IESE Business School
University of Navarra

DPO-766-E
April 2022

Charles Axelrod (A): A CEO's Dilemma

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Charles ("Chuck") Axelrod, the CEO of Spartan Capital Management, a well-known hedge fund in the City of London, was feeling uneasy as he drove his luxurious SUV down the M-40 towards central London. It was a Sunday night. After another dreary weekend at his new cottage in Chipping Norton, the drive with his family was becoming unbearable. The charm and tranquility of the English Cotswolds hadn't brought the inner peace he craved. Chuck couldn't remember the last night he'd managed to sleep soundly. To make matters worse, his marriage to Maggie was hanging by a thread and his relationship with his two teenage sons, Glenn and Paul, was becoming strained. Deep in his gloomy musings, he was caught off guard by the honking of the car behind him. Physically and mentally exhausted, he'd been behind the wheel for almost three hours, and for the last one he'd been stuck in a massive traffic jam entering the city. He was counting the miles left to reach his newly renovated home in Cadogan Square.

After arriving home, what he longed for most was to lock himself in his library and savor a couple of shots (or maybe three, what the hell!) of a Macallan whiskey he'd just been given, accompanied by a good Partagás. Drinking and smoking had become his favorite refuge of late, though the cigars were just a way to conceal the fact that he'd started smoking compulsively again. He needed a few hours of calm and tranquility to put his thoughts in order and gather his strength so that he could face the storm that would be unleashed the next day at the office. In the morning, he'd have to fire Taylor Dillon, Spartan's chief investment officer and one of the key architects of the fund's recent success.

As he sipped his precious scotch, it became increasingly clear to him that he could no longer delay his decision regarding Dillon. It was time to stop vacillating and take the bull by the horns. The climate of collaboration at Spartan had eroded considerably over the past year, with infighting between different factions, to the point where the fund could come apart at the seams. And it was all because of Dillon. Tomorrow was the big day. Chuck knew all too well that compliance risks were increasing in the business; it wouldn't be long before they ran into trouble. They could soon be facing lawsuits brought by disgruntled employees, negative publicity, and endless calls with investors to explain what had happened and why he hadn't prevented it. It was a nightmare that kept him awake at night.

This case was prepared by Professors Álvaro San Martín and Javier Quintanilla. April 2022.
This publication is based on the case "Charles Axelrod", DPO-448-E, by the same authors.
IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

Last edited: 2/5/22

But taking the step of getting rid of Dillon once and for all was costing him blood, sweat and tears. For one thing, everyone at Spartan knew about Chuck's special affection for his protégé. In fact, Chuck was the one who'd bet on him. As a reward for his exceptional performance, Dillon had enjoyed a meteoric rise: from analyst to associate, to his current position as chief investment officer—all in less than four years.

To make matters even more complicated, Dillon's groundbreaking strategies had recently been key to attracting several of Spartan's top clients, who were dazzled by the charisma and daring of their bold young chief investment officer.

Among Dillon's most talked-about accomplishments in the City gossip mill was the recent injection into the fund of £500 million (almost 15% of Spartan's total assets) that Andrei Vasiljevic, a well-known Russian billionaire, had made from his personal fortune. How would Vasiljevic react when he found out Dillon had been dismissed? With Dillon out of the hedge fund, would Chuck be able to reassure him that his money was still in the best hands at Spartan? And what would happen to the other investors Dillon had attracted if Vasiljevic decided to leave with him? Would there be a general stampede for the exit—not only of investors, but also of valuable fund professionals captivated by Dillon's charisma? How would he explain all these developments to Spartan's owners? In two weeks, he'd have to present the quarterly results to the board of directors.

Despite these doubts, Chuck was convinced that Dillon couldn't continue working at Spartan. The conflict between the CIO and Damian Akerman, the head of one of the company's most important divisions, was becoming unsustainable. Moreover, it was no longer possible to quell the rumors Chuck was hearing about Dillon's rude remarks, disrespect, and threats to various Spartan employees. With Dillon in the organization, Chuck thought, the conflict was bound to escalate to the point of seriously jeopardizing the hedge fund's medium-term viability.

