ODYSSEY SEARCH PARTNERS

Odyssey's Quarterly Newsletter – Q3 2018

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"With Great Power comes Great Responsibility" - Voltaire

In this Q3 edition, we take a hard look at compensation, examining the findings in our Hedge Fund Compensation Report and analyzing the structure of guaranteed bonuses. We also tackle the evolving thinking about how dollars can do good in the world, through the rise of ESG investing. On the private side, we examine how Private Equity Associate programs are evolving, and the latest trends in private markets investing. Enjoy the Summer!

The Odyssey Search Team

Hedge Fund Moves

Name	Joining	Leaving
Joe Armao	Senator Investment Group	Strycker View Capital
Taresh Batra	Governors Lane	Glenhill Capital
Kevin Feng	Southpoint Capital Advisors LP	Palestra Capital Management
Brett Levine	D1 Capital	Anchorage Capital Group
Matt Litwin	Adage Capital Management	BlackRock
Matt Masucci	Callodine Capital Management	North Tide Capital
Mathew Schneider	Holocene Advisors	Glenhill Capital
Gideon Shiffman	Eminence Capital	Blue Ridge Capital
Townie Wells	Eagle Capital Management	Palestra Capital Management

Note: We came across these moves in the course of our business; they do not include Odyssey placements, respecting the confidentiality of our candidates and clients.

Summary of 2018 Hedge Fund Compensation Report

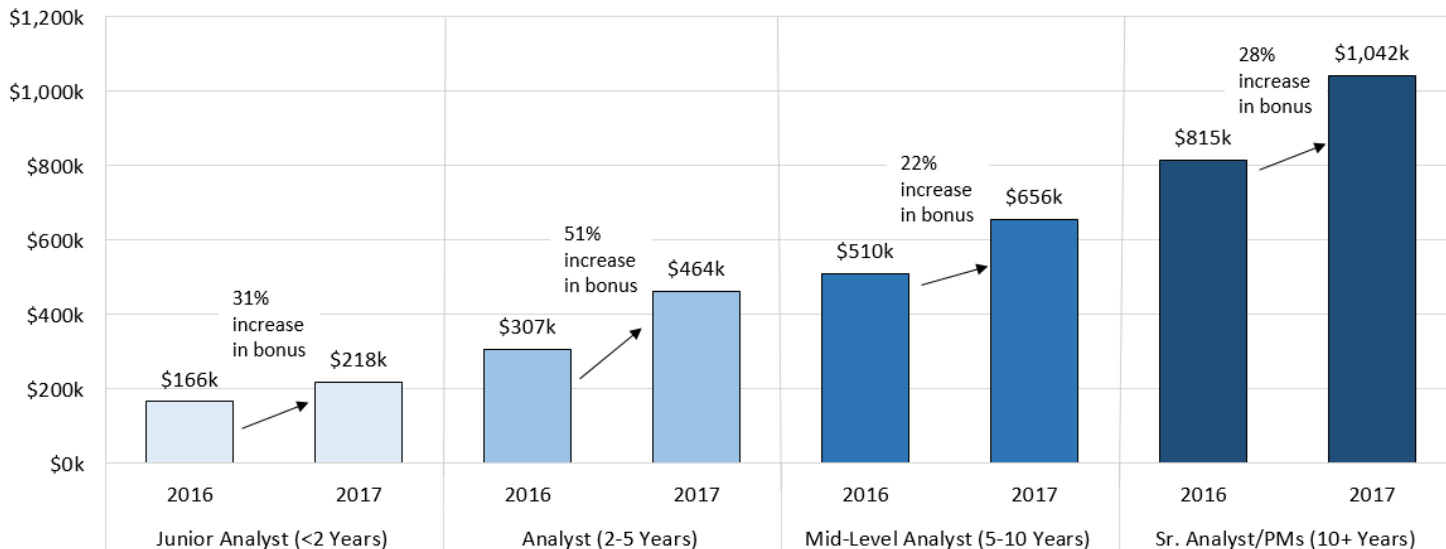
"What do I have to pay these days to keep my best people?"

We've been hearing that question a lot lately. And we hear a lot of different answers. Some funds with performance and asset issues seem to have distributed weak bonuses, yet on the other hand, there are still rumors about Joey Analyst at XYZ Capital getting a bonus of several million dollars. So now that the dust has settled on the 2017 bonus payouts, we at Odyssey again approached the hedge fund community to straighten out the facts. We surveyed over 500 investment professionals, and their responses help clarify exactly who got paid what, and which factors helped determine those outcomes.

