

## OCR Alpha – July 2015 Market Commentary

We have seen an accelerated increase in front office hiring requests in the first half of 2015, with over 60% of such enquiries being expansion hires rather than the replacement of outgoing personnel. Much of the demand has been in the junior to mid-level bracket, where many firms desire talent who can grow in the business over the years to come, rather than bringing in the more expensive experienced candidates. This has changed significantly from recent years, where the focus was generally on hiring very experienced individuals with extensive industry experience.

Total assets invested within the hedge fund industry is at an all-time high of approx. \$3 trillion (*from EuroHedge Asset Survey 2015*), and with performance figures generally resilient, there is a strong feeling of optimism and positivity from most of the clients we interact with. On top of this, there has been a substantial rise in the number of large European fund launches in the last 12 months, with many of these funds launching with close to \$1bn in AUM (recent examples being Rokos, Thunderbird and Systematica). This trend has certainly allowed many accomplished and experienced candidates to take a leap from more institutional environments to these less risky start-ups, especially when generous working capital allows such talent to become affordable.

Last year we saw a lot of activity for both Sales & Investor Relations talent, particularly on the more senior end of the spectrum. Many of these senior distribution hires were focused across global macro and credit strategies. Since the turn of the year, this trend seems to have switched and although there are still senior / “heads of” positions in the market, there has been a dramatic increase in the demand for more mid-level experienced candidates. Individuals with strong market and product knowledge are particularly sought after, with the aim being for them to hone these skills in house. Much greater emphasis is now being placed on the candidates technical skills, those with MBA’s and/or who are CFA Charterholders, have a clear edge when competing for the top positions.

This requirement for more technical mid-level candidates is part of a larger trend that has been developing over the last 12 to 18 months. This being the increase in demand for extremely product savvy, senior business development people, with the need in having a ‘rolodex’ becoming less important. Furthermore, the increasing demand for product specialists has continued, predominantly within credit and global macro focussed entities.

We have also seen some interesting hiring themes develop in line with various investment trends this year. We have put together some key points highlighting a number of these.

### **DIRECT LENDING**

The market for direct lending has exploded since the 2008 financial crisis. Regulatory changes and tighter capital risk requirements led large banks to recede from lending into the middle-market, opening a credit vacuum which has been rapidly filled by hedge funds.

At the start of Q2 2015, there were 237 private debt funds in the market targeting USD122 billion in aggregate capital commitments. Direct lending funds account for the highest proportion of these funds, both in terms of number and the amount of capital being targeted.

On the hiring front, we have seen a high demand for strong mid-level investment analysts and investment professionals. These candidates predominantly come out of tier 1 investment banks or private equity firms, with the candidates generally having a good understanding of direct and secured investment strategies. There is also a demand for senior level candidates to lead the expansion of businesses into this lending space. One such example would be Permira’s appointment of Dan Hatcher as Investment Director to lead the UK origination of opportunities for its direct lending fund.

### Significant direct lending funds in the last 6 months include:

- **Alcentra**, the sub-investment grade specialist for BNY Mellon, announced the final closing of the Alcentra European Direct Lending Fund, L.P with investor commitments totalling €850m.
- **KKR** announced in April the final closing of KKR Lending Partners II L.P, a \$1.34 billion fund focused primarily on privately-originated senior loans.
- **Omni Partners**, has held the first close of its second secured lending fund, Omni Secured Lending Fund II, with initial commitments of USD45 million.
- **Intesa Sanpaolo and GSO Capital Partners**, the credit investment arm of **Blackstone**, have entered into a strategic partnership to launch Joint Italian Direct Lending Initiative.
- **Direct Lending Investment**, a marketplace lending and investment firm, has appointed Bryce Mason as chief investment officer.

