

## Alts Insider: Wellington's plan to push beyond one-way markets

By **CHRIS SLOLEY**

The US giant's push into more alternative areas is part of limiting risk and reducing the need to follow the crowd.



Wellington Management has quietly steered into the upper realms of the global asset management industry, having surpassed the \$1tn assets mark with a steady climb over the past decade.

But where does the Boston-based fund house plan to go next? Citywire research indicates that of Wellington's estimated \$1.01tn base of assets, around \$32bn is currently allocated to alternatives globally, while \$7.6bn is specifically in private equity.

Speaking to Citywire in April 2022, Wellington's CEO Jean Hynes trumpeted alternatives as one of the growth areas she is particularly keen to expand further into.

Having had long/short equity products since the early 1990s, Hynes said the time had come for a definite push forward in this regard, which could eventually involve teams covering real estate, as well as private equity and debt.

However, what does the company mean when

it talks about alternatives? 'Alternatives is a broad, not necessarily well-defined, concept,' Mark Sullivan, head of hedge funds at Wellington told Citywire Amplify.

'We think of alternative investing as an alternative to making returns from market risk. When you buy a hedge fund, for example, you are buying an allocation to the skill of a manager and their ability to generate alpha. You're not just trying to make returns in a way that is solely dependent on the market going up.

'A lot of long-only investment is focused on asset allocation-driven decisions, which try to allocate to different parts of the market and capitalise on different aspects of market risk. Whereas, buying alternative products is much more focused on manager risk and/or other forms of risk premium.'

'In private investing you are taking liquidity risk to access a different area of innovation, and new ideas that you can access in public markets, in pursuit of higher returns.'

For Sullivan the main aim is to leverage the firm's long track record in hedge funds, as referenced by Hynes, and share best practice with the more nascent private market elements, which have been steadily built up over the past 10 years.

He said: 'We see a significant trend in the industry today towards clients increasingly focused on adding alternative allocations to augment the market risk portions of their portfolios, as we aren't, in my view, likely to see strong market risk returns over the next five years or so.'

## The quest for new opportunities

Wellington's expansion beyond traditional hedge funds first took shape in 2014, when it began looking at new investment capabilities such as private equity. This saw the group's co-heads of private markets, Shanna O'Reilly

and Michael Carmen, charged with finding new opportunities for growth.

'When we set out strategically to find opportunities for expansion, the venture capital spectrum really lit up as an area where we thought we could bring unique strengths,' O'Reilly said.

'That has resulted in a number of opportunities across early-stage venture to late-stage growth, and within some of those themes we have been able to tackle sustainability within the climate space, as well as under-represented capital through diverse founders.'

O'Reilly said the venture space will also allow Wellington to leverage work it has done in growing its ESG capabilities, such as its integration of Woodwell Climate Research into its product offering, which is becoming an increasing talking point in private markets.

## Competition continues

Wellington is not alone in wanting to branch out further and Sullivan is not so naïve to assume it will develop a market-beating proposition in isolation.

'I think there's more competition, that's for sure. It's a differentiator both in the context of a single strategy type hedge fund but also our private investing arm trying to compete with the more established players, as well as our traditional competitors building up their

alternative platforms at the same time.'

Sullivan said Wellington is keen to follow a more direct route than perhaps some of its peers. He said the firm is unlikely to pursue alternatives-focused joint ventures or arms-lengths transactions which would just sit on the asset manager's revenue books without any real-world impact on its operations.

'What we want is to be able to offer our clients a diverse range of ideas,' he said. 'If you think about the array of products we can offer, that is a very diverse range of views and perspectives which can fit several investor types. We are going to remain a closed platform – this isn't about open architecture – we believe our edge comes from the diversity of our highly integrated global investment platform.'

Sullivan added that the firm has shied away from large-scale acquisitions to power-up its alternatives offering, as asset management mergers often come with an array of challenges – many of which are hard to foresee until a deal is done.

The more holistic or organic approach, O'Reilly said, feeds into how the private markets side of the asset manager engages with portfolio companies. 'It becomes an extension of how we operate as a company, as we want to work together and grow. This is what I think will serve us well as we continue to move into the venture spectrum.'