The Provocateurs

During the 1980s and '90s, Carl Icahn was vilified as a corporate raider. Now, the billionaire financier has leapt back into the spotlight—as a hedge fund manager. Icahn, 69, has opened two funds to invest in companies he thinks need shaking up.

Such event-driven hedge funds, which try to profit from corporate events such as mergers and acquisitions and bankruptcies, have become Wall Street's new shareholder activists. These hedge funds posted an average return of 16.6 percent during the three years ended on Sept. 30, according to HFR. During the first nine months of 2005, these funds returned 6.2 percent.

"Shareholder activism is where people are looking in the U.S. because people are seeing returns stagnate here," says Jeffrey Altman, managing partner at New York–based Owl Creek Asset Management LP, whose Owl Creek II LP fund returned 28.4 percent during the three years ended on Sept. 30.

Icahn and several other activist hedge fund managers, such as Daniel Loeb, who runs New York–based Third Point LLC, have been making noise lately. After Icahn agreed to suspend a proxy fight at Kerr-McGee Corp. in April 2005, the Oklahoma City–based energy company promised to buy back $4 billion of stock. Altman's firm has invested in energy companies, too, including Richmond, Virginia–based Massey Energy Co. He sees value in the U.S. after many investors focused on energy stocks and non-U.S. markets in 2005. "That leaves lots of opportunities in the U.S.," Altman, 39, says.

The New York–based Jana Partners LLC fund, run by Barry Rosenstein, was among those agitating for the stock buyback at Kerr-McGee. Jana posted a return of 31.8 percent during the three years ended on Sept. 30, the second-best return among event-driven funds, according to HFR. Gary Claar, a managing director at Jana, says that, for now, event-driven hedge funds will keep flexing their financial muscles to fuel returns.

Not all event-driven hedge funds have turned activist. Many employ more than one strategy. That partly explains why returns vary so much among event-driven hedge funds. No. 1 LaGrange Capital Partners LP, managed by New York–based LaGrange Capital Management LLC returned 51.2 percent during the three years ended on Sept. 30.

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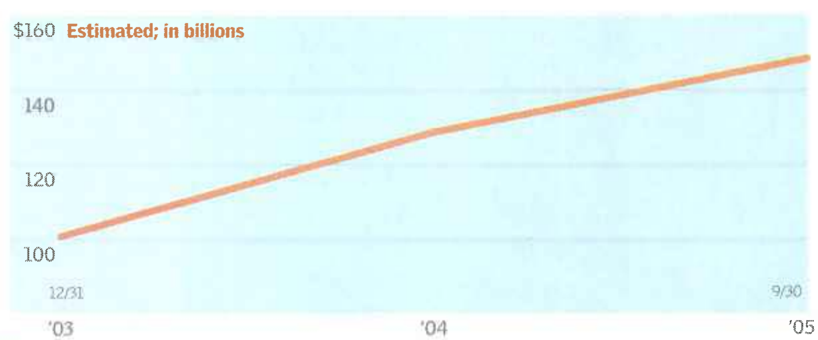
Strategy: Event driven

These funds try to profit from corporate events such as mergers and acquisitions and bankruptcies.

TOP U.S.			3-year return*
1	LaGrange Capital Partners	LaGrange Capital Mgmt.	51.2%
2	Jana Partners	Jana Partners	31.8
3	KR Capital Partners	KR Capital Advisors	29.8
4	Owl Creek II	Owl Creek Asset Mgmt.	28.4
5	York Select	Dinan Mgmt.	27.0
6	ECF Value	Gates Capital Mgmt.	26.8
7	York Capital Mgmt.	Dinan Mgmt.	20.6
8	York Institutional Partners	Dinan Mgmt.	19.4
9	Trophy Hunter Investments	Bay Harbour Mgmt.	19.1
10	KS Capital Partners	KS Mgmt.	18.9

TOP NON-U.S.			
1	Jana Offshore Partners	Jana Partners	30.7%
2	Vertex	Vertex One Asset Mgmt.	30.3
3	Owl Creek Overseas	Owl Creek Asset Mgmt.	28.2
4	Bay Harbour Partners	Bay Harbour Mgmt.	24.9
5	Avenue International	Avenue Capital Mgmt.	15.7
6	ADM Galleus	ADM Capital	15.3
7	Westford Special Situations	Westford Asset Mgmt.	14.2
8	Avenue Asia International	Avenue Asia International Mgmt.	13.5
9	Metropolitan Capital Advisors Intl.	Metropolitan Capital Partners	11.7
	Greylock Global Opportunity	Greylock Capital Mgmt.	11.7

Assets Investment in event-driven funds has climbed 47 percent since the end of 2003.



*As of Sept. 30. Sources: Bloomberg, Hedge Fund Research