ODYSSEY SEARCH PARTNERS

Odyssey's Quarterly Newsletter – Q4 2018

In this Newsletter

2018 Compensation Expectations Survey How confident are HF, PE and Private Credit analysts?

MBA Recruitment The changing nature of Business School hiring

NYC's Compensation Law One year in

Growing Private Market Funds Ways to scale AUM

"An investment in knowledge pays the best interest" - Benjamin Franklin

As we move into the year-end, we provide compensation expectation data which we hope proves valuable in what's been a volatile and confounding year for many. Record profits at the investment banks, helped by a higher number of deals and tax cuts kicking in, have seen more sell-side hiring activity while things have slowed at the asset managers who have suffered asset outflows and declining stock prices. We've seen historical fervor for investment banking analysts, as the private equity on-cycle hiring process just kicked off on October 27th, the earliest it's ever started. We've also noted more interest into how the MBA fits into hiring plans and employee development, and we dig into the data around this.

Continuing on the compensation topic, we look at the effects caused by last year's legal restrictions on requesting compensation data from interview candidates. Finally, as private funds continue to scale, we share what we're seeing and how this is affecting the market for talent.

Here's to a successful last final quarter of 2018.

The Odyssey Search Team

Hedge Fund Moves

Name	Joining	Leaving
Jonathan Bregman	D1 Capital	Blockhouse Capital Management
Alice Bruns	HBK Capital Management	Aidennlair Capital
Sachin Gupta	Fir Tree Partners	Cerrano Capital
Jeffrey Ho	Jana Partners	Schoenfeld Asset Management
Ryan Hoff	Maplelane Capital	Balyasny Asset Management
Pooja Jotwani	ExodusPoint	Millennium Partners
Raza Mujtaba	Serengeti Asset Management	Tricadia Capital
Jiten Sanghai	Corre Partners Management	Strategic Value Partners
Aparajita Tripathi	Centerbridge Partners	Beach Point Capital

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

The Odyssey Search Partners 2018 Compensation Survey – Initial Findings

As we head into the season of bonus deliberations, we want to share the initial findings of our Investment Professional Compensation Survey. To clarify, in our last Newsletter we reported what actual 2017 year-end bonuses had been, whereas this is based on a recent survey to test sentiment about year-end bonus expectations. We surveyed over 1300 investment professionals to ask about their current compensation, and their expectations for year-end. The headline is that investment professionals are still bullish about their prospects for significant year-end bonuses. This was a little surprising against the current backdrop of stock market volatility, significant hedge funds closures and continued interest rate rises – but confidence isn't something these folks usually lack! As a caveat though, the tough October we've just experienced may now be tempering expectations.

We break down the populations into Hedge Funds, Private Equity and Private Credit. In each asset class, we surveyed over 400 respondents in September and October 2018 at the junior, mid and senior levels on their past, current, and expected compensation levels (both base and bonus). We're still compiling the full results but here is a snap shot:

Hedge Funds

- 2018's mean base salary is $181k, 6% higher than 2017's actual mean base salary of $171k
- Meanwhile, 2018's average expected bonuses was $350k, a 17% jump from 2017's average bonus of $299k
- The 17% average expected bonus increase stands in contrast to this time last year, when the same population was expecting a 39% increase
- Only 19% of respondents expected a decrease in 2018 total compensation relative to 2017

Private Equity

- Across the entire industry, 2017's average base salary of $164k ticked up to $182k in 2018
- 2017's average year-end cash bonus was $204k, and in 2018 PE professionals are expecting an average bonus of $229k, a 12% increase (we will break these absolute numbers out by levels in our full Report: given the organization pyramid structure, these numbers reflect more Associate bonuses outweighing those from Principals and more senior PE investors)
- Controlling for fund size, professionals at funds in the <$500M range expect a 14% higher bonus ($175k vs. $154k), whereas those in the >$5B fund group are expecting a much more modest 2% bump ($256k up from $252k)
- Those at Middle Market funds are expecting 12% bonus increases, from $197k actual bonuses to $220k average expected bonus

