Business

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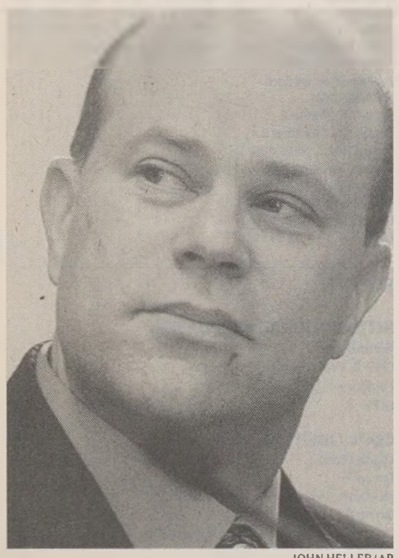
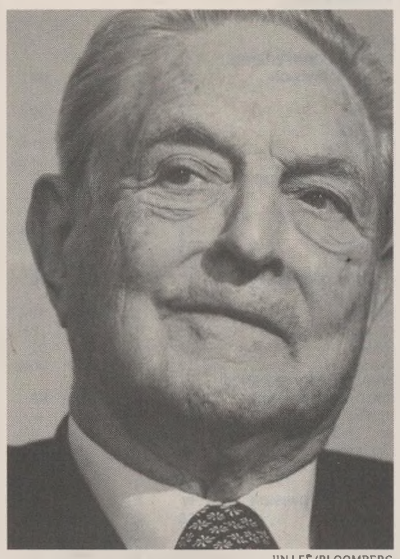