Recalling our Fall 2017 survey, expectations were high given the strong returns across the board for capital markets, particularly the hedge fund space. In that survey, we noted that HF investment professionals were expecting an average increase of 39% YoY for their year-end bonuses. While the numbers didn't quite meet those lofty expectations, the hedge fund industry's 2017 bonus payouts did indeed rise dramatically when compared with 2016's figures. The average year-end 2017 bonus was $574,000, compared with $448,000 for 2016; a 28% increase.

The key driver behind a firm's bonus pool was fund performance, which once again turned out to be a far more significant metric than fund size. Hedge funds that were up 5%+ in 2017 distributed bonus payouts 33% greater than those of their peers who sat below that benchmark. In terms of fund size, those with AUM over $5B offered bonuses 14% greater than their peers with less than $1B in AUM (and there was no significant correlation between fund size and performance.)

In terms of payout by position, the Junior Analyst and Analyst levels saw the largest percentage increase in bonus payments, followed by Junior Analysts. These increases were higher than those seen at the Mid and Senior levels (though of course, the actual dollar amounts awarded to these more experienced investors were much greater.)

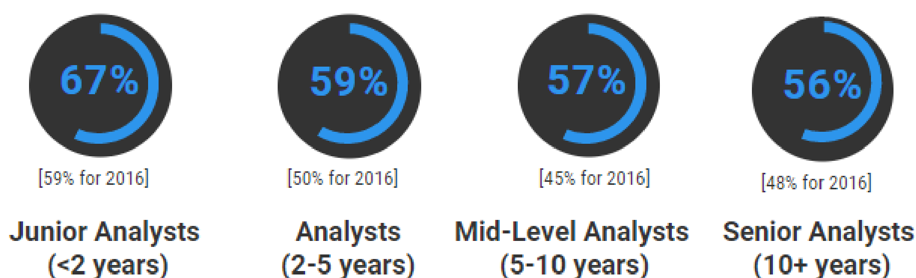


Additionally, in our Comp Report we show how senior investors in equities were rewarded more than their colleagues in credit or event-driven, and how professionals at long-onlys received a fraction of the average bonus awarded to their colleagues at long/short funds.

So how were these Bonuses received?

For a second straight year, we asked Analysts how satisfied they felt with their compensation packages. We used a scale of 0 to 100. As the chart below indicates, all groups experienced a minimum 8% increase in their satisfaction levels when compared to perceptions about 2016 bonuses. For the second straight year, Juniors felt the most satisfied, given their healthy bonus packages coupled with the overall strength of the market (youthful enthusiasm likely also plays a factor). Senior Analysts/PMs felt relatively less exhilaration after their bonus payouts, given they experienced the largest gap between expectation and result. In our Fall 2017 survey, the Senior Analysts/PM predicted a massive 70% increase in their year-end bonus, and so their average 28% increase looks quite paltry in comparison.

% of Respondents at Each Level “Satisfied/Very Satisfied” with their Total Compensation in 2017



For the second straight year, we asked respondents explored how compensation ranked among other notable career drivers. Their rankings are below with #1 on the scale being the most popular response.

The top-3 answers remained the same YoY, although ‘Compensation’ and ‘Corporate Culture’ swapped spots at #1 and #2. That likely has to do with the relatively lean compensation payouts over the past few years, leading professionals to weigh the metric more heavily. Perhaps most interestingly, ‘Brand’ surged from the #7 spot last year all the way up to #4 this year. Apparently the Analyst pool is increasingly concerned about how their employer is viewed by their peer group, and how such perceptions might affect their future career positioning. Something for all employers to take note of…

So overall, while the compensation figures for 2017 did not live up to investment professionals’ lofty expectations, they surprised many in their size given the environment of fee compression and cost cutting. However, based on the positive first half results of 2018, it would take a brave manager to swim against the tide and restrict the compensation of their top Analysts.

Odyssey clients are welcome to a complimentary copy of the 2018 Hedge Fund Compensation Report; please drop a note to your Odyssey contact or info@ospsearch.com

When a Guarantee Isn't Guaranteed: How the Nature of Compensation on Wall Street is Changing

The market for hedge fund hiring simply isn't what it used to be. Macroeconomic headwinds and lagging fund performance have combined to form gray clouds over an industry that has historically been accustomed to blue skies. As a consequence, what used to be part-and-parcel of getting hired – the standard, one-year full guaranteed bonus – is now rather outdated, as more and more firms are coming to terms with the fact that contractual guarantees are simply too difficult to stomach in these times of low profitability and acute uncertainty.

Yet rather than ditch the guarantee altogether, firms are seeking alternative avenues for attracting top talent. Below are some examples we've been noticing.

