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Griffin goes back on the attack

With fund crisis over, Citadel revs up its push into Wall St. stronghold

BY ANN SAPHIR

A little less than a year after he was forced to call a press conference to reassure investors that his Citadel Investment Group Inc. wasn't about to go under, Ken Griffin is gunning for growth again.

With its core funds up more than 50% this year and December's ban on investor withdrawals about to be lifted, Citadel has begun moving aggressively into investment banking—a key step toward turning Chicago's biggest hedge fund into the broad-based financial institution Mr. Griffin long has envisioned.

The company has landed its first investment banking gig—a \$3.5-billion debt-restructuring job for hotelier Fontainebleau Resorts LLC—and has won hundreds of clients for a new institutional sales and trading division.

“We are back on offense,” Chief Operating Officer Gerald Beeson says.

A year ago, Citadel was playing defense, fending off rumors that federal officials were close to shutting it down and scrambling to reassure lenders that it had enough cash to make good on its borrowings. With panicky investors clamoring to withdraw their funds, Mr. Griffin placed a hold on redemptions. But by spring, Citadel's trading operation had stabilized. In May, it began its push into investment banking.

Citadel, with \$13.5 billion in assets, has since hired 70 bankers and institutional traders, many from big Wall Street firms like Merrill Lynch & Co. and Citigroup Inc. The company also is expanding other financial services lines. Citadel more than doubled

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[Gerald Beeson, COO,
Citadel Investment Group Inc.]

its hedge-fund administration business, which manages trading platforms and other back-end functions for outside funds, by adding a huge new client—Lehman Bros.' \$40-billion portfolio, being unwound in Bankruptcy Court—and this month it received approval to begin market-making incorporate bond trading.

Though the firm's asset management business has a 20-year head start, Mr. Beeson says, the new businesses could be as big or bigger than the hedge fund in only five years. “We are giving this plenty of runway,” he says.

Exactly how much runway is unclear: Todd Kaplan, the former Merrill Lynch banker hired in March to run Citadel's investment banking division, won't share his growth targets. The global invest-

ment banking business is so massive, generating tens of billions of dollars in fees every year, that even if Citadel gets a small share of that, it could become a profit center. But Mr. Kaplan clearly has big ambitions—as does his boss.

Competing for the big-ticket investment advisory jobs requires a large staff and the ability to handle large securities placements.

“The problem they are liable to encounter is that if they really want to be a full-service bank, they will need to be on a scale that exceeds where they are at,” says William Wilhelm, a professor at the University of Virginia's McIntire School of Commerce and an investment banking historian. “The question is, can they successfully compete?”

Still, Mr. Wilhelm says, Citadel is picking the right time for its foray. Last year's credit crisis weakened the big banks, and “they aren't going to be able to throw their weight around” like they used to, he says. As a small player, Citadel may also be able to deliver the kind of hands-on attention to advisory assignments that the big banks haven't done for years.

Mr. Kaplan is betting he can land more of those assignments by leveraging the relationships Citadel has bought by hiring Wall Street bankers. He says many of them have been in the business for decades. In the casino and hotel industries alone, his New York-based team has worked with at least 30 clients, including Harrah's Entertainment, Trump Entertainment Resorts and Mandalay Resorts Group, according to filings in the Fontainebleau bankruptcy case.

Citadel already has engagements for underwritings, M&A assignments and restructuring deals, Mr. Kaplan says, although he won't name any customers.

Eventually, he says, Citadel will offer the full range of investment banking services, including managing initial public offerings.

As for Citadel's own plans to go public—a possibility Mr. Griffin talked about publicly as little as a year-and-a-half ago—Mr. Beeson declines to comment.



CEO Ken Griffin

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