ODYSSEY SEARCH PARTNERS

Quarterly Newsletter - Q2 2016

In this Newsletter

This is the first of what we hopewill be a series of quarterly newsletters. We at Odyssey spend our time fillinginvestment roles at fundamentally driven alternative investment firms, and thatprocess leads us to meet people in the industry every day. We often get askedto share what we're seeing in the terms of trends, the 'pulse' of the market,who's moving where, and so on. This is our attempt to be a little moreorganized and systematic. We hope it delivers.

We would welcome a chance to discuss any of these topics live – ping us back at: newsletter@ospsearch.com

Enjoy.

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

Hedge Fund Talent Stepping Away

There's a lot of gloomy talk around the hedge fund industrythese days. Weak returns, pressure on fees, pensions rethinking their hedgefund allocations. This state of affairs has not been lost on the hedge fundinvestment professionals who are increasingly rethinking their commitment tothe industry. Many previous "masters of the hedge fund universe" are now secondguessing their career choices. One experienced HF PM wrote to us this week "I'mlooking for new opportunity to further my skill set as a Portfolio Manager; itdoes not have to be Hedge Fund structure". So where are people looking to go?

The private side is appealing to some with its locked upcapital and its long-term investment horizon, as are family offices with theirflexible investment mandates. The most common requests though are for themutual fund world. Yes, there are hesitations about 'sleepiness', perceivedmeritocracy, and the more muted bonus potential, but for many this isoutweighed by the combination of perceived durability, long-term careerstability, and high base salaries uncorrelated to performance. Sure, they'llhave to give up the ability to short but of late very few people have been able to impress with their alpha short returns.

Compensation is presumably the biggest factor at work heremaking people rethink their industry choices. Comp at year-end 2015 wasconsiderably down from 2014. For many front-office folk at hedge funds, bonuses were down 30-50% and in 2016 theoutlook already looks bleak given Q1 performance, particularly if the fund issignificantly under its high water mark. There are other factors at play aswell. There's a growing frustration from longer-term investors that their fundsare reacting to current market conditions by making shorter term, quickertrades. People have been burned by their start-up funds not being able to getto scale, and by founders of established funds deciding to convert to familyoffices. There's also the overriding intellectual frustration felt by thesesmart over-achievers who just haven't figured out how to generate returns withthis market volatility. Their hope is they will do better in a different setting.

These factors aside, the conversation about quitting hedgefunds still normally turns back to money. As a senior long/short equity analystrecently put it to us, with a characteristic mathematical rationale, "Would Itake a seat at a long-only where I can make $500k a year for 20 years, versusmaking $2m in a hedge fund one year, getting blown out the next, followed by awho-knows-how-long period on the beach? I'd take that trade."

Notable Moves - Private Credit

Name	Joining	Leaving
Bill Sacher/Shahab Rahsid	Adams Street Partners	OakTree Capital Management
Nicolas Valls	Golub Capital	BDCA Adviser
Gina Provenzale	HIG Whitehorse	GE Antares Capital
Jim Hunt	Kayne Anderson Capital Advisors	THL Credit
Mark Bernier	HIG Whitehorse	GE Capital
Matt Tier	Owl Rock Capital Partners	Fifth Street Finance
Keith Carter	Varagon Capital Partners	TPG Special Situations
Kunal Gulati	TPG Special Situations	Solar Capital

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

Junior Investment Bankers Leaving Ever Earlier

The WSJ published an articlethis weekend on efforts by the big banks to stem departures of their juniorinvestment bankers. These efforts included encouraging the analysts to considerlong-term careers at the bank, allowing for faster advancement, giving moreinteresting work and greater client exposure, and limiting working hours. Thebackdrop it mentioned is that juniors are leaving increasingly early: theaverage tenure of banking analyst and associates has reduced from 30 months in1995 to 26 months in 2005 to 17 months in 2015.

