

Hedge Funds: Hiring Trends and Job Search Strategies

YEAR 2013

Overview

- (1) Quick introduction
- (2) Industry and Hiring Trends
- (3) Finding Opportunities
- (4) Preparing for interviews
- (5) Compensation trends

HFObserver

HFObserver is a hedge fund website that connects our subscribers directly with great opportunities and information relevant to maximizing career options.

- **Curated Job Board:** We have over 300 curated job listings, with the firm name revealed for every open position.
- **Career News and People Moves:** Members have unlimited access to our exclusive career news and our People Moves section.
- **Hedge Fund Directory:** Members can access information on individual hedge funds, including recent hires/departures, job openings, news, and quarterly changes in investment holdings and AUM.
- **Career Management:** We also provide members with exclusive career news, recruiting trends and customized career management expertise.

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Discussion 10 Years Ago vs Today

- (1) **Used to be able to call into founder of firm.** With institutionalization (firms, assets) no longer easy to do, operations/infrastructure hiring as % of overall hiring has risen to at least 50% vs app 25% ten years ago. Firms now have full-fledged recruiting departments as well as other departments that used to be outsourced/non-existent
- (2) **Industry information/hedge fund information very opaque.** Few/no firm websites; MBA career services groups had little/no information; journalists clueless about hedge funds even at top journals/publications, no training. Some journalists thought hedge funds were a fad a la internet and not worth investing in, reporting was often sensationalistic or uninformed/inaccurate. Less opaque today, most firms have websites
- (3) Hedge fund recruiting: **fragmented on-demand (non seasonal) sector**, which did not prioritize MBA recruiting. Some development here in favor of MBA programs, but no radical change
- (4) **Types of roles MBAs from top programs cared about:** Analyst, Sr Analyst, Trader. Today includes: Marketing, IR, Marketing/IR hybrid, Business Development, Product Specialist, Strategist, Management/Operations
- (5) **Compensation much less standardized/opaque**, more driven by what was being paid on sell side or step-up from whatever person being paid prior role

“fiendishly complicated investment vehicles” The Economist, 2006

2013: State of the Industry

- Performance: Hedge funds have had a lackluster run over the past few years in terms of average investment performance
- Asset flows: The industry continues to grow and is nearing/has reached all-time highs in terms of asset size, app \$2.5 trillion.
- Big firms getting lion's share of new capital inflows. Very few \$100+ million Day-1 launches over past two years, allocators relying on big firms for institutional client service, transparency, product needs.
- Strategies: Macro strategies have had a strong run post financial crisis, though recently macro fund performance has generally been lackluster. Equities and Credit funds very active.

Top-level: Five Hiring Trends

1. Hedge Fund hiring in 2013 has been very active across all functional roles

- Investment Professional (PM, Analyst, Trader)
- Marketing/IR/Business Development/Product Specialists
- Management/Operations/Infrastructure

2. Established funds on a hiring spree

- Funds with \$5 billion dollars in AUM, 10+ year track record and 200+ employees
- **Lackluster Performance not interfering with Big Firm hiring.** Different from hiring trends post-financial crisis when negative performance, especially by smaller firms, halted hiring plans

