ODYSSEY SEARCH PARTNERS

Odyssey's Quarterly Newsletter – Q3 2017

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It's summertime but the livin' ain't easy for everyone. In this issue, we examine the challenges females face in the investing industry, the headaches for firms dealing with new legal restrictions on interviewing and the difficulties banks have retaining their junior investment bankers. The capital accumulated for private equity and private credit is causing surprising difficulties and capital is being increasingly deployed into other investing firms through seeding and staking. These are interesting times, indeed. We hope you find this edition valuable and we look forward to continuing the dialogue.

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

Hedge Fund Moves

Name	Joining	Leaving
Chris Long	HBK Capital Management	Balyasny Asset Management L.P.
George Schultz	Nitorum Capital	Kenmare Management LLC
Greg Zolman	Point72 Asset Management	Third Point L.L.C.
Jigar Choksey	Highline Capital Management, LLC	Magnetar Capital Management
Kevin Salimian	Lone Pine Capital LLC	Eton Park Capital Management, L.P.
Mark Liu	Point72 Asset Management	Serengeti Asset Management LP
Michael Chang	Artisan Partners GP	Conatus Capital Management LP
Pranay Gosalia	Kensico Capital Management Corp.	Brookfield Investment Management Inc.
Quentin Koffey	DE Shaw	Elliott Associates L.P.
Steven DiDominica	Jana Partners	Balyasny Asset Management L.P.

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.

Where Are Wall Street's Wonder Women?

The biggest movie of the summer is the first Superhero blockbuster to star a female lead and be helmed by a female director. While Wonder Woman has inspired millions at the movie theater, many on Wall Street remain disappointed by the dearth of "Wonder Women" with influential roles in finance. Fresh on the heels of a barrage of stories about women being mistreated and harassed in the VC space (as detailed in a recent NYT article), we decided to look into our own industry's relationship with women. Unfortunately, it remains harder to find women in lead roles on Wall Street than it does in Hollywood. The numbers speak for themselves – according to a recent survey by Investment News, women own just 5.2% of mutual funds, manage 3.3% of hedge funds, and lead a measly 2.1% of active PE funds (established since 2004).

We see three contributing factors to the lack of successful females in the investment management space. The first is something we might term the "Role Model Problem." With few successful role models in the current financial pipeline, women are less apt to visualize a career for themselves in finance than their male counterparts, thus fewer women enter the existing pipeline, and behold: a vicious, self-generating negative feedback loop is formed. As a result, women tend to have a somewhat distorted view of the investment community. As a female senior credit analyst at a large NY firm told us, "[Finance] is portrayed as an aggressive, extremely stressful and cut-throat job vs. the methodical, analytical, research job that it really is."

Reaching further back, a second stumbling block is the STEM problem. According to the National Girls Collaborative Project, women make up half of the U.S. college-educated workforce, but only 29% of the science and engineering workforce. Given the industry's preference for math, engineering and science backgrounds, it becomes particularly challenging to climb the ladder of Wall Street without first stepping on those bottom educational rungs. Industrywide, only 3% of senior investment roles in HFs were held by women, according to a 2014 article in CIO magazine. Without the quantitative and technical backgrounds, female candidates are at a distinct disadvantage when it comes to applying for investment positions in the boom areas of systematic trading and data-lead strategies. However, female seniority in areas such as compliance, HR, and marketing can serve as a beacon of hope. As one female COO of a $5B hedge fund put it to us, "I currently work with many female leaders in the non-investing side of the business, and I believe this is an area not to be undersold. Seeing women visibly in leadership positions should be celebrated regardless of whether it is front of house or not."

The third pitfall lies in the realm of the unconscious. When assessing the lack of diversity in finance, one must consider the unconscious biases that often come into play when making hiring decisions. Often times, women feel compelled to match their male counterpart's assertiveness, and due to unconscious bias, that character trait gets registered negatively for women (as opposed to the positive connotations it has for men). One female senior healthcare PM we spoke with recommends that women avoid getting

caught up in trying to win the assertiveness game. “School and family should help girls appreciate early that genders differ in how they express ideas and work with people. Successful women find their own styles and don't just copy male bosses.” In essence, we heard from a number of successful females in the business that it may behoove women to find their own distinct expression of confidence, rather than trying to mimic male behavior.

