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Odyssey's Quarterly Buyside Newsletter - Q3 2016

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Views from the Ben Graham Value Investing Conference, NY 6/16 Many headwinds out there, but a few industry leaders are seeing the silver lining

Many recent industry headlines have been rather depressing – redemptions, poor performance, negative effects of Brexit and 'hedge fund washout'. In this edition of our quarterly newsletter we aim to go beyond these headlines and consider the ramifications to the talent and recruitment markets, where we at Odyssey spend our days. We also note some people moves, our sense of where the hiring action has been, and other trends we hope you find useful. We would welcome the chance to discuss any of these topics live – please get back to us at: newsletter@ospsearch.com or contact us directly, as below.

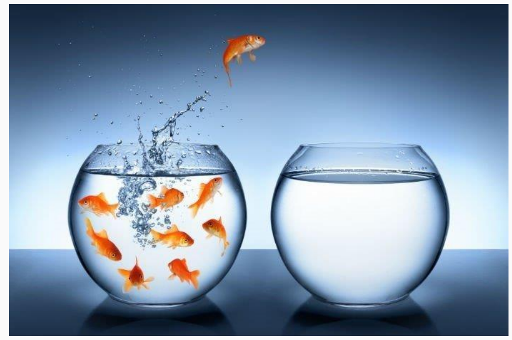
All the best,

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 answers on, please let us know and we'd be happy to explore and discuss in future distributions!

Suggestions Welcome

Investment Bankers: “Get me out of here!”



Odyssey recently surveyed over 100 nationwide first- and second-year investment banking analysts, from both bulge bracket banks and leading boutiques. The goal of the survey was to get a better sense of analyst sentiment towards recruiting practices and career choices. What we found were some interesting perspectives on the draw of the buyside, the practice of leaving banking programs early and reactions to on-cycle recruiting.

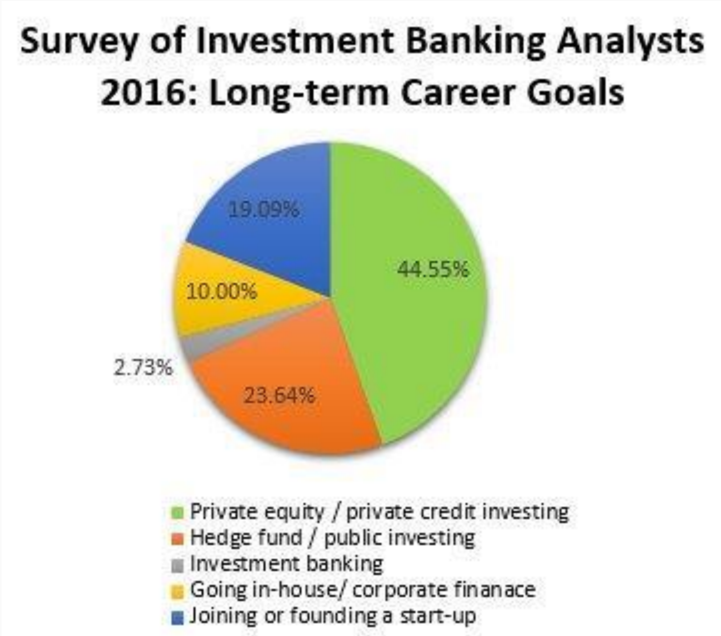
As part of the survey, the junior bankers shared their most desired long-term career paths with us. Private Equity was the most common response, followed by hedge funds and then, just a few points lower, joining a start-up (see chart). Only 3% wanted to stay within investment banking long-term. While we know that most investment bankers don’t end up staying in the industry in the long-term, we were still surprised to see that proportion to be quite so low – especially given the perceived instability on the buyside right now.

The investment banks are trying a variety of ways to retain talent, as discussed in our last newsletter. The results of this survey would suggest that banks are losing the battle. Of the 2014 banking class, 34% of analysts said that they would be willing to leave before the end of their banking program. For the 2015 banking class, this proportion shot up to 48%. It is apparent that many junior bankers see the analyst program as a continuation of their education or a place to learn a valuable skill set, and they will leave as soon as they get a compelling opportunity.

