

HEDGE FUND



SUPER SCHMOOZER

Anthony Scaramucci, who attracts the likes of Steven A. Cohen and George W. Bush to his annual SALT extravaganza, is betting that his marketing savvy can revive the beaten-down funds-of-funds industry.

BY EDWARD ROBINSON | PHOTOGRAPH BY BRAD TRENT



Anthony Scaramucci fist bumps investors as he makes his way through a poolside party at the Bellagio Hotel in Las Vegas on a May evening.

"It's the Mooch!" someone shouts. Scaramucci, a Harvard Law School graduate who flunked the New York bar exam twice and was fired from Goldman Sachs Group Inc. in 1991, is exactly where he wants to be: playing host to the hedge-fund industry as it surges past \$2 trillion in global assets.

Scaramucci is the creator and ringmaster of the SkyBridge Alternatives

men smoke freshly rolled Dominican cigars. Jugglers, mimes and an Italian clown riding a unicycle weave their way between revelers sipping drinks and feasting on roasted pork. "Can you believe this?" Scaramucci, 47, says, savoring the festivities he's organized. "You've got to use the skill set God has given you, and I have the ability to connect with people. I was made to do this stuff."

with influential figures. His friends range from Michael Milken, who helped debut the first SALT conference in 2009, to movie director Oliver Stone, who gave Scaramucci a cameo as a short seller in his 2010 sequel *Wall Street: Money Never Sleeps*. Former President George W. Bush, the keynote speaker at this year's conference, even nicknamed his dapper host "Gucci Scaramucci."

"Anthony is a likable, self-promotional, street-smart kid who understands the tremendous opportunity for growth in the hedge-fund industry as the world grows more volatile," says Cooperman, 68, the billionaire founder of Omega Advisors Inc. in New York.

For all of the attention Scaramucci is attracting, he's pushing an investment model—funds of hedge funds—that has lost assets and credibility since the credit crisis. SkyBridge, which manages \$2.8 billion in assets, is aiming its funds of funds at so-called mass affluent investors. They are



Scaramucci, from left, talks with Leon Cooperman, shares a stage with Steven A. Cohen, poses with Rex Ryan and laughs with Jon Corzine.

Conference, known as SALT, the largest annual symposium and schmoozefest for hedge-fund managers and investors in the U.S. For three days in May, more than 1,750 investment professionals soaked up market insights from industry stars Steven A. Cohen, Leon Cooperman and Kenneth Griffin; geopolitical observations from Colin Powell and Gordon Brown; and sports talk from New York Jets head coach Rex Ryan.

At the poolside gala capping the opening day, young women in cocktail dresses play air hockey. Across the patio,

Welcome to the Anthony Scaramucci show. Two years ago, he was a little-known money manager facing the failure of his New York-based funds of hedge funds, SkyBridge Capital LLC, following the worst financial crisis in decades. Scaramucci swiftly recovered and catapulted himself into the center of the hedge-fund world through unabashed self-promotion and his gift for forging relationships

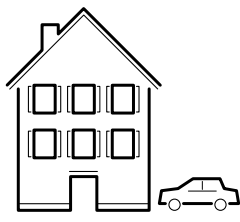
households with a net worth of \$100,000 to \$1 million not counting their primary residence, according to the Spectrem Group, a Lake Forest, Illinois-based research firm that analyzes wealth trends. Only 3 percent of the 36 million mass affluent investors in the U.S. commit money to hedge funds, Spectrem says. With volatility in equities and fixed-income markets exploding in the wake of Standard & Poor's downgrade of the U.S. credit rating on Aug. 5, Scaramucci is betting more mass affluent will plunge into

Parsing SkyBridge's Fund of Funds

Investors can deploy as little as \$25,000 in the Multi-Adviser fund if they're willing to pay up to three layers of fees.

