

Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.

**GCM** GROSVENOR



November 2021

For 15 years, [GCM Grosvenor's Small and Emerging Managers Conference](#) has provided momentum to small, new, and diverse investment managers, helping them grow their capital base and build their businesses. We are proud the SEM Conference has contributed to the alternative asset management industry's evolution by creating a forum for learning and providing the next generation of managers with access to leading institutional investors and consultants.

The 2021 conference continued its mission to advance the industry by providing a clear assessment of where it is today and identifying some of the forces driving change. Managers gained insights from top hedge fund and private markets managers, while investors and consultants heard from managers and learned how their allocations are making a positive impact. Below are some highlights.

## THE STATE OF THE SMALL AND EMERGING MANAGER MARKET

Since 1992, the universe of alternative investment managers has grown 10-fold, from around 1,400 to about 14,000.<sup>1</sup> This growth was largely driven by institutional investment, with pension plan capital in particular acting as a force multiplier. As investors increasingly allocated a greater share of their portfolio to alternatives, demand for investment managers increased exponentially. A need to deepen the pipeline of investment options ultimately drove the creation of the first “emerging manager” programs.

### UNIVERSE OF ALTERNATIVE INVESTMENT MANAGERS



The emerging manager industry has evolved over time (and multiple “versions”) in a search to meet the needs of limited partners (LPs):

- **Version 1.0** is the most common approach whereby LPs are primarily focused on fund investing in managers’ funds 1, 2, or 3, and remains a viable way to access emerging managers.
- **Version 2.0** broadens program mandates to include pre-fund investments (by capitalizing one-off deals), but can also allow for supporting managers after their third fund.
- **Version 3.0**, the latest iteration of emerging manager programs, is a full lifecycle, holistic approach in which LPs provide full capital solutions to managers, including deal capital, working capital, GP capital, and/or seed a manager.

As emerging manager programs and their parent investors continue to enhance their focus on advancing diversity, equity, and inclusion in the industry, some plans are adopting a “**Version 3.1**” in which investments can be made alongside established managers to further DEI initiatives. This can be done through:

- “Bolting-on” teams to less-diverse, larger firms as a way to match diverse senior talent with an established platform
- Investing through separate accounts (rather than fund vehicles) managed by diverse professionals
- Creating a pipeline for diverse talent by changing hiring practices
- Ensure inclusion of diverse vendors and suppliers

There remains much room for growth in the investment management industry, particularly regarding diversity, equity, and inclusion. Fortunately, due to the efforts of many LPs and GPs along with forward-thinking industry organizations and events like GCM Grosvenor’s Small and Emerging Managers Conference and Consortium, significant progress continues to be made.

---

<sup>1</sup> Source: GCM Grosvenor

## WHERE DO NEW MANAGERS COME FROM?

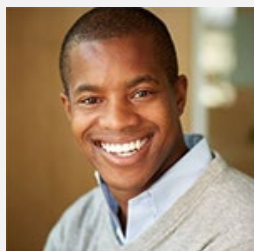
According to GCM Grosvenor's Peter Braffman, spinouts are the "engine of the alternatives universe." For example, spinouts represented 65% of new real estate manager formation in the past three years. These firms' founding professionals have "completed their apprenticeship" and apply the knowledge they learned in their careers to serve as stewards of capital, often in new and innovative ways. Spinout managers generally receive strong interest from institutional allocators, which tend to target managers who have left larger firms, given their established knowledge bases, relationships, and/or track records.

### IN THE LAST 3 YEARS, 65% OF NEW REAL ESTATE MANAGERS HAVE BEEN SPINOUTS



But given that it's such a difficult business and usually takes years to turn a profit, why do individuals risk leaving a successful company to start their own firm? During discussions at the 2021 SEM Conference, Allan Jean-Baptiste of Ansa Capital, George Kase of Teleo Capital, and Leigh Sansone of Paceline Equity Partners gave a few insights into why they took the leap:

- Saw an opportunity to exploit market opportunities by applying expertise in a new market of interest among investors
- Wanted to create a culture in their own mold that pursues deals instead of "chasing AUM" and acts a solution provider to investors
- Desire to build a special firm – and to have fun – with a group of like-minded individuals who played college sports and wanted to build a team-first organization



*Allan Jean-Baptiste,  
Ansa Capital*



*George Kase,  
Teleo Capital*



*Leigh Sansone,  
Paceline Equity Partners*

Whatever the reason, these managers agreed that before spinning out, it's critical to cultivate and maintain relationships both within and outside the firm. Even if it takes a little longer to leave, it's important to keep relationships strong, including partnering with interested LPs for fund or co-investing opportunities. At these early stages, GPs are well-served to work with LPs who recognize the GP is ready to be an investor, although they may not be ready to be a fiduciary.

