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Shakeup hits Shaker firm

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David Webb, a longtime partner and hedge fund manager with Beachwood money manager Shaker Investments Inc., has left the firm, taking with him clients and more than 40% of the Shaker Investments staff in creating his own hedge fund and money management company, Verus Investment Management LLC. Mr. Webb's move was finalized in January. It has slashed a gaping hole in the side of Shaker Investments, both from a financial and a personnel standpoint. About 20 Shaker Investments employees have joined Verus at its office at 22901 Millcreek Blvd. in Highland Hills, said Verus spokesman Hank Green, who works with public relations firm Stan Adler Associates in New York. Shaker Investments now has 29 employees, according to its web site, www.shakerinvest.com. Mr. Webb's departure also has left Shaker Investments with far less money to handle for clients. Shaker Investments' three hedge funds, which boasted assets of more than $1 billion last year, now have just $130 million in assets, according to the firm's web site. The firm has two domestic hedge funds, Shaker Investments LP and Shaker Investments (QP) LP, and one offshore fund, Shaker Heights Investment Fund Ltd., which is domiciled in the Cayman Islands. Between its hedge funds, mutual funds and other investments, Shaker Investments currently has $740 million under management, according to its web site. That figure is down nearly 68% from the $2.3 billion the firm reported to Crain's Cleveland Business in April 2002 for the newspaper's list of the largest money managers in Northeast Ohio. That list ranked Shaker Investments as the sixth-largest money manager in the area. It appears a substantial chunk of Shaker Investments' assets have migrated to Verus, though Mr. Green would not specify how much money the new firm has under management. Although Mr. Webb declined to be interviewed for this story, a November 2002 investor announcement he filed with the Irish Stock Exchange in Dublin stated that he planned to leave Shaker Investments by the end of the year and indicated that clients and their dollars might follow him. Shares in the firm's offshore fund are listed on the Irish Stock Exchange. 'Under Mr. Webb's direction, 100% of the positions in the (offshore) fund have been converted into cash in order to provide liquidity to satisfy withdrawal requests,' the filing stated. In an affirmation of the flurry of activity at Verus, Mr. Green said Mr. Webb was so busy with the new firm that he was unable to be interviewed for at least a month. 'He's overwhelmed with interest from investors,' Mr. Green said. 'He's really in the midst of getting up off the ground and is focused on setting things up.' Shaker Investments president Edward Hemmelgarn declined comment other than to confirm that Mr. Webb had left the firm. Mr. Webb joined Shaker Investments in 1993. At the time, he and Mr. Hemmelgarn were the only employees, running the firm and managing $3 million in assets from their home offices. In time, the firm grew exponentially, and in 2000 it moved to a 16,000-square-foot office in the One Chagrin Highlands corporate office park in Beachwood. If the chatter in the Cleveland investment community is on the mark, a significant loss of hedge fund assets could be a painful situation for Shaker Investments. Three Northeast Ohio investment professionals, speaking on condition of anonymity, last week speculated that Shaker Investments' hedge funds were generating substantial portions of the firm's revenue, while its equity-based mutual funds were struggling. It's no secret that Shaker Investments' other funds have been flogged by a turbulent stock market in recent years. Data on the firm's web site shows its Equity Growth Product, a fund which had assets of $570 million as of Dec. 31, 2002, posted a sobering 47.3% loss in 2002, compared with a 22.1% decline in the Standard & Poor's 500 index. In 2001, the fund lost 24.8% of its value, and in 2000, it posted a 10.4% loss. To its credit, the Shaker Equity Growth Product has posted a 15.7% average annual return before fees since its inception in 1991. That number includes a stellar 101% return in 1999. The firm's Shaker Fund, a mutual fund that seeks long-term capital appreciation by investing primarily in the common stock of domestic growth companies, also has been battered since its debut in April 2001. As of Jan. 31, the fund's class A shares were down 35.6% since inception. About 64% of the Shaker Fund's assets are invested in health care, semiconductors, software and other technology-related stocks. But the hefty fees generated by well-managed hedge funds - large pools of capital provided by investors that can be invested in equities or almost any other investment vehicle - often can dwarf any revenue generated by mutual funds. According to data published in October 2002 by Managed Account Reports Inc., a UK-based publisher of newsletters and directories covering the global alternative investment marketplace, Shaker Investments was charging a 1.0% fee for its onshore hedge funds and a 1.75% fee for its offshore hedge fund. In addition to the basic fees, Shaker Investments charged an industry standard 20% incentive fee on the gains posted by its hedge funds. By contrast, the sales charges for investors in the Shaker Fund do not exceed 5.75%. And if the performance of the Shaker Heights Investment Fund Ltd., a $647 million international hedge fund domiciled in the Cayman Islands, last year is any indication of Shaker's overall hedge fund performance, the firm was generating hefty incentive fees. The Shaker Heights Investment Fund Ltd. last year posted a net return of 12% year through mid-November 2002, according the firm's Irish Stock Exchange filing. Further details on Shaker's hedge fund performance have not been released publicly, but the firm boasts on its web site that its hedge fund 'returns substantially outperformed market in 2000 and 2001.' John Van, chief financial officer of Van Hedge Fund Advisors International in Nashville, Tenn., said hedge funds in general have been outperforming the broader market in recent years. Mr. Van's firm advises and directs high net worth investors in their hedge fund investments. In 2002, the average U.S. hedge fund in the Van Hedge Fund Indices posted a 0.2% loss, compared with a 22.1% decline in the S&P 500. From 1997 through 2001, U.S. hedge fund values increased an average of 17.4% annually, while the S&P 500 grew at an annual rate of 10.7%, Mr. Van said.