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Fund Boss Starts Over (Yet Again)

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Just a few months after his employer, one-time hedge-fund giant FrontPoint Partners, closed under the weight of an insider-trading scandal, Stephen Czech is working a stream of deals and hoping to raise as much as $1.5 billion for a new fund.

Even in the boom-and-bust hedge-fund world, it is a rapid revival. But then, to Mr. Czech, comebacks are becoming a way of life. "No more drama," Mr. Czech said recently in an interview at his still-undecorated Old Greenwich, Conn., office. Looking back on the last year's turmoil, he said, "I just remember saying, 'You can't make this up.'"

The new company, Czech Asset Management, is his fund's fourth iteration in five years—a patch of adversity that friends and investors say has been outside of his control.

Jesse Neider for the Wall Street Journal

Steve Czech, the managing partner of Czech Asset Management speaks with his executive director, Sze Ling Wan, in their new office in January

"Steve has had bad career luck, but he always lands on his feet," says Marc Leder, co-chief executive of Boca Raton, Fla., buyout firm Sun Capital Partners, which has done about a dozen deals with Mr. Czech. The firm is among the longtime partners that have stuck with Mr. Czech: "Where he pops up with his next structure, we're right there."

Mr. Czech's firm specializes in making direct loans—usually for between $20 and $100 million—to midsize companies. It is a niche among hedge funds that has proved profitable as traditional lenders, namely banks, retrench in the face of a changing environment.

For hedge funds able to identify good borrowers, "the prospects for growth are substantial," said Dimitri Papadimitriou, president of the Levy Economics Institute of Bard College and an economist specializing in banking and monetary policy. Banks "have their hands full," he said, citing new regulations and lingering economic concerns.

Mr. Czech's firm, with eight employees, is far from the biggest fund in the field, but his track record has been strong, investors and business partners say, despite difficult circumstances.

Mr. Czech started his hedge-fund career in 2003, leaving Credit Suisse Group for Greenwich, Conn.-based Contrarian Capital Management. By early 2008, he was managing about $320 million, but quit to care for his 11-year-old son, who was diagnosed with inoperable brain cancer.

After his son died, Mr. Czech relaunched in late 2008 as SJC Capital. Looking to expand, Mr. Czech in May 2009 agreed to sell majority ownership of the company to European investment firm Gottex Fund Management, in exchange for access to Gottex's global client network. However, Gottex was smarting from client withdrawals and fund-raising efforts failed to gain traction; Gottex and Mr. Czech dissolved their tie-up at year-end.

In January 2010, Mr. Czech joined FrontPoint, at the time owned by Morgan Stanley . The bank marketed his fund to wealthy clients, and raised hundreds of millions of dollars.

Then, in November 2010, regulators accused a doctor of illegally tipping a FrontPoint health-care portfolio manager with confidential information about a drug trial. FrontPoint had more than $7 billion in assets and about 20 distinct strategies, but the investigation triggered billions of dollars in client withdrawals firmwide, and ultimately led to FrontPoint's demise.

The doctor and portfolio manager both have entered guilty pleas in the case.

Last year was "a period of limbo," says Sze Ling Wan, one of two other directors at Mr. Czech's firm.

Still, Mr. Czech's team did 10 deals last year, even as it was trying to spin off from FrontPoint and reassure investors worried about ripple effects from the insider-trading case. "If someone wanted to make a stink, they could have withheld [money]. They didn't," Mr. Czech says.

The FrontPoint-SJC fund returned about 11% last year after fees—without any leverage to amplify returns—according to fund documents. Hedge funds industrywide lost 5% on average, according to Hedge Fund Research.

Some clients in Mr. Czech's last fund, the $1.1 billion SJC Direct Lending Fund at FrontPoint, including Michigan's state pension fund, are investing in his next fund. Mr. Czech has told his clients he plans to begin making investments by summer, with $1.2 billion to $1.5 billion in assets. Michigan officials say they have committed $250 million. Investors say Mr. Czech has raised about $750 million toward the second fund.

His current fund lends to industrial and service companies such as those that build roads and bridges, make metals and chemicals, and manufacture pipelines and drilling equipment. He also looks at clothing and food manufacturers, but says technology companies are too volatile and avoids alcohol, tobacco and gambling industries for philosophical reasons.

"Now it's his shop," says Joshua Kaplan, director of hedge-fund investments for the investment-management arm of Ascension Health, a not-for-profit hospital operator that invested more than $50 million in Mr. Czech's FrontPoint fund. "There are no extracurricular forces to derail him now."

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