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A Michael Milken protégé mixes annuities with stakes in the Los Angeles Dodgers and Hollywood Reporter.

Todd Boehly Makes Money by Thinking Inside the Box

By Mary Childs
Photograph by Cole Wilson

Todd Boehly's visit to Topeka, Kan., wasn't going as planned.

It was one of his earlier trips in his negotiations to buy life insurer Security Benefit, but one dark morning in 2010 after his cab dropped him off, he found that the doors of his hotel did not open. The front desk was empty, his cab gone.

A managing partner of the investment firm Guggenheim Partners, he walked across the highway to another hotel and took its last available room. But it reeked of smoke. So, wrapping himself in the hotel sheets, he walked outside to a park bench, laid down, and closed his eyes. That didn't work either, so he went to Security Benefit's offices at 5 a.m. and waited outside for it to open.

On his next trip Boehly (pronounced "BO-lee") stayed at the Eldridge Hotel, a 30-minute drive away in Lawrence, for a more reliable outcome.

Boehly not only bought Security Benefit for Guggenheim that year, but he eventually also purchased the insurer from his former employer. It's now the center of a sprawling constellation of investments overseen by Boehly's firm Eldridge Industries. The group has produced everything from annuities through its insurer to a stock (with more expected) that it successfully spun off into the markets for retail investors.

Among the holdings: Dick Clark Productions, 17 acres of Beverly Hills real estate, and the Beverly Hilton; a warehouse-leasing manager; the Hollywood Reporter; a Qualified Opportunity Zone venture; the Oscar-winning film distribution and production company A24; a farm-financing entity in Texas; and about 7% of the National League champion Los Angeles Dodgers (Boehly personally owns 20%).

The simple version of Boehly's method is that he builds a box and then puts assets in it.

"Most things are boxes that own things. And it's not the box itself that's good or bad—it's what's in the box," Boehly tells Barron's. "Everything is structured."

Generally, Eldridge provides the capital to build the box, which is a company, and then money from Security Benefit buys the things to put in the box that Eldridge built. Those things generate cash flow, which provides income to purchasers of Security Benefit annuities. Often, they have been bundled and punched out in a neat securitization package. Other times, Eldridge puts up money to build or seed a company, and then Security Benefit buys whatever securities that company ends up issuing.

To explain, Boehly draws rectangles on a whiteboard,

(over please)

Todd Boehly's Constellation of Investments

Here are some of the businesses that Eldridge Industries owns wholly or in part. His insurer provides financing.

Eldridge Industries

Credit

CBAM
Maranon
*OneSky**
Stonebriar Commercial Finance

Insurance & Retirement

SE2
Security Benefit

Consumer

13th Floor Entertainment
Aurify Brands
Cloud9
Draft Kings
LA Dodgers
NPC International
*OneSky**
SportsNet LA
Valence Media
- Billboard
- Dick Clark Productions
- The Hollywood Reporter
- MRC
- *A24*
- *Fulwell 73 Productions*

Real Estate

100 North Crescent
Cain International
- *Allbright*
- The Beverly Hilton
- *Islington Square*
- *The Stage LDN*
- The St. James
- *Swingers*
- *Una Residences*
- Waldorf Astoria

Chavez Ravine
Elliott Bay Capital Trust
Essential Properties
Prescient

Note: Italics indicate a noncontrolling investment. No italics indicate a controlled operating company.
*OneSky comprises both consumer and corporate enterprises.

Source: Eldridge Industries

filling them with hypothetical, income-producing loans, or leases for warehouses, or Pizza Hut franchises.

"These are institutional asset strategies where we have two vectors working for us: We make the rate of return here"—on the whiteboard he taps the things inside a scribbled rectangle—"within the warehouse, and we make the rate of return here"—the business equity, the rectangle itself—"as we build the business."

The growing Eldridge empire puts a point on the importance of smart structuring by, for example, giving investors the advantage of an insurance product's built-in tax-deferral; and the advantages of a long time horizon, the kind that smart pension funds capitalize on, as money compounds peacefully, without the turbulence of trading or switching to new funds.

The box-with-things-in-it approach is exemplified in CBAM, an important fixture in the Eldridge firmament. The manager of collateralized loan obligations invests some $11 billion, $4 billion of which is Security Benefit's. Eldridge owns some of the business's equity, which will appreciate if assets grow.

In the violent selloff of December and January, CBAM traded $2.4 billion of paper, buying as mutual funds sold to meet redemptions, snapping up loans with higher coupons and better ratings, at lower dollar prices, says Mike Damaso, who runs CBAM.

"Normally, you can't do all three," Damaso says. "That was a very short window, really over in a few weeks. There wasn't a lot of time; if you had to spend your time getting organized, you'd miss it."

It's easier thanks to the latitude CBAM is given: "We loved the fact we didn't get a phone call from Eldridge or Security Benefit in any kind of panicked situation; they know we'd been through these cycles before."

That's a reflection of the reputations of Boehly and his managers, and the flexibility that Security Benefit brings. Insurance assets are in no rush, which can be a superpower for an investor. At the same time, "long-dated income" is harder to find in the marketplace, Boehly says.

"If you can persuade people to stay with you for 30 years, 40 years, and you can give them persistency credits for staying with you longer—that's all the stuff we're thinking about," he says.

