



Morgan Lewis

ADVANCED TOPICS IN

HEDGE FUND PRACTICES

CONFERENCE

MANAGER AND INVESTOR PERSPECTIVES

NEW YORK

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Hedge Fund Terms

Speakers



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Morgan Lewis

Agenda

Market Landscape

Use of Funds Database

Terms

- Performance Compensation
- Management Fees and Expenses
- Liquidity
- Hybrid Funds

Market Landscape: Increased Interest in Hedge Fund Allocations

- BNY survey reveals that
 - 84% of respondents currently investing in alternatives expect target allocations to increase over the next year
 - 52% believe it will be “significantly higher”
 - 62% believe their allocation to hedge funds will increase over the next year
- Hedge Funds are a top choice for alts allocation
- Key Factors: Liquidity, diversification of returns and increased return potential

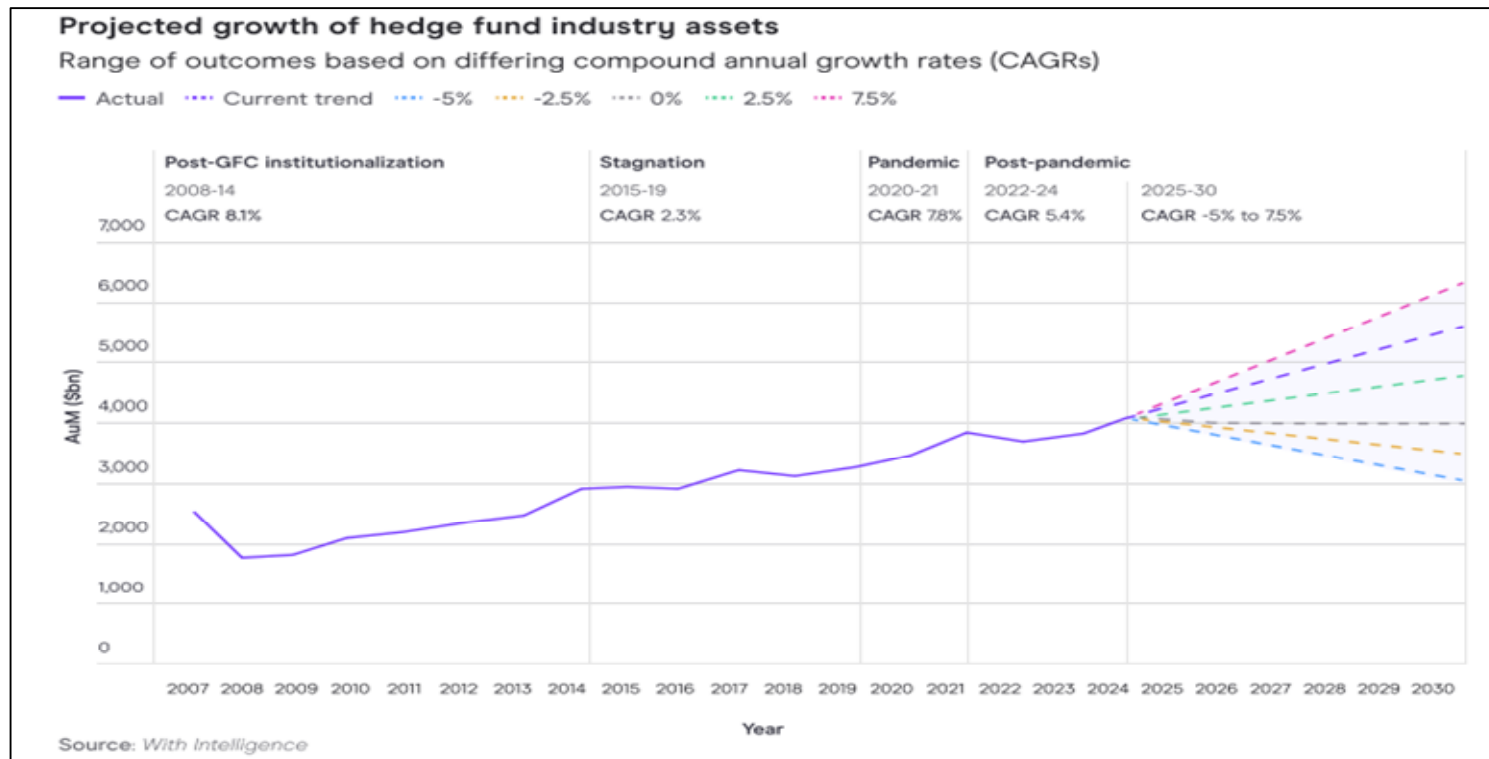
Source: BNY/Pershing, “Wealth Trends in Alternatives: Optimizing Opportunities”

