

BARRON'S Hedge Funds

A Monthly Report

Hedge-Fund Report Card, page 38
Listings: Hedge Funds, Barrons.com
Mutual Funds, M43

Winter, at HL23, a new condo near the High Line in Manhattan's Chelsea district, has produced consistent returns lending to New York real-estate developers.

Talking With Gregg Winter

Co-Founder

W Financial Fund

Rock-Solid Real Estate

by Eric Uhlfelder

SUCCESSFUL HEDGE-FUND MANAGERS HAVE BEEN KNOWN to stumble badly when they decide to stray beyond their investment discipline to pursue what seems like a hot opportunity. Gregg Winter doesn't stray.

The co-founder and co-manager of the \$100 million W Financial Fund has stuck to his narrow specialty since he started the fund in the spring of 2003. W Financial makes bridge loans to well-established real-estate owners, operators, and developers primarily in solid New York City neighborhoods. Winter's investors, who are high net-worth individuals, appreciate his consistency: He has never had a down month in 10 years and has generated annualized returns of nearly 10% from a high-quality portfolio of short-term loans. The steady returns result in part from the nature of the fund: It makes mostly first-lien loans and the collateral values have stayed above the amount loaned. So long as that's the case, the fund doesn't have to change loan values, which provides more stability to returns.

"There's no secret black box behind our success; simply hard work and a commitment not to deviate from our strict discipline in making loans," he explains.

Winter, 60, didn't take the typical path to finance. At the age of 15, he strode into the offices of Elektra Records in New York City with concert photographs he'd shot of The Doors and got a meeting with the company's publicity director. He walked out with backstage access to many of Elektra's bands' live performances to shoot for various rock magazines. A rock 'n' roller himself, Winter became a singer/songwriter and cut an album, *Army of One*, in the early 1980s for Warner Elektra Atlantic's Irish label. Blue Öyster Cult later recorded one of his songs, *Eyes on Fire*, on its 1983 album, *Revolution By Night*. One of Winter's favorite moments was rehearsing with John Lennon in 1972 at the Fillmore East in preparation for a benefit concert. *continued on page 38*

But in 1989, as Winter was preparing to move to Los Angeles, his father passed away. Jack Winter was a successful mortgage lender in New York, and "I was the only one around capable of winding down Dad's loan portfolio," recalls Winter. "As I was returning capital to investors, I got lucky with brokering a few good-size mortgage deals of my own and decided to try the business for a few years."

He found that real-estate lending was "refreshingly straightforward, especially compared with the nonlinear nature of the murkier and mysterious music world, increasingly ruled by a few giant record and publishing companies." So he started his own commercial mortgage brokerage, Winter & Co. in 1989.

More than a decade later, Winter decided to try to make the most of another opportunity. "I saw banks generally didn't have the capacity to move speedily to help developers in a pinch with transitional-loan requests," he recalls. So he stepped into the gap and found he "was able to charge [annual] interest rates that typically ranged between 9% and 12%." He also collects 1% to 2% in closing fees. With borrowers responsible for all related loan costs, such as appraisals and title searches, these loans produce attractive, low-risk profit margins.

The business is appealing because the city has so many noncontingent purchase contracts, which means that a buyer can lose his 10% down payment if he can't arrange sufficient financing by the time the deal is slated to close. And in New York, there are many causes of delay, ranging from land-use and zoning issues to community-board and landmark approvals.

So with the help of real-estate attorney Marc Bailin, he started up W Financial. Bailin retains an interest in the management entity. Today W Financial comprises a team of seven.

With 25 years of real-estate experience, Winter and his co-manager, David Heiden, 48, pride themselves on their ability to conduct due diligence. They make loans to only one out of every 80 to 100 they review, closing on about three a month. Their deals on average are overcollateralized by 40%, and as a bridge lender, their targeted investment and risk horizons are a relatively short six months to two years. W Financial is vastly different from the bank-loan funds that have recently come into vogue for mutual-fund investors. "We vet, write, and service our loans, versus these fund managers who have comparatively far less knowledge of the loans they buy on the secondary market," says Winter.

