INSIGHTS

SEPTEMBER 2022

RECRUITMENT RETOOLED

NEW TRENDS IN HEDGE FUND HIRING

EXECUTIVE SUMMARY

As an ever-greater number of hedge funds report a tougher recruitment landscape compared to 12 months ago, this latest Hedgeweek Insights Report explores the key emerging hiring and staffing trends within the industry, detailing how managers of all sizes are looking to secure expertise across business functions amid a sustained war for talent.

With diversity and inclusion factors remaining high on the industry agenda, the way in which hedge funds and large asset managers are recalibrating their hiring focus beyond traditional candidate pools is coming under ever-greater scrutiny. At the same time, as AI, algorithms and alternative data reshape markets and influence investment ideas, managers of various strategy types are now vying for the top tech talent, with demand for coding and quant expertise surging.

The insights gathered here are drawn from a Hedgeweek survey of more than 70 hedge fund managers across the globe, as well as in-depth interviews with a range of industry participants and further background research.

The report also utilises talent flow data generated by Hedgeweek's new Vision service, mapping out how large established hedge funds and multi-manager shops are strengthening their recruitment firepower and are now fueling hiring traffic within the industry.

It also spotlights the longer-term factors that may potentially upend established staffing trends, examining how post-pandemic hybrid and remote working practices, coupled with longer notice periods, performance- and fee-related pay structures and incentives, as well as succession themes and changing company culture, can influence career development and progression within this fast-paced and constantly-evolving industry.

HUGH LEASK
REPORT AUTHOR

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METHODOLOGY

Hedgeweek surveyed more than 70 hedge fund managers globally throughout May and June, across a range of AuM sizes and investment strategies, on their views and plans regarding talent, staffing and recruitment. This report also draws on Hedgeweek's new data service, Vision, which tracked people move data during May, June and July from a variety of industry sources.

KEY FINDINGS

1

Hedge fund recruitment is becoming tougher
While more than three times as many new recruits entered the industry than left it during the summer, a quarter of managers surveyed say recruitment is now more competitive than a year ago – triple the number of those who said staffing had become easier. The war for talent is even fiercer among larger firms, with 60% of $1 billion+ firms saying hiring is now tougher than 12 months ago.

2

Larger hedge funds and multi-strategy firms drive talent flow
Managers running more than $10 billion in assets accounted for almost half of all hedge fund hires in July, while four of the top 10 hedge fund firms by net new hires in July were multi-strategy specialists, suggesting smaller hedge funds and start-up managers are being squeezed during the staffing process.

3

Technology and diversity themes are impacting hiring strategies
More discretionary and quantitative managers are tapping into tech to help build investment ideas, with computer coding and AI expertise now the leading in-demand skillset among managers. Meanwhile, investors are increasingly willing to push hedge funds on their diversity policies, as data indicates hedge funds still lag other financial services sectors when it comes to female representation in senior roles.

4

Changing work trends are reshaping hedge fund career development
Post-pandemic flexible working appears here to stay – with almost four-fifths of hedge funds having shifted to some form of permanent hybrid model – as managers pivot to the potential competitive advantages of remote models. Notice periods and non-compete agreements are reportedly becoming longer as firms move to retain staff, while company ethos and commitment to growth are coming into ever-sharper focus as staff look to advance their careers.

HIRING DRIVE HEATS UP AMID INDUSTRY DISLOCATION

Hedge funds say securing the best expertise is growing tougher as more new entrants join the industry, with multi-strategy platforms and larger managers ramping up recruitment and economic turmoil squeezing the sustainability of some firms

More hedge fund managers believe the current recruitment environment has become tougher in the last 12 months than those who believe it has become easier, new Hedgeweek research shows, as the 'war for talent' in the industry continues.

A quarter of all hedge fund managers believe the current environment for hiring talent has become more competitive over the past 12 months, while 7% of managers surveyed now believe the market is less competitive (Fig 1.1). When those who hold no opinion on the hiring landscape are removed, about one-third of hedge fund managers say hiring is 'more competitive' than this time last year. Slightly fewer – about 31% - said conditions are 'similar', while just over 9% said it was 'less competitive'.

Industry participants observe how people are not only moving within the hedge fund space from firm-to-firm – they are also migrating elsewhere within the alternative assets sphere, along with the broader investment management sector, as well as areas such as fintech and digital assets.

"There are the multi-managers, and other cross-asset multi-asset firms within the hedge fund world where people are going. Hedge fund analysts are also looking more broadly across finance, to other asset managers, credit firms, and private equity. Family offices and sovereign wealth funds are also in that bucket of investing seats outside of hedge funds," Anthony Keizner, partner at Odyssey Search Partners, says of the busy flow of traffic across the industry this year.

New hedge fund talent flow data generated by Hedgeweek Vision shows the number of entrants joining the hedge fund industry reached 862 in July, outweighing those who left the business for a non-hedge fund firm (250), while there were 114 moves from firm-to-firm (see Fig. 1.2).

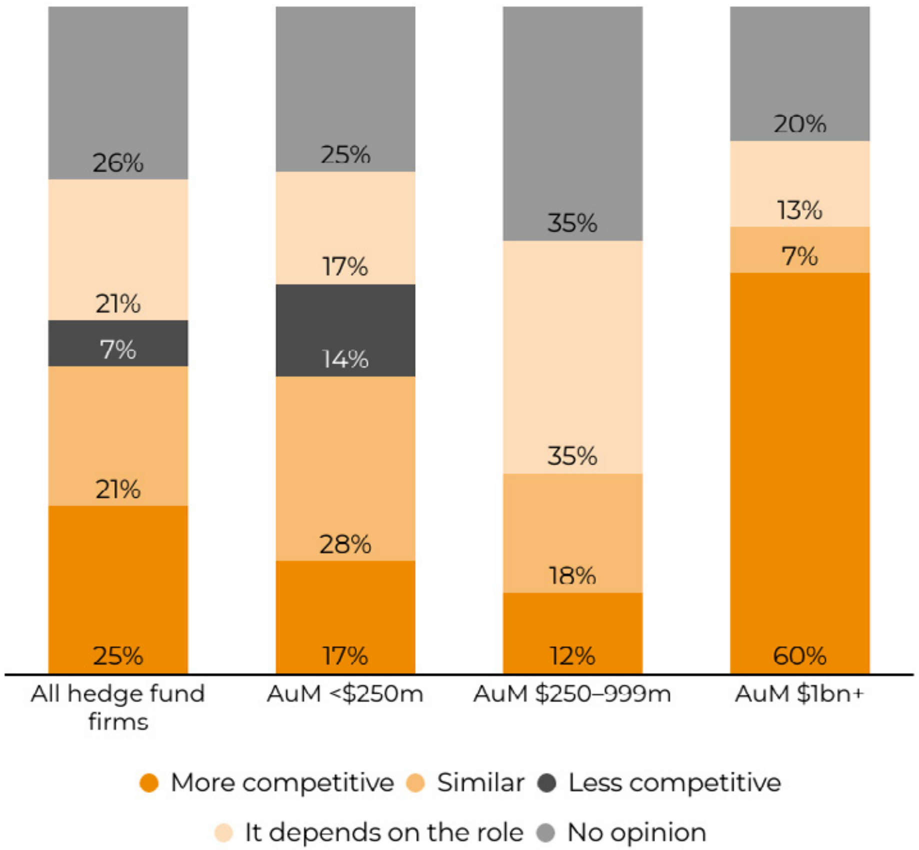
Problem-solving

Managers are looking to strengthen expertise across all departments (see Fig 1.3), with demand for investment office and operations expertise particularly strong among large $1 billion+ managers, while investor relations and sales talent are sought by managers of all AuM sizes.

"There's definitely movement between the different areas of alternatives," says John Hindley, partner, financial services at Heidrick & Struggles. "If someone is, for instance, a fundraiser but they have credit experience, they can be attracted from the hedge fund space to work for a larger alternatives platform. Those three areas – fundraising, technology, and legal and compliance – remain very interesting areas, and where we see high levels of activity."

Phillip Chapple, chief operating officer, Monterone Partners, observes how technology has emerged as a key skillset as managers lean more into tech-based functions such as alternative data, while the constantly-evolving

Figure 1.1: Hedge fund firms' opinion of the current recruitment environment, 2022



Source: Hedgeweek survey, Q2 2022

> It may be that hedge funds have to recruit very differently when they're at $1 billion and trying to get to the $5 billion level compared to the early days when they are trying to get from nought to $1 billion

regulatory landscape increasingly calls for greater legal and compliance expertise within firms.

"What it really comes down to, at the crux of it, is having a problem-solving mentality," Chapple tells Hedgeweek. "This industry is never in a state where it's just business-as-usual, it just doesn't happen anymore. Things are not static. So the view is that things are changing, there are problems, how do we solve them? Our strategy is not so tech-dependent, because we are more thesis-driven. But we still use alternative data, so it becomes important. There's tech, there's reg, there's ESG - it's all part of the same issue. Those are the skillsets that we are seeing demand for."

Reflecting on the competitive hiring landscape, Anthony Keizner says: "It's incredibly competitive at the junior level, because the kinds of people that hedge funds want to hire who typically come out of investment banking programmes, or out of private equity associate programmes, are the same kinds of people that are in demand across the economy, including the corporate world and the tech world.

"A smart, well-trained, financially-literate, savvy young person who's willing to put all the hours necessary into their work is something that is very attractive to a large number of firms. This then further increases the difficulty of hiring those people, and increases the cost to hire them. We only see these costs go up - and this year is no exception."

