sheffield haworth

TRUSTED INSIGHT. TRANSFORMATIONAL TALENT.

US ASSET MANAGEMENT

Q4 2017

A SHEFFIELD HAWORTH PUBLICATION

A summary featuring people news, industry updates with market trends and analysis

MARKET OVERVIEW

Hiring at the end of 2017 continued unabated, with numerous investment managers prepared to make appointments late in the year, especially in asset raising and client facing roles. Typically, companies wait until after bonuses have been paid before announcing new hires in the first few months of the year. Having canvassed numerous managers, they gave various reasons for trying to get ahead of the curve:

1. Competition for high caliber people is increasing
2. Higher budgets & headcount for client groups specifically
3. Strong 2017 revenue, with an increased bonus pool

- The continued appetite for yield, has meant that specialist managers across asset classes are feeling bullish and are keen to bolster their teams.

- For the first time in a number of years, we are witnessing businesses invest in their equity investment teams, across the capital range. The being said, we have seen a noticeable spike in small to mid-cap managers adding to their research and portfolio management teams.

- Structured and alternative orientated credit strategies continue to be areas of investment. Whether it be specialty firms in distressed, or broader credit businesses, most are looking to increase the strategies and product vehicles they offer. These normally come in the form of an “extension strategy”, which leverages the firm’s core competency and offers a clear value proposition to existing clients.

- As retail clients across the spectrum become more institutional, we are seeing clients further invest in their sales teams. This is being evidenced in more sophisticated professionals who are able to engage in deeper portfolio and securities discussions with platforms, RIAs and high net-worth clients.

- Margins within asset management businesses remained stable throughout 2017, with some posting modest gains on the 2016 average of 31% (source: CaseyQuirk). That being said, taking into account a conservative fee compression and cost growth scenario, CaseyQuirk estimate that the average operating margin will be 26% by 2021/2022. This is in turn, is accelerating the pace at which firms are seeking either scale or specialization.

BUSINESS DEVELOPMENT

Q4 was an active period for sales hiring, where we saw a range of appointments from global heads of distribution, US heads of distribution as well as professionals with specific regional responsibilities across the US. Regional coverage models are still favored over channel specific ones, particularly within the institutional landscape. The majority of asset raising teams are structured across 4 – 5 regions; North East, Mid West, South East / Mid Atlantic, West Coast and Canada. These are then complimented with dedicated consultant relations coverage teams and relationship management and/or client servicing.

INSTITUTIONAL

SELECT PEOPLE MOVES:

Robeco AM name **Maureen Beshar** into a newly created, Head of Institutional role.

Polen Capital, the specialist equity growth manager based in Florida, appointed **Jennifer Pedigo** as Head of Distribution

Varde Partners, the Minneapolis headquartered credit and value investing firm, named **Ria Nova** as their Americas Head of Business Development and Investor Relations

Jennison Associates poached **Lori McEvoy** from ClearBridge Investments be their Head of Global Distribution.

BNP Paribas AM appoint **Sandro Pierri** as Global Head of Client Group, based in London.

Investec AM hired **Philip Anker** from Insight Investments to run their US business. Bradley George has moved into the US Head of Consultant Relations role.

Amundi hired **Joseph Carrabes** from Jennison as Head of Institutional Distribution for North America.

RETAIL

SELECT PEOPLE MOVES:

Eaton Vance hire **Bob Kuberski** from RidgeWorth, where he had been Head of Retail Sales

Sage Advisory promote **Bob Moser** to Head of US Retail.

Epoch hire **John Carroll** from Allianz Global Investors to develop a US Intermediary Business.

INVESTMENT

EQUITIES

After many months of slow movement in equity investment hiring, the market began to thaw in Q4 2017. While platforms remained active in seeding managers throughout 2017, many long-only managers stayed on the sideline. Since early November, though, active equity funds, including many value funds as well as small- and mid-cap managers, are looking to add talented Senior Analysts, PMs, and full teams. On the alternatives side, the continued bull market drove many long-short funds to not simply retrench but shutter completely. Hedge fund liquidations continued to outnumber launches in 2017, according to Bloomberg, with equity long-short managers Hutchin Hill and Blue Ridge Capital announcing closures in November and December, respectively.

SELECT EQUITY PEOPLE MOVES:

William Blair promoted **Stephine Braming** as Global Head of Investment Management for the firm. She has been with the firm since 2004, most recently as a Portfolio Manager. The $70B AUM manager is replacing former global head Michelle Seitz, who left William Blair to become the new CEO of Russell Investments in September.

Brown Capital hired **Kabir Goyal** to be Portfolio Manager for the firm's international equity fund. Previously, Kabir was an Associate Portfolio Manager at competing small- and mid-cap manager, Wasatch Advisors, on their International Growth Fund.

The US headquartered **UBS O'Connor** added London-based **Leo Guo** as a PM for a new long-short China investment fund. He has experience working at Millennium and Brevan Howard previously.

SELECT ALLOCATOR PEOPLE MOVES:

The **United Nations Joint Staff Pension Fund** announced a new Secretary General of Investments in October – **Sudhir Rajkumar**. He joins for a similar role at The World Bank. The UN's pension fund manages roughly $61B.

Dominic Garcia was named Chief Investment Officer for the $15B **New Mexico Public Employees Retirement Association**. He joins form a manager selection role at State of Wisconsin Investment Board (SWIB).

Berkeley Endowment Management Co. named **David McAuliffe** to lead BEMCO's $1.8B investment sleeve. Prior to BEMCO, he was a senior investment officer at the University of Washington's endowment.

Makena Capital Management tapped the University of Virginia Investment Management Co.'s (UVIMCO) Chief Investment Officer – **Lawrence Kochard** – to help develop Makena's OCIO business. It is unclear who will replace Kochard as CIO of UVIMCO $8.4B in AUM.

