

Chapter I

GETTING STARTED

Consider this your pregame pep talk. Before you take the field and set out on your search for a hedge fund position, there are several fundamental things you must know. You should at least be familiar with what hedge funds are, how they make money, and the role they play in the financial markets. In addition, you will need a solid understanding of the different investing styles. Once you know these things, you will be better equipped to begin your search.

The hedge fund market has grown exponentially over the past several years. Although estimates vary, most agree that there are close to 10,000 funds in operation worldwide. According to Hedge Fund Intelligence, global hedge fund assets hit \$2.48 trillion at the end of the first half of 2007. Other sources indicate that as recently as 2001, there were approximately \$600 billion in total hedge fund assets, whereas 10 years earlier, in 1991, the number stood at \$221 billion.

Even more notable than the growth in sheer numbers of funds and assets under management (AUM) is how the industry has evolved into a significant force in the global economy. To say that hedge funds have developed from a cottage industry into one that plays a major role in the financial markets would be a tremendous understatement. Although \$2.48 trillion is a staggering number, that figure dramatically understates hedge funds' influence. When the amount of leverage used by hedge funds and the frequency of their trading are factored in, their net impact is even greater. By managing such large amounts of capital, hedge funds have become major players on many of the world's public markets.

BIGGER AND BIGGER

A semiannual survey of U.S. hedge funds by *Absolute Return* magazine (see Table 1.1 and Table 1.2) found that the four largest hedge fund firms each had more than \$30 billion in AUM. In addition to those firms, there were 76 hedge fund firms managing \$5 billion or more and 372 with more than \$1 billion in AUM. Of those \$1 billion+ funds, 246 are based in the United States. And the big funds keep getting bigger. The top five firms—JPMorgan Asset Management (which includes JPMorgan Asset Management and Highbridge Capital Management), Goldman Sachs Asset Management, D. E. Shaw Group, Bridgewater Associates, and Och-Ziff Capital Management—all increased AUM significantly during the 12 months ending July, 2007.

In terms of hedge fund styles, there are more different types of hedge funds operating today than ever before. Some may be considered extremely risky and not for the faint of heart. Others can be more risk averse and just as dependable as a major mutual fund (in select cases some funds have begun acting like mutual funds by charging only management fees). Despite some notable collapses—Amaranth Advisors in 2006 being one of the most noteworthy—most foresee continued growth for the industry.

Table 1.1 Top Ten Single-Manager Hedge Fund Firms (as of July 2007)

FIRM	LOCATION	AUM (BLNS)
JPMorgan Asset Management ^a	New York	\$56.20
Goldman Sachs Asset Management	New York	\$39.98
D. E. Shaw Group	New York	\$34.00
Bridgewater Associates	Westport, CT	\$32.10
Och-Ziff Capital Management	New York	\$29.20
Renaissance Technologies Corp.	East Setauket, NY	\$29.20
Farallon Capital Management	San Francisco	\$26.06
Barclays Global Investors	San Francisco	\$23.00
Man Investments Limited	London	\$21.13
Tudor Investment Corporation	Greenwich, CT	\$20.96

Source: *Absolute Return* magazine, used with permission by HedgeFund Intelligence. Copyright 2007.

^aIncluding JPMorgan Asset Management (\$19.50 bln) and Highbridge Capital (\$36.70 bln).

Table 1.2 Billion-Dollar Hedge Funds by Location (July 2007)

CITY	NUMBER OF BILLION-DOLLAR FIRMS	AUM (BLNS) (JULY 2007)
New York, U.S.	139	\$881.00
London	79	\$316.00
Connecticut, U.S.	32	\$200.00
California, U.S.	24	\$109.00
Massachusetts, U.S.	14	\$83.00
Texas, U.S.	11	\$45.00
Australia	8	\$28.00
New Jersey, U.S.	8	\$20.00
Paris	7	\$24.00
Hong Kong	7	\$12.00
Singapore	6	\$7.00
Illinois, U.S.	5	\$28.00
Japan	4	\$7.00
Bermuda	3	\$9.00
Russia	3	\$5.00
Sweden	3	\$8.00
Minnesota, U.S.	3	\$17.00
Wisconsin, U.S.	3	\$18.00
Norway	2	\$4.00
Florida, U.S.	2	\$7.00
Georgia, U.S.	2	\$13.00
Virginia, U.S.	2	\$4.00
Others	14	\$48.00
Total*	381	\$1892.00

Source: *Absolute Return* magazine, used with permission by HedgeFund Intelligence. Copyright 2007.

