

Chicago Tribune

Citadel sees Chicago as staff's kind of town

But some see trouble competing with N.Y. to attract top talent

By Becky Yerak and Susan Chandler Tribune staff reporters
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When Citadel Investment Group expanded into the energy business in 2002, Chief Executive Kenneth Griffin was part of a team that interviewed hundreds of potential employees and hired only a dozen.

Was there anything they did or say to win him over?

"You want individuals who have demonstrated they're disciplined, passionate, committed and ambitious, whether they start a business in their college dorm room or they organized something in the community," Griffin said in a March 2006 interview.

But certain Citadel job candidates these days might need something else on their resume: experience helping to run a publicly traded company.

Last week, the privately held Chicago-based hedge fund hired John Andrews, the head of investor relations for publicly traded Goldman Sachs, signaling that it might join the small but growing ranks of hedge funds and private-equity firms doing initial public offerings.

But if Griffin, who began his career trading bonds from his Harvard dorm room in 1987, ultimately taps the stock market to build a more diversified financial-services company, he'll be competing with investment banks and other hedge funds to hire the best and brightest from top schools around the country, many of them on the East Coast.

In that lies a challenge not connected to Citadel's performance or its bonus formulas -- the hurdle could be its Midwestern location.

Citadel doesn't expect that to be a problem. It relocates almost half of its new hires to Chicago from around the globe, with just over a third of those recruited from New York. The company says it gets the candidate it wants nine times out of 10.

"Citadel is a pre-eminent brand and is shaping the hedge-fund industry," said Seema Kathuria, a Russell Reynolds search executive who has done work for Citadel. "People want to be with them."

But some headhunters say it is challenging to persuade some top candidates to move here, particularly those who have grown up on the East Coast, attended East Coast schools and want to work on Wall Street, the country's financial capital.

"A lot of people in New York still believe anything west of the Hudson [River] is the wilderness," said Peter Crist, of Hinsdale-based executive search firm Crist Associates.

One piece of good news for Chicago is, once New Yorkers do move here, they rarely want to return to the East Coast, he said. Crist also noted that pay discrepancies between New York and Chicago for higher-level jobs aren't as great as imagined, comments echoed by Citadel personnel managers.

The company said it offers competitive pay packages globally, and said workers get more mileage out of their money in Chicago than in New York because of the lower cost of living.

But the perception of a pay discrepancy persists even as Chicago develops a reputation as a creative financial-services center.

"I'd guess that Citadel is paying Andrews a New York salary plus," said Anna Snider, North American editor for IR Magazine in New York. "New Yorkers can be pretty provincial, and I expect some of these first-movers would treat a posting there as almost an expatriate situation and demand a kind of hardship bonus."

But Snider notes that finance types are increasingly talking favorably about Chicago.

"I think it's because of what's going on at the Chicago Board Options Exchange and the explosion of interest in the equity-options market," Snider said. "There's also the success of Citadel, so there's a feeling that Chicago is cutting edge now."

Citadel has grown to \$16 billion in assets since its 1990 founding. It is the world's 18th largest hedge fund and the only Illinois representative in a recent ranking of the top 100 hedge funds by Institutional Investor's Alpha magazine. Last week, Griffin earned a spot on Forbes magazine's list of the 400 richest Americans.

With the development of other financial markets such as Chicago and London, New Yorkers need to realize they are not at the only game in town anymore, Snider and others say.

Mistaken beliefs

Citadel, which looks for trading talent worldwide, says the resistance it runs into trying to lure people from New York has more to do with family reasons and misconceptions about Chicago's standing as a financial center than it does with pay, Big Apple cachet or the quality of life here.

"They think there are more firms doing what we do in the New York area, and there's a perception [that] 'if I go to Chicago and it doesn't work out, I've got to face another relocation, whereas in New York I can move down the street,'" said Mike Pyles, Citadel senior managing director for global human capital.

"I don't want to blow that concern away, but we have phenomenal opportunities here for people to play the biggest game they can in whatever space they trade in, and people coming here assuming they're going to fail are probably not going to be for us anyway."

Plus, Chicago does have a robust financial-services industry, he said.

"It's just not as visible in the popular imagination as the New York alternative," Pyles said.

But Chicago has a difficult time getting the word out.

"The vast majority of people in hedge funds want to live on the East Coast or in California," said Jennifer Christensen, a partner with Chicago's James Drury Partners, which is recruiting for a Connecticut-based hedge fund. "Where do Harvard MBAs want to be? It's those two places."

One New Yorker making the move to Chicago in 2004 was Matt Andresen, co-head of Citadel's derivatives group.

"If you're in the trading business, Chicago has a lot of cachet," he said, citing such institutions as the Chicago Mercantile Exchange, the Chicago Board of Trade and CBOE. "For my part of the business, Chicago is very much the center."

He had no qualms about moving from New York to Chicago, saying he would move to Alaska for the right job, but his family initially had reservations.

"My wife and I had lived in Manhattan for 10 years after school, and she was very much a Manhattan girl," he said.

After a year of Chicago living, however, Andresen's wife was hooked on Chicago, and she has put him on notice that if he takes a job in New York or London, he'll be commuting to it.

"She won't leave," he said.

Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange, agrees it can be difficult to get some people to move from New York, but that doesn't last.

"Once they are here, the hardest thing is to get them to go back," he said.

Financial bastion

Chicago has a different history and trading culture from New York that makes it attractive to people who want to make their mark, Melamed said.

"Chicago developed much later than New York. There was a lot of Western mentality, a risk-taking attitude," he said. "You were able to be an entrepreneur on your own."

That's still true today, he said. Chicago is the center of the derivatives-trading world, anchored by the recent merger of the Merc and Board of Trade. The city has a tradition of innovation in financial products: Financial futures, for example, were invented by the Merc.

Chicago traders also are comfortable using leverage to boost returns, a practice employed by almost all hedge funds, sometimes with less-than-optimal results.

New York, in contrast, has a more buttoned-down reputation, and much of Wall Street is based on trading equities, not exotic products such as options.

"It is now an easier sell to the world to say Chicago is the center of the U.S. when it comes to the financial markets. We're on the map," Melamed said. "It will be a financial magnet for the Citadels and companies like that. I don't think anybody will have real trouble in finding people."

Citadel has 1,100 employees and about 80 percent are in Chicago, many in first-class downtown office space.

Many hedge funds are small outfits operating in nondescript locations. ESL Investments, Edward Lampert's hedge fund, for example, is headquartered in a low-rise building in Greenwich, Conn., and operates with a bare-bones staff of a few dozen.

Citadel certainly has a lot to offer new hires, particularly those fresh out of college or MBA schools. The firm has an extensive training program and regularly scheduled training of available to all employees.

It also has a local pool of talent to draw from because it is home to two of the nation's best-regarded business schools, the Kellogg School of Management at Northwestern University and the University of Chicago Graduate School of Business.

Citadel thinks it is a misperception to think that, if and when it ever does an IPO, it would always have to turn en masse to the East Coast to build a staff to handle such duties.

Indeed, Discover Financial Services, the Riverwoods-based company spun off this year from Morgan Stanley, said many of its new hires came from the Chicago market as it prepared to become a stand-alone public company.

"I don't think you need to go to New York to find that talent," said Darcy Zulpo, Citadel's global recruiting director. "We have a great population in the Midwest that we can pull from as well."

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