Brexit aftermath: UK alts managers indicate cautious optimism

Hiring and fundraising will continue among hedge funds, Context Jensen Partners' Sasha Jensen predicts

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The question on everyone's minds in the aftermath of the Brexit debacle is: "Now what?" This is especially true for alternative asset managers, including those based in the UK and those based elsewhere thinking about expanding their operations. According to a recent Preqin poll, 7% of the 142 managers surveyed were thinking about leaving the UK, with big names like M&G and Columbia Threadneedle already planning on moving some staff to Luxembourg and Dublin, respectively. But does this spell the beginning of the end of London as a global investment center, or is the present panic overblown?

In the wake of the Brexit vote, I flew to London to meet with some of the top hedge fund, private equity and third-party marketing executives in the industry. While my intention wasn't necessarily to discuss the political and economic climate, the topic inevitably came up in every conversation. Below are some key takeaways from my conversations with decision makers in the alternatives industry.

- **Temporary paralysis:** The current political paralysis in the UK contributes to a feeling of deep uncertainty among managers and investors. High on managers' lists of questions is the future status of the UK with regard to fundraising regulation. The heated antipathy towards immigration among much of the general population of the UK makes the coveted and easier path of a 'Norway-style' or 'Swiss-style' deal seem less likely to pass. The reaction of other EU member states is also still unknown, though fear and anger post-Brexit might create resistance to more favorable negotiations from the EU as well. One major question is the status of UK Ucits funds post-Brexit. Our firm has tracked a 24% increase in Ucits marketing hires in the first half of 2016 from H1 2015, evidence of the increased importance of the European market and the increased use of Ucits as a gold standard for fund regulation. Depending on the deal forged between the UK and EU, Ucits funds may need to migrate to the EU to retain access to the European fundraising market. For those UK fund managers without an offshore product range, this may pose considerable relocation costs. As a result, many managers are adopting a 'wait-and-see' approach.

- **Not leaving the UK:** None of the 30-plus executives I've spoken to had any plans to relocate from London because of Brexit, and with good reason: the cost of moving offices is enormous. Despite outstanding questions about the future political regime and regulatory fall-out, London's financial infrastructure is still the best in the world. A number of firms, especially those headquartered in the US, have temporarily halted their hiring plans until there is more certainty on the marketing requirements going forward. That said, many UK-based managers believe that, while the current uncertainty is unpleasant, leaving the EU will allow the UK to avoid some of the continent's regulatory red tape, which many view as having a negative impact on the UK financial system. While complete regulatory sovereignty for the UK is both unlikely and undesirable, especially since any agreement with the EU would require continued regulatory compliance with AIFMD and other regulatory schemes, a number of managers have expressed a sense of optimism for the UK's rejuvenation once markets settle. Despite making it harder to recruit EU talent, closed borders may also allow for greater employment flexibility within the UK and encourage enhanced investment in developing England's home-grown investment talent. Overall, with the recent appointment of Theresa May as Prime Minister, there is a sense of increased, albeit tempered optimism among many managers that the new leadership will take the best interests of the financial sector into strong consideration.

- **Opportunities abound in private investments:** One common theme among the fund managers I have spoken to is the ever-increasing interest among investors and managers alike in private market investments. As short-term volatility continues, and perhaps escalates, many allocators are seeking to invest in longer term, less correlated strategies. The Bank of England's recent decision to ease capital requirements in response to post-Brexit financial instability suggests a lack of access to bank lending for UK and European businesses. This creates a strong opportunity for credit investors to provide much needed liquidity through private debt vehicles. Private debt investment opportunities are already in high demand for alternatives investors, with many predicting the market will increase significantly in the second half of 2016 through 2017. The challenge for managers is how to translate this long-term tempered attitude to both institutional and retail investors in a way that prevents redemptions. Investor relations hires for private debt have increased by 37% in H1 2016 vs. H1 2015, as managers seek to improve relationships with allocators and move clients away from short-term, fear-based reactions. A series of recent private debt fund launches, such as the new private credit funds announced by Sprott Asset Management and Tikehau Capital in the last week, have further contributed to the increase in capital raising hires in this sector.

While many asset management firms will need to adjust as they gain more clarity on the future political and regulatory situation, we expect UK hiring will continue and we foresee an increased demand for EU-specific marketers with relationships across the continent.