*Includes nine firms with more than one headquarters.

WHAT IS A HEDGE FUND?

As someone interested in this industry, you probably know that a hedge fund is a privately managed investment vehicle that has the ability to invest in a wide variety of securities. Unlike mutual funds, hedge funds can use aggressive and advanced

strategies to make investments (for example, selling short and using leverage). Most hedge funds have high minimum investment amounts, limiting them to wealthy individuals and institutional investors.

Investors in hedge funds are limited partners (LPs), and because their capital may be locked in for a predetermined time period their investments are relatively illiquid compared to other types of investments. In a hedge fund, the general partner (GP) is typically the person or entity that created the fund and oversees its trading activities and operations. In addition to investment professionals—traders and research analysts—hedge funds (depending on their size) can have large teams of non-investment professionals made up of accountants, operations specialists, legal and compliance professionals, and support staff.

Technically speaking, the primary aim of most hedge funds is to reduce volatility and risk while preserving capital and delivering positive returns in all market conditions. To put it more succinctly, the goal of all hedge funds is to make money—both for themselves and for their investors.

Hedge funds make money for themselves in two ways. First, they charge investors an annual management fee. This fee is typically between 1% and 2% of assets under management. Second, hedge fund managers also receive a percentage of the fund's annual profits. This performance or incentive fee can fluctuate from 10% to as high as 50% in a few cases, but usually ranges between 15% and 30%, with the norm being 20%. The remaining profits go to the LPs. Here's how it works: Take a \$1 billion fund with a 2% management fee and a 20% performance fee (often called "2 and 20"). Right off the bat, the fund takes in \$20 million from the management fee each year, which is typically used to pay salaries and overhead. If the fund is up 10% in a given year (a \$100 million profit) it will earn an additional \$20 million in performance fees (20% of the profits) that can be used to pay bonuses to the fund's employees.

In Figure 1.1, we have created an organizational chart for a typical hedge fund. Of course, hedge funds all operate quite differently, and you should refer to the chart as a general guide only. You will find that the organization of a specific hedge fund

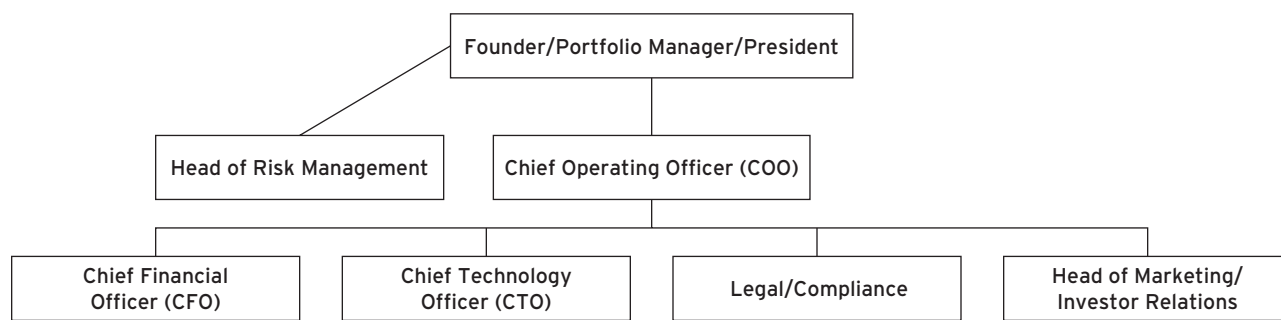


Figure 1.1 Hierarchy of Typical Hedge Fund

depends on, among other things: the size of the fund, if the fund is organized by industry, and whether it is a single profit and loss (P&L) structure or a multi-strategy fund. You will find organizational charts for single P&L and multi-strategy funds in later chapters.

HURDLES AND HIGH-WATER MARKS

Not all funds make money as neatly as in the example just given. It's very possible that a fund can produce stellar returns one year, but be in negative territory the next. To protect LPs, whose money is locked up, some funds have safeguards in place to make sure their own executives are not getting wealthy at the expense of the LPs. In some cases, if a fund is flat or loses money the hedge fund executives will receive little or no monetary rewards, and that's because of the presence of hurdle rates and high-water marks.

