Hedge Fund Recently Sold $5 Billion of Assets

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By MICHAEL SICONOLFI
Staff Reporter of THE WALL STREET JOURNAL

Long-Term Capital Management LP has sold about $5 billion of securities in recent days even as a group of banks and securities firms wrangled over last-minute details of a $3.5 billion bailout of the beleaguered hedge fund, people familiar with the matter say.

Separately, 123 executives of **Merrill Lynch** & Co. have a total of $22 million of their own money invested in Long-Term Capital. It was previously known Merrill executives invested their own money in the Greenwich, Conn., hedge fund, but the total hadn't been known.

The Merrill figure includes $800,000 invested by Merrill Chairman David Komanksy, Merrill officials say. (That figure is double the $400,000 originally disclosed.) The Merrill executives' interests are part of a deferred-compensation plan, where senior Merrill officials can participate in four hedge funds, including Long-Term Capital. Merrill, the nation's largest brokerage firm, has helped to orchestrate the rescue plan along with 14 other securities firms and commercial banks.

Mr. Komansky currently owns Merrill stock valued at about $100 million, according to the firm's proxy. "Obviously his interests are aligned with the shareholders," a Merrill official says. "Any suggestion that he would make a decision based on a much smaller interest is ridiculous."

The slow trimming of Long-Term Capital's $100 billion portfolio could provide a template of the way in which the consortium plans to scale back the hedge fund's heft without unwinding huge positions of bonds, stocks and currencies that would have jolted the markets, Wall Street executives say. Yesterday evening, the consortium was working out the final details in the rescue effort, which will prevent Long-Term Capital from collapsing. If Long-Term Capital were forced to quickly unwind the assets on its books, plus billions of dollars of derivatives contracts, it could have spelled huge losses for Long-Term Capital's counterparties and lenders on Wall Street.

It isn't clear what bond positions Long-Term Capital sold, but they were among the most liquid, or easily traded, positions, the people say. But traders said Long-Term Capital sold about 500,000 shares of **American Bankers Insurance Group** yesterday following sales of about one million shares during the past several weeks. The most recent shares were believed to have fetched about $41 each, bringing in about $20.5 million to the hedge fund, but far below the $67-a-share in cash and stock Long-Term Capital would have received once the Miami insurer completes its pending deal to be acquired by marketing and franchise operator **Cendant** Corp. This so-called risk-arbitrage position illustrates how Long-Term Capital sought to take advantage of the rising prices of takeover candidates, despite its reputation as a bond-market shop.

A Long-Term Capital spokesman hadn't any immediate comment.

Separately, about a dozen commercial banks that are counterparties with Long-Term Capital in derivativies transactions agreed not to make a claim for their money right away by claiming a technical default on contracts with the hedge fund, the people say. This has been a significant sticking point in the negotiations, because any forced sale of derivatives could have cratered the bailout even if the consortium was able to buy time to stabilize Long-Term Capital's securities positions. Derivatives, whose values are derived from an underlying security of other asset, are one of the ways Long-Term Capital made big leveraged bets.

John Meriwether

The rescue-plan talks have been hammered out in a series of meetings in the past three days at the offices of **Skadden Arps Slate Meagher & Flom**, a New York law firm. Noticeably absent at the meetings were representatives from the Federal Reserve Bank of New York, which helped to orchestrate the rescue plan and provided the meeting rooms for the initial bailout discussions last week. The Federal Reserve has been criticized by some who say it had no business putting together a bailout of a private investment fund.

Yesterday, a Federal Reserve spokesman had no comment on why "we were or weren't at a specific meeting."

Unlike at last week's meetings, officials of Long-Term Capital were present at the Skadden Arps gatherings. Indeed, Long-Term Capital's chief financial officer ex-

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An Early Warning

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plained in a presentation details of the hedge fund's bank debt. "We didn't know Long-Term's outside financing, and we wanted to make sure we had a total handle on it," said a person familiar with the consortium's meeting. "We didn't want to solve the problem only to find a default somewhere" involving financing from parties outside the 15-firm consortium.

As part of the proposed plan, the consortium of securities firms and banks would own a 90% stake in Long-Term Capital and exert enormous control over the hedge fund. An oversight committee of five firms would have the ability to liquidate positions without the approval of John Meriwether, Long-Term Capital's founder, according to the people familiar with the negotiations.

The committee also would have the right to force Mr. Meriwether to leave the fund, and return his capital in it, the people say. On the other hand, if Mr. Meriwether or other Long-Term Partners decided to leave on their own, the people say, they would be forced to forfeit their capital in the fund to the committee.

Long-Term Capital's new equity investors also intend to bar the firm's principals from obtaining outside financing to boost their personal equity investments in the fund, according to draft documents of the deal. Mr. Meriwether and his 15 partners paid $250 million to buy an equity warrant from UBS AG that effectively gave them $750 million of equity in the fund. In addition, the partners obtained a $100 million working capital loan which the partners used to make an equity investment in the hedge fund. Some partners took out personal loans totaling between $5 and $10 million to make their own equity investments in the fund.

"Principals should not be able to further leverage their capital accounts," the draft documents say.

—Leslie Scism contributed to this article.

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