

## Hedge Funds to Hedge Rows — Hedge Funds Moving to Palm Beach?

*Palm Beach County has all the attributes to attract hedge funds, except one ...  
and it's the most important one.*

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SINCE 2005, if the hedge fund boom has had a capital, it is Greenwich, a ritzy suburb of mansions and gated estates about 30 miles from Manhattan. More than 100 hedge funds collectively manage more than \$350 billion — about one-tenth of the total invested in hedge funds worldwide. Greenwich is home to top funds including AQR Capital, Lone Pine Capital and Tudor Investments — all three of which ranked in the top 10 on *Institutional Investor's* list of the world's top 100 hedge funds.

Hedge funds would seem to be a business in which location doesn't matter. Buy and sell orders can be executed from a beachfront villa in Costa Rica, and the laws of economics dictate that businesses seek out the lowest-cost destinations. Yet the hedge fund industry exhibits one of the most vivid examples of concentration in today's economy — and it concentrates in the world's most expensive places: Manhattan, Greenwich and London.

Most people who start hedge funds don't wander far from familiar turf. This is partly because traders are loath to give up hard-won NY co-ops and private school spots, and partly because they are superstitious creatures of habit.

The hedge fund industry got started in Greenwich when the pioneers decided they no longer needed to deal with the hassle of a NYC commute, and offices could be located minutes from their estates. Connecticut originally offered a much better tax structure than NYC, too. There's no functional operating difference between operating a fund in Greenwich, Manhattan or London.

The location of a hedge fund is largely determined by:

- ❖ Access to the best talent
- ❖ Tax and business investment incentives
- ❖ Proximity to key executives' homes

Why should Palm Beach County ("PBC") be optimistic about accelerating the trend of hedge funds and private equity firms to locate all or part of their offices to this beautiful area? Two of the above factors are working in PBC's favor — tax advantages and proximity to key executives' homes. As shown below, tax advantages are significant, and many hedge fund executives maintain a home in the PBC area.

Access to the most brilliant talent is the key hurdle for Palm Beach. Those who have the smartest and most-motivated employees win. To be successful and stay at the leading edge, a hedge fund manager needs super-smart and very hard-working employees to conduct research, trade the markets, execute investments, ensure regulatory compliance and handle back-office and financial reporting. Even for administrative and executive assistants, their hiring preference includes previous experience at a top financial firm.

Advanced programmers and quants are required to build sophisticated financial models and trading systems (think MIT).

Hedge funds are hungry for access to the latest technologies, information sources, unique strategies and perspectives of market dislocations to achieve a hyper-competitive edge.

A fund manager is always thinking of ideas to boost ROI performance and market-leading results, which boost the AUM. One obvious idea is to move to a location with a better tax structure (PBC) — particularly if the fund is shedding outside investors to become a private family fund. These trends point to Palm Beach.

Connecticut is losing business due to a less-attractive tax structure than just a few years ago. GE recently announced its move to Boston, Massachusetts, leaving the Connecticut suburbs to get closer to a robust talent pool who prefer an urban lifestyle — many of whom come out of the top universities of the Boston area. Companies are moving to meet the new talent — and for GE, it's not in Connecticut.

For hedge funds, Connecticut taxes are two to three times lower than in New York — so they continue to have the edge over New York. But neither location beats PBC.

<b>Tax-Saving Scenarios</b>		
<b>\$1 Million Income/Personal State &amp; City Income Tax</b>		
FLORIDA	NEW YORK	CONNECTICUT
\$0	\$104,300	\$67,000
<b>Estate Tax on \$25 Million</b>		
FLORIDA	NEW YORK	CONNECTICUT
\$0	\$3,466,800	\$2,536,200
<b>Gain from Business/Property Sale of \$100 Million</b>		
FLORIDA	NEW YORK	CONNECTICUT
\$0	\$12,692,774	\$6,700,000

<b>Tax Rate Comparison</b>			
	FLORIDA	NEW YORK	CONNECTICUT
Top marginal individual tax rate	0.00%	12.70%	6.70%
Top marginal estate tax rate	0.00%	16.00%	12.00%
Top marginal capital gains tax rate	0.00%	12.70%	6.70%
Corporate tax rate	5.50%	8.87%	7.50%
Unincorporated tax rate	0.00%	4.00%	0.00%
Highest sales tax rate	6.00%	9.00%	6.35%

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Could PBC be the new “Greenwich”? PBC is a true competitor to the amenities of Greenwich: top-flight private and public schools, beautiful homes on the water, top golf clubs, and a thriving social and restaurant scene. In fact, Greenwich and PBC are quite alike.

<b>Palm Beach County</b>	<b>Greenwich, CT</b>
60 hedge funds	300 funds
Population: 1.3mm	Population: 60,000

PBC has already done a good job of raising its profile with the hedge fund community, showcasing its quality of life, private schools, technology training and attractive office space at half the cost of Greenwich. Not to mention that many hedge fund moguls have homes in PBC.

