

INSTITUTIONAL INTELLIGENCE

# State of Institutional Fees Report: Hedge Funds

A glimpse at the negotiated versus  
stated fees that public plans pay for  
hedge fund investments

Released September 2019

## ABOUT EVESTMENT FEES DATA

eVestment has manager-reported stated fees on thousands of traditional vehicles (separate/segregated accounts, pooled/commingled funds, and mutual funds), as well as thousands of alternative products. With an eVestment Analytics license, you can compare and output this fee data.

eVestment also extracts actual fee data from thousands of public fund documents, showing the fees managers and public funds have negotiated. With an eVestment Market Lens license, you can view and download any document, including those that disclose fee intelligence.

## APPLY MARKET LENS DATA TO:

- **Analyze Consultant & Investor Trends:** Export mandate, product rating and manager roster data to understand what searches are being done, which managers are making finals and who is winning.
- **Understand How Consultants Perceive Managers:** View consultant ratings to understand manager recommendations, strategy preferences and where consultants are advising clients to allocate portfolios.
- **Identify and Target Sales Opportunities:** Find potential mandates before they are officially announced, follow client activities and track open mandates with the ability to set alerts, filter across various criteria and narrow down to only the most applicable mandates.
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# EXECUTIVE SUMMARY

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eVestment's Market Lens solution contains thousands of documents with information on the actual fees public plan investors have negotiated with their traditional and alternatives asset managers. This report provides an overview of the negotiated fees from a sample of 180 hedge fund commitments made by 50 U.S. public plans, and also compares these negotiated fees to the stated fees managers have reported into the eVestment platform.

For both hedge fund managers and institutional investors in these products, having an understanding of where fee negotiations tend to start and tend to finish is important to reaching an agreement which ultimately benefits both parties.

## **Key Points from Negotiated vs. Stated Fees**

- Hedge fund managers are more likely to negotiate down their management fees than their performance fees.
- Discounts from stated fees were generally negotiated on larger commitments amounts.
- Two-thirds of managed futures funds offered a discount from their stated management fees.
- Fixed income-focused and equity-focused hedge funds were least likely to veer from their stated management fees.

## **Highlights from All Negotiated Fees**

- The most common negotiated management fees were 1% (for managed futures and funds of hedge funds), 1.5% (equity and multi-strategy), and 2% (fixed income). Event driven/distressed and macro funds charged 1.5% and 2% with the same frequency. The most common agreed upon performance fee among all direct hedge funds was the oft referenced 20%; for funds of hedge funds it was 10%.
- Managed futures funds offered the lowest negotiated fees for public plans among direct hedge fund strategies shown below, charging an average 0.7% in management and 16.4% in performance fees. Negotiated fees for managed futures strategies ranged from a 0-and-10 structure (a levered systematic index-tracker) to a 2-and-20 setup (algorithmic frontier markets-focused fund).