A sampling of W Financial's loans include one from the spring of 2011 to a developer who had built a 41-unit condominium on First Avenue on Manhattan's Upper East Side. With 16 units still unsold, the bank that made the original construction loan didn't want to

extend the term of the maturing debt. Confident because the unsold units were move-in ready, Winter provided \$2.5 million, which equated to about \$180 per square foot of unoccupied units whose market value was more than \$500 per square foot. The developer paid a 2% closing fee and annual interest of 10% on this two-year loan, which was subsequently paid back in full.

In the fall of 2011, W Financial lent \$5.5 million toward the \$10.8 million acquisition of a commercial loft in lower Manhattan's TriBeCa district. The experienced, creditworthy borrower was looking to convert the space into luxury residential condominiums, and to add several stories in the process. The addition required approvals from the Landmark Preservation Commission and the Department of Buildings.

With those permissions unlikely to be granted by the closing date, the owner realized both his \$9.6 million construction loan and his contract deposit were in jeopardy. Winter's loan allowed the developer to close as planned. The fund got a 1% closing fee and a 5% return over the six months needed for regulatory approvals.

Occasionally, even Winter's conservative strategy produces unexpected results. In September 2008, with the financial crisis near full bloom, a developer working in the up-and-coming neighborhood of Williamsburg, Brooklyn, was unable to sell more than half of his newly completed 62 condo units as his construction loan neared maturity. The lender wouldn't permit the developer to rent out the vacant units to increase cash flow. Instead, W Financial teamed up with another lender, which agreed to the rental plan, and together they provided a one-year 12% bridge loan of \$17.4 million to give the developer more time to arrange more permanent financing.

But in December 2009, after receiving a three-month loan extension, the developer surprisingly filed for Chapter 11 bankruptcy, claiming that the impact of adverse market conditions was beyond his control. He requested interest-rate relief and an additional seven-year extension. W Financial prevailed in court. Just before Winter was ready to close on the property in October 2011, a third party made an offer of \$25 million for the remaining 37 units, resulting in a much fatter payoff than the fund had ever hoped for.

So where should investors in New York real estate be searching? Over the past year, Winter has begun selectively lending in what were once Brooklyn's most distressed neighborhoods, Bushwick, Bedford-Stuyvesant, and Clinton Hill. Ever cautious, however, Winter warns that if the city suffers an economic downturn, investments in these neighborhoods may be the first to lose value. ■

A Strong Start to Fall

The biggest hedge funds mostly rose in September, led in part by a rebound in emerging markets like China and European markets, including Switzerland. The Genesis Emerging Markets fund jumped 6.2%.

