

ART *of the* TRADER

Michael Platt's \$5 billion BlueCrest Capital International fund delivered a 41 percent return in 2009 as the London-based hedge fund manager exploited volatile markets.

By STEPHANIE BAKER and TOM CAHILL Photograph by TOM WAGNER

IN A DARKENED 19th-century former church near London's Regent's Park, Michael Platt sips white wine and contemplates an unusual altar display: a life-size wax gorilla nailed to a wooden cross.

The sculpture is a new work by Paul Fryer, a young British artist whom Platt, co-founder of hedge fund firm BlueCrest Capital Management Ltd., has sponsored for the past three years. Like a modern-day Medici, Platt has recouped his investment by selling Fryer's works to collectors such as French billionaire Francois Pinault.

As he gazes at the ape—intended to represent the desecration of nature—Platt, 41, says, “The point is not to make money out of it; it's to have fun. I'm not trying to make the art business my ticket out of the hedge fund world.”

Platt's flagship fund has thrived in the market turmoil.

Not that he needs one. His \$16.7 billion-in-assets firm is one of the best performers and most

profitable on the planet. His \$5 billion BlueCrest Capital International fund hasn't had a down year since the firm was launched in November 2000. The fund was up 41 percent for 2009 as of Oct. 31, ranking it No. 14 globally, according to data compiled by Bloomberg. The fund collected \$409.3 million in fees, making it the No. 3 earner.

A multistrategy fund that makes money betting mostly on currency and interest-rate movements, BlueCrest Capital International has thrived on market turmoil. “This is the environment where they kick ass, for lack of a more polite word,” says Robin Bowie, chief executive officer of London-based Dexion Capital Plc, which manages about 1.9 billion pounds (\$3.15 billion) in hedge fund investments, including stakes in BlueCrest funds. “The chaotic environment favors the trader, and that is where we are going to be for the foreseeable future.”

While many fellow hedge fund managers crashed

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and burned in the financial crisis of 2008, Platt, a JPMorgan Chase & Co. veteran, finished the year up a respectable 6 percent. His partner, Leda Braga, a 43-year-old Brazilian who runs a \$9 billion trend-following fund called BlueTrend, did even better, with returns of 43 percent. In 2009, she was up 9.4 percent through November. BlueTrend's biggest competitor, London-based Man Group Plc's \$23 billion AHL Diversified funds, fell 12 percent through November, while David Harding's London-based \$4.4 billion Winton Futures Fund dropped 2 percent, according to Bloomberg data.

"The real measure of how a manager did was in the combined period of 2008 and 2009," says Omar Kodmani, senior executive officer of Permal Investment Management, which farms out \$20 billion to hedge fund managers and has invested with BlueCrest. "Some who did great in 2008 did poorly in 2009 when markets transitioned, and they were left bearish or stayed in trades too long."

Platt's firm is the third biggest in Europe, after London-based \$26.6 billion Brevan Howard Asset Management LLP and \$26.2 billion Man Group (excluding its fund of funds). Platt employs more than 300 people, including dozens of Ph.D.s in mathematics, physics and other fields who crunch numbers for Braga. BlueCrest's fund managers move in and out of positions fast. "We're traders, not investors," Platt says. While investors yanked about \$9 billion from BlueCrest after the liquidity squeeze started to grip markets in 2008, the firm generated \$4 billion in trading profits in the year after September 2008 and



another \$5 billion in new investment, Platt says.

"We were getting hit with walls of redemptions because we were one of the few firms who were open, making money and liquid," says Platt, sitting on a white leather chair in his spare corner office overlooking Buckingham Palace Gardens. "Most funds had suspended withdrawals."

A HAPPY INVESTOR

One happy investor is Man Group, the world's biggest publicly traded hedge fund firm, which bought 25 percent of BlueCrest for £105 million in cash and stock back in 2003. At the time, BlueCrest had \$3.1 billion in assets. Man Group nearly made back its investment in 2008 alone. BlueCrest's fees generated \$137 million of Man Group's \$743 million profit for the year ended on March 31, 2009. BlueCrest generated another \$31 million in fees for Man Group in the six months through September 2009, or 10 percent of its \$302 million in pretax profit.