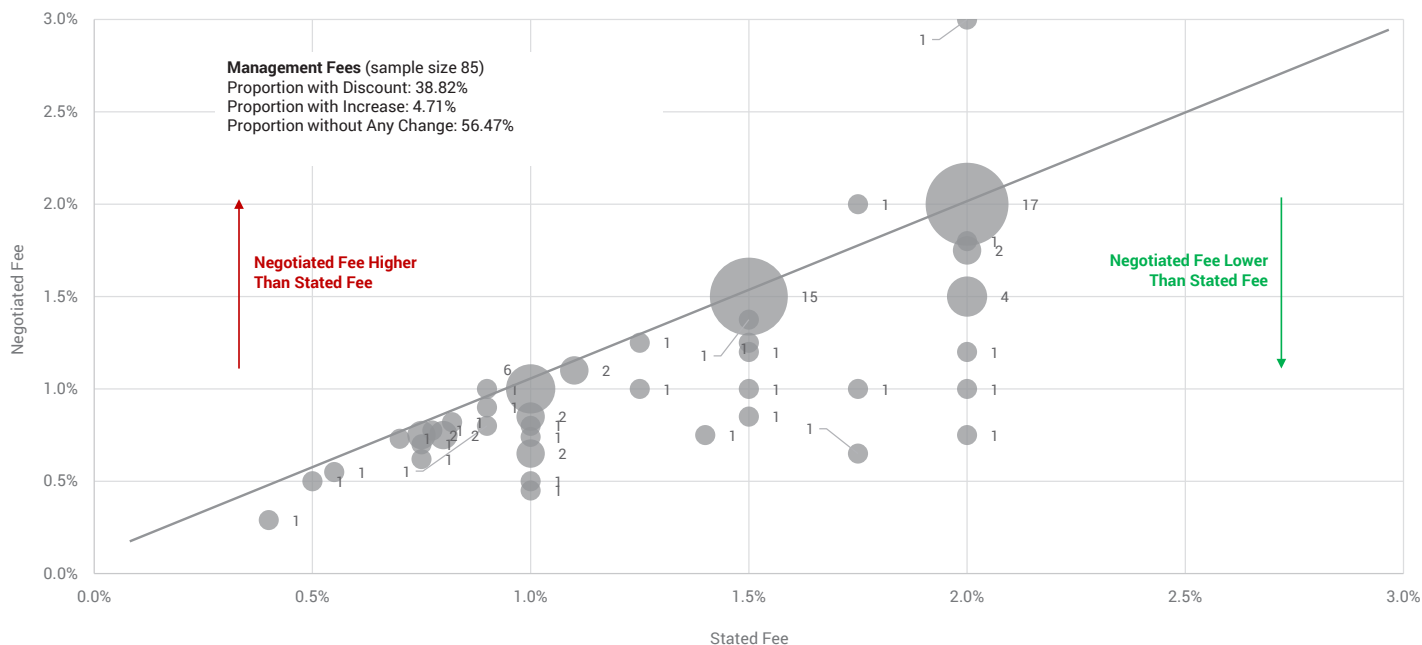
## Negotiated Vs. Stated Fees

The negotiated versus stated fee information is based on a 1-to-1 match between the hedge funds in public plan documents and those on the eVestment platform.

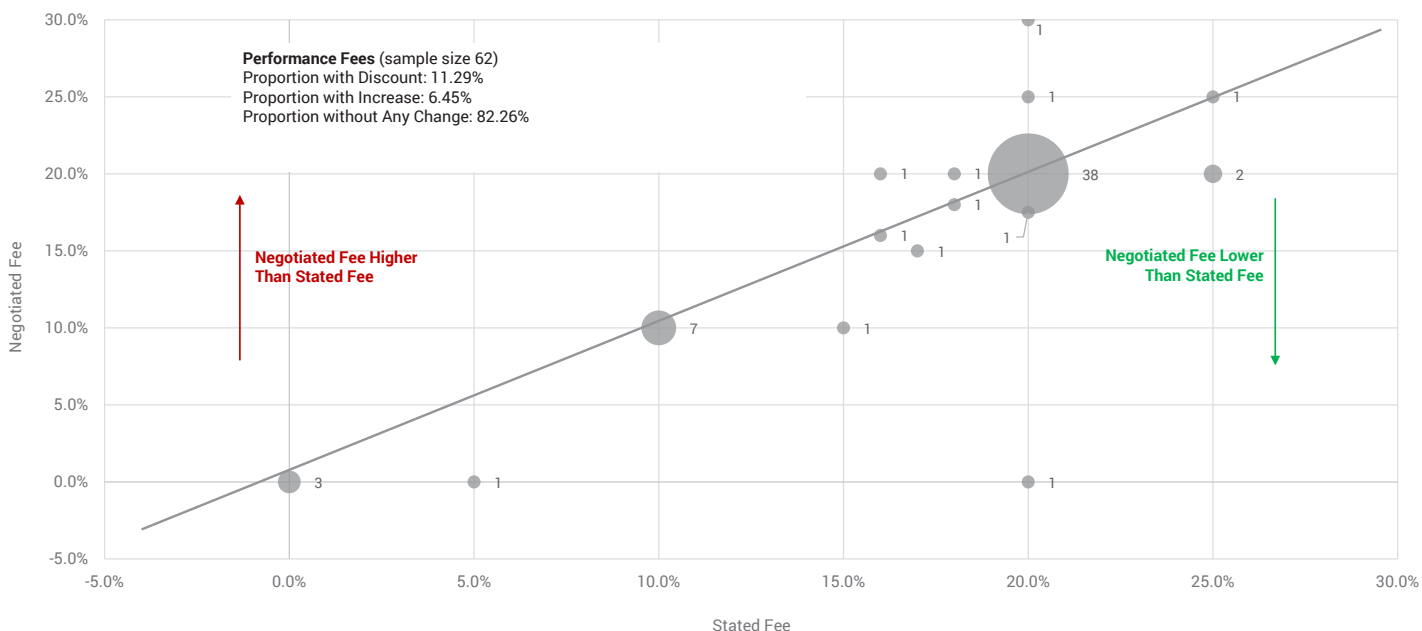
**Hedge fund managers more likely to negotiate down their management fees than performance fees.** 38.8% of commitments in the sample below show a discounted management fee, while only 11.3% show a discounted performance fee. However, the majority of managers still did not budge from their stated fees during negotiations with public plans.