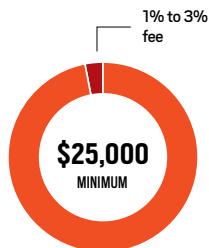
STEP 1

Households with at least \$1 million in net worth invest through their brokers.



STEP 2

Brokers send a minimum \$25,000 investment to SkyBridge and take a 1 to 3 percent fee.



STEP 3

SkyBridge invests the money in its Multi-Adviser fund, composed of 41 underlying hedge funds, including those run by Brownstein, Loeb and Paulson, who are among the fund's top 10 managers.

DON BROWNSTEIN
Structured Servicing Holdings
Strategy: mortgage-backed-securities arbitrage

8.5%*

DANIEL LOEB
Third Point Ultra
Strategy: price swings in securities subject to M&A

8.1%

JOHN PAULSON
Paulson Recovery
Strategy: gold-denominated investments in securities

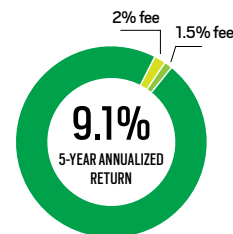
5.9%

OTHER MANAGERS: 77.5%

*PERCENTAGE OF SKYBRIDGE'S FUND INVESTED WITH THE MANAGER.

STEP 4

The portfolio gained an annualized 9.1 percent during the five years through June 30 after taking a 1.5 percent fee and forwarding the managers' 2 percent and 20 percent fees.



Sources: SkyBridge investment records, Bloomberg

short selling securities, fixed-income arbitrage and other sophisticated trades to grow their nest eggs.

"I want to be the Peter Lynch of the hedge-fund industry," Scaramucci says, referring to the Fidelity Investments money manager and TV spokesman who helped popularize mutual-fund investing in the 1980s and 1990s. "I want to make hedge-fund investing approachable to the average American investor."

The funds-of-funds approach is fraught with challenges, says Deirdre Nectow, managing director for business development at Cambridge Associates LLC, a Boston-based investment consulting firm. Bernard Madoff's \$20 billion Ponzi scheme revealed that some funds of funds failed to detect how he had faked his performance for more than 20 years as they had channeled millions of dollars of their clients' money into his firm. While Madoff is a unique case, the difficulty of researching the practices of dozens of managers that typically comprise a fund of funds has left investors wary. "You have 30 to 35 managers in one fund, but if one is a Madoff you have a

problem," says Nectow, who advises many clients to invest directly into hedge funds.

Funds of funds disgorged \$2 billion in capital in the second quarter as investors withdrew from the category, according to Chicago-based Hedge Fund Research Inc. In contrast, investors poured \$29 billion directly into hedge funds, which are on course to record their highest net asset inflows since 2007.

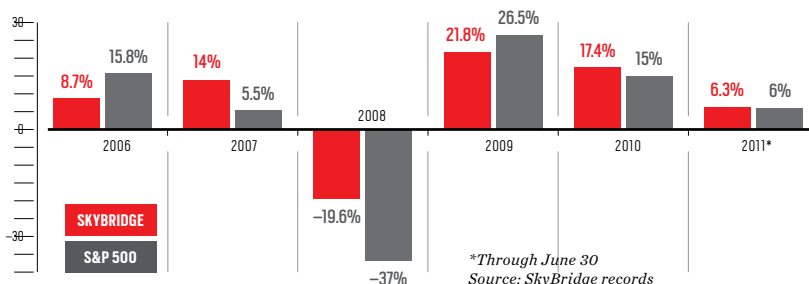
Then there are the costs. Investors have to pay funds of funds a management fee on top of the typical 2 percent

on assets and 20 percent of profits hedge funds charge. SkyBridge asks 1.5 percent annually and no performance fees, and its clients may have to pay brokers a one-time placement fee of up to 3 percent.