3. Fund hiring geographically concentrated in a few cities

4. Active: Equities hiring, Rates/Credit hiring

- Several major firms building out/rebuilding equities groups

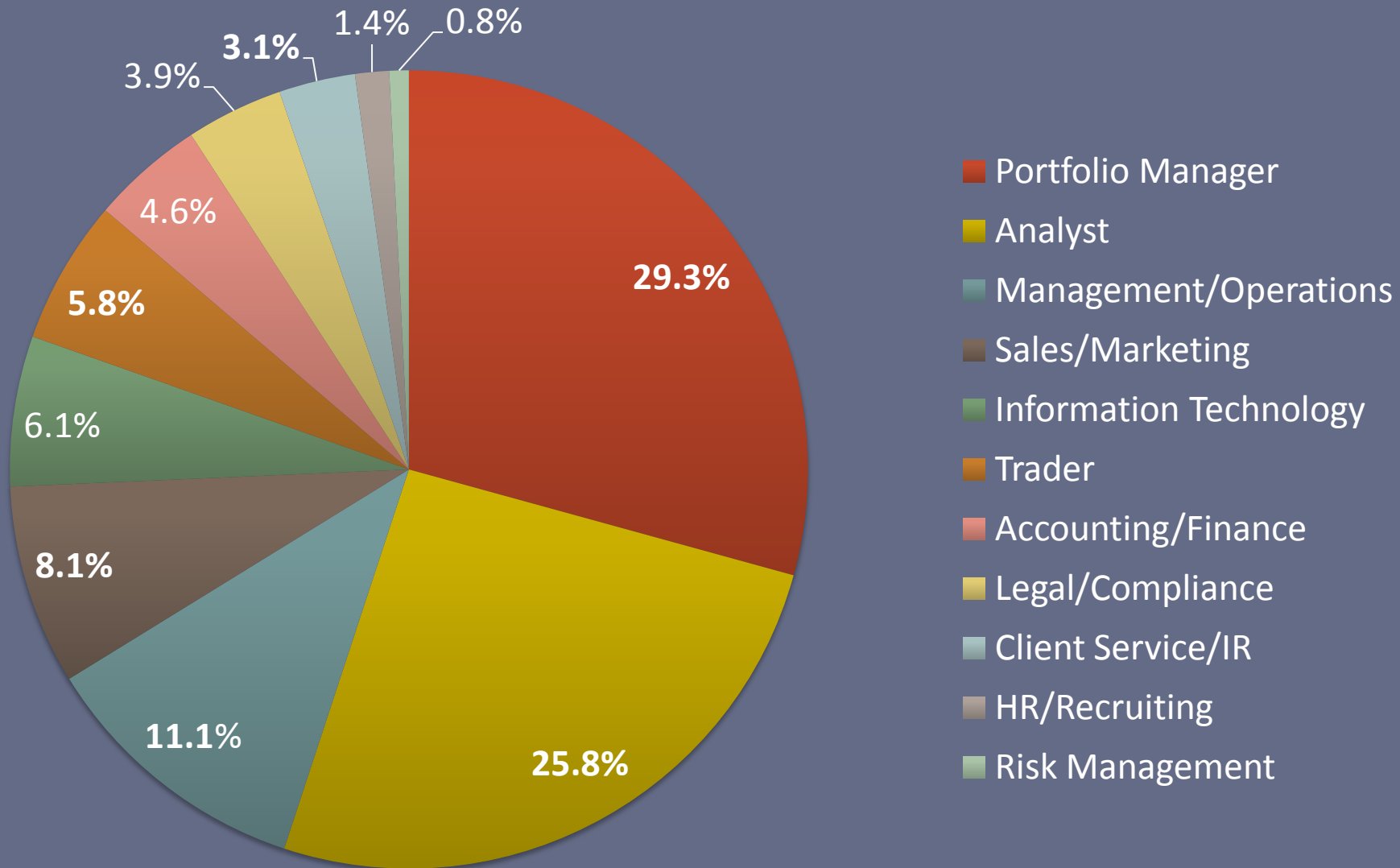
Top-level: Five Hiring Trends

5. MBAs competing for top spots in a *fragmented on-demand (non seasonal) sector*

- Hedge Fund Hiring generally not focused on campus visits/Road shows
- Most Hedge Funds don't hire en masse/in-bulk, more akin to start-ups
- Hedge Fund recruiting fragmented among many firms
- Competition: Graduating MBAs, experienced MBA alumni, non-MBA experienced hires, and non-MBA graduate students

Similar to how it was 10 years ago, but definitely more of a presence on top MBA campuses

1. Hedge Fund hiring in 2013 has been very active across all functional roles



2. Established funds on a hiring spree

2013, 1H

1. Millennium Management
2. Neuberger Berman Group
3. Visium Asset Management
4. BlueCrest Capital Management
5. (tie) Balyasny Asset Management and 5. (tie) SAC Capital Advisors

