Political shocks raise warning flag

Interlinked markets mean keeping an eye out for the next possible crisis is an everyday job

By JAMES COMTOIS

Ukraine. Syria. Venezuela. Turkey. Thailand. North Korea. Asset owners and money managers say in an interdependent world, they are used to the drumbeat of geopolitical crises. Lately, it feels like the beat is getting faster. The protests in Ukraine that toppled the government of former President Viktor Yanukovych and ultimately led to Russia’s annexation of Crimea has put a spotlight on how quickly things can change. The crisis also raises questions for investors about a possible sovereign debt default, the financial health of oil and gas sector companies in the region, and even the strength of the European economic recovery.

Christopher J. Aliman, chief investment officer of the $180.8 billion California State Teachers’ Retirement System, said staff always keeps an eye on geopolitical risks when it comes to making global investments. “The markets are more interlinked now than they were in the

Quick Move: Jason White said sales of stores boosted returns of earlier deals.

Alternatives

Private equity only part of merger story

Real estate has big role in grocery chain tie-up

By ARLEEN JACOBIUS

Safeway Inc’s pending $9.6 billion merger with Albertsons might be as much a real estate play as it is a private equity deal, but the real estate angle won’t be revealed right away. Sources close to the deal say roughly 60% of the merged company will be owned by a group of real estate firms, including KKR & Co. LP, a private equity firm; real estate investment trust Kimco Realty Corp.; and real estate manager Cerberus Capital Management LP.

The remaining will be in the hands of private equity and hedge fund manager Cerberus Capital Management LP and the merged grocery chain’s management team, led by Albertsons CEO Bob Miller. The group is working together to squeeze the most return on both the private equity and real estate sides of the deal, sources say.

The deal is an example of the integration of real estate and private equity with managers in both asset classes working together to gain the best risk-adjusted returns for investors.

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Hedge Funds

Managers shy away from mutual funds

Most institutional firms not eager to take on subadvisory duties

By CHRISTINE WILLIAMSON

Huge growth in alternative investment mutual funds is fueling a big market for subadvisory hires for hedge fund managers. What’s catching the attention of many smaller hedge fund managers, and to a lesser extent big fund complexes, is steady growth of multi- and single-manager hedge fund strategy mutual funds. Assets managed in these funds jumped 54% to $199.3 billion in the year ended Dec. 31 and increased 292% from year-end 2007, according to Morningstar Inc., Chicago.

As hungry as many hedge fund companies are to swell their coffers — 68% of hedge fund managers said increasing assets is their firm’s top priority, according to a February In- vestmentNews survey — 94% said fees than the pension funds could negotiate on their own, said CIO Girard Miller.

OCERS’ and other public pension funds’ commitments to the program are contingent on Pantheon obtaining an independent legal opinion on antitrust issues, according to a memo to the investment committee for its March 26 meeting.

NEPC, OCERS’ general consultant, assisted with the search.

AMG takes stakes

Affiliated Managers Group announced two acquisitions March 28, taking a majority stake in U.S. equity manager River Road Asset Management from Alivia Investors North America and a minority equity stake in EIG Global Energy Partners from EIG management.

Terms and sizes of the stakes weren’t disclosed.

U.K. fund does 2 buy-ins

The £9.1 billion ($15.1 billion) ICI Pension Fund, London entered into separate pension buy-in transactions with Legal & General and Prudential U.K. and Europe to insure an aggregate £3.6 billion of pension liabilities through bulk annuity deals, said a spokesman for the fund.

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HEDGE FUND PERFORMANCE

CoStarGroup Inc. Real Estate+ reports that institutional managers and investors are strengthening their focus on private equity and real estate funds, while shifting away from their historic bias toward equities and fixed-income investments. The 10 largest ESOPs in the U.S. have allocated about $6.6 billion to private equity and real estate funds, CoStar’s analysis shows.

The top ESOPs, in order, are:

1. General Electric
2. AT&T
3. IBM
4. Microsoft
5. Procter & Gamble
6. Coca-Cola
7. Boeing
8. Johnson & Johnson
9. Honda
10. Caterpillar

To view the full analysis, visit CoStar’s online database at http://www.CoStar.com/ESOPs.