Institutional Investor

Buybacks for Charity: Shares for Sharing

17 APR 2014 - S.L. MINTZ

Booming demand for stock buybacks has spawned lots of jockeying for business, even via a bid to merge buybacks and philanthropy. The stakes are plainly visible. In 2013 S&P 500 buybacks worth $476 billion generated hefty commissions. This year will see an even faster pace: Goldman Sachs expects buybacks in 2014 to approach $600 billion, a 23 percent increase.

In buybacks, humans still trump algorithms, block orders do not dominate, and investment banking assignments still fetch commissions. And execution is paramount. No fee is low enough and no perks are fat enough to offset sloppy execution. Rivals thus must scramble to differentiate themselves by demonstrating skill and experience.

Enter Caritas Partners, a new arm of New York broker-dealer du Pasquier & Co. Launched in February, the new division takes its name from the Latin word that is the root of the Middle English word for “charity.” Each time the firm executes a buyback, as part of what Caritas dubs its “Buyback to Give Back” program, it will donate a portion of the commission to a philanthropy the customer designates. As an extra incentive, on a new customer’s first trade, Caritas will donate the entire commission. According to Caritas’s legal counsel John Drohan, a former trader and presently a name partner at New York law firm Drohan Lee, there is room for such largesse because buybacks demand a human skill and thus command commensurate fees.

The offer could not sound much simpler. According to a Caritas brochure, competitive commissions are donated according to a sliding scale based on the number of shares it handles in a buyback. If a customer agrees to pay the lowest rate, $0.015 per share, then 15 percent of the commission goes to charity. At $0.050 a share, the highest customer rate, half of the commissions that Caritas collects goes to charity. A small, three-person shop eases pressure on overhead; du Pasquier furnishes trading and back-office support.

But the question remains as to whether corporate customers will embrace the chance to divert buyback commissions to charity or if, as a skeptic might predict, a lack of interest will effectively relegate Caritas to the circular file. Caritas founder and CEO Richard Naso started the operation based on gut confidence, rather than on focus groups or market research studies, he says. And, while still only some two months in, the fact that Caritas has yet to sell the idea to its first customer stands out.

Admits Naso: “The sell-side brokerage business is not great these days.” Razor-thin commissions and algorithmic trades suggested to Naso that he look elsewhere to build a business. Focusing on buybacks would tap a consistent source of market deal flow. Given the firm’s philanthropic angle, Naso sees this strategy as a win for Caritas, customers and charitable missions alike.

“A lot of people on Wall Street are trying to unlock social value,” says Naso. Many firms have philanthropic arms. For example, New York–headquartered broker-dealer Cantor Fitzgerald is known for dedicating all global revenues every September 11 to the Cantor Fitzgerald Relief Fund and to charities worldwide. For Cantor the implications of such a gesture are particularly poignant. During the September 11 terrorist attacks, the firm lost 658 employees working at the World Trade Center.

Focus may shift within firms, says Cantor Fitzgerald CEO Shawn Matthews, but broad charitable motives seldom waver on Wall Street. Yet Caritas’s philanthropic pitch has found at least one believer: Christopher Moran, vice president of parent firm du Pasquier. Like Naso, Moran sees a socially redeeming door into the buyback market. “Why not come up with something that would distinguish us from everybody else on the Street?” he asks.

Moran hopes that companies with slim charitable initiatives will ramp up such efforts and that companies with existing initiatives will jump at the chance to boost support. With buyback business spread among firms, Naso sees a compelling reason to funnel some of it through Caritas. If its reputation grows and rivals do not follow suit, companies mulling buybacks may find themselves under pressure to send some business to Caritas as a sign of their charitable side — especially companies that want to burnish a tarnished image.

“Corporations give money to charity all day and every day, but in this space they don’t have that option,” Naso says. “It doesn’t exist.” To peel off a small part in the name of charity is no marketing ploy, he insists. It’s good business for everybody.

Get more on corporations *.*