Runner-up: Two Sigma

2012

1. Bridgewater Associates
2. Citadel Investment Group
3. Two Sigma Investments
4. DE Shaw
5. SAC Capital Advisors

Runner-up: Guggenheim Partners

Source: HFObserver

3. Fund hiring geographically concentrated in a few cities

2013:

1. New York City
2. London
3. San Francisco
4. Connecticut 'Corridor' (*Greenwich, Norwalk, Rowayton, Stamford, Westport*)
5. Boston

Runners-Up: Chicago and Hong Kong

2012:

1. New York City
2. London
3. Hong Kong
4. Connecticut (*Greenwich, Norwalk, Rowayton, Stamford, Westport*)
5. Boston

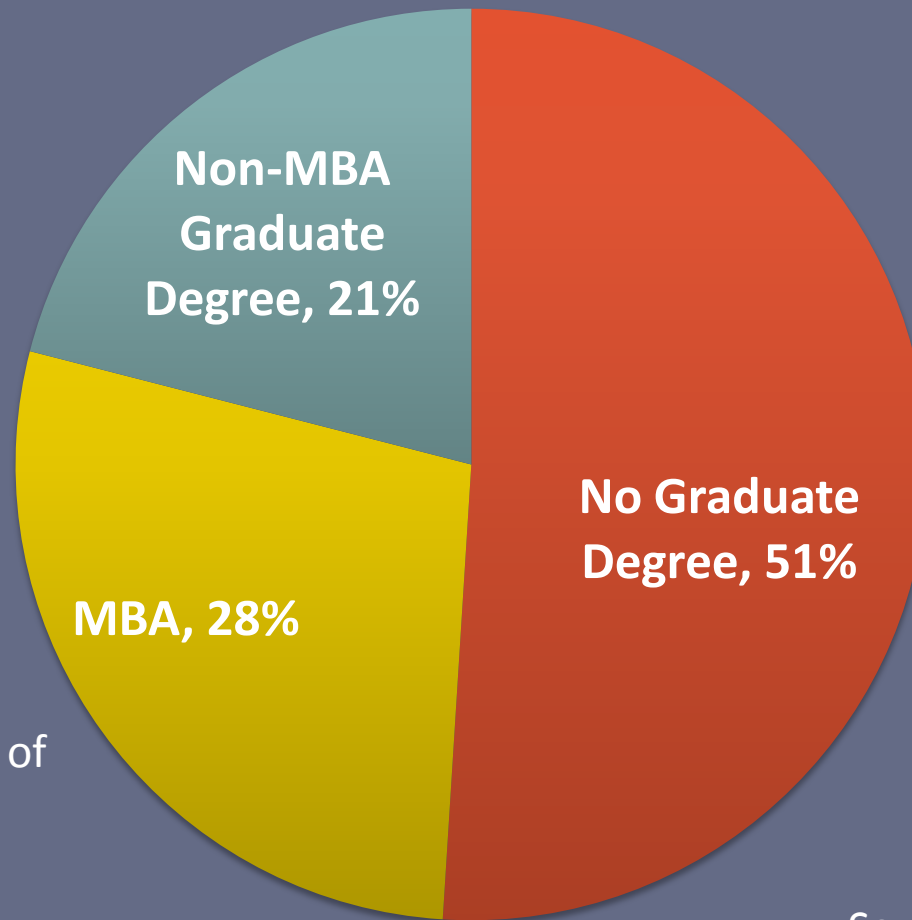
Source: HFObserver

4. Active: Several major firms building out/rebuilding equities groups

- CQS
- Tudor Investment Corporation
- BlueCrest Capital Management

Source: Bloomberg March 2013

5. MBAs competing for top spots in fragmented on-demand (non seasonal) sector



In general: About 1/3 of Investment Analysts have MBA degree

Source: HFObserver

5. MBAs competing for top spots in fragmented on-demand (non seasonal) sector

2013 (1H, based on offers accepted for all functional roles at all levels)

