[Hedge funds profit in land of Greek opportunity]

Sam Jones and Robin Wigglesworth, FT.com, October 10, 2013

John Paulson's hedge fund has profited from investment in the Greek banking sector. From Andrew Liveris of Dow Chemical to ambassador John Negroponte, the great and the good of the Greek diaspora gathered last week to clink champagne glasses at a dinner prepared by Argiro Barbarigou, Greece's celebrity chef *du moment*, under the expansive dome of 583 Park Avenue.

Bill Clinton gave a speech, somewhat stealing the limelight from the evening's other guest of honour, Antonis Samaras, Greece's prime minister. A clue to the thrust of the event lay in the guest list: alongside Greeks, a who's who of Wall Street. Indeed, for Mr Samaras, the gala marked the end of a whistle-stop New York tour that had kicked off with a private meeting with JPMorgan's Jamie Dimon and an afternoon spent in the company of hedge fund managers including John Paulson, the multibillionaire head of Paulson & Co.

And with good reason. Hedge funds – once accused of exacerbating and even creating the Greek debt crisis by bidding down bond prices – are now among the most bullish and important players in the Greek market. Greece, with 1.4m unemployed, is turning out to be a land of opportunity for financial speculators.

"We've seen an influx of liquidity recently, driven by investment banks taking hedge funds and emerging market investors on roadshows to Greece," says George Zois, head of Greek equities at Exotix, a brokerage.

Greece's beleaguered banking sector has been the area of greatest interest. Paulson & Co, Baupost, Dromeus, York Capital, Eaglevale and Och-Ziff are among those to have taken stakes in Alpha Bank and Piraeus Bank. All have profited handsomely.

Alpha Bank shares have risen 32 per cent in the open market since the bank's recapitalisation in June, for example. Even after such a rise, it still trades at 0.8 times its book value – a discount to European peers.

More to the point, hedge funds that participated in the recapitalisation also received a free warrant, convertible into 7.4 Alpha Bank shares at exercise prices of 4, 5 and 8 per cent over the issue price, at respectively one, two and five years after the issue.

For those funds, their investment in Alpha – shares and warrants – is up about 290 per cent so far.

Frenzied trading in the warrants also means that hedge funds could end up dominating Greek bank share registers. If all the warrants converted into equity today, said one hedge fund manager, then Alpha Bank and Piraeus Bank could each be as much as 50 per cent-owned by hedge funds.

Investors have scented opportunities beyond banking too. Companies such as OPAP, the gambling monopoly; Hellenic Telecommunications, or OTE; and Ellaktor, a conglomerate with interests in construction, waste management and mining, have done particularly well. The gambling group has gained almost 70 per cent this year, OTE has climbed 63 per cent, and Ellaktor 48 per cent.

“When we launched our Greek-focused fund a year ago, first people just laughed at us,” says Achilles Risvas of Dromeus Capital, a hedge fund that has focused its investments in Greece. “Then they started arguing with us. And now, they want to invest with us.”

Dromeus’s fund made 40 per cent in 2012. It is up 93 per cent so far this year. The average hedge fund eked out a return of 5.6 per cent this year, and 6.4 per cent last year, according to HFR.

For Mr Risvas, opportunities in Greece still abound. “There is obviously still upside in public markets, but I think that the next phase of the Greek trade is in the private markets,” he says. “The real estate market has suffered a profound deterioration, for example. Prime office space has declined 50 to 60 per cent and is still depressed.”

All of which is not to say the risks are not high. Greek assets suffered steep price falls in the summer in line with the global emerging markets sell-off, and uncertainties still abound over the future of other peripheral European countries.

“This country has been in a deep recession for four years,” says Morgan Stanley’s Paolo Batori, global head of sovereign credit strategy. “It’s positive that we now have green shoots, but their strength depends on what happens with the European and global economy.”

Above all, though, the risk is domestic, and political. Confidence in the Greek government has been the crucial building block of most hedge funds’ willingness to step into the country, say hedge fund managers in private. Mr Samaras’s courting of hedge funds may be unusual, but it is certainly not unwarranted.

On this story

- Paulson leads charge into Greek banks
- Boom year for hedge fund equity bulls
- Greece’s Piraeus prepares to float unit
- Top hedge funds bet on Greek banks

Do you remember John Paulson? In 2007 he became famous for having the highest income of all hedge fonds managers on Wall street, because he bet against the US housing market. Not all of his deals were fair, to say it politely. Later the SEC investigated a deal called ABACUS 2007-AC1, for which Paulson told Goldman Sachs to create a CDO with bad subprime mortgages, so that he could bet against it. For details of that deal see : http://www.reuters.com/article/2010/04/16/us-goldmansachs-abacus-factbox-idUSTRE63F5CZ20100416

Goldman Sachs agreed 2010 to pay $550 million to settle with the SEC and a former vice president of Goldman Sachs, who was responsible for the deal inside of Goldman Sachs was found liable for fraud in front a jury: http://www.reuters.com/article/2013/08/01/us-sec-goldman-tourre-idUSBRE96G19720130801

Paulson earned with that single deal around one billion Dollar and had never to justify itself in front of a court for this. And now he tells the whole world, that he owns shares in two Greek banks, Piraeus Bank and Alpha bank. Reuters cites from a statement: "They have good management and we think the Greek economy is improving, which should benefit the banking sector." http://www.reuters.com/article/2013/10/07/uk-greece-banks-funds-idUSLNE99600520131007

How does this management looks like? In Greece after the haircut the banks are more or less bankrupt and need to be recapitalized. Officially they are thanks to 50 Billion Euro from the troika, but most experts still estimate that the nonperforming loans are still higher than the injected capital. Normally nobody would like to give capital to such banks. Here is the solution the owner of Piraeus bank found for this situation: Reuters reported in summer 2012, that he used credit of his own bank to buy shares of his bank (read the full story here: http://www.reuters.com/article/2012/07/16/us-greece-banks-idUSBRE86F0CL20120716).

In this New York Times article from June you can read even more of what the president of Piraeus bank did to make his bank during the crisis to biggest bank of Greece: http://www.nytimes.com/2013/06/11/business/global/a-wily-banker-reaches-the-top-in-greece.html?pagewanted=2&pagewanted=all

If you think you get trouble if someone finds out about such business practices, you are wrong. Mr. Salinas is still the President of Piraeus bank and the Greek Central Bank, which investigated all allegations, could find no wrong doings. And they must know it: The president of the Greek central bank is a former vice president of Piraeus bank. But here you can find out, what happens to people who report about such practices in Greece: http://yanisvaroufakis.eu/2013/04/19/greek-banksters-in-action-on-the-latest-twist-in-the-story-of-mafia-style-terror-spreading-through-the-greek-polity/

And also the troika did everything possible to make buying shares of Greek banks as lucrative as possible: For each Euro someone invests in banks like Piraeus the troika pays additional nine Euro and if the share price raises to a certain level, the investor gets the right to buy this additional 90 percent of shares, but not for the then actual much higher price, but for the low price of today. Glory to the troika to make such lucrative deals with taxpayers money. Read the full explanation of the Paulson deal in todays blogpost of Yanis Varoufakis here: http://yanisvaroufakis.eu/2013/10/07/johnny-paulson-got-his-gun-and-is-aiming-at-some-grim-greek-pickings/