Market Landscape: Growth in Hedge Fund Launches

- *With Intelligence* recently reported **significant growth** in hedge fund launches
 - 45 hedge funds were in development in May 2025
 - 25% year over year increase from May 2024, when 36 hedge funds were in development
- 32 hedge funds in development were new firms

Source: *With Intelligence*. Data relates to new hedge funds in development reported on the *With* platform.

Market Landscape: Projected Growth in Hedge Fund Assets



Hedge Fund Terms: By Strategy

- **The following slides focus on:**

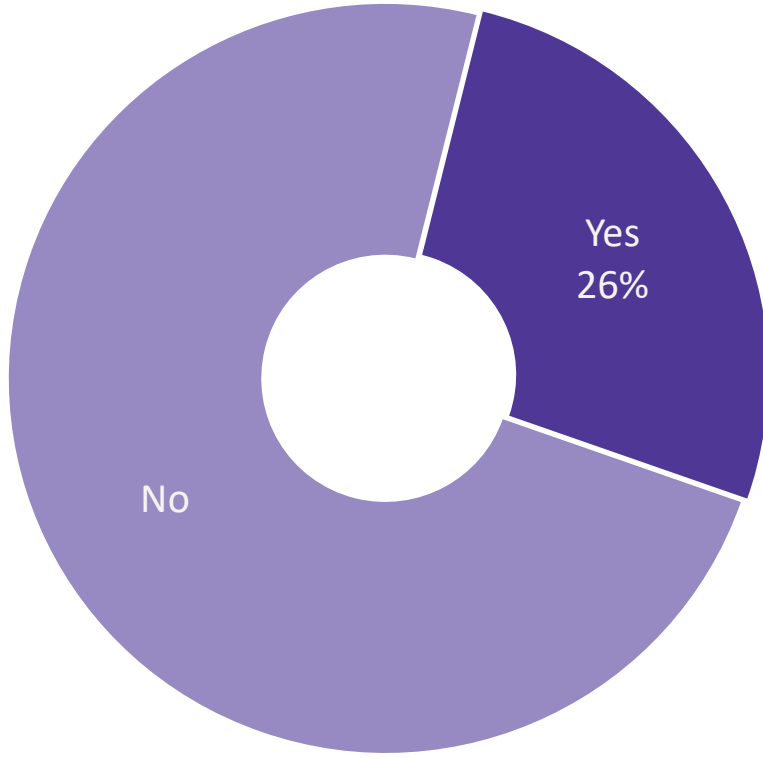
- **The following terms**

- Performance-based compensation
 - Management fees
 - Expenses
 - Liquidity

- **Primarily within the following strategies in our data**

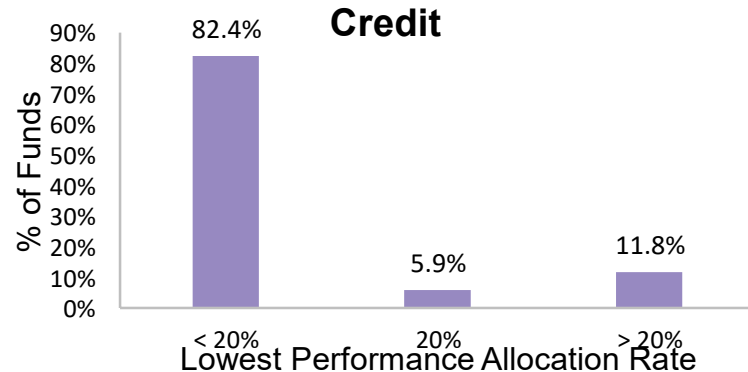
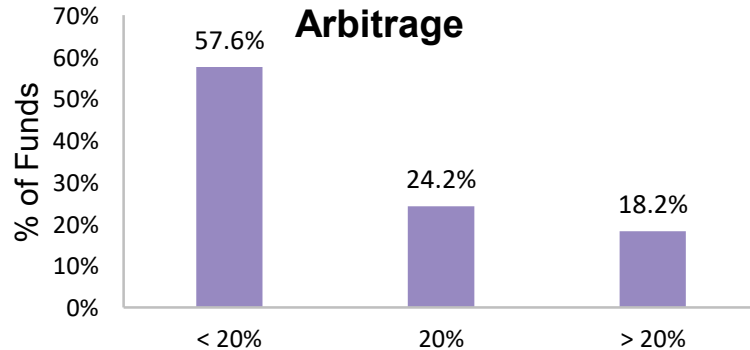
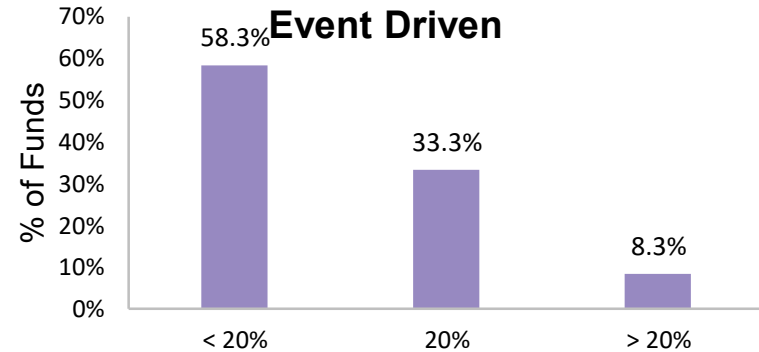
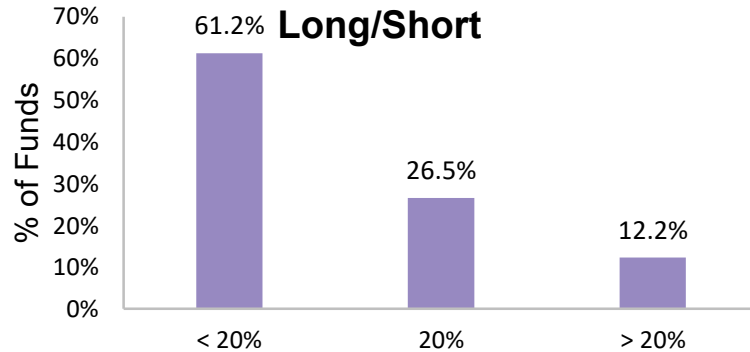
- Long-short
 - Event driven
 - Arbitrage
 - Credit