1. Harvard University /Harvard Business School
2. Columbia University /Columbia Business School
3. University of Pennsylvania /The Wharton School
4. University of Chicago /Booth School of Business
5. New York University /Stern School of Business

Runner-Up: Stanford University /Graduate School of Business

2012 (based on offers accepted for all functional roles at all levels)

1. Columbia University (Business School); Harvard University (Harvard Business School) (*tie*)
2. New York University (Stern School of Business); University of Pennsylvania (The Wharton School) (*tie*)
3. University of Chicago (Booth School of Business)
4. Stanford University (Graduate School of Business)
5. Northwestern University (Kellogg School of Management)

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Finding Opportunities

What is the most common entry point for MBAs into hedge funds?

- Investment positions:
 - Traders
 - Research Analysts
 - Analyst/PMs
- Infrastructure:
 - Marketing / Investor Relations; Product Specialist; Strategist
 - Corporate Strategy / Corporate Development
 - Management (emerging trend)

Finding Opportunities

- There is no substitute for knowing folks within fund
- Summer/Fall/Winter/Spring Internships
- Current MBA and Alumni Networking, MBA Recruiting/on-campus, MBA job boards, other high quality online job boards.
- Connect with one or two recruiters based on their areas of expertise (functional role, asset class).
- Connect with one or two top prime brokers
- Take LinkedIn Seriously! Most Funds with Online Footprint Don't Maintain a Job Board (20%), established funds more likely than earlier stage funds (2012 survey). However all recruiting firms and internal recruiting departments within funds spend significant time mining LinkedIn. Keyword resume searches, Posting on Groups, etc. So... Realize that Hedge Funds are Looking for YOU
 - It is critical to keep any professional online profiles current, accurate, and high-quality
- Reach out to hedge funds you are interested in, don't wait to be contacted, show initiative/hunger. Larger firms have dedicated and professional recruiting teams

Be Aware: Human Capital Powerbroker shift from stand-alone search firms to LinkedIn and prime brokers and in-house recruiting

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Preparing for Interviews

1.) Know Thy Interviewer

- Website, Google, SEC filings (13-F, 13-D, 13-G, ADV). Not enough to simply work on investment ideas to present

2.) Know your functional target, your asset class interests, and your investment strategy/style/horizon

- Identify the functional area for which your skill set is the best fit, and link your experience to key success factors
- Be able to communicate which asset class(es) you enjoy and why
- Know what type of investing you like, and shorter term or longer term investing

3.) Understand the “default” structure for a function within a particular hedge fund – as these functions can vary widely among firms

- Analyst/PM: 1) P&L vs Non-P&L structures; 2) Analyst Generalist vs Analyst Industry Specialist; 3) Asset class structure vs opportunistic (across assets)
- Marketing vs Investor Relations vs Hybrid; Product Specialist vs Strategist

Preparing for Interviews (cont)

4.) STICK TO RESUME BASICS

- Try to keep to one page. If you have a mission statement in the beginning, keep it brief, one sentence maximum
- Make sure it is easy to navigate and clear to follow chronologically with dates listed clearly, from education to most recent employment
- Be crisp and concise. Synthesize and Don't put every single job responsibility under each job position – just the highlights of the most important duties and any major accomplishments. No more than half-dozen bullet points per job
- If you have language skills, licenses, technical skills, and hobbies include them They add color to the resume and show the candidate is not just a finance robot
- Don't exaggerate passions or stats

Most Common Issues: Tough to follow non chronological experiences organized by type of experience; lengthy Mission Statement/OVERVIEW section, schooling without dates, missing experiences/years/gaps/holes, 10 bullet points per experience

Preparing for Interviews (cont)

5.) AVOID RESUME/INITIAL DIALOGUE RED FLAGS

- “Sell-Side”/Client-driven mentality
- Lack of focus in terms of functional role
- Deal focused/volume focused (former banking analysts)
- No time to invest/Former employer restrictions
- Random Walk missionaries
- Exaggerated love of investing
- Grass-is-greener mentality (sell side/buy side)
- Careerists: Entitlement and focus on career path/guarantees
 - Less structure, fewer layers/levels, less formal than sell side/industry/other
- Emphasis on PA success stories (vs failures)
- Inconsistencies in stated investment strategy/style vs PA investments
- Inconsistencies between firm and stated candidate investment strategy/style