Private Credit

- As we describer later in the Private Markets article, there continues to be strong demand for the product from institutional investors. The sheer amount of capital raised has produced a highly competitive environment for talent
- This is reflected in the compensation expectations we saw in the survey. However interestingly, Private Credit professionals' expectations on compensation increases are a little more muted compared to the Hedge Fund and Private Equity space. This is the case on both a percent and absolute dollar basis. Some details follow:

Title	Increased Comp Expectations
Associate	11.4%
Senior Associate	8.5%
Vice-President	9.3%
Principal/Director	7.4%
Managing Director	10.5%

By seniority, at the high end of the expectation range were Associates with expectations of an 11.4% increase. It comes as no surprise that the Associate class is the most optimistic. Simply put, they have the most career alternatives and thus firms feel the need to pay them more in line with market averages across PE, HF and Banking, which have all seen increasing Associate compensation.

Title	2017 Compensation		2018 Compensation Expectations	
	Low	High	Low	High
Associate	$180,000	$240,000	$202,000	$265,000

Another interesting finding is that the current compensation satisfaction rate sits at 62.9% for all professionals. Again, Associates lead the way, as 66.4% were happy with their current compensation. Though it's perhaps intuitive that those expecting the highest bonus bumps are the happiest with their compensation!

More details on all these asset classes will be available in our forthcoming compensation surveys, to be shortly released to clients

Private Equity Moves

Name	Joining	Leaving
Vishal Amin	Blackstone Group	Andreessen Horowitz
Kevin Gordon	Welsh, Carson, Anderson & Stowe	Pamplona
Sonya Huang	Sequoia Capital	TPG Global
Frank Maldonado	TPG Global	Great Hill Partners
Jim Miele	KKR	Warburg Pincus
Catherine Ngai	Cove Hill Partners	TPG Global
Gal Peleg	TCV	New Mountain Capital
Luca Schmid	Coatue Capital	Google Capital
Adam Silverschotz	TCV	Coatue Management
David Storer	Carlyle Group	Pathlight Capital
Mark Voccola	Ardian	Ares Management

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

The Evolving Nature of MBA Recruitment

Financial services hiring continues to evolve; one aspect being the role of the MBA. We've heard some pretty extreme statements from firms and candidates alike in recent years, such as "no-one's going to b-school anymore" and "MBAs don't want to join investment firms, they want to run start-ups." Indebtedness is a real issue and the latest Department of Education data shows that MBA students took out on average $65,000 in loans, which is not surprising given a top-tier 2 year program now costs over $200k (data from WSJ 9/6/18)