Fortunately, there are organizations working overtime to close all three of these gaps. In terms of the role model problem, Blue Mountain Capital manages an active internal Women's Network, where women at all levels join together in activities outside the office (it helps that three of the firm's equity partners are female, as are two of their Senior PMs). As for the lack of STEM training, nonprofits like “Girls Who Code” and “Girls Who Invest,” mentor college-aged women in summer-long classes, and include perks like paid internships. Another group, "Rock the Street, Wall Street," focuses on training high school girls for careers in finance. And in terms of that ever-present unconscious bias, perhaps the best defense is to proactively speak out on the subject. "Our lack of performance is related to sameness,” Doug Haynes, President of Point72 Asset Management, told an audience hosted by 100 Women in Hedge Funds. "Hedge funders are viewing the world the same way," he added. In other words, the industry suffers from male groupthink.

Not all hope is lost, however. If there exists a shining light at the end of the long dark tunnel, it is this: Wall Street cares more about dollar signs than it does gender signs. And studies show that the performance of funds managed by women is statistically no different than the performance of funds managed by men, which means that a structural foundation exists for women to advance. As another female credit senior analyst explained to us, “From my personal experience, meritocracy and personal choices have been driving my career development more than gender.”

So just as Wonder Woman “put a$$es in seats,” (pardon the Hollywood parlance), so too can women on Wall Street put assets on balance sheets. And perhaps the tide is in fact turning (albeit at a glacial pace). As Doug Haynes told Business Insider when discussing efforts to hire underrepresented groups in general, “We’re at the first mile of a marathon.” Here’s hoping there are more females at Mile 26 than there are at Mile 1.

Private Equity Moves

Name	Joining	Leaving
Anthony Chambers	HIG Capital	Thompson Street Capital Partners
Austin Winger	KKR	Riverstone Holdings, LLC
Brent Tasugi	AMP Capital	Oaktree Capital Management
Brett Rochkind	CRV	General Atlantic Partners
Carlton Ellis	TPG Capital	Carnelian Energy Capital Management
Fei Chen	TPG Capital	Altaris Capital Partners, LLC
Felix Bernshteyn	Ares Management	Solstein Capital
Jingcai Zhu	Riverstone Holdings	Moelis & Company
Michael Korzinstone	Cinven	Silver Lake Partners, L.P.
Reid Christian	CRV	Battery Ventures

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Trick or Treat? On October 31st, NYC makes it illegal to ask job applicants about compensation history

Halloween is a holiday full of imagery: scary monsters, pumpkins, trick-or-treaters and bowls of candy. This year we can add another image to that list: an amendment to the NYC Human Rights Law, which forbids employers from asking prospective employees about compensation history.

The new law is an anti-discrimination measure introduced to protect female hires from chronic underpayment. The law's premise rests on the theory that women are currently underpaid en-masse, and therefore mandatory salary disclosures serve to anchor their future earnings to an artificially low number, in effect condemning women to a lifetime of inequity. "This is about fixing a broken history," said Mayor Bill de Blasio at the bill's signing ceremony. "This is about overcoming years and years of discrimination that held people back."

While the origins of the new law remain clear, its implications are somewhat murkier, especially for investment professionals, where compensation is performance-driven more than any other metric. In speaking with COOs of major investment funds, as well as Senior HR personnel and employment lawyers, we glimpsed a stark disparity in the reactions of both larger and smaller firms to the new law. While larger funds expressed concern over the new law's implications (one fund going so far as to ask, "How can we buy people out of deferred comp if we don't know exactly what it is?"), smaller funds are taking a wait-and-see approach. One sub-$1Bn hedge fund we spoke with admitted they had yet to initiate any internal conversations about the new law, while a Family Office PE fund expressed optimism that the new law might in fact work in their favor by deterring larger funds from tossing out those hefty compensation guarantees (the existence of such a deterrence is still speculative in nature). Of course, there is always the possibility that all this fuss over the new law's impact amounts to little more than the forewarnings of Chicken Little. As one Senior HR Executive put it, "We already can't ask about marriage status or citizenship. This is just one more thing to stay away from."

