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KKR Said in Talks to Hire Goldman Sachs Prop Traders

By Saijel Kishan and Cristina Alesci - Sept 8, 2010 2:20 PM ET

KKR & Co. and Perella Weinberg Partners LP are in talks to hire members of Goldman Sachs Group Inc.'s U.S. principal-strategies group, according to two people briefed on the negotiations.

Bob Howard, who heads the Goldman group in the U.S., is leading the discussions, said one of the people. Talks are in early stages and may fall apart before a deal is reached, said the people.

"Profitable traders marketing themselves as a group, rather than individually, is a better strategy," said Gustavo Dolfino, senior managing director at Accretive Solutions Inc., a New York-based executive-recruitment firm. "There will be more interest in them collectively as firms will be able to get more milk out of them."

Goldman is disbanding its proprietary-trading business, one of the groups that makes bets with the firm's own money, to comply with new U.S. rules aimed at curbing risk, two people with knowledge of the decision said last week. The rule changes allow asset managers, which invest money for clients, to hire experienced traders as they seek to diversify.

Officials for the three firms declined to comment. All are based in New York.

Goldman Sachs, Wall Street's most profitable investment bank, plans to hold off on announcing the wind-down while the 65 to 70 members of the global unit seek new jobs, the people said, speaking anonymously because the discussions are confidential. Some of the principal strategies group's traders and support staff may get roles at Goldman, the people said.

Perella, KKR

The Goldman group is led by Hong Kong-based Morgan Sze, who may start his own hedge fund focused on Asia, the people said. Sze in March replaced Pierre-Henri Flamand, the former global head who left to set up a London-based hedge fund called Edoma Capital Partners LLP.

Perella Weinberg, the investment bank founded by Joseph Perella and Peter Weinberg, oversees about $6 billion for clients as of Aug. 1, according to its website. The firm, which invests client money in five hedge funds including a credit fund called Xerion, earlier this year hired hedge fund Tokum Capital Management LP's investment team.

KKR, founded by buyout pioneers Henry Kravis and George Roberts, has been building its liquid and mezzanine strategies unit, led by William Sonneborn. KKR Asset Management began in 2004 with a focus on corporate debt and now oversees about $13 billion, which includes trading in bank loans and mezzanine loans.

BlackRock Held Talks

Private-equity firms have been expanding beyond traditional buyouts, which have been hurt by the financial crisis. Blackstone Group LP, the biggest private equity firm, now counts its credit and marketable alternatives business, which includes a fund of hedge funds operation, as its largest by assets.

BlackRock Inc., the world's biggest asset manager, has also held talks to hire one or more people from the Goldman group, according to a person with knowledge of the talks.

Brian Beades, a spokesman for New York-based BlackRock, said the firm doesn't comment on speculation.

BlackRock Chief Executive Officer Laurence D. Fink has said on conference calls with analysts and investors that the asset manager's model doesn't rely on proprietary investments. The company, which manages $3.15 trillion, has about $100 billion in alternative investments such as funds of hedge funds and real estate.

Dodd-Frank

"We do not run any proprietary investments but rather invest alongside our clients or seed new products as required for the base business," Fink said in a conference call on July 21. "Our exposures are aligned with the interests of our clients."

A provision of the Dodd-Frank financial-overhaul act prohibits banks from risking capital by betting for their own accounts. JPMorgan Chase & Co. plans to close its prop-trading units in response to the law, signed by President Barack Obama in July. JPMorgan last month told in-house commodities traders in London that they may lose their jobs, a person briefed on the matter said this week.

The Dodd-Frank Act allows banks at least four years to bring their proprietary trading into compliance, with a potential extension of as many as three years, according to a timeline prepared by Davis Polk & Wardwell LLP, the New York law firm.

Weaker revenue from principal strategies was one factor in the 62 percent drop in Goldman Sachs's equities revenue in the second quarter compared with a year earlier, according to the firm's earnings report. The company doesn't break out results for the division separately. Goldman Sachs says about 10 percent of its revenue comes from proprietary trading.

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