## WHAT IT TAKES FOR HEDGE FUND MANAGERS TO SUCCEED IN THE CHANGING INVESTMENT LANDSCAPE

To promote learning and development among emerging managers, each year a prominent hedge fund manager joins GCM Grosvenor's David Richter at the SEM Conference for a one-on-one discussion to share their relevant experiences. This year, Steven Cohen from Point72 Asset Management shared his own experiences and lessons learned from 30 years of hedge fund investing.

Mr. Cohen acknowledged the industry is much tougher for new entrants than when he started. The sheer volume is greater, there are more and new sources of competition including "quant" investors, and information is shared much more quickly. Mr. Cohen also pointed out that alpha is harder to find today, and smaller firms without resources may be at a disadvantage, albeit a small one.

He does believe, however, there are common qualities that can help a new hedge fund manager enter this evolving industry. As Mr. Cohen related experiences from his own career, he shared how he kept pushing the envelope by putting cash flow back into the business, continuing to innovate, and hiring and developing talent. "I morphed the firm multiple times over 30 years. If I didn't, I'd be out of business. I pride myself in innovating – and I'm still doing it today."

Internally developing talent is key. Mr. Cohen likened operating a hedge fund business to running a baseball team – in this case the New York Mets, which he owns. He said there are many similarities, including teamwork, talent management, the use of data and analytics, and creating a culture of accountability. "The best ballplayers need coaches; people need feedback. I think that works."

*"The best ballplayers need coaches; people need feedback. I think that works."*

But what makes a successful portfolio manager? Mr. Cohen believes it's someone who focuses on what they're good at and who can make money on both sides of the market. Beyond that, it's someone who can build and manage a strong team and create a culture of learning, curiosity, and change. And from a personality perspective, they should be passionate about what they're doing, not be afraid of risk, and be willing to put capital behind their thoughts. In describing these traits in himself, he says, "I can't wait to get to work each day." ■

----

## Important Disclosures

**For illustrative and discussion purposes only. The information contained herein is based on information received from third parties. GCM Grosvenor has not independently verified third-party information and makes no representation or warranty as to its accuracy or completeness. The information and opinions expressed are as of the date set forth therein and may not be updated to reflect new information.**

**Investments in alternatives are speculative and involve substantial risk, including strategy risks, manager risks, market risks, and structural/operational risks, and may result in the possible loss of your entire investment. Past performance is not necessarily indicative of future results.** The views expressed are for informational purposes only and are not intended to serve as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell securities by GCM Grosvenor. All expressions of opinion are subject to change without notice in reaction to shifting market, economic, or political conditions. The investment strategies mentioned are not personalized to your financial circumstances or investment objectives, and differences in account size, the timing of transactions and market conditions prevailing at the time of investment may lead to different results. Certain information included herein may have been provided parties not affiliated with GCM Grosvenor. GCM Grosvenor has not independently verified such information and makes no representation or warranty as to its accuracy or completeness.

© 2021 Grosvenor Capital Management, L.P. All rights reserved.

Grosvenor Capital Management, L.P. is not affiliated in any manner with Grosvenor Group Limited, a company that is headquartered in the United Kingdom. This report has been prepared by Grosvenor Capital Management, L.P. and GCM Customized Fund Investment Group, L.P. (which, together with their affiliates, are referred to herein as “GCM Grosvenor”). GCM Grosvenor®, Grosvenor®, Grosvenor Capital Management®, GCM Customized Fund Investment Group®, Customized Fund Investment Group®, and Consortium™ are trademarks of GCM Grosvenor and its affiliated entities.

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider across private equity, infrastructure, real estate, credit, and absolute return investment strategies.

For any questions, please contact GCM Grosvenor Investor Relations at [investorrelations@gcmlp.com](mailto:investorrelations@gcmlp.com)