

FTfm

## Freedom to grow beyond the brusque big apple

### Face to face

Mike Luce tells Ellen Kelleher about Harbert's array of offerings

Mike Luce is a New Yorker. But 16 years of the slow life in Alabama has cleaned up his behaviour to the point where he might attend a debutante ball or even the odd white gloves and manners class without committing an awful faux pas. Having survived this transformation, the former chairman of the now defunct bank Bear Stearns' equity committee never intends to return to midtown's harsh streets.

There is no need. As president and chief operating officer of Harbert Management, a family-run industrial company turned asset manager in Birmingham set up at the close of the second world war, he enjoys his freedom.

And the occasional brush with a Wall Street titan still occurs. Take Mr Luce's relationship with the eccentric Philip Falcone – activist manager of the hedge fund Harbinger Capital Partners and one-time owner of a pet pig – who earned the *nom de guerre* “greedy pig” in the UK's Daily Mirror as well as hundreds of millions of pounds by shorting shares in HBOS in 2008 as they were plummeting.

Five years after Harbert, which has \$2.7bn in funds under management, abandoned its construction, mining and oil and gas interests in 1995 to shift attention to asset management, Mr Luce and Ray Harbert (who is chairman and chief executive) began investigating how best to broaden the company's repertoire of funds. A year later, the pair hired Mr Falcone and gave him the seed money to start Harbinger Capital, which shot to fame in 2007 with a lucrative bet against subprime mortgages; by 2008, its assets had climbed to \$26bn.

Mr Falcone bought his partnership interest back from Harbert in March 2009

in what Mr Luce describes as a “friendly” parting. “There was no acrimony or anything like that and emails and phone calls still go back and forth from time to time,” he says. “We still have investments in his fund.”

As it happens, since the parting many big investors have withdrawn, disgusted by Mr Falcone's move to siphon money from the fund to pay his own taxes as well as his decision to back LightSquared, a telecommunications start-up looking to build a 4G wireless network that could interfere with GPS signals. By the start of last year, the leakage had become so bad that the fund's assets dropped to \$9bn.

Mr Luce says Mr Falcone was more of a “distressed debt guy” when they first got to know him and had not yet started to dabble in activist investing. “What

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was unique about him was his ability to short bonds. He was very good at that.”

Harbert's past relationship with Harbinger still provides a blueprint for the manner in which the Alabaman manager brings out new funds. The usual method is to search for the appropriate manager, set them up with a back office in Birmingham and establish a partnership. Harbert usually provides \$25m to \$50m in start-up money.

“We always have a stake in the fund. The manager trades for a while and hopefully builds up an interesting track record and then we go out and try to build a larger fund and get money from third-party investors,” says Mr Luce.

“A lot of people who look at the company from the outside think we are a fund of funds or a private label or something like that, but that is not the case. We're the general partner of all of these funds. The people are



### Harbert Management

Established: 1993

Assets under management: \$2.7bn

Employees: 200

Principal offices: Birmingham, Nashville, New York, San Francisco, London

Ownership: Privately-held and owned by its employees

our employees that manage the monies and we are in control of the funds and they are all done under the Harbert name.”

Its cornucopia of offerings span from a US real estate fund and one focused on Europe, which is outperforming its benchmark by more than 10 percentage points and counts the activist US pension fund Calpers as an investor, to an Australian private equity fund

and an early-stage venture capital fund, which targets fledgling IT and healthcare companies in the US, as well as a clutch of open-ended absolute return funds.

On top of this array of choices, another US private equity fund is in the works. Mezzanine lending, which is emerging as an important source of financing in the credit crisis, also plays an increasingly important part

in Harbert's business as it attracts droves of European investors. And Harbert's presence has widened beyond Birmingham as it now has offices in New York, London, Madrid, Paris, and several other US locations.

Mr Luce is close to revealing details of a new hedge fund strategy, which will focus on energy and commodities. “The fellow I'm talking to here in London hasn't joined us yet, but he works for one of the Japanese trading companies as an energy trader,” he says. This new foray will complement a long-short equity hedge fund run out of Birmingham as well as a long-short credit fund headed by Oppenheimer alumnus Greg Jordan which is still in a trial phase. “We gave him \$50m in start-up capital and there's no other outside money in the fund at this point, but Greg does a lot of shorting of bonds, so he's been making money lately

as you can imagine.”

Mr Luce says Harbert has found it harder to achieve success in the hedge fund space than with its other funds, having shut down four such funds. “Some of the managers have no excuse either, because they're given the marketing, the infrastructure and the risk management, which is all run out of Birmingham as well as \$25m to \$50m in starting capital. It doesn't always work.”

What are the firms he sees as models for the future? Mr Luce aims high. Blackstone is his first choice. However, he is not planning to compete with the Wall Street powerhouse on asset collection, (it has about \$150bn in assets under management), preferring to cap Harbert's size at \$4bn-\$5bn and keep its mannerly southern ways of operation intact.

“I know we're not going to go public. I don't think that's the right model for us,” he says.

“But in five years' time, I hope we're in all the same asset classes we're in now and I hope that all of those have grown to their critical mass.”

### Curriculum Vitae

**Mike Luce**

**Born: 1952**

**1974**  
University of Miami, BSc, business and finance

**1978**  
University of Michigan, MBA

**1974**  
Credit officer, Barnett Banks of Florida

**1978**

Lending officer, Citicorp's domestic energy dept

**1980**

Chairman of Bear Stearns' equity underwriting committee

**1995**

Chief financial officer. Later promoted to president and chief operating officer, Harbert Management