Regardless of the law's effect (or lack thereof), there are certain measures that all firms should consider taking, in order to stave off any worrisome litigation. Several top attorneys we spoke with recommended documenting everything just to be safe. That includes keeping records of which candidates voluntarily offer their compensation history, when and where that disclosure was made, and expressly stating that the candidate was not asked to do so. Furthermore, firms would be wise to avoid any potential gray area by clearly stating that they do not ask compensation history in their relevant documents and on their website, if there is a career section. Such a declaration helps set the precedent for the entire interview process. Likewise, it is equally important that firms change the overall culture of their interviewing procedures. All Senior Executive personnel – not just HR, but anyone who may interview a prospective candidate – need to be updated on the new policy.

As with any government regulation, the devil is in the details: can employers ask about profit percentage and P&L, in order to infer a candidate's take home? Will the law apply if the candidate, job, or recruiter is based in another city? Does the law apply to recruitment firms in addition to hiring firms? None of the answers are clearly spelled out, yet there seems to be a consensus amongst attorneys we've spoken with (in short: no, maybe and yes). However, search firms may be at an advantage if they meet candidates and discuss comp without a specific role in mind at the time, as part of a more general career discussion. As the data collected by hiring firms becomes less prevalent and therefore less reliable, tailored compensation reports and conversations with industry experts that track compensation data by levels and roles will presumably become increasingly valued.

An added wrinkle is that the while the new law does prohibit firms from asking about compensation history, it doesn't prohibit them from asking compensation expectations. That means that firms can get around the discriminatory legal hurdle by simply asking a candidate what he or she expects to make in the coming year. Of course, doing so requires both tact and discipline, as the interviewer must ensure

they don’t accidentally tiptoe over the line into questions about previous compensation. We also need be bear in mind that compensation expectations may be wholly unrelated to actual past compensation. Interestingly, should a candidate volunteer their own compensation history, there is nothing in the law that says that firms can’t give that number its due consideration when making a hiring decision. Will this lead to a climate where firms only hire candidates who choose to voluntarily disclose their previous compensation? That may be an unintended consequence worth watching out for.

As Frank Sinatra once said, “If I can make it here, I can make it anywhere.” Perhaps NYC’s new comp law is singing that same tune, as more than 20 states, from California to Georgia to Vermont, are considering similar legislation, according to the National Conference of State Legislature, and Massachusetts and Pennsylvania already passed a related law. Indeed, that may be what the legislation’s backers have in mind. Fatima Goss Graves, President-Elect of the National Women's Law Center, said in an email that the measure "stands to transform the way that companies operate around the country.” She added, “So many companies operate in multiple jurisdictions. If a company changes its practices in New York, it is likely to also make changes around the country."

Regardless of how impactful the new law is, or how pervasive it becomes, one thing is for certain: this Halloween, doing interviews appropriately will become a tad bit scarier.

High Anxiety: Is Too Much Dry Powder A Cause For Concern?

It’s no secret that private capital is all the rage these days, as institutional investors increase their allocations to Private Equity and Private Credit Funds in a bid to secure favorable risk-adjusted returns. According to a recent ValueWalk article, there are over 3,000 private capital firms targeting more than a trillion dollars of investments. This fundraising boom derives from an influx of new capital from pension, private wealth and sovereign wealth funds, fueled by weak returns posted by hedge funds and their mutual fund cousins. But life isn’t all sunshine and roses for private fund managers… that record fundraising has brought with it record dry powder, as there seem to be fewer and fewer juicy deals for private capital to sink its teeth into.

