Fred Chapey can remember when the financial derivatives world was nothing more than a market to manage interest rate risk.

“I oversaw the derivatives business at Chase” in the 1980s, said Chapey, the co-founder and one of four managing principals at StormHarbour Partners LP, a global markets and financial advisory firm. “Going back to the old days, the derivatives market was predominately interest-rate swaps,” and he and his co-workers wondered just how much the nascent market would grow. “That market has evolved dramatically to include a full array of derivative products, be it rates, credit, commodities, equity, foreign exchange, currencies.” (And grow it did; the notional amount of outstanding interest rate derivatives is roughly $500 trillion.)

What else has grown at an exponential rate? The number of professionals leaving large banking firms to hang out their own shingles. Many of these firms have pushed into merger and acquisition advisory work, but StormHarbour has chosen a different specialty: analyzing and selling complex structured products for clients like hedge funds.

The specialty area chosen by StormHarbour comes at a time when investors such as hedge funds need a third-party to evaluate their portfolios. Also, many investors are finding they need help selling complex structured bonds because liquidity in many areas of fixed income has not entirely normalized; many Wall Street dealer firms have been reluctant to take on inventory so finding a buyer for that unique bond gets tougher.

Chapey, the former head of global derivatives and emerging markets sales and trading at Citigroup and deputy head of international capital markets at Chase Manhattan, and Antonio Cacorino, former co-head of Citi’s investor client group, opened StormHarbour early last year. They have brought together a wide range of credit specialists, many from Citi, who analyze the value of securities such as collateralized debt obligations and loan obligations.

The global firm already has 153 professionals, and it has turned a profit, executives say, though they would not offer details. It also is looking to add to its teams in London, Geneva, Singapore and Hong Kong.

“We took what many felt was a bold approach in terms of our aspirations and vision of building a truly global firm from the outset,” said Chapey. “What we are looking to do is build a firm for the long-term and our business model reflects that.”

In addition to valuing securities, StormHarbour sells, trades and structures debt products. It works with investment grade...
debt, distressed debt and securities pooling assets like residential home loans and commercial property mortgages.

Chapey recalls interviewing potential partners to work on its New York trading floor in the spring of last year, shortly after his firm opened its doors. The floor had 60 desks at that time, though it had only four traders. That’s because his firm was looking for pros who were more than just comfortable with the idea of building a business from scratch.

“In StormHarbour, we have consciously built what I refer to as an upside-down pyramid. We have brought in an incredible number of highly experienced professionals to drive the business forward. I would say that of the 150-plus professionals that have joined the firm, over 50 are managing director-level and have been involved closely with clients, as well as managing teams and global businesses throughout their careers,” Chapey said. “Having such experience enables individuals to take a hands-on approach to working with our clients, an approach that is a close fit with an old style partnership. Everyone here has their say.”

StormHarbour “definitely does not have that big, old bureaucratic firm feel to it, not that there’s necessarily anything wrong with that,” Chapey said. “It’s not a criticism,” he said, but “some people are comforted by the big old firm kind of bureaucracy.”

Many of his firm’s dealmakers have spent two decades or more at Wall Street firms, and they have spent much of their careers working on structured finance.

Robert Cummings, a managing principal in the New York office, has been involved with fixed income for 22 years. He spent the past 10 of them with Citigroup, where he ran European distribution for credit products and, before that, ran global investment grade sales in New York.

Sohail Khan, another managing principal, is also a veteran of Citi, where he helped clients analyze, restructure and dispose of portfolios holding CDOs, CLOs, mortgage-backed and asset-backed bonds.

In London, StormHarbour has Richard Moore, a principal and senior advisor, who worked at Citi for more than two decades in areas such as foreign exchange, rates and commodities. In 2007, he ran fixed income in Europe, the Middle East and Africa.

Chapey sees StormHarbour as a complement to the investment banking boutiques that provide M&A advice.

It has amassed 1,000 clients; the founders say these clients include large banks and financial institutions, hedge funds, government sponsored enterprises, sovereign wealth funds, and institutional investors such as pension funds, fund managers and endowments, and insurers.
Chapey emphasized that the firm does not do any prop trading or compete with its clients’ businesses.

