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Growing Up Corporate

After deciding to launch their own fund of funds, Connie Teska and Kelly Chesney had to grapple not only with the business issues, but also keeping a place for their families. By Maggie Shea

Leaving the comfort of one's institutional confines to launch a financial services firm presents endless room for doubts about start-up capital, access to potential hedge fund clients, whom to hire and much more. For Connie Teska and Kelly Chesney, the co-founding principals of private placement fund of hedge funds Pluscios Management LLC, it was the search for Pluscios' new home that solidified that they truly were on their own. But the uncertainty that went along with that didn't stop them from launching when they did, because the timing couldn't have been better. Or, as it turned out, worse.

"When starting your own business your life is not as predictable," Ms. Chesney says. The two essentially were vagabonds in a building on Orrington Ave. in the heart of downtown Evanston during the summer and fall of 2006, moving around when space became available. "The mother ship had always provided the space," Ms. Chesney jokes of their former employer, JP Morgan Chase & Co. But when a large tenant in the building moved out, they got an opportunity to stay for good. In March 2007, they signed a five-year lease. "So we're committed to this space and to growing," Ms. Teska says.

When they launched, Ms. Chesney had recently adopted her daughter, Isabelle: "I'm the queen of bad timing," she quips. And Ms. Teska had one daughter in college and one in high school. Having spent years creating the blueprints for Pluscios in their heads, Ms. Teska says, "If you're going to do it you might as well try it, because if not, you're going to look back and regret that you haven't put forth the effort."

They got their chance to leave their corporate comfort zone in 2006,

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Leaving a bank that built its own hedge fund portfolios to launch fund of funds Pluscios Management offered Connie Teska (left) and Kelly Chesney a clean slate after facing some legacy structural issues familiar to large institutions.

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economy, and large banks don't look healthy enough to deal with it," he says. "They are being compelled to shore up their own balance sheets, and have huge loan commitments made in happier times that they might have to honor. This will prevent them from entering into new commitments."

"Defaults are picking up slowly outside of subprime, and corporate defaults will rise, particularly in high yield," he concludes. "Corporate refinancing will be challenging, because although base interest rates are low, spreads will be high, with banks which have had to raise capital and others that have suffered mortgage-related losses looking to preserve cash on their balance sheets, and increasingly unwilling to lend."

Nonetheless, for Mr. Carasso, the situation is beginning to show promise, even if we haven't seen the last of mortgage-related write-offs. "House prices are more affordable now, and interest rates are again quite low," he says. "Today, all the baggage from the period of aggressive lending is sitting on the balance sheets of banks. Builders now have lean inventory levels, and are also quite lean in how much land they are holding. They will start reporting healthier profits again while banks are still writing down their mortgage-related assets." ai

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when JP Morgan Chase integrated the New York and Chicago offices of its fund of funds group, an investment arm Ms. Chesney and Ms. Teska had helped build. "We took that opportunity to take the bureaucratic training wheels off, using what we had learned over the years and adding what we felt was missing," Ms. Chesney says.

They had joined the bank when it was known as First Chicago Corp., and helped create Corporate Investments, a proprietary investment group that set up in-house hedge fund-type structures and invested in hedge funds externally alongside its long-term, private equity-type direct investments. Their roles were fairly entrepreneurial, and they were used to having some freedom regarding decisions about investment opportunities and moving capital around.

But the desire to be their own bosses began long before 2006, the ladies say, since both are intrinsically and stubbornly entrepreneurial.

It's In the Veins

Ms. Teska lived on Chicago's north side until she was 12, when she, her brother and parents moved to suburban Glenview, Ill. Her dad, Peter Theodore, was a chemical engineer at a printing supply company by day, and an entrepreneur by night, Ms. Teska says. "At night he did everything from running an accounting service to manufacturing soap and rust removers. He thought he could put his kids to work all the time on the manufacturing lines of these plants he had." Her grandparents had all emigrated from Greece. Upon arriving in the United States, one grandfather opened a grocery store, the other a cleaners and shoe repair shop.

Her mother, Matina Theodore, was a teacher. She taught third grade at Jamieson School at the same time Ms. Teska was a student there. "She knew my bad grades before I did," Ms. Teska recalls. "And she insisted I call her 'Mrs. Theodore' in the hallway."

Ms. Chesney was born in Ishpeming, a small mining town on Michigan's Upper Peninsula. She is the oldest of four siblings—two boys, two girls. She moved to the northwest side of Chicago when she was five, but spent most of her summers in Michigan at her grandparents home, running around outside. She established herself as a "trail-blazing female" early on, she says; she was part of the second four-year female class in history at Lane Tech High School, which had been an all boys school.

