Alternatives Suffer, but Not Their Marketers
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Hiring activity for alternatives marketing professionals remains robust even as hedge funds fall out of favor.

Alternative investors may be suffering – but you wouldn't know it from statistics tracking the hiring of professionals tasked with gathering assets for alternative managers.

According to a quarterly analysis of hiring activity in alternative investment marketing and investor relations released today by the executive search firm Context Jensen Partners, year-over-year recruitment activity for marketing professionals is up. Context Jensen Partners tracked a record 231 marketing moves in the third quarter of 2016, up from 188 in the second quarter. The third quarter of 2016 was the most active hiring quarter the executive search firm has seen in its almost three years of tracking this activity.

"What I'm seeing in the U.S. is a full market," says Sasha Jensen, founder and CEO of Context Jensen Partners. "All the stats are up on last year in all sectors."

An increase in recruiting activity among private equity, credit, and long-duration type strategies is to be expected, given that fund flow trends and recent reports show considerable interest by investors in these spaces over the last 12 to 18 months. The same is true for quantitative trading strategies – in both equities and commodities – which in recent years have proven to be one of the few bright spots for hedge funds. More of a surprise, however, is that Context Jensen Partners data show robust hiring activity among event-driven managers.

According to data from hedge fund tracker HFRI, event-driven managers experienced net outflows of $15.5 billion in the third quarter of 2016, the most by far for any of HFRI's four hedge fund categories. (Equity hedge funds lost $9.4 billion, macro experienced modest inflows, and relative value lost $4.1 billion.) In total, HFRI data show that event-driven managers have seen a net asset decline of $26.4 billion through the first three quarters of the year.

However, Jensen recorded a record 17 marketer hires for the space, more than the first two quarters of 2016 combined.

"The way I'm reading it is that from a macro economic perspective there is a lot of opportunity in the market right now," says Jensen, referencing politics and the economy more broadly. Event-driven firms are well positioned to take advantage of those opportunities, she says.

Among the firms to have made significant marketing hires in recent months are Dan Loeb's Third Point, which hired Anne Gresens from Morgan Stanley's cap intro team, and Passport Capital, which hired Emily Sheridan, previously of North Carolina—based hedge fund manager Silverback Asset Management.

This uptick of potential fundraising at event-driven firms is happening even as there have been some high-profile closures – as in the case of Richard Perry's Perry Capital – or significant underperformance, such as Bill Ackman's Pershing Square Capital Management.

This hiring activity also comes as a number of institutional investors, especially public pension plans, are significantly reducing, or completely eradicating, their hedge fund portfolios. In October the state of Rhode Island announced it would be eliminating the $1 billion hedge fund allocation for its public pension system.

Uncertainty does not always beget opportunity, of course. One market that has not seen much recruitment activity is the U.K. Jensen says managers in the U.K. are in a holding pattern while they await the fallout from Brexit, the June referendum vote in favor of withdrawing from the European Union.

The recent spat of redemptions and asset allocation changes could be a case of institutional investors selling at the bottom of the hedge fund market. Or hedge fund managers may be optimistically holding out for a customer base that is moving away from them. A report on U.S. asset management published this week by the global consulting firm McKinsey & Co. found growth in alternative investing continues to outstrip that of traditional asset management. But the authors identify a change in the types of alternatives investors want, saying that "demand has been robust in the illiquid private market segments, as investors seek to capture liquidity premia and look for alpha generation in less efficient segments of the market." They report that fundraising in private markets is already back to pre-2008 levels. Among the investors McKinsey surveyed, 33 percent said hedge funds had fallen short of expectations and only 9 percent said their hedge fund investments had exceeded expectations in 2015, compared with 6 percent and 30 percent, respectively, in private equity.

For event-driven managers, at least, recent performance data may offer some reason for optimism. Through the end of September, the HFRI Event-Driven Index was up 4.48 percent, while the HFRI Fund Weighted Composite Index was up 2.92 percent and the S&P 500 was up 3.85 percent.

The data suggest event-driven funds, which were down on aggregate 3.55 percent last year, might have turned the corner. Then again, as 2008 Republican presidential candidate Senator John McCain says, "It's always darkest before it's completely black."