

THE NEW TITANS

RISE OF THE ASSET CLASS

They come in all shapes and sizes

By Karen Mazurkewich

Multimillion-dollar penthouses, roaring Aston Martin sales and Land Rovers for the wife — welcome to Hedgistan, Canada

By Robert Collison

Let me show you something special," suggested the spokesman for Royal de Versailles, Canada's equivalent of Van Cleef & Arpels, Harry Winston, Bulgari or even Tiffany's, the store's arch-competitor just a few doors away on the swankiest section of Bloor Street, Toronto's retail nirvana. Always up for anything special, I watched in awe as the jeweller opened an exquisite burl-wood box revealing a watch, but not just any watch. This was a very special watch, a limited-edition Audemars Piguet worth, I quickly discovered, a staggering \$440,000.

"The value is in the complications," observed the spokesman, and it quickly became evident that this little sucker was plenty complicated. The horological equivalent of multiple personality disorder. Among its features are a calendar adjusted up to the year 2100, a chronograph stopwatch and a tourbillon, a mechanism that counteracts the pull of gravity to give the most precise time possible. In short, the perfect prezzie for a guy in a hurry, or rather, a guy who's just gotten a million-buck bonus for being a high-performing member of what the writer Tom Wolfe recently called "the pirate posse," that tribe of globe-circling hedge fund money managers who run trillions of dollars for pension funds and high-net-worth folks from Monaco to Manhattan to Moscow.

"So, how many of these do you sell a year?" I asked Monsieur Royal de Versailles, naively.

"Oh, well, this is the only one in inventory and we had to wait a year to take delivery. But \$100,000 watches are just flying out of the store, there's just so much money in the city right now." That observation was confirmed by another Bloor Street retailer across the street from Royal de Versailles.

"You always know when it's bonus time on Bay Street," says Larry Rosen, CEO of Harry Rosen, the high-end haberdasher founded by his eponymous father, Harry. "Guys come in and sort of binge shop. Not uncommon for a guy to buy three Brioni suits for \$5,000 apiece." Like almost everyone else on Bloor, Rosen's business is booming. The "pirates" clearly rape and pillage on Bay and then squander on Bloor.

But the boom on Bloor is part of a much bigger phenomenon that can be explained, perhaps, by a simple lesson in the world's new financial geography. Bloor Street is one of those "street of dreams" in a place called Hedgistan, a borderless country run by, and for, a new breed of entrepreneur — private equity magnates and hedge fund managers who have quickly made vast fortunes by breaking all the rules and conventions about how to run a business and how to invest in the markets.

Fuelled by a seemingly endless supply of pension fund money, private equity's financial engineers are currently on a global spending spree, snapping up companies like Chrysler and America's largest real estate company. It seems no company is immune from these top-of-the-financial-food-chain predators. Some pundits talk openly and ominously about the death of the public markets. There is no question the private equity tycoons have the financial muscle to make good on the threat. Last year, such funds engineered buyouts worth US\$725-billion, a figure bigger than the entire economy of the Netherlands, and right now, they have a war chest valued at US\$2-trillion to fund new acquisitions.

But private equity entrepreneurs are choirboys compared to the hedge fund managers. Once they take control of a company, private equity investors stick around for a while, at least, to see if they can improve its performance before cashing out. (That often involves a lot of boardroom bloodletting and cutting and slashing on the shop floor but, hey, no one ever said life on The Street was a walk in the park.)

The hedge fund boys are another breed, entirely. Intent on reining in this unregulated sector of the financial services industry, the German govern-

ment has labelled the hedgies "locusts." American writer Nicholas von Hoffman has termed a hedge fund "a mutual fund on steroids." Whereas traditional money managers buy assets in expectation of a rise in value, thereby enabling them to sell at a profit, hedge funds started their ascent in the financial markets by borrowing vast amounts of money to buy stocks they bet would fall in value. Today, stock shorting is just one of a number of strategies employed to produce massive returns for their investors — upwards of 40% in the early days — and huge pay days for their owners.

Employing the 2-and-20 formula — hedge fund managers receive a fee of 2% of assets under management and 20% of the profits — the business has been a get-rich-quick formula. A hedgie with a true Midas touch, James Simons of international firm Renaissance Technologies has upped the ante, charging a 5% management fee and scooping up 44% of the profits. Last year, he earned a mind-numbing US\$1.7-billion, equal to the budget of the U.S. National Parks Service.

