Odyssey's Quarterly Newsletter – Q2 2017

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As we enter spring, there's a different feeling in the air – and it's not just from the sunshine. The appetite for Private Equity and Private Credit funds remains high, and hedge funds gained 2-3% in Q1 (with long/short equity leading the pack – something we haven't seen for a while…) In this Newsletter, we tackle year-end bonuses and how compensation has been affected by deferral policies. We also delve even further into how firms can attract and retain employees via perks and corporate culture. In addition, we discuss the growing trend of in-house capital markets teams within PE funds, and on a lighter note, we share our views on resume screening.

We hope you find it interesting and informative.

The Odyssey Search Team

In order for this newsletter to be as informative and useful to you as possible, we'd love your feedback and suggestions for topics. If there are industry questions you're looking for perspectives on, please let us know and we'd be happy to explore and discuss in future distributions!

Suggestions Welcome

Results of Q1 2017 Hedge Fund Investment Professional Compensation Survey

Hedge funds ended up being more generous to their front-office staff in 2016 than expected. Negative news surrounding the industry had weighed on expectations. Our Fall 2016 Survey of Investment Professionals' Compensation included expectations for year-end bonuses, and we highlighted that people were on average expecting a 7% year-on-year decrease. In the end, the results of our Q1 2017 Compensation Survey with actual bonus numbers show that the average year-end 2016 bonus was $316k vs. $308k for 2015, a 3% increase.

As background, Odyssey's Q1 2017 Hedge Fund Investment Professionals' Compensation Survey was compiled from over 300 data points stemming from hedge fund analysts submitting actual year-end 2016 data.

Digging into the numbers further, three factors were revealed to be paramount in maintaining the year-end bonus levels.

1) Performance: Analysts at firms that were 'up' in 2016 did considerably better than Analysts at struggling firms. Those in the black received on average a $370k bonus vs. bonuses of $241k for those whose firms that were 'down' (a 54% difference in bonus size). Given that the average fund was up in 2016 (about +3.5% according to Eurekahedge) more firms were either producing performance fees or had at least closed the gap on their high water marks.

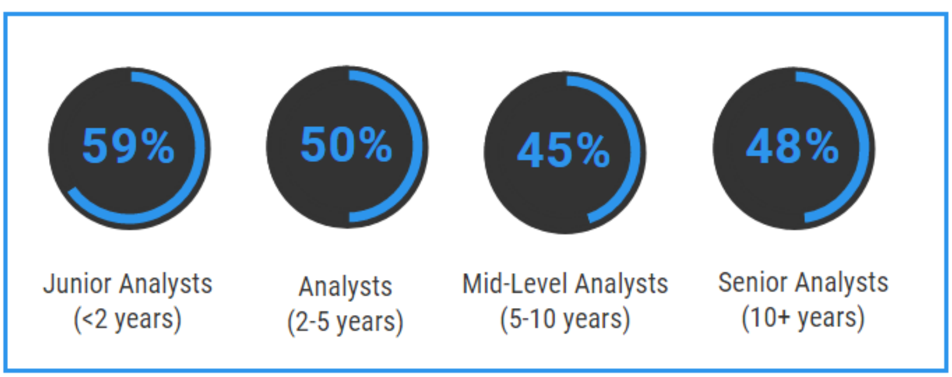
2) Fund Size: Bigger is better. Regardless of performance, Analysts at firms >$5B in AUM received $382k vs. $328k for those at firms with <$1B in AUM (a 17% difference).

3) Experience Level: Those with less than 5 years of buy-side experience saw much bigger jumps in their year-on-year bonus numbers, compared to more tenured staff (as chart below shows). It's certainly easier to increase junior comp on a % basis, given the fewer dollars involved. But this finding might also have to do with the relative demand for juniors across the current investment landscape.

Experience Level	Average 2015 Bonus	Average 2016 Bonus	%
Junior Analysts (<2 years)	117k	142k	+ 21%
Analysts (2-5 years)	220k	250k	+ 14%
Mid-Level Analysts (5-10 years)	377k	389k	+ 3%
Senior Analysts (10+ years)	427k	456k	+ 7%

In our survey we also asked analysts how satisfied they felt with their comp. We used a scale of 0 to 100, with 0 being 'extremely unhappy' and 100 being 'Tom Cruise on Oprah's couch.' As the chart below shows, it is the Juniors who reported feeling the most Tom Cruise-ish, likely due to the high percentage increase, as well as the fact that a 6-figure bonus is a lot of money for a 20-something to take home.