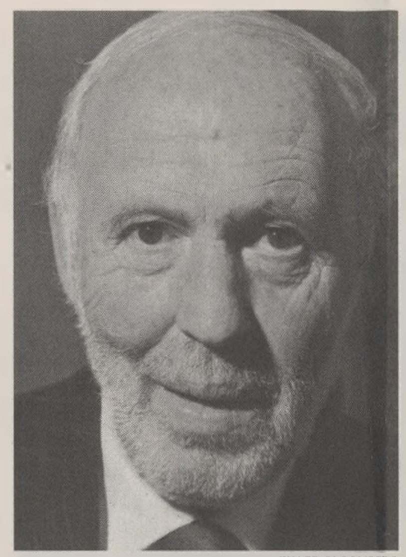
JOHN HELLER/AP

DAVID TEPPER, APPALOOSA MANAGEMENT
$4 billion in fees and capital gains in 2009



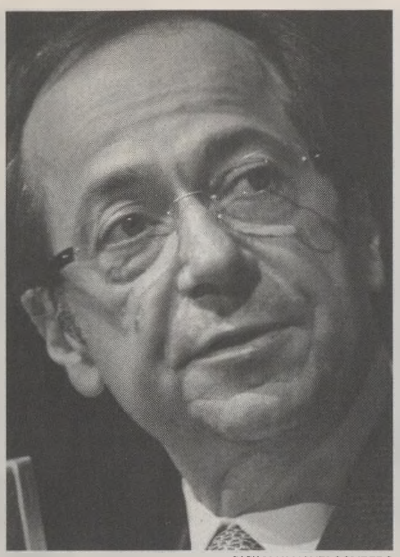
JIN LEE/BLOOMBERG

GEORGE SOROS, SOROS FUND MANAGEMENT
$3.3 billion



JIN LEE/BLOOMBERG

JAMES SIMONS, RENAISSANCE TECH.
$2.5 billion

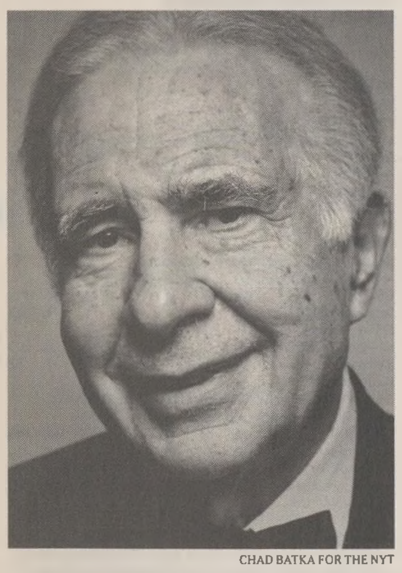


RICK MAIMAN/BLOOMBERG

JOHN PAULSON, PAULSON & CO.
$2.3 billion

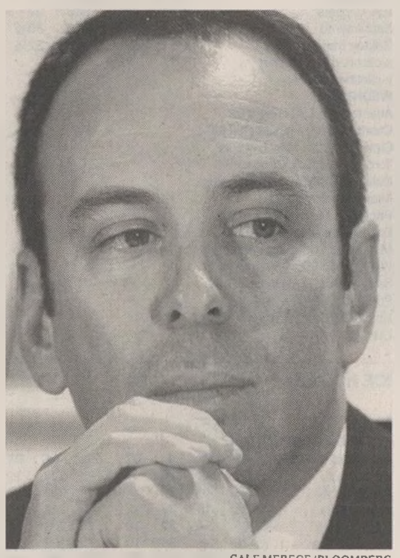
JENNY BOYLE/REUTERS

STEVEN COHEN, SAC CAPITAL ADVISORS
$1.4 billion



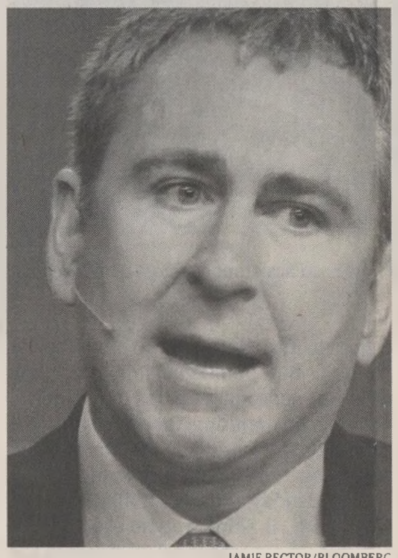
CHAD BATKA FOR THE NYT

CARL C. ICAHN, ICAHN CAPITAL
$1.3 billion



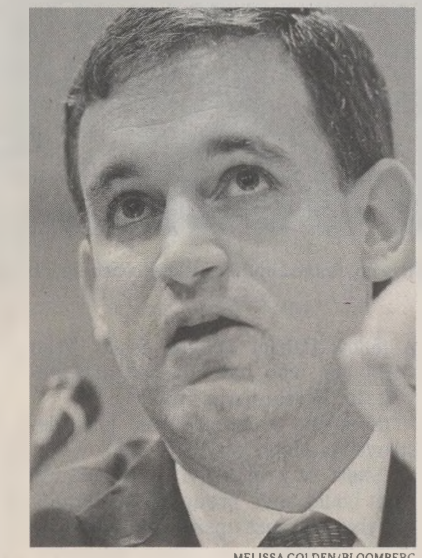
CALE MEREGE/BLOOMBERG

EDWARD LAMPERT, ESL INVESTMENTS
$1.3 billion



JAMIE RECTOR/BLOOMBERG

KENNETH GRIFFIN, CITADEL INVESTMENT
$900 million



MELISSA GOLDEN/BLOOMBERG

JOHN ARNOLD, CENTAURUS ADVISORS
$900 million

JONATHAN ERNST/REUTERS

PHILIP FALCONE, HARBINGER CAPITAL
$825 million

Big paydays are back for hedge fund chiefs

NEW YORK

One reaped $4 billion from betting heavily on a U.S. bailout for banks

BY NELSON D. SCHWARTZ
AND LOUISE STORY

The Lazarus-like recovery of the biggest banks in the United States did not benefit just the bankers — it also created huge paydays for hedge fund managers, including a record $4 billion gain in 2009 for one bold investor who had bet big on the financial sector.

That manager, David Tepper, wagered that the U.S. government would not let the big banks fail, even as other investors fled financial shares amid fears that banks would collapse or be nationalized.

"We bet on the country's revival," said Mr. Tepper, who described his trading technique as a mix of deep analysis and common sense. "Those who keep their heads while others are panicking usually do well."

That strategy handed Mr. Tepper, a plainspoken man who first made his name at Goldman Sachs, the lead spot on the annual ranking of top earners in the hedge fund industry by AR: Absolute Return + Alpha magazine, which came out Thursday.

His investors did not do badly, either. Mr. Tepper's flagship fund gained more than 130 percent last year.