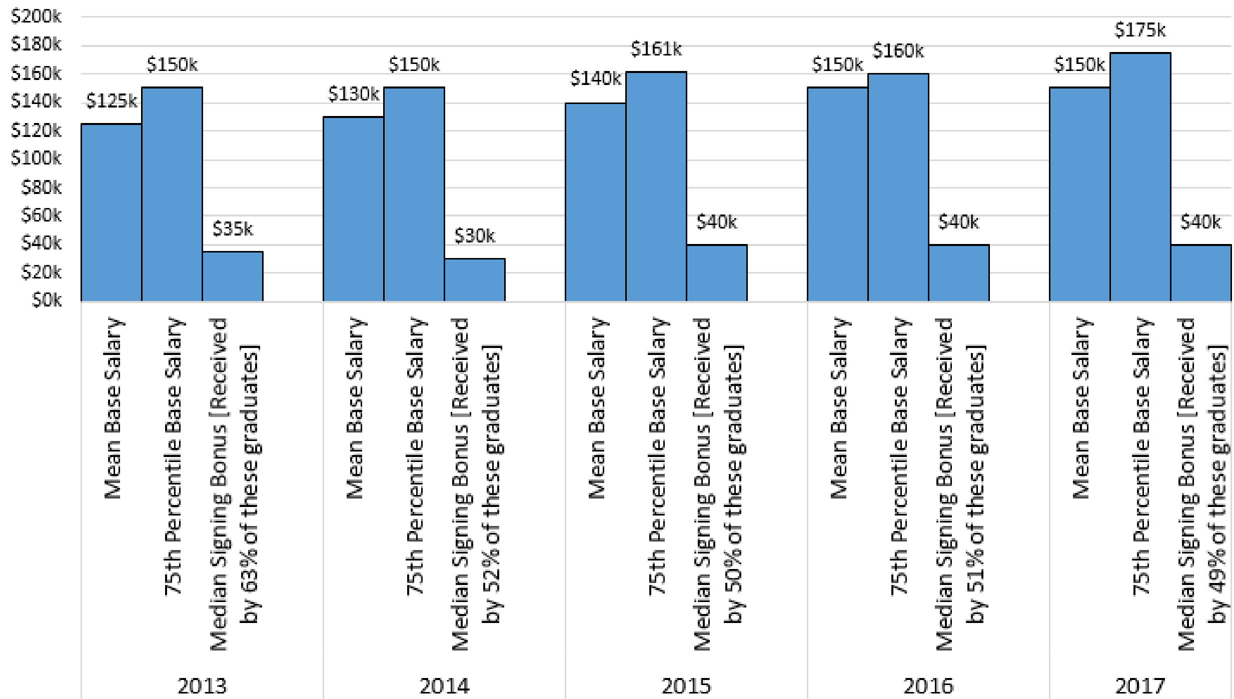
And the WSJ ran another article recently (10/1/18) noting that business school applications were down, even at the top schools.

So we decided to investigate this too. Below we tackle some of these views and divided them into what seems to be True and Not True. (BTW – while there are many business schools offering MBAs, the focus here is on the top 5 schools which form the vast majority of where our top investment firm clients have interest in pulling from.)

What is True about MBA hiring

1. MBA graduates are being paid more (True)

Compensation for those graduating MBA programs in recent years has continued to increase. Taking numbers from Harvard Business School, an institution that tracks these things carefully, there's clearly a trend:



Similar patterns can be seen at other leading MBA programs. In fact, data for the recent Wharton class for those entering "Hedge Funds or Other Investment Firms" also has a median starting salary of $150k (against a last 3-year average median base salary of $140k), with $175k also being the 75th percentile number.

Over the same period, base salaries for investment professionals have also risen proportionally, but not as steeply as we've seen for MBAs (data is from Odyssey's Hedge Fund and Private Equity Compensation reports). Given their compensation levels have increased, you don't need a Wharton MBA to infer that this speaks to the supply/demand paradigm of top MBAs!

2. Dwindling Company Sponsorships (True)

The trend seems to be that firms are sponsoring fewer and fewer MBA candidates as the years progress, though it's proven hard to acquire precise data here. 'Sponsoring' implies covering costs with the expectation that the candidate will return to the firm for a given number of years post-MBA. As we noted in our Q3 2018 Newsletter article on PE Associates 'Where have all the PE Associates Gone?,' the trend reflects a broader sentiment change whereby top Associates are being asked to stay and receive a promotion without requiring a post-graduate education. Those who do make the leap into b-school typically do so without their firm's backing – it's more of a conscious choice rather than an obligation. "Seems like most people are footing the bill themselves," one recent MBA grad who was just placed at a multibillion dollar Private Equity shop told us. As a result, the phenomenon of graduates returning to the same firm post-MBA seems to be growing rarer by the year. One recent Stanford MBA graduate estimated that of the students who entered business school from a PE background, less than 15% returned to their pre-MBA PE firm, which is down from historical numbers. The equivalent statistic for Wharton's Class of 2017 (percentage of those returning to the firm that sponsored them) was 11%.

