

Why Struggling Hedge Fund Managers Give to Charity

By **Ben Steverman**

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- Charitable gifts boost firms' net inflows by 9% on average
 - Underperforming managers are the most likely to give
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A donation to a worthy cause during the holidays gets you a warm feeling, a tax deduction and maybe a better world for the kids. Some hedge fund managers give for an additional reason -- to get money-making assets.

A check to the right charity buys access to cocktail parties and galas where they make lucrative connections and raise money, according to a recent study by university researchers.

“As the charities raise funds, these guys are raising funds as well,” said [Vikas Agarwal](http://robinson.gsu.edu/profile/vikas-agarwal/), a professor at Georgia State University’s business school who wrote the study with professors Yan Lu of the University of Central Florida and Sugata Ray of the University of Alabama. “Maybe investors get some trust and comfort when they see these guys doing good things.”

The researchers, who analyzed 6,642 donations made over 22 years through mid-2016 by 667 hedge fund managers, found the probability of poorly performing funds making a charitable contribution was almost double that of relatively well performing ones. Managers with the lowest net flows were also much more likely to make a gift, a finding that defies the notion that people flush with cash are more charitable.

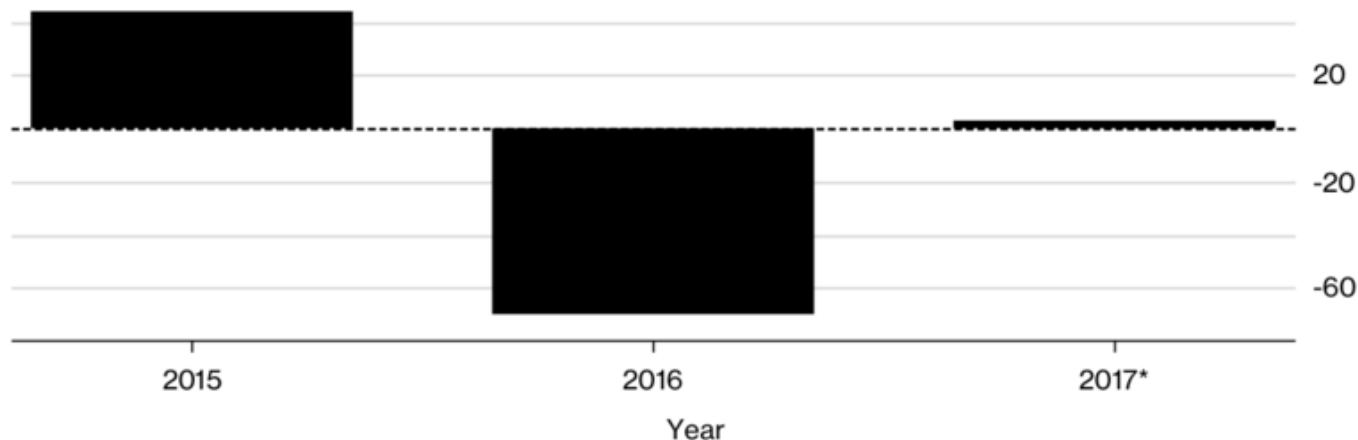
As the hedge fund industry tries to stem the [outflow](https://www.bloomberg.com/news/articles/2017-12-15/alan-howard-reboots-as-hedge-fund-is-said-to-brace-for-outflows) of assets, donations seem to help. The gifts, which averaged \$325,000, were followed the next year by about 9 percent more in annualized net flows compared with those who didn’t contribute, the [study](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2703472) found. And one-time donations -- presumably designed to make a splash -- were more effective than recurring donations.

Searching for Assets

Hedge fund managers haven't pulled in much new investor money this year

■ Asset flows

\$60 billion



Note: 2017 data is through 3Q
Source: Hedge Fund Research Inc.

Bloomberg

Managers win even more assets with donations to marquee institutions where their hedge fund peers are also likely to give, such as the Clinton Foundation, Columbia University and New York's Metropolitan Museum of Art and Museum of Modern Art. They in particular attract the kind of high-net worth people to which managers want exposure. Gifts to these institutions were followed the next year by an increase in net flows of almost 11 percent, the study found.

Win-Win

At a time of public wariness of Wall Street, the study would seem to support the stereotype of the hedge fund manager who puts making money first. "These guys are the most self-serving people on the planet," said Erik Townsend, himself a hedge fund manager at Fourth Turning Capital Management.

But some insiders see it as a win-win -- charities get money and managers get access to money.

"There's nothing nefarious about it," said Vincent Catalano, a 40-year veteran of the investing and hedge fund businesses who is now managing member of private-equity firm Adriatic Capital Partners. Charitable events, especially those put on by New York-area institutions, are great places to make new connections. "It's just good networking," he said. "Nothing wrong with it."

Not all hedge fund donations are meant to gather assets. Ken Griffin, founder of \$27 billion Citadel, [announced](https://www.bloomberg.com/news/articles/2017-11-01/griffin-said-he-may-give-billions-to-support-higher-education) a \$125 million gift to the University of Chicago to support financial aid for students and research in its distinguished economics department, which will bear Griffin's name. He credits the success of his firm partly to the partners who went through the university.

Read more on Griffin's donation to the University of Chicago <https://www.bloomberg.com/news/articles/2017-11-01/citadel-s-griffin-donates-150-million-to-university-of-chicago>

Give To Give

“I am so grateful for the education that I’ve had, and I expect over the remainder of my life to give several billion dollars to higher education,” Griffin told Bloomberg TV in November. “I think this is so important to our society that every single young man and young woman have access to our best schools.”

Then there are other managers like Daniel Ades, founder of Kawa Capital Management, who say they just give to give.

“My wife and I are quite active philanthropically and I have never raised a dollar from any of the institutions we give money to,” he said.

— *With assistance by Nico Grant, and Janet Lorin*

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