Preparing for Interviews (cont)

Analyst: Seven Key Character Traits

- **Skeptical:** Joel Greenblatt, in his book *You Can Be a Stock Market Genius*, offers a humorous perspective on the nature of skepticism. His now famous advice:
 - *Don't trust anyone over thirty*
 - *Don't trust anyone thirty or under*
- **Analytical:** An analytical investor is skilled at being detailed, logical, and rigorous with respect to answering valuation questions. For hedge funds, investment analysts need to have a relentless drive for identifying and analyzing the relevant facts and details that might impact an investment decision. A numerical orientation is also important. An analyst must quantify the risks and rewards associated with an investment decision.
- **Contrarian:** A contrarian investor is one who opposes or rejects popular investment opinion and favors independent thinking. People skilled in contrarian thinking tend to build their own models — rather than borrowing models and/or information from sell-side analysts or others. A contrarian approach to investing is often the fruit of such an independent effort to understand drivers of business value when assessing a security, an industry, or an economy.
- **Confidence:** A confident analyst has a strong belief in his or her investment thesis. The confidence to stick by one's investment decision in the face of internal pushback or market conditions not favorable to one's thesis can be difficult.

Preparing for Interviews (cont)

- **Humbleness / Lack of Arrogance:** There is a fine line between confidence and overconfidence. Too much confidence is arrogance, a deadly trait for investors and one that hedge fund managers do not want to see in a hire. Arrogance leads to an overestimation of the value of one's investment beliefs and a tendency towards denial in the face of other facts or poor investment results. In a recent speech, Omega Founder Leon Cooperman commented, *"Arrogance is a luxury you cannot afford."*
- **Communication:** An analyst must be able to articulate and defend his/her investment ideas in a cogent, logical manner to peers and portfolio managers, particularly when the investment thesis is presented with a high degree of conviction. Hiring managers say that excellent communicators can also be invaluable when facing off with external parties; good communicators often extract better information and go beyond the investor relations-type material offered by companies being analyzed; truly excellent investment analysts often combine excellent communications skills with creativity and due diligence to uncover hard-to-find public information from unique sources.
- **Interested in/commitment to the markets:** Analysts must have a strong interest in investing/trading and/or a strong ability to analyze drivers of business value. One founder of a hedge fund recently reminded an audience full of aspiring hedge fund analysts that there are always 10 mutual fund managers right around the corner who will manage a client's money for lower fees, clients have every right to expect more from a hedge fund analyst. In other words, what it takes is an unusual degree of market focus and commitment: *"It's a vocation and an avocation."*

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Compensation

- **Full-Time MBA Hires**
 - **BASE SALARY***: Hi/Low: \$200k/\$100k
 - Median Range: \$120k-\$145k (various schools*)
SEARCH FIRM INFO: \$125k-\$175k
 - **GUARANTEED COMP ***: Hi/Low: \$170k/\$25k
 - Median: \$100k-\$130k
 - **Performance-Based Bonus/Analysts**: Up to 2-3 x base, normal 1-2 x base. SEARCH FIRM INFO: \$100k-\$250k
 - Function of AUM, Firm performance, Personal Performance, Geography, How P&L structured. Competitive range usually up to 2-3 times base for strong firm and individual performance, also based on prior years of experience.
 - **Performance-Based Bonus/Marketers**: Normal to 1 x base
- **Summer MBA Hires: MEDIAN MONTHLY BASE***: \$8k-\$10k (various schools*)

GENERAL RECOMMENDATION : Have the 2*2 matrix discussion

* Figures based on compensation reports from most recent MBA Programs: Harvard, Wharton, Columbia, Stanford. Other compensation information is from search firm and from HFObserver information/estimates.