Prestigious

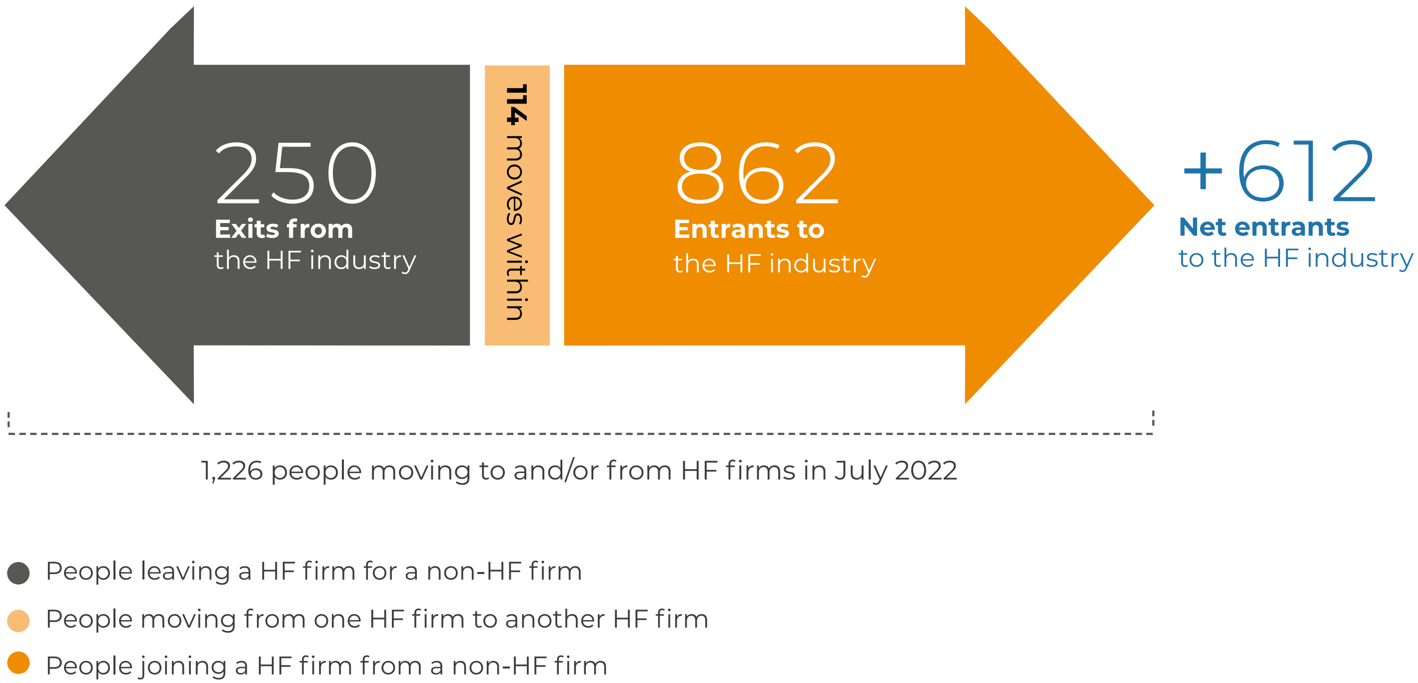
Meanwhile, this year's ongoing economic turmoil – which has dealt sharp losses to many hedge fund managers, and left the industry down around 5% in the first half of the year – is now raising major questions surrounding staffing and talent among some managers weathering the sustained dislocation.

Keizner - whose firm which works with both large brand-name hedge funds as well as smaller start-up names, with a particular focus on fundamental equity and credit strategies – suggests the sharp decreases and negative returns suffered by many funds this year is "pushing the sustainability of some of these firms, frankly."

"It may mean returning outside capital, and converting to a family office, and so there are many people at those firms – the junior and senior analysts – who are considering their futures right now," Keizner says.

Expanding further, he adds: "While the hedge fund may have been among the most sought-after and prestigious places to have an investing career, and those people may still get a good bonus, the bonus is not looking like it's going to be as high as bonuses have been in recent years. So those people are much more open to switching seats to something that is either larger and more institutional - even a long-only - that they may not have considered before, or to a

Figure 1.2: People moves in the hedge fund industry, July 2022



Analyst note: Moves to and from non-HF firms include some 'unknown' firms which may include HF managers. All data throughout this report sourced from Vision (Hedgeweek) and subject to revision.

Source: Vision Hedge Fund Talent Flow Report, August 2022

KEY FINDINGS

HEDGE FUND HIRING GROWS MORE COMPETITIVE

ALL HEDGE FUND MANAGERS

say hiring is more competitive than 12 months ago

HEDGE FUNDS WITH $1 BILLION+ AUM

say hiring is more competitive than 12 months ago

INSIGHTS

Figure 1.3: Departments hedge fund firm are looking to grow or strengthen through recruitment

Source: Hedgeweek survey, Q2 2022

market neutral fund or multi-manager platform. Those firms are using this opportunity to bring on people who otherwise may not have looked at them under different situations."

Against this rapidly-evolving and increasingly-uncertain economic environment, large established hedge fund firms and multi-strategy shops are now ramping up their talent-finding efforts.

Reflecting this push, four of the top 10 hedge fund firms by net new hires in July were multi-strategy specialists, according to Hedgeweek Vision data (see Fig 1.4), as industry participants note how multi-strategy, multi-manager firms based around the 'pod' model have become increasingly attractive destinations for portfolio managers and traders looking to avoid the formidable costs, capital-raising and compliance challenges associated with launching a start-up firm.

Figure 1.4: Top ten HF firms by net new hires in July 2022

Rank (MoM)	Hedge fund	Primary	Firm specialism	NNH past 3m	NNH Jul-22
1 ▲	D. E. Shaw Group	New York, US	Equity	127	**52**
2 ▲	Two Sigma	New York, US	Quant	36	**33**
3 ▼	Balyasny Asset Management	Chicago, US	Multi-strategy	99	**31**
4 ▼	Millennium Management	New York, US	Multi-strategy	73	**26**
5 ▲	Bridgewater Associates	Connecticut, US	Macro	45	**17**
6 ▲	Squarepoint Capital	New York, US	Quant	16	**16**
7 ▼	Schonfeld	New York, US	Credit	43	**11**
8 ▼	Brevan Howard	London, UK	Macro	40	**11**
9 ▼	Citadel	New York, US	Multi-strategy	54	**10**
10 ▲	Davidson Kempner	New York, US	Multi-strategy	17	**10**

Analyst note: Net new hires calculated by subtracting the number of known personnel exits from the number of known hires.
Source: Vision Hedge Fund Talent Flow Report, August 2022

Recent years have seen significant growth in the multi-manager and multi-strategy models, which has motivated firm leaders to attract and hire talented portfolio managers, says Aaron Steinberg, head of prime services sales and capital introductions at Pershing.

Steinberg says: “The financial, regulatory and resource commitment required to launch a fund continues to increase, providing multi-manager and multi-strategy funds an advantage in recruiting portfolio management talent.”

“The level of sophistication, and the resources they have available – not just technology or access to the sell side but coaches and psychologists and things of that nature – make the platforms very compelling propositions,” Hindley says of the large multi-strategy shops. “There is still definitely hiring outside of the platforms, and the way the platforms run money doesn’t always suit every portfolio manager. But there’s always some kind of bid for good talent from the platforms - whilst it’s certainly challenging to work within those organisations, and I think everybody would agree they can be pretty tough environments, the rewards are huge.”

At the same time, large established brand-name managers also continue to fuel the industry talent flow, with firms running more than $10 billion in AuM making up nearly half of all hedge fund hires in July (see Fig. 1.5), as Brevan Howard, the long-running macro behemoth, expanded its talent-finding capability in July with the onboarding of former Heidrick & Struggles recruiter Harry Simons, who is tasked with sourcing portfolio managers for the firm's global macro effort.

Next level

In contrast, at the other end of the spectrum, smaller and emerging hedge funds and start-up firms have to contend with a different set of challenges, particularly when it comes to business development and capital-raising, which makes their staffing needs markedly different from the larger established names.

"It's long been appreciated in the hedge fund industry that the people who do a fantastic job of launching start-ups, and getting them to critical mass and to a point of success, are not always the same people that can then take those businesses to the next level," Hindley observes.

"It may be that hedge funds have to recruit very differently when they're at $1 billion and trying to get to the $5 billion level compared to the early days when they are trying to get from nought to $1 billion."

Elsewhere, George Ralph, global managing director & CRO at RFA, notes many firms continue to outsource certain functions where they can. "We are seeing firms also opt for part time roles as well as performance and equity linked remuneration structures. Some firms are offering fund performance shares to service providers to help with working capital retention."

Looking ahead, some see building specialist expertise in investable strategies that are hard to replicate as key to career advancement.

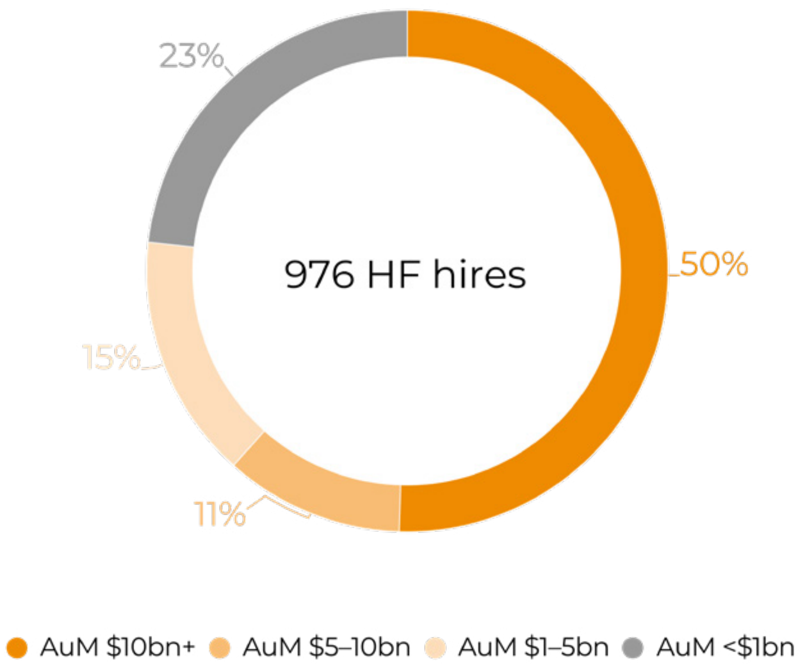
"When a directional hedge fund is basically long the markets, an ETF or a passive investor is able to get similar return streams with fewer fees. As a result, there will likely continue to be lower demand for these kinds of hedge fund investment types," Keizner says of the prevailing industry outlook.

"However, strategies like public-private hybrid strategies, credit and distressed strategies, arbitrage strategies, market neutral investing - these are not things that retail investors have access to. Those things are where hedge funds have an advantage, have value to offer, and so those are the kind of areas that I see more investment going into and people most successfully building their careers as away from the kind of firm that was seen as very attractive over the last couple decades - the concentrated, long-bias type firm.

"Those areas - anything to do with flexible capital, capital solutions, where they can do equity or credit and be opportunistic in investing - is very hot from an investor point of view, and among the most competitive places

> "What it really comes down to, at the crux of it, is having a problem-solving mentality"

Figure 1.5: Hedge fund hires in July 2022 by hiring firm group assets under management



Analyst note: Chart covers the 976 hires made by hedge fund firms tracked by Vision in July 2022.