With such largesse comes the "big lifestyle," and robber baron excess is increasingly the norm stateside. Chicago-based Ken Griffin, one of the top hedgies in the U.S., spent US\$80-million on a Jasper Johns painting, five times the record for the artist. Not to be outdone, a competitor, SAC Capital's Steven Cohen, paid US\$12-million for British artist Damien Hirst's shark in a formaldehyde tank and is reputedly willing to pay US\$139-million for a Picasso owned by Las Vegas casino owner Steve Wynn.

But it is in the quest for the perfect

pad that the cornucopious wealth of the new financial elite is most fully on display. Recently, another private equity tycoon, Blackstone partner Pete Peterson, paid US\$37.5-million for David Geffen's Manhattan penthouse, while hedge fund manager David Loeb dropped US\$45-million for a 10-bedroom penthouse on Central Park West. Perhaps the telling sign of the times is this: The city fathers of Greenwich, Conn., want to set a limit on the size of mega-mansions. Long the playground of Wall Street's WASP elite, Greenwich is now, literally, Ground Zero of Hedgistan. Many of the wealthiest hedge fund tycoons are there. When one of them sought approval for a 39,000-square-foot house, with a 1,165-sq.-ft. pool house, the town bellowed, "Enough already."

In Canada, consumption on such a scale is, well, less conspicuous and more Canadian. That reflects, in part, the smaller and less mature status of the private equity and hedge fund industry compared with the U.S. and Europe. A few years back, upscale Toronto neighbourhood Rosedale was incensed when buyout king Gerry Schwartz and his wife, Indigo Book's Heather Reisman, tore down a couple of heritage houses to create their compound in the heart of the city, at a cost of tens of millions of dollars.

Were they the exception as opposed to the rule? Maybe. Still, according to star Toronto realtor Jimmy Molloy, "There is no question money management types are having a positive impact on an already buoyant market." But he doesn't think New York's show-me-the-money craziness will ever migrate north

of the border. "Toronto is still Toronto, prices have spiked, but at a sensible, sustainable clip and in the Big Three neighbourhoods — Rosedale, Forest Hill, Lawrence Park — demand is strong."

And, seemingly, very strong in the luxury-condo business. Last month, two projects launched in Toronto — the Four Seasons and the Shangri-la — both of them connected to five-star hotels. Within four weeks, both of them were more or less half sold. "I thought it would take nine months to a year to get where we are now," says Hunter Milborne of Sotheby's International Realty, which is marketing the Four Seasons. At \$1,200 to \$1,400 per square foot for the non-penthouse units, the Four Seasons is setting a new gold standard. "What's amazing," adds Mr. Milborne, "it's the biggest, most expensive units that are selling fastest." Though not appealing primarily to the money management crowd — "those guys like instant gratification and this project won't be ready till 2010," adds Sotheby's Janice Fox — they are clearly making lots of money from the high-net-worth folks who are buying into the project.

A few years ago, million-dollar apartments were rare in Toronto and other big cities in Canada. No more. A few months ago, former BMO CEO Tony Comper spent \$16-million for a Yorkville penthouse, and the penthouse at the new Ritz-Carlton, under construction in downtown Toronto, just went for \$13-million to someone in Hong Kong. "Everyone wants a piece of Canada right now," says Tina Amato of Baker Real Estate.

So, is this sensible Canadian luxury as Mr. Molloy suggests? Or just good old-fashioned over-the-top excess fuelled by big returns from the money markets and the hedge funds? Perhaps a bit of both. Last week in Vancouver, David Heffel, of Heffel Fine Arts, presided over the strongest art auction in Canadian history, selling almost \$23-million worth of Tom Thomsons, Emily Carrs and Lawren Harris. "A lot of paintings went way over their estimates, many set records," notes Mr. Heffel. An Alex Colville went for \$690,000.

Let's put this lust for luxe in perspective. An Alex Colville painting trumps an Audemars Piguet watch. But not by much. If you really want a true index of whether the boys on Bay are feeling buoyant, talk to David Geneen of Grand Touring Automobiles. He sells Rolls, Bentleys and Aston Martins, the ultimate toys for boys. "Sales have been unprecedented. I have never seen anything like it," he notes. Not long ago, he was lucky to sell five Bentleys a year; now, he sells 75 starting at \$200,000.

Mind you, Bentleys don't appeal to money-market types. "Those guys like the Aston Martins, there are nine of them on Warren Road alone." (The street is a primo address in Toronto's elite Forest Hill neighbourhood.) From selling none in 1996, he expects to move 65 this year at \$150,000 and up. "They love their Asters — but they really love Porsches. I don't sell Porsches, but whenever those guys start to make any real money, they buy a Porsche," Mr. Geneen adds one final kicker: "They also get the wife a Land Rover — it's the chi-chi sport-utility vehicle for someone with kids." Price tag for these wheels: \$75,000 to \$125,000.

