

# The Daily Dispatch

## Weekly Special Feature

April 08, 2021

### *Inside Archegos's Epic Meltdown*

By: Gregory Zuckerman, Juliet Chung and Maureen Farrell—The Wall Street Journal (*Published on April 1, 2021*)



Bill Hwang, founder of Archegos Capital Management  
[PHOTO: EMILE WAMSTEKER/BLOOMBERG NEWS]

Bill Hwang was in trouble.

On Thursday of last week, the firm managing the former hedge-fund trader's wealth arranged a conference call with executives at some of the largest investment banks in the world. The urgent topic: mounting losses at Mr. Hwang's family office, Archegos Capital Management, from a handful of large bets on major stocks.

Because the wagers had been made in part with so-called total-return swaps—investments made by banks on behalf of clients for a fee—they had obscured Mr. Hwang's large exposure to several companies.

Archegos shocked its lenders when it told them the size of its portfolio and how little cash it was holding, said people familiar with the call—not the least because they were all now facing billions of dollars in potential losses themselves.

Now Wall Street is sifting through the aftermath of the biggest single-firm meltdown since the financial crisis. Mr. Hwang alone lost approximately \$8 billion in 10 days, a person familiar with the matter said, in what traders and investors say was one of the fastest losses of such a large sum they had ever seen.

The firm's implosion has rippled through the financial

world, eroding tens of billions of dollars from the shares of media conglomerates and investment banks. Japanese bank Nomura Holdings Inc. said it was owed about \$2 billion by a U.S. client. Credit Suisse Group AG shareholders are braced for \$3 billion or more in losses. People familiar with the matter said the losses were related to Archegos for both banks.

The meltdown has sparked calls for greater scrutiny of the use of swap transactions and more oversight of family offices, which manage the fortunes of wealthy individuals. Family offices have soared in size in recent years and now manage more than \$2 trillion. Because they don't market to outside investors, they are far less regulated than similar vehicles such as hedge funds, which have to regularly disclose their investments.

### **Wreaking 'havoc'**

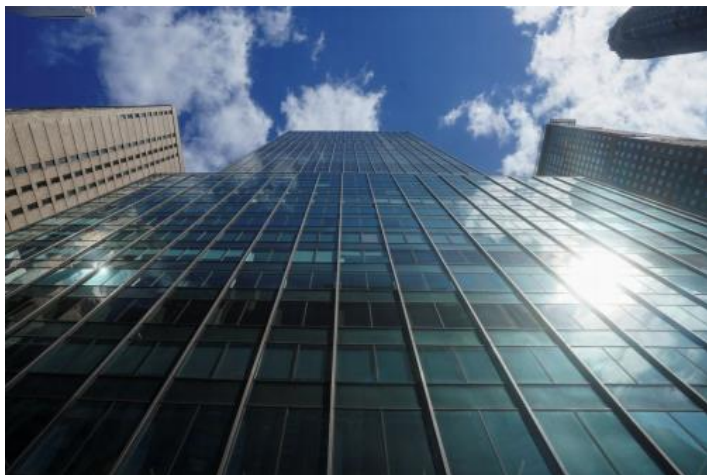
"The collapse of Archegos Capital Management and the billions of dollars in losses to investors and other market participants is a vivid demonstration of the havoc that errant large investment vehicles called 'family offices' can wreak on our financial markets," Dan Berkovitz, a commissioner on the U.S. Commodity Futures Trading Commission, said.

Behind the enormous losses was Mr. Hwang, a 57-year-old Korean-born investor, devout Christian and protégé of famous hedge fund veteran Julian Robertson. Mr. Hwang built his fortune swinging for the fences, often focusing his investments in just a few stocks, paying little attention to hedging his positions while borrowing large amounts of money to boost his returns.

His appetite for risk extended beyond big bets. In 2012, his firm Tiger Asia Management LLC pleaded guilty to U.S. criminal charges and settled civil-fraud claims related to allegations of insider trading. Mr. Hwang was barred from managing client money in the U.S. with the right to apply to lift the bar after five years. A Hong Kong court separately

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ordered Tiger Asia to pay about \$5.8 million to settle claims related to the conduct.



