

## Hedge fund manager's \$1bn wage packet is largest award in history

By Katherine Griffiths in New York

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A US hedge fund manager was personally paid \$1bn (£550m) last year, believed to be the largest pay packet in history.

For many wealthy investors who have had their cash in hedge funds in the past few months, the sector has yielded miserable returns. So it will be cold comfort that pay packages for hedge fund managers hit a fresh high last year.

Top of the list of compensation packages for 2004 was Edward Lampert, the founder of ESL Investments, who took home \$1.02bn. Despite sharing the reclusive tendencies of many of Wall Street's most successful hedge fund managers, the 42-year-old has gained a high-profile reputation.

Mr Lampert was kidnapped from ESL's offices in Connecticut, on America's east coast, in 2003. After being held for 30 hours at gunpoint, he negotiated his own release with his kidnappers, who were later caught when using his credit cards to order pizza.

He has also attracted attention for the Midas touch he has shown that he shares with one of his mentors, Warren Buffett, the billionaire investor, when it comes to undervalued traditional industries.

Mr Lampert had a busy year in 2004, snapping up the department store chain Sears Roebuck for \$11bn to add to his retailing empire that contains a controlling stake in the discount retail chain Kmart.

The high-profile acquisition of Sears impressed the market and prompted fans to hail him as the next Mr Buffett, whose investment strategies he studied as a student at Yale. The deal also allowed Mr Lampert to buck the gloomy trend among other hedge fund managers who found 2004's markets difficult to make money in.

The holding in Kmart more than tripled in value last year, while ESL gained 69 per cent, according to the latest survey of hedge fund pay by Institutional Investor's magazine Alpha. The jump allowed Mr Lampert to more than double the \$420m he earned in 2003.

The survey found that as with Mr Lampert, others who earned the highest fees recorded particularly strong performances. James Simons, an award-winning mathematician who runs New York-based Renaissance Technologies, earned \$670m after reporting a return of 25 per cent last year.

Also in the top 10 was Kenneth Griffin, whose \$12bn fund Citadel Investment Group accounts for more than 1 per cent of daily trade in New York, London and Tokyo. Mr Griffin was paid \$240m last year.

The average income for the 25 best-paid managers was \$251m, up 21 per cent from a year before, according to the survey, which sheds light on the shadowy world of hedge fund remuneration. By comparison, the chief executive of one of America's Fortune 500 companies earned on average \$10m last year.

It is almost impossible to establish exactly how much hedge fund managers are paid because most investment vehicles in this lightly regulated world do not disclose financial statements. However, Institutional Investor analysed payments by adding up the managers' share of fees generated by the funds they managed, and their gains on their own capital in the funds.

Hedge fund managers tend to earn much more than their peers in corporate America because of the hefty management fees attached to most of their funds. It is not unusual for investors to have to hand over 1 per cent of funds under management, plus 20 per cent of profits, to the hedge fund manager.

Conversely, managers often get almost nothing when performance is bad, prompting rumours in recent weeks that a string of hedge funds has gone bust because of difficult market conditions.

The tumult in the financial markets which followed the credit-rating downgrades of the US car makers General Motors and Ford this month caused particular problems for some hedge fund managers. They were caught out by the sharp drop in the value of the car makers' bonds and by the unexpected jump in GM's share price when the veteran corporate raider, Kirk Kerkorian, announced he was taking a 9 per cent stake in the company.

### **Top 10 player who is helping Glazer buy Manchester United**

It is not just his ranking as one of America's 10 highest-earning hedge fund managers which will put the investor Kenneth Griffin (below) in the spotlight. Mr Griffin, who pocketed \$240m (£132m) last year, is considering giving up the shadowy world that hedge funds operate in to turn his Chicago-based fund into a public company.

Mr Griffin's name is on the brink of becoming well-known in the UK. His fund, Citadel Investment, is one of three US hedge funds providing a £265m loan to fund Malcolm Glazer's bid for Manchester United.

The loan is part of a series of investments which have transformed Citadel from being a start-up operation which started in Mr Griffin's Harvard dormitory into a \$12bn fund.

Along the way, Mr Griffin has enjoyed the trappings of the wealthy. He held his wedding in the garden of the palace at Versailles.

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