Verbal Guidance

Many firms are verbalizing their offers to candidates in the form of an expected year-end bonus. Mostly the number is a lower bound, but sometimes it's a range. By verbalizing the offer, the firm avoids liability should a worse-case scenario materialize. HR personnel often tell candidates that they cannot put the number in writing as it violates firm policy, but given the reputational risk at play, verbal guidance is considered just as good as a guarantee. We remind candidates that the whole 'at will' arrangement is based on trust, and advise them that if they can't get comfortable taking the word of their new employer, they probably shouldn't take the offer anyway. What's particularly helpful for prospective new hires in these cases is doing diligence with former and current employees to get comfortable with the culture of compensation at the firm. We remind hiring managers that candidates rarely take the opportunity because of an attractive first-year comp package; but they often turn it down due to an unattractive one.

The Bonus Floor

One creative workaround to a traditional guarantee is the 'bonus floor,' which allows both candidates and firms to protect their downside risk while leaving the upside open. With a bonus floor in place, candidates aren't beholden to a specific guarantee or target amount should the firm's projected earnings not materialize. For example, one of our candidates who exited a Private Equity firm for a prominent hedge fund was offered a base salary of $125k, with a minimum $125k all-cash bonus payable in December 2018. $250K all-in for a 2x2 candidate is below market-value (which is $300-450k), but based on the structure of the offer, the candidate can expect to make more than $250K should both fund and candidate perform well. However, the firm included a bonus floor to mitigate its downside risk and remove the anxiety over what a potential worst case scenario might look like. Yes, the upside exposure for the firm is still wide open – but should the firm have a big year, (ostensibly) both candidate and firm will end up happy. And if performance doesn't pan out as expected, at least the firm's downside is limited, while the candidate is (presumably) much happier than if his or her bonus were based purely off of fund performance.

The Pot at the End of the Career Rainbow

We encourage candidates to evaluate two aspects of compensation tied to a career move:

1. The onboarding price (the offer), which as we highlight in this article, is not necessarily guaranteed at a premium to the candidate's prior earnings.
2. The upside potential. This is the most important financial factor in making a move. What does this opportunity looking like in years 2-5, and can the candidate get comfortable with that?

We encourage clients to have frank conversations with candidates at the end of the hiring process on what the longer-term upside looks like and how it will play out. A recent placement of ours illustrates how powerful this approach can be: one candidate was transitioning from a fund that couldn't raise assets and was therefore shutting down. The candidate fielded a $450k full-year guarantee from a large asset manager, as well as a pro-rated $450k offer (the candidate will start in Q3) from our client. Perhaps somewhat counter-intuitively, the candidate accepted the pro-rated offer, simply because our client highlighted the potential for the candidate to grow into a partnership role over time. This strategy works

because there is a clear delineation between onboarding price and run-rate – what a candidate anticipates in year-one often looks very different than what he or she should expect to make going forward. To that end, we often advise clients to focus on growth potential when pursuing strong, ambitious candidates, as many are willing to sacrifice short-term earnings for the prospect of a brighter future.

Still Some Guarantees Left

Of course, there are exceptions to the 'no guarantees' mantra. Larger firms such as multi-managers and mega-funds are typically offering guarantees, and in some cases even increasing their numbers in an effort to out-bid one another. One of the reasons these firms are so effective in hiring top talent is because they're still able to offer significant guarantees. While most candidates' decisions aren't strictly based on money, attracting the best and brightest is much easier when you can reduce the risk factor for candidates, at least during the first year or two.

However, in most other case, all parties should realize that compensation isn't coming in 'one-size fits all' packages, and the straight guarantee is certainly no longer guaranteed.

Can the Financial Services Industry Make the World a Better Place?

Which three letter acronym has been getting the most coverage in the financial press in 2018? KKR? AQR? It's probably ESG. ESG – Environmental, Social and Governance – investing has been the topic of a special edition in Barron's this year and on the cover of Bloomberg magazine. TPG announced that John Kerry was joining the team of their $2Bn Rise Fund, an ESG fund, that already had a Board including Bono. KKR announced a new fund that has investment themes tied to the UN's Sustainable Development Goals. And the hedge fund world hasn't been ignoring this either. JANA Partners announced a new ESG fund. For good measure, they have their own celebrity activist on their Board – Sting.

So we at Odyssey decided to delve head first into the topic and develop an in-depth piece to address a number of key questions. What exactly is ESG and who's doing what? Who's provoking the trend? How is it impacting hiring practices? And ultimately – is ESG really a big deal and a glimpse into the future, or is it today's investing Blackberry (popular, prevalent then set to disappear…)?

