

BlackRock raises its alternatives play

Botein: aims to be 'the go-to provider in alternatives'



Matthew Botein outlines to Shanny Basar the new strategic thinking of the world's largest fund manager

At any other fund manager Matthew Botein would be one very big fish in a very big pond. As head of BlackRock Alternative Investors, with \$115bn under management, he is among the most powerful executives at the world's largest fund manager.

Humbly, he describes himself as a goldfish – although he doesn't argue with the size of the pond.

Botein, 38, a former hedge fund manager, started his career in private equity at The Blackstone Group and then moved to Highfields Capital, a Boston-based hedge fund, where he worked for six and a half years and got to know BlackRock as an investor.

In 2008 Botein set up PennyMac, a new company that planned to buy delinquent residential mortgages, with Highfields and BlackRock funding the venture. He left Highfields in 2009 with the intention of launching a bank, but then came a call from Larry Fink, chairman and chief executive of BlackRock, asking him what he wanted to do with his life. Fink hired Botein in 2009.

Initially he was hired to head a special situations group, but just under a year ago BlackRock reviewed its alternative businesses, which had been built piecemeal by a string of acquisitions, and decided to pull them together and put Botein in charge.

BlackRock has big ambitions in alternative investments. Botein said: "We want to become the go-to provider in alternatives as investors allocate more to the asset class as part of a barbell strategy." That means at one end of the bar there

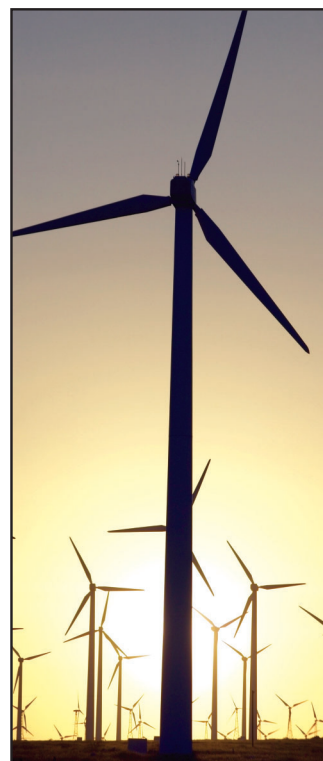
are extremely safe investments and at the other end, higher risk, higher return alternatives.

As part of its alternatives business BlackRock also wants to build a presence in the renewable energy market. Botein said: "Between now and 2035 the renewable power sector, just in the US and western Europe, needs \$1 trillion of capital. BlackRock has the capital but we needed experienced professionals who know which plants to invest in that are shovel-ready and have con-

tracts to sell their output. NTR has those skills."

BlackRock announced in February that it had struck a profit-sharing deal with NTR Renewable Power, a developer and operator of renewable energy wind, solar and ethanol businesses in the US and Ireland employing more than 2,000 people, with a market capitalisation of €134m and founded in 1978.

BlackRock's new renewable power investment group is led by Jim Barry, the former chief execu-



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BlackRock Alternative Investors in numbers

First quarter of 2011

\$115.3bn	Investments under management
\$800m	Net new business
\$221m	Revenues
3%	Investments under management as proportion of BlackRock as a whole
9%	Alternatives revenues as proportion of firm

Source: BlackRock

tive of NTR, who has become chief investment officer of the team responsible for establishing and developing the venture together with a dozen former NTR colleagues.

It is not taking an ownership stake in NTR, but its renewable power investment team will share a portion of the returns generated by the new business. Both parties declined to comment on how much capital each has invested.

Botein said they are looking at other deals to expand investment in physical assets but declined to name them. At the end of last year Botein's new empire comprised \$25.9bn in hedge funds; \$18.5bn in fund of hedge funds; \$5.4bn in private equity fund of funds; \$12.9bn in real estate and \$47.3bn spread between special situations, affiliates and opportunistic products.

Alternative investment assets hit \$115.3bn at the end of the first quarter of this year. Net new business of \$800m reflected \$2bn of net inflows in single and multi-strategy hedge funds and real estate, partially offset by net outflows of \$1.2bn primarily in currency overlays.

Botein told Financial News: "Institutional clients want to invest in physical rather than financial assets, they want protection against inflation and longer duration assets which is why we did the renewable deals with NTR and why we are looking to do similar transactions."

Botein argues that BlackRock has the scale and breadth of rela-

Merrill private equity trio joins BlackRock

BlackRock has hired Nate Thorne, former president of Merrill Lynch Global Private Equity, and two other founding members of the US bank's buyout business in an effort to expand its alternatives unit in private equity.

Thorne has joined BlackRock with George Bitar and Mandy Puri. The three first started working together in 1989 and founded Merrill Lynch Global Private Equity in 1994. The unit was involved in some of the highest-profile deals during the boom, such as UK retailer Alliance Boots and US healthcare provider HCA, which went public in March in the largest sponsor-backed flotation on record.

tionships of a large institution combined with the culture of a boutique. It does not have a centralised investment process. He said: "We want the best rather than the worst of both worlds."

He said BlackRock only acts as a fiduciary and does not have any proprietary trading: "We do not have a single strategy where BlackRock invests its own capital without client money."

But running an alternatives business could mean potential conflicts if one side of the business is short and another is long. Botein said the firm is used to having hedge fund managers adjacent to its mutual fund managers and does not believe in a centralised investment process.

The arrival of the trio takes BlackRock's private equity team to six people, but it is aiming to grow to 20.

Matthew Botein, head of BlackRock Alternative Investors, said: "We looked at dozens of teams but were attracted to that of Nate, George and Mandy, not only because they were extremely successful but because of the way they were successful. They were able to apply a disciplined approach to private equity within the network and context of a large global financial services firm."

Thorne said: "We are super-excited to be at BlackRock, which is possibly the most resource-rich environment for private equity, as the firm has 1,500 portfolio managers and analysts studying economic and industry trends, investment theses and even specific investment ideas. We will be right in the middle of that flow."

He said: "We expect to stimulate debate so people will have different views and different positions throughout the firm and one will end up being wrong and the other will be right."

He said fiduciary duty means that if it is right for clients, BlackRock would not hesitate to recommend moving assets from higher fee-paying alternatives to debt or equities. Botein said: "The challenge is to match opportunity to talent as they have to act as fiduciaries and do what is best for our clients and will be compensated accordingly."

He said since the financial crisis investors also want established managers with strong risk management and operational controls. Last

month, BlackRock said it had hired Jack Chandler from LaSalle Investment Management as global head of real estate, reporting to Botein.

BlackRock has already had a taste of the higher fees attached to alternative investments. At the end of the first quarter alternatives represented 3% of BlackRock's \$3.6 trillion total assets, but contributed 9%, or \$205m, of the group's \$2.3bn total revenues.

Botein declined to comment on fee levels, but said BlackRock's are competitive with market rates. He knows how big that particular fee pond can be: Towers Watson estimates pension funds have \$5 trillion invested in alternatives worldwide, equal to 19% of their total \$26 trillion assets.