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Money managers bank on energy investments

Newly formed Curbstone Group will focus on natural resource, agriculture-sector deals

BY GREG BARR
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A pair of Houston money managers are expanding their reach to the East Coast in a new joint venture that will focus on natural resource equity investments.

Curbstone Group, based in Houston, was co-founded by Michael Catalano and Ryan Krueger, principals of a separate Houston-based boutique money management firm, Krueger & Catalano Capital Partners LLC, which has about 150 clients and oversees about \$150 million in assets.

Catalano and Krueger are partnering in the Curbstone venture with Hinds Howard, based at the new firm's Boston office, and Andrew Nestor, Curbstone president, located at the firm's third office in Tampa, Fla. Catalano, Krueger and Howard are Curbstone managing partners and portfolio managers. All four are principal Curbstone investors.

The registered investment advisory firm will focus on energy, natural resources and agriculture-sector investments.

Curbstone will designate half of its portfolio to investments in energy master limited partnerships, or MLPs, which typically offer higher yields and tax-sheltered advantages than other equity investments. The other part of the portfolio will cover short-term active trading in hard asset-backed investments in other natural resource plays such as



Catalano



Krueger

CURBSTONE GROUP

BUSINESS: Wealth Management Firm
HEADQUARTERS: Houston
OFFICES: Houston, Boston, Tampa, Fla.
PRINCIPALS: Andrew Nestor, president and head of business development; Michael Catalano, Hinds Howard, Ryan Krueger, managing directors and portfolio managers. Catalano and Krueger are based in Houston, while Nestor is in Tampa and Howard is in Boston.

coal — the largest commodity used to supply the country's electrical grid — raw materials such as iron ore, used in the production of steel, and agricultural commodities.

"We're in a two-decade cycle where hard assets are going to outperform paper assets, and we also like MLPs, which are under-followed and are yielding about three times more than treasuries," Krueger says.

Greg Reid, Houston-based MLP hedge fund manager for Telemus Capital Partners LLC, says it's not surprising that Curbstone is hinging part of its success on the MLP market.

"It's a good time to be getting into this space," he says. "We believe we're

in the early stages of a bull market for MLPs after the bear market in 2008."

Reid's Telemus Income Opportunity Fund, which focuses only on MLP investments, gained 50 percent through May 29, while the bellwether Alerian MLP Index, which tracks a range of 50 MLPs, gained 35 percent, compared to the S&P 500 Index of major stocks, which was up only 2.9 percent for the comparable period.

Reid expects annualized returns on MLPs to range between 14 percent and 24 percent for the next three years.

PREPARING FOR 'REFLATION'

Curbstone's strategy revolves around the notion that, as U.S. debt and the

CURBSTONE: New firm prepares for launch of asset portfolio

supply of U.S. dollars increase as the federal government gets more deeply involved in trying to stimulate the economy, prices of natural resources, already in tight supply, will benefit as this so-called “reflation” strategy plays out.

Curbstone, which is raising assets for a July 1 launch of its investment portfolios, will not be set up as a hedge fund. Krueger says each investor will be set up in separate accounts at Goldman Sachs.

Potential Curbstone clients are expected to have minimum net worth of \$1.5 million and make a minimum initial investment of \$300,000. The firm will charge a 1.25 percent annual management fee.

“In this environment, we wanted to back up our investments in a real asset-based portfolio with transparency, to show every win, every loss and every position we take,” Krueger says.

He says clients will also receive quarterly distributions from MLP investments and a 15 percent performance allocation on net profits. The formula developed by Krueger and Catalano uses zero leverage for investors and plays both the bullish and bearish sides of the market, with each option position facing a quarterly expiry date.

“We’re not just growing assets here — we want the investors to be able to hold a good old-fashioned check in their hands (every quarter).,” Krueger says. “We haven’t seen that for a long time.”

Krueger and Catalano opened their other money management firm in 2006, after having co-managed an investment portfolio at Citigroup Inc. in Houston since 2001. Catalano began his career with Shearson Lehman in 1985, and Krueger with Smith Barney in 1996. Both firms were eventually acquired by Citigroup.

Prior to joining Curbstone, Howard was an analyst at Lehman Brothers MLP Opportunity Fund, which has more than \$1 billion in assets under management. He also previously worked at Lehman’s natural resources group investment banking division in New York and Houston, where he was involved with several MLP initial public offerings. Howard will oversee Curbstone’s MLP investments.

Nestor and Howard are also co-owners of the Tampa Bay Rowdies, an expansion soccer team that is set to begin play in the United Soccer Leagues in 2010. Nestor and Howard’s merchant bank and private equity firm, Citrus Ventures, paid a \$350,000 franchise fee to establish the team.

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