As all of that dry powder accumulates on the sidelines, industry experts are growing concerned. Still fresh in everyone’s minds is the “irrational exuberance” of the years prior to the financial crisis, when funds were flying high and allocating capital at a record pace, seemingly regardless of valuation. In a bid to avoid the dreaded repetition of history, many fund managers are playing it safe and pledging to maintain their investment discipline - but there’s a fine line between discipline and skittishness. Who’s to say which side of that line we’re currently on?

Another concern for the industry is that the dual drivers of low interest rates and high liquidity will establish an artificial floor for target prices. As borrowers grow more adept at negotiating favorable rates at the expense of investor returns, the overall competitive landscape will no doubt intensify. With close to 300 private debt funds in market seeking an aggregate $112bn of investor capital, the competition continues to intensify in the private debt market alone. Given the growing number of non-bank lenders, in addition to banks themselves looking to preserve market share, investors are having to scour the market to chase deals with relatively low returns. Each spin-off or potential deal that attracts a flurry of deep-pocketed prospective buyers magnifies the inherent challenge of identifying undervalued assets. As noted by Ryan Flanders, New York-based Preqin’s head of private debt products, “The question is: can the opportunity set stand the number of new entrants? That’s to be determined. We’ve seen a little bit of compression in terms of returns.”

Predictably, the increase in industry players has led to a hiring surge. In particular, there is high demand for specialists capable of leveraging strong networks and sourcing both sponsored and non-sponsored deals. Firms are leveraging relationships to look farther afield in order to build deal pipelines, including liaising with debt advisory groups, accounting or law firms, and other direct lenders, as well as attending CEO or sector-specific conferences in the hopes of landing direct deals. This bodes well for Business Development and Investment Professionals who have robust rolodexes of CEOs and C-Suite Officers with knowledge of proprietary deal. As firms seek creative solutions for their clients, they are looking to hire deal originators and underwriters who offer that specialized value proposition.

Given the pent-up energy and sidelined capital, private markets seem on the verge of an unprecedented eruption. No one knows how the paradigm will play out; will supply catch up with demand, fueling massive industry growth and ROI, or will demand chase supply, fueling an eventual private markets implosion? Adding to that is the political uncertainty of whether the Trump administration will pass financial deregulations facilitating bank lending into the space. For now though, one thing is clear: all of that dry powder is making some folks very antsy.

Private Credit Moves

Name	Joining	Leaving
Andrew Ippolite	NXT Capital	Fifth Street
Cary Verasco	NXT Capital	Jefferies LLC
Dan Letizia	Twin Brook Capital Partners	THL Credit
Doug Lyons	PineBridge Investments	Benefit Street Partners
Eric Barton	Hancock Capital Management	Crescent Capital
Glenn Kim	AB Private Credit Partners	Fifth Street
Jeff Bottcher	Hancock Capital Management	Antares Capital
Joe Taylor	PineBridge Investments	Benefit Street Partners
Larry Zimmerman	Benefit Street Partners	Piper Jaffray
Sunny Khorana	Barings Global Private Finance	Fifth Street
Tom Goila	Comvest Partners	Goldman Sachs Specialty Lending

