

Vol 1 Issue 7 | April 14, 2021

# THE DEAL DESK

GFMC Newsletter

## Archegos Capital Management: The Margin Call Saga

By Pranjali Bhatt

### Archegos Capital Management

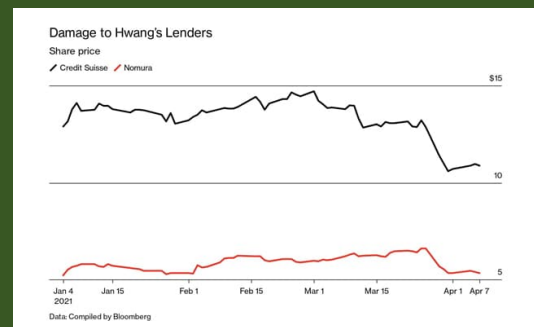
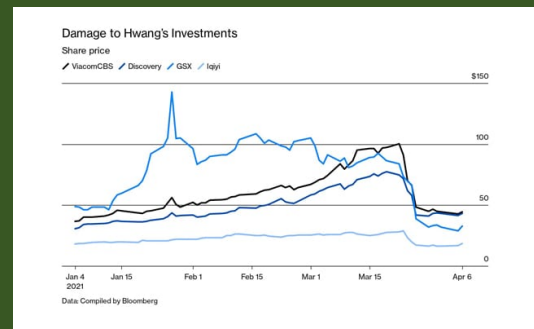
Archegos Capital Management is a private investment fund owned by Bill Hwang, a protégé of legendary hedge fund manager Julian Robertso. Unlike a traditional hedge fund, Archegos managed the personal wealth of Bill Hwang's family and had assets under management to the tune of \$10 billion. Such family funds are less regulated than other investment funds.

### Investment Strategy and Business Model

Hwang is well known in the market for practicing a long-short strategy with exceptionally large leverage. This means that for every dollar of his own, he would borrow multiple times of it and build positions in stocks. Archegos primarily used equity swaps, also called TRS (Total Return Swaps) to take concentrated long positions on certain companies, instead of directly buying stocks, to avoid disclosure requirements associated with holding a large volume of stocks.

TRS are contracts that allow investors (receiving party) to take positions in stocks or other assets while committing minimal funds upfront, in exchange for a fee. TRS can be thought of as a financial product that provides the same economic payoff as stock – but it is not a stock, it is a swap.

“Because of Archegos’ inability to meet the margin call, its prime brokers began to dump the securities that Archegos had pledged with them. By the evening of Friday 26th March 2021, Goldman Sachs and Morgan Stanley had offloaded \$19bn in big block trades.”



TRS allows receiving party to receive all economic benefits of a reference asset, without owning the asset. TRS is done to try and avoid taxes of owning a stock outright or to gain access to a stock in a country that you live in to purchase. In the case of Archegos, TRS was done to avoid public disclosures about the holdings. The issue with the TRS arrangement is that it creates credit risk for the TRS payer.

Archegos has a prime broker relationship with several major banks, including Goldman Sachs, Morgan Stanley, Credit Suisse, UBS, and Nomura. A prime broker relationship is one in which large banks offer many bundled services to hedge funds and private funds. These services can include borrowing securities, executing trades, and cash management.

### Archegos major holdings

Archegos had a long position concentrated in New York-based media companies ViacomCBS (VIAC) and Discovery (DISCA), which saw their shares increase by 169% and 157%, respectively, in the first 11 weeks of 2021. Archegos was long GSX Techedu Inc. (GSX), a Chinese online tutoring service with a stock that tripled over two weeks in January. Apart from the above mentioned three names, Archegos' also had huge exposures in the following five names:

- Tencent Music Entertainment Group (TME)
- Baidu Inc. (BIDU)
- Farfetch Ltd (FTCH)
- Iqiyi Inc. (IQ)
- Vipshop Holdings Ltd. (VIPS)

Despite the huge transactions undertaken by Archegos, there are no securities filings by them on SEC's repository, as they built up these positions through financial instruments called TRS (Total Return Swaps) which are excluded from 13-F filings.

### The margin call saga

The leveraged bets that Archegos held came under pressure after Viacom CBS' share price started plummeting on Thursday 25th March 2021, as a response to the failed \$3 billion stock offering (of ViacomCBS) led by Morgan Stanley and JP Morgan at \$85/share which ended with \$2.65 billion in new capital, significantly short of the target.

As the ViacomCBS shares started tanking further, Archegos' prime brokers hit them with a margin call, which Archegos' failed to meet. A margin call occurs when an investment incurs enough losses that the investor's margin account goes below the maintenance margin. In the case of margin call, the brokerage will typically demand to add funds or securities to the margin account to ensure the maintenance margin.

Because of Archegos' inability to meet the margin call, its prime brokers began to dump the securities that Archegos had pledged with them. By the evening of Friday 26th March 2021, Goldman Sachs and Morgan Stanley had offloaded \$19bn in big block trades. ViacomCBS, Discovery, GSX Techedu Inc., and Iqiyi Inc., which constitute major exposure of Archegos experienced severe selling pressure on Friday, losing more than 27%, 27%, 42%, and 13% respectively on an intraday basis.

Not only did Mr. Hwang's wealth plummeted, but the collapse of Archegos hurt several bank's income statements. Credit Suisse, which had acted too slowly to stanch the damage, announced the \$4.7 billion of losses linked to the meltdown of Archegos Capital Management; Japan's Nomura Holdings announced as much as \$2 billion in trading losses. Deutsche Bank, Morgan Stanley, and Goldman Sachs have been said to have exited their relationship with Archegos without significant losses.

### Bill Hwang : The "Tiger Cub"

Bill Hwang, a stock salesperson at Peregrine Securities and Hyundai Securities early in his career, went to work under the veteran investor Julian Robertson at Tiger Management, and became one of his protégés. Robertson closed his fund in 2000 but handed Hwang about \$25 million to launch his own fund, Tiger Asia Management. One of several "Tiger cubs," Hwang grew his firm's assets to over \$5 billion at its peak, and delivered an annualized return of 16%, according to Bloomberg. However, he pleaded guilty to insider trading in 2012, paid to total of \$60 million to settle related charges, and closed his fund. Hwang converted Tiger Asia into a family office, Archegos, in 2013, slashing the regulatory disclosures required of him.

## About the Author



### **Pranjal Bhatt** **Full Time MSF** **Candidate**

Born and brought up in the north Indian city of Dehradun, Pranjal holds an undergraduate degree in engineering and post graduate diploma in management from India. Pranjal also has a work experience of 5 years spanning across corporate banking and priority sector lending strategy in India, wherein he has dealt with key corporate clients from FMCG, food & agribusiness and manufacturing sectors.

Pranjal found his interest in finance while serving the Indian banking industry and is looking forward to make his career in the corporate finance and risk management domains. An avid traveler, he likes to explore novel destinations and learn about different cultures and cuisines.

**The DealDesk provides a platform to JSOM students to share their views on important events affecting the finance industry.**

**Want to get your article covered, Contact:**

**GFMC email id: [gfmc2019@gmail.com](mailto:gfmc2019@gmail.com)**

**Ruchi Agrawal ,Editor-in -Chief: [ruchi.agrawal@utdallas.edu](mailto:ruchi.agrawal@utdallas.edu)**

**Editors: [Ayush Vyas](#), [Pranjal Bhatt](#)**

**Follow Us:**

**GFMC website**

**<https://fin.utdallas.edu/ms-finance-flex/gfmc/>**