PaineWebber Said to Invest $100 Million Of Its Own Capital With Outside Fund

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NEW YORK – **PaineWebber Group** Inc., in an unusual bid to boost trading profit, has invested $100 million of its equity capital with a high-profile investment fund, people familiar with the situation said.

The investment with **Long-Term Capital Management** Corp., a hedge fund run by former **Salomon** Inc. executive John Meriwether, is viewed by some on Wall Street as an admission by PaineWebber that it lacks expertise in some segments of the bond market, particularly in foreign countries. It's highly unusual for a Wall Street firm, whose reputation is often to linked to its trading prowess, to use an outside source to invest its own money. For PaineWebber, however, a priority these days is to boost investment income and reduce risk.


John Meriwether

PaineWebber also plans to slash its $1 billion derivatives portfolio in half over the next several months to reduce risk, people familiar with the situation said. The decision follows a recent loss incurred by PaineWebber's derivatives group in a position involving options on **Chrysler** Corp. stock. A derivative is a financial contract whose valued is linked, or derived from, some underlying asset, such as a stock or bond.

Both moves come at a sensitive time for PaineWebber. The nation's fourth-largest brokerage firm announced last month that it will take a pretax charge of $200 million to settle claims by investors and the Securities and Exchange Commission that some PaineWebber brokers misled investors in selling limited partnerships. The firm is also is under pressure to boost profits after Moody's Investors Service decided in April to downgrade PaineWebber's long-term debt.

Aftermath of Acquisition

All this comes as PaineWebber grapples with integrating the assets and employees of Kidder, Peabody & Co., which it bought last year.

PaineWebber officials declined to comment, but the impetus to invest with Mr. Meriwether's fund came from PaineWebber's chairman and chief executive officer, Donald B. Marron, Wall Street executives said.

PaineWebber isn't "a firm with a lot of non-dollar-denominated fixed-income capability," a Wall Street executive said. "The idea was, it would be better off [with Long-Term Capital] than to grow it in-house."

Mr. Meriwether, a former vice chairman of Salomon Inc.'s Salomon Brothers unit, was one of three top officials forced to resign from the Wall Street trading powerhouse in August 1991 after Salomon disclosed having made a series of improper bids at several U.S. Treasury note auctions. Mr. Meriwether later set up his hedge fund and has since hired away many top Salomon traders, including Eric Rosenfeld and Lawrence Hillibrand. The fund currently manages more than $2 billion in assets, primarily for institutional investors.

Mr. Meriwether has been trying to solicit funds from Wall Street firms this year to invest in foreign bond markets, traders It's not clear if any other big

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brokerage firm also has invested with his hedge fund, which invests in a variety of global markets using sophisticated mathematical and pricing models. Long-Term Capital declined to comment.

It's the second time in the past year that PaineWebber has turned to outside specialists for bond-market expertise. PaineWebber last year tapped **Pacific Investment Management** Co., a big bond-management firm, to manage its PaineWebber Short-Term U.S. Government Income Fund after the fund had big losses in the 1994 mortgage-bond meltdown. PaineWebber set plans to pay a total of about $268 million to reimburse investors and buy back volatile mortgage bonds from the fund. (The fund had previously been managed by PaineWebber's Mitchell Hutchins Asset Management Inc. unit.)

The decision to shrink PaineWebber's derivatives portfolio came late last week. The portfolio, which has a value of about $1 billion, won't be liquidated, the people familiar with the firm say. Instead, PaineWebber won't add to its derivatives portfolio and will let its positions dwindle down to about $500 million over time.

The derivatives move follows a small loss on a position the brokerage firm took on Chrysler stock. Earlier this year PaineWebber accumulated a short position of two million shares in Chrysler; in a short position, investors borrow stock and sell it in hopes of a price drop that will allow them to profit by returning cheaper shares to the lenders.