Source: Vision Hedge Fund Talent Flow Report, August 2022

from an employee perspective. Strategies that don't fit into the mould as we have traditionally defined them, but because they are able to be opportunistic and find where there is dislocation, whether it's in real assets, or in credit, or in equites, rather than being defined by one strategy or approach, is cerebrally interesting and they are getting returns over time, which investors ultimately want.

"The bulk of firms being, for instance, traditional long/short equity is not a bucket that's going to be as relevant going forward."

KEY TAKEAWAYS

- The war for talent within the hedge fund industry is now more competitive than 12 months ago, according to a quarter of all managers and almost two-thirds of larger $1 billion+ firms, with hedge funds now competing with a wide array of sectors to secure expertise across business functions.
- The number of new hires entering the industry outweighed those exiting hedge funds in July, with larger managers and multi-strategy firms in particular driving the talent flow, as the launch process for start-ups remains challenging.
- Recruiters underline the importance of 'value add' skillsets and expertise capable of capitalising on emerging opportunities and dislocations in various asset classes amid unpredictable markets.

HEDGE FUNDS TAP INTO TECH TALENT

With hedge funds increasingly using alternative data and algorithms to help unearth investment ideas, and cryptocurrencies continuing to garner interest, computer coding, data science and AI expertise are now in high demand across strategies

Tech-based expertise is now a key battleground in hedge fund staffing, expanding far beyond the computer-based quantitative space in recent years, as managers running traditional fundamental and discretionary-focused strategies also look to draw on the alpha-generating opportunities offered by the avalanche of alternative datasets and algorithm processes in the hunt for yield.

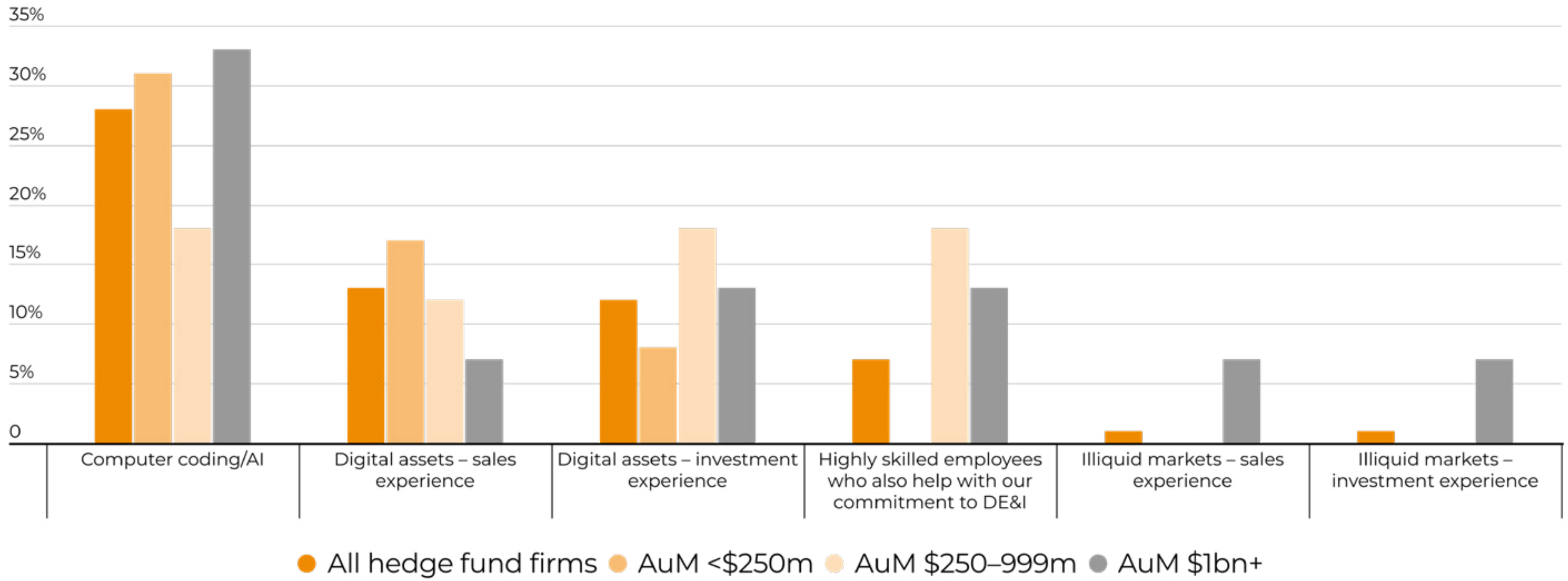
From probing credit card data to inform retail stocks' performances to using satellite imagery of factory traffic to obtain viewpoints on production levels, managers of various strategies are now quantitatively crunching data in order to shape their portfolio positioning, recruiters say.

"A lot of managers dipped their toe in, they hired a few people, and they have incorporated more sophisticated quantitative aspects to their investment process, and as a consequence of the success that they've had, they have built upon that by adding more

“Data analysis is one aspect of it, but human judgment still remains the core way in which they generate their investment theses”

Anthony Keizner, partner, Odyssey Search Partners

Figure 2.1: Hedge fund hiring activity for select current hiring trends



Analyst note: Survey respondents were asked, 'Is your firm actively seeking talent/expertise in any of the following areas?'
Source: Hedgeweek survey, Q2 2022

people and building it out," John Hindley, partner, financial services at Heidrick & Struggles, says of the rise of technology. "It continues to be an area where people have added headcount."

Asked if they are actively seeking talent and expertise in areas such as digital assets, illiquid markets and computer coding/AI, the latter proved to be the most common pick among most managers across AuM sizes (see Fig. 2.1).

Daunting

As a result, the competition for quantitative expertise "has never been more daunting", according to a recent study published by Barclays.

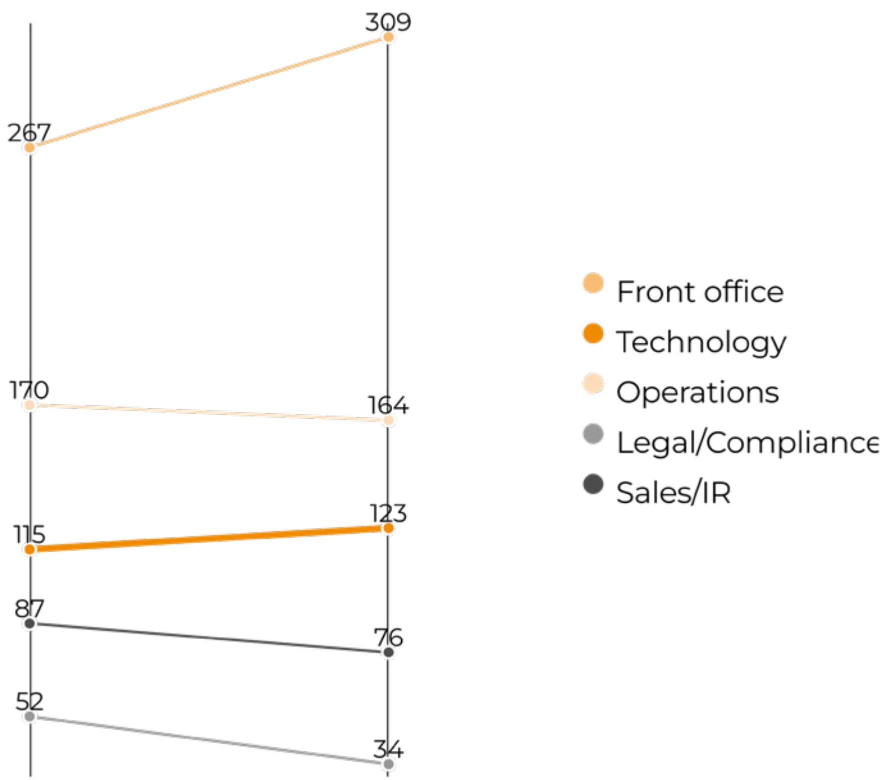
The report, published in June by its Capital Solutions Group, found that 94% of hedge fund managers now find it more difficult to secure tech talent - with data/portfolio engineers and quant analysts and researchers proving particularly hard to hire or retain (see Fig. 2.3).

Barclays notes how hedge funds are battling not just with other hedge fund firms, but also multi-manager platforms and technology companies more broadly in a bid to secure talent in this area (see Fig. 2.4)

"While managers acknowledge that the rise of multi-manager platforms has made the war for talent more fierce, roughly 90% of them also indicate that they are not competing with MM platforms exclusively in terms of getting the best talent," the report observed.

The study also explored the ways in which hedge funds are now looking to source talent, including the use of headhunters, undergraduate and graduate programmes, and overseas connections. It found that although on-campus recruitment remains

Figure 2.2: The number of hedge fund hires by department, May 2022 versus July 2022



Source: Vision Hedge Fund Talent Flow Report, August 2022

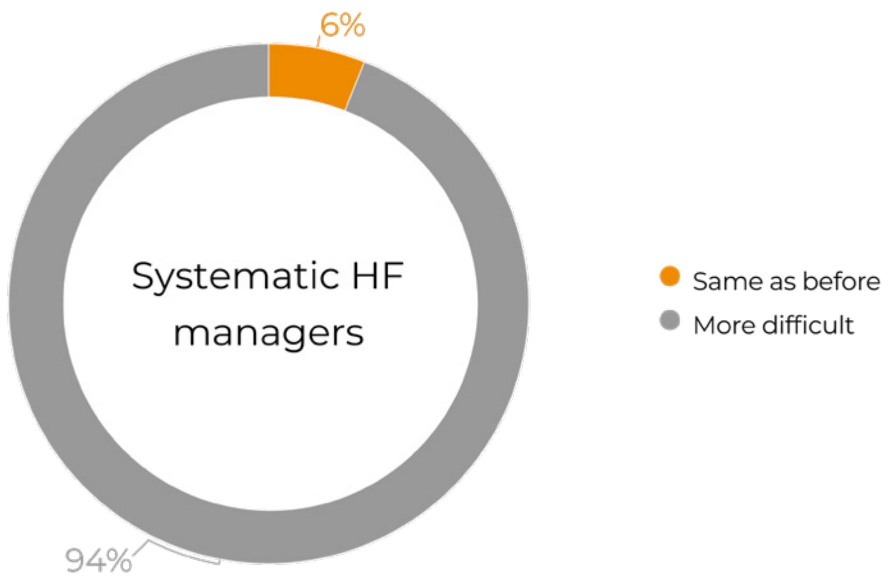
"relatively rare" amongst hedge funds, 45% of the quant names in its survey do recruit on campus, with a particular focus on PhD programmes.

