

THE 'DAVID' PROBLEM

WRITTEN BY MILES KRUPPA

Just how bad is the hedge fund industry's gender gap? More men named David launched funds in the past five years than all women combined, Absolute Return research found

Chilton Investment Company may be typical for bearing the name of its male founder, Richard Chilton, a billionaire known for his careful style of stock picking.

But these days, investment decisions are just as likely to come from Jennifer Foster, the \$2.5 billion firm's co-chief investment officer.

Foster took on Chilton's top investment role in 2016 after nearly two decades of working at the firm. Recruited by Chilton out of Harvard Business School, Foster says the eponymous founder served as her direct mentor from her first days as an analyst. She now calls herself the Charlie Munger to his Warren Buffet.

Chilton's decision to make her co-chief investment officer, she says, was recognition of her role at the firm and not part of a broader succession plan. The two contribute equally to investment ideas, though

Chilton usually makes final trading decisions.

"He trained me, so we think about investing in the same way," Foster says. "But the other good news is we are two different generations, we are two different individuals and we are two different genders. That has brought some diversity of thought to our yin and our yang, which has been helpful."

Foster valued Chilton's mentorship

Specific features of patrimonialism – trust, loyalty and tradition – allow elite white men to maintain monopolies of power and authority in hedge funds, which stymies the advancement of women and minority men.

MEGAN NEELY

after September 11, 2001, when she had travelled to Los Angeles while seven months pregnant to meet with the chief executive of one of the firm's portfolio companies.

The executive never made it after dying in one of the hijacked planes, and Foster suddenly found herself in a Los Angeles hospital receiving treatment for premature labor. After a one-week no-fly order expired, Chilton chartered a private plane for her and two others who had been stranded on the West Coast.

"I think Richard just did a gentlemanly thing and what he thought was right to do," Foster says. "I don't think he was doing it to solidify my loyalty. But it did."

Post-crisis

Foster is a statistical rarity in the male-dominated hedge fund industry. Since Alfred Winslow Jones started the first "hedged fund" in 1949, investment heads have almost

AbsoluteReturn

without exception been male. Even as the industry has grown to manage \$3 trillion for some of the world's largest institutions, women have largely been locked out of money management roles.

Of the more than 250 billion-dollar American hedge fund firms, none were started by a solo female founder, according to *Absolute Return* research. Women co-founded just seven, or less than 3%, of the billion-dollar hedge funds.

Only two of those firms were founded by women who also hold a top money management role, such as chief investment officer. Altogether, just 10, or under 4%, of billion-dollar American hedge funds were either founded by women or employ women in top investment roles.

Absolute Return calculated the numbers after reviewing regulatory filings, public documents and websites associated with firms included in the most recent Billion Dollar Club ranking. Brazilian and Canadian hedge funds were excluded from the analysis, as were asset management conglomerates where hedge funds are not the primary business.

A review of the most recent hedge fund startups produced similar results. From 2013 to 2017, 4.28% of new hedge fund firms managing more than \$50 million were founded or co-founded by women, according to data from *Absolute Return* surveys of new fund activity. More men named "David" founded hedge funds than all the women combined during the five-year period, and women-led firms managed just 3.10% of the assets measured by the surveys.

Of the seven women who founded billion-dollar American hedge funds, two did so as part of a husband-wife team: Mary Naphtal with her husband Warren (P/E Investments) and Victoria Zoellner with her late husband, Robert (Alpine Associates). *Forbes* magazine ranked Zoellner as one of the America's wealthiest "self-made women" this year, with a net worth of \$510 million.

(Nancy Carlson, a partner at Carl-

son Capital Management, is typically not listed as a co-founder of the firm led by her husband, Clint. She owns between 10% to 25% of the firm compared to Clint Carlson's 50% to 75%, according to regulatory filings. Similar for NWI Management, where Chandrika Hariharan owns 25% to 50% and her husband, Hari, owns 50% to 75%.)

There are way too many hedge funds and there's way too much money still in the space. And not enough of them are women. But in what I do, allocating to managers, I'm trying to find the best talent on the planet. That is not a gender-specific exercise.

■ Betsy Battle

The hedge fund industry is not an anomaly among its peers. A 2011 Harvard Business School study found that women held just 6% of senior investment roles at private equity, real estate and venture capital firms. (About half of all marketing and investor relations jobs were held by women, by comparison.) Female chief executives also lead only 4.8% of *Fortune* 500 companies.