Hurdles

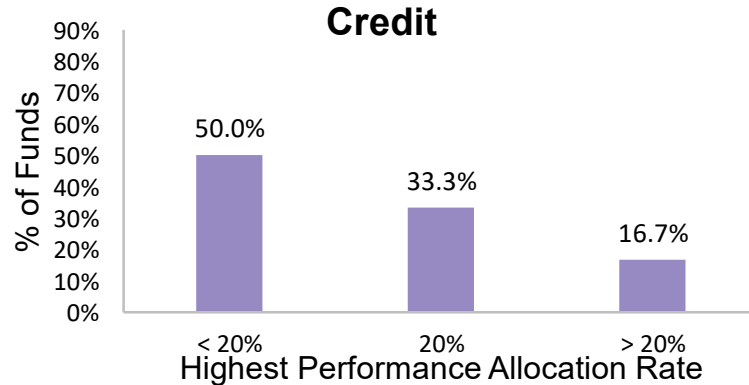
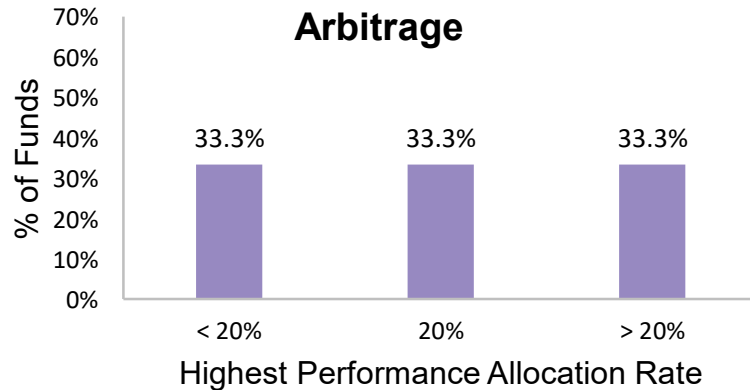
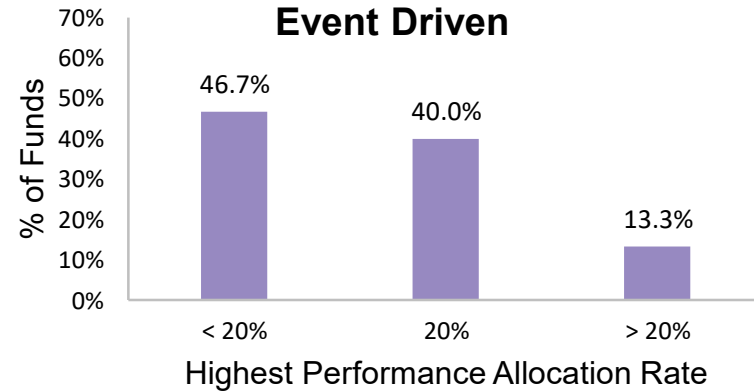
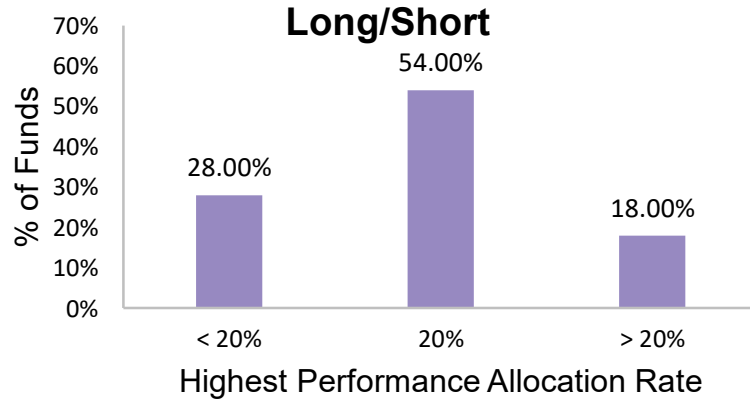