The ABCs of ESG

ESG funds, impact investing, sustainable investing and socially responsible investing are just some of the terms being banded around when discussing this phenomenon. While there are subtle differences between these labels, we're using ESG here as an umbrella term. As for what it means, here's Larry Fink in a recent letter to explain (Blackrock has been a forerunner in the space and continues to lead by example): "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."

What is common between ESG investors is that they want to serve some goal beyond just returns. Those goals are linked to values about 'doing good' and making some positive impact. However, what constitutes 'doing good' differs considerably and there's a big variance in return goals. Some funds have a lower target return while maintaining these additional impact goals. Other funds are still termed 'market rate' and seek to achieve the same returns as standard funds, but aim to do this while also achieving positive social impact – which is the 'have your cake and eat it too' goal.

Some of the social benefit is achieved by simple exclusion; that is to say, not investing in firms that produce guns, develop fossil fuels or encourage gambling. The "sin stocks." An exclusion strategy might eschew investing in Exxon Mobil, and instead look to fund a renewable energy company. This is definitely

the blunt instrument approach. More sophisticated ESG investors aim to incorporate a wider set of considerations in a more nuanced way. For example, they would look at more specific factors than just 'is this a fossil fuel company?' They might look at varied factors such as climate change, pollution, employee diversity and corruption, and create a holistic scorecard, meaning that fewer companies are labelled as 'all good' or 'all bad'. Unfortunately, all of this complexity leads to confusion and doubt about what exactly constitutes an ESG investment. Take Facebook, for example. Would an investment in Facebook be considered ESG-friendly, and would it be found in an ESG portfolio? On the one hand, the Tech sector has an extremely low carbon footprint, which makes it environmentally-friendly. On the other hand, the company's highly questionable privacy policies surrounding user data don't exactly scream: "social responsibility!"

This lack of consistency is an issue that causes confusion. Two leading ESG index providers who rank companies offer very different findings. As the WSJ reported 6/29/18, the FTSE rankings give Comcast, for example, a high 4.4 out of 5 ranking, whereas MSCI terms it a "laggard" or B rating. The FTSE scored Exxon Mobil a better ESG firm than Tesla, which is far from intuitive. The manager of the Japanese Government's pension plan, the world's largest, highlights these mixed views on the topic when he was quoted as saying "Some people think [ESG] is a risk factor. Some people think it is an alpha [performance] issue, some people think it is a policy issue…"

Who's Doing What

An important dimension in ESG is the active versus passive role of the investor. Passive exclusion is easy for an investor of any size to accomplish – just avoid having tobacco stocks in your portfolio, for example. But much of the press coverage surrounds investors, especially large asset managers, that actually seek to create more positive behaviors by applying investor pressure. JANA used its stake in Apple to push the company to study cell phone use by children. Vanguard cast a dissenting shareholder vote against Exxon as a means of encouraging the company to report its impact on climate change, or risk losing billions of dollars of investment.

It's not just the big asset managers getting on board, either. Take the NYS Office of the State Comptroller. CIO Vicki Fuller is noted for developing the first passive fund strategy that reduces carbon emissions by underweighting high-emitters and overweighting low-emitters. Even while doing this, the fund generated 10%+ returns. And the most prominent traditional investor of them all, Warren Buffett, has a grandson, Howard, who has just published a book. The title? "Social Value Investing."

By the Numbers

The thinking about the purpose of investing is changing. Barron's runs an annual survey of institutional investors, where the investors are asked about what they look for in corporations. In 2005, 11% said "ethical business practices" were the most important components. In 2017, that number jumped to 28%, the highest of any factor.

This philosophical shift is translating into asset movements. Already global institutional ESG assets are estimated to total $23 trillion ($2.5 trillion in funds with specific mandates to incorporate ESG analysis throughout their investment process). In the EU, the practice has already gone mainstream, and the European Commission recently released a paper on how to build a sustainable economy through ESG investment. It's the same story in Japan, where ESG is now part and parcel of traditional investing. Japan's massive Government Pension plan currently maintains roughly 3% of its assets in specific ESG funds – however the government just announced it plans to raise that allocation to 10%. Even in the US, where the trend has developed more slowly, by the end of last year there were 234 mutual funds and ETFs investing a total of $100 billion in funds that screened for ESG criteria, according to Morningstar. That's more than double the number of funds, and a 142% increase in AUM since 2012. According to Bloomberg Intelligence, AUM in ESG designated funds jumped 37% in 2017 alone.