Level of Satisfaction Expressed about Comp Received (100 point scale, 100 being the most satisfied)



We also wanted to investigate how compensation-driven these folks are. We asked them to rank the importance of 8 different career drivers, and interestingly compensation didn't top the list!

Corporate Culture
Compensation
Upward Mobility
Stability
Learning Potential
Work-life balance
Brand
Location

These results lead to the question – what does 'Corporate Culture' really mean? *See the article below on perks and how corporate culture is shifting on Wall Street.*

So all in all, while hedge funds generally underperformed both their own and investors' expectations this past year, HF staff walked away relatively satisfied with their take-home pay. Juniors especially are feeling happier than those tenured enough to remember the true boom times of the pre-recession days. But if Q1 hedge fund performance continues apace throughout the rest of 2017, perhaps everyone will be feeling just as satisfied by this time next year.

NOTE: Our 2017 Hedge Fund Investment Professional Compensation Report will be released May 2017. In it, we will explore these results in more detail, including separating compensation findings by firm strategy, single managers vs. multi-managers and differences by geography. If you'd be interested in a receiving a copy, please let us know.

Hedge Fund Moves

Name	Joining	Leaving
Ang Li	Newbrook Capital	Glenview Capital
David Grimner	LNZ Capital	Maplelane Capital
Enrique Viciana	Fir Tree Partners	Silver Point Capital
Jennifer Sun	Melvin Capital	Jericho Capital
Jonathan Krause	Silver Rock Financial	DW Partners
Matt Ganucheau	Point72 Asset Management	BlueMar Capital Management
Misha Sanwal	Jericho Capital Management	Seven Harbour Global
Mitul Shah	Holocene Advisors	Folger Hill Asset Management
Patrick Murray	Saya Capital	Taconic Capital Advisors
Sutong Zhou	Millennium Partners	J Goldman & Co

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.

Shining a Spotlight on Deferred Compensation

As described above, one of the murkiest subjects on Wall Street is compensation (and current New York legislation might make it even more obscure). Buried deep within this opaque corner of the employer-employee relationship lies an even more delicate and misunderstood matter – that of deferred compensation.

Firms typically explain deferred comp policies as a means of motivating and incentivizing employees to achieve long-term peak performance, while its recipients often scoff at such an explanation as mere window-dressing. As one industry insider told us, “At best, a deferred plan is viewed as a way to cost-effectively participate as an investor in the fund and become a ‘stakeholder’ not just ‘employee.’ At worst, it’s viewed as the firm holding back legitimately earned compensation in order to artificially create a sense of loyalty.”

There are also secondary benefits to deferred compensation, such as firm stability. One hiring manager put it bluntly, “Without deferred comp, investment professionals would switch teams more frequently than ball players.”

Due to the clandestine nature of compensation packages, firms often shroud their offerings in a cloak of secrecy. Well, we here at Odyssey aim here to remove that cloak. Over the course of the last 7 years, we’ve been involved in hundreds of placements, and as a result have seen a variety of compensation structures – everything from the good, to the bad, to the outright cruel and unusual. We leverage our insight here to detail the most common comp deferral structures that we see (Note – due to the extremely sensitive nature of this subject matter, this is written in more general terms to protect the confidentially around any particular firm’s policy):

1) Threshold Structure: Firms create a threshold whereby a certain percentage of employee compensation above this set payout number is subject to deferral. For example, some hedge funds pay all compensation under $250K in cash, and any payout over that amount is 30% deferred. Others prefer to tier their threshold structure in order to increase the likelihood that top-earners continue to grow vested in the success of the firm. For example, another deferred comp structure we typically see is as follows; total compensation under $150K is paid all in cash, while earnings in the $150K-500K range are 20% deferred, earnings in the $500k-$1M range are 30% deferred, and earnings over $1M are 35% deferred.

2) Senior-Level Only Structure: Several firms opt to simplify their deferred comp packages by limiting such compensation to MD’s or most senior staff. Firms that apply this structure tend to have relatively high base salaries for their MDs compared with industry averages. Typically, a percentage of the MD’s whole bonus is deferred (we’ve seen numbers ranging from 35-50%).