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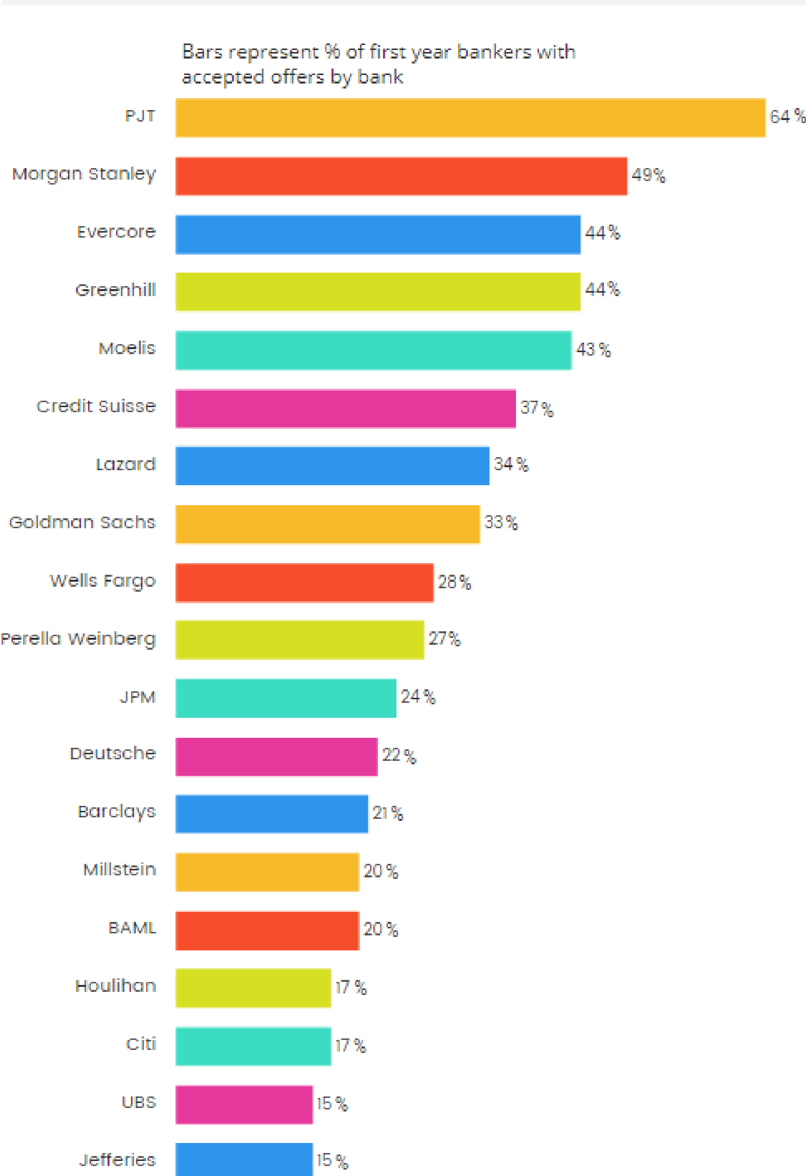
Results of Banking Analyst Survey: Who Interviewed, Who was Hired and Where?

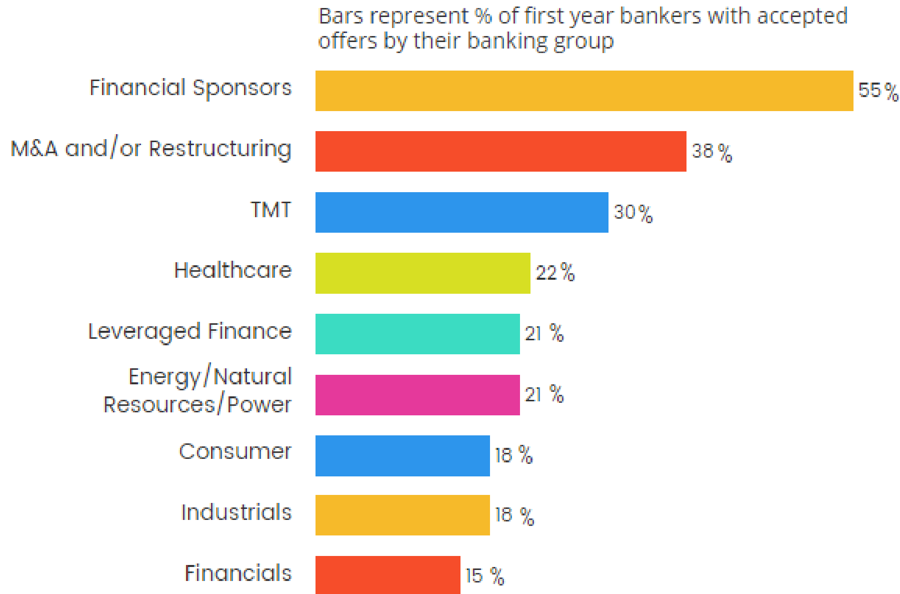
In June and July 2017, we at Odyssey surveyed investment banking analysts completing their first year of employment (only surveying the banks below). One major take-away is that a whopping 79% of first year bankers went on interviews during their first year of employment. Efforts to dissuade bankers from doing this, whether by using carrots or sticks, don't seem to be working.