What’s driving this exodus? While there are push factors from investment banking (the frustrations with the layers of bureaucracy, a face-time culture, a slower deal environment), there are also pull factors from the investing world. There are many investment bankers that have a genuine passion for investing, but that’s clearly not the only motivation: one banking surveyee commented rather frankly about moving to the buyside: “Half the hours, double the money, right?"

More broadly, what we saw was that those joining hedge funds did so mainly for “passion for the work” (rather than factors like compensation, lifestyle, prestige, etc.). For those joining Private Equity, the most common response was that “the experience will be valuable later in my career," highlighting that many see being a Private Equity associate as just another step after their analyst program in developing a financial career.

Many clients of ours express frustration with the on-cycle first year banker recruiting process; with a February start this year, it was an earlier beginning to that process than in years past. However, we also saw dissatisfaction from the bankers in this survey. While nearly half (46%) said they participated in on-cycle hiring during their first year (and over half of those that accepted PE offers did so within 9 months of starting their first year of banking), the same proportion (46%) said they did not feel adequately prepared to interview so early in the year. When investigating the data more carefully, we saw that for those bankers with a non-finance or engineering background, this proportion of feeling unprepared increased to 67%. There weren’t enough data points to analyze the importance of other factors such as gender or working in non-core geographies, but we believe anecdotally that recruiting so early goes against efforts to diversify the intake population. If you’re looking to hire an enthusiastic Wharton finance undergrad who’s been preparing case studies since college, the process works well; otherwise, there might be dividends to hiring later in the cycle.



Notable Moves - Private Credit

Name	Joining	Leaving
Sean Connor	Owl Rock Capital	ICON Investments
Mark Gundersen	Park Square Capital	Ares Management
Walt Jackson	Onex Credit Partners	Goldman Sachs
Therese Icuss	TwinBrook Capital Partners	Chase Capital (JP Morgan)
Jeff Knopping	Benefit Street Partners	Cowen & Company
Chris Martin	TwinBrook Capital Partners	Madison Captial Funding
Peter Notter	TwinBrook Capital Partners	Madison Captial Funding
Derek O'Leary	Owl Rock Capital	ICON Investments
Barry Osherow	TBD	Enhanced Capital
Hari Srinivasan	B Asset Manager	TICC
Danny Weiss	AB Private Credit	Cerberus

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.

Pure BDCs Out….Private Credit In

Big news: the world of the pure BDC is broken. Over 90% of the Permanent Capital vehicles cannot issue equity as their stock prices are trading below NAV, according to the Wall Street Journal. In general, issuing new stock at levels below book value is dilutive to existing shareholders. This has led many pure BDC firms to start fundraising to raise private credit, senior debt and opportunistic credit funds. The line is also growing tremendously to start private credit platforms within fund of funds, private equity and asset managers.

What this means for the hiring market is that we're seeing firms with capital to invest looking to hire sourcers and senior deal captains, while new players are looking for management teams to build a platform around. This is driving up demand for people with the requisite skills, especially originators who can help deploy capital. We're seeing top originators being involved in multiple interview processes and, in some cases, receiving multiple offers. This stands in especially stark contrast to what we're seeing in the public equity space.

These new players entering the field include fund of funds like Adams Street Capital, which are raising dedicated funds for middle market loans. Other newcomers are Pantheon Capital, The Riverside Company, American Securities, RCP and even the colossal fixed income giant, PIMCO; all have started to assemble teams to manage prospective funds. Insurers including CNO Financial Group, TIAA and AIG have turned to direct lending for better returns than bonds and to diversify holdings. Credit giants like GSO have spawned new endeavors like Doug Ostrover's Owl Rock Capital, which has been on a hiring spree.

Capital is flowing into private credit, but is the environment ready? Deal flow has been slow for the most part this year as many deals coming to market are more cyclical in nature or have more of a special situations feel. Senior secured lenders are seeing very few strong deals, of which most are being priced super-competitively.