Flexibility

"If you look at the macro part of our investment team, I'd say 80% of the team has an engineering or computer science background, many at PhD level," says Dharmesh Maniyar, founder, CEO and CIO of macro-focused fund manager Maniyar Capital and a data scientist by training, noting how the team fuses macro discretionary experience and expertise with data science. "We definitely look at the tech expertise. But every role is different – some roles don't require any coding. It's not an absolute requirement, although the ability and appetite to work closely with our technologists in developing our infrastructure is something that we look for across the board."

He adds: "But if you look at our current investment team, which is almost half of our

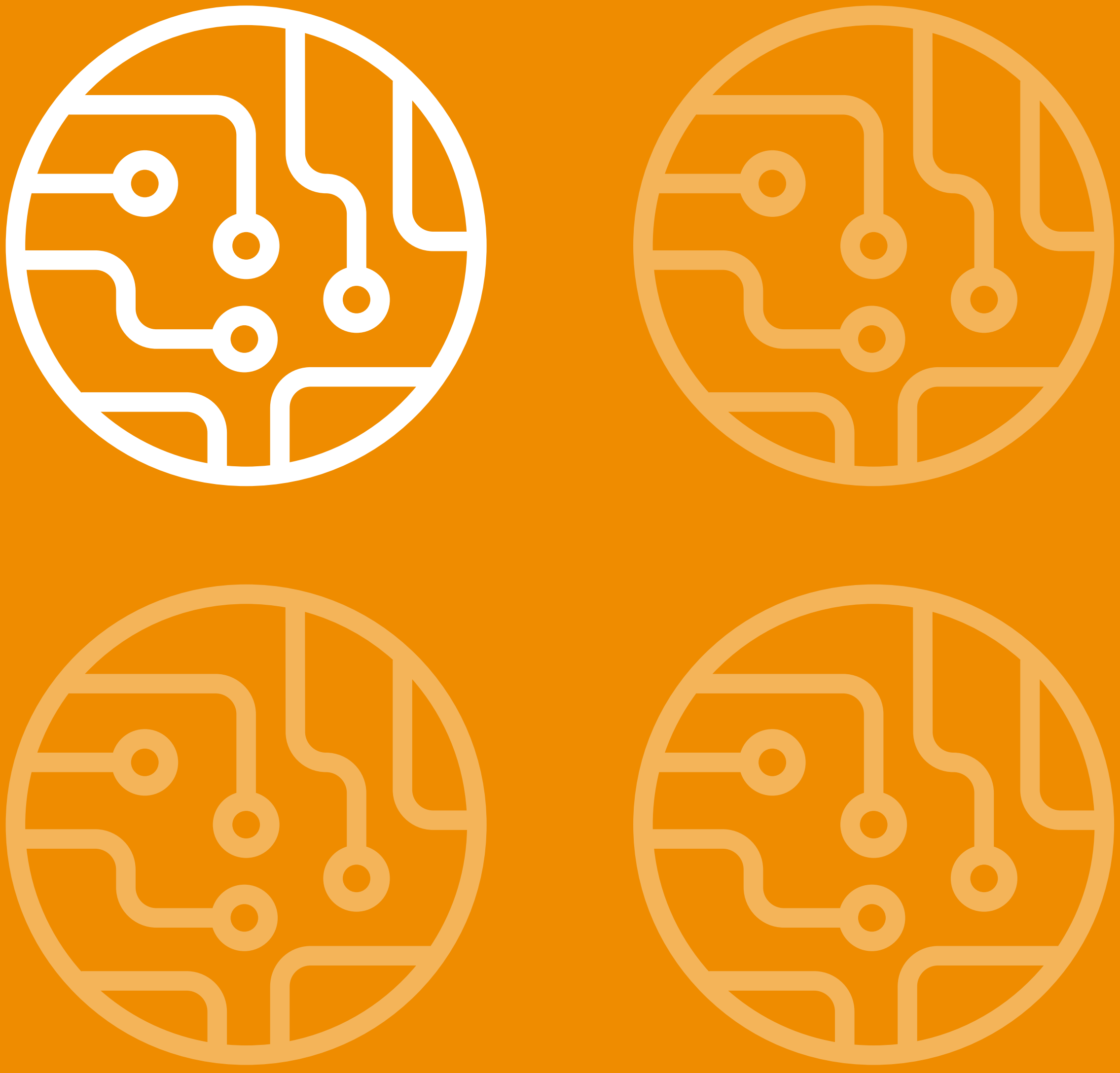
Figure 2.3: Systematic hedge fund managers assessment of the environment for hiring/attracting talent



Source: March of the Machines report, Prime Services Capital Solutions, June 2022

KEY FINDINGS

1 IN 4 HEDGE FUNDS ARE NOW ACTIVELY SEEKING COMPUTER CODING/AI EXPERTISE



firm, many are seasoned coders and we test both quantitative and coding skills as part of our recruitment process. We have both a very experienced discretionary macro trading team and a very strong quant research and quant development team, who can also help out developing the infrastructure in other areas of the business."

Adrian Fraenkel, founder and CEO of quantitative hedge fund Varuna Technologies, whose business is built around a remote working model with staff spread across different countries, says the firm's "total flexibility" in working location has proven to be a strong pull for talent.

"Potential employees are able to reside in the jurisdiction of their choice, which they can choose based on cost-of-living considerations – something that is as relevant as it ever has been in our lifetime – or taxation, or any other factor that might influence their decision," Fraenkel tells Hedgeweek. "We also have a bonus system for the quants we on board, based on the performance of their strategies, which acts as a compelling incentive for those looking to be appropriately rewarded for the strategies they develop."

Meanwhile, the continued volatility within the cryptocurrency and digital assets markets is also shaping hedge fund hiring trends, according to recruiters.

"At the start of the year we were looking to fill a number of hedge fund opportunities that had arisen because people have been moving to the digital asset space and wanted to do crypto and crypto start-ups," says John Hindley. "By April that had slowed quite considerably, but it still remains an area of interest."

As digital assets remain increasingly prevalent in institutional investors' portfolios despite this year's seismic shocks, hedge funds running cryptocurrency-focused strategies continue to seek out both sales and investment expertise in this space.

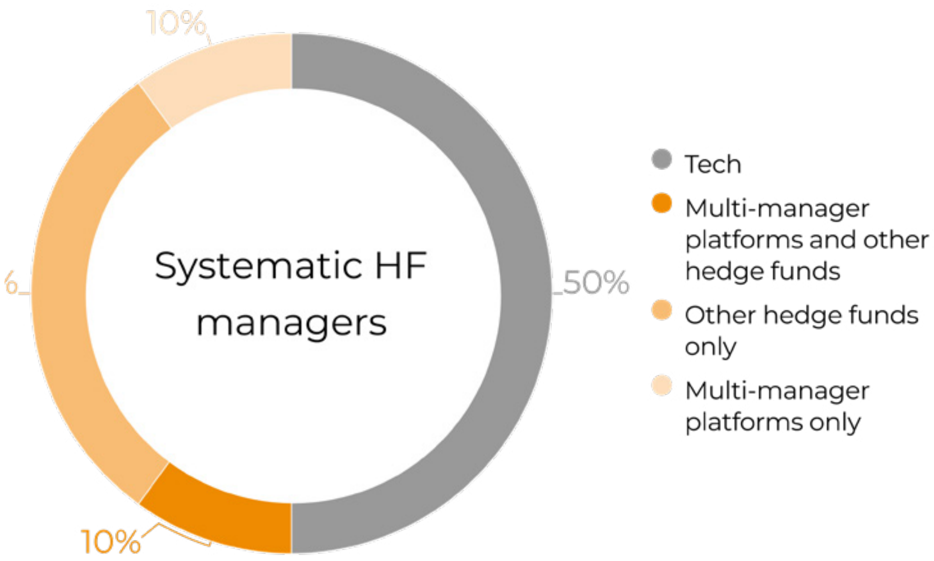
Hindley adds: "You discount digital assets at your peril - it's one of those things where whatever the situation is today, six months from now it will look completely different."

Unprecedented

While data and tech expertise and quantitative techniques will remain in demand, they ultimately will not replace the human element

> "You discount digital assets at your peril - it's one of those things where whatever the situation is today, six months from now it will look completely different"

Figure 2.4: Main competition for talent according to systematic hedge fund managers



Source: March of the Machines report, Prime Services Capital Solutions, June 2022

within the hedge fund industry, suggests Anthony Keizner, partner at Odyssey Search Partners.

"There is a view that suggests quant can only go so far. Over time, quant funds I don't believe have figured out the secret sauce of the way that markets work any better than fundamentally-driven firms have," Keizner says.

"Currently, we face unprecedented times - bonds are going up at the same time as equities; inflation is rising but still the employment figures are rising too. Things are so complicated that relying on historic data-driven responses is very difficult.

"What they are thinking is that if they can get the smartest minds into their firms, they will be able to adapt and interpret these situations hopefully better than their competitors, and the market at large, and they will get an edge that way. Data analysis is one aspect of it, but human judgment still remains the core way in which they generate their investment theses."

KEY TAKEAWAYS

- Demand for tech-based talent such as computer coding and AI is rising among quantitative and discretionary hedge funds alike. With the industry leaning further into evolving trends such as alternative data to help strengthen investment themes and generate alpha, certain tech expertise continues to prove hard to hire or retain.
- However, with volatility remaining high, and economic trends continuing to be disrupted, industry participants caution that quant systems and analysis can only go so far in driving performance, with human judgement still key to fostering portfolio ideas.

