WHITNEY PARTNERS

NEWSLETTER

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Insights for the financial & cannabis sectors in Q4 2019

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Dear Colleagues,

My favorite aspects of financial services recruiting are seeing how asset management trends with investment banking, observing which sectors are outperforming others across the board, and discovering new asset classes. This summer has been a time when the trends for this year have culminated in a clear picture of what momentum will look like going forward. The spotlight is on fundraising, where clients are looking to diversify their investor bases, bracing for what may be a slowdown in North America – or other regions where they may have a concentrated investor base. While we have yet to see evidence of a slowdown, we are seeing that firms are competing tooth and nail for pockets of capital.

I have highlighted the major trends I am seeing within asset management and investment banking below, and I have included an update on the cannabis space.

1. PRIVATE EQUITY

- The past two years have been frothy for fundraising in private equity and private debt strategies
- Because of the appetite for longer locked vehicles, we're seeing liquidity terms shift towards lock up structures as a general market theme
- Sector specialized firms who are smaller by capacity restraints are of particular interest, as those firms are able to invest without diluting returns
- Significant hires in the fundraising space this year and last year are seeking junior hires, particularly in IR. We are seeing a lot of client-facing IR searches to help support the

fundraising and retention efforts

- The hiring volume in 2019 has been focused around the 10-15 year director-level private equity investors across real estate, software, healthcare, and infrastructure
- Many hedge funders are looking to leverage credit experience as they are leaving hedge funds to go to private debt trending firms where the capital is protected and the lack of volatility creates a more certain compensation structure

2. HEDGE FUNDS

- Performance continues to lag, long/short equity is largely beta driven, with only the big equity hedge funds growing bigger. Whether it's by team liftouts, JVs, or single hires, the hiring is dominated by the largest managers. It's a talent war between the top 8 managers of who gets the best talent first.
- While credit is trending, many firms were betting that we would be seeing more of an economic decline this quarter, and we see funds that have theses playing out too early in the cycle. As always in life, timing is everything
- Marketing is continuing to hire, while also churning existing seats. Since so much talent has been shaking loose from poor performance in the HF industry, many managers are overwhelmed or constantly bombarded by the talent pool. The danger is that the mentality of continued "upgrading" will eventually spook investors if their investor coverage keeps changing!
- Fee compression and the constant availability of talent is making compensation even harder to benchmark. For people who are highly visible and qualified, the compensation has increased, as other firms need to bid high to get candidates to move (these are of course the most desired candidates by clients). For candidates who are out of work, compensation negotiation has been flat or soft.
- While the US market is active, and the institutional communities are still allocating, very few firms are hiring in marketing in Europe, as there is a sense of more redemptions than allocations.
- Platforms continue to be a great investor base for hedge funds with critical mass and track records, who are investing more in relationship managers and marketers with specific expertise in platforms and wirehouses. When managed right and supported by good performance, these investor types can be "the gift that keeps on giving".

3. FAMILY OFFICES

- Financiers and titans of industry, now in succession mode, have been developing their own family or multi-family offices with a focus on sector agnostic PE. These family offices like to coinvest with each other in innovative ways and have the ability to move quickly on deals. Senior PE candidates are attracted to these roles because it gives them much broader coverage with a flexible wallet and relationships to leverage.

- Family offices also have less turnover by design so, from a career standpoint, I suspect we'll see more consistency in PE investors who have gone internal.
- The multi-family office space continues to evolve and become more sophisticated as firms continue to grow. Elite firms are offering unique, direct investment opportunities and bespoke services to cater to the demands from UHNW clientele.
- Smaller multi-family offices with one or two differentiated strategies have become exceedingly more interested in joining more established, robust multi-family offices with niche investment opportunities and services to capture a larger wallet share of their existing clients.
- Sophisticated RIAs continue to attract advisors with portable assets as banks and broker dealers become more concerned with regulations and the "product pushing" that makes it challenging for advisors to lead with the best opportunities for their clients.

2. SECTOR SPOTLIGHT: CANNABIS

- The "budding" cannabis industry is constantly evolving, with many VC's and PE firms strategically adding exposure and others positioning themselves pending legality of cannabis. However, the overall sentiment is positive for opportunity
- Although still illegal in the US Federally, The Farm Bill that was passed in December of 2018 removed hemp and other cannabis products (ie, CBD) from the Controlled Substances list, and on the state level, there are now 11 states with legalized recreational marijuana
- Cannabis has been dominating capital markets, with most companies listed on the Canadian exchange
- Some firms have put out estimates of the Cannabis industry growing to anywhere from $75 to $200 billion globally over the next 10-15 years
- Cannabis space extends across various industries; from Healthcare (medical cannabis, cannabinoid-derived pharma etc.) to Consumer/Retail (recreational goods – infused products, flowers and concentrates, etc), Technology (cannabis business services, cannabis business software, cannabis online directories and networking platforms, etc.), and Industrials (farming equipment, extraction and product testing equipment, etc)
- US banks have been reluctant to "touch the plant," with most of the larger, established global banks and financial institutions staying away from the industry due to the complicated political and regulatory landscape, therefore the industry has been relying on VC and PE money.

5. INVESTMENT BANKING

- The war for talent is raging in the middle market. As Bulge Bracket firms recognize the breadth of the midcap space and traditional middle market specialists continue to eye bigger and bigger deals, the demand for quality bankers has grown tremendously.

- Industry powerhouses such as Goldman Sachs, J.P. Morgan, and Guggenheim Securities are among the firms that have in recent years committed to building out a middle market advisory practice. They recognize the synergies that such a practice creates, and the value that it can bring to deal hungry financial sponsors. They are competing against firms like William Blair, RW Baird, and Harris Williams, who have historically dominated middle market sell side M&A.
- As always in banking, human capital will decide who comes out on top. The big firms must weigh whether to convert large cap bankers to middle market specialists, or whether to poach from their competitors. Whatever the approach, supply and demand dictates that these bankers should expect their compensation to rise quickly.

I hope that these themes generate discussion within my broader network. I look forward to staying in touch, and please let us know if you have any market or search questions for Whitney Partners.

Wishing everyone an excellent Q4.

Best,
Alex

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THANK YOU