Funds of funds mostly haven't delivered on those higher costs: The S&P 500 Index's 2.4 percent average annual gain in the five years ended on July 31 beat the HFRI Funds of Funds index's 1.7 percent performance. "When you layer on the fees, you're just guaranteeing a lower return," says Janet Tavakoli, founder of Tavakoli Structured Finance

HO-HUM PERFORMER

SkyBridge's flagship fund of funds places a wide array of bets by using 41 underlying fund managers.



Inc., a Chicago investment advisory firm, Scaramucci has had some success attracting well-off investors who aren't super-rich. About two-thirds of the 13,000 investors in SkyBridge's funds of funds are mass affluent households and high-net-worth individuals, says Ray Nolte, a SkyBridge managing partner. Investors in the firm's \$1.7 billion flagship, the SkyBridge Multi-Adviser Hedge Fund Portfolios LLC, have to qualify as accredited investors with a net worth of \$1 million under Securities and Exchange Commission rules. The fund of funds has a minimum threshold investment of only \$25,000, and SkyBridge sells it through Morgan Stanley Smith Barney, Bank of America Corp.'s Merrill Lynch unit and other retail brokerages. "We see mass affluent households starting to loosen up and become more aggressive with their risk tolerance," says Thomas Wynn, a director at Spectrem.

Managing Partner
Ray Nolte, left, and
Troy Gayeski,
portfolio manager,
at SkyBridge's
office in New York



SkyBridge offers investors entree to top-shelf managers they may not have the influence or wealth to reach on their own. Led by Portfolio Manager Troy Gayeski, the firm's flagship fund commits 8.5 percent of its investments to Don Brownstein's Structured Servicing Holdings LP. It bets on the spreads between mortgage-backed securities and was the top-performing hedge fund in BLOOMBERG MARKETS' annual ranking

flagship fund is up 6.3 percent this year through June 30 compared with a 6 percent rise for the S&P 500 in that period.

SkyBridge's Multi-Adviser fund is far more complex and risky than the typical actively managed mutual fund, Tavakoli says. SkyBridge concentrates about a third of its assets in five funds that invest in mortgage-backed securities,

money upon request. Tavakoli says such a fund is too perilous for investors who can't afford to lose \$25,000. "They should run far away from this kind of strategy," she says.

Scaramucci and Nolte counter that by spreading bets among 41 managers, some of whom pursue strategies designed to go up when U.S. equities markets drop, they're delivering a hedge many investors want. "Even if one or two managers lose their way, we are still well protected," Scaramucci says. Nolte says the firm's clients want SkyBridge to make big bets on their favorite trades, such as mortgages, and not simply match market performance. "When we have a strong conviction on an idea, we will put more risk on," Nolte says.

Scaramucci uses his SALT conference—and its A-list lineup of speakers—to burnish the SkyBridge brand. At the 2011 event, Scaramucci threw a private dinner for Bush, who pocketed \$175,000 for his off-the-record talk

JON STEWART OF THE DAILY SHOW LAMPOONED SCARAMUCCI AS A 'JERSEY SHORE BREAKOUT STAR' WHO'S OBLIVIOUS TO THE COUNTRY'S OUTRAGE AT BAILING OUT BIG BANKS.

this year, with a 49.5 percent return. SkyBridge also puts 8.1 percent of its flagship fund's assets in Daniel Loeb's Third Point Ultra, which exploits price swings in securities linked to mergers and acquisitions, and another 5.9 percent in John Paulson's Recovery portfolio, which hedges dollar-linked risk by being denominated in gold. SkyBridge's

including tranches of subprime home loans originated during the housing boom. While SkyBridge doesn't use leverage itself, some of its fund managers do to bolster returns. And SkyBridge says in its quarterly reports that its flagship fund is "highly illiquid" because, like many hedge funds, the firm reserves the right not to redeem its clients'

earlier in the evening. Milken, Cohen and other friends of Scaramucci's joined the former president for a four-course meal featuring filet mignon and Yorkshire pudding slathered in black truffle gravy.