3. Increased Intensity of Hiring MBAs, and "Rule Breaking" (True)

As the industry reevaluates its perspective of the necessity of a post-graduate business degree, it stands to reason that the funnel from b-school into Financial Services will narrow. One odd quirk of that narrowing funnel, however, is the increased activity we're seeing around students that firms are actually looking for. This is interesting because although some 'star Associates' have been retained by their firms and therefore eschewed b-school altogether, those who do make the move to pursue an MBA are still highly regarded by other firms, particularly those looking to hire someone with a strong pre-MBA pedigree from a top tier competitor.

The efforts to step up recruitment measures and proactively target top talent at business schools are manifesting in a number of ways. These include making initial contact with candidates during their first year (generally in the Spring, before their Summer internships), and reaching out to candidates directly (as opposed to relying on the Career Resources center). When it comes to requesting decisions for full-time offers, it seems like many firms are expecting responses much earlier (in September and October) rather than waiting until the proposed dates by Career Services (which is November 30th for both Wharton and HBS.) So while there is less of a hiring need for b-school candidates from firms that have held onto their Associates, other firms are battling more intensely for the candidates they do want.

What is NOT True about MBA hiring

1. Business Schools are now full of non-Financial Services types (Not True)

While most top schools speak to having broadened their outreach efforts to include top talent with backgrounds including non-profits, corporates and the public sector, Financial Services alumni still make up a large proportion of classes (and the most common background of students):

- A full 35% of Wharton's Class of 2020 hails from the Financial Services sector, with the largest share (13%) stemming from PE/VC
- Columbia Business School's Class of 2020 also boasts a strong Financial Services pedigree, with 32% of students originating from the sector (25% from other non-PE Financial Services firms, and 7% from PE), outpacing the sector with the second highest total – that being Consulting with 25% of students
- Both Stanford and HBS's Class of 2020 Financial Services makeup stand at 27%, with the majority (16%) stemming from PE

2. MBAs are rejecting Financial Services in Favor of Tech firms (Not True)

In reality, the percentage of graduating students who join Financial Services firms hasn't fluctuated. Columbia has been sending roughly 1/3 of its graduates into the Financial Services sector year-over-year. Stanford, with all of its ties to Silicon Valley, states that 32% of its 2017 class entered Finance, while only 25% joined the Technology sector. Looking at historical data, the numbers for HBS are below, illustrating that Financial Services is just as influential in terms of career direction for MBAs as it has ever been:

% of Graduating HBS class joining Financial Services Firms

2013	27%
2014	33%
2015	31%
2016	28%
2017	31%

And as for start-ups? It's trickier to measure, but HBS polled its graduating students in each class (of approximately 900 students), and here are the numbers who founded a start-up.

2013	63 students
2014	74 students
2015	84 students
2016	64 students
2017	64 students

Wharton, on the other hand, is an outlier and does seem to be diversifying its exit points for its students. 41% of Wharton MBA graduates joined Financial Services in 2012, a figure which has steadily decreased in recent years to 33% for 2017 (interestingly, putting it more in-line with other top schools).

3. The MBA is becoming increasingly irrelevant (Not True)

The Graduate Management Admissions Council (GMAC) noted that applications for the 2020 class were down. Harvard (down 4.5%), Stanford (down 4.6%) and Wharton (down 6.7%) all declined, while application rates for other programs fell even more. But these numbers mask a big x factor – international applications were down a massive 11%. Leaving aside tricky issues like dealing with visas, it shows that US-led demand is not as problematic as the headlines might lead one to believe.

Globally, MBA applications were not down, with increasing demand for schools in Canada, Europe and Asia compensating for the US decline.

It's also worth looking at absolute numbers. For the 2020 MBA class, Stanford received 7,797 applications for approximately 400 spots, and Harvard received 9,886 applications for approximately 1000 spots. The average GPA of the class remained constant at 3.71 with an average 730 GMAT. It clearly remains very competitive, and therefore continues to be a filter for the very best and brightest.