What are the implication for the private credit business? Some pure BDCs will go by the wayside – some will fold, and others will be acquired by other larger firms, such as Ares' acquisition of American Capital. That being said, there is plenty of available capital for firms to raise dedicated private funds. It just might be a bumpy ride.

ATS Systems: Leveraging the best technology for hiring

Long gone are the days of job seekers circling the classifieds with a red pen and delivering hard copy resumes and cover letters to prospective employers — most of today's entry-level candidates have never even filled out a hard copy application. The job search process is now almost entirely hosted online with employers enlisting the help of Applicant Tracking Systems (ATS) and candidates being attracted to the massive job boards of services like LinkedIn, CareerBuilder and Indeed. As the process has moved online, "pounding the pavement" isn't something young professionals now associate with job searching (they probably link the term more closely to playing Pokemon Go). These days, homegrown systems made up of physical files, excel spreadsheets and calendar invites are just too cumbersome, and firms have reached out for higher-tech solutions.

While many HR professionals are familiar with the Taleo brand which dominates ATS market share, in the last few years several new entrants have arrived, with streamlined aesthetics, user friendly interfaces, and freemium based platforms. With systems like Workday, Jobvite, Lever, Greenhouse, and Avature amongst several others on the ATS's market, today it can be difficult to identify the perfect product. To get some insight on the topic, we recently talked to about a dozen HR professionals from leading buyside firms, ranging in size from $500M in AUM to $20B+. We asked about their experiences choosing, implementing and using their current ATS's and here's what we found:

- The adoption and integration of ATS's have modernized, simplified and organized the recruiting process, especially for those who consistently have numerous outstanding job requisitions and work with several search firms. The ATS's keep everything organized in one place where hiring managers can review candidates, schedule interviews, and delineate candidate sourcing. These seem most beneficial to organizations with $1Billion plus in AUM, or having over 100 employees. Smaller firms with minimal hiring needs tend to just opt for add-ons to their current Human Resource Information Systems (HRIS), such as making modifications to Salesforce or ADP.

- Key features that HR professionals look for include sophisticated search capabilities, the ability to attach notes to a candidate's profile, integration with existing HRIS, scheduling capabilities, and integration with the firm website to post jobs.

- Taleo is the most currently used ATS but the HR professionals we surveyed had very varied opinions on it. While one considered Taleo an "intuitive and easy to learn life-saver," others who have grown unhappy with Taleo have migrated away in favor of up and coming systems like Avature, which seemed to be a popular new choice for buyside firms. One recruiting manager from a large investment management firm told us that they had used Taleo for many years, but a couple of years ago they transitioned to Avature and "love it," calling the system "very agile where changes can be easily made and the customer service is outstanding."

- Compliance is a key aspect that some firms are paying a lot of attention to. In order to show compliance with bodies such as the OFCCP and EEOC (Federal non-discrimination laws), an ATS that easily produces compliance reports can be very helpful. Taleo does well in this regard. Other systems are offering more creative features such as engaging people through social media (Jobvite), focusing more on interviewing (Greenhouse) and involving the hiring managers (Lever). We've noticed Greenhouse winning away a handful of Jobvite customers. Some payroll systems like Paylocity are adding on ATS capabilities. OneWire has a system that people seem to be responding to positively, as does Cornerstone. Workday will continue to win big clients, but will also make inroads in the small- and medium-sized firms by offering on-the-go mobile features for both candidates and hiring managers.

- In sum, Taleo should continue to be the most commonly used ATS, especially by larger firms that value compliance integration. However, given the new features offered by these new entrants, we envisage Taleo's market share will likely decline going forward if they are not able to respond to these competitive challenges. What is clear is that ATS systems have become more integrated into the firm's workflows and are an increasingly important part of an HR professional's toolkit.

