The 2023 Seward & Kissel Established Manager Hedge Fund Study

SEWARD & KISSEL LLP

Seward & Kissel has advised the investment management industry for more than 75 years and we continue to be committed to understanding the dynamics of the investment fund marketplace, and bringing the latest industry color to our clients and friends. Accordingly, each year Seward & Kissel conducts numerous studies intended to provide valuable insights that will help inform fund managers' key operational and business decisions

The *2023 Seward & Kissel Established Manager Hedge Fund Study* (the "Study") focuses on those Seward & Kissel investment manager clients that have been in business for at least five years and manage greater than $1 billion in regulatory assets under management ("Established Managers"). Established Managers utilize different approaches in seeking to increase their assets under management, including the: implementation of new classes in their existing funds; launch of new hedge funds; entry into separately managed account relationships; execution of side letters; and/or the creation of special purpose vehicles (SPVs). However, to best compare the results of this Study to the findings in our recently released 2023 New Manager Hedge Fund Study, this Study focuses solely on those Established Managers that set up new classes in their existing funds or launched new hedge funds in 2023.

The Study's key findings, as well as comparisons to the findings in the 2023 New Manager Hedge Fund Study are set forth below.

I. Investment Strategies:

The Established Manager fund strategies in the Study fell into two principal buckets: (i) traditional strategies (e.g., long/short, macro, debt/equity) and (ii) bespoke strategies such as income funds, defensive funds and inflection funds. Unlike the 2022 Study, where traditional and bespoke strategies were evenly represented, in this year's Study, only 10% of the funds offered bespoke strategies. With regard to the traditional strategy funds, 50% were equities-focused, 25% had a macro strategy and the remaining 25% invested in credit.

Traditional Investment Strategies - Established Managers

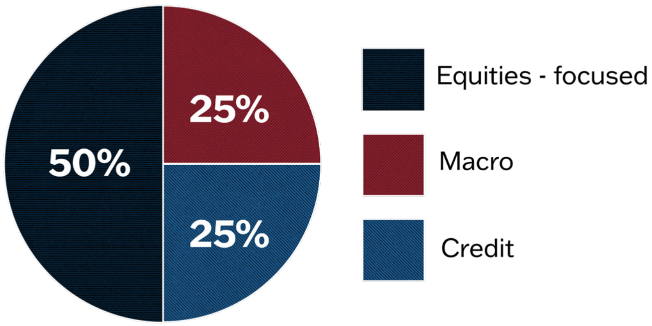


Figure: 1

In contrast, the funds in the 2023 New Manager Hedge Fund Study reflected various traditional strategies (but no bespoke strategies) with the following breakdown: 74% of the funds utilized an equity or equity-related strategy and the remaining 26% were split among multi-strategy, quantitative, global macro, credit, crypto and commodity-related strategies.

II. Management Fees:

Similar to the 2022 Study, there continued to be a significant divergence between the management fees charged by managers to traditional strategy funds and the fees charged by managers to bespoke strategy funds. Traditional strategy funds charged a much higher management fee, with an average of approximately 1.8% in their standard class (similar to the 1.9% in the 2022 Study); however, unlike in 2022 (where there were no founders classes), about half of the traditional strategy funds in this year's Study also had a founders class with an average fee of approximately 1.3%. By contrast, bespoke strategy funds had lower management fees, with a mean rate of 0.9%.

Average Management Fee

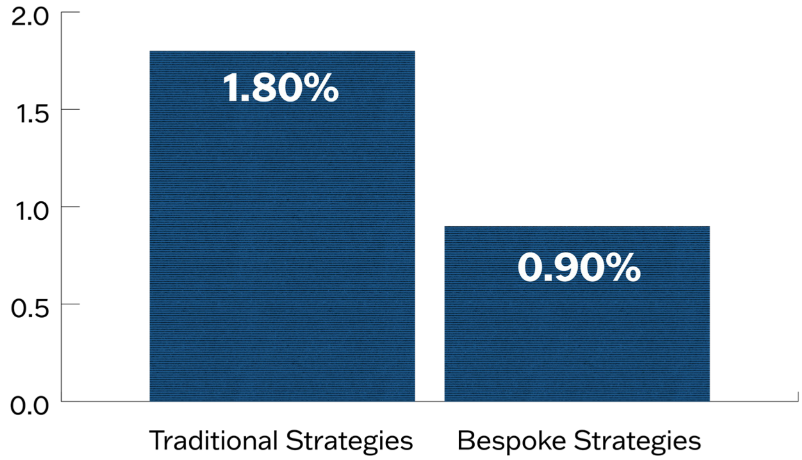
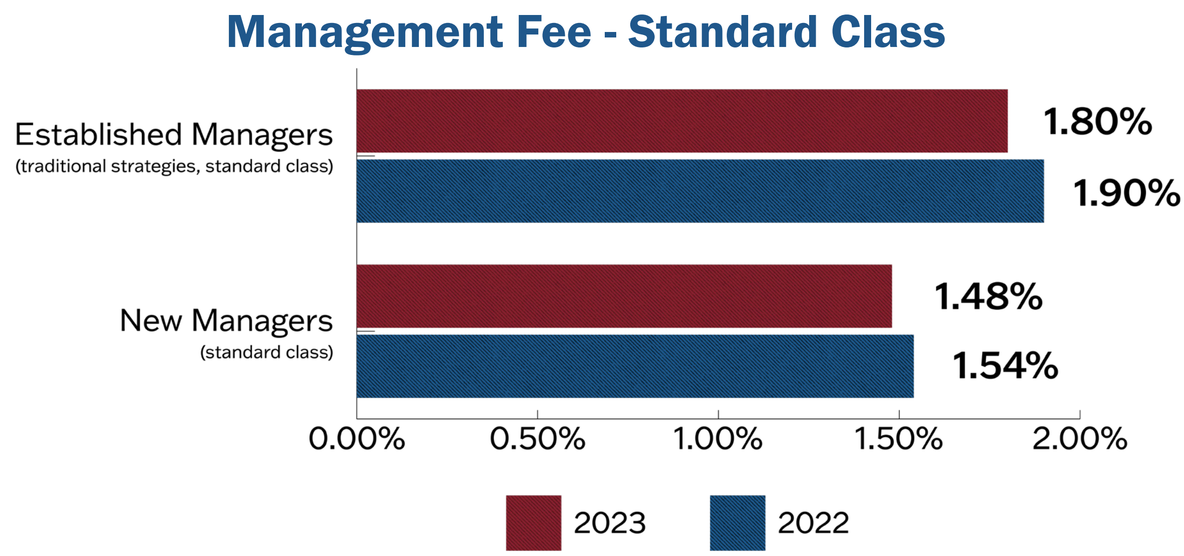


