Working for a bank as an intern at that time was like a boot camp – they liked to rough you up to see if you were tough enough

DIAMOND LIFE

Desiree Fixler has exchanged a life of credit default swaps for one of jewellery loans, writes **David Wigan**

In an exquisite pill-box of a shop on a quietly exclusive street in London, Desiree Fixler, founder of Lulu's Estate Jewellery, is discussing the spy game and how an early ambition led to an unexpected love affair, and eventually to a trade that had sustained her family in New York for four generations.

"I wanted to work for the CIA," says Fixler. "I was a maths and science geek and I knew that to pass my State Department exams I needed language skills and international experience. That brought me to London to study at the LSE and then to Frankfurt for an internship so I could improve my German."

For her internship, Fixler was offered a job at Merrill Lynch, helping out the sales force on the banks fixed income syndicate desk, and that led to a career in banking before she returned to the jewellery business she had grown up with.

The atmosphere at Merrill was typical of investment banking front offices in the early 1990s and a facsimile of the trading floors Fixler had read about in Michael Lewis's Liar's Poker – testosterone fuelled, anarchic and brutal. She loved it.

"I was scheduled to take the State Department exams in Berlin but at the same time I was battling to survive in a hard core work environment which as a young woman represented a significant challenge. Working for a bank as an intern at that time was like a boot camp – they liked to rough you up to see if you were tough enough to face the challenges you would encounter later on. They wanted to ensure you wouldn't cry, and I never did."

Fixler's stoicism and appetite for hard work was rewarded with the offer of a full-time job with Merrill. On the night before she was due to take her foreign service exams she went out drinking with friends, and has never looked back.

The loss to the secret service was banking's gain, and Fixler spent the next 16 years pioneering the development of the credit default swap market and later launching innovative solutions for microfinance.

"When I started at Merrill in 1993 I was working in debt origination but this was a period following German reunification and the bank was focused on providing funding solutions for the German government, agencies and regions that involved introducing some derivative elements into primary issuance. We were embedding options into the new issues to make them puttable, which reduced the issuer's financing costs. I was also tasked with pricing the swaps on the back of the new issues, which was interesting and challenging."

Around the middle of the 1990s, financial engineers on Wall Street and in London began developing new kinds of derivatives which aimed to disaggregate the risks in bonds, enabling investors to take views on credit while hedging the interest rate exposure inherent in fixed income securities. The new products were called credit default swaps, and Fixler's interest in derivatives drew her toward the asset class. In 1996 she joined Deutsche Bank as a founding member of the global credit derivatives desk under Ron Tanemura, tasked with structuring and marketing credit derivative products in Europe and setting up the business in North America, and after a short break from banking in 1999 moved to J.P. Morgan as a CDS marketer.

"I remember joining the team at J.P. Morgan where there was an incredibly dynamic team led by Tim Frost and including Guy America and Jonathan Slater, who was focused on correlation. There was a tremendous amount of excitement and energy around the credit derivatives market, which was just starting to take off

Photography: Karl Attard

but was still tiny compared with other asset classes."

The team at J.P. Morgan realised that if it could create an index of credit default swaps it could enable clients to take views on credit risk across the market on a levered or unlevered basis, and help build liquidity into the asset class.

"In early 2002, we set up the first tradable credit index, J.P. Morgan European Credit Index under the acronym JECI and we got BNP Paribas to trade with us. In the beginning we had a five basis point bid offer on JECI and we were doing road trip after road trip and talking to hedge funds with insurance companies and financial institutions. We were focusing on education and keeping our bid offer tight, aiming to get to three basis points – which at the time nobody believed was possible.

"Eventually we had a couple of institutions come in and swing large and it just took off – from one day to the next it exploded."

Shortly after J.P. Morgan was doing the rounds selling JECI, Morgan Stanley launched a synthetic credit programme called Tracers.

"It became clear pretty quickly that if individual banks all pursued their own index products we were never going to get the critical mass we needed," Fixler says. "So we got together with Morgan Stanley and created Trac-x."

In parallel to Trac-x, iBoxx had launched the iBoxx CDS indices, and in 2004 Trac-x and iBoxx merged to form CDX in North America and iTraxx in Europe and Asia. The indices were acquired by Markit in 2007.

After a frenetic few years pioneering the CDS market and seeing it develop into something approaching a mainstream asset class, Fixler decided that it was time to take a break from the constant travelling and long hours. Having built a successful career in investment banking there was also an opportunity for her to explore her interest in developing world issues, in particular microfinance.

"I remember reading the book *Banker to the Poor: The Story of the Grameen Bank* by Muhammad Yunus, who set up a bank in his home country Bangladesh to make tiny loans to the poorest in society to finance their entrepreneurial activities and pull themselves out of poverty. For me the idea that access to credit, not charity, could more effectively pull people out of poverty hugely resonated. The reason that many people in the poorest countries had not been able to succeed in the past was because they were excluded from formal financial services and consequently exploited by local loan sharks charging stratospheric interest rates, in excess of 1% a day."

Fixler saw that microfinance was a way for poor communities to club together to take out loans at much lower rates than were previously available, giving them a chance to build businesses and turn a profit.