Schools continue to adapt to maintain relevance. Most of the top programs encourage on-the-job experience throughout the two years, and have incorporated more content in areas such as entrepreneurship, sales and coding. But focusing on the education component is to miss out on what may be its biggest draw. As stated on their website for prospective applications "The greatest value of a Wharton MBA is the network you inherit. As a Wharton MBA, you immediately add 98,000 Alumni to your personal network, a network that is constantly networking, mentoring, and learning." While business models and technology evolves, the value of human support is as significant as ever.

In the past, when the economy has been doing well, MBA applications tend to drop. The naysayers believe that the issues with the MBA (the relevance of the model, indebtedness and rising costs etc.) are structural, not cyclical, and numbers won't pick back up again. We tend to disagree – and we'll be monitoring this in the future to see who's right.

Private Credit Moves

Name	Joining	Leaving
Joe Carvalho	Ares Management	Blackrock Capital
Alex Dashiell	Blackrock Capital	Ares Management
Peter Glaser	Alcentra Direct Lending	KKR Credit
Gabriel Goldstein	PIMCO	Tennenbaum Capital Partners
Zachary Jarvis	Angel Island Capital	KKR Credit
Geoffrey Jones	PIMCO	Tennenbaum Capital Partners
Matt Kretzman	HIG Capital	KKR Credit
Suhail Shaikh	Alcentra Direct Lending	Solar Capital
Dan Cohn-Sfetcu	Portfolio Advisors	Carlyle Direct Lending
Rushabh Vora	FS Investement Corp	Macquarie
Michael Zugay	Ares Management	Blackrock Capital

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

One Year Later: How NYC's Compensation Law is Impacting Recruitment

It's been a year since the amendment to the NYC Human Rights Law went into effect, and we thought we'd share some perspective on how the new law has been impacting the recruitment process. As a reminder, the main thrust of the law is to prohibit hiring firms from requesting a candidate's previous compensation history.

Firms are permitted to ask a candidate what he or she expects to make in the coming year. Additionally, candidates can volunteer historical compensation data should they wish to do so, and firms can take that voluntary information into account when making an offer (for more on the law's specifics, take a look back at our coverage in the Q3 2017 edition of our newsletter).

To investigate this, we queried several Hiring Managers and HR Professionals at New York-based Investment Management firms to see how the law has impacted their recruitment process (if at all). This is what came out of the discussions:

Less Compensation Disclosure

Candidates are regularly choosing not to disclose past compensation. In trying to interpret this, some Hiring Managers felt that such candidates are likely being compensated below-market; others felt that many candidates were just "playing the game" and hoping to score a big leap. Many noticed that a lot of the candidates who do disclose are doing so in order to substantiate their lofty expectations. These tend to be candidates for the more senior-level positions.

Juniors are broadly opting not to disclose, yet this is less of an issue for firms as they tend to have strong market intel at the junior level; plus juniors are typically paid within a tighter band anyway. This is particular interesting given shifts in the way people think about disclosing compensation. A recent survey from financial website bankrate.com found that younger workers are more comfortable sharing what they make with others. Specifically, 58% of Millennials say they have revealed their compensation to a friend, while 33% have shared it with a co-worker. This compares to 33% and 18% for Baby Boomers in the same categories.

Less Negotiation

Firms have been surprised to find less compensation negotiation from candidates than was expected. The thought had been that since compensation is no longer such an upfront topic, Hiring Managers should expect more pushback given that offers are often essentially being made 'in the dark.' Yet firms have been pleasantly surprised by candidates' general willingness to accept offers without the usual back-and-forth; however, while a positive development, some firms tend to worry that they are inflating offers to 'top of market' in order to secure the best and brightest.