BEST	% Returns					Assets (mil)	Strategy
	September	YTD	1-Year	3-Yr Cum.	5-Yr Cum.		
Quam China Focus SP	22.1%	72.5%	87.6%	60.1%	101.3%	N/A	Asia/Pacific Lg/Sh Eq
GFTC Hedge Select Trust 2	21.3	23.4	20.6	N/A	N/A	N/A	Fund of Funds - Eq
AJB Investment Fd II LP	20.0	95.8	55.8	N/A	N/A	0.5	Long-Only Eq
Reuven Capital Invest LP	17.2	39.0	-57.8	-66.9	N/A	3.7	Global Lg/Sh Eq
SITIC Sycomore Choiceness 1	17.0	39.4	42.3	N/A	N/A	N/A	Fund of Funds - Eq
Acer Cube Acc	16.6	46.4	84.1	-3.6	-50.9	4.1	Systematic Futures
Blue Sky World LP	16.1	93.6	61.1	8.4	39.3	60.0	Global Macro
Cambrian Global Fd Ltd	16.0	18.1	47.4	N/A	N/A	155.0	Long-Only Eq
Victoire Brazil Small Cap SP	15.2	-6.0	3.5	27.1	134.5	713.4	Emerging Mkts Lg-Only Eq
Claritas G4 Fd - Brazil Equities	14.3	-15.4	-11.9	-32.6	21.9	2.6	Emerging Mkts Lg-Only Eq
WORST							
CFPIQS Fd	-24.1	-30.9	-51.6	-71.9	-53.1	30.6	Systematic Futures
Vol Edge A	-24.0	-71.5	-85.1	-98.6	-99.0	19.9	Volatility
Vol Edge B	-22.1	-70.7	-84.3	-98.6	-99.1	1.3	Volatility
IW Alternatv SIF-Commod P EUR	-20.5	-59.0	-69.0	N/A	N/A	12.1	Multistrategy
SMI Opportunities LP	-16.4	-49.5	-43.2	-8.0	58.6	16.1	Event Driven
Sprott Bull Bear RSP Fd A	-15.7	-47.7	-56.5	-65.6	-55.0	20.1	US Small Cap Lg/Sh Eq
Sprott Bull Bear RSP Fd F	-15.6	-47.3	-56.0	-64.5	N/A	8.3	US Small Cap Lg/Sh Eq
Sprott Hedge Fd LP II CIA	-15.4	-45.8	-55.0	-65.2	-56.2	65.0	US Small Cap Lg/Sh Eq
Sprott Hedge Fd LP II CIF	-15.3	-45.4	-54.5	-64.0	-52.8	28.5	US Small Cap Lg/Sh Eq
AIS Futures Fd LP 3X-6X	-15.1	-26.7	-36.4	13.2	-34.4	63.9	Systematic Futures
BIGGEST							
Bridgewater Pure Alpha Strat 18% Vol	1.9	4.1	3.8	45.1	122.8	26179.0	Global Macro
Millennium International Ltd	1.2	9.1	11.3	32.0	63.7	11700.0	Multistrategy
Bridgewater Pure Alpha Strat 12% Vol	1.3	2.8	2.7	28.1	72.0	10683.0	Global Macro
Bridgewater All Weathr 12% Strat	3.0	-5.6	-4.0	29.3	47.1	8774.0	Global Macro
The Genesis Emerg Mkts Invt Com B	6.2	-0.7	N/A	N/A	N/A	6991.3	Emerging Mkts Lg/Sh Eq
Winton Futures USD CIs B	3.5	3.4	3.1	10.4	28.6	6805.0	Systematic Futures
Transtrend DTP - Enhncd Risk (USD)	-1.2	-4.6	-7.9	-6.1	0.7	5730.1	Systematic Futures
Millennium USA LP Fd	1.2	9.3	11.7	33.2	64.5	5240.0	Multistrategy
Renaissance Inst Diversifd Alpha	-0.1	-1.0	-2.7	N/A	N/A	4944.5	Multistrategy
Brummer & Partners Nektar	0.2	2.8	5.3	21.4	84.5	4724.7	Debt Arbitrage
CS IF Switzerland Ttl Mkt Idx Blue Z	3.5	21.0	26.6	36.1	37.0	4156.3	Long-Only Eq
MKP Opportunity Offshore Ltd	-0.1	2.8	5.8	23.1	48.1	3620.4	Global Macro
MFS Invest Globl Eq TUKGBP	0.9	19.1	25.6	N/A	N/A	3392.6	Long-Only Eq
Bay Resource Partners Offshore	3.5	11.1	15.6	25.9	85.7	2579.0	US Lg/Sh Eq
Aurora Offshore Fd Ltd	1.2	5.2	7.1	8.9	24.5	2507.0	Fund of Funds - Eq
Quantitative Global Program	-1.2	-6.6	-9.5	12.5	18.3	2464.0	Systematic Futures
Aurora Offshore Fd Ltd II	1.2	5.6	7.7	9.5	23.1	2398.0	Fund of Funds - Eq
Pinnacle Natural Resources LP	-0.6	2.9	3.6	16.1	43.9	2276.0	Fund of Funds - Reltv Val
CS IMF Swiss Bonds CHF F	0.4	-1.6	-1.3	5.4	20.1	2135.7	Long-Only Debt
Guggenheim Ptnrs Opp Invmt Grd Secs	0.8	6.8	9.4	43.2	151.9	2119.9	Long-Only Debt

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