Although hurdles are not used too often, the idea is to only reward the hedge fund managers for a return that is greater than an investor could have gotten in a more secure type of investment. Funds that have hurdle rates do not collect a performance (or incentive) fee unless the performance eclipses a predetermined benchmark—the hurdle.

Hedge funds with high-water marks do not receive incentive fees unless the value of the fund tops the highest net asset value previously achieved. For example, if a fund had a net asset value (NAV) of \$1 billion at launch and finishes the first year at \$1.2 billion, it would collect a performance fee on the \$200 million profit, or 20% return. If in the second year the fund loses ground and falls to \$1.1 billion, it would not collect a performance fee. If the fund rebounds and rises to \$1.4 billion in the third year, LPs would pay a performance fee, but only on the difference between \$1.2 billion and \$1.4 billion—in this case \$200 million. In essence, high-water marks limit hedge fund managers from entering overly volatile trades that allow them to collect a high performance fee one year only to lose LPs' money the next.

HEDGE FUND STYLES

To follow are descriptions of some of the more popular investment strategies (with many of the definitions provided by Lipper HedgeWorld). This list is not meant to be exhaustive. Trading styles (see Table 1.3) come and go as the markets in which they invest evolve (or dissolve). The strategy of the fund will dictate not only the culture of the fund, but the skills sought when hiring. While some strategies have changed over the years (for example, emerging markets funds used to be purely long only but are now more complex), others have stayed the same, and new ones are just developing as we write this guide. There are also many styles that overlap.

Table 1.3 Instruments and Styles

COMMONLY USED INSTRUMENTS	HEDGE FUND STYLES	
Public Equities	Long/Short	Quantitative
Fixed Income	Long Bias	Event-Driven/Special Situations
Currencies	Short Only	Value
Commodities	Arbitrage	Trading Oriented
Derivatives/Futures	Market Neutral	Global Macro
Private Equity	Industry Focus	Multi-strategy
Convertible Bonds	Distressed	Geographic Focus

Arbitrage Strategies

There are various types of arbitrage strategies, and all seek to exploit imbalances between different financial markets such as currencies, commodities, and debt. Some of the more popular hedge fund arbitrage strategies are convertible fixed income, risk, and statistical arbitrage.

Convertible Arbitrage

This strategy is identified by hedge investing in the convertible securities of a company. To do this, a hedge fund manager would buy the convertible bonds of a company while at the same time selling (or shorting) the company's common stock. Positions are designed to generate profits from the fixed income security as well as the short sale of stock, while protecting principal from market moves.

Fixed Income Arbitrage

A fund that follows this strategy aims to profit from price anomalies between related interest rate securities. Most managers trade globally with a goal of generating steady returns with low volatility. This category includes interest rate swap arbitrage, U.S. and non-U.S. government bond arbitrage, forward yield curve arbitrage, and mortgage-backed securities (MBS) arbitrage. The mortgage-backed market is primarily U.S.-based, over-the-counter (OTC), and particularly complex. Note: Fixed income arbitrage is a generic description of a variety of strategies involving investments in fixed income instruments, and weighted in an attempt to eliminate or reduce exposure to changes in the yield curve.

Risk Arbitrage

Sometimes called merger arbitrage, this involves investment in event-driven situations such as leveraged buyouts (LBOs), mergers, and hostile takeovers. Normally, the stock

of an acquisition target appreciates while the acquiring company's stock decreases in value. Risk arbitrageurs invest simultaneously in long and short positions in both companies involved in a merger or acquisition. As such, they are typically long the stock of the company being acquired and short the stock of the acquirer. The principal risk is deal risk, should the deal fail to close. Merger arbitrage may hedge against market risk by purchasing Standard & Poor's (S&P) 500 put options or put option spreads.

Statistical Arbitrage

Stat arb funds focus on the statistical mispricing of one or more assets based on the expected value of those assets. This is a very quantitative and systematic trading strategy that uses advanced software programs. Note: These funds typically hire PhDs, mathematicians, and/or programming experts.

Emerging Markets

This strategy involves equity or fixed income investing in emerging markets around the world. As emerging markets have matured so too has investing in them. Whereas until recently most emerging markets funds were long only, some of these same funds may now incorporate the use of short selling, futures, or other derivative products with which to hedge their investments.