As a bauble for the missus, that's a bargain compared to what you'd drop back at Royal de Versailles. "When these guys get big bonuses, they like to pamper themselves with something out of the ordinary," explains the company spokesman. Hence, those \$440,000 watches. But for the wife — or girlfriend — he recommends diamonds. Specifically, yellow diamonds. "Let me show you something special," he says. Isn't this where I came in? Into my hand he puts a 23-carat rock as big as the Ritz. "Gorgeous, and it's yours for a million dollars." Only in Hedgistan. Only on Bloor.

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Jeweller Cartier and luxury retailer Louis Vuitton on Bloor Street in Toronto. Below: Lawren Harris sold by Heffel Fine Arts.



Aston Martins appeal to Canada's moneyed financiers.

Som Seif has achieved near pop-star status on Bay Street. As CEO and director of Claymore Investment Inc., his rise up the food chain of Toronto's financial sector has been rapid. In just three years, Mr. Seif, 30, has raised \$1-billion for a series of publicly traded funds on the Toronto Stock Exchange. The sexy stuff he is touting are Exchange Traded Funds (ETFs), which track an index but are traded like a stock. They're a hot alternative to mutual funds, and Mr. Seif is on a roll.

Mr. Seif's arrival is testament to the exploding money market in Canada. Liquid capital is flowing and every sector is benefiting. The mutual fund market has grown from \$470.7-billion to \$700-billion in the past three years, and private equity funds hit an all-time high of \$65.5-billion in 2006. Hedge funds — almost non-existent in 2000 — have reached \$15-billion.

But the fastest-growing sector is the money managers themselves, the emerging power brokers who are adept at mixing new cocktails of funds to bank bigger profits for private clients and for themselves. According to consulting firm Investor Economics, wealth management firms saw their assets mushroom from \$140-billion to \$255-billion in the past three years. While the banks still dominate, the field is becoming crowded by entrepreneurs.

"When we opened up in 1992, we really had only Gluskin Sheff and the banks as competitors," says money manager Kiki Delaney, of C.A. Delaney Capital Management Ltd., who manages \$1.9-billion in assets. "But today, it's almost like a light bulb went off. There's lots of competition." As people have gotten richer, the demand for talented individuals to manage wealth has increased. "It's a growth business," she says.

Gluskin Sheff & Associates, which opened in 1984, has watched its assets under management climb from \$3.5-billion to \$4.8-billion in a single year. It's been joined by a host of new entrants eager for a piece of the pie. Four years ago, Kevin Sullivan, chief executive officer of brokerage firm GMP Capital Trust, decided to grow his private client and equity business. Today, this side of the business has reached \$4-billion in assets. He recently purchased EdgeStone, a company with \$1.4-billion in private equity funds. "People are looking for a competitive alternative to the bank," he says.

Ironically, GMP today looks similar to the old brokerage firms of the 1980s, says Mr. Sullivan. Firms like Wood Gundy and Burns Fry handled both the advisory and trading sides of the business until they were gobbled up by the banks. Now, entrepreneurial investment bankers "are longing nostalgically for the way the business used to be," he says. The industry is coming full circle. Even AGF, a traditional mutual fund company, has grown the wealth-management side of its business to \$24-billion.

In Canada, the new titans are not the makers of successful goods, but the fund managers and portfolio managers who have played the markets to their overwhelming success. Ira Gluskin of Gluskin Sheff & Associates sums it up: "A bad day in this business is a good day for anyone else."

The revolution on Bay Street is helping reshape Canada's landscape, and the rich are getting richer. But if it makes you feel better, so are the pension and trust funds, and philanthropy in Canada is blossoming. Donations to Toronto's Mount Sinai Hospital jumped from \$21.2-million in 2005 to \$25.1-million in 2006, and the Royal Ontario Museum in Toronto has raked in 50% more in the first nine months of 2006 than in the entire previous fiscal year.

So, who are the new titans? The *National Post* has compiled a list of 30 money-movers and wealth-makers (see pages FW4 to FW6), from hedge artists to heads of private mutual fund companies, even a brokerage firm. Some names are familiar, such as private equity buyout king Gerry Schwartz and mutual fund honcho William T. Holland. But the list also includes lesser-known insiders such as Brian Gibson, who runs the public equities market for the Ontario Teachers' Pension Plan. The one criterion is that they have all maximized the coveted creed: alpha performance or profit that exceeds a benchmark.

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