Her dad, Alex Guizzetti, is an Italian who inherited his family's terrazzo business. "He had taken over the business from his dad and uncles—they did marble and terrazzo flooring," she says. "He was very much the entrepreneur, taking on the family business and expanding it." He is still living in Michigan. Her mom, Helen Chesney, has been an accountant and a legal secretary. Now in her 70s, she lives with Ms. Chesney and her daughter and still works part time.

First Days at First Chicago

Ms. Teska's career at First Chicago, later Bank One and then Chase, spanned 25 years. She started her career in 1979 working for a technical journal. "It wasn't the sexiest thing you could do," Ms. Teska says, adding that the only exciting

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part of the job was developing the magazine's four-color cover each month. So she sought other opportunities and found one in 1980 at the then First National Bank of Chicago. She was hired in May as part of a six-person media relations team. According to Linda Andrews, who joined media relations at First Chicago from the *Chicago Tribune* a few years before Ms. Teska arrived, Ms. Teska wasn't afraid to take chances at the outset.

"On her lunch hour Connie walked into the building at First Chicago, and told the receptionist she wanted to drop off her resume," she says. Bill Baldwin, then a supervisor at First Chicago, happened to have an opening and hired her. "Bill called me and another person working in media relations at the time and said, 'I'd like you to talk to this woman and see if she's qualified.' That's Connie. She just walks in off the street and gets hired. . . ." Ms. Andrews currently is director of the internship program in the English Department at the University of Chicago.

Ms. Teska graduated from The Medill School of Journalism at Northwestern University in Evanston two years before she joined First Chicago, and her background helped her deal with the immense press coverage the bank received. Chicago newspapers printed morning and afternoon editions then, and Ms. Teska says articles about First Chicago appeared frequently. "You knew how successful your day was. And through that process I really learned a lot about the intricacies of banking and finance through close interaction with senior management. It was great because the bank, being one of the top 10 banks in the United States by assets, was in the news every day."

First Chicago, founded in 1863, was one of the Midwest's largest banks through the end of the 20th Century. Though it was a regional money center bank, it often ranked among the nation's top 10 financial institutions—a list that included giants like Bank of America, Wells Fargo, Citibank and U.S. Bancorp. Because of the Glass Steagall Act and the Banking Act, both of 1933, the financial services industry was segmented into groups including commercial banking, investment banking and insurance services, which protected firms in each group from competition from firms providing the other services.

Ms. Teska joined First Chicago in 1980, when the bank's credit card operation was booming. But the early 1980s were marked by higher and more variable interest rates, and with that growing yield sensitivity of both depositors and borrowers. Ms. Teska says when she and her husband bought their first condo in 1982 the interest rate for the mortgage was 17.5%. This led to the development of money market mutual funds as alternatives to bank deposits and the growth of finance companies and commercial paper as substitutes for bank loans.

Further, because of improvements in technology, financial innovations and globalization, non-depository financial institutions, foreign banks and the capital markets all started competing with banks. In response, banks expanded the best they could by increasing their roles as intermediaries through securitization, back-up credit lines and derivatives. They also sought expanded powers like crossing state borders, setting their own deposit rates and ultimately expanding into securities underwriting.

"First Chicago did a lot of work to understand the risk that each of the securities investment areas presented and further work on how to build a portfolio of those investments that would create a portfolio effect to the same extent."

-Connie Teska, Pluscios Management

"So you're talking about a period of time in which banks just couldn't make adequate returns in commercial lending," Ms. Teska says. But the best opportunities often arise in the worst of circumstances. First Chicago turned to proprietary investment as a potential source of returns. "At the end of the 1980s and early '90s First Chicago said, 'We're really good at investments. Can't we carve out a business that makes money from being smart and making good investments?'" Ms. Teska, then a vice president at the bank, was looking to advance her own career at that time, and First Chicago sponsored her to enter the Northwestern University Kellogg Graduate School of Management executive program and get her MBA, which she completed in 1989. At the time, her first daughter, Bethany, was three years old.

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Meanwhile, Ms. Chesney was on a career path far from the world of commercial banking. She completed her law degree at Chicago's Kent College of Law in 1990, after leaving a promising career in hotels as a financial analyst. She likes to say that her past has been much more "checkered" than Ms. Teska's because it has been, above all else, a search for her true career passion. She didn't join First Chicago until 1995, though, "she's not that much younger than I am," Ms. Teska is quick to point out with a smile.