3) Longevity Structure: Some firms elect to reward an employee’s longevity by reducing his or her deferred comp as the employee accrues more years with the firm. For example, a firm might begin employees at a standard 30% deferred compensation rate, and after an employee reaches 3 years with the fund, that rate dips to 20%. After 5 years, it dips to 10%. And after 7 years, employee compensation is all cash. The theory being that deferred comp is a form of leverage to be applied early in an employee’s career in order to cement loyalty with the firm, but once that loyalty has been demonstrated (through longevity), the firm scales back its deferred comp and rewards the employee with all cash compensation.

4) Alternative Structure: Interestingly, some firms maintain a contrarian view on the inherent benefits of deferred comp altogether. These firms avoid practicing the ‘bad apple’ theory and don’t want an unmotivated employee only remaining to collect a future predetermined payout.

The standard vesting schedule that we see for the above structures lasts for either three or four years, with one-third or one-quarter of earnings vesting each year. The unvested compensation typically sits in either the fund itself, a low-risk investment account, or a form of escrow where the money can appreciate free of fees.

Clearly there is a balancing act taking place in the area of compensation, as firms seek to incentivize employees without going so far as to alienate them, as well as putting off potential future hires. Ideally, by shedding light on some of the structures and packages being offered, we can advise both firms and employees on precisely how generous – or perhaps onerous – the specific terms of their deferred comp packages might be.

We at Odyssey are happy to field calls from anyone wishing to discuss these compensation structures further.

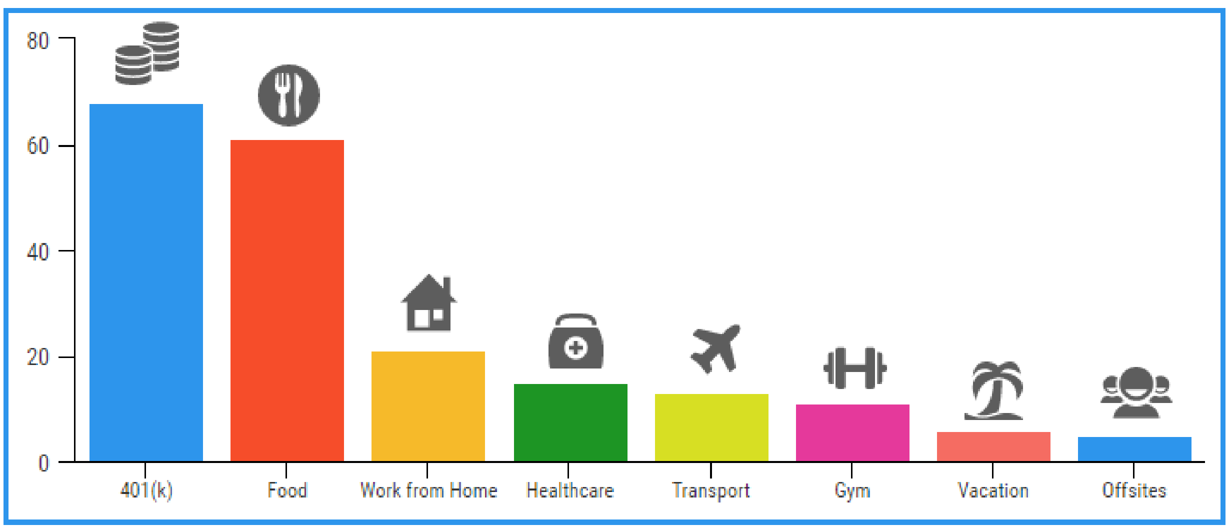
How Silicon Valley Perks are Shaping Wall Street's Culture

Enter the 7th floor of 770 Broadway during a Thursday evening happy hour, and you'll find hundreds of mostly 20 and 30-somethings enjoying catered food and craft beer. Some will be engrossed in a game of ping pong, others in a game of beer pong. Some will be decompressing in one of the on-site sleeping pods, while others will be venturing to new worlds via the Oculus Rift. No, the 7th floor of 770 Broadway is not an enriched Dave & Buster's; it's the New York office of Facebook.