Equity Strategies

There are several types of hedge funds whose strategies focus on investing in equities. While some of these may use seemingly more traditional strategies, others are quite complex and require very specific skills.

Long/Short Equity

This strategy involves equity-oriented investing on both the long and the short sides of the market. Funds aim to take positions in companies that they believe are undervalued and are therefore trading below their perceived value. Managers have the ability to shift from value to growth, from small- to medium- to large-capitalization stocks, and from a net long position to a net short position. Managers may use futures and options to hedge. The focus may be regional, such as long/short U.S. or European equity, or sector specific, such as long and short technology or healthcare stocks. Long/short equity funds tend to build and hold portfolios that are substantially more concentrated than those of traditional stock funds. Note: This is the most common hedge fund strategy and dates back to the original funds developed in the 1950s. The ultimate goal is to have longs outperform during bull markets and shorts outperform during bear markets.

Dedicated Short Bias

Short bias managers take short positions in mostly equities and derivatives. The short bias of a manager's portfolio must be constantly greater than zero to be classified in this category. Note: Dedicated short sellers were once a robust category of hedge funds before the long bull market rendered the strategy difficult to implement. A new category, short bias, has emerged. The short bias strategy is to maintain net short as opposed to pure short exposure.

Dedicated Long Bias

There are funds that hold only long-term equity positions, much the way a mutual fund invests. By definition, these funds will not short stocks. Practitioners of this style use fundamental bottom-up analysis of a company, technical analysis of the movement of a stock price, or a combination of both.

Equity Market Neutral

This investment strategy is designed to exploit equity market inefficiencies and usually involves being simultaneously long and short matched equity portfolios of the same size within a country so that the return of the fund is uncorrelated with the market return. Market neutral portfolios are designed to be either beta or currency neutral, or both. Well-designed portfolios typically control for industry, sector, market capitalization, and other exposures. Leverage is often applied to enhance returns. Market neutral equity funds, which invest equally in long and short equity portfolios generally in the same sectors of the market, are not correlated to market movement.

Event-Driven Strategies

These strategies are used in equity-oriented investing designed to capture price movement generated by an anticipated corporate event such as a merger, takeover, bankruptcy, or the issuance of debt or equity. Event-driven strategies seek to reduce risk by being uncorrelated to the markets. There are several subcategories within event-driven strategies. These include distressed securities, opportunistic, special situations/value, and Regulation D. Risk arbitrage and high-yield investing are also considered event-driven. Since they overlap with other styles, we give their definitions in the Arbitrage Strategies and Fixed Income Strategies sections, respectively.

Distressed Securities

Fund managers invest in the bank debt, corporate debt, equity, or trade claims of companies undergoing some type of corporate restructuring, reorganization, or distressed sale.

The securities of companies in need of legal action or restructuring to revive financial stability typically trade at substantial discounts to par value and thereby attract investments when managers perceive a turn-around will materialize. Note: The performance of these funds typically does not depend on the direction of the markets. Rather, they aim to profit from the market's lack of understanding of the true value of the deeply discounted securities and because the majority of institutional investors cannot own securities rated below investment-grade.

Special Situations/Value

Fund managers invest in event-driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. The securities of the target companies are often out of favor or under-followed by the Wall Street research community, but are believed by these funds to be selling at deep discounts to what they believe is their potential worth. Hedge funds that employ this style may simultaneously purchase stock in companies being acquired and sell stock of the acquiring company, hoping to profit from the spread between the current market price and the ultimate purchase price of the company. These funds may also utilize derivatives to leverage returns and to hedge out interest rate and/or market risk. Because they invest in special situations, the performance of these funds is typically not dependent on the direction of the public stock market. Note: This is primarily an equity-based style.

Fixed Income Strategies

There are many different fixed income funds that invest in various types of debt instruments, including mortgage-backed securities (MBS), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), convertible bonds, high-yield bonds, municipal bonds, corporate bonds, and different types of global securities. There are diversified funds that may invest in a combination of these securities and also arbitrage funds that seek to profit by exploiting pricing inefficiencies between related fixed income securities while neutralizing exposure to interest rate risk.