Keeping it Commercial

As it turned out, Ms. Teska's MBA offered her a chance to work firsthand in the young Corporate Investments group. Direct, longer-term tax-oriented investments such as leveraged leasing and mid-range venture capital and private equity investments were already in place and successful at the bank, but it wanted to invest in shorter-term securities to even out the earnings stream so Corporate Investments could be recognized as an official line of business. The expansion into this area was done under Section 20 of the Banking Act, which allowed bank subsidiaries to perform certain "bank in-eligible" securities activities. First Chicago had to apply piecemeal for each of the many powers under Section 20. Ms. Teska was part of a small team in charge of that process, which took several years. In the meantime, the bank's abilities were limited.

"The first set of Fed powers did not allow shorting, and that is why we went through hedge funds and were limited partners for the short exposure," Ms. Teska says. Ultimately the goal was to be invested one-third in tax investments, one-third in growth or private equity investments and one-third in short-term investments with a less than two-year time horizon. The shorter-term direct investments were made up of structured value investments like asset-backed securities and collateralized debt obligations and market value investments like emerging markets and distressed debt. In the mid-1990s, hedge fund investments were added to the market value investment bucket.

"Moving into the securities area required the development of a keen understanding of the nature and scope of the risk these activities created in order to ensure we were being paid appropriately for taking those risks and to ensure the risk itself wasn't beyond the bank's tolerance," Ms. Teska says. "First Chicago did a lot of work to understand the risk that each of the securities investment areas presented and further work on how to build a portfolio of those investments that would create a portfolio effect to some extent. Being part of that was very exciting and we got a chance to learn a lot of lessons along the way. It shaped the way we approached building a hedge fund portfolio for the bank. When we started down the path of investing in hedge funds we took what we had learned building the direct book and analyzed what additional risk the bank would be taking on with hedge fund investments like manager risk, concentration risk and even headline risk."

But First Chicago was no investment bank, and it had no intention of becoming one, unlike some of its rivals. "One of the first challenges was to determine how to do proprietary investments without changing the complexion of what they were, which was a commercial bank," Ms. Teska says, "because they didn't want to become an investment company, but they wanted to be able to augment the earnings of the institution," to keep it among the top commercial banks. So the group came up with a guideline to maintain the bank's commercial status: No more than 10% of bank capital could be attributed to the business and the investments were intended to comprise no more than 20% of bank earnings.

Yin Meets Yang

Ms. Chesney joined First Chicago's law department as a vice president shortly after St. Patrick's Day in 1995. Before that, she worked in the bankruptcy practices at law firms Skadden, Arps, Slate Meagher & Flom and Mayer, Brown & Platt, where she discovered that bankruptcy law wasn't for her. In her two and a half years at Mayer Brown, she worked unofficially in the firm's securitization group, where she learned about structured finance. "I think what she got from her time with us that is probably the most help to her now is the exposure to the sophisticated and emerging structured finance and capital markets structures that she came across while being here, knowledge that she built on in her subsequent career stops," says Tom Kiriakos, a partner in Mayer Brown's financial restructuring and bankruptcy group.

But Ms. Chesney learned something else that would stick with her:

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Mr. Kiriakos, her boss, had unwittingly showed her what passion for one's job should look like. "He is excited to go into work every day," she says. "I guess I hadn't really been exposed to someone who had really found their passion before and that is where my quest began, because bankruptcy law was clearly not it."

Thus when First Chicago offered her a job in bankruptcy, she naturally turned it down, but the head of the capital markets group in the law department called her the next day and asked her to interview for a position. "I had no real experience in that area but after an interview he offered me the job and I took it," she says.

One of her clients at the bank was Corporate Investments, which would officially join the bank's credit card, retail banking and corporate banking business lines in 1996. Though the group did what it was supposed to—using approximately 10% of bank capital and contributing up to 20% of bank earnings—the bank had yet to make an external hedge fund investment. This was about the time that "some really smart folks" began flooding out of investment banks *en masse* to start their own hedge funds, Ms. Chesney says.

"In order to improve information flow and to hedge the corporate investments portfolio, we decided that if we were going to invest directly, we also wanted to do it externally through hedge funds in a diversified manner," Ms. Chesney says. Ms. Teska came forward and asked to take a leadership role in building the fund of hedge funds group in addition to working with the other internal investment groups. "And my boss at the time said, 'Well, who is going to do your current job?' And I said, I don't know. I'll keep doing that but I want to create this portfolio; I want to develop this," she says. "And so it was a matter of giving me the chance to launch and run a business as well."