Asked if he took the seat at Bush's right hand, Scaramucci guffawed. "What, are you kidding me? I'm a sales guy: I put my best client next to the president, and he was in heaven," he says in the staccato rhythm of his native Long Island, New York.

Scaramucci promotes SkyBridge in the media too. He makes regular appearances as a stock picker on CNBC and Bloomberg Television, and he spent more than \$100,000 to place the SkyBridge logo in a scene in Stone's second *Wall Street* drama featuring Gordon Gekko, the insider-trading felon played by Michael Douglas.

At a nationally televised town hall meeting in Manhattan on Sept. 20, 2010, Scaramucci challenged President Barack Obama to lay off of Wall Street. "We have felt like a pinata," he complained to the president. The following evening, Jon Stewart, the host of the news satire program *The Daily Show*, lampooned Scaramucci as a "*Jersey Shore* breakout star" who's oblivious to the country's outrage at bailing out big banks. Scaramucci was so giddy to be the target of Stewart's wit that he sent the clip of the comedian to his friends and clients.

"Hedge funds have long kept their heads down and let their performance and reputations do the talking for them, but this guy seems to be operating outside of the model entirely," says Charles Geisst, a financial historian and author of *Wall Street: A History* (Oxford University Press, 1997).

A youthful man with wavy brown hair and matinee idol looks, Scaramucci does have a salesman's smooth touch. He peppers his conversation with offers to perform favors—"What do you need?"—and is fond of slipping his arm around your shoulder and giving it a squeeze to make a point.

SCARAMUCCI'S A-LIST



The SkyBridge founder uses his Goldman Sachs pedigree and annual SALT hedge-fund conference to connect with influential figures and build his investment firm.

MONEY

MICHAEL MILKEN

Philanthropist
Mentor, SALT speaker

MICHAEL FASCITELLI

Real-estate investor
Former Goldman boss, mentor

DANIEL LOEB

Hedge-fund manager
Manages SkyBridge investments, SALT speaker

JOHN PAULSON

Hedge-fund founder
Manages SkyBridge investments

NOURIEL ROUBINI

Economist
Friend, SALT speaker

STEVEN A. COHEN

Hedge-fund manager
SALT speaker
Cohen and Scaramucci have luxury skyboxes at the Mets' Citi Field.

CELEBRITIES

BOBBY VALENTINE

Former New York Mets manager
Friend

REX RYAN

New York Jets head coach
SALT speaker

OLIVER STONE

Filmmaker
Friend
Stone used Scaramucci for a cameo in his *Wall Street* sequel.



POLITICS

BILL CLINTON

Former U.S. president
SALT speaker

MITT ROMNEY

GOP presidential candidate
SALT speaker
Romney uses Scaramucci as a fundraiser.

JON CORZINE

Former N.J. governor, co-chairman of Goldman
SALT speaker

GEORGETTE MOSBACHER

GOP fundraiser
Friend, SALT attendee

GEORGE W. BUSH

Former U.S. president
SALT speaker
Nicknamed the dapper SALT host "Gucci Scaramucci."

On the first day of the SALT conference, Scaramucci is decked out in a gray, custom-made Loro Piana suit, a pink shirt and pink striped necktie. He's walking down a crowded hall in the Bellagio's convention center greeting attendees when a money manager approaches and offers his hand. "This is off the charts, Anthony, off the charts," he says. Scaramucci grins and wraps his arm around his new friend without breaking stride. "Look, why don't you try and raise some money for yourself

while you're here?" Scaramucci says. "I know a guy last year who raised a lot of assets from new clients at SALT."

Scaramucci possesses the trader's love of profanity and off-color jokes. He regaled a group of money managers at SALT with a story of how he spoke with a roomful of wealthy Jewish investors in Palm Beach, Florida, in early 2009 after many of them had lost their fortunes to Madoff. "So I told them: Always invest with an Italian. They like cash businesses, and an Italian will

only steal as much as he can fit in the trunk of his car in cash,” he said. The money managers crack up as their host flashes a wide smile.