26% of Hedge Funds have hurdles

Performance Allocation Lowest by Strategy

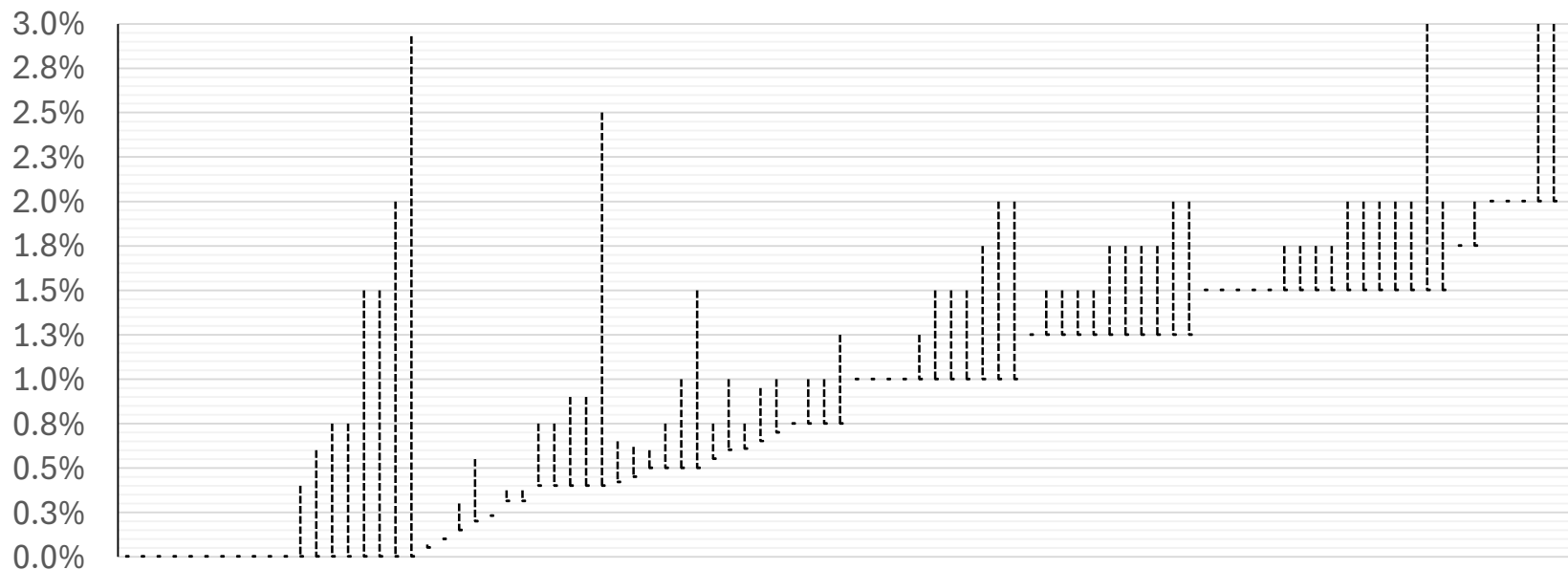


Performance Allocation Highest by Strategy