The runner-up in the ranking was George Soros, who has become better known in recent years for supporting Democratic candidates and making political headlines than for picking stocks. His fund, Quantum Endowment, grew 29 percent in 2009, earning Mr. Soros $3.3 billion in fees and investment gains.

Hedge funds — the elite, lightly regulated investment vehicles open to a restricted range of investors — enjoyed a winning streak during the buyout boom that preceded the financial crisis in 2008. Then the bottom fell out of the industry, handing even top hedge funds double-digit percentage losses. In turn, the earnings of the top 25 fund managers in the 2008 survey tumbled 50 percent.

At the time, some market experts questioned whether the industry could continue to charge hefty fees for such an uneven performance, with a manager typically receiving a substantial portion of the fund's annual appreciation. After all, hedge funds were supposed to protect investors against market volatility, not subject them to it.

But in a startling comeback, top hedge fund managers rode the 2009 stock market rally to record gains, with the highest-paid 25 earning a collective $25.3 billion, according to the survey. That beat the old 2007 high by a wide margin.

The minimum individual payout on the list was $350 million in 2009, a sign of how richly compensated top hedge fund managers have remained despite public outrage over the pay packages at big banks and brokerage firms.

Even so, big gains were not a constant among hedge funds last year. Many struggled to show gains, signaling a widening gulf between winners and losers, industry experts said.

"There are the haves and the have-nots," said Sandy Gross, managing partner of Pinetum Partners, an executive recruiter for hedge funds. "These guys are the exceptions. You're talking about the top people at top firms."

The earnings figures reflect AR magazine's estimation of each money manager's portion of fees, as well as the increased value of his personal stake in his fund.

For many of the top 25, the big personal gains in 2009 came after steep losses in 2008. Half of the top 10 managers in 2009 lost money the year before, including Mr. Tepper, whose flagship fund, Appaloosa Investment Fund I, dropped 27 percent in 2008.

> **"We bet on the country's revival. Those who keep their heads while others are panicking usually do well."**

Undaunted by that drop and by the bankruptcy and liquidation of Lehman Brothers, Mr. Tepper loaded up on the preferred shares and bonds of the big banks in late 2008 and early 2009.

He had assumed, correctly as it turned out, that the government would not permit bigger institutions to fail.

It did not hurt that the U.S. Treasury Department was a fellow investor, buying preferred stock and warrants to help steady the faltering balance sheets of the banks. The government has since sold many of its bank stakes at a considerable profit.

Mr. Tepper, who manages $12 billion for investors, also benefited from a successful investment in bonds of American International Group, the giant insurance company that was also rescued by the government.

In retrospect, investing in major banks might not seem so risky, but Jim McKee, a hedge fund researcher for the consulting firm Callan Associates, said it was a tougher call to make than simply buying up distressed mortgage bonds, which Mr. Tepper did in addition to buying bank debt.

At the time, Mr. McKee said, "It was questionable whether the banks would be around. That was definitely a braver bet."

Besides Mr. Tepper, the losers turned winners in 2009 included Steven Cohen (No. 5), Edward Lampert (tied for No. 6), Kenneth Griffin (tied at No. 8) and Philip Falcone (No. 10). John Arnold (tied for No. 8) posted a 29 percent return, his worst since he started his fund in 2002.

Mr. Griffin enjoyed an especially sharp turnaround, earning $900 million as his flagship funds jumped 62 percent in 2009, compared with a 55 percent plunge in 2008.

Three managers among the top 10 — Mr. Soros (No. 2), James Simons (No. 3) and John Paulson (No. 4) — were back-to-back winners, having profited during the lean times of 2008 as well as in the booming market of 2009.

Mr. Paulson attracted fame for betting against subprime mortgages at a time when many of his rivals had not even heard of the now notorious class of assets. That secured him the No. 1 spot in 2007, when he earned $3.7 billion, the biggest annual take for a hedge fund manager until Mr. Tepper eclipsed him last year.

Mr. Paulson was an especially adroit trader, making huge profits on bets against bank stocks in 2008 and then buying them back after they were beaten down.

This year it will probably be harder to achieve the kind of outsize returns enjoyed by Mr. Paulson in 2007 and Mr. Tepper in 2009, given the recent run-up in both stocks and bonds.

