Hedge Funds and Clients Working Towards Harmony

Stockholm (HedgeNordic) – A new equilibrium in the alignment of interests between investors and hedge fund managers is on the horizon, according to a new study from the Alternative Investment Management Association (AIMA). “There is an increasing sense that fund fees and terms between hedge fund managers and their investors are moving towards a new normal,” the study said.

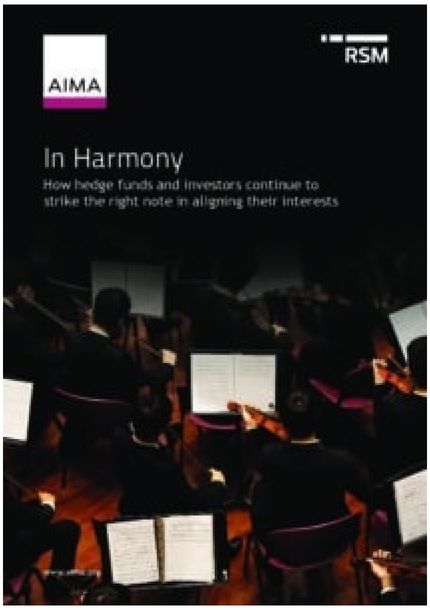
AIMA identified six main takeaways from a survey with input from a group of 118 hedge fund managers, which collectively manages $440 billion in assets under management. According to the study, hedge fund managers and their investors “have agreed on a variety of new flexible fund fee structures” in recent years. The 2-and-20 fee structure, which was a norm in the hedge fund industry for decades, “is now consigned to the past.”

The average management fee charged by the sample of hedge funds that reported to the survey was 1.3 percent, whereas the average management fee for new fund launches over the previous 12 months was 1.4 percent. “An emerging trend from this year’s study is tiered fees for investors,” the study said. Under the tiered fee model, investors benefit from a lower management fee as a hedge fund’s assets under management grow. Around 35 percent of all respondents offer this fee discount to investors.

While management fees are lower than before, hedge funds continue to charge performance fees north of 20 percent. “Between 20 percent and 30 percent of the alpha earned being paid to the hedge fund feels about right,” the study said. “Our discussions with managers and investors reveal a shared belief that the manager share of any alpha earned should be about one third, with the remainder going to the investor.” The study emphasizes that hurdle rates are more widespread than before. “Fund hurdle rates continue to grow in popularity. Almost 40% of all respondents use fund hurdle rates of varying description,” the study said.

Another important takeaway from the survey was that “having ‘skin in the game’ remains the most important demonstration of alignment between hedge-fund managers and investors, as voted by 76% of all respondents.” According to the study, it is not uncommon for fund founders to invest as much as 80 percent of their capital at the founding stage. Whereas “investors still value hedge-fund managers having ‘skin in the game’ and are still discerning of fees,” the two camps are not partnering “far more to create bespoke investment solutions through increased transparency, better communication and responsiveness to investor needs.”

The complete study can be downloaded below:



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