HEDGE FUNDS WAKE UP TO IMPORTANCE OF DEI

Though the latest Preqin data shows that only 7.1% of hedge fund board positions are filled by women, firms are taking greater responsibility and looking to reform hiring processes and offering educational opportunities to improve diversity, equity and inclusion

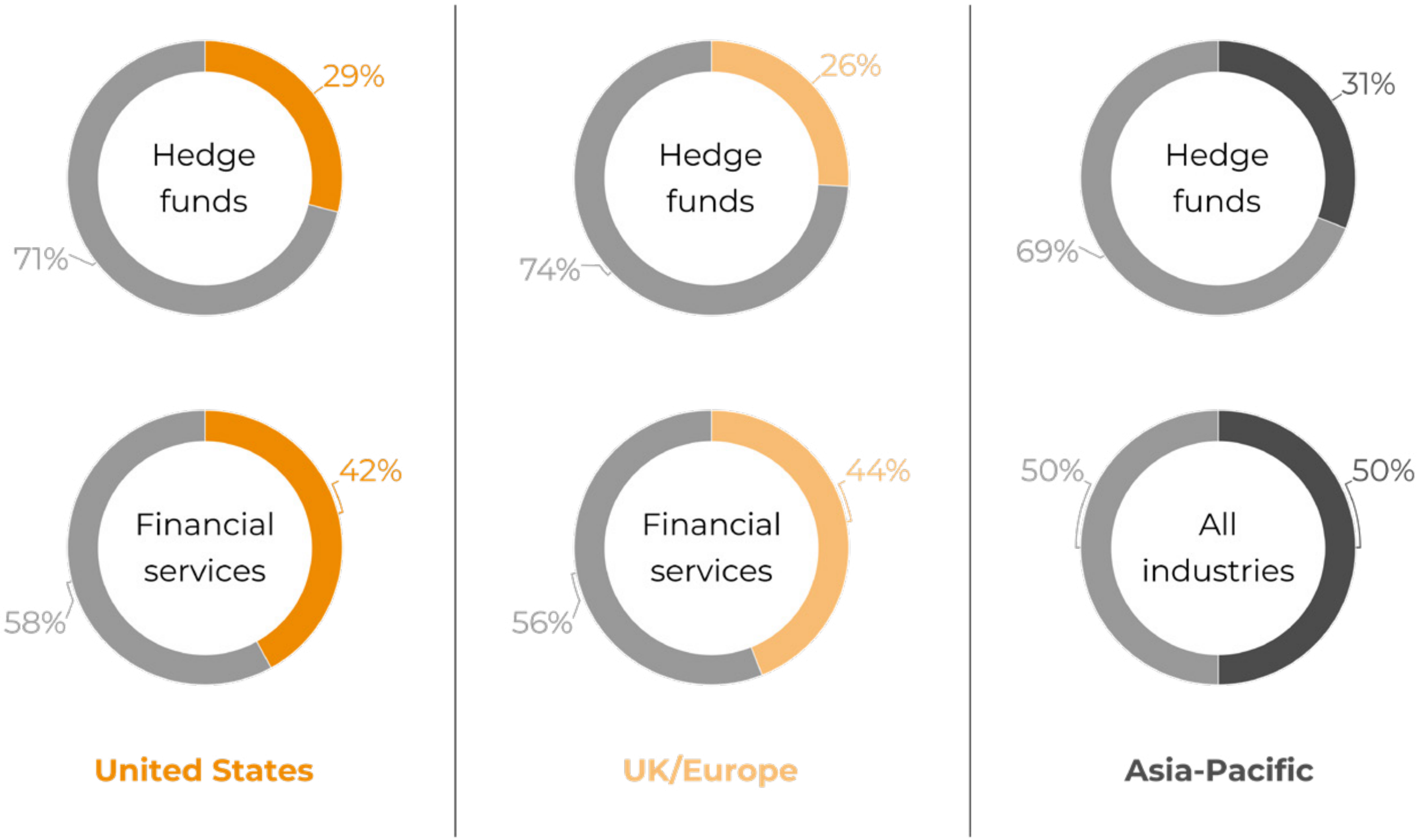
Over the past 18 months, DEI has become central to conversations around hiring, specifically in relation to severely underrepresented industries such as hedge funds.

More than ever, hiring managers are aware of subconscious and unconscious biases, both of which can lead to creating teams that lack diversity.

"There's a science that has developed around decision making to optimise it and get the best quality and consistency. I think that employers now have a more psychological approach to both decision making and running a business than ever before," observes Penny Aitken, European head of diversifying alternatives research at Mercer.

Despite this, data from Preqin shows that less than one quarter of senior positions in

Figure 3.1: Women moves as a proportion of all hedge fund moves



Source: Diversity, Equity and Inclusion 2021 hedge fund industry report, Solomon Page

> "All the top ten hedge funds are making proactive changes. Once you get past $5 billion AuM, if you want to grow further, it appears to be top of their agenda when it comes to talent"

alternatives are held by women, and only 10% of portfolio management staff at hedge funds are women.

In Asia, hedge funds are performing better than in the US or EU, with 31% of people moves here involving women according to Solomon Page data, and 18.6% of Chinese hedge funds having the highest proportion of female employees in senior positions according to Preqin research.

In terms of representation in the hedge fund manager universe, data published by Hedge Fund Research found that women were also best represented in Asia in 2021.

Research has also demonstrated that having more women founders can affect diversity within a company.

Albourne and AIMA's joint D&I Questionnaire from 2020 showed that when managers reported >33% equity ownership or profit participation by women, the average split between male and female employees was 55%/45%, while male-led firms showed a 70%/30% split.

On average, the data showed a 50% increase in the proportion of women at firms where women held a substantial economic stake.

Hiring

With pressure mounting, hedge funds and large asset managers are finally switching up their approach to hiring and trying to recruit beyond their traditional pool of candidates.

Managers have come under pressure from investors and legislators to diversify and make the space more inclusive.

"More and more, investors are embracing the idea that more diverse teams can lead to better decision making and that homogeneity may be a source of risk. Institutional investors, including many endowments and foundations, pensions and healthcare organisations share this perspective," say Tathata Lohachitkul, partner, portfolio analyst and Irina Ludkovski, partner, operational due diligence analyst, Albourne.

This has led to firms changing their approaches to hiring to try and change the old narrative.

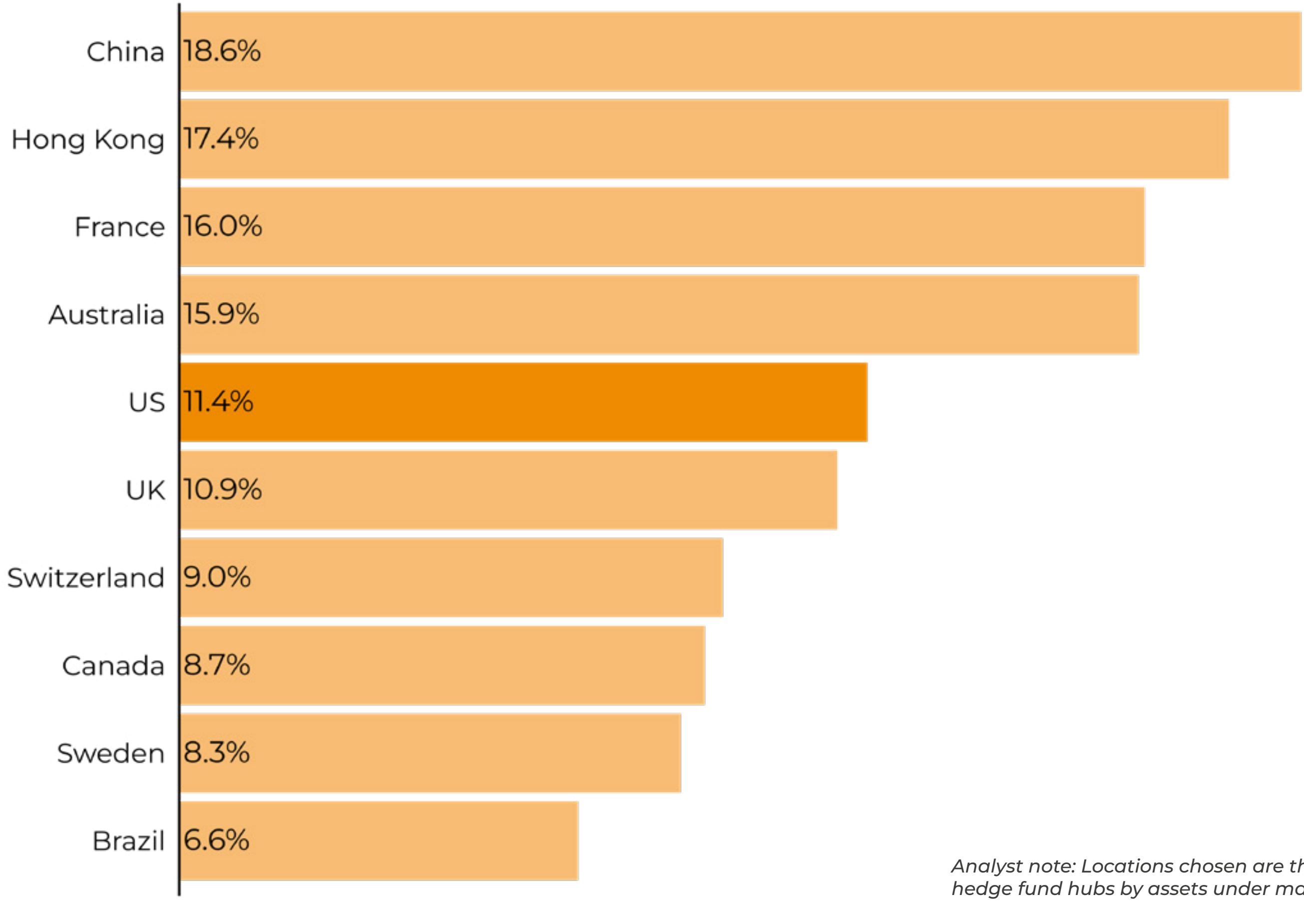
"Hedge funds are increasingly asking recruiters about what we're doing as a supplier to help get more diverse talent pools through the door, which is a really positive step," says Mush Ali, director at recruitment firm OneTen Associates.

"All the top ten hedge funds are making proactive changes. Once you get past $5 billion AuM, if you want to grow further, it appears to be top of their agenda when it comes to talent," he adds.

Changes are slowly being made as more women gradually enter the industry.

In the past, women were often placed in investment relations and marketing roles,

Figure 3.2: Female senior employees at hedge fund firms in key locations as a proportion of total senior employees



Analyst note: Locations chosen are the top ten hedge fund hubs by assets under management.

Source: Preqin

but there has been some movement and progress.

"Historically, we tended to see more women in investor relations or business development roles, which would probably still be classified as front-end. Whereas now, we're starting to see more women making investment decisions, as portfolio managers, analysts and researchers," notes Lisa Lewin, director, BNY Mellon | Pershing.

