

Title: Round and round the mulberry bush!

Author: disoriented_llama

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****WSJ Exclusive:****

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****Text for apes who can't the paywall:****

Ken Griffin's Citadel LLC and Citadel partners are planning to redeem roughly \$500 million of the \$2 billion they put in Melvin Capital Management after Melvin got slammed by bad short bets on [GameStop](<https://www.wsj.com/market-data/quotes/GME>) Corp. [GME 4.19%](<https://www.wsj.com/market-data/quotes/GME?mod=chiclets>) and other soaring stocks, said people familiar with the matter.

Citadel and Steven A. Cohen's Point72 Asset Management together invested \$2.75 billion into Melvin's hedge fund on Jan. 25 as Melvin was hem'raging money. In return for the rare intra-month investments, the two firms received non-controlling revenue shares in Melvin for three years. The arrangement means they share in the management and performance fees Melvin collects from its clients over that time but don't get any control over Melvin or its investments.

Citadel will keep its revenue share, some of the people familiar with the matter said. It couldn't be determined Friday if Citadel plans to redeem additional money later, but a person familiar with Citadel said it expected to remain a large investor.

Founded by Gabe Plotkin, a former star portfolio manager for Mr. Cohen, Melvin had been one of the best-performing hedge funds in recent years until the meme-stock misadventure in January upended its portfolio. Individual investors banding together on forums like Reddit and Discord [claimed victory for driving up shares](https://www.wsj.com/articles/gamestop-mania-reveals-power-shift-on-wall-street-and-the-pros-are-reeling-11611774663?mod=article_inline) of GameStop and other companies. [Some hedge funds profited](https://www.wsj.com/articles/this-hedge-fund-made-700-million-on-gamestop-11612390687?mod=article_inline) from the unprecedented market moves. Melvin lost 54.5%, or more than \$6 billion, in just a few weeks.

The dizzying ascent of a handful of stocks, plus mounting losses at Melvin and other prominent hedge funds including Point72 and D1 Capital Partners, transfixed Wall Street and individual investors and sparked a congressional hearing, [regulatory inquiries and federal probes](https://www.wsj.com/articles/gamestop-mania-is-focus-of-federal-probes-into-possible-manipulation-11613066950?mod=article_inline).

Citadel, a more than \$38 billion hedge-fund firm that employs teams of traders, rarely has had such a sizable investment with an outside manager before, said people familiar with the firm. Still, it has a history of [swooping in when other funds are in distress,](https://www.wsj.com/articles/citadel-hiring-about-17-portfolio-managers-from-shuttered-hedge-fund-visium-1469042756?mod=article_inline) making billions from buying distressed assets from the failed hedge funds Amaranth Advisors LLC and Sowood Capital Management LP, as well as Enron Corp.

Melvin ended the week of Jan. 18 having lost about 30% for the year. Citadel, its partners and Point72, already a large investor in Melvin, invested the following Monday. But the next two days were brutal for fundamental stock picking hedge funds as broad market turmoil led funds to hunker down. Hedge funds cut their exposure to the market on both the long and short sides of their portfolios as they worried about erratic stock movements, in turn [dealing losses to other funds.](https://www.wsj.com/articles/several-hedge-funds-stung-by-market-turmoil-11611842693?mod=article_inline)

Melvin has produced a 25% return since Feb. 1 through the end of July, making it one of the top performing hedge funds for the period. But its losses in the immediate wake of Citadel's and Point72's investments cut significantly into those funds' gains on their January wagers on Melvin, said people familiar with the matter. Melvin remains down about 43% for the year through July.

Point72 is maintaining its investment in Melvin, said a person familiar with the investment.

Mr. Plotkin has told people he didn't necessarily expect Citadel to keep its entire investment in Melvin long term, said people briefed on the conversations. A person familiar with Melvin said it plans to replace the outgoing money with investments from new and existing clients.

Melvin has raised roughly \$1 billion in recent months, helping bring its assets under management to more than \$11 billion, and it has made new hires. It has also signed a lease for a Miami Beach, Fla., office that it will keep in addition to its New York office.

Bringing in new money can generate investment and management fees, helping to attract and retain talent. Existing money is subject to a high-water mark, or the point at which investment gains make up for losses and managers can begin collecting performance fees again. Melvin's performance fees are among the highest in the industry, ranging up to 30% on investment gains.