## REAL ESTATE

Despite economic uncertainties continuing in Europe, property remains steady ground for investors, with the UK and European real estate market offering a combination of a high, stable income stream and the potential for long-term capital growth, as well as diversification benefits from a multi-asset-class perspective. The biggest problem investors are anticipating is a shortage of assets, ahead of the challenges of regulation or the cost of finance. A large majority of investors also believe the availability of suitable assets will have a moderate or significant impact on their business this year. Many have found prime assets expensive and hard to source, and have in turn looked to find new opportunities in recovering secondary cities, secondary assets and development opportunities, as well as new or alternative real estate classes

Many of the firms looking to add personnel within the Real Estate area require specific experience within Special Situations investments. This has ranged from very junior candidates with 1-3 years post graduate experience, either from a bank, hedge fund or a private equity firm to senior level professionals. On the senior side of the spectrum, there seems to be a large number of credit focussed hedge funds expanding into the real estate sector. Many of these individuals are coming out of Real Estate specific institutions, with the aim of luring them onto alternative platforms by heading up a new investment team.

### Significant new launches in 2015 include...

- **JP Morgan Asset Management** GRA has launched a dedicated direct real asset investment platform.
- **The Blackstone Group** has almost finished raising its next flagship global real estate fund, Blackstone Real Estate Partners VIII, amassing \$15.8 billion.
- **Och-Ziff Capital Management** is reportedly raising funds for a high-yield commercial real estate debt fund that will target a range of distressed and alternative assets.
- **ICG Longbow** raises €500m for Fund IV
- **AXA Investment Management** has launched a new fund, AXA WF Global Flexible Property designed to provide investors with exposure to the long-term return opportunities of direct property.
- **TIAA Henderson Real Estate** has completed a first close of £138m for its UK Enhanced Debt Fund with capital committed from internal sources and Aviva Investors.
- **Tyndaris Real Estate**, the European alternative lender, has closed its inaugural fund at €350m.

Emerging markets have underperformed as an asset class in recent years in comparison to those who are invested across developed nations. However, there is no doubt that many managers see EM strategies as a big opportunity set over the next 12 – 18 months and this has certainly been reflected in market hiring trends.

We have seen a number of large multi-strategy funds looking to strengthen their EM capabilities by adding dedicated EM portfolio managers to their global platforms, predominantly within equities but also on the debt and fixed income side. Due to the slow growth of Brazil and Russia, we have noticed that many emerging market investors are now viewing Asia as the big opportunity set over the coming months.

**The first half of 2015 have seen a number of new launches and hires, some of which are;**

- **Barings Asset Management** is launching three new funds domiciled Hong Kong– a global multi-asset income fund, a European equity fund and a Greater China equity fund – are taking advantage of initiatives in China to make more local funds available to global and Chinese investors.
- Former **CQS** portfolio manager Monica Hsiao is planning to launch a new fund. The Triada Asia Credit Opportunities fund will take long/short positions in Asian credit instruments.
- **Asia Frontier Capital Limited** is gearing up to launch an Iraq-focused hedge fund by the end of April.
- **Man GLG**, the discretionary investment management business of Man Group, has appointed Simon Pickard and Edward Cole as portfolio managers of the soon to be launched Unconstrained Emerging Equity strategy.
- **RWC Partners** has hired a 15-person investment team, previously at Everest Capital, to establish a new Emerging, Frontier and Asia equity business. To support the team, RWC Partners has established a new office in Miami and is in the process of establishing an office in Singapore.
- **BlackRock** has hired Luke Dixon as head of Europe, Middle East and Africa hedge fund investment strategies.
- Former **PIMCO** equities specialist Simon Peters will join Algebris Investments as a senior Portfolio Manager for public equity strategies within EMEA.
- Former **TPG-Axon Partner** Wesley Wong is prepping an Asian-themed long/short equity fund for a third-quarter 2015 launch.

## CLO

We are now seeing US CLO managers beginning to issue retention compliance deals in order to tap into the European investor base. This is mainly due to the high demand for CLO paper in Europe vs available supply. Liability spreads are now tighter in Europe than in the US and as a result, a retention compliant CLO can be issued at tighter spreads than a non-retention compliant deal. US companies are increasingly issuing leveraged loans in EUR as debt can be raised cheaper than in the US. This will therefore encourage European CLO managers to tap into the US market and so we may see such managers hiring personnel with expertise in US leveraged loans.