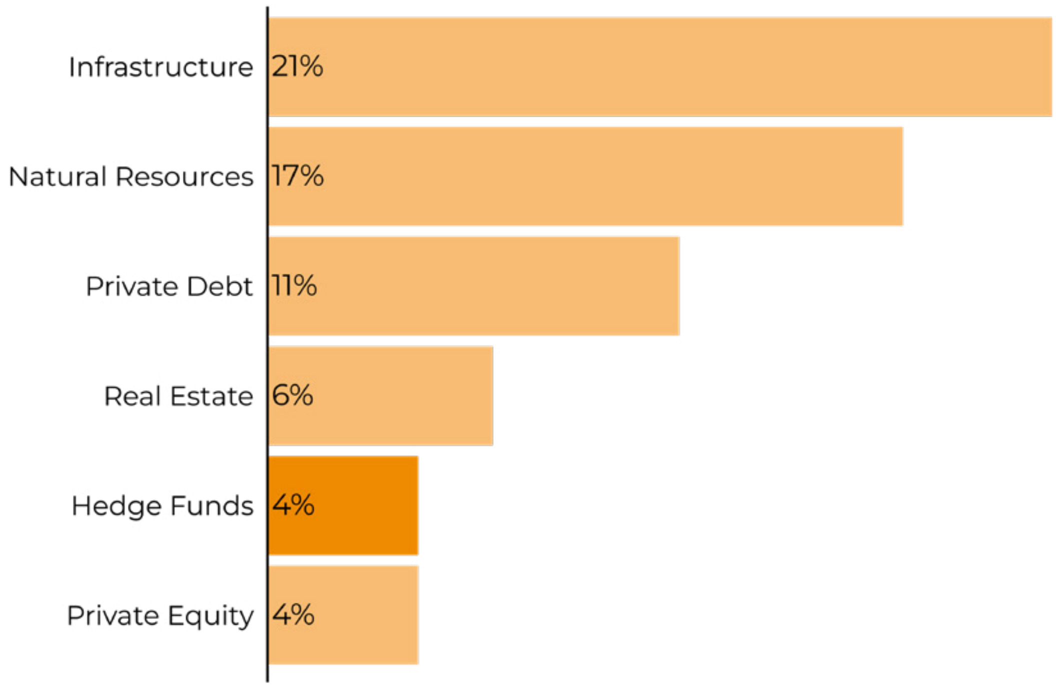
But the sector is still struggling to enact these demands, with as little as 5% of private equity and hedge fund firms introducing diversity and inclusion initiatives to their funds, according to the latest Preqin data.

What's more, data from Solomon Page's 2021 DEI report shows that only 29% of hedge fund moves were women in the US (compared to an industry average of 42%) and only 26% were women in Europe (compared to 44% across financial services).

Advisors and consultants are increasingly looking to push for more surveys on diversity, equity and inclusion as investors demand more transparency on these issues.

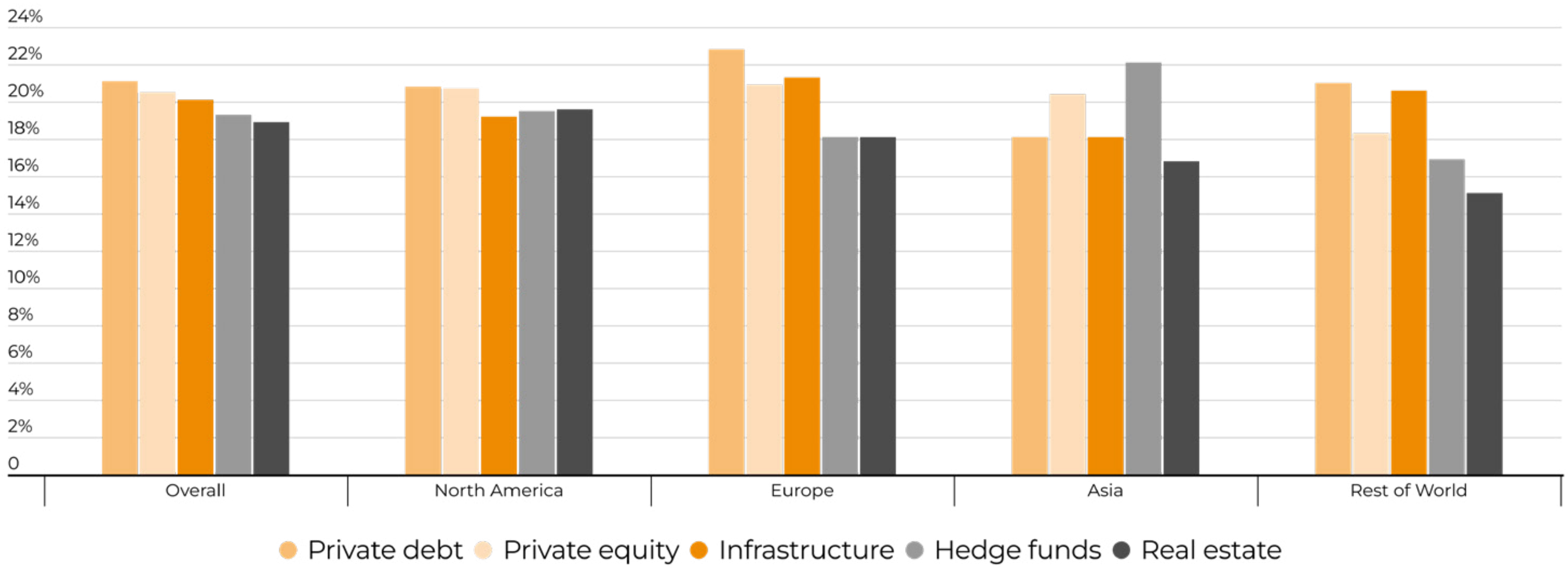
Pensions advisory firm Cardano recently partnered with service provider Mallowstreet

Figure 3.3: Proportion of fund managers with a formal diversity policy or initiative in place by asset class



Source: Preqin

Figure 3.4: Female employees in alternatives fund managers as a proportion of total employees by location and asset class



Source: Preqin

to launch a new annual DEI survey of pension boards. DEI is one of the top three challenges for the UK pensions industry, and the survey is looking to identify barriers to diversity within the industry.

The survey is a response to The Pensions Regulator's latest Equality, Diversity and Inclusion Strategy Roadmap which has set guidelines for how pension funds should be looking to change.

"Pension funds represent their stakeholders and pension members. So as these issues become increasingly important within society and therefore to their clients, they will obviously become more important to anyone servicing those pension funds," notes Aitken.

According to Preqin data, investors have better female representation throughout the workforce, with 34.4% of junior positions, 26.1% of mid-level positions and 16.7% of senior roles filled by women.

However, for fund managers – including venture capital which is the asset class with the highest female representation – women only make up 13.0% of senior roles.

Part of the problem could lie in the policies and procedures that firms use for hiring, as well as retention and promotion issues.

"Firms often source from their existing network and may not proactively seek out female candidates, which narrows the talent pool. There may also be a lack of anti-bias training in assessing candidates at the recruitment and promotion levels in some firms," suggest Lohachitkul and Ludkovski.

Education

Certain hedge funds have started to look into launching educational programmes to introduce hedge funds to more students.

"This is a long-term problem which requires a long-term solution. The talent pool is really limited in the space and that's a challenge, but the hedge fund industry needs to spend more time educating at a school and university level so that people know that there are opportunities that exist for

> "There's still work to be done around terminology and accessibility. There needs to be more education, and that should probably start in school and be presented as a viable career option to all students"

everyone in hedge funds," says Ali.

Previously the industry had been known for requiring specific types of qualifications from candidates and only selecting people with a certain calibre, but since research has proven that more diverse teams produce better results overall, changes are being made.

"The diversity of the hiring pipeline has become a business requirement, as the financial industry competes for talent, and (based on the conversations with managers who completed the Albourne and AIMA D&I Questionnaire in 2020) many managers now want feedback and guidance on what they can do to improve DEI," observe Lohachitkul and Ludkovski.

"At the same time, the industry is developing internship programmes that attract college students at earlier stages of their education, resulting in increased exposure of women and diverse groups to the financial industry that until recently has been perceived as being relatively homogeneous," they add.

Opportunities and hiring processes are finally under closer examination and being reviewed in the hedge fund space.

"We're seeing many more avenues open to hedge funds and investment managers to hire from more attentive sources of talent pools, and be more creative through either internship programmes, apprenticeship programmes, or different graduate programmes, rather than a traditional Ivy League or Oxbridge candidate," says Aitken.

Despite this element of progress, Aitken still believes that more needs to be done.

"I think there's still work to be done around terminology and accessibility. There needs to be more education, and that should probably start in school and be presented as a viable career option to all students," she says.

Lewin thinks that firms have a very real role to play if things are to progress and women are to be given a real opportunity in the industry.

"Funds have started to think about different initiatives that they can implement internally to foster female talent. Whether it's hiring more women in analyst roles, or with the intention of helping them develop into a senior investment professional or portfolio manager, we're seeing more funds and companies undertake these initiatives to try to help provide career growth to women. That will be very helpful in continuing the trend of more women in these positions," she observes. ●

KEY TAKEAWAY

Hedge funds are beginning to prioritise DEI through hiring and education initiatives but still lag behind a lot of other asset classes and will continue to experience pressure from investors until they do more to improve DEI across the whole industry.

KEY FINDINGS

FEMALE SENIOR EMPLOYEES AT HEDGE FUND FIRMS AS A PROPORTION OF TOTAL SENIOR EMPLOYEES

US

UK

RESHAPING THE HEDGE FUND CAREER PATH

How a constantly evolving mix of hybrid and remote working, longer notice periods, changing salary structures, incentives, and company culture is potentially retooling hedge fund talent development

With so much of the hedge fund industry tied to performance, market participants acknowledge it is tricky to identify any discernible salary and compensation trends across the investment and trading functions, particularly this year where dispersion in manager returns has been pronounced. At the same time, the size and significance of the management fee within a traditional hedge fund fee structure is often overlooked, according to some.

Noting how the fee structure-compensation dynamic continues to shape compensation trends, Anthony Keizner, partner at Odyssey Search Partners, says: "When it comes to the 'two and twenty' structure, people typically focus on the 20% because it's more exciting and there's more volatility there.

"If a firm is up 30% - yes, people typically expect to be paid significantly. But when the firm is down 30%, they don't think the comp should be as up as it would be when it is up 30%, but it certainly doesn't go down 30%. It may be flat."

