Hedgehog Heaven

Market dips notwithstanding, hedge fund czars still don't give enough of their winnings away

"I don't remember Robin Hood keeping 2 and 20 as his cut."

Senator Charles Grassley, R-Iowa, referring to the lucrative fees that Robin Hood Foundation board members get by investing the nonprofit's funds.

Two years ago, I wrote a book, *740 Park*, that ended with a challenge to Stephen A. Schwarzman, chairman of The Blackstone Group. Five years before that, he'd bought the best apartment in a famous Manhattan building, 740 Park Avenue. The apartment had previously belonged to John D. Rockefeller, Jr., probably the world's greatest-ever philanthropist, and more recently, to Saul P. Steinberg, the Icarus of finance, whose fall from grace let Schwarzman snatch his real estate trophy. It was a bold move that signaled Schwarzman's intention to raise his profile in New York's linked worlds of business and society.

ILLUSTRATION: MICHAEL WITTE

If anything, though, Schwarzman has become too successful—and yes, there is such a thing. At the end of the book, I invited him—challenged him, really—to take Rockefeller, not Steinberg, as his role model, and start giving money away to those in need. Instead, Schwarzman has kept accumulating, pulling off the largest corporate buyout ever—the $39 billion takeover of Equity Office Properties in February 2007. Simultaneously, he went on a public spending spree that culminated with a little 60th birthday party—for himself.

Can he be blamed, nay, forgiven, for spending some $3 million to rent the Seventh Regiment Armory on Park Avenue, serve lobster and Chassagne Montrachet to some 350, and hire Martin Short, Rod Stewart, Marvin Hamlisch, Patti LaBelle, and the Abyssinian Baptist Church Choir to entertain him and his guests?

Can you forgive others if Schwarzman reminds folks of Saul Steinberg (or worse, Dennis Kozlowski), whose penchant for hosting over-the-top parties signaled the beginning of the end of the 1980s Greed Decade?

Then, oops, Schwarzman did it again, when he announced the Blackstone IPO, and his colleagues in private equity and hedge funds began worrying that he was dangerous and would cast unwelcome light on all private equity hedgies and newbie-*nouveaux riches* (which is, of course, exactly what happened). Schwarzman and Blackstone cofounder Peter G. Peterson sold a combined $2.56 billion worth of shares of Blackstone to the public (an ironic twist for a private equity company), and walked off with a cool $677 million while holding onto a 23 percent stake worth another $7.7 billion, and, in the process, set off a tsunami of *Schadenschwarzmanfreude*.

The 2006 tax return for the Schwarzman Charitable Foundation shows five-figure assets of **$63,424** and notes that only **$991** of that is being held for charitable purposes.

The eyes of the world were on all those hedgies yet again in August, when Iowa Senator Chuck Grassley introduced a bill to close a tax loophole that's helped create this new class of hedgie uber-wealth, a loophole that let most of the hedge kings' income to be taxed at 15 percent, instead of the 35 percent that most of the rest of us pay.

Grassley—the charity watchdog in Congress—had gotten irked by what has been the best advertisement extant for hedgies, the Robin Hood Foundation. Turns out that a big chunk of its funds—a so-called "rainy day fund" of some $144.5 million—is being invested in hedge funds controlled by the very merry men of Robin Hood's board, and that they were collecting typical industry fees (2 percent of assets plus 20 percent of profits) for managing that money. "I don't remember Robin Hood keeping 2 and 20 as his cut," Grassley said of the deal.

Now, don't get me wrong; I have nothing but respect for a nonprofit foundation that can raise $71 million in a single night for the poor and the uneducated, as Robin Hood did at its last mega gala in May. But in the current Gordon Gekko 2.0 climate, it's painfully obvious that $71 million is just a drop in the bucket for most of these guys—not even 9 percent of what just one of these hedgies, ESL Investments CEO Eddie Lampert, took home last year. Schwarzman, the prince in this bucolic forest of riches, personally took home nearly $400 million—but once again, he has given almost none of it away to charity.

Perhaps to get him started in that noble pursuit, the venerable New York Public Library chose to honor him at its annual corporate dinner in June—prompting the usually businessman-friendly *New York Sun* to pointedly note that Schwarzman's name appears nowhere on the *Chronicle of Philanthropy's* list of the 61 most generous givers. Nor is it on *BusinessWeek's* Top 50 Most Generous. And it's no wonder: the 2006 tax return for his Schwarzman Charitable Foundation shows five-figure assets of only $63,424 and notes that only $991 of that is being held for charitable purposes.

C'mon, folks. Imagine if Schwarzman had started doing what the Rockefellers and Carnegies had done before him, and tithed even a small but significant portion of his wealth regularly to charity. Imagine, too, if Schwarzman had said aloud, repeatedly, that he was seeking to set a good example, like Alan "Ace" Greenberg, former chairman of Bear Stearns, who required employees to make charitable donations.

Sure, David Rockefeller is only number 107 on the current *Forbes* 400. (Schwarzman, despite his paper losses in the billions from the Blackstone deal, was ranked number 73—and is expected to rise like a rocket from that berth on next year's list.)

That challenge I issued two years ago? It still stands, Mr. Schwarzman. You've proven you can bring home the bacon better than anyone else right now. But so what? When are you and your colleagues going to start spreading around more of the pork?

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$500 million

What the Robin Hood Foundation has raised, approximately, since its inception in 1988 for programs ranging from charter schools to the Children's Defense Fund to the Harlem Children's Zone.

Bloomberg Online, July 15, 2007

$1.7 trillion

The total assets of the nearly 10,000 hedge funds worldwide. That's up from nearly 5,400 hedge funds worth an estimated $625 billion five years ago.

Los Angeles Times, August 14, 2007

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