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An unorthodox manager turns to distressed debt

George Siguler's private-equity firm taking a new tack

By David Hoffman

For someone once associated with academia and the Reagan administration, George Siguler is an unusual investor.

And his penchant for straying from the straight and narrow is paying off.

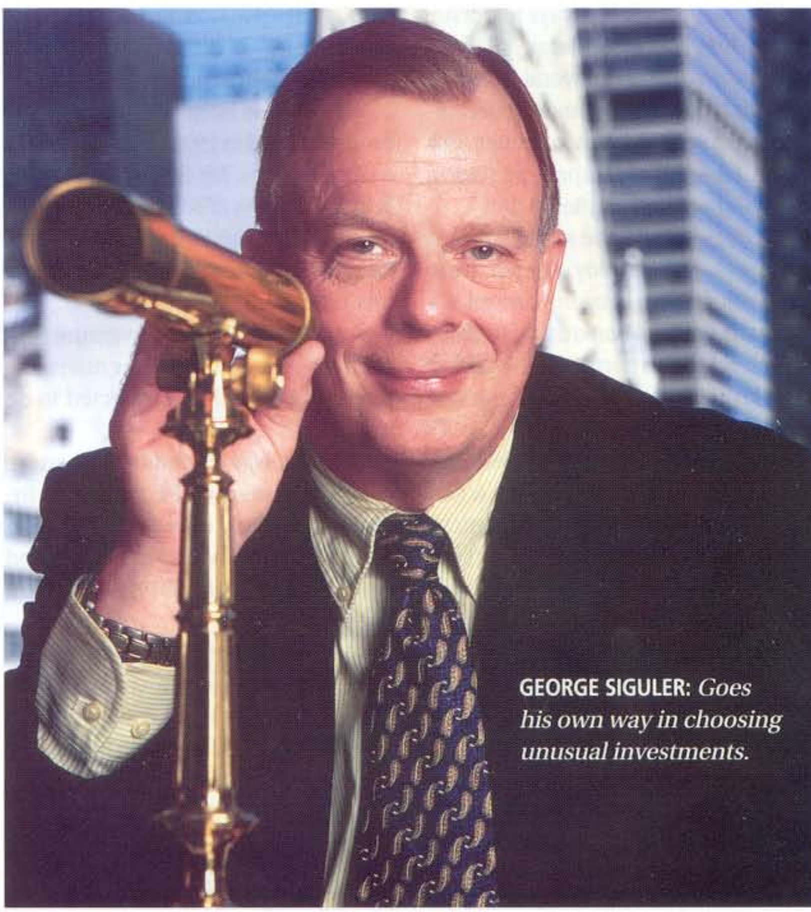
A managing director at Siguler Guff & Co. LLC, a New York private-equity firm with about $1.75 billion under management, he invests in such things as coal companies and Russian stocks — two areas that run-of-the-mill money managers usually don't touch.

Now, Mr. Siguler, 54, is turning his attention to distressed-debt investing — a tricky subsector in which bets are made on companies that are near death, but have the potential to recover.

"The case for the sector is pretty clear because there's so much [distressed debt] out there right now," he says. "There will be more [investment firms] coming into it. There will be shifts of capital to it from the proprietary desks of the Wall Street firms."

MISSING THE BOAT

A private-offering memorandum for the Siguler Guff Distressed Opportunities Fund was sent out to prospective clients in June. The fund of funds is interesting because it brings together a number of money managers who are taking diverse approaches to investing in distressed-company debt.


GEORGE SIGULER: *Goes his own way in choosing unusual investments.*

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A handful of advisers to the wealthy say they have seen similar products, but nothing that looks exactly like this new offering.

Most say the idea is timely, but at least one says Siguler Guff may be chasing returns given that distressed debt has been hot for a while.

"Distressed debt has kind of been hot all year," says Bret Barth, a partner with BBR Partners, a New York adviser to the wealthy. "Some might argue that they've missed the boat."

Mr. Siguler, however, argues that a lot of life still remains in the distressed-debt market, and believes investors will be receptive to his fund-of-funds concept. He plans to allocate portions of the money to seven or eight managers selected from a core group of 25.

"There are multiple ways to pursue the challenge," Mr. Siguler says. "If you want to incorporate several different strategies into a single fund to effect diversification and further reduce risk without necessarily impacting return, then this is a good way to do that."

Mr. Siguler says the strategies that managers will employ stretch from those who believe in taking control of a company through bankruptcy to those who merely buy a portion of the debt of a bankrupt company they believe can get out of trouble on its own.

Lewis Altfest, president of New York financial advisory firm L.J. Altfest & Co., says he likes the concept. "I'm particularly interested in distressed [debt] because it's an opportunistic area in today's market," he says.

"There's going to be a lot of defaults coming out of problems connected with the nirvana of the new economy, so they'd have to do a good job, but I like the idea."

The fund of funds has yet to establish a track record, but Mr. Siguler's experience with investments that other money managers won't touch bodes well for the fund's future.

For example, Mr. Siguler started a Russia fund in 1994. The private-equity fund is fully invested and has three remaining large investments: a concrete company, a paper company and the Russian version of music-video channel MTV.

"There are multiple ways to pursue the challenge."

Returns over the life of the fund are expected to be more than 20%, Mr. Siguler says. He says that he will likely launch another Russia fund after the current one shuts down.

He has also been successful with a fund—started in 1998—that invests in coal companies. Mr. Siguler says that he is in the process of selling off the fund's assets. After everything has been sold, he says, investors should have a very nice return.

And then there are the venture capital funds. Mr. Siguler is now managing three, all of which are expected to do well.

The first was started in 1994 and is in the later stages of liquidation. Investors are likely to realize returns in excess of 65%, he says. The second fund was started in 1997, and the third last year.

"I think if there's a recurring theme, I like to find ways where we can find inefficiencies that have come through some kind of either tax structure or government policy," Mr. Siguler says. "It's opportunism, but it's based on a lot of deep investment thought."

"The case for the sector is pretty clear because there's so much [distressed debt] out there right now."

OPPORTUNISM

That opportunism has taken him across the globe and even into the midst of the Middle East conflict.

He met with Israeli political leaders to see if there were potential investing opportunities.

Driven more by economics than politics, he even met with Yasser Arafat, chairman of the Palestine Liberation Organization, to talk about investing opportunities associated with the Palestinians.

Such opportunism is rooted in Mr. Siguler's varied investment career. He was a founding partner of the Harvard Management Co. in the early 1970s, and he initiated and managed its private-equity program. It was during that time that he first became interested in distressed debt as an investment opportunity.

Early opportunities to invest in distressed debt came from large conglomerates that almost leveraged themselves out of existence in the late 1960s, Mr. Siguler says. Other opportunities soon came along in the form of nuclear plants that got themselves into trouble in the 1970s.

REAGAN ADMINISTRATION

After a brief stint as chief of staff of the U.S. Department of Health and Human Services under President Reagan in 1983 and 1984, Mr. Siguler got back to investing. He worked with various firms until 1991, when he co-founded Siguler Guff in 1991. Originally the private-equity group of PaineWebber Inc. in New York, it became independent in 1995.