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Och-Ziff Fights Back with Sweeping Strategic Changes

By Lydia Tomkiw December 12, 2018

Och-Ziff Capital Management announced a spate of strategic changes last week with a focus on firming up the firm's next generation. The moves appear set to help the manager turn a new page following a bumpy succession journey, an African bribery scandal, and a recent brush with a low stock trading price, industry watchers say.

Founder **Daniel Och** and several former executive managing directors are reallocating 35% of their shares to the firm's current directors via a new share class, while the firm announced a one-for-10 reverse stock split for class A shares next year, among other changes, as reported. The firm also announced it will switch from a partnership structure to a C-Corporation.

The moves come as Och-Ziff, the largest publicly traded U.S. hedge fund with approximately $32.3 billion in assets under management as of December 1, saw its stock price dip into delisting territory in recent weeks, hitting a low of 94 cents. The firm's stock rebounded after announcing its moves and was trading at $1.42 at the end of the day on Tuesday.

Och-Ziff kept investors in the loop as it rolled out the changes, says **Michael Rosen**, principal and CIO at Angeles Investment Advisors, a consultant and advisor that invests with Och-Ziff in its credit and real estate funds.

"They have been very open and available to us," Rosen says. "I see all of this as an attempt to deal with some governance questions that have lingered longer than they ideally should have. But from my perspective, I don't have a view on the governance questions, I'm not a shareholder. As purely an investor in some funds, we have been very pleased with the performance this year and in past years."

The firm had struggled in recent years with an African bribery scandal that saw it pay $412 million to regulators in 2016 as well as a bumpy succession journey last year that involved an announced leadership change that it later walked back, as reported. **Robert Shafir** later was appointed CEO in January, succeeding Och.

As part of last week's plan, Och will resign as a board director, according to a filing with the Securities and Exchange Commission (SEC). In a press release, Och said, "I look forward to moving on based on my confidence that Oz will be in good hands with Rob and his leadership team." A spokesperson for Och-Ziff did not return a request for comment regarding Och's future relationship with the firm.

Och-Ziff won't be going by the Och-Ziff name for much longer either. As part of the changes, the firm said in the SEC filing that it will cease using the "Och" and "Ziff" names by the end of 2019 and will use Oz Group.

The hedge fund industry has been grappling with founders and stars who are reaching retirement age, and it doesn't have examples of funds with third or fourth generation leadership changes to look to, says **Erik Gordon**, a professor at the University of Michigan's Ross School of Business.

"When this is over, they will have turned the page. There is some clarity that it is a new time," he says. "That's probably what was good for the stock."

As part of the plan, the firm is also aiming to pay down debt by having current and former executives forgo distributions while outside shareholders continue to receive distributions.

Och-Ziff describes the switch from a partnership structure to a C-Corporation by the end of this year as another boost to its business, citing a simplified tax structure and a "broadening of the potential shareholder base" as the stock can trade on exchanges and become part of equity indices.

While many hedge funds are structured as partnerships or memberships, the C-corporation shift makes sense for a publicly listed firm, says **Ernest Badway**, a litigation attorney who is co-chair of **Fox Rothschild**'s securities industry practice.

"I don't think it is an earth-shattering change," he says. "I think [investors] will just have to look to see how it plays out."

Och-Ziff was recently removed from a watchlist by the $9.6 billion **Sacramento County Employees Retirement System** (SCERS) after two years on watch. The retirement system cited "reduced business risk and increased organizational stability," as part of its decision, as reported.

Investors conducting operational due diligence need to consistently ask questions around ownership, alignment of interest, and contingency planning issues for hedge funds large and small, says **Chris Addy**, president and CEO of **Castle Hall Alternatives**, an operational due diligence specialist. The opportunity for firms to refocus and benefit from lessons learned is always a possibility that needs to be weighed, he adds.

"Firms that come through the other side and decide to keep going [can] retrench and reboot their organization. The culture of the organization has changed and they have the opportunity to change," he says.

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