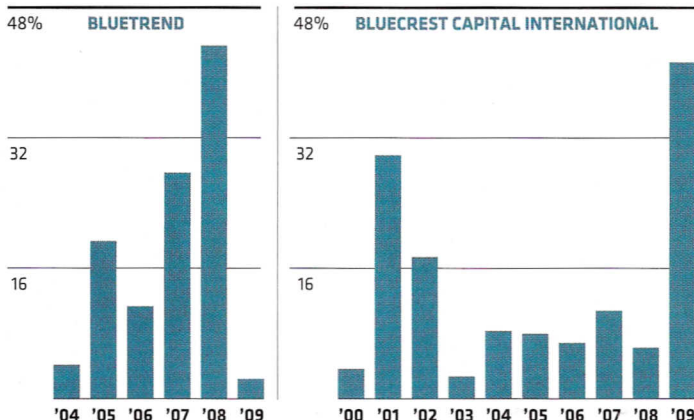
"It can only be characterized as a successful investment," Man Group CEO Peter Clarke says. "When we invested in BlueCrest, it was a much smaller business and less diversified than it is now."

Platt isn't shy about advertising his success. His desk on BlueCrest's trading floor has a screen saver with a picture of his private jet, a Bombardier Challenger 604. The office walls are adorned with paintings by artists he's sponsored, including a series by Zambian-born Jonathan Wateridge, who paints large-scale images of plane crashes and shipwrecks. Always ready for a good party, Platt hired Michael Jackson impersonator Navi to perform at the BlueCrest Christmas bash in 2009.

Platt says BlueCrest doubles as his family office, a place where he's betting his own capital alongside other investors. His Capital International fund has 40 traders, grouped into desks focusing on interest

NEVER A LOSING YEAR

BlueCrest's biggest funds have always made money.



Figures are annual returns for Class A funds, except for BlueTrend in 2004, which is from April through December; BCI in 2000, which is for December only; and for both funds in 2009, which are as of Oct. 31. Source: Investors



rates, foreign exchange volatility and the exploitation of price differences between fixed-income securities. The fund's diversified group of trading desks spreads the portfolio's risk and prevents any one strategy from bringing down the fund's returns, Platt says.

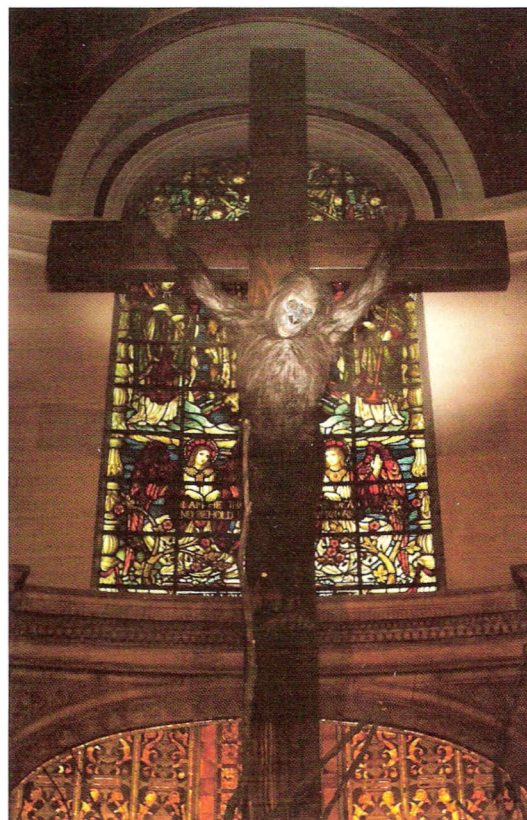
BlueCrest has grown so large it's now planning to open an office in Geneva. The move is also intended to counter increased regulation of hedge funds by the European Union and the U.K. government's plan to hike the top income tax rate to 50 percent from 40 percent in April. As many as 50 people may move to Switzerland, BlueCrest Chief Financial Officer Andrew Dodd says.

A big part of BlueCrest's magic is keeping a tight leash on its more than 60 traders. If a trader loses 3 percent of the money he has under management, the firm will cut his capital allocation in half. If the trader's portfolio then drops another 3 percent, he loses his allocation. Risk managers will then look at how he was trading and decide whether to recapitalize him. If not, he's out.

Since 2000, half a dozen traders have left the firm because of these stringent stop-loss limits, Platt says. He's subject to the rules himself. "I've never hit the 3 percent drawdown," Platt says. "Ego is how you lose money in this business. I put a trade on, and if it doesn't start working straightaway, I respect the price action and cut it fast."

