

BN 05/13 Thomas Taylor, Ex-Bass Brothers Investor, Turns to Insurers

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By Katherine Burton

May 13 (Bloomberg) -- Thomas Taylor, who spent 22 years managing money for the Texas billionaire Bass brothers, is starting a new business to create hedge fund portfolios for life insurers to sell to their wealthy clients.

Taylor, 61, has relationships with three domestic insurers and two offshore insurers. He declined to identify them. Since starting the project in February, he has about \$60 million in life insurance products out of the \$600 million that he oversees.

"The real value-added is in finding the guy with \$50 million to \$500 million who can take advantage of opportunities in the market," said Taylor, who heads Taylor Cos. from Greenwich, Connecticut, in an interview.

From 1994 to 1999, Taylor generated average annual returns of 18 percent when he was running a fund on behalf of the Bass brothers and other wealthy clients. That compared with an average 9.5 percent for so-called fund-of-funds tracked by Hedge Fund Research Inc. in Chicago.

Taylor got his start in 1964 with Joseph Gruss, a pioneer in the world of arbitrage investing, in which traders endeavor to make a profit from the price differences of related securities. He and Gruss were among the first traders of convertible bonds.

#### Fund for Bass Family

From there Taylor became head of arbitrage trading at Kidder, Peabody & Co. In 1977, investor Richard Rainwater, a friend from high school in Fort Worth, Texas, persuaded him to come to work for the Bass brothers, who were clients of Kidder.

A year later, he started a hedge fund for the Bass family, buying and selling convertible securities and stocks of merging companies. In the mid-1980s, he realized that he couldn't expand the business he had created because he was the only person making investment decisions. "I was the ultimate bottleneck," he said.

It was then that he started farming out money to outside hedge fund managers, creating a fund that he eventually sold to the Bass brothers in 1999.

A few years ago, Taylor and Kevin McDonald, his son-in-law, were looking for life insurance for his family when they got the idea to work with insurance companies to develop portfolios so that wealthy investors could invest their premiums in hedge funds as part of their variable life insurance policies. The policies grow on a tax-deferred basis and are tax free upon death.

"We got here accidentally, but there is a great opportunity," said Taylor, who has nine partners in Taylor Cos., including McDonald, and traders from hedge funds Tudor Investment Corp. and Zweig-Dimenna Associates LLC.

Depends on Performance

There are about 10 insurers that provide life insurance with investments in hedge funds. American International Group Inc. and AGL Life Assurance, a unit of Phoenix Life Insurance Co., have the largest market share, with about \$1.5 billion of assets each, said Leslie Giordani, a partner at Giordani Schurig Beckett & Tackett LP, a law firm in Austin, Texas, that does estate planning. She estimates that she has placed about \$900 million in these policies.

Taylor currently invests in about 30 hedge funds and five fund-of-funds, which he declined to name. He charges his clients, including insurers, anywhere from 0.55 percent to 1.25 percent of assets in fees, depending on the portfolios his firms design.

Taylor said his success will depend on performance. "If we do a bad job, the money goes away," he said.

--Editor: Quinson.

Story illustration: For a selection of Bloomberg screens hedge funds and their performance, enter {CNP00282710101 <GO>}.

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