At an Odyssey Search Partners client roundtable discussion on the impact of the law on recruitment, one idea floated was to intentionally low-ball offers, in order to compel candidates to negotiate and substantiate their counters. The theory was that such an offering strategy would help alleviate the concern that hiring firms face when bidding in the dark. In practice, that hasn't been happening. The feeling seems to be that this strategy could diminish a firm's brand, and also that in a very competitive market for talent, the best candidates don't want to feel like they have to ask for their desired compensation; they prefer to see that their potential employer appropriately values them by making an initial offer that is 'fair / generous.'

Hedge Funds are impacted more than Private Equity / Credit

Hedge funds have found themselves more impacted by the new law than private equity given that hedge fund compensation tends to be more volatile on an annual basis, compared with the greater standardization of earnings across PE. In the public markets investing world, compensation tends to be directly tied to fund and individual performance and is bespoke for each individual. As such, it is more difficult for hedge funds to gauge what compensation package to offer if they have little to go on in the way of historical data.

Less troubling than imagined

Overall, the industry is finding the new law to be less disruptive than was initially predicted. This is especially the case for firms that took the major steps necessary to comply, such as centralizing compensation discussions, training interviewers to stay on the right side of the law, and tracking compensation data.

Certainly, compensation reports and surveys have grown in significance, as firms look to stay abreast of rapidly changing market parameters in order to properly benchmark their offers. Some firms acknowledged their increased reliance on recruiting partners as a means of sourcing deeper market intel, with those firms being held accountable to have in-depth compensation expectation conversations. However, when it comes to the operational components of the recruitment process or how offers are being constructed, those have largely remained the same. Firms have found the ‘compensation expectation’ question useful as a means of weeding out would-be problem candidates. To quote a Hiring Manager at a large investment manager: “We had a case where someone told us an expected number significantly higher than what we thought was reasonable; this coupled with concerns about the person’s seeming arrogance made us stop the process earlier than we otherwise would have.”

One peripheral benefit that a couple of hiring managers noted, was that the law was leading to deeper investigation of a candidate’s ability given that the compensation yardstick is no longer there. As one said, “I think the law is helpful because previously many of the Partners would judge someone’s quality basically by what they earned, which is clearly unfair as different firms pay very differently, based on their size, performance, culture and other factors outside of the particular individual’s control.”

Odyssey’s Perspective

We largely echo what the Hiring Managers have told us. The new law has indeed been less disruptive than we initially thought. We are also finding that roughly 50% of candidates disclose compensation. That may be a higher percentage than what hiring firms are seeing given that candidates are incentivized to disclose to us so we can match them with the right opportunities. That said, we do always query on compensation expectations, which affords us the opportunity to substantiate their prospects moving forward, and provide clients with a candidate’s expectations before the interview process is initiated. We’ve also been noticing a slight uptick in the percentage of candidates who opted not to disclose as the year progressed. This is likely due to candidates’ increasing recognition of the new law’s parameters – some candidates didn’t even know the law existed when they interviewed this past year. As the regulations around compensation disclosure are further disseminated into the mainstream, we expect that the percentage of candidates who choose not to disclose will continue to rise.

The Big Are Getting Bigger: How Private Market Funds are scaling AUM

When it comes to private markets, the big are undoubtedly getting bigger. Investors are limiting relationships and doubling down on managers they trust. Equally, funds are enacting various types of strategies to grow their asset base. In our [Q1 2018 newsletter] we tackled the esoteric investment strategies that private markets funds are exploring as a means of diversifying their product portfolio. In this article, we're going to examine alternative methods for growing AUM.

First let's start with the traditional means of growth – fundraising. In 2017, Apollo and KKR closed their largest buyout fund ($24.7B) and largest North American fund ($13.9B) to-date, respectively. Those funds highlighted a boom year for fundraising, as mega-fund buyouts raised $173.7B – a 9.3% increase. That figure represented a record 15% of total worldwide private markets fundraising, up from 7% the prior year. By comparison, fundraising for 2017 middle-market buyout funds ($500-$1B AUM) rose by 7% to $31B, and fundraising for smaller funds (less than $500M) grew by 3.5% to $29.1B. GSO Capital's $10B private credit fund launch and Silver Lake's $15B technology-focused vehicle are highlights of the recent fundraising boom.