Based on what we've seen so far in 2016, we expect thistrend to continue - we don't perceive any increased interest from juniorinvestment bankers in staying on longer. What the article does not describe isthat there are 'pull factors' as much as 'push factors' at work here. Buy-sidefirms are increasingly competing with each other for recent college grads with investmentbanking/corporate finance skills. Not only are private equity and hedge fundfirms trying to hire these smart juniors, but increasingly venture capitalfirms, secondary funds, corporates, and allocators are fishing in this talentpond too. The compensation for banking analysts may have been increased, withfirst-year base salaries typically having been lifted from $65-75k to $80-85k,but this is not a deterrent to investment management firms who are used topaying base salaries at a premium to this. This level of competition has leadto firms starting their recruiting processes earlier and earlier in the year. Afew years back, buy-side firms started interviewing in the summer when thebankers would have had a year under their belts at that point. In 2016 firmsstarted doing 'coffee chats' with prospective candidates as early as Nov/Dec,and formally interviewing them from February. The vast majority of the PE/VCoffers are delayed (i.e. offers given out in Q1 2016 for Q3 2017 starts), butsome other firms want more immediate starts and so in these cases the analystsare leaving well before their two years is up, and in some cases, beforethey've reached their one year anniversary.

Another tactic some banks are turning to is to use vinegarrather than honey to try and keep their junior analysts from leaving early. Rothschild for example, now requires their 2nd yearbankers to pay back their 1st year bonuses and their original sign-on bonusesif the analyst leaves before the 2 year program is completed. But it's oursense that policies like this might just detract from their ability to recruitthe best kids coming out over undergrad rather than keep talented people withthe firm for at least two years.

Are your Interviews as Rigorous as your InvestmentProcess?

While you may have heard of the Wonderlic test as it relatesto the NFL and Andrew Luck, you may not have realized that many funds are nowusing that same test to screen their applicants. Wonderlic, Watson-Glazer,Myers-Briggs, Hogan and Caliper are just a few of the assessment tests beingused by some of our clients to screen talent. And these are on the morestandard end of the scale - more experimental methods include psychologicalscreens and handwriting evaluations.

These assessments are typically deployed as one of therounds during the interview process for potential new hires. The tests tend tolook at both IQ and personality and are used to make sure that the candidatesare not only a good fit intellectually, but also culturally with the rest of theexisting team. One PM just told us that he wouldn't hire anyone withoutbeing tested, though they use the results just to help focus the conversationswith references. While use of these tests are still far from the norm, we'venoticed more and more firms have been implementing them in recent years aspeople want to leverage technology to improve performance in all parts of theirbusiness. But that doesn't mean the majority of candidates are happy withthis new trend.

While candidates may appreciate the theoretical value behindthese tests, many tell us they would prefer to meet with some people from thefirm they are applying to before sitting at a computer for 2+ hours trying tofigure out how to answer questions such as, "Do I usually stop at yellow lightsor race through them?" We've also heard some dissatisfaction from those beingtold they aren't a good fit without much additional color as to why. However,it is evident that these tests are playing a bigger role in helping with theperennial challenge of finding a great match between employer and employee soit's a space to continue watching.

"I failed 3 times in college. I applied 30 times to get a job but I have always been rejected. When KFC came to China for the first time, we were 24 to apply and I was the only one to be dismissed…" Jack Ma, Founder of Alibaba, wealthiest man in China (Forbes, 2015)

Notable Moves - Private Equity / Venture Capital

Name	Joining	Leaving
Sean Murphy	Harvest Partners	Angelo Gordon
Marc Lipschultz	Owl Rock Capital Partners	KKR
Jack Daly	TPG Capital	Goldman Sachs
Chris Colpitts	CVC Capital Partners	Deutsche Bank
Pete Casella	Point 72	JP Morgan
Erik Herrmann	Levine Leichtman Capital Partners	Capital Spring
Duncan Gills	Battery Ventures	True Wind Capital

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Turning the Screws on Employees

The underlying purpose of non-competes, garden leave anddeferred compensation has always been to try and ensure some stability in anindustry that has more jumpiness than a community of grasshoppers. Employeeshave typically been able to work at a fund for one year, collect their bonus,and then move on to something bigger

and better if the opportunity presentsitself. The question right now is how are these terms changing in this marketwhen funds again have the power in the relationship?