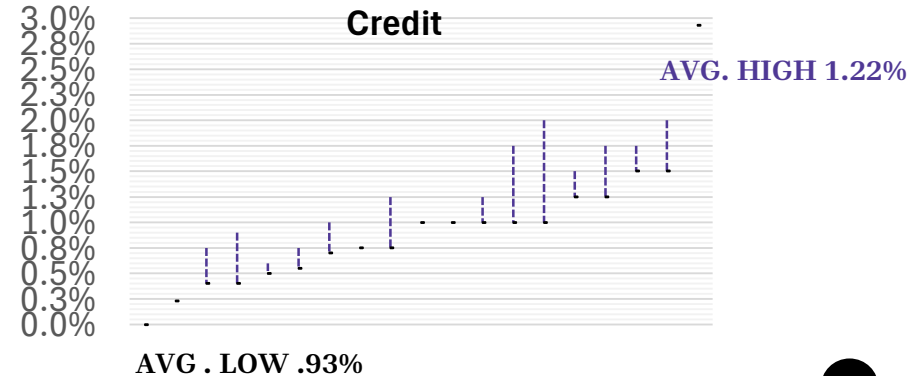
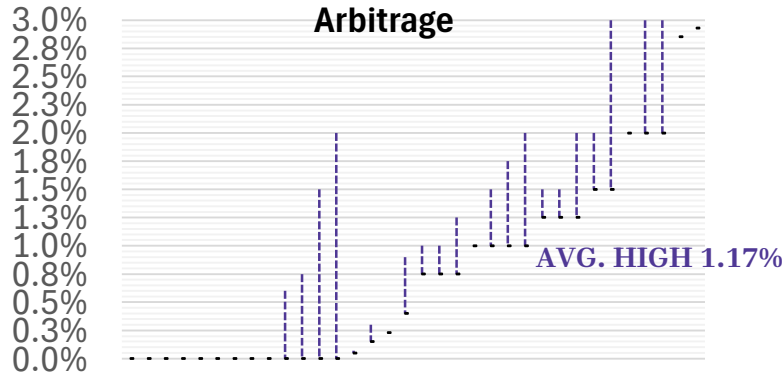
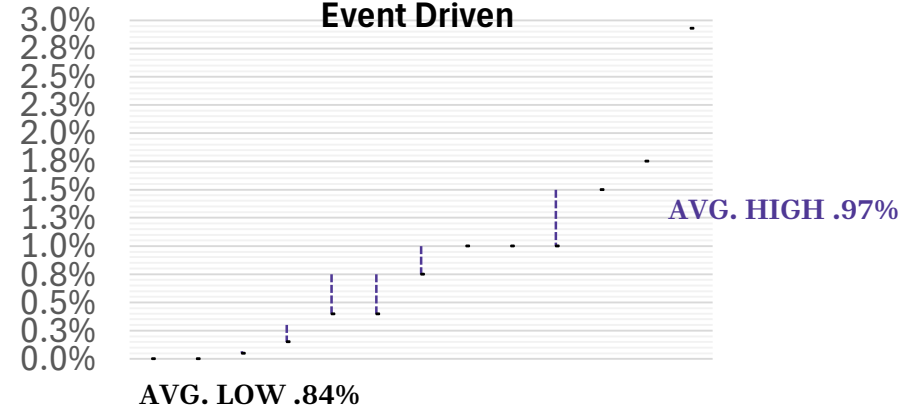
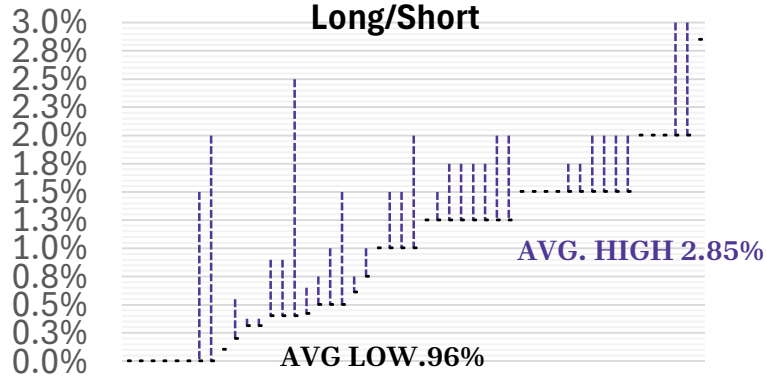