This building at 888 7th Ave. in New York reportedly houses Archegos Capital. [PHOTO: CARLO ALLEGRI/REUTERS]

Sung Kook “Bill” Hwang emigrated to the U.S. from Seoul with his family and attended the University of California, Los Angeles, in the 1980s. The son of a pastor, Mr. Hwang became an equities salesman at Hyundai Securities Co. and so impressed Mr. Robertson, the wellknown investor who ran hedge fund Tiger Management, that he hired him.

At Tiger, Mr. Hwang sat near Mr. Robertson’s office, researching opportunities. Soon, Mr. Hwang was urging Mr. Robertson to buy Korean shares. Mr. Robertson scored big profits, cementing their relationship.

When Tiger closed in 2000, Mr. Robertson backed Mr. Hwang as he started his own hedge fund, Tiger Asia. In 2001, Mr. Hwang’s firm started with less than \$100 million, according to a person familiar with Tiger Asia, and he worked at 101 Park Avenue in Midtown Manhattan with several other funds with ties to Mr. Robertson. Those funds regularly met to discuss investment ideas. Mr. Hwang and his analysts rarely participated, eager to keep their strategies to themselves, according to people familiar with the matter. Mr. Hwang even kept information from his own team, leaving some of them to wonder how he was forming his investment decisions, the people said.

Splitting his time between the U.S. and his fund’s Hong Kong office, Mr. Hwang used borrowed money to buy huge chunks of young, growing companies, including LinkedIn. As those stocks soared, Mr. Hwang’s fund grew

in size past \$5 billion.

Mr. Hwang was open about his faith and liked doing business with other Christians, sometimes commenting if a colleague wore a cross necklace, according to a Wall Street banker who worked with Mr. Hwang. He regularly discussed his charitable foundation with visitors and emphasized the importance that community service played in his life, talking with pride about various projects he and his mother had supported.

Mr. Hwang owned just a handful of stocks, a concentrated portfolio that made his returns more volatile. He liked to focus on stocks that were heavily “shorted,” or had a high level of bearish positions, according to someone familiar with the trades, a stance that can lead to profits if the stocks rise in price.

In many years, Mr. Hwang scored annual gains of between 40% and 80% according to someone close to the firm. Once, a friend asked Mr. Hwang if he had taken profits from a stock that had soared.

“No, I’m still buying,” Mr. Hwang replied, a person familiar with the matter said.

As his gains piled up, Mr. Hwang sometimes viewed his profits through the prism of religion.

“Do I think God loves it? Of course!” Mr. Hwang said in a video, referring to his early investment in LinkedIn. “I’m like a little child looking for, what can I do today, where can I invest, to please our God?”

Working late in the night so he could trade Asian markets, Mr. Hwang hired analysts but made all final decisions, developing a unique approach to elicit information from executives and others. Mr. Hwang liked to ask a probing question and then say little more during the conversation, waiting to hear interesting tidbits of information, according to two executives who interacted with him.

In the fall of 2008, Mr. Hwang was one of a number of hedge-fund investors burned when they wagered against shares of Germany’s Volkswagen AG, which jumped 348% over two days. A former colleague says he was struck

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by Mr. Hwang's equanimity during that period, sometimes greeting colleagues with a smile.

By then, Mr. Hwang was a billionaire. Sometimes, he worked on a large boat, friends say, but lived a relatively modest life compared with others on Wall Street. He owned a \$3 million home in Tenafly, N.J., but drove an older-model car.

In 2010, regulatory investigations that would span the next several years related to allegations of insider trading had begun. Mr. Hwang has said his regulatory issues revived his Christian faith. "I had, really, a bad business problem. And I knew no matter how much money [and connections] I had...they couldn't help me," Mr. Hwang said in a 2018 interview at a Christian conference.



Mr. Hwang made his mark initially with successful investments in Asia. [PHOTO: ISAAC LAWRENCE/AGENCE FRANCEPRESSE/GETTY IMAGES]

## Returned money

Mr. Hwang returned clients' money in 2012 and turned his firm into an office to manage his family's wealth. He named it Archegos, which, translated from Greek means "leader" or "prince of Christ." A Christian ethos permeated the firm, with voluntary Friday morning Bible studies where a recording of Bible readings would play to music.