"Every new generation of managers has the same story about how hard it is to find talented people. Good people have great sets of opportunities... I believe that the best talent is the talent that you go out and find. The talent that knocks on your door is not the best." - Ken Griffin, SALT 2016

Notable Moves - Hedge Funds

Name	Joining	Leaving
Arjun Bhattacherjee	Junto Capital Management	Owl Creek Asset Management
Daniel Biolsi	Stelliam Investment Management	Glenhill Capital
Matt Bruch	Soroban Capital	Shumway Capital
Damian Dalla-Longa	Magnetar Capital	King Street Capital
Jeff Eisenstein	Alyeska Investment Group	Three Corner Global Investors
Beau Harbour	Mudrick Capital Management	Mount Kellett Capital Management
Jonathan Krautmann	Rubric Capital	Prosiris Capital Management
Jeremy Mekdhanasarn	Vista Equity Partners	Criterion Capital Management
Mark Melnyk	Lodge Hill Capital	Scopus Asset Management
Nathan Morin	Tiger Legatus Capital Management	GMT Capital
Ameet Rane	LNZ Capital	Sandler Capital Management
Zohair Rashid	Third Point	March Altus Capital Management

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For investors, does an MBA make sense?

An investment firm hiring an analyst almost never requires the candidate have an MBA (and we have drafted countless role descriptions for public and private investing firms). But does that mean the MBA qualification isn't worth it?

There are many benefits of an MBA that can't be overlooked. At the top of the list is the network. One of the most common answers we hear from our candidates with an MBA is that they went back to school to build out their professional set of contacts. There is an extremely high value placed on who you know in the finance industry and the top business schools count many stars in the industry as alumni. For those navigating their careers, the two years can be a great time to take a step back and figure out exactly what to do next without the day-to-day stresses of the working world. Then, of course, there is the value in the actual schooling and useful extra curriculars, such as stock pitching practice and groups where folks work together on startup business and investing ideas.

This all being said, current investment-focused MBA graduates are having a tough time. According to a number of business school administrators that we recently spoke with, the hiring of fresh MBA students into the investment world is definitely down compared to years past. While 2016 class data is still being finalized and remains unpublished, we were told that for one leading school, it looks like 13% of the 2016 class will be going to Private Equity (versus 15% of the 2015 class) and 8% of the 2016 class will be joining hedge funds (versus 9% in 2015). An administrator at another leading business school told us they were “aggressively reaching out to funds” to try and create more interest in hiring graduating MBAs.

What we had seen earlier in the school year was that even some larger funds had not extended full-time offers to summer 2015 interns, regardless of the intern's performance. And smaller funds were even less likely to make a hiring commitment a year in advance. This has led some top MBA candidates to look into firms like Fidelity and Wellington that have still been able to hire (a trend we discussed in the last Newsletter). From speaking with other graduating MBA students, the picture on the ground was actually bleaker - especially for those looking to join hedge funds. One MBA candidate, who had a typical banking analyst / PE associate background, told us he is aware of numerous friends and classmates that have accepted consulting roles with various hedge funds upon graduation, rather than full-time roles. The hope is that if they do a good job, and the firm is in a position to make a hire later in the year, they will be in pole position; but no one accepts these consulting roles if they also have a decent full-time offer on the table.

There is no question that we are in a challenging environment for principal investment firms. Fund raising has been very difficult and hence firms are being very thoughtful about adding to their investment staff. Pre-MBA juniors are often viewed as "easier to manage" than MBAs, and so we see firms adding these folks rather than people who have finished the 2 year MBA program. So does all this mean that getting an MBA really doesn't make sense? We don't think so. For one, given the current environment, and likely lower bonuses again in 2016, now actually seems like a good time to take two years on the sidelines and wait to see if things improve. But more generally, our point of view is that while the hard skills of investing can both be learned on the job and at school, what we're seeing is that to raise and retain capital, managers also need great communication, personal and organizational skills and a flexible, problem-solving mindset, and the best business schools still do a great job honing these skills. Though to the MBA graduating with $100k in debt this summer without a job, that's probably of little comfort.

Views from NYSSA Value Investing Conference 6/29/16

Views on the current state of the Hedge Fund industry?