Scaramucci is equally at home talking about complex trading strategies. At a dinner he hosted at the Four Seasons during SALT, Scaramucci led a discussion with economist Nouriel Roubini on how Federal Reserve policy and Europe’s debt woes were impacting capital markets. “He comes across as Vinnie Barbarino, but it masks how smart and thoughtful he really is,” says Brett Messing, a Harvard Law friend, referring to a wisecracking TV character played by John Travolta in the 1970s.

Scaramucci grew up in Port Washington, a middle-class town on the north shore of Long Island. His parents are second-generation Italians, and his father Alexander labored in the construction industry for 42 years. As a teenager, Scaramucci spent afternoons helping out at his uncle Sal’s Harley-Davidson shop. He wasn’t allowed to ride motorcycles. “My father said, ‘We’re going to put \$100,000 of education into your brain, so I don’t want it on the pavement,’” says Scaramucci, who drove a 1979 Chevrolet Camaro Berlinetta instead.

Scaramucci graduated *summa cum laude* from Tufts University in Medford, Massachusetts, in 1986, with a bachelor’s degree in economics. Three years later, he earned his Harvard Law degree. He found legal work to be mind numbing and failed to put in the study needed



Scaramucci attracted more than 1,750 investment professionals to his SALT conference at the Bellagio Hotel in Las Vegas in May.

Robert Rubin, a Goldman partner who would serve as U.S. Treasury secretary from 1995 to 1999, told Scaramucci’s training class, Scaramucci recalls. By the end of his first year, Scaramucci knew he didn’t have the analytical skills or patience to unpack complex property deals. “I sucked at it,” he says.

When the property market contracted in 1991, real-estate head Michael Fascitelli fired Scaramucci as

responsible for building a book of rich investing clients. “He was very hungry, and I thought he could shine in an area where he could use his people skills,” says Fascitelli, who’s now chief executive officer of Vornado Realty Trust in New York.

By 1995, Scaramucci, then 31, had more than 300 clients and was producing \$4.5 million in gross commissions and pocketing more than \$1 million a year in compensation. The next year, he quit to co-found a hedge fund called Oscar Capital Management LLC with fellow Goldman alum Andrew Boszhardt. They built Oscar up to \$800 million in assets and brought in billionaire PC maker Michael Dell as a minority stakeholder in the firm.

After the dot-com crash hurt Oscar’s performance in 2000 and 2001, they sold the firm to Neuberger Berman Group Inc., a New York asset management firm and brokerage, which was in turn acquired by Lehman Brothers Holdings Inc. in 2003.

Two years later, Scaramucci struck out on his own again. He set up SkyBridge as a “seeding” firm that invested in startup hedge funds similar to the way venture capitalists back tech entrepreneurs. He raised \$300 million and invested in nine fledgling hedge funds. When the recession struck in 2008, SkyBridge rapidly lost a fifth of its value and Scaramucci criss-crossed the country trying to persuade clients not to withdraw from his fund.

By May 2009, Scaramucci says, SkyBridge’s future was in doubt. At the time, financial firms were canceling conferences in Las Vegas out of concern it would look bad to party in Sin City as taxpayers bailed out Wall Street. Scaramucci had no such qualms. He

THE FUNDS-OF-FUNDS APPROACH IS FRAUGHT WITH CHALLENGES. ‘YOU HAVE 30 TO 35 MANAGERS IN ONE FUND, BUT IF ONE IS A MADOFF, YOU HAVE A PROBLEM,’ CAMBRIDGE ASSOCIATES’ NECTOW SAYS.

to pass the New York bar exam until his third try. He never did practice law. Drawn to the action and riches of Wall Street, he was ecstatic when he landed a perch in Goldman’s real-estate investment-banking unit in August 1989.

