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How to Launch a Hedge Fund in a Pandemic

By Lydia Tomkiw November 18, 2020

Launching a hedge fund is a difficult undertaking in normal times. Launching a hedge fund in 2020 may go down as one of the wildest times to get an investment business up, running, and trading.

Hedge fund managers have faced the uncertainty wrought by an eight-month-long-and-counting global pandemic, along with market volatility and a remote working world. But managers such as **Connacht Asset Management** and **Hickory Lane Capital Management**, which both launched in 2020, have managed to get a foothold and each grow to over $100 million in assets under management.

Over the last five years, more hedge funds have closed than launched. Already, 2020 is on pace to continue the trend with 482 hedge funds closing and 213 launching through the third quarter, according to Hedge Fund Research.

New launches have faced a “tale of two halves” in 2020, says **Erik Serrano Berntsen**, CEO of **Stable Asset Management**. During the first half of the year, with high uncertainty amid the onset of the COVID-19 pandemic, many investors focused on existing relationships and upsizing those investments, which meant that “for emerging managers it was tricky to get people’s attention,” he adds.

“In the second half, people have realized the crisis would go on for longer. And I think the key decisions to be made, and we’ve been seeing being made either way is, ‘Will you invest with someone you haven’t met in person?’” he says.

Asset raising for hedge funds “is challenging,” and while it’s still taking place for managers that launched in 2020 “it may be slightly slower,” says **John Jackson**, global leader of diversifying alternatives research at Mercer. This year hasn’t brought the multi-billion dollar “mega launches” of 2018 and 2019, he adds.

“Barriers to entry over the last number of years have significantly increased,” he says. “For an institutional allocator the bar is quite high. You need to have all your service provider relationships in place and they need to be high-quality service providers.”

But allocators are adapting to the pandemic environment. Jackson noted that after slower and very thorough fact-checking and due diligence, his team managed to bring on five newly launched managers in 2020.

“None of us really know how long this will continue,” he says. “I think you’re going to have to adapt. I think the idea of onsite due diligence is forever fundamentally changed.”

Connacht launched in February, only weeks before the COVID-19 pandemic fully swept the U.S. The New York-based firm has a focus on financials, healthcare, consumer, and technology, media, and telecom (TMT) sectors. It launched with three funds, including a flagship long/short equity fund run by **Sean Gallagher**, who was previously head of value equity and co-head of U.S. equity at Goldman Sachs; a small-cap core long-only fund run by **Scott Kolar** and **Dan Zimmerman**, both previously of Goldman; and a consumer fund run by **Jason Glass**, previously of **Armistice Capital**.

“I started out with a vision. You can do a hedge fund or launch an asset management organization a couple of different ways – you can start lean or go big,” says Gallagher, founder and CIO of Connacht. He wanted to launch an institutional-quality firm from day one.

The launch process took approximately seven months. “A lot goes into it. It’s a very big endeavor that I appreciate only more now having done it,” he says.

The 11-person shop, named for the western province of Ireland where Gallagher’s father is from as well as the street Gallagher’s mother grew up on, quickly shifted to remote work and now has a few employees back in the office.

“Launching a fund in a pandemic is just fraught with challenges but there are also opportunities,” he says. “It’s a chance to show people that experience matters and that people who have been through crisis moments can step up to the challenge.”

Raising assets during a pandemic has been a slower process, but the firm has grown to managing approximately $140 million in assets. “I think a lot of the allocations this year have gone to existing managers, but there is always a place for good emerging managers,” Gallagher says.

Hickory Lane, a long/short equity fund focused on the TMT, industrial and consumer sectors, launched in July and is managing over $100 million in assets. The launch took the seeding route, anchored with capital from **Investcorp-Tages**, as well as investments from family offices, funds of funds, a consulting firm and other managers, says **Joshua Pearl**, founder and CIO of the New York-based firm, who was formerly an executive at **Brahman Capital**.

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“We were going to launch no matter what and nothing was going to stop us, not even a global pandemic,” Pearl says.

The launch was a five-month process “primarily facilitated by having the partnership with Investcorp-Tages,” he says. The partnership helped Hickory Lane pick service providers and build the business on a swift timeline, he adds.

Pearl describes his shop as a core long-term, bottom-up focused investor that thinks about longs and shorts from a fundamental perspective. The pandemic has caused dislocations in sectors Hickory Lane focuses on, he adds, pointing to areas including broadband proliferation, quick response code payments, and long-term car ownership. “Those themes are ones we think our portfolio is aligned with today,” he says.

The fund, named after the street Pearl grew up on in Cleveland, has six full-time employees as well as an internship program to scout for talent. “I’m looking to identify great talent up front, have them work with us to see what they are like personally and professionally,” he says.

Pearl is planning to grow his business and add capabilities as needed. When the firm crossed $100 million, it added an analyst. “We are going to be build it methodically,” he says.

Looking back, launching during “the craziest year” has also meant market opportunities, with COVID quickening the demise of certain businesses and buoying others. “Every market is really a stock picker’s market, and especially going forward there will be clear winners and losers,” he says.

His advice to others thinking about launching is that it “is not an easy endeavor” and to fully understand the enormous costs associated with launching.

“It’s never a good time launch and it’s always a good time to launch,” Pearl says.

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