What we've seen is that a small minority of firms have beenusing this weak hiring environment as an opportunity to exert theirpower. Making existing employees sign a new, more restrictive agreement is atough task unless it's paired with a sweetener for existing employees, likeequity. But it's easier to start making changes with new employees. In manyolder employment agreements, non-competes were not even included, or were juststipulated as your standard thirty or ninety days. We are now seeing moresix to nine month non-compete clauses. On the deferred side, what's becomestandard is to hold back between a quarter and up to half of bonuses over acertain bonus threshold, often between $250,000 and $500,000, to vest 1/3rda year over three years. Again, we're hearing about more restrictivedeferred terms – multi-year cliff-vesting, rather than gradual straight-linevesting, and even tying deferred comp payouts to the firm performance orability to raise new capital.

How will this shake out? Firms and employees both naturally want to protecttheir interests as best they can. It makes sense for firms to try to beaggressive in lean years, especially if they are paying bonuses out of themanagement fee in an effort to retain talent. However, once the marketswings back towards a candidate's market, the concern is this might impedethese same firms' ability to again attract top talent.

View on the HF Industry from the GAIMops Conference, Cayman 3/16

GAIMOps CAYMAN

We were fortunate enough to just attend one of the leadinghedge fund conferences, the GAIMOps conference in Cayman. Here's our take on the three days, boiled down to three bullets:

- HF industry assets are still looking stable:while major inflows have been limited in 1Q2016, there's confidence that assetswon't drop drastically because a) there is more individual money coming intospace, and b) other asset classes are still yielding very low returns; howeverHF fee pressure is becoming more real, especially on the management fee side;"1.5 and 15" might become the new "2 and 20" (though currently most feeconcessions are being granted alongside longer lock-up terms)
- Allocators are most comfortable with bigger,more institutional hedge funds, even those with lower returns; while they dodiligence under the "trust but verify" banner, stronger allocator-managerpartnership models are developing, with real two-way dialogue becoming morecommon
- Cybersecurity, regulation, keeping hold of toptalent in a zero/low bonus environment were some of the key topics that werekeeping HF managers up at night (alongside the crashing of Caribbean waves…)

Notable Moves - Hedge Fund

Name	Joining	Leaving
Ben Abrams	EastBay Capital	Alkeon Capital Management
Pito Chickering	Davidson Kempner Capital Management	Kingdon Capital
Jeff Eisenstein	Alyeska Investment Group	Three Corner Global Investors
Jesse Freedman	Warlander Asset Management	Strategic Value Partners
Christian Schmitz	Carlyle (Special Situations Group)	Och Ziff
Nathan Morin	Tiger Legatus Capital Management	GMT Capital Corporation
Chris Procaccini	Hutchin Hill Capital	Highbridge Capital Management
Rishav Puri	Owl Creek Asset Management	GoldenTree Asset Management
Danil Subkhankulov	Select Equity Group	Cerberus Capital Management

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Feedback Welcome

We welcome your feedback! You can alsounsubscribe from future Newsletters – but we'd prefer you send us suggestions for other topics weshould cover or any other comments! newsletter@ospsearch.com

New at Odyssey

We are pleased to announce the arrival of Jeff Rosenblum. Jeff joined Odyssey Search Partners at the beginning of 2016. He looks to place both junior and senior level investment professionals within fundamentally driven alternative investment firms. Prior to joining Odyssey, Jeff was an analyst at Bank of America. He received a Bachelor of Science in Finance and Information Systems from the University of Maryland. Jeff grew up in New York and is currently looking for a girlfriend. He recently went out on a date with a girl his Mom sethim up with, after receiving her first round feedback, he has come to theconclusion there won't be a second round. She didn't share specifics but blamed a general lack of 'cultural fit'.

What's Hot in Front-Office Hiring?

We love to have conversations with impressivepeople. Right now, areas of particular interest include the following. If youknow strong people with these backgrounds that might want to hear about newopportunities, 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 and Healthcare analysts
- Top-notch candidates with ties to Dallas,Minneapolis, Boston
- Fundamental PMs with track records of success

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