Global Risk Jobs

Question: Despite everything I read about the increased emphasis on risk management at hedge funds, why does it seem that there are very few SENIOR risk management positions available at hedge funds?

To support the answer to this question, let me first give you a typical scenario of the evolution of the senior risk management function at a hedge fund. This senior manager may be referred to as the senior risk officer, director of risk management, chief risk officer, risk strategist, etc.

At the time of the launch of a hedge fund, the founder of the hedge fund is generally the functioning Chief Risk Officer, although his title may be Chief Investment Officer. Since he is ultimately responsible for the protection of the firm's clients' assets, the functional responsibility for risk management lies with him. Most firms and founders take the risk management role seriously – for both business and reputation reasons.

If the fund is successful it will typically grow and the founder will soon have portfolio managers sitting on his right and left sides. At this point, in most cases he can still keep close tabs on a firm's risk. If he wasn't good at managing risk, he wouldn't have his own firm, nor would he have the track record for a successful hedge fund launch.

Depending on how quantitative the firm's trading strategies are will usually dictate when and how the firm adds talent to oversee risk. Prime brokers provide risk management tools and the CFO/COO can often handle risk reporting if the firm uses these tools or software such as RiskMetrics. In many cases, the firm can adequately function for some period of time without a full time risk manager.

At some point the founder might notice that two seemingly unrelated events both negatively affected the portfolio. Or, he might see that one event hit two portfolios in an unexpected manner. He might begin to feel that he is beginning to lose control of the overall risk picture, or he is smart enough to know what he doesn't know. This uneasiness derives not from his inability to understand the strategies and positions, but instead it relates to the complexity of the ***correlation of the firm's positions and the related risks his firm is taking.*** The founder, who is also probably still running a portfolio of his own, can't possibly keep tabs on every position the firm is taking, their correlation, and the overall risk profile of the firm. In most cases, the founder will realize this before something blows up – but as we all know from the headlines, some firms don't do anything about it. In virtually all cases of blowups, the firms not only made the wrong bets, but they also didn't understand the potential downside of these bets. Had they understood the potential ramifications of these bets, they could have easily covered themselves to avoid catastrophe. Sure, the wrong bets would have cost them, but they could have managed the downside.

For the 99.9 per cent of hedge funds who understand this either before they get too big, or before something blows up, the founder realizes that 1) he has a good thing going – we can all do the math on $2 billion or so under management at 2/20 fees, and 2) he isn't sleeping well at night. He decides that he needs someone waking up every morning keeping tabs on the firm's risk. His survival instincts kick in, and for good reason because the stakes are high.

Since the vast majority of hedge fund managers come from the sell side, the founder will typically call on his network (or that of his portfolio managers) to find a person to help them manage risk. In most situations a hedge fund will conclude that they want a strong quantitatively- trained person who understands the products they trade so that he can assist the hedge fund with risk management, hedging strategies, and maybe even some trading strategy analysis. The individuals who are hired into hedge fund risk management jobs are usually:

1) front-office risk managers from the sell side,
2) front-office traders, marketers or structurers from the sell side,
3) someone who has these skills who is at another hedge fund,
4) someone on the prime broker side, or
5) possibly (but not likely) someone in market risk management.

Now, we get to the answer to your question. ***The vast majority of these senior risk positions at hedge funds are filled through personal networks or referrals.*** Hedge fund managers generally come from the sell side, and because sell side firms spend a huge amount of time calculating, measuring and managing risk, many hedge fund managers can draw on their personal network to attract top candidates. The major exception to this is for hedge funds that are more fundamentally driven (e.g. less quantitative) who need to attract risk management expertise with highly sought-after quantitative skills. These firms need help attracting quantitative risk talent with the required trading/product knowledge and an executive search firm such as Risk Talent Associates (www.risktalent.com) can provide this expertise. Job boards such as GlobalRiskJobs (www.globalriskjobs.com) are better suited to mid-level and entry level risk positions, and can be very useful for finding or posting these types of jobs on-line.

When hedge fund managers either exhaust their personal networks or seek to look outside of their personal network (when managing risk, it can pay to bring in someone who doesn't look at things the same way you do), hedge funds don't typically post these positions on-line. Why? Two reasons. First, in most cases hedge funds don't really want to broadcast that they are looking for a senior risk officer. It raises questions about whether the previous risk officer left for a reason, which often happened six months or so before some of the recent blowups. The second reason is more practical – hedge funds want top talent, and they don't have the time or resources to review hundreds of resumes of people who believe they are qualified to manage risk at a hedge fund, but who may not have the skills.

So, where does that leave you? You want a job as a senior risk officer at a hedge fund and you think you are qualified for this. Go to work on the sell side in the front office – managing risk, trading, whatever. ***Build relationships.*** If you are already doing this, expand your personal network within your firm or area of specialization. Don't be shy about it. If you know some people who have left the firm to start a fund, keep in touch with them. Let them know that you would be interested in moving to the buy side in a risk management role. Also, work with some of the top tier recruiters in the risk management space. Let them know you would be interested in such a role, so they can keep you in mind when positions arise.

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