

## Hedgies Merging at Record Pace

By Steven Marlin  
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**A wave of consolidation is sweeping the hedge fund industry as larger firms swallow up smaller ones in search of talent pools, Robert Olman, president of Alpha Search Advisory Partners, told Markets Media Thursday.**

**“There's a feeling that assets under management in hedge funds are turning around and by 2010 will be on the increase,” Olman said. “We should end up with stronger, better run funds.”**

This opportunity to leverage existing infrastructure or gain access to one is a driving force in the trend toward consolidation. Larger firms are focusing on increasing AUM through client acquisition complemented by a broader, more diverse offering to existing clients. Additionally, many of them have underutilized capacity that could be leveraged by the addition of investment teams that bring AUM and fees.

At its peak in early 2008, the hedge fund industry had \$1.8 trillion in assets under management globally; by year end, the industry had shrunk to \$1.4 trillion. Nearly 15 percent of all U.S. hedge funds closed their doors in 2008.

For larger firms, consolidation provides an opportunity to hire managers and investment teams with proven capabilities in order to broaden product offerings, gain intellectual capital and build a more efficient organization. With strong cash positions and access to capital, successful funds are showing a strong interest in building out portions of their business where they lack in-house expertise.

**“Given the current valuation levels, firms can more rapidly and cost-effectively grow through acquisitions than by more gradually building a new team,” said Olman.**

Consolidation is also an attractive option for smaller firms as compliance, tax and transparency requirements increase the cost of running a hedge fund. Access to institutional investors, especially pension funds, will become more restricted to the larger platforms offering managed accounts, liquidity provisions, transparency, and strong investor relations and risk management teams.

**“Shared infrastructure and complementary skills increase profitability and sustainability of the merged entities, and selling an equity stake is generally a more investor friendly option than liquidating or putting up gates,” said Olman. “In such trades, managers can**

**retain a significant portion of strategic control and economics in the incremental revenues they bring.”**

**In sizing up potential talent, hedge funds overwhelmingly favor people with hedge fund experience. “Hedge funds are hiring people with hedge fund experience, and secondarily with sellside experience,” Olman said. “Not every sellside analyst will transition well into hedge funds; they may not have experience on short opportunities or in managing risk capital.**

That's a change from earlier in the decade, when funds were expanding and looked to stockpile talent by raiding sellside firms.

**“Back in 2002-04, there weren't enough hedgies so they hired from prop desks as the industry was expanding rapidly,” Olman said. “The bar has been raised in hiring; there's still a good inventory of people on the beach,” However, opportunities exist for sellside with hard-to-find skills. Said Olman, “The demand for portfolio managers in distressed debt and global macro exceeds supply in distressed debt and global macro exceeds supply.”**