Spartan Capital Management

Spartan was a hedge fund that had been created less than a decade earlier by a select group of financial experts. Despite the very difficult macroeconomic times in which it was founded—just after the subprime mortgage crisis, which triggered a wave of bankruptcies among financial institutions around the world—Spartan made a successful debut with several long-only investments (see **Exhibit 1**), in which the fund takes long positions in undervalued assets with upside potential. Those investments soon caught the attention of analysts, financial intermediaries and, naturally, sovereign wealth funds and wealthy international investors.

Given the spectacular growth in the volume of this more traditional type of investment, within a year of its launch, the initial core of partners was joined by other professionals in the sector, attracted above all by Spartan's increasingly solid reputation as one of the niche funds with the most potential in the City.

As the fund's management became more professional, Spartan's investment strategy gradually incorporated alternative approaches. One of the milestones in its short history came six years after its founding. The fund's managers decided to venture into absolute return strategies based on short- and long-term investments in undervalued but highly concentrated, more illiquid stocks (see **Exhibit 1**), where the fund bets on a rise or fall in the share price of a few carefully selected companies with highly concentrated positions. Within Spartan, Dillon had been the main driver of these strategies and the go-to guy for investments of this type. These successive steps led to exponential growth in the volume of assets under management at Spartan, to over £3.5 billion.

Charles ("Chuck") Axelrod

Axelrod joined Spartan just a year after its founding. Nearly two decades earlier, he'd earned a degree in economics from a reputable Boston university. Despite his unremarkable academic background, he joined a major Wall Street financial brokerage firm as an analyst. Chuck proved to be effective at his job, and promotions followed, until he eventually became a senior analyst. At that point, with the goal of taking a quantum leap in his career, he decided to pursue an MBA at a famous business school in Philadelphia. When he was close to completing his master's degree, a leading UK bank, with a presence on five continents, wooed him with an attractive offer. Taking the position meant moving to London. At the time, he'd been married for several years to Maggie (whose father was English and mother, American), and they had two young children. It seemed like a good time for Maggie and Chuck to move across the Atlantic and put down roots in the British capital.

In London, Chuck made a promising start at the bank. His good work caught the eye of Spartan's founding group, who needed experts with a proven track record and prestige to professionalize the fund's management and support its growth. It wasn't long before they made him an offer. Three years later, Chuck was appointed CEO of Spartan.

Damian Akerman

Akerman, a division manager at Spartan, had joined the fund just over five years before. Compared to the company's other top-level employees, he had a markedly academic profile, having earned a PhD in economics from a prestigious American university. His main specialty was econometric models for the valuation of financial products. He began his career as a senior analyst in the Research Department of the Federal Reserve in Washington, D.C. Before joining Spartan as a senior analyst, he'd cut his teeth as a financial intermediary at a major multinational based in Hong Kong. He was particularly drawn to Spartan by the opportunity to work with the founding group of financial experts, who were respected in the financial intermediation industry. Thanks to his strong theoretical expertise, Akerman was one of Spartan's key players in more traditional long-only trades. He was also a great stock picker,[1] and his skills were widely recognized. Everyone considered him Chuck's right-hand man.

Taylor Dillon

Dillon, Spartan's chief investment officer, was the kind of smart, ambitious young man that every prestigious fund wanted to have in its ranks. With a degree in economics and mathematics, he also had an MBA from a prestigious London business school. He'd joined the fund as a senior analyst just after completing his master's degree four years earlier.

From the outset, Dillon had stood out from Spartan's other recruits. He had a natural talent that the fund's management group, especially Chuck, spotted right away. It was therefore essential to carefully design his internal career path to ensure that they didn't clip the wings of someone who was a strong bet for the future. In less than four years, after a series of promotions, Dillon had risen to his current position as Spartan's chief investment officer and become one of the foremost experts and advocates of highly concentrated short positions with a decidedly risky profile.

[1] Stock picking is an active investment strategy in which the investor, using a system of analysis of varying levels of sophistication, determines whether a particular stock is a good investment.