At the time she was a senior vice president. She met with hedge fund managers regularly to learn about the strategies they used and whether they could provide returns and scale worth the investment of bank capital. She again got the chance to use her reporter skills, as she conducted some intensive meetings.

"When you're hiring a manager you're really doing investigative journalism in many ways and really understanding the story—not just the lines they're giving you," Ms. Chesney says. "When you decide to do due diligence, they can give you the lines, and they can give you the book. But getting in it, getting behind it, really finding out who the people are—Connie has the training and the sense to do that. She can ask questions like nobody can!"

In mid-1997, First Chicago became one of the first institutions to invest externally in hedge funds; until then hedge funds mainly had been considered investments for the high-net-worth crowd. And these external investments didn't just hedge the portfolio; they made money. Ms. Chesney worked alongside Ms. Teska sorting through hedge fund documents and trying to figure out what these esoteric things actually were.

But the merger between First Chicago and Banc One Corp. in 1998 left Ms. Chesney feeling bored and restless since a lot of the capital markets products (part of her client base) were cut out so the bank could shift to a stronger retail focus. Ms. Teska suggested she enroll in the Northwestern executive program to get her business degree, and Ms. Chesney became the first lawyer the bank ever supported in doing this, she says. She continued to practice law while she earned her MBA over the next two years.

When she graduated from business school in 2000, Long-Term Capital Management had collapsed and the dot-com bubble was on the brink of bursting. For Ms. Chesney, it was time to move on. She accepted a position at PricewaterhouseCoopers, where she was a manager in the strategy consulting business that helped clients monetize and spin off some of their back-office bank operations. During the four years she spent at PwC, she continued to stay in close contact with Ms. Teska.

In 2004, Bank One merged with JP Morgan Chase & Co. Ms. Teska had been at the bank nearly 25 years and had all the outward signs of a career banker, as Ms. Chesney puts it. She knew just about everybody, she had served in many roles and the bank continued to offer her opportunities to keep growing, all *within* its walls.

Ms. Chesney found herself at a fork in the road, too. PwC had sold its strategy consulting business to IBM, and she was now a mom. She brought her daughter Isabelle home on March 9, 2004, with the help of Ms. Teska, who had written one of the adoption reference letters. Though she liked consulting, Ms.

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Chesney decided she didn't want to be a single mom on the road four days a week, so when Ms. Teska, now a senior vice president at JP Morgan and president of JP Morgan Capital Corp. told her that an opportunity for managing director was opening up at the bank, she decided to come back. But JP Morgan is headquartered in New York City, far from the Midwest where First Chicago's center of operations had been for more than 140 years.

While they maintained their roles at the bank as its epicenter shifted more and more to New York, the two began more seriously talking about the potential paths their careers could take, calling on some old friends for advice. One was Michael Hanley, a former partner in PricewaterhouseCoopers' consulting business who had hired Ms. Chesney in 2000.

Mr. Hanley says shortly after Ms. Chesney rejoined the bank, she and Ms. Teska would meet with him for "Saturday morning and afternoon sessions," where he offered some advice and support. "It was nice for them to have somebody to bounce ideas off of. They were so entrenched [at the bank]. They had superior performance compared to most places, but they're in Chicago and the political center of gravity at JP Morgan moved to New York."

Taking the Plunge

When they finally left the bank in 2006, the timing was great on the one hand. They had some immediate interest from people they had met throughout their careers who now wanted to invest, among them Mr. Hanley. He also introduced them, at what he called "hedge fund of funds Tupperware parties," to some of his friends and family who could be potential investors.

"Having an investor who wants to introduce you to their friends is the best compliment you can get," Ms. Teska says.

"We have been in this business for a long time and have had a lot of support to get us started—from closed managers that gave us a slot and capacity to investors that have seen us develop over time," Ms. Chesney says.

From a personal perspective, Ms. Teska had reached a time in her life, she says, where her kids were older and it was time to say, "What's next?" She adds: "Kelly's not there yet. But there's a period of time where you raise your children and that was incredibly important to you. But then your children don't take up as much of your time." Like her mother was for 30 years, Ms. Teska had been a working mom and wife for nearly her whole career. She had nannies for about 21 years, and the bank had always allowed her to cut back to four-day work weeks or work from home when her daughters were learning to talk and walk and attend grammar school.