1. Recruiting success by bank

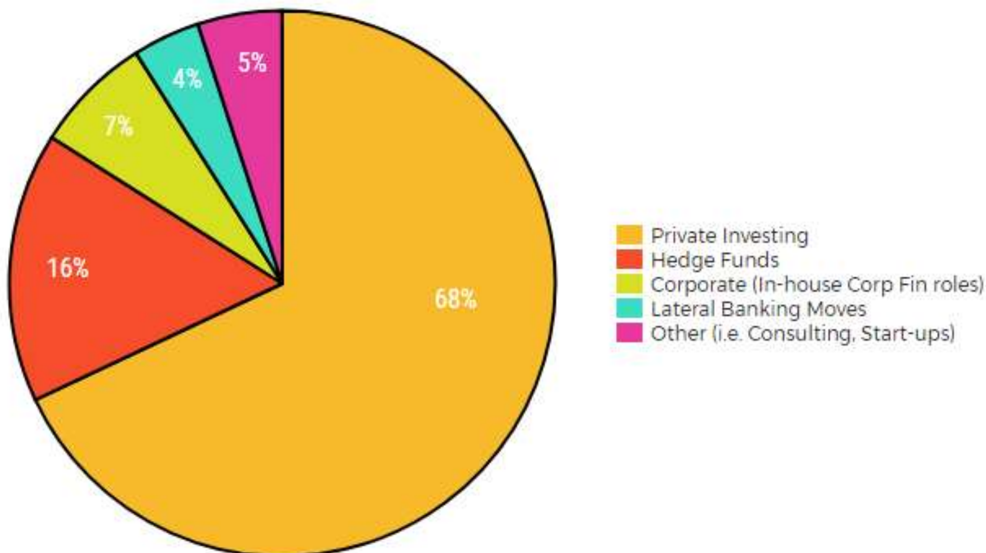


The following % represents the number of banking analysts who said they interviewed for post-banking jobs over the past 6 months: PJT 100%; Morgan Stanley 95%; Goldman Sachs 89%; Evercore 87%; Greenhill 78%; Moelis 86%; Credit Suisse 94%; Lazard 94%; JPM 96%; Wells Fargo 78%; Perella Weinberg 82%; Deutsche 84%; Barclays 90%; Millstein 100%; BAML 96%; Houlihan 92%; Citi 85%; UBS 81%; Jefferies 81%

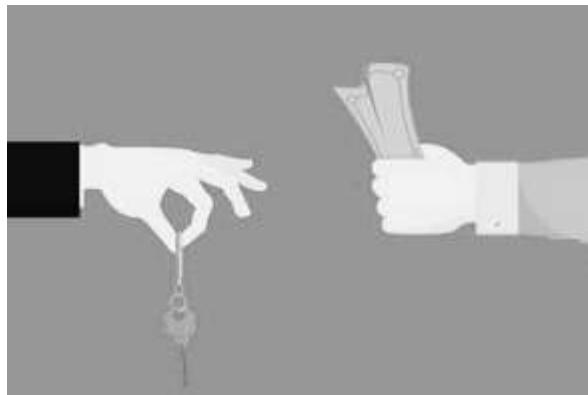
2. Recruiting success by group: Coverage groups had more success than sector groups



3. Accepted offers by firm type: Private Investing dominates the early recruiting of these banking analysts



Thinking through Selling a Stake



In late 2015, FORT Management, a 24-year-old systematic hedge fund managing $1.5Bn, was examining different PE fund options with a view to establishing a new partnership. The firm has had outside investors for the last 18 years and was buying back the shares of the remaining investor and looking for a new minority stake buyer. The range of firms looking to take management stakes in investment firms is growing, and FORT had a number of options to consider. The company did not require a capital infusion, and wasn't looking for an activist partner who would immediately begin issuing strategic and operational directives. What FORT needed was a brand name willing to take a minority stake in their business. As FORT Managing Director Alan Marantz put it, “We were a mid-sized firm looking to grow and play in the big leagues.”