Audrey Choi, Morgan Stanley's Chief Sustainability Officer quoted in the WSJ (6/26/18), said that the annual growth rate of assets invested under an ESG mandate compounded 23% from 2014-2016, compared to just 5% for the broader industry average. She was quoted as saying, "It's not 'if you build it, they will come.' We are at: They have come, so build it."

Generation ESG

So what's driving this trend? Largely women, and yes, those Millennials again.

Millennials are a values-driven generation, more and more of whom would like to see their investments align with their principles and beliefs. A recent Morgan Stanley study found that a whopping 86% of Millennials are interested in sustainable investing, with a full 90% saying they want such options as part of their 401(k) plans.

Alongside Millennials making the ESG push are women, whose wealth and influence on investment trends is increasing considerably. According to a report by the Boston Consulting Group, private wealth held by women increased from $34 trillion to $51 trillion from 2010-2015. By 2020, women are expected to hold $72 trillion, or 32% of all private wealth. And it's not likely to stop there. The WSJ (6/12/18) predicts that women will control 2/3rds of wealth by 2030, through inheritance and increased earnings. A recent Morgan Stanley survey found that 84% of women are interested in sustainable investing, compared to just 67% of men.

By 2025, these two groups – Millennials and women of all ages – are expected to make up three-fourths of the workforce. So this seems to be a ripple that's going to turn into a wave. If not a tsunami.

Hiring for ESG

Some funds clearly believe having a prominent senior person from an international organization, politics or one of the leading non-profits buoys the credibility of the fund, and helps from a marketing and relationship standpoint. These are not roles that can filled from the existing bench.

Hedge fund JANA recently hired a PM and Analyst specifically to oversee its efforts to convince companies to be more socially responsible. However, for most funds, the hardest work is the detailed diligence of the various factors of an investment which is something traditional analysts can do. As a PM of a credit firm that's been making sustainable investments told us, "What we needed was our investment staff to help us with these additional ESG analyses. We were approached by many 'do-gooders' without a finance background but frankly, they're of little use to us."

For hires that are made, familiarity with international investments can be a plus, as well as deep sector experience. TPG's Rise Fund for example, focuses on specific sectors, such as Agriculture & Food, Financial Services, TMT, Energy and Education. People in those verticals are likely to have a background (or at least a proven interest) in those areas, as opposed to being generalists.

Candidates looking to career-switch into ESG investing may face a significant pay cut however. The industry is still small relative to the larger investment arena, and it's becoming quite competitive given the growing number of disaffected bankers and budding MBA grads looking to make a difference in the world, in addition to a nice return. This excess supply is keeping the price of talent down. However, as ESG becomes more mainstream, we predict this will normalize. And as large funds and institutional investors compete for senior hires in a bid to build out their impact investment portfolio, they'll find it necessary to pay up for talent, as opposed to simply relying on the value of making a difference as the lone selling point.

Detractors

Even with this wave of enthusiasm, there are many skeptics to ESG investing. The main argument seems to be, "Is it the job of the financial sector to solve society's ills?" Traditionalists would prefer to focus on basic investing that maximizes returns, and let investors choose to spend these returns in the manner they wish – whether it's donating a dividend to support a non-profit, or spending it on a new pair of Apple earbuds (by the look of the streets in midtown NYC this summer, most people seem to be choosing the latter). But this kind of thinking, a denial of responsibility that investing itself has impact, is becoming very unfashionable and harder to justify. Any money manager that publicly denies they should be considering the implications of their work would likely face a tweet-storm.

Theoretically though, traditionalists follow Milton Friedman's thinking that "the social responsibility of business is to increase profits." Any steps that aren't in this direction will logically not be profit-maximizing.

As was noted in the WSJ, "…companies have to decide whether to accept lower profits to avoid risks – such as bad publicity about labor standards or tighter rules on carbon emissions – that might not hit for years, if ever."

The Norwegian government in its 2016 annual report calculated that its massive sovereign fund – by choosing not to invest in non-ethical companies including fossil fuel companies and weapons manufacturers – lost nearly 2% of performance over the last 10 years. With an ageing population that will be supported by proportionally fewer working age people, as well as a looming pension crisis, should we really be taking steps that might lower the returns generated by institutional funds?

One of the most vivid detractions comes from Adam Sessel, the founder of Gravity Capital Management, who was quoted in Barron's as saying "…ESG reminds me of one of those traveling 19th century medicine shows, where various tonics and remedies were peddled with great success – for the salespeople…. A winning, young salesperson shows up at our home, driving an all-hemp bag filled with sleek organic bottles of an elixir labeled ESG, and we drink."

Shape of the Future?

A money-manager, Kristina Van Liew, quoted in Barron's (6/12/18) put it very simply "…sustainable businesses are actually better businesses, and they are likely to outperform from a pure financial standpoint."