Platt credits his late grandmother with getting him started as a trader. He was born and raised in Preston, Lancashire, in the northwest of England. His father taught civil engineering at the University of Manchester. His mother was a university administrator. For his birthday one year, Platt's grandmother helped him buy stock in trust savings banks that were selling shares to the public. "My grandmother was a serious equity trader," Platt says. "When I was a kid, I used to go round to her house,

A passion for art: Platt sponsors artists, then splits proceeds from sales. Left and above are works by **Jonathan Wateridge**. Right, **Paul Fryer's** gorilla on a cross.



and she'd be sitting there working out what she was going to buy and at what profit levels. She wasn't like most grandmothers."

At the age of 14, Platt wagered £500 on a little-known British shipping line named Common Brothers, which soon tripled in price. "I ended up fairly addicted," he says. "I invested £500 and got back about £1,500, which was all the money in the world then."

Platt says he made thousands of pounds buying shares in U.K. utilities privatized under Prime Minister Margaret Thatcher in the 1980s. In 1988, he followed in his father's footsteps and took up engineering at Imperial College, London. After a year, he got bored and transferred to the London School of Economics to study mathematics and economics.

INTEREST-RATE SWAPS

JPMorgan hired Platt after graduation as a trainee in New York and after six months put him on its derivatives desk in London, trading interest-rate swaps—contracts that allow investors to exchange fixed-rate payments for floating ones. By the mid-1990s, Platt says his operation was making at least \$500 million a year. In 1998, JPMorgan moved Platt to its proprietary trading desk, where he continued to make profits betting the bank's own money.

Platt and fellow JPMorgan swaps trader Bill Reeves decided to set up their own shop. With

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\$117 million of seed money, mostly from Geneva-based investors, Platt and Reeves began trading on their own under the BlueCrest banner in November 2000. Reeves, who lives in Hawaii, remains a BlueCrest partner.

The timing couldn't have been better for an interest-rate-swaps trader. During the next year, U.S. Federal Reserve Chairman Alan Greenspan began slashing rates to jump-start the economy after the tech bubble burst, bringing rates down to 1.75 percent at the end of 2001 from 6.5 percent in January. BlueCrest used options to bet that rates would continue to fall. "A blind dog could have made money in that environment," Platt says. The firm ended its first year with a 30 percent return and \$1 billion in assets under management—almost nine times the money it started with.

BlueCrest's biggest fund, BlueTrend, came into being almost by accident. Its manager, Braga, was a quantitative analyst on JPMorgan's derivatives research team who moved to BlueCrest with Platt. The idea was to have her help the new firm's fixed-income traders stay ahead of the buying and selling patterns of commodity trading advisers, or CTAs, such as Man's AHL.

CTAs build so-called black boxes—computer systems that use historical data to predict future price movements in the equity, fixed-income, commodities and currency markets. Braga, who has a Ph.D. in engineering from Imperial College and taught mechanical engineering there for four years in the 1990s, began using systematic trading strategies in U.K. equities in 2002. Platt later asked her to develop trend-following models for fixed income.



BlueTrend has delivered annualized returns of 19 percent since it started in 2004, beating older, larger rivals such as AHL and Winton. "What's unique about BlueTrend is that they've been able to attract such a tremendous following in such a short period of time," says Sol Waksman, president and founder of Fairfield, Iowa-based BarclayHedge, which tracks and invests in hedge funds. "For a relative newcomer, they are perceived with a higher level of credibility in the marketplace than others who have been in the business for longer. That's no small feat."

BRAGA-DOCIO

BlueTrend's success comes from Braga's emphasis on constantly tweaking her computer programs to respond to shifting markets. "With a lot of CTA shops, there's an 'if it ain't broke, don't fix it' policy," says Cem Habib, a portfolio manager at the fund of hedge funds unit of London-based Cheyne Capital Management. "They've been able to stay ahead of the curve with continuous research."

It's like a Formula One car, BlueCrest CFO Dodd says. "After a certain period of time, it's not the same car. It's about doing 100 things 1 percent better."

The press-shy Braga declined to be interviewed for this story.

Platt has navigated the market downturn by moving quickly to contain losses. After credit markets first began to wobble in August 2007, Platt and his partners decided to close the \$500 million BlueCrest Equity Fund. The fund was down 8 percent for the year at that point. Platt says he judged that equity markets would plunge in reaction to the impending credit crisis, which they did in mid-2008. "I thought to myself, this is going to be the disaster space of all spaces," he says. "In just six weeks, we completely shut the fund and returned \$500 million to investors."