StormHarbour’s three main businesses are sales and trading, structuring and advisory work and capital markets. All three of those businesses deal with credit ranging from investment grade to distressed and work in securitized markets, including collateralized debt obligations, collateralized loan obligations, and residential and commercial mortgage-backed securities.

Chapey said one of his firm’s first clients was a large U.K. hedge fund that wanted to get rid of some structured credit businesses; this assignment involved evaluating the hedge fund’s portfolio, which included structured products, and advising the sale of some holdings.

StormHarbour completed its first trade in July of last year, and it expects its other businesses to feed its sales and trading line.

“That’s going to be a combination of flow business and structured transactions that fit the specific needs of clients. Structuring and advisory plays a crucial part in supporting that business; much the same as capital markets, which although is a business in its own right, uses the deep distribution channels of the sales and trading teams,” Chapey said. “Structuring and advisory mandates can lead to ancillary business, such as a discreet sales opportunity or a complex capital markets transaction. So the structuring and advisory business forms, many times over, the bridge that connects our sales and trading businesses with our capital markets.”

Cacorino said Asia plays a large part in the firm’s plans. With its offices in Hong Kong and Singapore, and another one planned for Tokyo, the firm wants to capitalize on trading flows into and out of Asia.

StormHarbour has 62 professionals in its New York office, 70 in London and two in Geneva. In Asia, it has 12 specialists in its Hong Kong office and seven in Singapore. Executives like to say that there is no head office and there are no branches (Cacorino is based in London, while Chapey is based in New York), and that all the firm’s offices work on all of its business lines.

“We could have chosen to have presence just in Hong Kong or Singapore and use one of those financial centers to drive our business in the region, but Asia holds unique opportunities and to fully capitalize on them you have to understand the regional differences and employ local market expertise,” Cacorino said. “Asian financial institutions are very well connected. Where we come in is helping them navigate developed markets as well as helping them develop new products, new ideas, and new solutions for their clients.”

When it opened its doors, it set out to bring on experienced Wall Street veterans. A large percentage of the professionals come from Citi, but many specialists have worked at Goldman Sachs, JPMorgan Chase, Merrill Lynch, Bank of America and Royal Bank of Scotland.

The firm is expected to announce Monday that it has added Thierry Sciard, a long-time investment banking, markets and investment management pro, as a managing principal, responsible for helping to drive the firm’s European and global operations as well as developing and implementing strategies for a global Alternative Asset Management business.

Most recently, Sciard was managing director and global head of the alternatives and solutions division at Fortis Investments. Before joining Fortis, he was head of investment management for Europe and the Middle East at Lehman Brothers.

Michel Labrousse joined StormHarbour in April as a managing director and head of derivatives and client solutions in Asia. He is based in Hong Kong. From 2004 to 2009, he was the senior executive officer of Natixis Asia Ltd. and head of capital markets for Asia outside Japan of Natixis Bank.

In March, StormHarbour hired Nicolas Andine as a principal in credit, equity and M&A. He splits his time between London and Geneva. In 2006, Andine founded Talaris Capital, a $1 billion-asset London long/short equity hedge fund. Before that, he spent 2005 as a managing director and portfolio manager at Deutsche Bank in London and Tokyo, and from 2002 to 2005 he was European portfolio manager and co-founder of Gandhara Capital, a European and Asian multi-strategy hedge fund. From 2000 to 2002, he was a member of Goldman Sachs’ proprietary strategy group. Before that, he worked in corporate finance/mergers and acquisitions at Goldman.

In February, Water Cheung, who worked with Chapey at Chase, joined StormHarbour as a senior principal and Asia-Pacific chief executive. In 2007, Cheung joined Royal Bank of Scotland to expand its Asian emerging market operations, which he later integrated with those of ABN Amro.

Beyond its aggressive hiring, StormHarbour plans to secure strategic investment — a process it hopes to complete in 18 to 24 months.

“There are few financial services companies out there that would not benefit in the long run from having much greater capacity to deploy capital. At some point in time, probably sooner than later, we would look to increase our capacity to deploy capital as a result of strategic investment,” Cacorino said.
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