Since mid-way through 2014, there has been a dramatic increase in the amount of firms launching new CLO businesses. On the back of this, there has been a huge increase in the need for investment professionals with a solid track record within the CLO and leveraged loans market. Candidates from both the buy and sell side are in the equal demand due to the limited supply of talent in this area.

**On specific managers...**

- With Clayton Perry taking over the reins at **KKR** globally, they have successfully issued 2.0 CLOs both in Europe and in the US.
- **Carlyle Group** has closed on a U.S. collateralized loan obligation fund with approximately \$610 million in committed capital.
- **Commerzbank** has become the first debut European CLO Manager of 2015 after pricing EUR 223 ml static deal.

- **Mariner Investment Group** has closed on a second \$505 million collateralized loan obligation. The first CLO, which launched Mariner's CLO business, closed in early January 2015 with \$502 million.
- **Babson Capital** has launched a new Investment Grade CLO Debt Fund with a \$75m allocation.

## GLOBAL MACRO & L/S EQUITY

The start of 2015 have been challenging for a number of global macro hedge funds, with volatility being at a historic low. Central banks around the globe have printed money, kept interest rates low and bought up fixed-income instruments in the attempts to stimulate economic growth and escape deflation. The result has been that bond prices have increased and yields have gone down. Investors have shifted assets to "risk-on" assets such as equities, sending many of those markets higher.

Long/Short Equity strategy seems to be the most favourite strategy among institutional investors as it is well positioned to capitalize on the dislocations created by increased volatility and lower oil prices. Managers have to be more opportunistic, flexible and have broader international mandates to adopt to changing market conditions.

Despite uncertain market conditions, there has been sustained hiring within the global macro and L/S equity space. Similar to other strategies, the main demand is for mid-level investment analysts and research candidates with around 3 – 5 years buy-side experience. The demand from different clients can vary from firm to firm, with many companies preferring placing a higher emphasis on institutional sell-side training than hands-on buy side experience.

### Recent launched and hires include...

- **Candriam Investors Group**, a European multi-specialist asset manager, has launched a new absolute return Systematic Long Short Equity strategy.
- **Millennium Management** is planning to launch a fund in tandem with one its star quant traders, Igor Tulchinsky.
- Event-driven manager **Burren Capital Advisors** has launched its Global Arbitrage equities fund on the **MontLake** UCITS platform.
- **Man GLG** has launched the Man GLG European Mid-Cap Equity Alternative fund. Man Group's 2014 acquisition of Boston-based quant shop Numeric Holdings has resulted in two new quantitative UCITS being debuted to the European market.
- Chris Dale, ex-Millennium trader, has raised at least \$200 million for a new European-focused hedge fund. **Kintbury Capital**. Nick Xanders from Millennium has joined the firm as a Partner.
- Former SAC Capital money manager Eric Evans is forming a new hedge fund named **Orchard View Capital Advisors**, mainly focusing on healthcare sector.
- Former Ziff Brothers hedge fund manager David Fear launched a new long/short equity fund, named **Thunderbird Partners**, with \$1.5 billion already under management. A number of former Ziff colleagues joined the new venture, including Scott McDermid, former Ziff Brothers COO, and research analysts Tim Rupert and Marcus Strub.
- **Duet Group** has appointed Ulrik Fugmann and Edward Lees as senior managing directors and Co-Chief Investment Officers of Duet Natural Resources.
- **CQS Capital** has hired Chris Callan from Moore Capital as a portfolio manager, prior to that the firm has appointed Nick Nassuphis, from North Harbour Capital as a Senior PM.
- **Balyasny Asset Management** has hired rates specialist Thanos Athanasios Pantas as a Macro Portfolio Manager.
- **Lazard Asset Management** has hired former Henderson Global Investors' executive Leopold Arminjon as a Portfolio Manager and Analyst for New European L/S Equity Fund.
- Former **Citadel** trader Jeffrey Runfeldt is returning to the hedge fund to run a new global long/short equity division, which reportedly will be allocated \$1 billion.
- **Pelham's Capital** Daniel Martin is planning to launch a new long/short hedge fund based in London.