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IN THE NEWS

ASSET SERVICING

Staffing Worries Hit Hedge Funds' Back Offices

Study says funds competing for small pool of operations, technology staff

BY CHRIS KENTOURIS

The hedge fund industry may be growing by leaps and bounds but it is encountering difficulty hiring qualified back-office personnel, and enticing them to stay.

Seventy percent of hedge funds have trouble retaining operations and other staff, while almost 60 percent currently lack sufficient personnel in their back office, according to a recent study by accounting and hedge fund consulting firm Rothstein Kass' executive search team.

"It was clear to us from our daily interactions with clients that back-office staffing concerns are pervasive across all segments of the hedge fund industry," says Todd Noah, principal in charge of the Rothstein Kass unit.

The findings were based on interviews with over 500 chief financial officers at direct investment hedge funds with at least $100 million in assets under management. About half of the hedge funds had assets between $100 million and $999 million; a quarter reported assets between $1 billion and $2.99 billion; and the balance had more than $3 billion.

The New York-based firm defines back-office staff as those in positions other than portfolio management or trading—roles such as CFO, COO, director of operations, operations manager, senior accountant and controller. Also included were marketing and investor-relations positions that are often considered to be front or middle office.

Hedge funds tend to be far more complex than traditional investment funds and, because they rely on a multitude of different trading strategies, finding staff can be time-consuming; talent must often be tapped from other funds or from service providers such as accounting firms, prime brokers and administrators. And there is a talent drain among the service providers themselves: They are getting poached by their own clients.

Keeping back-office staff is just as difficult—if not more so—as recruiting them, since compensation levels do not reach those of portfolio managers, who earn mega performance fees, though they also face imposing workloads. The "flat structures" of hedge funds also do not allow for upward mobility.

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The situation, according to Noah, will get worse as more institutional money flows into the industry because those investors will demand stricter compliance, risk management and reporting capabilities. In fact, there will be greater demand for qualified operations staff even though hedge funds often outsource their middle- and back-office work to third-party service providers.

The study found that directors of operations earn from $300,000 to $988,000 annually while operations managers take home as much as $391,000; operations associates can clear $152,000. "Operations staff can be responsible for an array of recordkeeping, valuation, accounting and reconciliation functions yet are often underappreciated by management, which results in high turnover," says Noah.

Sandy Gross, founder and managing director of Greenwich, Conn.-based Pinetum Partners, an executive search firm specializing in hedge funds, notes that her clients can't keep up with their operations and technology staffing needs. "Those are the key areas for building the infrastructure of a hedge fund, yet they are demanding and frustrating jobs," she says. "They don't share in the perks of front-office staff despite the important roles they play."

The COO role, which offers the widest range of salaries—from $581,000 to $1.74 million, including bonuses, according to Rothstein Kass—is often the most problematic to fill, in no small measure because the job description varies greatly. Some COOs may be responsible for finance, operations and technology while others also take on a marketing and investor-relations role.

Chief operating officers' annual base salaries were relatively stable across the different-sized funds, but bonuses varied drastically. At firms with $100 million to $999 million in assets under custody, the average COO salary was $219,000 and bonus $796,000; COOs at firms with $1 billion to $2.99 billion in assets made $324,000, with a $889,000 bonus; $3 billion-plus funds paid $344,000 and gave bonuses of $1 million.

The study shows that specialist directors of investor relations and marketing bring home competitive salaries—from $178,000 to $384,000—as do directors of marketing and sales, with some of them earning more than $1.4 million.

Indeed, another recent report on recruiting trends in the asset and wealth management industries, released by New York-based executive search firm Russell Reynolds Associates, predicts that the greatest functional demand continues to be for "distribution professionals," such as sales, service, relationship management and product specialists, as funds of all sizes and strategies compete for client retention and an increased share of institutional capital.

"Two-year guarantees are now the norm, and veterans with a demonstrable track record—those with over 15 years of experience—of raising assets from institutional investors can earn more than $2 million," says Lynn Tidd, managing director of Russell Reynolds' global hedge funds practice. ■