Start-Up Hedge Fund Survey

The law firm of Stewart Kessel LLP recently conducted a survey of its hedge fund clients to determine what the most popular hedge fund strategies, fee and liquidity provisions and fund structures are for start-up managers. According to the study, approximately 50% of the firm's clients followed an 'equity or equity related' strategy, of which a third were focused on U.S. equities, with the remainder having a global focus. 10% were categorized as credit or credit related strategies, with the balance consisting of managed futures, structured products, or commodities.

The incentive allocation was established by virtually all funds at 20% of annual net profits with a high water mark provision in place. And the average management fee was 1.7%. 40% of funds offered a lower performance fee to investors who agreed to a greater than one-year lock-up. Three quarters of funds allowed quarterly redemptions with the remaining allowing monthly exits. 10% of funds had a "soft lock-up" (usually one year with a 3-4% penalty for early withdrawal), 30% had no lock up and the rest had a hard lock-up (usually one year).

In terms of structure, a minority were established as U.S. standalone funds. Managers who offered both U.S. and off-shore funds were set up under a master-feeder structure 80% of the time. And a majority of funds relied on the Section 3(c)(7) exemption to registration under the Investment Company Act of 1940 while less than 25% open their fund to investors under Section 3(c)(1). On average, the stated minimum investment was $1 million.