**Discounts negotiated on larger commitments.** The average commitment amount with discounted fees was over 2x larger than that of commitments without any change from their stated fees. USD 119 MM was the average commitment size with a management fee discount and USD 133 MM with a performance fee reduction; USD 52 MM was the average commitment size showing no change in management fees and USD 55 MM showing no change for performance fees.

HEDGE FUND MANAGEMENT FEES



HEDGE FUND PERFORMANCE FEES



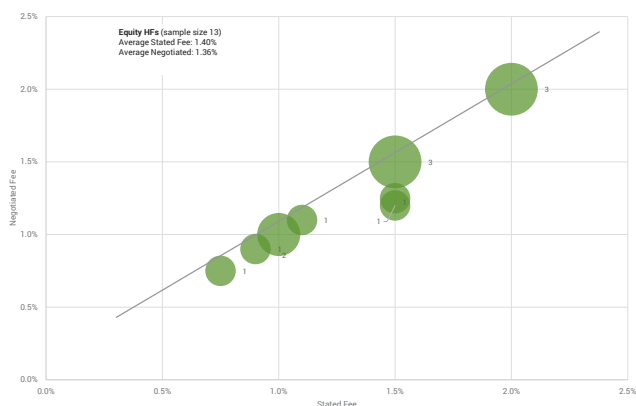
## Negotiated Vs. Stated Management Fees By Strategy

Aside from equity-focused and fixed-income focused hedge funds, the other strategy groups were more willing to negotiate down on their management fees than their performance fees (see next page). On average however, each group provided a discount to public plans from their stated management fees.

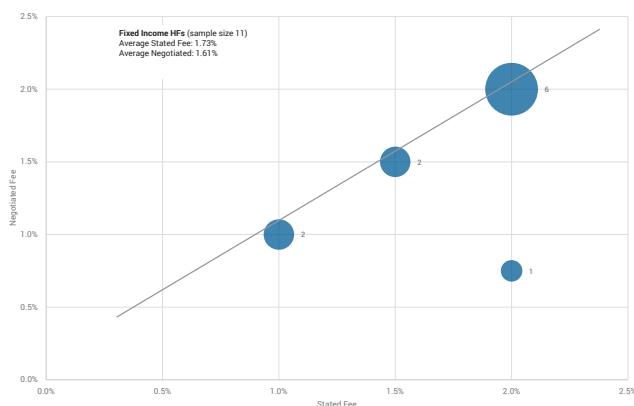
Two-thirds of managed futures funds offered a discount from their stated management fees. This group was most likely to negotiate management fee reductions with public plans in our sample, on average -18 bps from their stated levels. Nearly two-thirds of funds of hedge funds negotiated down their management fees as well. Fixed income-focused and equity-focused hedge funds were least likely to veer from their stated fee.