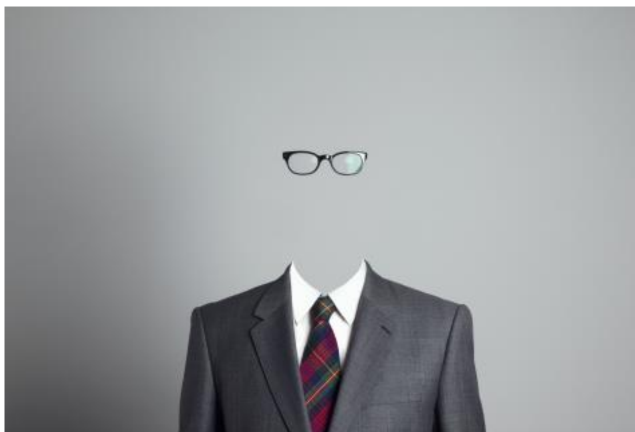
The detailed factor-based analysis of ESG leads investors to get to know the underlying companies in a more detailed way than ever before. As clients demand transparency about how and where their money is being invested, managers are having to do more diligence as part of their fiduciary duty to tell clients exactly where their money is going. Proponents of ESG believe that it's this detailed work and careful diligence that leads firms to invest in companies that succeed, and that these ESG funds will be able to create returns comparable with standard funds.

In closing, it does seem that investing for the long-term isn't just about returns any longer, and we must take into considerations the effects of our actions. Not something the Gordon Gecko's of Wall Street would recognize, but this is 2018 where nothing - values, identity, and even financial truths – are beyond being questioned. Jack Otter, the Barron's Editor writes "…from the #MeToo movement to climate change to income inequality, people are looking to the private sector to address issues that were once the province of government." ESG investing has already taken hold globally, and is now making serious in-roads in America. Fund managers who don't tailor their approaches and strategies to account for the shifts in demographics and investor sentiment, may find themselves on the wrong-side of the new investment reality.

Odyssey – Commitment to Diversity

Odyssey is committed to finding clients the best talent regardless of background. In 2018, 32% of total hires made through Odyssey were women; 43% of total hires were diversity candidates.

Where Have All the PE Associates Gone?



People who have gone through investment banking followed by Private Equity programs have long been in high demand at both public and private investment firms. Their banking and PE experience affords them a robust skill set as they've been exposed to many facets of banking and buyout processes, as well as corporate strategy and operations. However, they remain malleable enough to learn and adopt an entirely new investment strategy.

These Private Equity Associates are often termed "2x2s" (though in reality they can come with 1-2 years of banking and 1-3 years of PE experience). Historically, capacity thresholds at PE firms limit promotions to the best and brightest Associates, if any, which means many 2x2s end up either looking for a new job or applying to business school once their Associate program concludes. They are particularly attractive candidates for PE firms looking to round out their Senior Associate pools, and for hedge funds looking for smart young Analysts with solid exposure to both business and finance.

However, we at Odyssey have been noticing a conspicuous decrease in the number of 2x2s in the market this year, particularly for hedge fund hiring. A couple things seem to be occurring simultaneously - a greater proportion of Associates are staying at their PE firms rather than looking for opportunities elsewhere, and for those looking, the interest level public markets seemed to have waned.

What could be the source of this supply drain? Is it the firms, the Associates, or perhaps a larger, macro-economic factor? We see three concurrent trends here:

1. **All of That Dry Powder.** PE has been racking up record amounts of dry powder over the past few years. This trend is expected to continue (Carlyle, for example, has announced plans to raise $100 billion by 2019; the firm is 65% of the way there already). That enormous influx of capital carries with it a need to hire people at the Senior Associate and VP levels, which means more and more PE firms are promoting a greater proportion of their best Associates, as opposed to supporting their transition out when their program ends. This paradigm shift has resulted in fewer 2x2s in the marketplace, as those that would normally go job seeking or head off to B-school are now accepting offers from their current employers.

   As one HR person at a prominent PE firm acknowledged, "This year we've offered the most 2x2 promotions in the history of the firm. It's being driven by fundraising and AUM. It's not like we didn't want to promote Associates before, we just couldn't because there was no more senior headcount needed on the team."

2. **The Thrill is Gone.** Not long ago, a hedge fund position was considered a dream job by many coming out of university and business school. While that still largely holds true today, the industry's struggles over the past few years have contributed to a significant loss of luster. More and more candidates are expressing concern over the stability of a career path in public investing. They seem unsure of growth prospects and are wary of potential fund closings and layoffs. Even candidates primarily interested in public markets are beginning to shy away from the space, instead opting for a "safer," more dependable career in PE. As a result, there are fewer 2x2s in the market, as PE Associates who used to leave for the greener pastures of public markets investing are finding the grass may actually be greener in Private Equity.