Around 2015, Mr. Hwang ran into a new problem: Archegos, which he ran like Tiger Asia, had become so big it no longer could focus on shares of Asian companies trading in those markets, which sometimes were too small to enable Archegos to buy and sell without jolting prices.

Mr. Hwang decided to expand the firm's portfolio into larger U.S. shares. Mr. Hwang told friends he was even more comfortable with trading risks, since the firm managed his

own money, not clients' cash.

By this year, Archegos had built out a network of lenders, called prime brokers, using the services of six different banks—Goldman, Morgan Stanley, Credit Suisse, Nomura, Deutsche Bank and UBS. His use of leverage and willingness to pay fees without haggling made him a lucrative client

Archegos was regularly putting up \$15 of collateral to borrow \$85, on the high end of leverage for stock-trading firms with similar strategies, said a banking executive familiar with the borrowing. Some of his lenders balked at those terms, but Mr. Hwang found other willing counterparties.

For most of the past year, Mr. Hwang was on a roll. Stocks owned by Archegos, including ViacomCBS Inc., Discovery Inc. and a U.S.-listed Chinese tutoring company called GSX Techedu Inc. soared, making the fund billions of profits. As the shares rose, the fund added to its top performers, often using derivative trades called swaps agreements. Archegos effectively owned 25% of some companies, according to a person familiar with the matter.

Archegos's lenders say they were unaware of the extent of trades he was making with other banks, information that would have encouraged them to curb their lending. Banks can ask clients for information on their loans from other banks but clients don't necessarily have to disclose it or their positions.

## The drop

On Monday of last week, everything changed for Mr. Hwang. That day, ViacomCBS, one of his largest holdings whose stock price had risen more than 150% in 2021, announced it would sell new shares. The offering pressured the stock, sending it down more than 25% in the aftermath of the announcement.

Because of Archegos's highly concentrated positions, the sharp drop in Viacom hit the fund's portfolio, and many in the market believe that Archegos started selling other stocks in its portfolio to cushion the blow. Those sales sent other stocks it held tumbling, including Discovery. Suddenly, the

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collateral Archegos had given the banks was no longer enough to back the loans. Banks hit Archegos with margin calls to back up its trades, which initially were met by the fund, but as ViacomCBS fell further on Wednesday, the firm didn't have the money to provide its lenders, a person involved in the unwinding said.

That forced the banks to sell Archegos's collateral holdings even as they were tumbling, worsening the selloff. Archegos reduced some of its holdings on Thursday and ViacomCBS shares fell more steeply.



A major bet on ViacomCBS went south, helping to topple Archegos.  
[PHOTO: MARK KAUZLARICH/BLOOMBERG NEWS]

When Archegos called its banks for a meeting, they had different opinions on how to handle the situation.

Representatives from Credit Suisse and Nomura, which faced the most extreme losses, suggested working together over a month to unwind Archegos's trades. They acknowledged the impediments to doing so, particularly that each bank would need to strike a separate agreement with Archegos to avoid antitrust issues.

Representatives from Morgan Stanley and Goldman Sachs balked at even the idea of doing so, saying that within a day or two the market would get wind of the amount of stock that needed to be sold and pummel them. The meeting disbanded before they agreed to work together.

The call ended Thursday night as the Asian stock market was about to open. The fire sale began.

Mr. Hwang has tried to bolster the spirits of his employees. Last Friday, he held a group call, telling them they were in it together and asking them not to quit. Some employees expect Archegos to file for bankruptcy, said a person briefed on the matter.

“This is a challenging time for the family office of Archegos Capital Management, our partners and employees,” a spokesman said in a statement Thursday. “All plans are being discussed as Mr. Hwang and the team determine the best path forward.”

—Margot Patrick, Ken Brown, Dave Michaels, Quentin Webb and Jim Oberman contributed to this article.

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Source: : Gregory Zuckerman, Juliet Chung and Maureen Farrell (2021) ‘Inside Archegos’s Epic Meltdown,’ *The Wall Street Journal*. Available at: <https://www.wsj.com/articles/inside-archegoss-epic-meltdown-11617323530> (Accessed 7 April 2021)

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TODAY'S TOP NEWS

## Duterte signs EO lowering tariffs on pork imports

Philippine President Rodrigo R. Duterte on Wednesday signed an executive order (EO) temporarily lowering tariffs on imported pork meat for one year, in order to address the current supply shortage due to the African swine fever (ASF) outbreak.

