeff Lane unless you're serious about that."

In a June 29 interview, Mr. Lane said the money manager will focus on growth, but his first mission is to focus on the immediate hedge fund issues at hand. "My first obligation is to fix what is broken," he said. "It is a problem that is being dealt with by some very smart people at both the Bear Stearns company and asset management levels... No company goes through life without some issues along the way."

BSAM is looking at opportunities to expand its equity and fixed-income capabilities globally and is looking at teams in London and Tokyo, Ms. Cook added. ■