3. **MBA 2.0.** Historically, PE firms used to ship qualified candidates off to B-school in order to broaden their skill set, round out their communication ability and develop an extensive network, with the intention of re-integrating the best and brightest back into the firm. Today, however, with the value and applicability of an MBA increasingly questioned, firms are loosening their restrictions on hiring candidates without the degree. As a result, firms are reconsidering the idea of investing in a candidate's post-graduate education, instead opting to keep them on for longer tenures. Why pay for business school which has a questionable long-term benefit, when a candidate can create immediate value for the firm today? One firm we spoke with is even electing to have candidates spend two years working for a portfolio company, in-lieu of an MBA. This way, candidates gain relevant work experience while achieving much of the same growth as they would during B-school.

   As the Head of Talent at a mid-market PE firm told us, "There's tons of value in seeing the world from the other [corporate] side. It helps their communication and presentation skills, and when they come back, they'll have more credibility with management teams." It will be interesting to see if this idea blossoms into a full-blown strategic trend; as of now, only one firm we spoke with has formally implemented the approach.

When it comes to hiring, we are seeing firms begin their searches earlier and earlier in the year, and reaching the finish line much quicker as a result. Consequently, the competition for top talent in the 2x2 market has ratcheted upwards, as nearly every 2x2 candidate we've placed so far this year has received multiple offers. This is especially impactful for fundamental long/short equity firms that have relied on this candidate source pool; they need to be quicker and more aggressive if they hope to land their ideal 2x2 candidate. No one can predict how long this trend will continue, but in the short-term at least, expect fewer 2x2s in the market and more internal promotions within the world of Private Equity investment.

Private Equity Moves

Name	Joining	Leaving
Austin Anton	Apollo Global Management	Kohlberg & Co
Vikram Dhawan	EQT Partners	Fortress
Zach Fuchs	Apax Partners' Digital Fund	Francisco Partners
Nicholas Fulco	Altaris Capital	CCMP Capital
Crystal Huang	New Enterprise Associates (NEA)	GGV Capital
Tanzeen Syed	General Atlantic	Temasek
Tom Verghese	TPG Global's Rise Fund	LeapFrog Investments
Andrew Zloto	Softbank Vision Fund	Airbnb

Note: We came across these moves in the course of our business; they do not include Odyssey placements, respecting the confidentiality of our candidates and clients.

Five Trends in Private Markets

Private Markets have experienced something of a growth spurt lately. Like that kid in high school who suddenly showed up Junior year a head taller than everyone else, the industry is slowly-but-surely becoming unrecognizable, thanks to a number of trends that happen to be materializing all at once.

We decided to take a look at five trends in Private Markets, and how each is fueling a growth spurt (albeit in slightly different directions):

1. **Dry Powder in Private Markets**

   Private Markets are sitting on record amounts of dry powder at the moment, as Private Equity and Credit fundraising swells and deployment stifles. With deployment pressure building, funds are altering their investment strategies and incorporating a range of innovative asset classes into their portfolios. Growth Equity, Infrastructure/Asset Leasing, Litigation Finance and Healthcare Royalties are all being touted as the next 'It' investment (for more depth on this subject, see our recent article on Esoteric Investment Strategies).

   Predictably, this trend is having an effect on hiring. Specialists capable of leveraging strong networks and sourcing deal flow in these alternative asset classes are currently in high demand. We're seeing plenty of BD and Investment Professionals with robust, sector-specific rolodexes making inroads at brand-name firms where hiring is otherwise quite restricted. As Private Equity fundraising shows no signs of slowing, expect this trend to continue with firms looking further and further afield in search of outsized returns.

2. **Increased Fee Pressure**

   Downward pressure on fees is having a discernable impact on the customization and complexity of fund offerings. As LPs gain more leverage over their partnership agreements, GPs are finding it necessary to cultivate long-term partnerships via bespoke offerings like SMA's and 'fund of one' mandates. Enhanced transparency also helps, which is perhaps why firms are re-jiggering their employment structures. To that end, hedge funds are merging the Marketing Director and Head of Business Strategy roles, whereas Private Equity shops are highlighting a distinction between Salespeople and Product Specialists, given that Specialists are so often needed to meet the personalized demands of clients. It seems that for the foreseeable future, 'multi-tool salespeople' are the new normal on Wall Street, as the business of selling appears to have changed irrevocably (see the article on Fund Marketing in our Q1 Newsletter)