When Boehly arrived to pitch Security Benefit in 2009, the insurer was a mess. It had bought a mutual-fund manager with $20 billion under management, Rydex, just as asset prices plummeted in the financial crisis. It needed some $400 million to recapitalize and regain its footing. Boehly persuaded Security Benefit's CEO to hire Guggenheim to manage its general account, and to help find capital. He ended up investing in a group along with Guggenheim to buy Security Benefit, closing in 2010.

The group injected $400 million to improve Security Benefit's financial strength ratings, and sold Rydex to Guggenheim. Rydex became the platform for Guggenheim's mutual fund offerings, which now oversee more than $30 billion.

At Security Benefit, Boehly refocused on "the idea that retirement income is only going to go up in importance, because as the world ages, retirement income is going up in value," he says. "We wanted to be the cutting-edge retirement income products," offering an annuity with a variety of guarantees and interest-rate options.

Boehly, now 45, learned over a career at Credit Suisse First Boston, and then J.H. Whitney, that he was good at evaluating credits in their different shapes and packages, but he was also good at creating intricate transactions and structures that he tried to optimize for risk appetite, investing time horizon, ratings, and regulatory capital treatment.

But the Security Benefit deal attracted scrutiny from regulators. When Boehly invested in Security Benefit, he took a $50 million loan from Michael Milken, one of Guggenheim's biggest clients. In 2015, the Securities and Exchange Commission said that Guggenheim, in failing to disclose to investors a personal loan from a client, had committed a breach of fiduciary duty. Guggenheim paid a $20 million fine, without admitting or denying the findings. Through a spokesperson, the firm told Barron's that it does not comment on regulatory matters. Boehly also declined to comment on it.

Soon afterward, Boehly felt that it was time to strike out on his own. Guggenheim was increasingly focused on fixed-income asset management and investment banking, and was less enthusiastic about the deals that Boehly was excited about, like in real estate or media.

So, Boehly bought some of the assets he had collected at Guggenheim, like Dick Clark and The Hollywood Reporter, and set off to found his own private investment firm. The firm has a private market valuation of $6 billion. Boehly is the controlling investor, but about 90% of Eldridge is owned substantially by a partnership between Boehly and Swiss billionaire Hansjög Wyss, and the rest is held by the firm's management and a small number of outside investors.

And it is growing: Eldridge has just

raised $1.36 billion of common stock, issued to a partnership mostly owned by Wyss.

The businesses that Eldridge owns don't have to stay in the private Eldridge/Security Benefit ecosystem. In June 2018, one of its holdings, Essential Properties Realty Trust (ticker: EPRT), listed on the New York Stock Exchange for $14 a share. In March, the company, which buys buildings and leases them long term to single-tenant middle-market companies like carwashes and convenience stores, sold a secondary offering of stock at $17.50 per share; the shares are now at about $19. Eldridge will probably release more subsidiaries to the public.

Eldridge sits on the harbor in Greenwich, Conn., the sun glittering on a cold March day, sea gulls gently squawking overhead. The office feels abnormally cool because it was outfitted by Boehly's friend James Perse, the Los Angeles fashion designer. Now, Perse's blocky mid-century modern chairs cluster near a ping-pong table, "Free Bird" playing overhead.

The Perse-aesthetic office is a physical manifestation of Boehly's stacked Rolodex. That, too, fertilizes the Eldridge ecosystem.

Take AllBright, a women's networking/co-working space. It's opening in West Hollywood, in L.A., competing with the Riveter, the Jane Club, and soon the Wing. Eldridge and its real estate unit Cain International invested and helped AllBright find the right space, but their biggest advantage might have come from Boehly calling his friends.

"The very first thing that we did with Todd, on very short notice," says co-founder Debbie Wosskow, "was he hosted an event for us in L.A. that brought together a very diverse group of women" including Meg Whitman and Anastasia Soare of the makeup brand Anastasia Beverly Hills.

For Boehly, it is the yield of a lifelong investment in relationships.

"That's something I take superseriously," he says. "I cultivate that and protect it, and I grow it. I treat it as generational."

One of his longest relationships has been with Milken, the famed and controversial pioneer of the high-yield or "junk bond" market. Milken likes people who understand credit, which Milken says is "not common in the investment business." He saw that Boehly, Damaso, and Tony Minella, who was co-head of Guggenheim's corporate credit group, got it.

"I felt that it would serve them extremely well over the years," Milken tells Barron's, "and it did. That whole group is part of Eldridge today."

"How many people in business were unsuccessful in sports?" he says. "How many people in business want to go into the entertainment industry, and lost all the money? I have plenty of friends and associates who thought it'd be fun, only to lose most of it. Whether it was the media business, the sports business, or the real estate business, [Eldridge] has been successful."

Why the name Eldridge? Boehly looked back to his nights in Kansas. In the years before the Civil War, the Eldridge Hotel was the "Free State Hotel," but after pro-slavery raiders burned it down, with the rest of Lawrence, Col. Shalor Eldridge rebuilt and rechristened it. Lawrence adopted a new motto: "From ashes to immortality."

That resonated with something in Boehly, whose grandparents emigrated from Germany. "Nothing's better than freedom," he says. "I thought that was pretty cool." ■