## Pilipinas Shell eyes P20-B budget for next 5 years

Pilipinas Shell Petroleum Corp. is looking at investing up to P20 billion in the next five years to fund, among others, the construction of oil import terminals and more “mobility sites” as the listed company shifts to a new business model.

## First Gen unit to complete 2 geothermal projects

First Gen Corp. said on Wednesday that its subsidiary Energy Development Corp. (EDC) plans to complete two of its geothermal projects by 2022, as the parent firm expressed its intention to expand into businesses that complement its power generation operations.

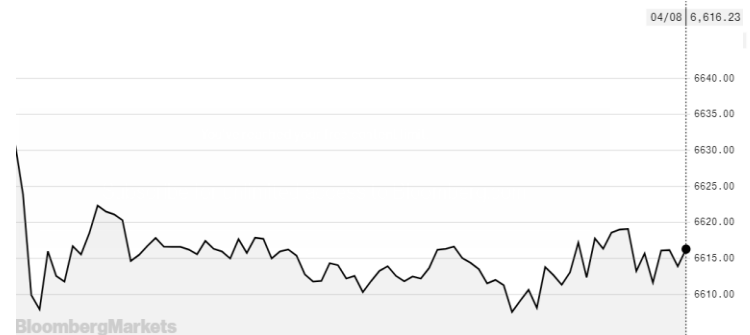
## Cebu Landmasters posts lower income

Cebu Landmasters, Inc. (CLI) reported a net income attributable to the parent firm of P1.85 billion, or down by 8%, which the listed real estate developer said was within its profit guidance for 2020. CLI reservation sales went up by 12% in 2020 to P14.25 billion, a record for the company, from P12.67 billion the previous year.

## Axelum eyes bigger US market share via e-commerce

Axelum Resources Corp. seeks to increase its market share in the US e-commerce business after receiving positive customer response for its products. Some of its products such as organic coconut flakes had placed among the top 20 bestsellers in their segment and received positive reviews from customers.

## Philippine Stock Market Update



**Previous Close:**

6,651.71

**Open:**

6,648.71

**52-Week Range:**

5,390.97 - 7,432.40

**1 Yr Return:**

22.17%

**YTD Return:**

-7.34%

**Source:**

Bloomberg

## Foreign Exchange

As of April 7, 2021

US Dollar	Philippine Peso
1	48.583

## PDST-R2 Rates

As of April 7, 2021

Tenor	Rate
1Y	1.922
3Y	2.776
5Y	3.291
7Y	3.765
10Y	4.225
20Y	4.986

## Daily Quote

"A great leader's courage to fulfill his vision comes from passion, not position."

--John Maxwell

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## MORE LOCAL NEWS

### Right-of-way order to ease cell tower construction

Cellular tower construction is expected to accelerate after the Department of Public Works and Highways (DPWH) issued a department order granting telecommunications firms use of the government's right of way on national roads, Globe Telecom, Inc. said.

### PAL makes vaccine delivery to VisMin

Philippine Airlines (PAL) airlifted vaccines to key areas in Visayas and Mindanao as part of its efforts to bring life-saving treatments to larger segments of the country's population amid the COVID-19 pandemic.

### BOC collects P138.5M from overstaying containers

MANILA, Philippines — The Bureau of Customs (BOC) has collected over P138.5 million from the disposition of abandoned or overstaying containers in the country during the first quarter of 2021.

### Term deposit yields drop as inflation slows

Term deposit rates eased across the board anew as inflation slowed down in March amid the reimposition of enhanced community quarantine in the NCR and nearby provinces. The yield of the seven-day tenor slipped by 4.38 basis points to 1.7842% at the term deposit facility (TDF) auction by the BSP yesterday from last week's 1.828%.

### Gatchalian pushes for adoption of EVs

Sen. Sherwin Gatchalian is pushing for the adoption of electric vehicles (EVs) as the country moves toward the recovery phase from the ill effects of COVID-19 on transportation and mobility.

