VALENTINE THOMAS
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Alternatives | Talent Overview

Alternatives – Talent Overview

Investors looking for an alternative

Alternative assets are not as alternative as they used to be. The long low-interest environment that has dominated markets since the Global Financial Crisis has fuelled a search for yield and diversification, and in turn a rising interest in alternative assets from private equity to hedge funds, infrastructure investments, real estate and increasingly digital assets.

Globally, alternative assets under management (AUM) have soared in the last decade and have now surpassed the $10 trillion mark.[1] This trend is set to continue unabated.

More than half (*51%*) of leading investors were expecting to increase their commitments to infrastructure investment, while *43%* expected to up their allocation to venture capital and real estate and *39%* expect to increase commitment to private debt.

Private debt, already flourishing in the low interest rate environment, was further fuelled by the Covid pandemic as businesses have sought working capital to see them through the temporary downturn. Moreover, although real estate investment growth was knocked by the mass exodus from offices – the medium and long term still presents opportunities. In a post-Covid world, fewer office days and longer commutes will change the shape of real estate demand with opportunities in real estate and suitable transport links. On top of this the prevailing ESG agenda means there is potential for investment in 'green' buildings to become more energy efficient.

The focus on infrastructure is being driven by government initiatives to renew the fabric of the economy. The most obvious example of this is the Biden administration's $1 trillion Infrastructure Investment and Jobs Act. Now approved by the senate and working its way through the US House of Representative, the Act will see massive investment in transport and energy.

The announcement in October this year that the US plans to award seven new leases for offshore wind projects by 2025, is just one indicator of the direction of travel.

The growth in investor interest in alternative assets is about more than sheer volumes of capital. The market for these assets is also changing. The size and nature of investment operations looking at alternatives is changing, and the investment vehicles and ultimate investor markets are adapting too and with it the skill sets required by investment groups.

Once the preserve of boutique specialists, alternative investment has become mainstream, attracting traditional wealth managers and global investment giants.

Family offices have also been heavy investors in alternatives. According to the UBS Family Office Report 2020, *35%* of family office asset allocations were to alternatives and interest in alternatives was rising.

Investment Trusts have emerged as one vehicle for retail investment into alternatives with initiatives from ICG Enterprises, Pantheon and HarbourVest. Recently, leading alternative group Apollo Global Management announced it was setting up a business unit to develop alternative asset products that it would make available to retail investors through advisory firms.

The increasing role of retail investment in alternative assets is a significant factor in changing the skills needed, particularly in investor facing roles.

> "By the end of 2025, Preqin predicts that alternative assets firms globally will hold $17.16tn – a CAGR of 9.8% and an overall increase of 60%. Private equity and private debt will be the biggest drivers of growth."
>
> *Prequin*

1 *New Preqin Report: Alternatives Funds Top $10 Trillion in AUM - DailyAlts*

Focus on Talent

Many alternatives firms, both liquid and illiquid, have enjoyed strong flows this year. This is particularly true for firms with real assets investment strategies offering genuine differentiation and yield. Private Equity firms have had another record year and Prequin predict that by the end of 2025, the asset class will account for 53% of all alternatives AUM.

The move to alternatives will continue in a low interest rate environment, across both institutional and retail investors. This activity has seen a wave of hiring across investment and distribution roles as firms look to reinforce their teams and upgrade talent.

Here we will focus on some key themes and trends we observe within the client facing area, given the volume of actively we have seen over the past few years.

Significant hiring at all levels within sales, marketing and client teams. Many firms have hired individuals to lead and develop their client facing efforts, this in turn leads to changes in the underlying teams. We would observe that 2021 has been a candidate driven market in distribution with many firms competing for the same talent, be that leadership or production. Individuals with a genuine track record of delivery, specialist knowledge and an ability to bring new products to market are in demand.

Mainstreaming of alternatives has been talked about for a long time, it is now very much happening. One of the biggest trends we see is the focus on the retail / wealth channel. Alternatives firms have been developing products and building coverage teams to unlock the retail / HNW market for several years now, as this strategy is a fantastic diversifier away from their traditional institutional client base and will likely be their real growth engine in the future.

We have seen numerous searches in the market for senior sales people who can further unlock this channel. KKR, Ares, Blackstone and Brookfield have been growing their respective teams as examples. We see this trend continuing into 2022 and beyond.

Coverage models are often more fluid in alternative firms, potentially an overhang from their more entrepreneurial origins. Candidates who can cover more than one country/channel are highly desirable. Real estate, private credit and private equity firms, with their leaner teams, cyclical fundraising approach, and stronger emphasis on investor relations, most often lack a formal structure. By comparison, alternatives firms with multiple product lines tend to be larger and have grown a more formal structure across the client facing group.

Individuals who can act as quasi product specialists / sales specialists are in demand. These individuals are able to delve deep into complex products, in turn freeing up what is often a limited investment resource internally.

The alternatives segment is becoming broader and more diverse. The rapid rise of decentralized finance (DeFi) and non-fungible tokens (NFTs) has led to an explosion in firms in these sectors. Given the growth, many firms are now looking to 'institutionalise' their businesses and hire from mainstream financial services firms. In a sector where 2 or 3 years of experience is deemed 'experienced' this market is having to create its own talent pool, often looking outside of sector and at more junior talent who have grown up understanding the sector. Venture Capital also continues to mature as an asset class as investors look to capture the upside of businesses that are staying private for longer.