- **Leon Cooperman**, CEO of Omega Advisors, reflected "The investing world is bifurcating into high frequency/quant trading on one side, and longer-term, value-driven on the other. The mid-point is getting squeezed"
- The Dow Jones US Value Index has underperformed the US Growth Index for 6 of the past 7 years
- Many managers are responding to short-term investor demands which affects their ability to time trades correctly. **Jason Karp**, CEO of Tourbillon, made the point that it was a widely held perspective for a number of years that Amazon would outperform relative to big box retailers – but the trade didn't actually meaningfully take shape until 2015, and so you had to have patience, and investor support, to stick with it. Karp went on to say that the widespread challenge was that the link between earnings and stock prices has never been cloudier

What can the industry do to improve performance?

- Additional homework: **David Poppe**, CEO of Ruane, Cunniff & Goldfarb, noted that 15 years ago they would call a retired CFO and the guy would say "you know, you are the first person to ever call me like this". Today with GLG and other expert networks "everyone is speaking to all the same people". You need to move beyond the crowd
- Specialization: **John Levin**, CEO of Levin Capital Strategies, advised that managers should be more sector- and strategy-focused. "You need to be an expert today with as many people as there are looking at the same names"

- Talent selection: **Jason Karp** described trying to hire people who had already dealt with a lot of adversity, and his firm pays particular attention to their team's "emotional make-up" including having prospective employees be interviewed by ex-CIA agents

Where are the pockets of opportunity?

- **Thomas Russo**, Partner at Gardner, Russo & Gardner, suggested that for people with a long-term outlook, some of the best themes to follow are strength of global brands and increases in emerging market income. Their firm also prefers family-controlled businesses as they feel they are more likely to re-invest profits, and be less concerned about activist pressure to return capital
- **Seth Turkeltaub**, the PM at Catapult felt that regardless of market volatility, stocks will continue to outperform bonds, and commodities have been, and will continue to be, the poorest investment class
- **Brian Gillott**, PM of Jennison Associates, felt that it's all about the company management and suggests asking "would you partner with these people? Would you invest now with this management team if you weren't in touch again for 5 years?"

What will most help the HF industry?

- Many panelists noted the need for a higher interest rate environment
- **John Levin** advised funds be more tactical and dynamic taking into account short-term factors and warned against managers "investing beyond their headlights"
- Actively managed funds need to show they can outperform relative to indices, and it's going to take a bear market for hedge funds to shine again, noted Leon Cooperman

Notable Moves - Private Equity

Name	Joining	Leaving
Vlad Besprozvany	Insight Venture Partners	Thoma Bravo
Martin Casado	Andreessen Horowitz	VMWare
Pranai Cheroo	The Carlyle Group	Summit Partners
Carl Eschenbach	Sequoia Capital	VMWare
Allan Jean-Baptiste	KKR & Co	Google Capital
Lisa Lambert	The Westly Group	Intel Capital
Heather Petersen	Centerbridge Partners	Mercury Capital Advisors
Justin Roberts	General Catalyst	Thomas H Lee Partners
Eric Tong	Premji Invest	Artisan Partners
Elizabeth Weil	137 Ventures	Andreessen Horowitz

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Feedback Welcome

We welcome your feedback! Please write us back with any comments or suggestions for other topics we should cover. Additionally, feel free to unsubscribe from future Newsletters here**:** newsletter@ospsearch.com

Odyssey in the News

Signs You are About to Be Laid Off – efinancialcareers 6/15/16

European Banks Hiring in the US – efinancialcareers 7/13/16

Hedge Fund Industry Challenges – GAIMOps Cayman 4/20/16

What's Hot in Front-Office Hiring?

We love to have conversations with impressive people. Right now, areas of particular interest include the following. If you know strong people with these backgrounds that might want to hear about new opportunities, please send them our way!

- Top ranked investment banking analysts
- Junior buyside analysts with deep value experience
- Private credit senior originators
- Distressed debt analysts
- Senior TMT, Consumer, Energy, Industrials, Healthcare analysts
- Top-notch candidates with ties to San Francisco, Los Angeles, Dallas, Boston, London
- Fundamental PMs with track records of success

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