Ms. Chesney's mother had recently sold her house in the city and came to live with her and Isabelle temporarily. "We decided to keep it that way," Ms. Chesney says, adding that it was serendipitous given that she would have to start traveling more to meet with potential investors. "It really gives me the ability to have a little breathing room. If I have to go to New York for a couple days for meetings, Isabelle can sleep in her own bed and she has Grandma there."

Beyond that, both felt it was something they simply had to do. "You know, you can't pick your timing any way you go," Ms. Chesney says. "That's how life deals itself out. You play the hand and make the best."

For Ms. Teska, launching Pluscios was the best way to keep growing outside the bank's walls, since she had gotten all the tools she needed within. "I really found something that I thought continually challenged me and forced me to keep learning about new things and I was able to continue to do that with a group of folks that were equally passionate and wanted to pursue the same things."

"I think what they're doing is quite extraordinary," Ms. Andrews of the University of Chicago says. "That Connie stayed in corporate America as long as she did was surprising. She's very entrepreneurial. It's such an advantage to them to have worked in that structure [at the bank]," she says. "They know what works and what doesn't. They know what investors want and what they need—not only from a numbers viewpoint, but through the degree of confidence investors have in them. They're an impressive pair. They're so pragmatic. The women just tell it like it is. I can relate easier. Or maybe it's just *these* two women in particular."

Ms. Chesney, despite having a background as a lawyer and keeping a pack of "Boss Lady" cinnamon gum in her purse that carries the tag line, "Chew 'Em Up and Spit 'Em Out," prefers to be the peacekeeper of the two—"I don't like to argue!" she says. "That's my

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department," Ms. Teska affirms.

Not 'Hot' Money

Pluscios, which completed registration with the Securities and Exchange Commission on June 18, is somewhat of a microcosm of First Chicago's fund of funds business, and both ladies say that working at a financial institution was a great way to learn. Ms. Chesney says starting in financial services as an investor of bank capital rather than as an asset manager has shaped how they approach the business—in particular, never allocating for capacity. "As an investor, you are driven by performance not by desire to collect, and keep, assets. If we didn't deliver top-tier, risk-adjusted performance the bank would allocate the capital to a group that did. We have never allocated for capacity and having a boutique business will allow us to continue to avoid that trap."

Portfolio diversification was a strong theme Ms. Teska and Ms. Chesney took from the bank. Corporate Investments would test pilot portfolios through investment of the bank's capital for usually six to nine months in strategies such as emerging markets, distressed debt, catastrophe bonds and futures. If the strategy couldn't produce sustainable performance, they would pull out of it and move the money elsewhere, according to Mike Brost, then senior vice president of the bank and chief financial officer of Corporate Investments. He spent more than 20 years at the bank and now is senior vice president at Fifth Third Bank.

"It's about understanding the long-term cycles. In the early 1990s we had our high-yield investment portfolio that did mostly distressed debt. That had a good, three-and-a-half-year run," he says. "We could get as much scale as we chose to invest from there, but when the credit cycle turns and everything's rosy again, the supply wasn't going to be there. So again, you could not effectively employ a lot of capital—at least not smartly—into that. So we stepped back from it and said that cycle will come back around."

Ms. Teska says the other key part of determining whether an investment is worth the risk, evident in Corporate Investments and now at Pluscios, is the human element. "We believed in the ability to add judgment. When you're looking at that pure quantitative sense it gets tougher to be able to do that."

Ms. Chesney says risk is an important part of building a portfolio, however. "You make money by taking risk; the point is to understand what risk you're taking and know that you're getting compensated adequately. That's what we live by every day."

But some institutional limitations just couldn't be ignored, Ms. Chesney says. "Starting over gave us a clean slate so that we could address some of the legacy structural issues that create handicaps for institutions that have been building hedge fund portfolios for a long time, including us at the bank."

But How Do They Do It?

The two say that people often ask them how they managed to launch a business while having a family. Ms. Teska says she and her husband Mike have always set aside time for their kids. "I find, and I've luckily convinced my husband, that when you're a working parent you need to find ways to have concentrated time with your kids," she says. "So we were not the couple that went on vacations without our kids; we were not the couple that went out to eat without our kids, because those were the times we had to develop what they were doing. As a working parent, you also have to let them fly a little; you want them to be independent."

Ms. Chesney is still having trouble letting her little one fly, she admits. "[Isabelle] is pretty independent," she says. "But you don't like that," Ms. Teska responds.

Ms. Chesney continues: "But it's scary because you never know. It's not like you finish making it and you can tell it's perfect, or it's going in the right direction, or that it will work as planned. But it's this little being. It's scary. It's scarier than launching your own business." ai