A new trend is working in PBC’s favor: Poor performance and SEC compliance pressures are causing owners to return money to outside investors as they tire of having to justify investment strategies, negotiate reductions in fees, and deal with the negative publicity that comes with lackluster returns. They are closing to outside investors and shifting to managing their own wealth. A family office, or more technically called a Private Investment Partnership managing a private investment pool, often in the billions, does not require the larger staff and infrastructure of a fund with hundreds of investors. Steve Cohen is the most prominent example of moving to a private investment model.

All the factors have fallen into place to attract more hedge funds to the PBC area, except one: TALENT. Location might be everything, but without the right talent it doesn’t mean anything. A well-planned talent strategy can mitigate the risk of disruption to both productivity and company culture.

Hedge funds typically hire Ivy League (Harvard), business school (Wharton) or quantitative school graduates (MIT) who have already been working at firms such as Goldman Sachs , tech firms such as Google or Facebook and, of course, their hedge fund competitors.

Talent in Greenwich arrives by rail from Manhattan and Brooklyn: traders, research analysts and clerks. More than 50% of employees at hedge funds in Greenwich commute from Manhattan or Brooklyn.

The young generation wants to live in urban environments near their peers and cool shops and restaurants. Owning cars has become less popular than using Uber.

To capture emerging and top talent, IBM is moving 4,000 jobs to New York City, and Google now has 5,000 employees in NYC. Companies are moving to where the talent is — not the other way around, as with previous generations.

The talent dilemma for Palm Beach has been partially solved by the “If we build it, they will come” actions of recent years, which include the strong private schools, the buzzy centers of West Palm, Boca Raton and Jupiter, and housing prices at a fraction of Manhattan’s average price of \$1 million plus.

*Hedgeweek* is increasingly reporting on expansions of hedge fund services companies to PBC, such as the IA Englander Managed Accounts and Prime Services division. Brett Langbert, Managing Director of IA Englander says: “Palm Beach County is an ideal location for MA&PS to expand its operations because it’s a region that is in need of services that we offer to the hedge fund and alternative asset community. We anticipate that more hedge funds and investors will relocate to this area, where a significant number have relocated over the past few years.”

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Can the intellectual talent that powers hedge funds and private equity firms be persuaded to make the move south and embrace the eternal sunshine and proximity of so many wonderful resources and outdoor activities? As some early hedge fund movers to the area have realized, the answer is clearly yes, and the talent challenge becomes easier as scale is realized from increased migrations.

Expert recruiters should be familiar with the attributes of the PBC area and its career potential. Funds need to be comfortable that talent can be found, developed and replaced in the area.

*“It’s just a different quality of life,” said Kelly Smallridge, who has been recruiting asset-management firms from the New York area as CEO of Palm Beach County’s Business Development Board. “People spend an entire lifetime of working to retire to come to Florida, when you can actually earn a living in Florida and live in this environment year-round.”*

Family offices and private investment partnerships can be run by seasoned investment and personal services managers, not requiring the hyper-speed trading of the younger generation, and offer a great fit with the wealth management and family office talent already in PBC.

Angela Mortimer Ltd. has honed its reputation of recruiting exceptional talent in the competitive markets of London, Greenwich and New York City. Candidates need to be coached on the lifestyle, business environment and career potential in the PBC area to make a relocation move. The population size of PBC and the quality talent available from Miami and other Florida urban markets offer potential for local talent sourcing, also.

The transition of hedge funds to PBC is not a question of if or when, but now a question of scale. As more top talent makes the move, it confirms the argument that the PBC area is a great career, family and lifestyle opportunity.

Scale breeds scale. As the number hedge fund employees increase in this area, more firms will come.

Family offices and private investment partnerships will continue to sprout, and PBC is a perfect location for these smaller teams managing slower money. Personal and private investors gravitate to the favorable tax structure.

Education, information and red-carpet tours are rapidly increasing the focus on the business and personal attributes of the area, and include conversations with colleagues who have made the move.

Connecticut is doing a great job of pushing its hedge fund community out of the state, due to dwindling tax advantages. What hedge funds like about Greenwich is largely here in PBC, and what they don’t like about New York City is not here.

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## About Stephen Candland and Angela Mortimer Ltd.:

*Recruiting and Search in financial services for more 20 years — Head of Talent Acquisition for Deutsche Bank, Director of Competitive Talent Sourcing for Goldman Sachs, Executive Search at Korn/Ferry and now Partner and Co-Owner of Angela Mortimer Ltd – U.S. Our firm is the most respected recruitment and talent consultancy in the U.K. and Europe, with a strong reputation working with asset and investment management firms, particularly international hedge funds, investment banks and private equity.*

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