Two funds that negotiated higher management fees removed their performance fees entirely. Another two with higher negotiated than stated fees had struck agreements with public plans prior to 2018.

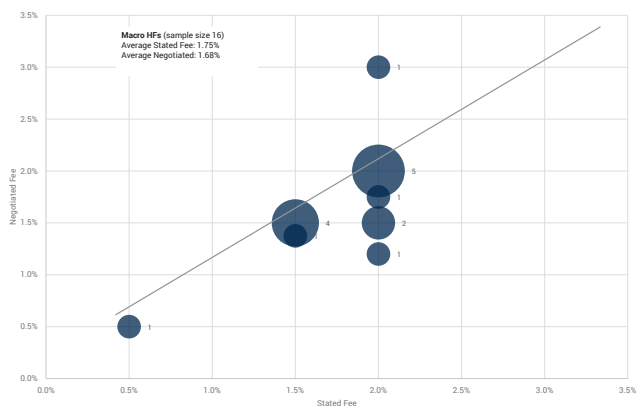
EQUITY HEDGE FUNDS



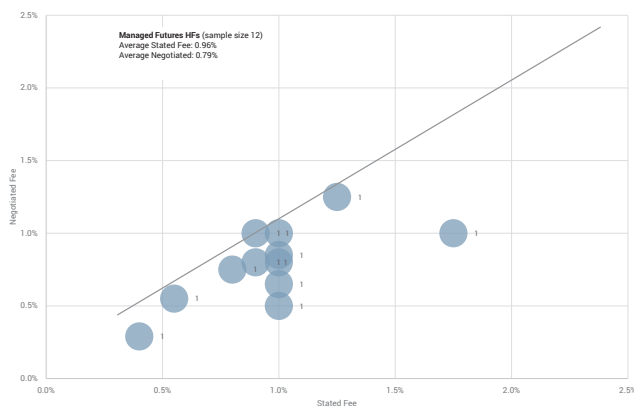
FIXED INCOME HEDGE FUNDS



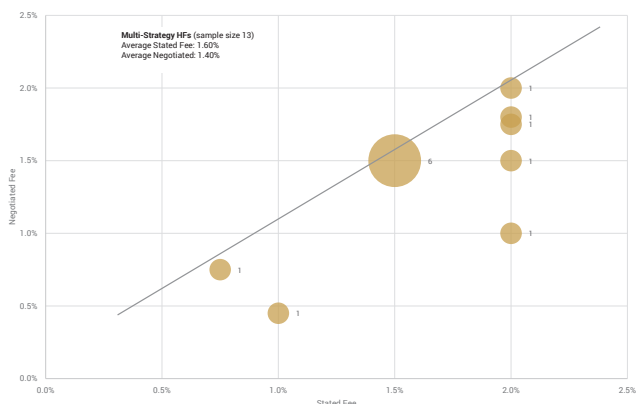
MACRO HEDGE FUNDS



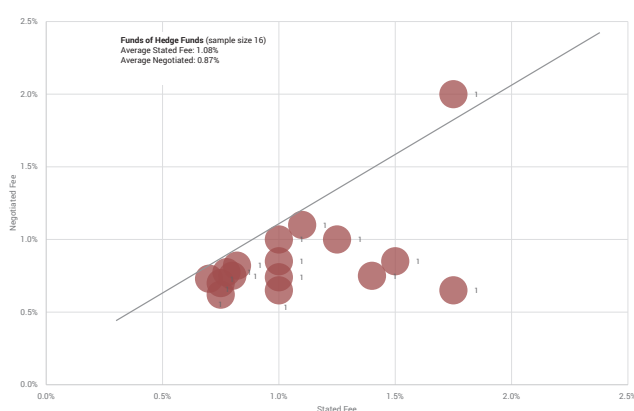
MANAGED FUTURES HEDGE FUNDS



MULTI-STRATEGY HEDGE FUNDS



FUNDS OF HEDGE FUNDS

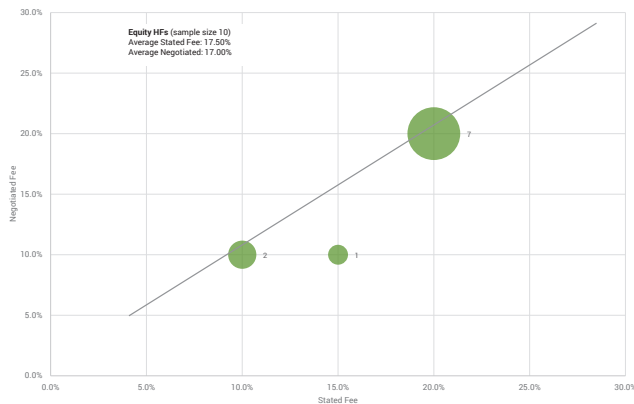


## Negotiated Vs. Stated Performance Fees By Strategy

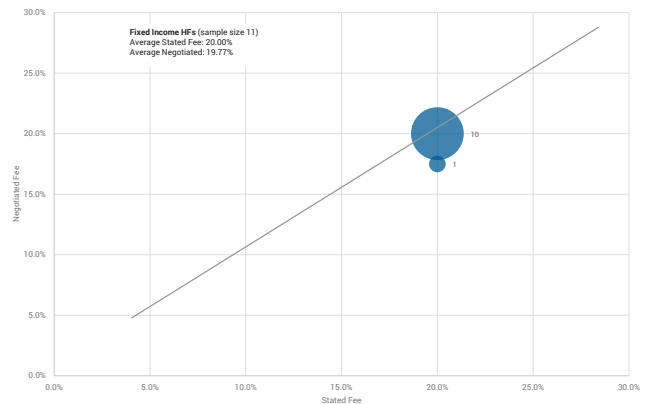
Negotiated performance fees were not as frequently cited as management fees in public plan documents. Among those that were cited, four in five funds kept their performance fees unchanged from their stated level, but there were some unique compromises. For instance, one macro fund manager and public plan settled on a +100 bps higher management fee and the removal of the performance fee entirely; a fund of hedge funds with a sliding fee schedule also did not charge a performance fee for a large, USD 300+ MM, commitment; and a multi-strategy fund lowered both of their fees during negotiations, taking off -25 bps from the stated management fee and -500 bps from the stated performance fee.

Three-fourths of direct hedge funds charged the common 20% in performance fees to public plans.