Washington University Investment Management Co., in St. Louis, named **Grinnell College** CIO Scott Wilson as WUIMCO's new Chief Investment Officer. He will oversee WUIMCO's $7.5B endowment.

FIXED INCOME

Fixed income hiring, particularly credit, continued unabated in Q4 with significant hiring taking place by both boutiques and large global asset managers across all major sub-sectors. As a trend, we saw a significant spike in team lifts. This appears to be a direct consequence of allocators placing more focus on culture and history of collaboration when doing due diligence on investment groups.

High yield was particularly active, correlating with the significant levels of inflows that fund management groups have seen in the sector (as investors look to get a piece of the current junk debt rally). Notable hires were made by Mesirow and BlackRock.

We have also seen significant interest from managers in the direct lending space, as historically 'traditional' fund groups look to build their capabilities in illiquid fixed income asset classes. A particular area of growth within direct lending has been on the commercial side, with managers creating dedicated commercial units for these capabilities.

Finally, despite significant inflows into the strategy, hiring levels within emerging market debt in Q4 were relatively modest. Many managers 'overinvested' in the strategy during the 'EMD boom' of 2010 to 2014 and were burnt in the years following the 'taper tantrum'. Many fund groups today are keen not to make the same mistakes.

SELECT PEOPLE MOVES:

Alcentra hire Leland Hart as Managing Director and Head of U.S. Loans and High Yield for Alcentra, joining from BlackRock where he had been Head of Loans and CLOs. The position is new. Mr. Hart will lead Alcentra's 16-person $12.5 billion U.S. liquid credit investment and research team. He will be based in New York and report to Vijay Rajguru, Alcentra's global co-chief investment officer.

Mesirow Financial hire a seven-person high yield and leverage-loan team from Pacific Income Advisors. Team members include Robert Sydow, Dominick Mondi, Kevin Buckle, James Lisko, Andre Shih, Claire Pearce and Ellen Hedani.

Sun Life Investment Management hire Sam Tillinghast from THL Credit as President of US Private Credit. He will lead Sun Life's U.S. private fixed-income group, as well as growing its third-party institutional business

T Rowe Price announce that three senior fixed income managers are to retire. Daniel Shackelford, Steve Huber and David Tiberii.

Allianz Global Investors hire two portfolio managers from Columbia Threadneedle to launch a US Fixed Income operation. Carl Pappo and Frank Salem have joined the organisation as CIO for US Fixed Income and Senior Portfolio Manager for fixed income, respectively. They are planning to launch US core, core plus, and liability driven investing strategies at Allianz.

Whitehorse Capital, the direct lending affiliate of HIG Capital, has added Mario Shaffer (previously of Capitala Group) and Eric Von Stafford (previously of Super G Funding) to its US direct lending team.

Angel Oak Capital Advisors have appointed Nichole Hammond (previously of Wells Capital Management) as a High Yield Portfolio Manager.

CORPORATE ACTIVITY:

European Credit Platform **Hayfin Capital Management** has signed an agreement to acquire US CLO and Bank Loans Manager Kingsland Capital Manager.

FOR 2018

Despite a politically tumultuous year, 2017 was a year of relative stability from an economic perspective. Positive macro and global growth stories emerged in several markets, with capital markets in the US hitting new records on a regular basis. Combined with low volatility in both the equity and bond markets, this highlighted more positive economic momentum than many expected. Consolidation of the asset management industry remained a central theme throughout the year and this is expected to continue well into 2018.

Asset managers remain optimistic yet cautious; we expect that 2018 will see further M&A activity within the sector, in addition to the theme of asset managers further diversifying their portfolios to mitigate potential increased drawdown risk. It is widely accepted that a balanced portfolio of equities and bonds no longer equates to diversified, meaning we expect to see an increase in hiring across credit, alternatives and multi-asset as managers aim to be proactive in their approach to portfolio risk allocation.

We are seeing the most consistent upswing in the global economy since the financial crisis, and hiring plans for asset managers are beginning to reflect this, with several processes for senior hires having been initiated in December and early January across both distribution and investment. Whilst 2018 will no doubt play witness to continued political instability from a variety of sources; the Korean peninsula, uncertainty around the execution of the Brexit process and US mid-term elections, the view from the market is that political instability is more of a distraction to investors rather than it being particularly detrimental to any positive macroeconomic themes. In fact, many investment professionals see this instability as a potential opportunity. Of course, there are still a number of economic factors and wider industry issues giving asset managers pause for thought; the implementation of MiFID II, risks to global growth targets, particularly in China, the whispers of an increase in inflation and the raising of interest rates to name a few. However, the macro strength shown in the US, Europe and an improving Emerging Markets backdrop has seen risk assets continue to perform and shows that, despite suggestions we are approaching late cycle, this strong run could well continue for some time.

Asset managers will hope that market consistency seen in 2017 continues. The changing nature of the economic landscape has led to an equally different approach to hiring, with the focus shifting to finding the necessary skillset as opposed to previous experience within the same field. For example, we are seeing more technical hires within distribution, an area traditionally seen as centered on relationship management over product expertise. Further hires are also being made in asset classes with higher yields, such as alternatives, credit and private debt to mitigate lower returns in more traditional asset classes.

Christopher Smailes
Managing Director
e: smailes@sheffieldhaworth.com
t: + 1 646 597 7403

Andrew Thompson
Director
e: thompson@sheffieldhaworth.com
t: + 1 646 597 7404

Benjamin Smith
Senior Associate
e: bsmith@sheffieldhaworth.com
t: + 1 646 597 7410

777 Third Ave., 36th Floor
New York, NY 10017