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MUFG Investor Services

Alt Insider

Market Intel & Insights

Welcome to our newsletter, **Alt Insider,** where we'll keep you updated on the latest news, trends, and insights in the alternative investment space. Our business consulting group will provide analysis and commentary on topics such as industry trends, the talent and economic landscape, changes in regulations, cybersecurity, and more. We'll also feature interviews with industry leaders and experts, giving you a firsthand look at the strategies and insights driving the world of alternative investments.

Highlights

Alt Insider is curated by our Business Consulting Group, established in 2022 and created to help clients identify critical gaps in their infrastructure. This is a courtesy service designed to help clients create scalable operating models and implement solutions to improve business outcomes.

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Tips and Tricks for a Successful Human Capital Strategy in 2023

Retaining and recruiting top talent is key to the success of alternative managers. As managers prepare for 2023, below are important items to note:

Compensation/ Budget Timeline

Historically, compensation and annual budgets are determined in December and early January. In 2023, given the uncertain macroeconomic outlook and wide dispersion in performance, many opted to delay compensation and general budget decisions towards February and March.

Flexibility

In 2022, the employment market favored employees rather than employers. Because of this, firms that offered greater flexibility were able to attract and retain talent. While 2023 is just getting started, given the potential of a recession and challenging performance in the equity market, 2023 is likely to favor employers, and thus offer less flexibility towards employees.

Salary Transparency

As of 2023, multiple US local governments, like California and New York, began requiring employers to publish salary bands for external job postings. While these laws are still new and only requires employers to disclose base salary, they have prompted managers to re-examine current employee base salaries to ensure they are aligned with those of new hires. Anecdotally, early observations of salary transparency regulations indicate that these types of laws are causing individuals to be less transparent with compensation expectations, making it more challenging for employers to gauge the market.

Non-Compete Agreements

In January 2023, Federal Trade Commission (US regulatory agency) proposed a full ban to non-compete agreements. While this proposal is not yet policy, it is prompting managers to reconsider non-competes. Even though the proposal is in comment period, non-competes remain prominent and continue to be deployed for a lengthy amount of time. Further, while the likelihood of a full non-compete ban is unlikely, it is possible this proposal will result in location specific laws across the US like the New York State Pay Transparency Law passed in 2022.

The above was gathered during a series of conversations with Heidrick & Struggles, Jackson Lucas and Schulte Roth & Zabel in Q1 2023.

Cyber Soundbites

Cybersecurity and maintaining a secure environment continue to be a focus of managers in 2023. While cybersecurity programs were prevalent in the market prior to the pandemic, the shift to hybrid working environments prompted the need for enhanced cybersecurity programs. Further, regulators have recently increased the level of scrutiny on cyber policies and associated incident management.

" As the Securities Exchange Commission (SEC) finalizes its proposed rule changes, many experts recommend it is prudent to review the anticipated compliance and enhanced reporting changes critical to maintaining a successful cyber program."

Looking back to 2022, the industry observed a movement towards continuous monitoring of cyber threats rather than static or point-in-time assessments. In addition, many managers have augmented their cyber governance programs to include employee training and written policies related to incident mitigation should a cyber event occur. Moreover, many managers, particularly those with a US presence, are now preparing for the SEC's rule change that will require managers to disclose cyber incidents on Form ADV, and in some cases, on a next day basis. It is worth noting that when additional resources are needed, managers are turning towards the third-party ecosystem for assistance rather than hire additional cyber resources internally.

Lastly, given the continued fluidity in hiring resulting in frequent offboarding and onboarding of employees, many managers have updated their procedures to include cyber related risk mitigation related to employee turnover. Ensuring individual credentials and account access are properly closed following employee departures is often overlooked.

As we move into 2023, and the SEC finalizes its rule changes, managers will likely have a short window to comply. Given the anticipated short window and expected new requirements, many scrambled towards the end of 2022 to enhance cyber programs and prepare for sweeping changes ahead of the SEC's final decision. Whether the rule is adopted in its entirety or not, maintaining a robust cybersecurity program will provide a backdrop for a successful 2023.

The above was gathered during a series of conversations with Agio and Optima Partners in Q1 2023.

Compliance Considerations in 2023

As stated earlier, the industry is patiently awaiting finalized SEC rules. Potential new changes to the rule include but are not limited to; Form PF Filing Schedule, Section 13D and short selling disclosures. While these changes are likely to be sweeping, the below will unpack two items to watch outside of the rule changes.