Of course, when it comes to scaling upwards, acquisitions are always a fan-favorite. Blackrock's recent purchase of private credit manager Tennenbaum instantly augmented their private credit business to the tune of $11B (from $1B previously). In the process, Blackrock also significantly elevated its exposure to the alternative credit space. Earlier this year, ORIX Corporation USA announced an acquisition of NXT Capital as a means of accelerating the firm's position into middle-market lending. With the addition of NXT, ORIX can rapidly scale its participation into larger, more strategic assets in the middle-markets. The recently-completed sale of Triangle Capital's investment portfolio to credit-focused alternative asset management firm Benefit Street Partners, cements Benefit's already strong position in the middle-market debt and equity sectors. Of course, talent retention is a key metric of a successful acquisition, as there is limited value in a franchise if core employees disappear after two years. Blackrock, for example, has been proactive in offering compelling retention agreements in order to try to keep top talent in place.

Some firms have opted to supplement their fundraising and acquisitions efforts by implementing strategic joint venture programs. Partnerships between the likes of Solar and Voya, Carlyle and PSP, and KKR and FS Investment Corp. underscore the growing trend of ascension through JV. In some instances – such as Solar's partnership with Voya – the JV enhances a fund's core functionality, as BDC firm Solar and institutional asset manager Voya joined forces to establish a First Lien Loan Program which primarily invests in senior secured term loans to middle-market companies. In other instances, funds leverage a JV to reach beyond their original mandate, as was the case with Bain Capital Credit's 2017 joint venture with Antares, which afforded Antares – traditionally a senior secured 1st lien lender – the opportunity to participate in the unitranche debt space.

Private Credit isn't the only part of the investing universe that's been in expansion mode: LBO firms have shown up to the party as well. Lately, we've been seeing Private Equity funds partner with Sovereign Wealth Funds and Pension Funds as a means of increasing their financial firepower. Blackstone's $40B JV with Saudi Arabia's Public Investment Fund established an infrastructure investment vehicle as a means of financing development projects within the country, though this arrangement is under scrutiny given the recent political developments. Capital Dynamics launched its Clean Energy and Infrastructure VII fund in partnership with the California State Teachers' Retirement System and a unit of the Abu Dhabi Investment Authority. One way for the big to get bigger is by partnering with the really big: that is to say, large pension and sovereign wealth funds.

The net impact of all of this growth on the hiring market is meaningful. As firms grow organically, without acquisitions, their appetites for hiring grow too. And as acquisitions tick upward, the talent pool is replenished as duplicate or superfluous roles are eliminated. But the increases in demand are outweighing these increases in supply. In this current pattern of growth, people at all levels are being sought. As funds are tasked with quickly and efficiently implementing due diligence procedures, turning over legal documentation, and performing other deal-specific responsibilities, they're seeking everyone from Deal Leads to Associates. Indeed, talent sourcing is at an all-time high, given that more funds plus more capital is leading to greater demand for superstar talent in the private markets.

While scaling upwards is clearly a trend in private markets, it's worth noting that 'bigger' doesn't necessarily mean 'better.' Some firms prefer to remain small or medium-sized, in order to maintain flexibility in the face of a rapidly changing investment landscape. However, those firms that do eschew the 'bigger is better' mantra must confront the fact that the predominant trend is likely to have some measure of impact on their business model. As larger firms scale upwards, pressure on both prices and competition will naturally trickle down. And while smaller shops are still competitive in today's climate, their margin for error is narrower. Any major portfolio issues can impair future fundraising and lead to a sale of their business (see Triangle – Benefit Street transaction). Larger firms can stomach those miscues much more comfortably; so in terms of mitigating portfolio risk, size really does seem to matter.

Check out our website: odysseysearchpartners.com

Odyssey Search Partners

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

Homepage About Contact

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*