"Last year, there was a great opportunity in debt. It was very, very undervalued," said Carl C. Icahn, the investor known for his aggressive corporate takeovers, who tied at No. 6 on the list with a personal gain of $1.3 billion. "Today, it's fully valued. There are still great opportunities in bankrupt companies, but dealing with bankruptcies is an arcane art and much more complicated than simply buying distressed debt."

Finding new opportunities is not the only challenge facing even the most successful hedge fund managers. In Congress, there is growing pressure to treat some earnings of hedge fund managers as income instead of capital gains, which are taxed at a lower rate.

Nevertheless, running a hedge fund will remain the best way for aspiring stock-pickers to make billions on Wall Street, even if they will have to pay higher taxes on their profits.

"It's certainly not going to drive them to some other field," Mr. McKee said.

Advocates press for tighter caps on emissions

BRUSSELS

Despite large decrease, some say polluters aren't under enough pressure

BY JAMES KANTER

Climate advocates on Thursday called for tighter caps on greenhouse gas emissions in the European Union after figures showed that some of the dirtiest industries benefited from a surplus of permits to pollute as a result of the economic slowdown.

The figures from the European Commission showed the largest annual decline in emissions from industries covered by the bloc's carbon trading program since it began in 2005.

Emissions from factories and power plants covered by the Union's Emissions Trading System fell by 11.3 percent, according to Emmanuel Fages of Orbeo, a carbon trading unit in Paris part-owned by the French bank Société Générale. Analysts had predicted a somewhat smaller drop, but the price of a permit to emit one ton of CO_2 was mostly unchanged at about €13, or $17.57, in afternoon trading on European markets.

The same installations that emitted 1.9 billion tons of CO_2 in 2008 emitted 1.7 billion tons in 2009, according to Mr. Fages. The figures were only about 90 percent complete, but Mr. Fages said they were "probably a good proxy" of the final, verified results, expected in May.

Trevor Sikorski, an analyst with Barclays Capital, attributed some of the decline in emissions in the electricity sector to an "increasing move in power towards gas and other forms of low-carbon generation."

But environmentalists and other analysts said the overall results showed that polluting companies were not facing sufficient pressure from the system to cut emissions in Europe.

"This new information makes it clearer than ever that the Union must increase its climate ambitions," said Bryony Worthington, the director of Sandbag, a nonprofit organization that campaigns to improve the way carbon trading functions. "Emissions are falling faster than could have been imagined," she said.

Carbon trading, also known as cap and trade, is supposed to be the Union's main tool to control greenhouse gases. The system is the world's biggest greenhouse gas market.

To ensure that the system is effective, countries like Britain and Denmark have called on Europe to tighten its caps. In February, the British Parliament's Environmental Audit Committee called for intervention in the carbon markets to raise prices to encourage investments in cleaner energy.

But changing the E.U. quotas still will be an uphill battle.

Poland and Italy are among countries where governments fear putting their industries at a further disadvantage to low-cost industries outside the trade bloc that do not face the same regulations.

Companies in the steel and cement industries were among the biggest winners from the system in 2009, as factories and production lines idled. Emissions in the metals sector fell [illegible]

CARBON, PAGE 17

Markets skeptical about Greece's will to follow through on austerity plan

MADRID

BY EMMA ROSS-THOMAS
BLOOMBERG NEWS

Europe's week-old rescue plan for Greece has so far failed to do what its leaders predicted: reduce borrowing costs for the country, the most indebted on the Continent.

The yield on 10-year Greek government bonds has increased one-quarter of a percentage point since European Union leaders agreed to an aid blueprint on March 25, reaching a one-month high of 6.530 percent Thursday, more than double the rate on comparable German debt. Seven-year bonds sold by Greece on March 29 fell in price for a third straight day Thursday.

"What they were hoping for was to set up some sort of arrangement that never has to be used," said Phyllis Reed, head of bond research in London at Kleinwort Benson. "The markets have sniffed that out and it seems like we're heading back to Square 1."

As borrowing costs increase, the risk is that E.U. leaders will have to deploy a rescue mechanism that still needs to be fleshed out. That would push them to decide the role of the International Monetary Fund in any rescue and require Chancellor Angela Merkel of Germany, who heads the country with the biggest European economy, to counter public opinion by financing a bailout with taxpayers' money.

