

HEDGE FUNDS | Q&A

Citadel COO Dishes on His Three Decades Working With Ken Griffin

The billionaire's right-hand man started his career as an intern at the now-prolific hedge fund.

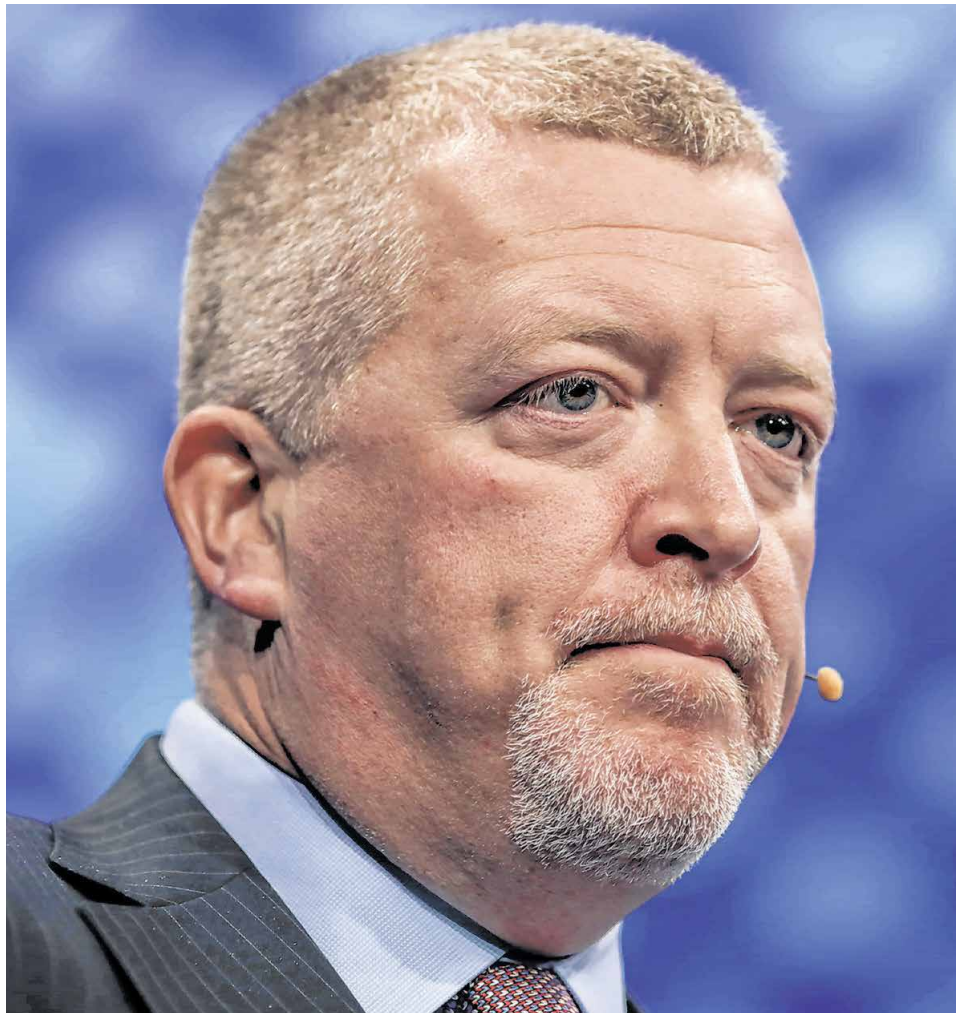
BY ANDY SERWER

Gerald Beeson is the chief operating officer of Citadel LLC, the giant hedge fund that is the sibling company of Citadel Securities, both owned by billionaire Ken Griffin. Beeson, considered to be Griffin's right-hand man, has been working at Citadel since its earliest days.

Barron's: Gerald, you've been working with Ken at Citadel for decades now. What was the original vision for the firm back in the day, and how has that changed?

Gerald Beeson: I started at Citadel 32 years ago. At the time, I was a junior at DePaul University in Chicago. There was a job posting at the career center for an accounting intern in what was at the time called Wellington Financial Group. [The company's name was later changed to Citadel. There is no connection to Wellington Management or Vanguard Wellington Fund.] I thought the internship would be an interesting opportunity to learn more about a trading firm environment.

My longer-term plan was to work in public accounting after I graduated. Two



Gerald Beeson, chief operating officer of Citadel Advisors LLC.