"I don't think this is just specific to hedge funds," says Betsy Battle, who founded the fund of hedge funds Lone Peak Partners after running investment manager selection for

George Soros. "It is also the characteristic of any investment management operation or any Wall Street investment banking operation. It is the exact same phenomenon."

One result is that women have been cut out of the hedge fund industry's massive wealth generation. Fewer than 10% of billion-dollar American hedge funds are at least part-owned by a female employee, according to an *Absolute Return* analysis. Women occupying executive positions in compliance, legal and operations are often excluded from the firm's equity structure, viewed as incidental to the predominantly male portfolio managers.

Male control of the hedge fund industry has also come under scrutiny in the wake of the broader #MeToo movement. An *HFMWeek* survey of hedge fund employees found that 60% of women experienced some form of harassment at a previous employer. 39% of women said senior management was not doing enough to promote a discrimination-free work environment, according to the survey.

Men have maintained a more positive view of the industry's response to workplace concerns. Only 15% of men said working conditions have not improved in the past five years, compared to 25% of women.

Investing in women

Some investors have begun to rethink their practices in light of the investment management industry's stark gender imbalance.

About a quarter of Athena Capital Advisors' wealthy clients have asked the investment advisor to structure their portfolios using so-called "environmental, social and governance" factors. That process can include what the firm calls a "gender lens" of investing.

"Just as lenses in a telescope can allow us to see galaxies light years away, a gender lens can be used to see, more clearly, a distant vision of a more gender inclusive society," Athena employees wrote in a January paper explaining the concept.

KEY DATA



But Athena has encountered a challenge applying the gender lens to hedge funds: There aren't enough established, women-led firms that provide the kinds of risk-adjusted returns their clients expect. Athena has instead sought out hedge funds employing diverse teams, and especially firms that show a propensity for promoting women to top positions.

"That's different than the other fund that maybe has the same statistics, but it's just luck. It's not part of their culture," says Kate Huntington, who co-heads Athena's research and manager selection team.

Lone Pine Capital, founded by Stephen Mandel, is one notable outlier. The firm is now led by a group of three investment professionals, two



RICHARD CHILTON AND JENNIFER FOSTER

KEY DATA

9.73%

Firms with women holding ownership stake

of whom are women: Mala Gaonkar and Kelly Granat. Beginning in 2019, Mandel plans to cede all money management duties to the group of portfolio managers, who each own 5% to 10% of the firm, according to regulatory filings.

Lone Pine ranks as one of the most profitable hedge funds of all time, making \$27.2 billion in net gains since the firm's inception in 1996, according to data from the London firm LCH Investments. The firm managed \$10.5 billion in hedge funds at the beginning of the year.

Bracebridge, the roughly \$10 billion firm co-founded by Gabriel Sunshine and Nancy Zimmerman, is the next largest American hedge fund to feature a female investment head. The firm's early backers include the Yale University endowment and Tom Steyer, the retired founder of Farallon Capital Management. In one example cited by Athena, a client decided to invest with Bracebridge after cycling through a succession of

smaller, women-led managers.

Other billion-dollar hedge funds led by female investment professionals include Chilton, Cowen Investment Group and Criterion Capital Management. In total, women-led billion-dollar American firms managed about \$31.5 billion at the beginning of the year, or less than 2% of the total. (Women also hold high-ranking investment positions at firms like AQR Capital Management and Bridgewater Associates, where no one person controls investment decisions.)

Promoting women in the industry would have a range of benefits, according to academic research. Multiple studies have shown that diverse teams produce better business results. One 2016 study found that women-led funds outperformed their male counterparts by almost an entire percentage point. Yet some investors still caution against overweighting gender in the manager selection process.

"There are way too many hedge funds and there's way too much money still in the space," Battle says. "And not enough of them are women. But in what I do, allocating to managers, I'm trying to find the best talent on the planet. That is not a gender-specific exercise."