> "The larger investors are taking this work in-house and by doing this they are recruiting from parts of the industry where individuals might be working a niche sector, such as private markets. You are seeing that demand for talent."
>
> *Managing Director of Research and Communications, Consultant*

We know of boutiques and teams who run a variety of alternative strategies who are in discussions with traditional asset managers as they look to gain access to this area quickly and ideally with AuM. Specialist managers want scale and traditional managers want capabilities.

For many years now alternatives firms have poached from traditional asset managers as they have looked to institutionalise / professionalise their sales functions. This has now gone full circle; traditional asset managers are hiring alternative specialists to help them diversify their business across both investment and distribution. Fidelity International, Schroders and abrdn have been seen to do this.

One of the biggest challenges we see for traditional asset managers is onboarding talent that resides in alternatives firms. Many individuals are happy in a specialist firm, are well compensated in line with their investment cycles and this is the same with many distribution professionals who command a premium, both total compensation and carry. Most traditional asset managers are unable to be competitive in their current structures.

Firms focused on alternatives tend to be smaller, have less politics and have leaner structures to maximise profits. From a talent perspective, it is not always easy to find synergies with larger, more bureaucratic, mainstream asset managers where alternatives is a satellite, albeit a fast growing area.

We see an increased focus on the client journey and client experience with firms that have become successful being laser focused on investment performance and AuM growth. Firms now understand they will not win on performance alone; client experience, client service and client satisfaction are vital in building a successful firm. Firms are looking at talent from a broader sector in financial services in order to bring in best in class people.

ESG is becoming as important in private markets as it is in society. Given the private nature of the investments, it has taken longer to become mainstream across the sector, however, firms are now hiring dedicated individuals across investment and client facing groups who can represent them and drive this agenda.

Recruitment is becoming more aggressive in terms of remuneration, but also in what were previously regarded as the 'softer benefits'. The pandemic has demonstrated to many that remote working or a hybrid of remote and office-based work can be effective, and candidates in distribution are increasingly seeking flexibility as part of their employment specification.

Compensation has risen remarkably this year for tier 1 candidates, with increases in base salaries and bonuses. We still observe a hesitancy in moving and much more scrutiny on the hiring firm in question. If our experience is anything to go by we see candidates now having much more negotiating leverage than they have had in the past. Given the competition, hiring firms must be organized and decisive to succeed in the battle for talent.

Hiring diverse talent remains top of the agenda for many firms. Alternatives firms have made some efforts to hire underrepresented groups, with mixed success. Today, firms must have a clearer agenda and message to get this right and we are seeing firms demanding such candidates at junior / mid and senior levels, in turn creating fierce competition for best in class talent in this area.

> "The industry is later to the party than others as it relates to growing a significant retail investor base. We are having to look broadly at talent to help drive this growth in our sector. For client facing roles in this area we now look for people with a CFA or similar where we are confident they can continue to learn and represent a complex range of strategies."
>
> *Head of Sales, Alternatives Manager*

Hiring Checklist

1 Act swiftly and decisively when you have a preferred candidate in the process. Too often we see clients who are more interested in the process, sometimes to the detriment of having the best person for the job in front of them. Remember, you only need to hire one person for a role!

2 Be flexible in your approach. More often than not the perfect candidate does not exist. Take time to understand where you are prepared to be flexible in the mandate.

3 Look closely at culture fit of team and organization, especially if hiring from outside the sector. Too often alignment is not found.

4 As a firm in hiring mode check genuine track record and relationships. Firms can be hesitant to ask people for proof of track records, deal sheets and relationships. Best practice is asking for a short, structured presentation or a view on what the first 6 months in the role would look like..

5 Give clarity on what you expect in the role and by when and let the candidate ask questions. So often people hire / join firms and several key points have not been covered so there is misalignment from day 1.

6 Discuss compensation parameters early. Do not let a process fall down after 6 months because this has not been covered by both parties early in the process.

7 In this market understand that retention is as important as hiring. Nurture talent, give opportunities where you can and remember replacement of senior talent can be more costly and time consuming that retaining existing talent.

> "There is a rush into this market right now. You need different skill sets for alternatives and the demand for talent is across the board."
>
> *Head of Business Development, Private Credit Manager*

About Us

Over **500** searches conducted

Team of **6** dedicated to investment & Wealth Management

Placements in **13** countries

Search completion **92**%

- Valentine Thomas is a partner owned business. We lead every search and adopt a partnership approach to each engagement.
- Founded in 2004, we are dedicated to investment and wealth management.
- We are a leading boutique in the asset management market, with an outstanding network and a database of over 50,000 people.
- We have no shareholders to service; our clients come first.
- Given our size, we can offer our clients flexibility for each engagement.
- We have a small off-limits list compared to larger firms, allowing us greater access to the talent market.
- Reputation for Diversity appointments.

The Team

Richard Valentine

Chairman
rgv@valentinethomas.com

Basil Reid Thomas

Partner, Investment Management & Co-Head of ESG
brt@valentinethomas.com

David Harms

Partner, Investment Management & Co-Head of ESG
dharms@valentinethomas.com

Alex Diffey

Partner, Head of Wealth Management
adiffey@valentinethomas.com

Celia Cortijo

Consultant, Investment Management
ccortijo@valentinethomas.com

Holly Carruthers

Asset Management Analyst
hcarruthers@valentinethomas.com