Wall Street has long been a magnet for the 'best and brightest'; recent college grads with lofty GPAs to match their even loftier ambitions. Its allure has always been great riches, and those looking to stake their claim have long been privy to the Street's unspoken rule: sacrifice a comfortable lifestyle now for vast fortune later. But the rise of Silicon Valley is threatening to upend the entire paradigm. No longer is it a given that the best and brightest will migrate toward finance post-graduation, as they have in decades past. With a pay scale that often matches and in some cases even exceeds that of Wall Street, and a bevy of lifestyle perks to boot, Silicon Valley's siren song is proving quite tempting to the eyes and ears of the nation's highest achievers. A growing concern in the finance world is that such a trend could prove detrimental to its recruitment capabilities, given the Street's long tradition of at best absentmindedly overlooking, and at worst consciously devaluing company culture in favor of a profit-at-all-costs approach to the workplace.

To investigate the prevalence of perks, we sent a survey out to a number of buyside firms and found that firm size played a big role. The majority of smaller firms (AUM < $1B) reported they were not providing major perks like matching 401K's and free lunches, and very few offered a free gym membership.

To dig deeper, we went out to over 300 buyside front-office professionals and asked them "what is the best perk your firm offers?" As the results below show, 401k matches and free/subsidized food (use of Seamless, free breakfast or lunch) stood out as the most prevalent things. Noticeable was how few mentioned work from home/flexible working hours, generous/free healthcare, subsidized travel, gym or liberal vacation policy.



The vertical scale represents the number of respondents who mentioned a category above when responding to the question 'what is the best perk your firm offers?'

At the majority of banking and investment firms any changes are slow in the making. So much of Wall Street's current culture is predicated on its traditional alpha-male mentality. MDs and C-Suite Officers who all 'suffered in the trenches,' often have the deep-rooted belief that juniors should do the same, if only to harden them to the realities of investment life that await. Add to that the fact that banks and investment managers experience a far greater depth of governmental regulation than their tech industry peers, and relatively lower profitability, and one can see why cost-cutting takes prominence over culture-building in the world of finance.

The banks have made attempts to address this 'lifestyle gap' by measures such as dropping their formal dress code, and limiting their late nights and weekend work. But it's an uphill battle. One junior sell-side banker told us the challenges he'd had when suggesting an update might be in order to the firm's antiquated furniture. As one recent grad we spoke with remarked, "They're starting to realize that they're not attracting top talent because guys are going to Google or Facebook because they're paying just as much if not more, and creating a better lifestyle for people right out of college. It's basically a big brain drain. Used to be you suffered a s**ty lifestyle, but now it's like, what's the point?"

On the buyside, we see the best lifestyle benefits being offered at the Quant funds who not only have had some of the best returns in recent years but who also compete for talent with the Tech industry most directly. Yet some large fundamentally-driven firms also embrace the benefits of an enhanced company culture. We heard from a couple of HR leaders that they've shifted dollars away from alcohol-related events toward health and wellness events (like team outings to Flywheel), and entertainment, like Broadway shows, that might attract some employees who are less enticed by a 'bar culture.' Supporting non-profit work (through matching donations as well as giving time off) is also an innovation that's reportedly being well-received.

It's recent grads that are accelerating this trend. These Millennials have been through investment banks that have dropped their formal dress code, and have limited their late nights and weekend work. They expect more – and have increased options to consider paths away from finance.

It remains to be seen if Wall Street will fully attempt to replicate the company culture of Silicon Valley, and offer the kind of recreational activities and lifestyles that finance professionals can only dream about (presumably while hunched over their Bloomberg). But Wall Street firms that want to stay competitive when it comes to attracting top talent, especially for new junior recruits, appear to be looking way beyond the bonus pool.

Private Equity Moves

Name	Current	Previous
Aly Lovett	Radian Capital	FTV Capital
Andrew Joy	Hidden Harbor Capital Partners	Cerberus Capital
Anuj Khanna	CapitalView Investment Partners	American Capital
Chris Peyser	Harvest Partners	Kelso & Company
Greg Stewart	Great Hill Equity Partners	Spire Capital Partners
Mark Bean	Thomas H Lee Partners	Sorenson Capital
Max Baumrin	Further Global Capital Management	Carlyle Group
Richard Bi	Blackstone Group	FFL Partners
Sandeep Bhadra	Vertex Ventures	Menlo Ventures
Vivek Vyas	Court Square Capital Partners	Apax Partners

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The Latest Trend in Private Equity: Capital Markets Efficiency

Any private equity specialist will tell you that spotting the right investment is only half the battle, the other half is maximizing returns through the oh-so-delicate craft of financing. To that end, many of the top PE firms have employed a dedicated capital markets team whose chief focus is coordinating with banks and direct lenders in an effort to secure the most advantageous pricing and deal structures. Such robust emphasis on capital markets has long been the sole purview of top-tier PE firms such as KKR and Lone Star… until recently, that is.