He continues: "The firm has the ability to pay, through the fees that it generates, and it needs to pay in order to keep those people in the seat when other firms would be looking to poach them. Therefore, you'll see a much

more muted growth in comp this year, but certainly for junior and mid-level people you won't see a dramatic drop in compensation for any firm that plans to still be in business 2023 and 2024."

Why?

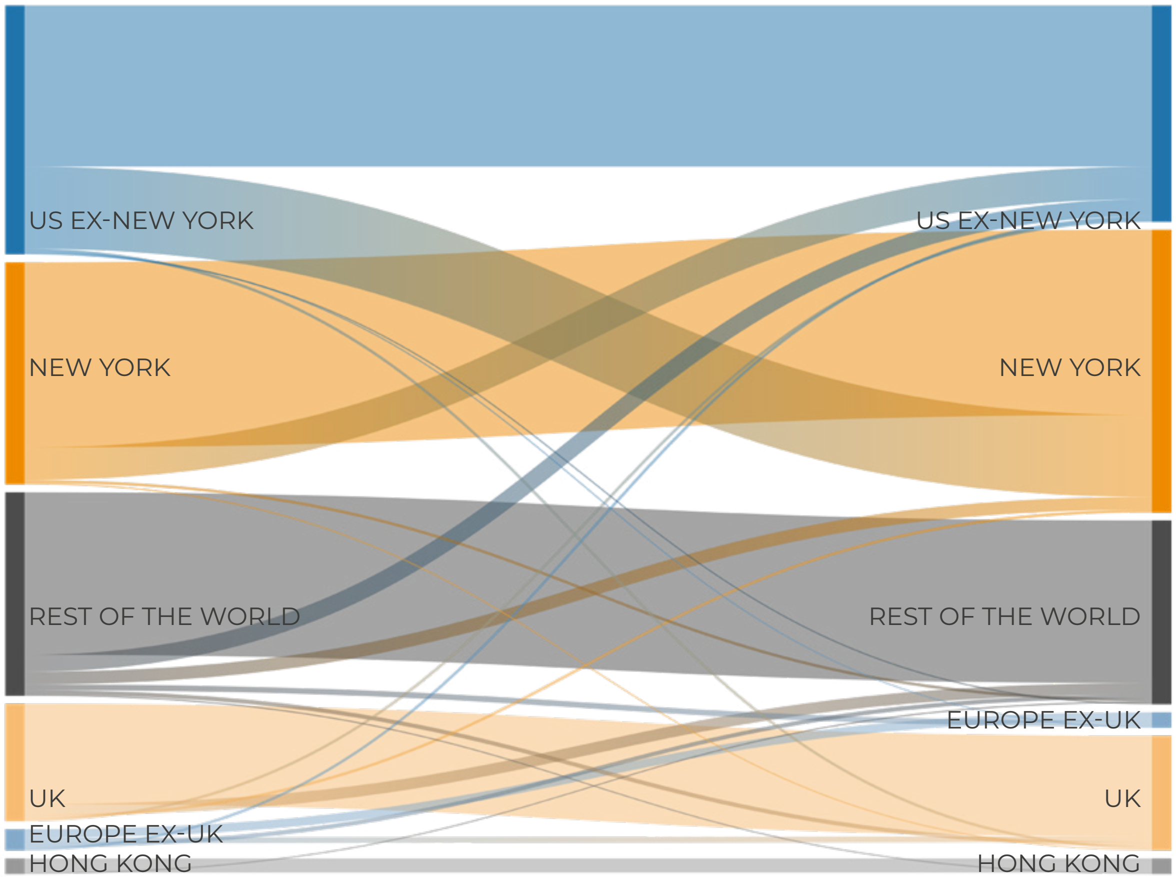
"Firstly, they are relatively less expensive than the senior people. Secondly, the junior and mid-level people do not see those big swings to the upside that the senior people do, with the understanding that, in return, they are not exposed to the downside in the same way. Thirdly, there is still demand from other firms that have raised capital that want to hire these people.

"So if someone gets the message that they are no longer loved at their firm - a message indicating they're going to receive 20% less in compensation in 2022 than in '21, even as inflation is rocketing and there are other firms that are still hiring in the environment, for instance - they assume they are no longer wanted. They'll be even more disposed to then looking for another firm where they may receive a warmer welcome."

"The reality is, since Covid, a handful of firms have done very well but most have not. People recognise they are in a performance-based industry and if the firm does well, then they will do well, and there is more money to go around," says Phillip Chapple, chief operation officer, Moneterone Partners.

"If not, you have to consider what would

Figure 4.1: Flow of hedge fund talent – hedge fund hires by location



Analyst note: Sankey chart based on the 586 hedge fund moves in July 2022 with location data available for entrance firm and exit firm

Source: Vision Hedge Fund Talent Flow Report, August 2022

> “The global pandemic has transformed how and where people can be productive, removing the traditional barriers of physical location and other limiting factors”

Aaron Steinberg, head of prime service sales and capital introductions, Pershing make them happy in those situations where there isn't this kind of excess returns to distribute. So I think as an industry I think you'll probably find that it's lower than it was pre-pandemic. But there are always some who are doing very well, and always others who are doing less well."

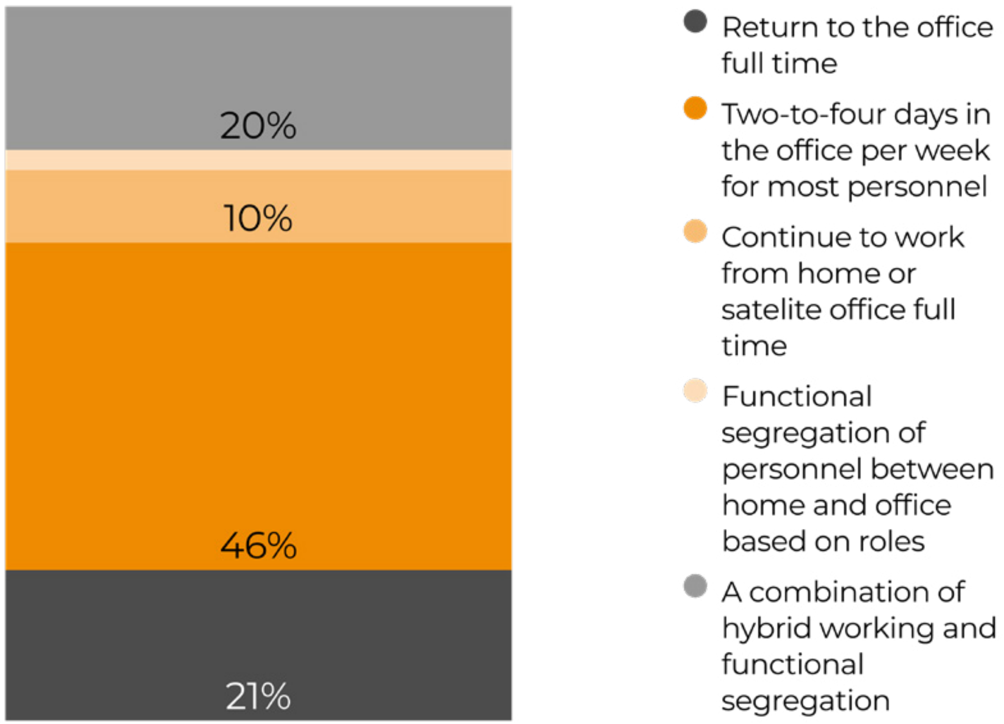
Defensive

With hedge funds continuing to compete for expertise, notice periods and non-compete periods are reportedly becoming longer, something John Hindley, partner, financial services at Heidrick & Struggles, sees as a "defensive manoeuvre" by certain firms who are growing increasingly frustrated at losing staff.

"From a US perspective, we see that notice periods and non-compete periods are getting longer," Hindley says, adding that hedge fund management firms want to make it prohibitive for other firms to poach their talent.

"For instance, we have taken people out of organisations in January and they have not been able to start at their new firm until the following September. Even if people aren't held to that period of time, it means they are forced to be good leavers – they have to negotiate

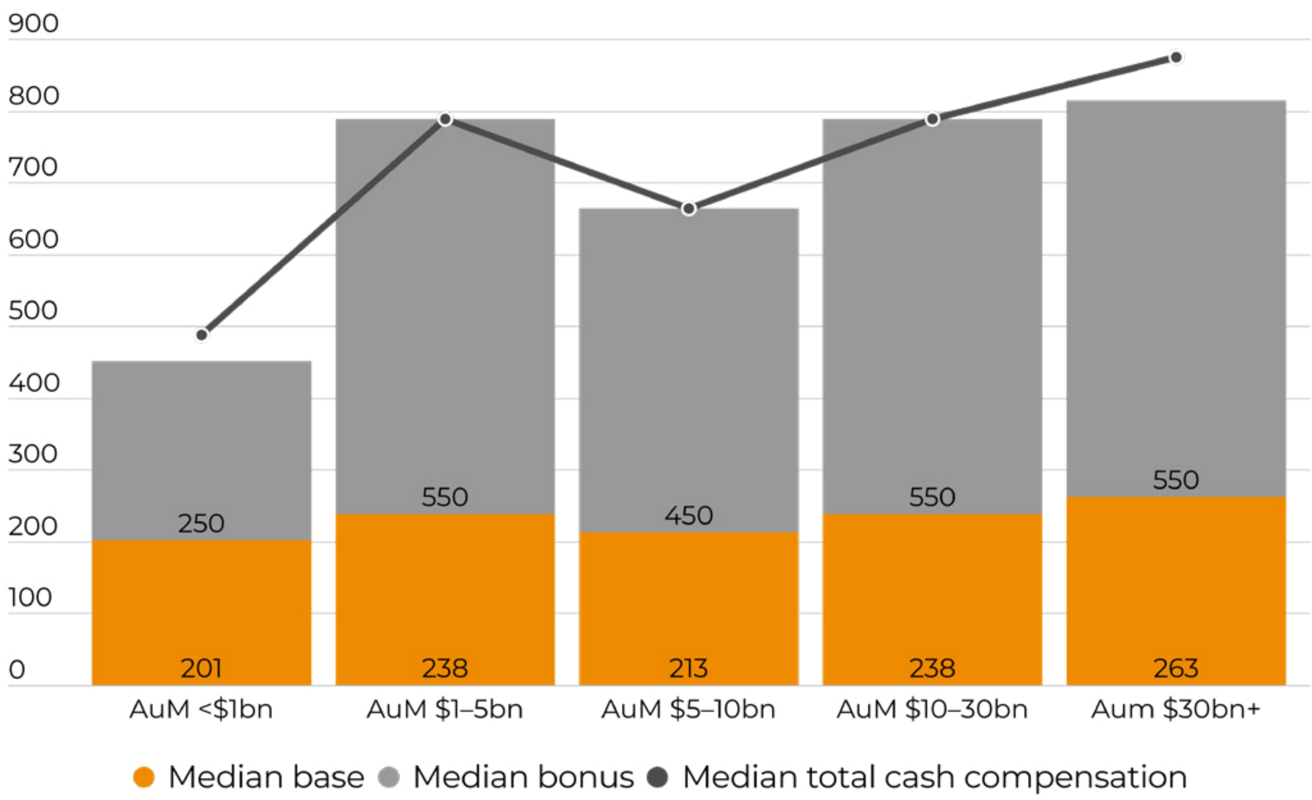
Figure 4.2: Hedge funds' outlook for their post-lockdown working model, 2021



Analyst note: Survey respondents were asked, 'How do you forsee your post-lockdown working model taking shape for your firm?' The survey took place in Q3 2021.

