Bloomberg Briefs

Weekly Brief: Hedge Funds

December 18, 2018

VOICES Blackstone's McCormick on His Outlook for 2019

John McCormick, CEO of Blackstone Alternative Asset Management (BAAM), spoke to Bloomberg's Shelly Hagan on Dec. 14.

Comments have been edited and condensed.

How is your hedge fund business doing?

All four of our platforms at BAAM have raised incremental capital this year. The three newer parts of the business — participating in asset manager economics with the GP stakes and seeding platform, liquid alternatives and the direct investing platforms — have been growing collectively at a faster rate than the more traditional business of building portfolios for institutions.

What's your outlook on seeding next year amid the volatility and headwinds facing the industry?

We're seeing an opportunity to do fewer seeds, but larger launches. We're looking to partner with people who already have a significant following and reputation in the industry, with a really strong institutional track record at a well-known place. The size of our seed could range from $50 million to $200 million.

Why focus on larger launches and fewer seeds now?

We have always made relatively large seed investments because we want managers to have enough day-one capital so that they can focus solely on generating great performance out of the gate, as opposed to being distracted by the need to raise additional capital to support the business. As regulatory and other costs increase and institutions focus on having fewer, more strategic relationships, we believe that scale is increasingly important.

What strategies do you like and dislike going into 2019?

Quantitative strategies, global macro and structured credit are where we continue to see opportunities and we think they may be positioned to continue to thrive in 2019. Strategies like long-short equity and event-driven have been more challenged recently and we would expect that to continue into next year.

You're coming up on the one-year mark as CEO, what is your year-end goal?

We are focused on protecting investor capital in what is a very volatile market. We are making significant investments in technology and infrastructure because the next generation of investor solutions is going to be driven by more quantitative tools and methods. So my first big senior hire this year was a chief technology officer.

Both on the investment and operations side, tech is having a significant impact on our business. For example, on the investment side, across all of our platforms, we're making sure we can look at data in a seamless way.

Geographically, where are the best opportunities?

Right now, Asia looks particularly interesting to us — whether it's some of the structural changes going on in Japan with the stewardship code, or in Australia where there's a Royal Commission looking at the banking system and then you have a new insolvency and bankruptcy code in India. The China opportunity is one we are tracking very carefully as that market continues to evolve.

Do you see an economic slowdown next year?

Our house view is that we don't see an imminent economic slowdown. Our economy overall appears to be healthy. There's a lot of volatility now. Without knowing which way markets will go, an environment where there is more uncertainty and volatility is typically a good thing for what we do.