So far, E.U. officials say they expect Greek yields to decline as the government in Athens carries out a plan to reduce its deficit to 8.7 percent of gross domestic product from 12.7 percent last year. The European Central Bank president, Jean-Claude Trichet, said Wednesday that investors would "progressively recognize" the steps taken by Greece. An E.U. spokesman, Amadeu Altafaj, said that Greece's deficit-cutting plan was "on track."

The aid facility, a combination of I.M.F. and E.U. bilateral loans, would be activated only if Greece ran out of fund-raising options. Prime Minister George A. Papandreou of Greece, who has to raise as much as €11.6 billion, or $15.7 billion, by the end of May, welcomed the plan last week as "very satisfying."

Since then, the extra yield investors demand to hold Greek 10-year bonds instead of German equivalent has risen to 3.45 percentage points from 3.05 points on March 26. The yield on Greek two-year bonds rose to 5.123 percent Thursday from 5.119 percent Wednesday.

"Markets don't believe that Greece will be able to see things through," said Razeen Sally, a senior lecturer in international political economy at the London School of Economics.

The E.U. bailout plan was complicated by Mrs. Merkel's push for an I.M.F. role before the summit meeting of E.U. leaders last week. She argued that German taxpayers should not pay for Greek excess, a position backed by 61 percent of Germans, a Financial Times/Harris Poll showed on March 22.

The final E.U. agreement nevertheless failed to outline the terms on which the I.M.F. would co-finance a rescue, a lack of clarity that could pave the way for a power struggle.

The I.M.F.'s managing director, Dominique Strauss-Kahn, said Tuesday that the fund would set the terms of any loans to Greece just as it did with other countries. Mr. Trichet said before the summit meeting that ceding control to the I.M.F. would be "very, very bad." He later changed his tone to say he was "pleased" with the outcome.

Ms. Reed said, "It's supposed to be a joint E.U.-I.M.F. thing, but it sounds like the I.M.F. have plans of their own." She added, "There are still a lot of question marks."

Some strategists say it is too soon to say that the E.U. plan has failed to steer Greek bonds lower as the most recent austerity plan, announced on March 3, still needs to be implemented.

"It's taking time to get the belief factor working," said Padhraic Garvey, head of investment-grade bonds at ING in Amsterdam. "It took six to nine months before Ireland's story become credible, and the Greek story will take longer."

The premium on bonds issued by Ireland, which is also cutting wages to reduce the region's second-largest deficit, was 1.38 percentage points Thursday, compared with 2.47 points a year ago.

Mr. Trichet reiterated his view Wednesday that Greece's deficit-cutting plans, which aim to push the shortfall below the E.U. limit of 3 percent of G.D.P. by 2012, are "convincing." Mr. Papandreou on Tuesday called on his ministers to intensify their work to meet the budget plan.

Greek officials may not have long to convince investors that the government deserves to pay lower interest rates.

"Over the course of the summer I think we'll run into a more difficult atmosphere on the markets," said Frank Schäffler, a lawmaker from Mrs. Merkel's Free Democrat coalition partners. "Then we'll find out whether Greece can pull it off or not, over the course of the summer."

With investors keeping up the pressure, Greek opposition politicians are criticizing the E.U. plan. On Wednesday, Dimitris Papadimoulis, a deputy with the Coalition of the Left, mocked Finance Minister George Papaconstantinou for comparing aid to a "loaded gun" that would threaten markets.

"The gun," he said, "has proved to be a water pistol."

Asset sales plan awaited

Greece will soon announce details of its plan to sell assets to raise €2.5 billion this year, Bloomberg News reported Thursday, citing a newspaper interview with Mr. Papaconstantinou, the finance minister.

"The plan will be announced soon, after it is discussed and decisions are made at a Cabinet meeting," Mr. Papaconstantinou was quoted saying by Imerisia, an Athens daily.

He said tax collection was improving and a crackdown on evasion would "more than offset" losses in tax revenue from the recession, according to the interview.

JOHN KOLESIDIS/REUTERS

A protest in Athens this week. Pledges to trim debt have not cut Greece's borrowing costs.