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Every Asset Manager Wants More Alts. Here's How Wellington Is Achieving It.

The firm isn't new to alternatives, but there's a new urgency behind its business case.

By Julie Segal

Wellington Management, whose massive Wellington Fund is a mutual fund favorite, is investing heavily into making the firm a viable home for rising hedge fund and other alternatives managers.

Wellington isn't new to alternatives, but the argument for using them is becoming more compelling. Industry executives argue that the multidecade investment success of a plain vanilla portfolio — 60 percent in stocks and 40 percent in bonds — is running out of steam. So the firm is going after talent.

A traditional, old-line manager like Wellington offers a lot of advantages — some obvious, some not — for potential hedge fund recruits who have proven skills. “We can be a really attractive destination for a subset of investors,” says Mark Sullivan, team leader of global macro and fixed income and head of hedge fund and liquid alternative strategies. “We're looking for investment professionals who really believe that being part of Wellington will make them better, and [that] they will do what it takes to make Wellington better.”

But hedge fund and other alternatives managers — especially those who are risk-taking, headstrong, and interested in having their name on the door — might not want to be a small part of a \$1.4 trillion manager, and Sullivan concedes that it's not for everyone. Still, traditional managers aren't such a hard sell for most hedge funds, particularly in the current environment. As Sullivan says, “One of the greatest advantages Wellington has is our private partnership ownership model, which provides stability and allows us

to focus on long-term results.”

Unlike a lot of hedge fund firms that will capitalize a team, see what they can do, and then keep or cut them loose, Sullivan insists that Wellington isn't going to a high-turnover model. “We're not sifting for gold,” he said.

The firm has been fairly quietly building its alternatives business since the 1990s. It now has \$31.5 billion in 37 alternatives funds, including long-short equity, long-short credit, emerging markets macro, late-stage private equity, and a fintech fund that invests in both public and private companies. Like most managers whose traditional stock and bond funds make up the majority of their assets, the firm has watched as institutional and, increasingly, retail investors have shoveled money into PE, venture capital, and other asset classes that aren't listed on any exchange.

Jon Caplis, the CEO of hedge fund research and data firm PivotalPath, said that many traditional players have been aggressively growing their hedge fund platforms in recent years. Those firms, he said, are “on the constant lookout for talented managers that they believe they can help scale.” Although Caplis declined to comment specifically on Wellington's capabilities or strategy, he did say that managers can leverage similar elements in their pitches. “Use our platform to [help raise] capital or for back-office support, [or] use our brand if you want to. But you don't have to.”

Caplis added that traditional firms need to have a “light touch” to attract top hedge fund managers who can meet real needs. “Every investor wants something

different and [something] that is not heavily correlated to equity markets. An institutional portfolio of hedge funds has done well this year, even as everything else is down double digits,” he said. “There was a time when there was a stigma to being associated with a traditional manager. But that’s long gone.”

Sullivan, who has been with Wellington for 23 years, was asked to lead a review of alternatives before the pandemic, in part because he had helped grow the long-only global bond platform and created a competitive alternatives version in macro. It’s a model that the firm can use more across strategies. The review concluded that the firm had done a good job, but that it could be bigger and better and that it needed more of a top-down strategy.

Performance of the products is inconsistent. In a follow-up e-mail, Sullivan wrote, “Investments we have made to deepen our alternatives capabilities are impacting performance in a number of our strategies this year. Specifically, our macro, multi-strat, and market-neutral equity strategies are delivering strong, diversifying returns at a time our clients need them most.”

Wellington believes that alts will be a big part of the answer for investors who are grappling with inflation and an uneasy geopolitical future. Even though alternatives have had a good run, they’re even more crucial as markets move into what many experts say is a new phase or regime shift.

Think about the question of how much money investors should put into bond funds. That answer was once fairly simple. But the last few years, with interest rates at record lows, have compromised the ability of bonds to deliver on the characteristics that investors have come to expect: basically, a port in the storm when stocks get punished, and maybe even some return. This year, bonds and stocks are down meaningfully, and the bond market is catalyzing the move into alternatives, according to Sullivan.

“That’s a big question. What else can I allocate to? There is no obvious answer,” he said. “We can’t check all the boxes that the global bond market would traditionally check. You have to look at a more complicated or diversified set of things.”

Sullivan is blunt about the challenges that Wellington faces when it comes to expanding its alternative invest-

ments business. It’s not hard to imagine: Some of the firm’s hard-won strengths, which can’t be easily copied, were built to manage stocks and bonds, not hedge funds and private equity.

The firm spent years developing a global platform to prevent its portfolio managers and analysts from getting stuck in their individual silos and to instead get them working closely with colleagues and sourcing answers from subject-matter experts around the world. The company says it’s an advantage that shows up in performance. Wellington has been able to maintain that emphasis on collaboration — which has been particularly valuable at a time when war and the price of oil, among other issues, are driving markets — even as it’s grown to a couple of thousand employees.

But it’s not necessarily the answer for people who, for example, are overseeing hedge funds. “That is an important piece of why we think we can compete, but there are gaps between what that platform generates versus what an [alternative] manager or private equity manager ultimately needs to succeed,” Sullivan said. “And that’s because of the differences in where some of the work gets done to support the business we have today, versus the business that we are growing in alternatives.”

For example, with shorting, portfolio managers may end up with higher idiosyncratic risks. “You have to think about tactics on a shorter time horizon,” Sullivan said. To bridge the gap, Wellington is adding hedge fund analysts, among other things. The firm thinks it can effectively mimic the advantages of a boutique hedge fund and combine that with the benefits of the firm’s scale, corporate access, and its relationships with Wall Street. But it needs to manage it all, and that includes making sure that staffers don’t have to battle over resources.

“Because of Wellington’s structure — large scale, one P&L — there are competing priorities for what is most important to develop,” Sullivan said. “And because of the firm’s structure, there is a lot of alignment and ability to navigate that, but it does require intention. We need to be clearer with our strategy and why it will deliver on our ambition. It forces rigor around the analysis and ultimately makes us attractive to talent and to investors.”