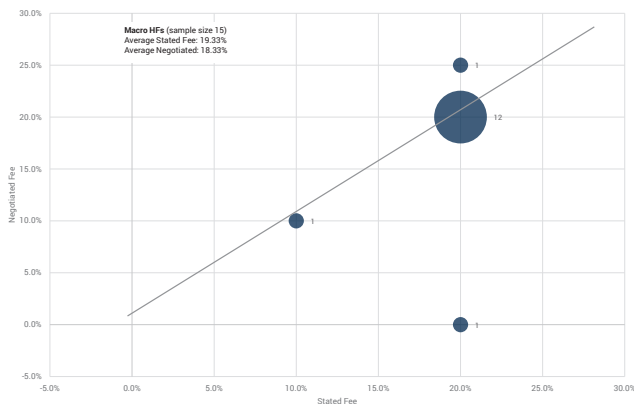
### EQUITY HEDGE FUNDS



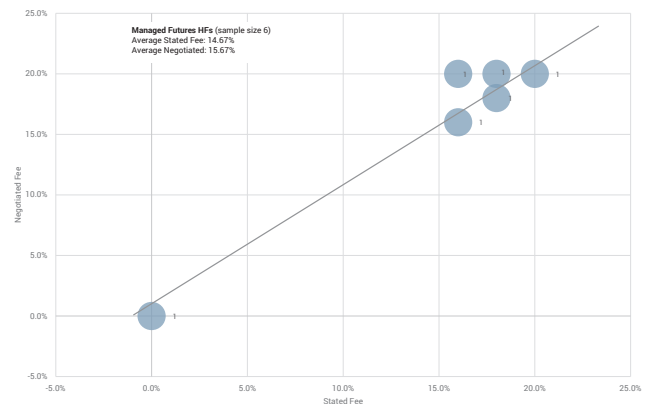
### FIXED INCOME HEDGE FUNDS



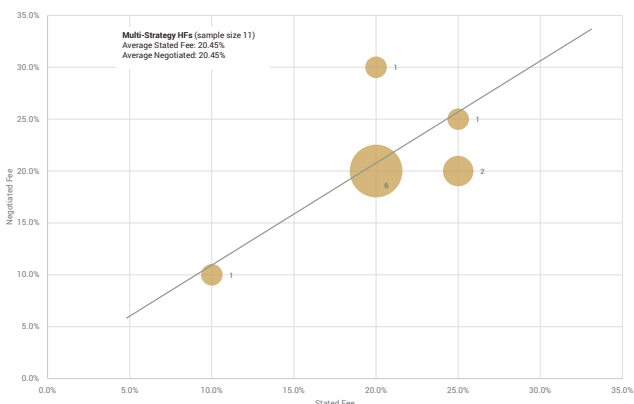
### MACRO HEDGE FUNDS



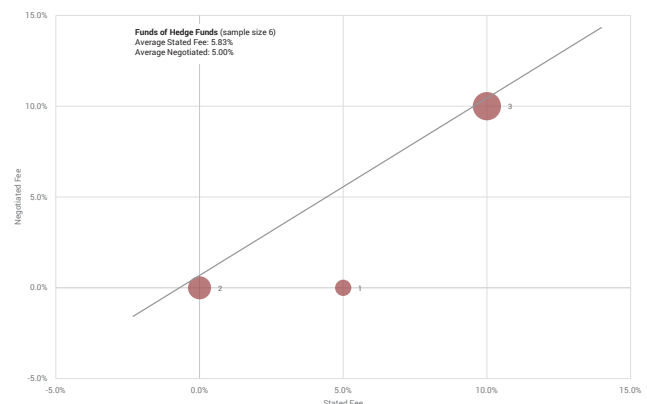
### MANAGED FUTURES HEDGE FUNDS



### MULTI-STRATEGY HEDGE FUNDS



### FUNDS OF HEDGE FUNDS



## Detailed Negotiated and Discount from Stated Fee Data

The tables below display all fee details from each segment covered in the report for reference and comparison. *Average After Discount* and *Average Discount from Stated* only include (a) funds that were a 1-to-1 match between public plan documents and those on the eVestment platform and (b) funds that negotiated a fee reduction from their stated fee; funds without any fee reduction or a fee increase were excluded from these two fields.