Convertible Bonds

Convertible bond funds are primarily long only convertible bonds. By definition, convertible bonds are fixed-income securities with the added attraction of giving holders a stock option to buy shares of the underlying company. As the underlying stock rises, the value of the convertible bond should also rise. Investors are protected on the downside, because even if the stock falls, the bond will simply fall to the level where it is in essence a straight bond.

High-Yield

High-yield managers invest in noninvestment-grade debt of companies that show significant upside potential. Objectives may range from high current income to acquisition of undervalued instruments. Managers focus on assessing the credit risk of the issuer. Some of the available high-yield instruments include extendable/reset securities, increasing-rate notes, pay-in-kind securities, step-up coupon securities, and split-coupon securities.

Mortgage-Backed

Mortgage-backed funds invest in mortgage-backed securities. Many funds focus solely on triple-A rated bonds. These can include government agency and government-sponsored enterprise securities, private-label fixed-rate or adjustable-rate mortgage pass-through securities, fixed-rate or adjustable-rate collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and stripped mortgage-backed securities (SMBS). Funds may look to capitalize on security-specific mispricings. Hedging of prepayment risk and interest rate risk is common. Leverage may be used, as well as futures, short sales, and options.

Global Macro

Global macro managers carry long and short positions in any of the world's major capital or derivatives markets. These positions reflect their views on overall market direction as influenced by major economic trends and/or events. The portfolios of these funds can include stocks, bonds, currencies, and commodities in the form of cash or derivatives instruments. Most funds invest globally in both developed and emerging markets. Note: These funds seek to profit from changes in global economies, which are typically triggered by changes in government policy. These changes can affect interest rates and in turn may impact currency, stock, and bond markets. Global macro funds depend on their own fundamental macroeconomic research and often employ a top-down global approach.

Managed Futures

This strategy invests in listed financial and commodity futures markets and currency markets around the world. The managers are usually referred to as Commodity Trading Advisors (CTAs). Trading disciplines are generally systematic or discretionary. Systematic traders tend to use price- and market-specific information (often technical) to make trading decisions, while discretionary managers use a more judgmental or fundamental approach.

Multi-strategy

Multi-strategy investing uses various strategies simultaneously to realize short- and long-term gains. Rather than making dramatic shifts between styles, multi-strategy funds are more apt to reallocate managers within their selected strategies based on the performance of the managers.

Quantitative Strategies

Quantitative funds, which use systematic trading, are highly model-driven and usually rely on detailed software programs to determine when to buy and sell. While most quantitative funds invest in equities, others target fixed-income securities, commodities, currencies, and market indexes. These funds, some of which have billions of dollars in assets, can move the markets in which they invest when an internal buy or sell order is triggered. While quantitative strategies have sometimes produced stellar returns, there have also been some well-known failures of funds using this strategy. Some examples of funds that use quantitative investing strategies are statistical arbitrage, options arbitrage, fixed-income arbitrage, convertible bond arbitrage, mortgage-backed security arbitrage, derivatives arbitrage, equity market neutral, managed futures, and long/short funds.

Sector-Specific Funds

Some hedge fund managers may use any of the aforementioned strategies, but in doing so would focus investments on a specific sector of the market. Managers of these funds usually have both long and short equity positions. As with the strategies discussed earlier, the popularity of sector-specific funds can rise and fall with the markets—one year energy funds may be hot and outperform, and the next they will be out of vogue and real estate may be the sector of choice. Some sectors currently in fashion are energy; financial services; metals and mining; health care/biotech (including medical devices and pharmaceuticals); telecom/media (including fiber optics, telecom services, cable services, entertainment, programming, and broadcasting); real estate; and technology (which may include hardware and software, semiconductors, and networking companies).

DEVELOPING YOUR SEARCH

The market for hedge fund professionals—at both the pre- and post-MBA levels—is as strong as we have seen it in several years, and much of that is a direct result of the tremendous growth of the industry. In fact, we've seen total employment in the hedge fund industry increase each year over the past 10 years. In addition to the growth in assets under management (which has led to more people being needed

to invest the capital), there are other factors that have led to increased hiring: The industry overall has become more competitive—there are fewer obvious ways to make money—so it takes more resources (people) to discover investment opportunities; the operational infrastructure of hedge funds has become more sophisticated, creating new functions such as risk management, compliance, fund marketing, operations, and accounting; and many firms have gone global and have hired more people to staff overseas offices.