A new trend has emerged in the world of private equity investing: capital markets efficiency. Mid-tier PE shops such as Chicago-based GTCR, which recently hired Jim Bonetti as Managing Director and Head of its Capital Markets Group, and others like Thomas H. Lee and Littlejohn & Co. which are actively searching for capital markets expertise, are bucking traditional financing methods in favor of hiring a dedicated capital markets professional.

The key benefit to hiring an in-house capital markets professional is greater efficiency. Financing professionals deliver an area of expertise that is widely recognized as an increasingly valuable commodity in PE-land: relationship building. Gone are the days when a handful of banks and major institutions ruled the roost. In today's dynamic investment landscape, there exists an abundance of lending options given the rise of pension funds, sovereign wealth funds, and even family offices who are contributing to the bulging asset class that is private equity investment. Additionally, banks often tranche their debt and invite one of these smaller vehicles in as a mezzanine lender, thus generating an added set of loan docs and 3rd party agreements that need to be vetted. It takes a certain level of sophistication and flexibility to navigate this increasingly fragmented market – not to mention a hefty rolodex – which is something a dedicated capital markets professional can offer.

In addition to sourcing efficiency, a further benefit to this new hire is the ability to centralize information. Often times in small to mid-market PE shops, operators wear many hats, and the various responsibilities shift between Deal Leads. It doesn't take a magnifying glass to spot the potential for confusion and chaos. A capital markets professional acts as the point of contact for all 3rd party providers, thus ensuring both a uniform voice and consistent delivery of messaging and pricing information. That type of interpersonal fluidity is an intangible asset that can make all the difference in a firm's reputation, as well as its ability to source deals and secure financing structures down the road. It can also save both time and money, given that capital markets personnel are kept abreast of the firm's sensitivities, such as any specifics that need to be addressed in the loan docs, thus cutting down on attorney and documentation fees in the long run. To be clear, not all firms will benefit from such economies of scale. Deal flow dictates demand, after all, and a firm with 1-2 deals per year is hardly in need of a dedicated capital markets professional. But firms looking to increase their pipeline are taking this step proactively.

With investments in PE on the rise lately, it's no big surprise that mid-tier shops are expanding their portfolios and looking to model the KKRs and Lone Stars of the world when it comes to financing. And it's not just the capital markets personnel who are cheering this new trend, Deal Leads are also breathing a hefty sigh of relief, given their focus can now be placed squarely on oversight. As one PE professional told us, "A dedicated financing professional makes the Deal Lead a lot more agile. Instead of going through the weeds to figure out what the loan provisions are, they're freed up to focus on managing the various aspects of a deal, from origination to close."

Private Credit Moves

Name	Current	Previous
Dan Kapnick	Silver Point Capital	Brightwood Capital
Eric Karp	Silver Point Capital	Oak Hill Advisors
Eric Lee	THL Credit	American Capital
Harry Giovani	Energy Impact Partners	CION Investors
Jim Fisher	PineBridge Investments	BDCA Advisors
Jimmy Byun	GSO Capital Partners	American Capital
Michael Jordan	Silver Point Capital	Brightwood Capital
Michael Rich	Crestline Investors	Lstar Capital
Robert Grunewald	Flat Rock Global	BDCA Advisors
Ted Goldthorpe	BC Partners	Apollo Investment Corp

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What Can We Tell From a Resume

The cold reality is that hiring managers often spend less than 10 seconds reviewing a resume that may elaborate on more than 10 years of work and study.

One eye tracking study found that hiring managers typically glance at just the name, current position, previous position, and education sections. We here at Odyssey spend a little longer reviewing resumes before deciding to meet a candidate in person, but what do we look for? Based on our team's 50+ collective years of reviewing resumes, here's some of what we've learned:

1) **Brevity > Verbosity:** The ability to aggregate reams of information and distill the key points into clear and concise highlights is a valued skill in the world of investment management. That skill also needs to come across on the resume. We have a distaste for resumes that are wordy, poorly structured, and longer than a single page.