Figure: 2

In comparison, the funds analyzed for the 2023 New Manager Hedge Fund Study had an average management fee rate in their standard class (i.e., non-founders) of 1.48% for equity strategies and 1.4% for non-equity strategies. This represents a significant discount to the management fees charged by Established Managers in their traditional strategy fund standard classes, which we believe may be partly attributable to the greater bargaining power possessed by Established Managers and the significantly higher overhead costs often borne by them.



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III. Incentive Allocations:

While none of the bespoke strategy funds charged an incentive allocation, in an unexpected development, about 25% of the traditional strategy funds also lacked an incentive allocation (as compared to the 2022 Study where all of the traditional strategy funds charged one). Of the 75% of traditional strategy funds that charged an incentive allocation, the average rate was approximately 22%. In addition, 20% of such funds had a hurdle.

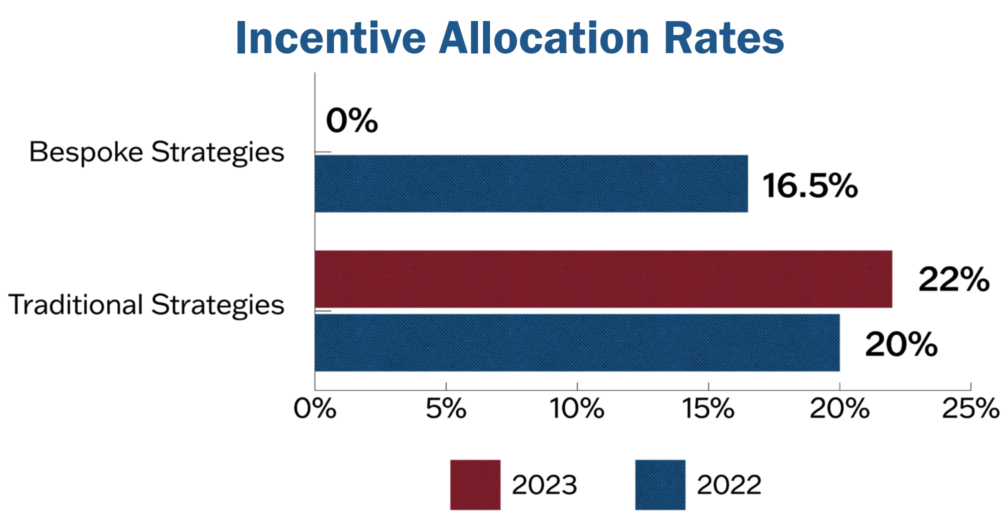

Figure: 4

By comparison, the average standard class incentive allocation rate in the 2023 New Manager Hedge Fund Study was somewhat lower at 18%, with a significant 40% of such funds structuring incentive allocations with a hurdle rate.

IV. Withdrawals:

With respect to the traditional strategy funds, 25% of such funds offered monthly liquidity with at least 15 days' notice. The remaining 75% of traditional strategy funds had an average of 55 days' notice with quarterly liquidity (with 25% of these funds also imposing a quarterly gate).

Funds in the 2023 New Manager Hedge Fund Study demonstrated greater liquidity constraints with 74% of the equity funds and 95% of the non-equity funds offering quarterly (or less frequent) withdrawals and the balance allowing for monthly withdrawals, coupled with the fact that almost 75% of such funds had lock-ups or investor level gates.

V. Fund Structures:

All of the funds in the Study relied on the Investment Company Act Section 3(c)(7) exemption and focused on qualified purchasers only. 75% were established as master-feeder structures, while the remaining 25% were stand-alone U.S. funds without an offshore equivalent.

With regard to the 2023 New Manager Hedge Fund Study, 68% of all managers initially launched a U.S. stand-alone fund, about 61% of which relied on the Section 3(c)(1) exemption. Sponsors who offered both U.S. and offshore funds primarily continued to establish master-feeder fund structures, and such structures utilized the Section 3(c)(7) exemption about 75% of the time.

We hope that you find the 2023 Seward & Kissel Established Manager Hedge Fund Study helpful. If you have additional input that you would like to share with us, or have any questions, please contact your primary attorney in Seward & Kissel's Investment Management Group.

Recognitions:

The Investment Management practice and partners have been widely recognized by industry organizations for our representation of investment managers, including but not limited to recognition by the following organizations:

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