

## WALL STREET AND MAIN

### Citadel's Griffin Unbowed as Securities Unit Loses Second CEO

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By Saijel Kishan and Pierre Paulden

May 5, 2010 (Bloomberg) -- Ken Griffin vowed to press ahead with his plan to graft an investment bank onto his \$12 billion hedge-fund firm even though he hasn't been able to find the right executive to run the business.

Patrik Edsparr, 44, was ousted as chief executive officer of Citadel Securities after clashing with Griffin, 41, over strategy and culture, according to the memo. He was put into the job seven months ago after the departure of Rohit D'Souza, the former Merrill Lynch & Co. executive whom Griffin hired in October 2008 to build an investment bank to challenge firms such as Goldman Sachs Group Inc.

Citadel Securities, benefiting from Griffin's roots in the credit markets, last year started a trading group for leveraged loans and high-yield bonds that is competing with Wall Street banks. It has yet to make the same inroads in merger advising and securities underwriting, a business at the heart of investment banking.

"Being a hedge fund, Citadel knows how to build a trading operation," said Dushyant Shahrawat, senior research director at TowerGroup, a Needham, Massachusetts-based consulting firm to the financial-services industry. "But to be a top-tier player in mergers, advisory and underwriting you need a brand name and expertise to appeal to the big corporate clients, and that takes time."

#### Executive Changes

Citadel last month hired Stavros Tsibiridis from Citigroup Inc. as head of mergers and acquisitions. Todd Kaplan, former head of investment banking at Citadel, left in January, less than a year after joining the firm. The following month, he went to Bank of America Corp., which last year bought Merrill Lynch, where Kaplan had worked for 22 years.

**"The turnover is hurting the brand and confusing the market," Gustavo Dolfino, senior managing director at Accretive Solutions Inc., a New York-based executive-recruitment firm, said of Citadel. "They need to find the right person who has a track record and a strong personality to stand his or her ground internally, especially given the trading nature of the shop."**

Citadel hasn't had "significant turnover," more than 50 bankers have joined the securities unit and the credit business has more than 500 institutional clients, Griffin said in the May 3 memo.

#### 'Bulge Bracket' Share

Citadel's market share in high-yield trading is "firmly in the league of the 'bulge bracket' players," Griffin wrote, using a term for the world's largest banks such as JPMorgan Chase & Co. and Goldman Sachs.

Citadel added Peter Barsanti to run equity sales trading from ICAP Plc, the world's largest broker of transactions between banks. It has started a residential and commercial mortgage-backed securities division under Rob Roberto, according to the memo.

Roberto, who runs a team of almost 30 people, joined from ICP Capital, a New York broker dealer and investment firm that was taken over in March by PrinceRidge Holdings LP.

Devon Spurgeon, a Citadel spokeswoman, declined to provide revenue figures for the securities unit.

Griffin's drive to build an investment bank won't be derailed, according to Michael Novogratz, president at Fortress Investment Group LLC, the New York-based firm that runs private- equity and hedge funds.

#### Bullish Outlook

"His business is in a bull market," he said in an interview at the Bloomberg Markets Hedge Fund Summit yesterday. "How he pulls it off may be tweaked, but in five years time the role of hedge funds like Citadel in financial services will be larger than it is today."

Citadel has begun to win underwriting mandates. The firm served as a bookrunner on E\*Trade Financial Corp.'s \$300 million equity offering last month. Citadel gave the New York-based online brokerage a \$2.5 billion cash infusion in November 2007 to help weather bad loans and shore up its banking unit.

Citadel Securities also helped manage a \$365 million notes offering for Atlanta-based Gray Television Inc. last month and a \$425 million bond for Equinox Holdings Inc. in January, according to data compiled by Bloomberg.

That still leaves the firm far below the largest firms in the league tables.

Citadel is ranked 25th in arranging high-yield bonds in the U.S. this year, lower in the rankings than Jefferies Group Inc. and Brazilian lender Banco Bradesco SA, according to data compiled by Bloomberg. The firm ranks 38th on Bloomberg's league standings in U.S. leveraged loans this year. Citadel has yet to advise a company on a merger.

#### Investor Concerns

Citadel Securities has more than 24 deals in the pipeline, including bond and loan sales and advisory roles, Griffin said in the memo. Griffin's ambition to build an investment bank is a concern for some hedge-fund investors.

"When a manager is trying to do too many things, returns could suffer," said Vidak Radonjic, managing partner at Beryl Consulting Group LLC, which advises clients on investing in hedge funds.

Citadel's biggest hedge funds lost 0.85 percent this year through April. Hedge funds have risen 2.5 percent in the same period, according to the HFRX Global Hedge Fund Index compiled by Hedge Fund Research Inc.

Citadel's hedge funds rose as much as 62 percent last year as markets rebounded, following a 55 percent slump in 2008. Hedge funds lost a record 19 percent in 2008 and gained an average of 20 percent last year, according to Hedge Fund Research in Chicago.

#### Edsparr's Stint

Swedish-born Edsparr joined Citadel as the London-based global head of fixed income and head of the firm's European business in July 2008. He declined to comment, speaking through an intercom at his West London home when approached by a Bloomberg reporter.

Edsparr, who has degrees in Russian, mathematics, business and finance, previously worked at JPMorgan Chase, where he mainly ran businesses that traded the bank's money.

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