As the hedge fund industry has grown and matured, so too have the hiring practices of individual funds. Whereas several years ago a large majority of hiring was accomplished through personal contacts and networking, hedge funds are now doing more proactive recruiting, and this is especially evident at the junior level. Hedge funds now actively use search firms to source pre-MBA hires and conduct their own on-campus recruiting at business schools, much like their private equity brethren have done for the past 10 years.

Although the hiring process is more developed than it was just a few years ago, in many ways it is still evolving. The industry still lacks specific hiring cycles and a systematic interview process. Some funds hire new people each year, whereas others hire more sporadically. This book will help point out the similarities that we have noticed across the hedge fund industry. Despite the increased hiring, there is still no typical trajectory for a hedge fund professional. However, once you are in, there may be nothing pushing you out (unless of course the fund closes or blows up). If you are successful, you can make a career out of one hedge fund, start your own fund, go to business school, make a move to another area of financial services, or leave the industry altogether. It's really up to you.

Once you have a solid understanding of hedge funds and hedge fund styles, you should be ready to proceed with the meaty part of your job search. Headhunters intermediate quite a lot in this business, so getting in touch with a recruiter that specializes in hedge funds early in the process would be beneficial (Chapter XIV goes over in more detail our tips for how to work with a recruiter). One of the first things we do when someone tells us they want to work at a hedge fund is gauge their interest. Thus, before you even reach out to a recruiter or contact a hedge fund on your own, there are several things you should be asking yourself, including:

- Do you have what it takes to work at a hedge fund? (Do you even know what it takes?)
- What are your reasons for wanting to work at a hedge fund?
- What style is appropriate for your skills and background?
- What investment ideas do you have?

If you choose to work with a recruiter, you will likely have a preliminary meeting before being sent on an interview with a hedge fund. In that case you will be expected to be able to answer questions such as:

- Why are you interested in hedge funds?
- Have you ever invested on your own before? If so, could you present an investment idea? (This could be your most successful or least successful investment, your most recent one, or your very first one. The actual investment idea is not as important as your ability to explain succinctly why you invested and what your thought process was.)
- If you have not invested on your own before, could you walk through an investment that you *would* have made if you had had the time and money? (Maybe you didn't have enough money, had student loans to repay, or were restricted from investing by your employer. You should at least be able to walk through an investment that you would have made if you had the time and money. You should be thinking as a potential investor regardless of your current limitations.)
- What type of hedge fund are you interested in? Why? (You should know the differences between the strategies.)
- If you are in an investment banking program or have investment banking experience, you should be prepared to talk about the deals listed on your resume. That includes every detail, including the drivers of the deal.

In addition to looking inward to determine your interests and skills, we recommend reading as much as possible about the subject. In addition to getting you well versed in the vernacular of the hedge fund industry, reading magazines, newspapers, and web sites will keep you up-to-date with the themes in the market and the events that are affecting it. Being well read will also help you prepare for your initial recruiter interviews and those with hiring firms.

We often find ourselves dispelling one of the common misconceptions about hedge funds: that they are all the same. Unfortunately, when most people think of hedge funds they envision a trading fund that places large bets on stocks, currencies, bonds, and various commodities and use lots of leverage when making investments. They see a fund that has a penchant for risk and can be very volatile. However, all hedge funds are not alike, and only a small number are what we would call trading firms. As pointed out earlier, there are many different types of hedge funds, and each can differ significantly from the others. In fact, nearly one-third of all hedge funds are long/short equity funds and, as such, the research they do is very similar to that of any publicly traded mutual fund. They may purchase bigger stakes and some may even take active roles in the direction of the company, but as long-term investors they are not the trading firms that some imagine.

Who Gets In?

As you read this guide, you will notice that the advice we give doesn't differ much for the various entry points. Hedge funds are aware that analysts coming out of banking

and consulting programs will be less experienced than individuals with advanced degrees and that those hired out of business schools will be more experienced. In all cases, however, the type of individual coveted by hedge funds is pretty similar. As recruiters, we can easily spot the person who has the personality, skills, academic and professional background, and other intangible factors that appeal to specific types of hedge funds. And, just as important, the professionals at hedge funds can sense very quickly if a candidate has what it takes.

