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TCW Struggles While Doubleline Thrives

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By [DavidSchawel CFA](#)

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Remember the coup of December 4th 2009? TCW CEO Marc Stern announced the ouster of Jeffrey Gundlach and, to replace him, not the hiring of a new chief investment officer but the acquisition of an entire company, Metropolitan West. Remember the aftermath? Clients cutting bait, outflows of assets, more than 40 TCW professionals quitting to join Gundlach, and recent the explosive growth of their new firm, DoubleLine Capital.

Within weeks of the DoubleLine/TCW trial jury verdicts, financial media in New York and Paris, all quoting anonymous sources, began reporting efforts by Societe Generale SA (PINK:SCGLY) (EPA:GLE) (the parent of TCW/MetWest) to auction off the Los Angeles-based firm. In late 2011 [Mutual Fund Wire](#), Bloomberg News and in France the financial daily La Tribune published articles to the effect that SocGen was shopping TCW/MetWest to other [asset managers](#).

La Tribune reported the bids were disappointing, and after that, news of a possible sale. Of TCW/MetWest went quiet.

But recently, [fresh reports by Reuters and Pensions & Investments](#) say that TCW/MetWest management, with the help of [private equity](#) financing, is trying to pull off a management buyout. However this would-be MBO has an ironic twist.

Whereas TCW was the acquirer of MetWest, a report this week in Pensions & Investments suggests that the tables have turned; it appears that yesterday's acquisition target (MetWest) is seeking to become today's acquirer. According to Pensions & Investments, citing anonymous sources, a handful of MetWest executives — David Lippman, Tad Rivelle, Laird Landmann — are working with private [equity](#) firms to buy control of TCW/MetWest. Quoting the P&I report:

"Although Marc Stern is the CEO (in name), David Lippman is really the virtual CEO," said a source who asked not to be named. "In many ways, MetWest engineered a reverse takeover, assuming much control over the investment management and operations of TCW," the source added.

So it's probably safe to say the TCW/MetWest merger hasn't materialized as some at TCW and Societe Generale SA (PINK:SCGLY) (EPA:GLE) had hoped. When the TCW/MetWest merger was announced on December 4th, 2009 it was reported that cumulative AUM was \$140bil. The MetWest merger was made with the intent of taking some of the sting out a Jeffrey Gundlach-less organization, the superstar portfolio manager of the TCW Total Return fund who was controversially fired. By the time the deal closed in late February 2010, that total had dropped to \$115 billion. So the transaction caused an outflow of \$25 billion, some of it no doubt attributable to Gundlach's departure. TCW reports total AUM of \$128bil as of 3/31/2012. While some of the MetWest & TCW funds have performed well, the combined entity still has not gotten back to the combined AUM reported on the day of the acquisition.

"Heavy Hitter Leaves TCW"

A friend recently sent me an interesting academic paper (I highly recommend you read it) titled "[The Golden Dilemma](#)" by Claude Erb and Campbell Harvey in which the authors discuss the current merits of gold as an inflation hedge. I knew the name Claude Erb sounded familiar and a quick Google search reminded me of his past.

First, Erb and Harvey authored an academic paper on commodities and diversification/rebalancing that won them the prestigious [Graham-Dodd award](#). Second, Erb was previously a managing director at TCW under Gundlach and, shortly after the coup of December 4th, 2009, initially made the decision to join the DoubleLine team only to return back to TCW days later.

Erb's change of heart soon made its way to the media. Morningstar Director of [Fixed Income](#) Research Eric Jacobson, [no stranger to readers of Economic Musings](#), broke the news in a December 18th, 2009 article under the headline: "Big Hitter Leaves Gundlach, Returning to TCW". The Morningstar Fund Times article also included a tagline that emphasized Erb's decision might spell more trouble for Gundlach's start-up firm, the tagline reading, "Decision raises question of whether others might follow." Near the end of the article, Jacobson speculated, "This decision does call into question, however, the unity with which Gundlach's team acted so immediately after his firing. Moreover, it suggests the possibility that others who committed to joining him could eventually come to decisions similar to Erb's."

Erb was certainly a valuable catch for TCW, and now its fair to wonder what caused the Graham-Dodd award winner to leave. One of two commodity portfolio managers left for DoubleLine, so getting one of them back would seem to have been a rational priority for TCW. But contrary to Jacobson's speculation that others "could eventually come to similar decision's as Erb's," no one else at DoubleLine went back to TCW.

I don't know what motivated Erb's decision to return to TCW. Stories in the press indicate that TCW tried desperately with offers of enhanced compensation to lure a number of former TCW employees back from DoubleLine. [A BusinessWeek article](#) published last month recalled that TCW CEO Marc Stern personally drove to the home of Gundlach's co-portfolio manager, Philip Barach, to offer Barach \$10million a year over six years to come back to TCW.

The departure of Erb in at a time of open sale speculation around TCW/MetWest leads to more questions than answers. But let me refer back to Pension & Investments article:

"Another issue for both TCW executives and any potential private equity backer would be the willingness of star performers from the TCW side of the business to work under a MetWest triumvirate."

Whatever Erb's feelings toward the "MetWest triumvirate," he no longer is a potential subject of their governance. As for Erb, he still apparently thinks well of Gundlach with a complimentary attribution of him in the "Golden Dilemma" paper.

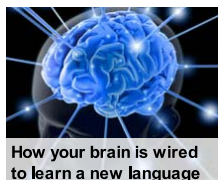
Meanwhile, DoubleLine has achieved some of the fastest growth in [mutual fund](#) with assets growing to over \$35billion today from inception in April 2010. After Erb, no one from the DoubleLine investment team went back to TCW, despite reported efforts by TCW to buyback the rebels and Eric Jacobson's public doubts about the unity of the DoubleLine team.

By David Schawel, CFA of [Economicmusings](#)

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