3. **Direct Investing on the Rise**

   You can only ride shotgun for so long before the urge to hop in the driver's seat takes over. To wit, Pension Plans, Sovereign Wealth Funds (SWFs) and Family Offices are typically decreasing allocations to Private Equity and Alternative Asset Management funds, and building their own direct investment capabilities instead, according to a 5/18/18 article on Chief Investment Officer's website (Harvard Management Company being a notable exception to this). The California Public Employees' Retirement System (CalPERS) announced in May "CalPERS Direct," a $13B direct investment program aimed at funding startups in later-stage rounds, as well as more established companies. CalPERS is looking to bypass the 1-2% fees paid by the $350B pension giant (the nation's largest) on transactions involving partnerships with GPs. Successful implementation of the fund would make CalPERS the first (but likely not the last) major U.S. public pension fund to make direct investments into Private Equity and Venture Capital. Canadian pension funds, in contrast, have been playing the direct investment game for quite a while. Since 2012, the top-3 Canadian public pension funds have made at least 88 direct investments for a total of $19B in funding to private companies.

Meanwhile, SWFs and Family Officers are also getting in on the act. According to the New York Times, SWFs purchased roughly 17% of assets sold by Private Equity firms since 2015. And a recent survey by iCapital Network shows that 66% of the 157 Family Offices they contacted plan to increase their direct investments in the near-term. The practice has grown so mainstream that already programs are being devised – such as the Wharton School's four-day executive education program titled 'Private Equity: Investing and Creating Value" – which trains SWFs and Family Offices on due diligence practices, how to structure a deal, and how to think like a Private Equity firm. Direct deal hiring is also on the rise, as BD professionals with sourcing expertise and deep rolodexes are the new hot commodity when it comes to Pensions, SWFs and Family Offices.

4. **Doing Good While Doing Well**

As discussed in this newsletter's article on ESG investing, the world of finance is being impacted by investors looking to make an impact. No longer are returns strictly the name of the game, as retail and institutional investors alike are beginning to question how their investments are helping to move the needle on Environmental, Social and Governance (ESG) issues they care deeply about.

5. **Data Everywhere**

'Unstructured Data' is the latest buzz-term in the world of digital resources for funds. Essentially, all quantifiable data such as balance sheets and historical trends are termed 'structured,' and non-quantifiable data such as the hidden messages in a company's earnings report, or rumors that might help predict an M&A deal before it goes public are considered 'unstructured.' A host of Fin-Tech startups have already popped up in service of this new frontier, aggregating unstructured data across a variety of metrics and delivering either the raw data or models and forecasts per their clients' requests. While these firms typically sell to Long/Short hedge funds, their client base is growing, as both Private Equity and Private Credit are now starting to get in on the act.

According to a recent Coller Capital survey, 2/3rds of LPs expect to see Private Equity funds widely incorporating data and AI tools within the next five years. Private Markets are leveraging AI and data to provide a window into potential acquisition targets, as well as support the execution, speed and integration of deals. From a due diligence perspective, these data feeds combined with advanced analytics can help funds identify potential sticking points, and by extension, close deals faster and with greater efficiency. The world's largest Private Equity fund, Blackstone, has already set up an internal data group which collaborates with all other departments on the usage and integration of Big Data into their processes (in everything from investment due diligence to talent acquisition). As Private Market activity ramps up, expect more funds to follow Blackstone's lead and devote ever-more resources into advanced analytics as they seek that illusory edge over the competition.

Hey, that's one way to put some of that dry powder to use…

Private Credit Moves

Name	Joining	Leaving
Chris Babick	Hancock Capital	THL Credit
Matt Bandini	Capital Dynamics	Fifth Street Finance
Michael Barrasso	Varagon Capital	Antares Capital
Daniel Bernstein	Falcon Investments	Hancock Capital
Brian Carroll	Varagon Capital	Golub Capital
Kevin Condon	Boathouse Capital	OFS Capital
Brendan Donovan	Hancock Capital	CapitalSource
Alex Foreman	KKR	Ares Management
Patick Koehl	Madison Capital Funding	NXT Capital
Karin Kovacic	Monroe Capital	Alcentra Capital

Note: We came across these moves in the course of our business; they do not include Odyssey placements, respecting the confidentiality of our candidates and clients.

Check out our website: odysseysearchpartners.com

Odyssey Search Partners

Adam Kahn
Anthony Keizner
Brian Byck
Vincent Colangelo
Brent Zaterman
Jeff Rosenblum
Rachel Kaplove
Sanjeev Sharma
Halley Cruice
Lauren Neag
Mehrin Ali

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