

SSI rounds out convertible bond offerings with acquisition of Frolely Revy

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By Bobby Raines

SSI Investment Management Inc.'s acquisition of Frolely Revy Investment Co. Inc. comes at an attractive time for SSI to expand into the long only convertible bond space, SSI Chairman and CEO Amy Gottfurcht told SNL Financial on March 9.

The companies began discussing a combination in the spring of 2008, said Gottfurcht, and SSI — a Beverly Hills, Calif.-based firm specializing in equity market neutral convertible bond arbitrage and other alternative strategies — had looked to get into the long only convertible bond space “for some time.”

“We have always had a deep respect for Frolely Revy,” she said.

In recent months, as the markets “got a little bit more difficult,” the two companies got more serious in their negotiations, eventually closing a deal March 6, according to the CEO.

Gottfurcht declined to comment on the terms of the deal other than to say, “Frolely Revy will be equity stakeholders in SSI, and we plan that everyone will enjoy the fruits of hopefully what will be some very profitable years ahead and good performance for our clients.”

She said that in addition to getting an equity stake in the combined company, SSI's distribution capability was attractive to the Los Angeles-based Frolely Revy. She said that while Frolely Revy did have some sales capacity, SSI has “a very strong marketing and institutional effort under way,” and its institutional marketing has gained “a lot of traction” in the last couple of years.

Gottfurcht said the operations of the two companies are complementary, and she is not expecting to realize staff or other cost synergies from the deal. Both companies believe in combining quantitative analysis with fundamentals, she said, adding that both companies also have research capabilities in their respective disciplines.

“We really believe that the combined team will be exceedingly strong in terms of helping both [Frolely Revy's] investment team that's being brought over, as well as our teams,” she said.

Gottfurcht said the combined company has 39 total employees, including 20 investment professionals, overseeing a combined portfolio of \$1.15 billion.

The company has no current plans for further acquisitions, Gottfurcht told SNL, adding that the current focus is on fully digesting Frolely Revy. She left the door open on future deals, however, saying: “SSI is always looking to create thoughtful alpha-generating products. So downstream, in keeping with normal business procedures, we certainly could look at something, but at this time, we plan to focus on the work at hand.”

Gottfurcht said the convertible bond space, particularly the convertible arbitrage space, has seen significant dislocation in recent months, which should pave the way for SSI to do well. She said many players in the convertible bond market were forced to delever when credit markets froze and prime brokers were no longer able to deliver capital at previously agreed upon rates. The forced selling by arbitrage managers occurred at the same time that hedge funds were being forced to liquidate portions of their portfolios, including convertibles, as they faced liquidity calls and redemption requests. This led to the convertible market being “deeply undervalued,” Gottfurcht told SNL. She said that after being particularly bad in October 2008, the market is starting to rebound as buyers are starting to look to convertible bonds again.

“Now we're beginning to see crossover buyers,” she said. “People who perhaps used to buy equities or buy bonds, they're now looking into the convert-long space.”

Gottfurcht also expects hedge funds to return to the market once the current liquidation pressure eases.

Meanwhile, opportunities abound in the company's convertible strategies, Gottfurcht said, with SSI not only expecting strong results from the leveraged funds it manages but also from some unleveraged portfolios it manages for large institutions. *i*