News and Analysis

Conference Coverage

Pension Bridge: NYC hedge fund chief expresses preference for small, niche funds

The pension manager also called for innovation on fee structures and he insisted that he only engages with firms flexible on this matter.

Michael Paterakis | 12 Apr 2018 | Pension Plans

When it comes to hedge funds, New York City's $198bn pension system is looking for specialists who are small in size, nimble, and who are willing to negotiate lower fees.

In recent months, the city engaged with four different managers, only one of whom had over $1bn in assets, according to **Neil Messing**, head of Big Apple's $2.7bn hedge fund portfolio. And even this firm was just above the billion-dollar threshold.

"The number of hedge funds managing too much money is the highest that has ever been," said Messing during a panel discussion at the *2018 Pension Bridge* conference in San Francisco on Wednesday, April 11. "That has led us to spending much more time with smaller funds."

Messing, who was promoted to his current position in 2016 after four years with the city's bureau of asset management, also showed a penchant for managers concentrated on their niche, avoiding risks in markets they are not familiar with.

“I hate customizations. I think it’s one of the things that have gone wrong with hedge funds – finding someone and telling them what to do,” he said.

Messing’s comments contrast with a growing preference for customization indicated by many investors. According to a 2017 **EY** survey, almost two-thirds (62%) of investors allocate to or plan to allocate to funds with customized fees and liquidity terms in the next two years, while the number of investors using vehicles with customized portfolio exposure doubled, from 20% in 2016 to 40% last year.

“I like funds that manage the right amount of money, have just one product and are focused on one thing,” Messing added. “I also want to see them investing their own money in the product. We’ve found more success with that type of managers.”

With the industry under pressure for its costly fees, innovation in this front has been rampant. Messing insisted that he only engages with firms open to negotiating their compensation.

“We are looking for firms with the right attitude on fees,” said Messing, who praised the $146.3bn **Teacher Retirement System of Texas** for the “1 or 30” structure it developed with its hedge fund consultant **Albourne Partners**. “People need to be more creative.”

Finally, Messing appeared bullish on macro funds, while he acknowledged that long/short equity is not the space he wants to be in.

“We love our macro portfolio,” he said. “We have money with four managers, two emerging, two developed. The amount of money in that space is down significantly, while opportunities seem to be getting larger and larger. We are entering this environment where talented PMs manage less money with more opportunities.”

On long/short: “There are perhaps 5,000 such funds out there, most mediocre,” Messing said. “The ones that are really really good are hard closed and they don’t tell anything to anybody. But there is a lot of talent out there … We don’t do long-only. We want the hedge fund portfolio to be hedged.”

"I think it's really difficult to differentiate yourself in equities. If you are in the big ones, you are doing well, but everybody is in. If not, you are underperforming," Messing added.

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