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Renaissance Caps Transition as Succession Issue Stalks Hedge Funds

By Lydia Tomkiw January 20, 2021

Renaissance Technologies founder James Simons stepped down as chairman of the firm's board of directors on Jan. 1, capping a transition process many years in the making. The move first reported last week comes as many of the industry's largest hedge funds still face questions over succession – how to best implement the process and who will be leading the largest firms over the next decade.

Renaissance CEO Peter Brown takes on the chairman role while Simons, who is 83, will remain as a board director. Simons stepped down as the firm's CEO in 2010, when he handed over the role to Brown and Robert Mercer. Mercer himself stepped down from the co-CEO role in 2017 following controversy about his support for Breibart News and President Trump, as reported.

In a letter to investors seen by FundFire, Simons wrote that "Simply put, I believe it is time: this transition has been many years in the making…" He added, "My stepping down as Chairman is nothing more than the next step in this years-long transition" and that he had focused on building a firm that would "endure."

The move comes following a tough performance year for Renaissance, as reported.

As one investor told FundFire about succession planning, "RenTech was not an issue as Jim has been out of the day-to-day operations for a long time."

But many other hedge funds are facing questions about what the future of their firms will look like over the next decade.

The hedge fund industry has long sold itself on the backs of star traders, putting many firms in a tough spot now that some of those individuals may be ready to transition, says John Sinclair, managing director for diversifying strategies at TIFF. "The star model is 80% to 90% of hedge funds, and by definition the star model is very difficult from a succession perspective," he says.

Successful transitions can be executed, but it takes a lot of time, sometimes five or more years, and a thoughtful process where egos can get in the way, Sinclair says. "It takes a lot of time and effort and a lot of tough planning," he says.

Investors don't like to be surprised, so a three to five year window and a gradual progression over time works best, says John Jackson, global leader of diversifying alternatives research at Mercer. "You want the key decision makers to be aligned and incentivized along with the limited partners," he says.

Succession affects different strategies in different ways, Jackson says, citing how a pure systematic strategy built over time, with a team enhancing the model, would be much less dependent on any one person than a single portfolio manager shop.

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"The hedge fund industry is always a rotating crop of new talent," he says. "There are always new launches, and spinouts from new or existing firms. That's part of the industry and the allure."

Over the last several years, the hedge fund industry has seen some firms avoid the succession issue by converting to family offices or closing their doors entirely. But others have taken the long transition road.

Sculptor Capital Management, formerly known as Och-Ziff, is among the latest firms to plot for the next generation with Jimmy Levin, 38, set to take over as the firm's CEO on April 1, following a rocky transition, making him among the youngest leaders of a major alts firm, as reported.

Other firms have moved toward transitions after senior staff turnover. Bridgewater Associates' co-CEO Eileen Murray departed the firm last year, leaving David McCormick as the sole CEO, as reported.

Others, including David Tepper's Appaloosa Management, Leon Cooperman's Omega Advisors, and Michael Platt's BlueCrest Capital Management chose the family office path over the last few years.

Many large firms were founded by leaders now nearing retirement age, and the question of succession, which has already been present, will continue to get a lot of attention, says Michael Rosen, principal and CIO at Angeles Investment Advisors.

"There is a huge demographic bulge here that is already upon us and will not crest for another five to 10 years. It's without a doubt an issue more and more firms will face," he says. "It's something that should be an opportunity and not a surprise, and that gets to the broader question of the culture of the firm and the cultivation of the next generation to lead it or not. And that will be telling as to whether a firm can likely continue to thrive or is likely to fade."

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