Huntington thinks investors have

AMERICAN HEDGE FUND STARTUPS RUN BY WOMEN (2013-2017)

Firm Name	Strategy	Founder	Founding year	AuM \$m (Jan. 1 of following year)	Current status
Tse Capital Management	Macro	Irene Tse	2013	635*	Running
Cormorant Asset Management	Global Equity (Healthcare)	Bihua Chen	2013	485	Running
Quadratic Capital Management	Global Macro	Nancy Davis	2015	398	Running
Centenus Global Management	U.S. Equity	Sara Nainzadeh	2017	265	Running
Margate Capital Management	U.S. Equity	Samantha Greenberg	2016	210	Running
One Tusk Investment Partners	Event Driven	Vivian Lau	2016	131	Running
SCP Investment	Global Equity	Sanford Colen, Kara Dille	2017	100	Running
Allanthus Capital	Technology	Genevieve Kahr	2015	80*	Running
Kenbelle Capital	U.S. Equity	Meredith Whitney	2013	62*	Closed
TriLinc Global Advisors	Credit	Gloria Nelund	2017	53	Running

Source: Absolute Return research *estimate

AbsoluteReturn

been conditioned to invest in male-led hedge funds because, in part, it has for years appeared to be the only option. Industry groups such as 100 Women in Finance have attempted to rectify the issue by promoting women in the industry and working as an informal broker for firms looking to hire more women.

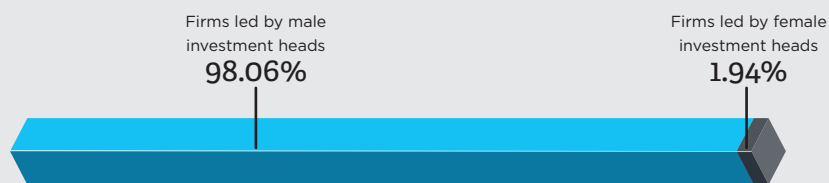
"You know what you see," Huntington said. "If the universe of possible managers to choose from are primarily men, then that's familiar, that seems to be the population and that works."

Hedge fund 'patrimonialism'

For all the hand-wringing and statistics, the hedge fund industry is reluctant to propose inward-looking explanations for its gender imbalance. As in other heavily-male, white-collar professions, people sometimes point to factors that extend beyond the industry, such as deficiencies in math and science education and the structure of entry-level investment banking jobs.

Megan Neely, a sociologist and postdoctoral fellow at the Clayman Institute for Gender Research at Stanford University, uses the philosopher Max Weber's theory of "patrimonialism" to explain the problem of "white male domination" in hedge funds.

BILLION DOLLAR CLUB ASSETS BY GENDER OF INVESTMENT HEAD(S)



Source: Public filings, websites, Absolute Return research

"Specific features of patrimonialism – trust, loyalty and tradition – allow elite white men to maintain monopolies of power and authority in hedge funds, which stymies the advancement of women and minority men," Neely wrote in a paper published by the journal *Socio-Economic Review*.

These tendencies emerge most prominently, she says, in lines of hedge funds descended from a single patron, such as Julian Robertson of Tiger Management.

"My research suggested that these forms of patronage may not be waning, but becoming less publicly visible, especially to people outside the industry," Neely writes in an email. "The considerable research on how wealth is passed down, both among families and in businesses, suggests that these structures will endure beyond a few generations, as long as

the industry continues to do well."

Foster, however, says she has rarely felt excluded from Chilton's inner circle. "Richard has welcomed me as a protégé almost from day one," she says. "There are golf outings every now and then...that I'm not invited to, but I don't get terribly offended, since I don't golf."

Perhaps optimistically, Foster thinks the hedge fund industry increasingly sees the value of hiring and promoting women. She encourages young women to work at hedge funds, despite their reputation as a boy's club.

"The industry genuinely wants more women at the table," Foster says. "...I think you're going to find people who welcome you. Not everybody, but show me one institution that welcomes everybody well." ■
Michael Rodwell contributed research to this article.

BILLION DOLLAR CLUB HEDGE FUNDS FOUNDED BY WOMEN

Firm Name	Strategy	Founders	Founding year	AuM \$bn (Jan. 1)
Bracebridge Capital	Macro	Gabriel Sunshine, Nancy Zimmerman	1994	10*
Avenue Capital Group	Distressed	Sonia Gardner, Marc Lasry	2000	9.5
P/E Investments	Macro	Mary Naphtal, Warren Naphtal	2000	6.79
Varde Partners	Distressed	George Hicks, Marcia Page	1993	6.39
Contrarian Capital Management	Distressed	Jon Bauer, Janice Stanton	1995	4.8
Criterion Capital Management	Global Equity	Louis Chang, Tomoko Fortune, Chris Lord, David Riley	2002	2*
Alpine Associates	Merger Arbitrage	Robert Zoellner, Victoria Zoellner	1984	1.83

Source: Absolute Return Billion Dollar Club *estimate