2) **If Something Is Missing, It Means There's Something To Hide:** Often times, candidates will omit their test scores and college GPAs, which more senior candidates usually explain by pushing back "I didn't think those would still be relevant" or "I really can't remember." In many cases, they're missing because these scores are low. We believe candidates appear much stronger if they confront their weaknesses head-on, and do their best to mitigate them. Perhaps their GPA is low because they weren't 100% focused in college. That in itself isn't usually a deal-breaker – context matters. We look upon a lower GPA plus a part-time job to pay college bills as a sign of "hustle" – a key ingredient we look for.

3) **Prioritization Is Key:** If things like summer internships or the 'additional interests' line take up too much real estate on the page, the candidate might be adding fluff to cover up for a lack of substance. More likely, all they've done is add in additional lines on top of their old resume rather than relooking at it holistically and framing it to demonstrate the professional they've become, not the person they were. This stems from either laziness or a lack of EQ – both major red flags.

4) **Determine Relevancy:** The most recent work experience should generally contain the most detailed bullets. As one of our retained private equity clients told us, "potential new hires are judged by how specific they get describing the deals on their resume. We may not always read the bullets but when we do, we want to see the clear and appropriate details."

5) **Clear Content Doesn't Need a Summary:** Executive summaries or 'career objective' boxes at the top of the page are things professional resume writers normally seem to add. Our view is that unless the candidate is trying to switch careers (which are rarely the candidates we're sourcing) then it's an unnecessary distraction.

6) **Style Matters:** If a candidate showed up to an interview in a t-shirt and shorts – or worse yet, jorts – you'd probably show them the door (or call security). Similarly, a resume should look its best when it comes to you. Clearly typos demonstrate a lack of attentiveness, as do inconsistencies in punctuation, grammatical tense, and fonts. Our take is "If this is how poorly a candidate represents their own brand, we wouldn't want them to represent our client's brand."

7) **Interest Line Should Be Interesting:** It may not be part of the initial 10 seconds, but we do look at the interests line, as an initial window into personality and potential 'cultural fit' with our clients. We like reasonable conversation starters. Sometimes we look for things like team sports to give evidence of competitiveness while cooperating with others, if that's important. We are not fans of the recent trend of 'negative interests,' such as, "Strong aversion to Game of Thrones." Alongside the stellar grades and exceptional achievements of our typical strong candidate, we appreciate the humility in an entry like, "Enthusiastic (but poor) racquetball player." Entries that open conversations, rather than close them, entice us.

It's interesting that while the work we all do, and how we do it, has evolved so much over the years, the resume really hasn't. Classic is still best. A great resume allows the relevant content to be the only thing that stands out and differentiates.

Agree or disagree? We'd love to hear your thoughts on what makes for a winning resume (or what really irks you!)

Notes from the Conference – NYSSA Gender Diversity in Finance event 3/24/17

Speaking were: Jennifer Bender (senior Managing Director, Director of Research, at State Street Global; sponsor of the 'Fearless Girl' statue), Charles Clavel (Executive Director of Global Quantitative Equity Research at Morgan Stanley), and Jackie VanderBrug (Managing Director and Investment Strategist at US Trust, BofA and Private Wealth Management at BofA).

Some of the key points:

- Research points to companies with more gender diversity leading towards higher performance (increase in profitability and increase in net profit margin) according to Peterson Institute of International Economics and MSCI, though skeptics remain
- Additional research looked into how women typically address problem solving differently than men do, and found results such as low volatility in performance, greater creativity of ideas and considerably more attention to social/environmental issues
- Ways to quantify Gender Diversity?
    i. Representation (percentage of women in the workplace)
    ii. Empowerment (women in key positions? Senior positions?)
    iii. Pay Parity (gap between men's pay and women's pay)
    iv. Diversity Policies (and are these policies promoted in the work place?)
    v. Work/Life Balance (providing programs that accommodate women like maternity leave, working from home, and day care services)
- Discussion of the global differences the above factors; for example, European and Japanese companies typically offer more programs than North American firms to accommodate women in the workplace (daycare services, maternity leave, ability to work from home, etc.); yet in Europe there exists a greater pay gap between men and women than in North America, and Japan has the biggest shortage of women at the highest level (key and senior positions of companies)

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