“Your goal here is to not get fired,”

part of a cost-cutting move. It was a humbling moment for the would-be Wall Street player. Fascitelli liked Scaramucci and helped him get a job in Goldman’s equities group. In 1994, he transferred to the private wealth management unit, where he was

decided to host his first hedge-fund extravaganza at Encore at Wynn, one of the priciest hotels on the Strip. “I wanted to let people know we were still alive,” he says.

Scaramucci needed more than a three-day party in Vegas to save his ailing firm. He recognized that the U.S. Treasury, which injected \$45 billion into Citigroup Inc. after it almost

one of his old bosses, Jon Corzine, Goldman’s co-chairman from 1994 to 1999. Scaramucci says he’s still mortified by the time in 1996 when he ran into Corzine and his first wife, Joanne, at Henry Cipriani, a Midtown Manhattan restaurant, and accidentally knocked a bottle of water off their table and onto their laps. Corzine, who lost his bid for re-election as New Jersey’s governor in

the Republican nomination for president. He’s hit his stride not through his record as a money manager, which even he admits is lackluster. Rather, it’s his networking chops and friendships with Wall Street’s elite that have won him the spotlight. “I would make him the trustee for my estate not because he’s a brilliant investor but because he would do the right thing for my family, says Robert Matza, a former president of Neuberger Berman and now president of GoldenTree Asset Management LP, a New York hedge fund. “I trust him.”

SkyBridge has attracted \$1 billion in new inflows since it absorbed Citi’s funds-of-funds unit on July 1, 2010. “Performance isn’t what beats a path to your door,” says Robert Nichols, founder of Windward Capital Management Co., a Los Angeles-based firm with \$250 million in assets. “It’s sales and marketing.” Peddling high-risk funds of funds to the upper-middle class will be a major struggle—and just the kind of sales job that Scaramucci relishes.

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collapsed, was pressing CEO Vikram Pandit to unload peripheral businesses. Scaramucci arranged in late 2009 to meet Nolte, then CEO of the hedge-fund management group in Citi’s alternative-investing unit, which included funds of funds. Nolte, a buttoned-down money manager with the demeanor of a college professor, told Scaramucci that he was growing anxious as Citi pondered whether to shed his division. “We were going to wither and die until Citi decided what to do with us,” Nolte says.

In April 2010, Citi agreed to sell the business to SkyBridge and Nolte, and his 23-member investment team joined forces with Scaramucci. SkyBridge made a nominal upfront payment and agreed to share a portion of its asset management fees with Citi for three years, according to a person familiar with the transaction. In return, Scaramucci got \$1.6 billion in assets, four institutional investors and more than 7,000 mass affluent and high-net-worth clients. “Anthony pulled off something that was totally against the odds,” Fascitelli says.

On the second day of this year’s SALT gathering, Scaramucci is chatting with

2009, laughs and tells him to forget about it. “Anthony, you’re one of the only guys to leave Goldman Sachs and do well,” says Corzine, now CEO of New York futures broker MF Global Holdings Ltd. “I lose elections!”

Scaramucci has become the Wall Street player he aspired to be when he first landed at Goldman some 22 years ago. He entertains clients in his luxury suite at Citi Field, home of his beloved New York Mets. And he’s a top fundraiser for Mitt Romney, the former governor of Massachusetts who’s seeking

Bloomberg Tips

ANALYZING FUNDS OF FUNDS



You can use Bloomberg analytics to dig in to data on the performance, attribution and risk of a fund of funds. For example, to display a sample portfolio that includes a position in Capula Global Relative Value Fund Ltd., a \$6.8 billion fund managed by London-based Capula Investment Management LLP, type **H160819-31 <Alpha> PDSP <Go>**. To track returns of the multimanager portfolio, type **HFA <Go>**. To see what the sources of the portfolio’s performance are, type **BBAT <Go>**. For more information on Bloomberg’s portfolio and risk analytics, type **ALPHA <Go>**. **JON ASMUNDSSON**