Insider Tip

Senior Hedge Fund Analyst

“Long/short funds want people with investing experience, credit funds want fixed-income experience, and quant funds want mathematicians/programmers. We have one super stat arb group, and unless you are a PhD you shouldn’t think about working there.”

You will also notice that it is hard to give blanket advice for all hedge fund styles, because they are all so different from each other. Some funds will accept candidates out of undergraduate school, while others want only PhDs. Some are open to hiring MBAs, while others never tap business schools for talent. There are funds that insist candidates have an intricate understanding of the public stock markets, and there are others that seek individuals with strong math and programming skills only. Instead of going into detail about the skills sought by each specific strategy, we will point out the most common traits that all hedge funds desire.

No matter the investing style, the candidates who will typically draw a lot of interest are those who are absolutely passionate about the markets and are driven, hardworking, thoughtful, and analytical individuals. These are the people who enjoy investing. Not only do they read the *Wall Street Journal* (and may have been doing so from a young age) and other financial publications, but they have their own portfolio, know how to track it and can talk intelligently about their investments. They can recite what is happening in major financial markets because they are interested in them, not because facts were memorized for an interview. These individuals already know the different hedge fund styles and which is a fit for their skills.

Insider Tip

Senior Fund Executive

“If you are looking for a junior role, you need to communicate that you are smart and understand an investment process and how it relates to a specific fund’s clients. By that I mean if you go into a growth shop you will need growth ideas and if you go into a value or emerging market shop you cannot go in with quick trading ideas.”

Why Investing Is Important

You will read many times in this guide about the importance of investing, and for most hedge funds that means you will need an intimate knowledge of the public markets. How better to get that than to be an investor? A candidate who has been investing will immediately have an advantage. If you have not been investing (even a paper or mock portfolio), we recommend you start.

The logo for 'Glocap Insight' is presented in a grey, 3D-style box. The text 'Glocap' is on the top line and 'Insight' is on the bottom line, both in a serif font. Two horizontal lines are positioned above and below the text.

Glocap Insight

Those who never bought a stock and never followed the markets should think long and hard about why they want to work at a hedge fund. If it's because you have a friend who works at a hedge fund, that will not get you far. This type of person will draw little interest. Have you ever read a book about hedge funds?

Some investment banking analysts tell us that they can't invest because they have no money. And, even if they had the funds, they insist they have no time and the regulations of their banks prohibit them from investing in the markets. All of that may be true, but it's not an excuse. If you interview at a long/short equity fund you will be at a distinct disadvantage if you have no investing experience, so we strongly suggest that you get some. Of course, there are exceptions. For example, for those who have knowledge of credit derivatives it is not as important to have been investing in the public equity markets, as they will likely be recruited by a credit-oriented fund. Similarly, for quantitative funds investing experience is not as relevant as are mathematics and programming skills.

The Analyst Role

Even though the situation differs from fund to fund, as the market has become more competitive most hedge funds have decided they need more analytical horsepower, not less. So, analysts have increased in popularity at hedge funds in the past few years, and that has created more of a typical pyramid structure. Many funds hire analysts as generalists, but as they attract more capital and become larger they also tend to develop a traditional forward path for advancement.

Anyone hired at a junior level would come in as an analyst and would provide leverage for a more senior member of the firm. In the beginning, most analysts at smaller funds are generalists. That means helping analyze companies and coming up with ideas, but more typically as an analyst you would do research for a senior member of the firm. You might be told something like: "Here's an idea—go take a look at it." That includes analyzing a potential investment, breaking it down, modeling it, visiting

the business, and talking to some suppliers. Analysts are basically doing the analytical work that goes into making decisions—research analysis.

Pre-MBA versus Post-MBA

Throughout this guide you will read about pre-MBA and post-MBA jobs. Although these sound like they revolve around business school, they do not and should not be taken literally. We separate jobs into “pre-MBA” and “post-MBA” to distinguish between the experience needed to get the jobs and the type of work that will be done. We define pre-MBAs as those people who have generally been out of undergraduate school for five years or less regardless of whether they plan to go to business school. It may be easier to think of this simply as a more junior role at a hedge fund. Post-MBAs are those candidates with anywhere from five to 15 years of total work experience and could include individuals who never went to graduate school.