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months before graduation, Ken called me into his office and asked me if I would consider staying full time at Citadel. Frankly, it was a decision that carried considerable personal risk. My dad was a police officer, and I was from a middle-class household in Chicago. I had a great job lined up at a “Big 6” accounting firm with lots of perceived safety and security, and Citadel had only 18 employees and \$100 million in assets under management at that time. But I saw the vision of this 24-year-old CEO who told me, ‘You can see we’re building something truly different here.’ And that was the beginning of what’s been an extraordinary journey with Ken building our firm. I was controller at 25, chief financial officer at 30, and chief operating officer at 36. Seventeen years later, I am still building Citadel with Ken and the rest of the leadership team here.

So basically, you’re saying that you’ve fulfilled the vision?

I would never say the vision for Citadel or Citadel Securities back in 1993 was what the firms look like today. Back then, we were in the early dawn of the rise of hedge funds. While Ken’s vision was always for us to bring together the intersection of finance and technology and be at the heart of the world’s capital markets, no one would have thought we could grow into the most profitable hedge fund manager of all time and also separately build the most significant market maker in the world.

What’s the goal now, Gerald?

In the hedge fund, there’s a continual focus to extend and reinvent the business every year. This doesn’t necessarily mean we have to add something new to grow the business further, because you can continue to grow depth and breadth through more risk takers and more verticals. We also are not growing for growth’s sake. We have \$68 billion of investment capital today. We’ve returned about \$25 billion of capital over the last eight years because we’re always focused on having the right amount of risk-taking capital relative to our risk-taking capacity. That’s important because our investors are predominantly mission-based organizations, such as healthcare

institutions, endowments, universities, and foundations. Our mission, and the returns from our success in that mission, help them fulfill their missions.

Citadel Securities is focused on being the next-generation market maker. If you look at almost every stat around the business, we are a market leader, or near market leader, with a reasonably small head count to support the business—say, 1,800 people supporting roughly 25% of U.S. equities trading every day, providing 45 billion quotes a day in the options market, and a leading market maker in U.S. Treasuries and swaps. We trade across markets around the world, and we expect to continue growing in different countries and asset classes, leveraging our core competency in predictive analytics and technology. I’m confident that over the next decade, we will still have considerable runway in front of both businesses.

How do you think about growing the hedge fund business?

The growth didn’t just happen; it came from a focused effort. In 2017, we were in a town hall with our employees, and we put a graphic up showing Citadel was number five in LCH’s annual ranking of the most profitable hedge fund managers of all time, and Ken stated that his goal for us was to get into the top three in three years. We actually reached the top three the very next year, and by 2023, we were No. 1 on that list. Fast forward to today—we are still No. 1 and not resting on our laurels at the apex of the industry.

How do you work with Ken?

We work closely across a number of issues day to day. I have a wide remit as COO, and I’ll shift my focus depending on our priorities at that time. It can be anything from financing and capital markets activity to talent acquisition or something we’re doing for the goals and competitive positioning of the business. When I reflect on what my relationship is like working with Ken, I’m reminded of Walter Isaacson’s book on Steve Jobs, where Andy Hertzfeld essentially said, ‘You look back in your career and you realize you’ve accomplished more working for Steve than perhaps you would have with anyone else.’ My experience in that

regard is very similar. Ken’s constant focus is to challenge us as a leadership team. How do we make the business better? How do we drive high standards across every aspect of the business, from the front office to engineering and support functions? What can we do to extend our competitive advantage?

How are you moving capital around to match changing viewpoints?

We are always looking to deploy our capital where we can get the highest risk-adjusted returns. By large measure, the allocation between our main five strategies—credit and convertibles, equities, commodities, fixed income, and macro, and quantitative strategies—is reasonably consistent over time. That being said, when we see a market dislocation, we deploy capital quickly.

How sustainable is all this? That’s always a big question in hedge funds. How do you think about things after you’re gone and Ken’s gone, moving forward?

If you look at each of the businesses that we have, we’ve successfully transitioned leadership multiple times over nearly 35 years, and that speaks to our constant focus on developing the talent for the future. And at some point, there will be a leader behind Ken, there’ll be a leader behind me, there’ll be a leader behind Pablo [Salame, the hedge fund’s co-chief investment officer]. We’re intensely committed to talent and leadership development at Citadel.

I wanted to ask about talent. On the website, I see all kinds of recruiting efforts. How many people are you hiring?

We focus on finding and recruiting the very best talent, and we’re equally focused on developing and retaining our colleagues. Well over half of our portfolio managers in equities and fixed income and macro were internally developed. From our vantage point, that’s a much more sustainable way to grow and develop talent over time. The best way to win the war for talent is continually focusing on developing and promoting your own people.