### Metro Manila retail prices rise faster in February

Retail prices of consumer goods in Metro Manila rose at a faster pace in February, the Philippine Statistics Authority (PSA) said. In a report, the PSA said the General Retail Price Index (GRPI) in the National Capital Region (NCR) in February grew at 1.4 percent, faster than the 1.3 percent rate in January.

### CLI sets P12 billion capex this year

Cebu Landmasters Inc. (CLI), the listed property developer in the Visayas and Mindanao regions, is allotting P12 b for capital expenditures this year, up from P7.4 b in 2020. CLI officials said the bigger capex for this year would support the company's projects as it resumes its growth trajectory despite the negative impact of COVID-19.

### PDIC remits P7.1 billion to Treasury

The Philippine Deposit Insurance Corp. (PDIC) has remitted a total of P7.1 billion in dividends to the Bureau of the Treasury (BTr), the Department of Finance (DOF) said.

### PhilWeb incurs P60 million loss in 2020

PhilWeb Corp. reported a net loss of P60 million in 2020, a decline of 30 percent from the previous year. Revenues went down by 51 percent to P264.8 million from P539.9 million a year ago.

### Security Bank, MUFG ink cash management deal

Security Bank further strengthened its partnership with Japan's MUFG Bank Ltd. through a new agreement aimed at raising the bar for financial service excellence. The cash management partnership agreement would provide MUFG clients with products and services that are suited to the domestic front while complementing its current product

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## TODAY'S TOP ASIAN NEWS

### Singtel unit prices S\$1b subordinated perps at 3.3%

SINGAPORE Telecommunications (Singtel) on Thursday announced that its wholly-owned subsidiary Singtel Group Treasury (SGT) had priced S\$1 billion of subordinated perpetual securities on April 7.

### Trip.com seeks up to \$1.8b Hong Kong second listing

Online travel platform Trip.com Group is seeking to raise as much as HK\$10.5 billion (S\$1.8 billion) in a Hong Kong second listing, adding to the growing cohort of US-traded Chinese companies selling shares in the Asian financial hub.

### UOB raises \$1.5b in dual tranche sustainability bond

UOB has priced a dual tranche of senior notes at 1.25% and Tier 2 subordinated notes at 2% per annum. The bank raised \$1.5 billion, with a final orderbook of \$2.75 billion. The issuance is the first sustainability bond offering from Sg and the first dual tranche senior and Tier 2 instrument in sustainability format globally from a bank

### Octillion looks to cash in on carbon neutral drive

China's push towards carbon neutrality as well as its growing manufacturing might will allow electric vehicles (EV) to compete equally with standard cars by 2030 and drive the sector to new heights, the head of a leading Chinese EV battery maker said.

### China's Niu launches kick-scooter models

China's electric scooter maker Niu Technologies said on Wednesday it would roll out its first kick-scooter model in the United States and Europe and four electric bike models as it expands its product line-up.

## TODAY'S TOP GLOBAL NEWS

### Exxon explores sale of elastic polymer business

Exxon Mobil Corp is exploring a sale of its Advanced Elastomer Systems (AES) division, potentially valuing the elastic polymer maker at around \$800 million including debt, according to people familiar with the matter.

### Manhattan's Watson Hotel sells for \$175m

A 600-ROOM hotel on Manhattan's West Side has changed hands in one of the largest lodging transactions since the Covid-19 pandemic upended the global hospitality industry.

### Tencent top holder Prosus to sell up to \$14.6b stake

PROSUS NV plans to raise as much as US\$14.6 billion from the sale of shares in Chinese Internet giant Tencent Holdings, further growing its war chest for new e-commerce deals.

### Flying-taxi SPAC accused of stealing aircraft tech

[PHILADELPHIA] Wisk Aero, a maker of electric-powered aircraft designed for use as flying taxis, claims its technology was stolen by Archer Aviation, a rival startup valued at US\$3.8 billion in a blank-cheque deal earlier this year involving United Airlines Holdings and investment banker Ken Moelis.

### Twitter held talks for \$4b takeover of Clubhouse

Twitter Inc held discussions in recent months to buy audio app Clubhouse at a \$4 billion valuation, Bloomberg News reported on Wednesday, citing people familiar with the matter.