Evolving E-Communications Behavior

Given the recent transition to hybrid working, the SEC has been focused on the use of personal devices and off platform electronic communication (EC). In 2022, the SEC issued multiple deficiencies to banks for employee misuse of personal devices. Further, some of these exams even requested personal employee devices to be handed to the regulators for examination, raising privacy concerns. Financial services lobbyists such as MFA (Managed Funds Association) and AIMA (Alternative Investment Management Association) are focused on the topic. It is expected that in 2023 the SEC will likely expand exams focused on EC to private fund managers.

While most managers have EC policies wrapped into employee handbooks and compliance manuals, given the SEC's new focus, managers are re-examining policies related to EC to prepare. For example, managers are adding trainings related to EC. Some are even going as far as creating separate policies related to the topic to create employee understanding of the importance. Also noteworthy, hybrid working has prompted many employees to communicate "off platform" via personal devices. To mitigate this risk, employers are broadening the scope of acceptable platform devices and applications. Additionally, many are tightening controls on the usage of social media, training individuals how to phrase business related communication on both internal and off platform channels and most importantly getting individuals to think about the situation before they type. This allows them to capture more data in the event of an SEC exam. As we move further into 2023, focusing on internal cooperation as a collaborative approach will be a crucial step in staying compliant with EC regulatory policies.

Affiliated Relationships and Conflicts of Interest

In 2023, the SEC will likely continue to focus on conflicts of interest, only now with a particular interest in private equity and real estate funds. Experts expect the SEC will be focused on uncovering conflicts of interest relating to affiliated relationships and operating partners associated with the adviser. The regulator is seeking to understand if the scope of the business relationship, economic relationship and services provided are aligned with the market. The intention of these targeted exams is to protect investors by uncovering off market deals, undisclosed ownership levels and/or quid pro quo arrangements. To prevent deficiencies, managers will likely enhance documentation surrounding affiliated relationships or operating partners to mitigate the risk of potential violations associated with conflicts of interest.

The above was gathered during a series of conversations with Optima Partners in Q1 2023.

Reimagining Office Space in 2023

Throughout the financial services industry, most employers, have adopted a flexible working environment. Given most managers no longer have employees in offices five days a week, employers have been prompted to adjust their office footprint, catering to the employee experience as a means of enticing employees back to the office. Additionally, space dedicated to soft seating and common areas is at an all time high to further encourage teamwork and collaboration. To maintain culture and cohesion, as firms expand, they are opting to relocate to maintain a single floorplate rather than stay in the same building, splitting out the office to multiple floors. Additionally, this simple shift towards one floorplate allows for more "water cooler" conversations and thus enhances collaboration.

Location, Location, Location isn't everything?

Historically, most alternative managers opted to lease space in established financial districts (i.e.-Plaza District in New York, Mayfair in London). Following the pandemic, the market shifted to one in which it is no longer critical offices be in the center of town. Rather, it is now critical the space be high quality and foster culture. Recently, managers are opting to take space in a less central location to secure new construction or recent renovations with amenities that create an office experience. Furthermore, new construction spaces across New York such as One Vanderbilt and Hudson Yards maintain single digit percent availability and are leasing at a premium.

As we look into 2023, experts expect continued demand for high quality space and managers seeking to optimize their offices based on market fluctuations and employee preferences. Additionally, given demand for collaborative, newly renovated space, many managers will likely opt to relocate rather than resign leases.

Office Space as a Tradeable Asset

Along with the shift towards office space more conducive to interaction, the pandemic also allowed managers to reconsider their office space as an asset rather than a liability. As managers shift their perspectives to consider office spaces as assets, many have shifted to a practice of regular profiling and diligence of the market. This strategy allows firms to be prepared to execute as opportunities present, maximizing the value of their office space.

Relocation as the New Renewal

> "Given the shift in demand to high quality space, there is a willingness to relocate than simply renew leases more so than in the past."

The manager's willingness to move shifts leverage in the tenant's favor and allows them to further maximize their office space asset. To prevent tenant's from relocating and entice them into lease renewals, landlords are more so than ever willing to give free rental months, remodel, and upgrade space at their expense. While COVID certainly disrupted the office space market, current indications show a flight to quality and continued desire for office space by alternative managers.

The above was gathered during a series of conversations with CBRE in Q1 2023.