Firms typically approach staking funds with an equity percentage in mind, but negotiations usually land in the 10-20% range; not so large as to be intrusive, yet not so miniscule as to be irrelevant. This was the case in FORT's situation too.

There are a number of active players in the minority stakes business with AMG and Blackstone amongst the most prominent. In FORT's case, they eventually narrowed their conversation to a pair of industry leading firms and chose to go with Petershill II, a fund established by Goldman Sachs in 2007, originally intended to invest in hedge funds but has since expanded into PE as well.

In the end, FORT made a deal with Petershill. For a firm of FORT's size, they were particularly excited to link their brand to Goldman Sachs and were very interested to leverage Goldman's resources. FORT has had a strong and deep relationship with many parts of the Goldman franchise, which has afforded access to critical resources. For example, when FORT wants to examine the latest technology in cyber security, they now have access to Goldman's network of over 9,000 technologists. FORT has also been able to leverage Goldman's management training program to select senior members of their team. Additionally, through Petershill, FORT can tap into Goldman's vast knowledge of the financial landscape, and open doors that previously would have remained closed, or at the very least, only slightly ajar. Demand for FORT's strategies has been strong since the partnership with Goldman and the firm's AUM is now just under $4 billion.

The FORT team was also impressed with other firms they spoke with, including DYAL. DYAL has completed 25 transactions with ~$9B AUM making it a dominant player in the space. They are fully dedicated to stake transactions and roughly half of their team is committed to business development, which indicates the premium they place on client services. As a minimally invasive minority partner, FORT liked that DYAL would maintain no say in the investments of the portfolio firm, budgetary approval, or compensation for the firm's employees. DYAL's aim is to invest in companies they believe in, with talented Senior Management whom they can advise as the firm continues to grow. As Sean Ward, a Founding Partner and Managing Director at DYAL put it during a recent panel discussion, “We are buying a stake in this firm since they are doing so well. Why would we want to go in and mess with that?”

To ensure a successful integration, one key component is employee retention. GP stakers tend to agree that a key part of the solution to this potentially thorny subject is communication. Both firms must ensure that all senior employees are on board with the transition. One of the best ways to accomplish this is through a distribution of equity, which both honors employees via their own stake in the company, while simultaneously securing non-competes and non-solicits, thus further cementing their ties to the business. Employee retention also benefits the stakeholder, who of course desire a seamless transition with as minimal employee disruption as possible. As the co-founder of FORT, Sanjiv Kumar commented at the time of the deal, “We continue to make serious investments across all areas of our operations, including proprietary research, systems, technology, trading and finance." We also see new front-office hires taking place, as this traditionally isn't a function where the stakers have as much support.

For a firm looking to partner with a minority stakeholder, they must consider the pros and cons of either going big or going boutique. As with most strategic decisions, the assessment comes down to the needs and objectives of the individual firm at that point in time. For the staker, they are broadening their potential scopes of interest. As DYAL points out, they are strategy agnostic. They don't want to solely invest in credit funds or EM funds – they want to build a diversified portfolio that covers the whole industry, generating cash flow from various perspectives.

As GP staking firms continue to raise assets and grow their range of investments into fundamental and systematic hedge funds and private equity funds, it appears as though staking is a real growth story set to stay. Blackstone's investment in Leonard Green in early July of 2017 exemplifies this new trend. Increasing numbers of firms, like FORT, will likely be thinking through staking decisions in the coming years.

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