All Direct Hedge Fund Commitments		
	Management Fee	Performance Fee
Most Common	2%	20%
Average Negotiated	1.35%	18.43%
Weighted Average Negotiated	1.21%	18.28%
Average After Discount	1.09%	13.75%
Average Discount from Stated	42 bps	658 bps
Total Commitments	134	
Commitments with Amounts	97	
Average Investment Amount	\$66.94 million	

Funds of Hedge Funds		
	Management Fee	Performance Fee
Most Common	1%	10%
Average Negotiated	0.84%	7.31%
Weighted Average Negotiated	0.75%	9.22%
Average After Discount	0.76%	
Average Discount from Stated	36 bps	
Total Commitments	46	
Commitments with Amounts	26	
Average Investment Amount	\$239.27 million	

Equity Hedge Funds		
	Management Fee	Performance Fee
Most Common	1.5%	20%
Average Negotiated	1.44%	18.08%
Weighted Average Negotiated	1.35%	17.02%
Average After Discount	1.23%	
Average Discount from Stated	28 bps	
Total Commitments	32	
Commitments with Amounts	26	
Average Investment Amount	\$49.04 million	

Fixed Income Hedge Funds		
	Management Fee	Performance Fee
Most Common	2%	20%
Average Negotiated	1.45%	18.04%
Weighted Average Negotiated	1.16%	17.90%
Average After Discount		
Average Discount from Stated		
Total Commitments	22	
Commitments with Amounts	13	
Average Investment Amount	\$81.08 million	

Macro Hedge Funds		
	Management Fee	Performance Fee
Most Common	1.5% & 2%	20%
Average Negotiated	1.36%	18.33%
Weighted Average Negotiated	1.46%	19.40%
Average After Discount	1.47%	
Average Discount from Stated	44 bps	
Total Commitments	30	
Commitments with Amounts	20	
Average Investment Amount	\$62.50 million	

Managed Futures Hedge Funds		
	Management Fee	Performance Fee
Most Common	1%	20%
Average Negotiated	0.86%	16.40%
Weighted Average Negotiated	0.84%	19.34%
Average After Discount	0.71%	
Average Discount from Stated	28 bps	
Total Commitments	17	
Commitments with Amounts	14	
Average Investment Amount	\$98.86 million	

Multi-Strategy Hedge Funds		
	Management Fee	Performance Fee
Most Common	1.5%	20%
Average Negotiated	1.41%	20.33%
Weighted Average Negotiated	1.22%	19.51%
Average After Discount	1.30%	20.00%
Average Discount from Stated	50 bps	500 bps
Total Commitments	19	
Commitments with Amounts	12	
Average Investment Amount	\$68.83 million	

Event Driven Hedge Funds		
	Management Fee	Performance Fee
Most Common	1.5% & 2%	20%
Average Negotiated	1.46%	18.89%
Weighted Average Negotiated	1.30%	17.36%
Average After Discount	1.25%	
Average Discount from Stated	50 bps	
Total Commitments	14	
Commitments with Amounts	12	
Average Investment Amount	\$58.67 million	

# METHODOLOGY

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For this glimpse into negotiated fee data between public plans and hedge funds, we used public plan documents from 2014 to present, but only included the most recent management and performance fee data provided (i.e. removed older negotiated fees between the same public plan/hedge fund and only used the newer fee terms when available).

The fees in these plan documents are the actual negotiated fees. The stated fees are those from manager-reported hedge fund profiles within eVestment's global database. In public plan documents there are instances where hedge funds have offered sliding fee schedules similar to traditional institutional separate accounts; these sliding fees were used to calculate negotiated fees. Stated fees were based on manager-reported data, so if sliding fee schedules were not listed we used the base management/performance fee that was reported in the database. In some public plan documents there were only details on management fees.

When doing the 1-to-1 comparison between individual funds' negotiated versus stated fees, the averages for management fees were based only on instances where funds had both negotiated and stated fees, and similarly the averages for performance fees were based on the same.



# ABOUT EVESTMENT

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eVestment, a Nasdaq company, provides institutional investment data, analytics and market intelligence covering public and private markets. Asset managers and general partners reach the institutional marketplace through our platform, while institutional investors and consultants rely on eVestment for manager due diligence, selection and monitoring. eVestment brings transparency and efficiency to the global institutional market, equipping managers, investors and consultants to make data-driven decisions, deploy their resources more productively and ultimately realize better outcomes.

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