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Ares Pumps Up Sales, Client Teams as Assets Grow

By Tom Stabile February 28, 2018

Ares Management credits its steady asset rise since going public in May 2014 to launching a slew of new products and to wider trends driving big investors to private fund managers. But another key factor in its jump from about $77 billion in 2014 to $106.4 billion at year end 2017 is how it has boosted its sales and client relations team from 44 to 70 people in that timeframe.

Bulking up the business development and investor relations team has been a priority at Ares to support new products, grow existing fund groups, and broadly capitalize on trends favoring alts managers, said **Michael Arougheti**, CEO and president, who spoke on its fourth quarter earnings call this month.

"These investments have been bearing fruit, as we systematically raise larger successor funds, launch sizable first-time funds, and penetrate new geographies and new distribution channels," he said, citing larger successor funds for its European direct lending and real estate strategies as examples.

The Ares effort also has involved increasing sales to new client channels, including the high-net-worth investor market – where it was "barely active" five years ago but which now brings in more than 11% of its private fund capital – and the insurance segment, which has doubled to 10% of its total assets, Arougheti said. Ares raised about 4% of its capital from new strategies or client channels in the year before the initial public offering, but today those categories make up 20% of annual fundraising, he added.

Ares isn't alone in such efforts, especially among the largest private fund managers. Despite a lush fundraising environment in recent years, various managers have opted to keep their foot on the gas in terms of sales and investor relations infrastructure, says **Peter Martenson**, partner at **Eaton Partners**, a placement agent firm.

"It's continued to be an increasingly competitive environment," he says. "There is a finite amount of capital out there for alternatives, and they all want to get their piece of the market."

Having a dedicated sales and investor relations function hasn't always been a priority at private fund firms, many of which have relied on their senior partners to be the key capital raisers, Martenson says. That thinking began to change as fundraising dried up after the 2008 market crash, and the biggest firms since have clearly evolved into a more traditional asset manager sales mode.

"I think the mindset has shifted very much," he says. "And their investment into these resources isn't just for the raw, direct fundraising – it's also for the care and feeding of these investors after they come on board."

KKR went through a similar ramp-up of its sales team, said **Scott Nuttall**, co-president and co-COO, during the manager's fourth quarter earnings call this month. The firm was "growing our investor base by investing in our sales team," over several years, he said.

Nuttall had quantified that expansion during a 2016 **Barclays** investor conference, describing how the firm had been "underinvested" in distribution during its first three decades leading up to 2006 – but then after 2009 jacked up the team from a half dozen to 80 people. Its recent annual report filed with the **Securities and Exchange Commission** lists that "client and partner group" as now having 70 professionals.

Hamilton Lane, which went public last year, also has been beefing up its client service team, growing it by nearly 20% in 2017, according to firm executives on its recent fourth quarter earnings call.

Sales hiring across the market has remained active despite a busy fundraising year, with the private equity and private credit segments both topping previous annual records as they raised $560 billion combined in 2017, according to **Preqin** data. A tally of 209 alternative manager sales and marketing hires for last quarter from **Context Jensen Partners**, a recruiter, marked an 11.2% increase over the same period a year earlier, and was led by private equity with 58 new positions and private credit with another 15 jobs.

Many smaller fund managers may still rely heavily on senior partners or external placement agents for sporadic fundraising efforts, Martenson says. But even those firms are starting to invest in permanent investor relations staff to handle client information requests, greater investment and performance reporting needs, and other investor needs, he says.

"It used to be more about the numbers you put up on the board," he says. "It has very much shifted to making sure the [limited partners] have what they need and are comfortable. And you can see it in the fundraising numbers – not only do first-quartile funds get to raise follow-on funds, but also the second- and third-quartile as well."

Having a stronger client service group also is helping managers as they plow into new product areas and as investors seek more options in the realm of separate accounts and co-investments, Martenson says.

More managers are also tapping firms like Eaton and **Sixpoint Partners** to not only raise capital for them on specific funds but also increasingly to handle investor relations afterwards. For Eaton, that's often because managers anticipate that the placement agent will stay on board to help raise successor funds in a particular series, Martenson says.

And for Sixpoint, this trend has "accelerated tremendously over the last two years," says **Eric Zoller**, partner at the placement agent firm.

"There's an enormous amount of knowledge transfer from the [fund manager] to us during a fundraise, and that enables us to play a role in investor relationships post-close," he says. "We continue to operate as an investor relations arm."