In November 2008, the firm started to wind down BlueCrest Strategic, returning about three-quarters of the capital. The fund, which invests in emerging markets and fixed income, is holding on to less-liquid securities until markets improve. Platt also brought in a new emerging-markets team and moved the fund's interest-rate traders into BlueCrest Capital International.

BlueCrest Capital profited in 2009 from Platt's bet that central banks would keep interest rates low for longer than the market was expecting. In May 2008, he pulled all of BlueCrest's cash out of money market funds and invested in two-year Treasury bills.

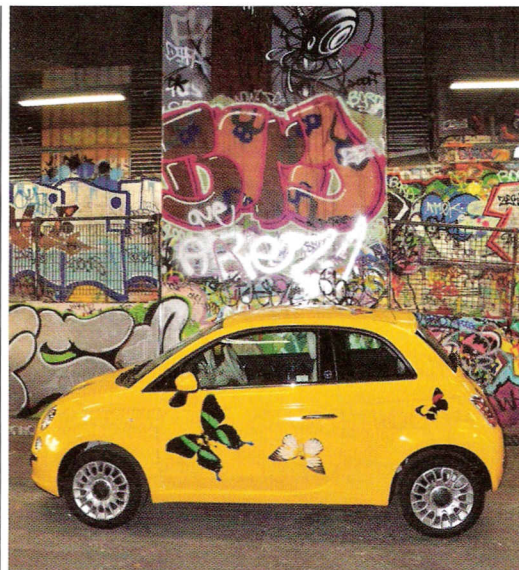
Platt was hooked after he turned £500 into £1,500 when he was 14.

The move girded BlueCrest for the credit crisis that hit at the end of 2008, which pushed up the price of short-term Treasuries.

Platt's private passion is his art. He has invested £5 million into All Visual Arts, a private art fund he started with Joe La Placa, a former foreign editor of the magazine *Art Review*. Platt and La Placa back contemporary artists for three years, sponsoring shows to drum up interest in their work. The pair sell some works to cover their costs, splitting the proceeds with the artists. "The whole purpose is to get people to want it without actually selling it," Platt says. "The sexiest word in the English language is *no*, right? At the end of it, I'd like to have an education, a lot of friendships and a decent portfolio of art bought at essentially cost."

AUTO ART

Platt added what could be a valuable new work to his collection at the spring 2009 London charity dinner sponsored by the hedge fund charity Absolute Return for Kids, or ARK. Platt won the grand prize in a £5,000-per-ticket lottery, a Fiat Cinquecento painted by British artist Damien Hirst with Hirst's trademark butterflies. The car was one of the most-sought-after items of the night, which raised £15.6 million for ARK.



Platt won a car painted by **Damien Hirst** in an ARK lottery.

"I must have bought 20 tickets, so I wouldn't describe it as a bargain," Platt says. He is keeping the car under wraps in a garage "until the next Damien Hirst craze," he says. In his art and in his investments, Platt is always calculating the odds—just like his grandmother taught him. **B**

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Tracking BlueCrest Funds

You can access information on hedge fund filings, rankings, performance and news by typing HFND <Go> for the Bloomberg Hedge Fund Home Page. To find funds that invest in BlueCrest hedge funds, click on Fund Lookup under Hedge Fund Links in the lower-right corner of the screen. Tab in to the field, enter *BLUECREST* and press <Go>.

In the list of results, click on BABS LN and type DES



<Go> for a description of BlueCrest AllBlue Fund Ltd., a multistrategy closed-end fund that invests in BlueCrest hedge funds and trades on the London Stock Exchange. To compare BlueCrest AllBlue Fund returns with a benchmark such as the Bloomberg Active Indices for Funds (BAIF) FOF Multi-Style index, which represents composites of funds of hedge funds focused on multistyled strategies, type HFA <Go>, as shown at left.

To generate a comprehensive report on the BlueCrest AllBlue Fund, including general information, contact details and data on returns, type FREP <Go> 1 <Go>. Type RPT <Go> and click on the Fund Report with the most-recent time stamp to view your report when it's completed.

Type BAIF <Go> to view the best- and worst-performing BAIF benchmarks. The screen also displays returns for the BAIF fund whose strategy most closely matches the BlueCrest AllBlue Fund and lists its ranking for the return period among the BAIF indexes.

BETH WILLIAMS