"Repayment rates on these loans were exceptionally high, at approximately 97%. However, at that time the microfinance framework was built predominantly on public sector loans and I thought I saw a way of using my credit structuring knowledge, to open up the sector to the broader capital markets."

A leading provider of funding in the microfinance space was BlueOrchard and Fixler approached the firm and asked whether it would consider refinancing loans in the capital markets.

"I called up the CEO, Jack Lowe, and he said it sounded interesting, and when will you come over to Geneva? I said "I'll be on the next plane!""

Following her meeting with Lowe, Fixler organised a beauty parade of banks and appointed Morgan Stanley to manage the largest single commercial investment transaction in the history of microfinance. Titled "BlueOrchard Loans for Development 2006-1", or BOLD, the deal securitised $106m of loans to 22 microfinance institutions in 13 countries, including

$106m

The value of loans made to microfinance institutions in 13 countries

Mongolia, Bosnia, Nicaragua and Cambodia.

"We followed up a year later with another deal, for which we got a rating from Standard & Poor's and in 2008 we won best sustainable deal of the year from the FT, which was really a high." Fixler says.

During the financial crisis the microfinance community was much less severely hit than mainstream capital markets, and the deals continued to perform despite a few microfinance institutions running into trouble on currency exposures, Fixler says.

Although there was some international support from the public sector and networks, our deals worked out as the informal economy is largely shielded from macroeconomic shocks."

Soon after the BOLD transactions Fixler looked to continue her work focusing on the world's poorest people, setting up a private equity fund aimed at investing in sustainable business in sub-Saharan Africa.

"We aimed to fund green businesses, telecommunications projects and to invest in microfinance, but by then we were in the midst of the financial crisis and finding the funding was becoming a lot more challenging. We did raise a portion of our target but not enough, so in the end we weren't sustainable ourselves."

Back in London, and by this time with three children with her partner (ex J.P. Morgan banker Ian Wilson) Fixler cast around for a new project that would fit better with family life and make use of her financing skills. The obvious choice was to start a jewellery business, following in the footsteps of her father and grandfather who owned a string of jewellery stores in the New York area.

It used to be that people boasted about how much they had spent. Now they brag about the deal they got

"We saw an opportunity to set up an unique estate jewellery business, buying, selling and renting fine jewellery.

Fixler spent a year touring estate sales, tapping old family connections and visiting manufacturers and collectors with the aim of bringing together a collection of high end jewellery ranging from Edwardian classics to Art Deco, chunky funky 1960s pieces and contemporary must-haves from makers such as Tiffany, Rolex and Bulgari.

"We realised that in the post crisis era there has been a change of mentality. People no longer want to spend thousands of pounds on high end jewellery that they are only going to wear once or twice a year when they can rent it for the night at 1% of the value. It used to be that people boasted about how much they had spent. Now they brag about the deal they got. They expect greater value and utility and we wanted to respond to that demand."

Fixler and her three partners set up Lulu's Estate Jewellery in 2012 to offer greater value to jewellery sellers and buyers.

"We are sitting in the niche between the low end pawn brokers, who will pay for gold and silver pieces based purely on their melt value and the high end auction houses, which are reluctant to deal in pieces worth less than £50,000," she says. "We have pieces for sale ranging from as little as £100 up to £40,000, with the vast majority available for people to rent."

Lulu's is also imminently launching a high end collateral lending business in the UK and the US. "If banks aren't going to see value in jewellery and lend against it, we will. With our background in debt finance, we are perfectly placed to grow this business beyond the scale normally found in pawn broking and to share with customers the benefit that capital market solutions may bring in the form of lower interest rates."

Lulu's has already attracted a following from socialites and celebrities. Other clients include aspirational women and wealthy international visitors to London who would rather use Lulu's as their local vault than risk the insecurity of travelling with expensive personal items

Lulu's operates as a club, and offers sliding scale of membership , the least expensive of which costs £500 a year and includes rental of £25,000 worth of jewellery, equivalent to £50,000 worth of jewellery at retail prices. A gold membership costs $1,500 a year, while the top tier membership, which includes home visits from a celebrity stylist, is £5,000 per year, and provides £300,000-worth of Lulu's jewellery. Membership can be obtained on the basis of an introduction by an existing member.

Fixler and Wilson have been joined by model and fashion TV presenter Noelle Reno, who has partnered with them to provide advice on fashion and industry trends.

In her first full year of business, Fixler was surprised by the demands of running her own company, which she says is a completely different proposition from working at an investment bank.

"It's wonderful building your own business but it's very very challenging," she says. "You have to do everything from setting up the website to fixing the printer and keeping control of costs – and that is one area that working in banking doesn't prepare you for! I was in finance for 16 years and I thought I knew a lot – trust me: two weeks into this I realised my finance background was insufficient to tackle the early challenges.

"Then there is a whole new language to learn. For example the term 'pulling' has been redefined by the fashion industry. It's the completely accepted industry practice of celebrities having access to your jewellery for free."

While building the business remains a priority, Fixler is equally focused on the change in lifestyle it offers, and the refreshing absence of office politics and manoeuvring.

"In the end you only have yourself to answer to, and of course only yourself to blame. There are incredible highs and of course some lows, and it is most definitely not for the faint-hearted." m