HOW FIRMS HIRE THE RIGHT HEDGE FUND COO

HFMWeek examines recruitment trends for the top non-investment hedge fund job

BY SAM DALE

The hedge fund sector is at the cutting edge of investment technology, from artificial intelligence and machine-learning techniques to bitcoin investing, but in other ways it remains surprisingly old school. Nowhere is that more apparent than in recruitment, where building a network of professional contacts is essential and senior jobs at both established firms and start-ups are rarely advertised and often only discovered through word of mouth. Traders may have an investment track record to pitch to new employers but prospective COOs lean heavily on their contacts book when looking for a new role.

For hedge fund founders, it is one of the most important hiring decisions, so how do they find the right talent? *HFMWeek* has asked COOs, recruiters, prime brokers and investors for tips on finding the right COO.

One prime broker highlights two routes available to hedge fund founders. Firstly, the "old boys" network where friends or colleagues from previous companies join as the COO. There is also a range of professional networks driven by prime broker consulting firms and recruiters that can be tapped into. The two can often overlap.

Founders searching for a COO want someone who they can trust to run and manage their firm successfully. The *HFM Compensation Survey 2016*, published last July, shows the average pay of a hedge fund COO is around $300,000 including bonus. COOs who take a gamble by joining a start-up say they can receive partnership status and equity in the firm, although founders are naturally reluctant to give too much away.

SKILL SETS

Start-up hedge funds lean heavily on their existing networks and often look to hire in former colleagues or friends, although the skill sets required vary dependent on strategy and asset size.

One COO, who has launched numerous funds, says the required skills and experience can vary significantly between strategies. He launched one complex credit-focused manager with six operations staff and another long/short equity fund with just himself in operations.

Paul Mattessich, managing director of operations and middle-office advisory services at Constellation Advisers, which provides support to hedge funds, says different sized managers have varying requirements from their COO.

"Firms that are sub-$300m will be likely to hire a COO/CFO as their first and possibly only non-investment professional," he said. "Whether they make an internal hire, or outsource to a firm like Constellation, they ultimately need a hands-on COO with experience in middle office, trading and accounting systems, as well as NAV production. This would typically be a senior operations professional at a large fund or a director of operations at a mid-sized hedge fund.

"Firms north of $300m will probably make a number of non-investment hires beyond the COO/CFO. Larger firms might look to bring on a controller and perhaps a director of operations. Under that scenario, the COO will be more likely to be responsible for the big picture and understand middle-office, systems and NAV production, but they are managing business operations too. This will usually be someone with experience in human resources, compliance and key vendor relationships."

Some recruiters say it is becoming more common for COOs to be hired with legal and compliance backgrounds as regulation takes on greater importance, especially at larger managers.

"The role of a COO is now someone who can deal with compliance and legal," says Jeremy Robertson, hedge fund recruitment consultant for Lockwood Executive Search.

"We are seeing a lot of COOs coming up through legal now. As the role changes with increasing regulatory burdens they can be more effective with a legal background."

David Claypoole, hedge fund recruiter for legal staff at Parks Legal Placement, highlights that more hedge fund general counsels are moving to become COOs.

"Those general counsels who have previously acted as de facto COOs are now getting the COO title as well," he says. "Consequently, when funds go to recruit COOs then you have individuals with legacy backgrounds in those seats."

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NETWORKS

Mattessich says recruiters can help but founders often find that working within their own professional network of existing relationships is the best way to recruit a COO. One founder of a recently launched systematic hedge fund says he relies on his professional network exclusively for non-investment hires. "If you are launching your own fund then you have likely been in business a long time with a network," he says. "I could tell you five really good people who could be great CFOs and COOs for systematic funds. A few are more people-friendly and others are more computer-focused."

Another founder of sub-$100m systematic start-up in Connecticut has hired an external consultant that he knows well as his COO. "You need someone who understands the culture of the firm and investment process," he says. "We see eye-to-eye on the key areas."

If there is no-one appropriate from existing networks then new launches can rely on other sources of information such as prime broker consultants.

"The prime brokers are the only source for start-ups and recruiters don't get much of a look in," says one COO who has been looking for jobs this year. "That's because traders are making the hires and they hate paying anything for recruitments. They will avoid [recruiters] like the plague."

Prime brokers and other service providers to start-ups typically keep a bank of names that can be recommended to new firms. Many see numerous closures and departures with their clients and are happy to push forward senior executives who they already have a relationship with. Outsourced operational firms can often be a key adviser for early-stage managers and can usually provide resumés of potential COOs.

In terms of regional trends, a number of COOs with experience in the US and UK market say the US is more reliant on 'old boys' networking while the UK is slightly more focused on professional support, such as recruiters and PB consulting teams.

"The US market is about who you know," says one COO at a $2bn hedge fund. "Going to conferences and raising your profile are paramount in the US. The expectation is that you will need to wait between six and 18 months to get the right role."

Richard Scardina, partner at executive search firm The Atlantic Group, notes that for many smaller and start-up hedge funds the COO role and CFO position are combined.

"Larger firms will all have a separate COO and CFO but about half of hedge funds below $10bn combine the roles. There are not many COO positions available and these guys don't bounce around that much."

RECRUITERS

Using recruitment consultants to hire COOs is more popular at larger managers that are hiring externally. There are numerous specialist hedge fund headhunters and recruitment agents in London, New York and Hong Kong for non-investment, legal and investment positions.

There is less turnover at the largest managers and it is a different set of skills compared to start-up COOs who often require marketing or legal expertise, given the lack of internal resource.

Lockwood's Robertson says funds with less than $1bn in assets typically don't use recruiters.

"The largest funds already have a COO position filled so most hiring is done at funds between $1bn and $5bn where the CFO and COO is wearing the same hat. As they get bigger these firms will bring on more executives at the C-suite level.

"It is infrequent to change COOs for funds above $5bn. Most COOs at the very big firms have been in place for a decent tenure and there is more hiring for PMs."

If using a recruiter, hedge funds will have to weigh up whether it makes commercial sense to pay a retainer or use firms opportunistically through contingent searches. An annual retainer is typically around $100,000 to $200,000 a year and would include updates on market intelligence, marketing tips and work on specific projects. Any placement fees from hires can be deducted from the annual retainer.

Another option is a retainer per search where typically one-third of a final placement fee is paid up front. Placement fees are usually around 25% of the annual salary, although sometimes a flat fee is negotiated for top pay brackets. Recruiters argue that a retained search allows them to focus entirely on that hedge fund and finding people who are the right cultural fit, although some managers suggest this goal is not always achieved. ■