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Bear Quant Star Exits to Start Own Shop

by Scott Johnson

The departure of a quantitative equity luminary has Bear Stearns Asset Management making the best of the situation. Senior managing director James O'Shaughnessy, head of systematic equity investment and a best-selling author, will leave this fall to start his own shop, taking with him a team of 15 professionals and about half his division's total assets of roughly \$11.5 billion. BSAM will maintain a minority stake in the new firm, which will subadvise the remaining assets.

"I've loved my time at BSAM," explains O'Shaughnessy, who joined BSAM in 2001 from his own boutique, O'Shaughnessy Capital Management. "But the itch to get back to a pure-play, systematic quantitative shop was very much in the forefront of my mind."

O'Shaughnessy Asset Management will focus on its founder and CEO's core expertise –systematic equity investment – and will absorb 15 professionals from O'Shaughnessy's portfolio management team at BSAM. Christopher Loveless, BSAM's head of platform sales, will sign on as president of the new firm, and assistant portfolio manager Tom Rawlings will serve as COO.

The start-up also draws a director of research, Bill Latimer, from information heavyweight FactSet.

O'Shaughnessy says he approached BSAM earlier this year with the idea of breaking off again on his own. "To my good fortune, BSAM was very open to the discussion," he says.

Senior managing director Margo Cook, BSAM's head of institutional investment, says that flexibility stems from the firm's entrepreneurial culture, which she says is unusual for an asset manager. She points out that O'Shaughnessy had even brought assets with him from his prior entrepreneurial foray, and the relationship has borne fruit. Still, that shouldn't signal a willingness to jettison talent.

"That's not the business model that BSAM is trying to achieve," Cook notes. "However there was so much success with the growth of this [division] that we wanted to continue to maintain that relationship."

O'Shaughnessy's expertise also factored into BSAM's accommodating pose.

"Clearly Jim is an unusual person in the industry," says Cook. "He is a best-selling author. He is a personality that you will see quite often on financial talk shows. He is a recognizable name in the industry."

O'Shaughnessy's publications include *How to Retire Rich*, *What Works on Wall Street* and *Predicting the Markets of Tomorrow: A Contrarian Investment Strategy for the Next Twenty Years*.

O'Shaughnessy owns a solid reputation in the business, agrees Roy Duke, managing director at executive recruiting firm Warren International.

"The whole structure which has been decided upon between Bear Stearns and his new firm validates his

reputation,” he says. “They want to stay affiliated with him.”

Such an arrangement doesn’t typify the norm, Duke says, but neither does it break new ground. In fact, it’s the least unnerving scenario for clients, aside from the status quo.

“You’ve got a turnkey solution,” says Duke. “I think the biggest change for Bear Stearns as an organization is going to be the economics of the relationship. From a client perspective, I don’t think it will be very disruptive at all – much less disruptive than if things weren’t being handled as collegially as it appears to be.”

Half of BSAM’s systematic equity assets—including a less than \$6 billion mandate from the Royal Bank of Canada – will follow O’Shaughnessy out the door. His new firm will subadvise the remaining portfolios, which belong to a mix of institutional and high-net worth clients. Cook declines to name these clients, whose relationships in some cases predate O’Shaughnessy’s management. BSAM has \$43.3 billion in assets under management as of March 31, with \$29.4 billion drawn from institutional clients, according to the eVestment Alliance database.

O’Shaughnessy’s division offers a systematic small-cap value product, systematic small- to mid-cap growth, all-cap core and a suite of private client managed account solutions. A U.S. dollar version of a new global strategy debuted for the Royal Bank of Canada will be available soon. O’Shaughnessy and his team will not be replaced, with all future inflows falling under the new subadvisory umbrella.

It’s unclear what size investment BSAM has made in the new firm. O’Shaughnessy plans to have it up and running by September 30 but says the date of the soft launch will prioritize the stability of client relationships. “We have ample overlap period should we hit any snags,” he says.

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