Source: Accelerating out of the Pandemic, AIMA-KPMG

Figure 4.3: Median base and bonus of hedge fund sales and investor relations staff in 2020



Analyst note: Data was gathered in April and May 2021 and the results published in late 2021.Analyst note: Data as of December 31, 2021
Source: Heidrick & Struggles

their exit, they have to behave appropriately on the way out. Longer notice periods have the effect of civilising those discussions."

He adds: "We are also seeing a slight increase in conversations around things like clawbacks, and the clawback of bonuses paid in previous years. It's not endemic by any means, but we've seen it at the banks and it's something that's potentially going to leak over into the hedge fund world as just another way to try and retain good talent."

Rigorous

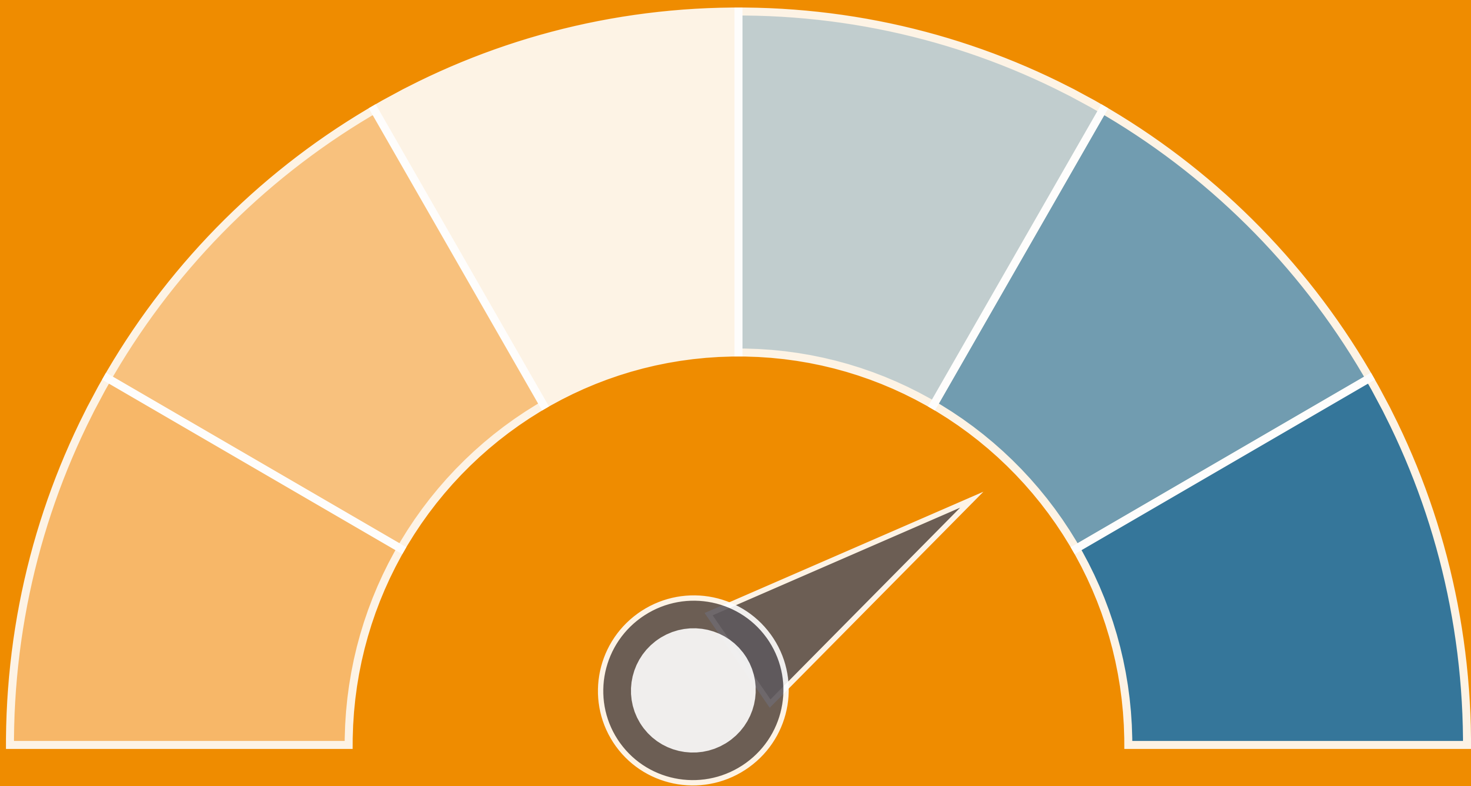
As the world recovers from the coronavirus pandemic, how the hedge fund industry best approaches the shift towards remote and hybrid working model is emerging as a central component in the recruitment process.

An in-depth study published late last year by the Alternative Investment Management Association and KPMG suggested most hedge fund firms are now moving towards a permanent hybrid working environment following the Covid-19 pandemic Overall, some 79 per cent of those surveyed have now shifted to some form of permanent hybrid working, though the AIMA/KPMG study also flagged potential ongoing challenges surrounding team-building, collaboration and decision-making stemming from the work-from-home model.

"The global pandemic has transformed how

HYBRID WORKING HERE TO STAY?

79% OF HEDGE FUNDS NOW HAVE SOME FORM OF PERMANENT HYBRID WORKING



INSIGHTS

and where people can be productive, removing the traditional barriers of physical location and other limiting factors," says Aaron Steinberg, head of prime service sales and capital introductions at Pershing. "This has created new opportunities for candidates, and an industry need for a number of skillsets, most notably in middle- and back-office roles."

Adrian Fraenkel, founder and CEO of quant hedge fund manager Varuna Technologies, says his firm's 100% remote working model offers the advantage of being able to attract investment management talent from all over the world who may otherwise be unable to find relevant opportunities where they are based.

"On the flipside, the main challenge of remote working centres on having less face-to-face time together as a firm, meaning we have to rely heavily on the personal responsibility of each colleague we hire to deliver day-to-day for the firm," he explains. "We look to counter this by having a rigorous screening process in the recruitment cycle, as well as fostering a culture of training, idea-sharing and, ultimately, accountability."

Most hedge funds are now "very accepting" of a hybrid work policy, according to John Hindley, who believes it is proving to be a competitive advantage to offer flexibility for firms looking to hire in this market.

"We are seeing that firms are able to attract good talent - and perhaps better talent than they might have been able to attract on a pre-Covid basis – because they offer more flexibility than other organisations," adds Hindley.

"A lot of people value working from home, and are able to do so quite successfully in certain roles - I'm thinking particularly about fundraisers. Where fundraisers are able to work from home or able to travel, but don't necessarily need to be in the office Monday through Friday, that's particularly advantageous."

Ambitions

Looking ahead, with many of the so-called 'golden generation' of managers which drove the expansion of the hedge fund industry and helped it flourish during the late '90s and early 2000s now approaching retirement, the question of succession – and how talent grows as businesses mature - is coming into ever-sharper focus.

John Hindley believes the issue of succession relates closely to the culture and the ethos of an organisation.

"A big part of recruitment is who owns the business, what their plans for the business are, whether they're bringing out new products and strategies, whether there is a proliferation of thought and ideas, whether there's a commitment to growth," he says.

"Whenever we are recruiting for an organisation, the very best candidates are

"A big part of recruitment is who owns the business, what their plans for the business are, whether they're bringing out new products and strategies, whether there is a proliferation of thought and ideas, whether there's a commitment to growth"

always interested to think about not just the job they're being recruited into, but what the next job might be that they take from there, because people want to progress their careers. When you're at a senior level, and your chances of doing something different in the short-to-medium term are relatively limited, you need to understand that at least the business is going to be moving in the right direction, even if your particular role within the business is comparatively stable.

"This is very important for senior hires. Many people don't want to be a fundraiser for a firm that only wants to raise $500 million next year. They want to be at firms which have ambitions to grow. Likewise, you don't want to be a portfolio manager at a firm that's only ever going to get to $1 billion if you want to grow to $5 billion."

Phillip Chapple indicates the challenge of career advancement and succession is particularly acute at the COO level.

"When I look around at the COO community at the moment, we're all roughly the same age – all of us have been COOs now for probably 15 years plus.

"I think it's difficult for the generation below to get that COO step-up. When I was in the industry initially, it felt like age 30 was about the level you became a COO. Now it seems to be getting higher and higher, and it's tougher for the new blood to get in.

"If you are a new manager wanting to start up, do you take the COO who has done it before or do you take someone who's been the head of ops and promote them?

"Our view was that if you hire people, put them in a role, and there are fewer promotion opportunities because it's a smaller firm, it's important for them to feel that they have opportunities to keep learning and are still developing. That's a huge retention tool for someone who still feels they're developing, they're growing, learning, and more importantly, doing what they enjoy on a day-to-day basis." ●

KEY TAKEAWAY

Managers and recruiters increasingly recognise the competitive advantages of hybrid and remote working models post-pandemic. With hedge fund compensation still closely tied to strategy performance, 2022's mixed returns and investment dispersion is likely to lead to muted salary trends this year, industry experts suggest, while notice periods and non-compete clauses are becoming longer as firms look to stem turnover.

HEDGEWEEK

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