Management Fees: Summary Across Strategies

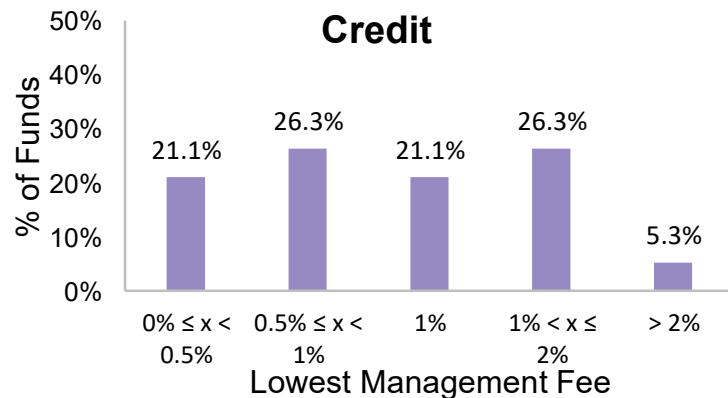
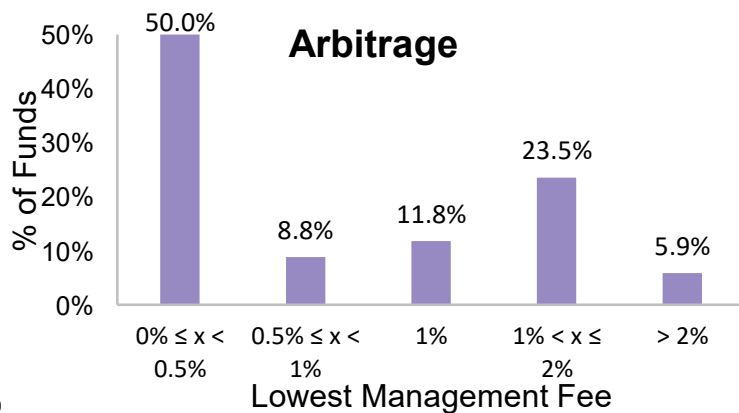
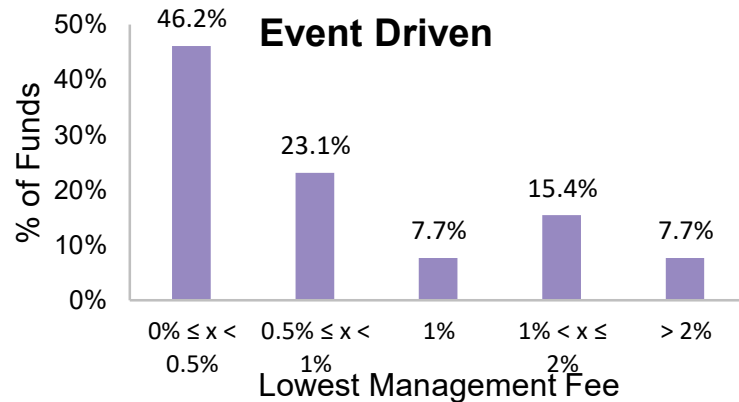
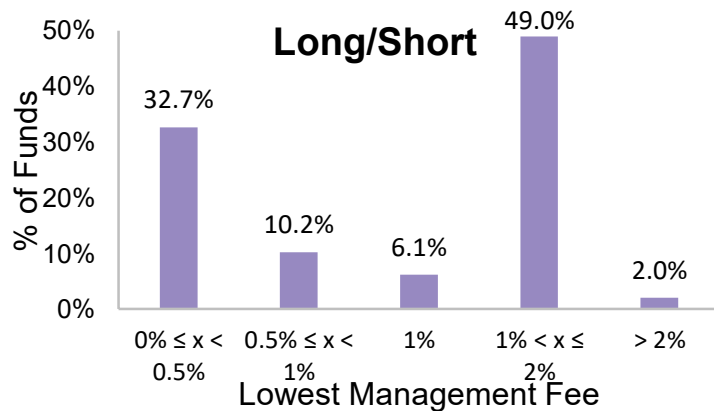
Hedge funds with a vintage from **2023-2025** within the data set.
The **single dots** represent a single rate structure. The **lines** represent the high/low within a fund.
Sorted by single (low to high), discounted (low to high)



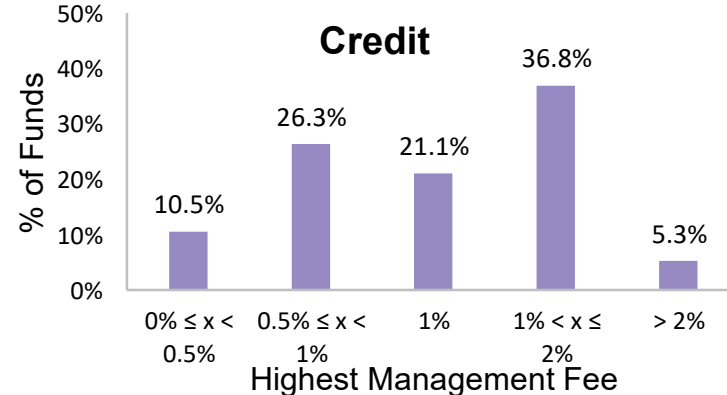
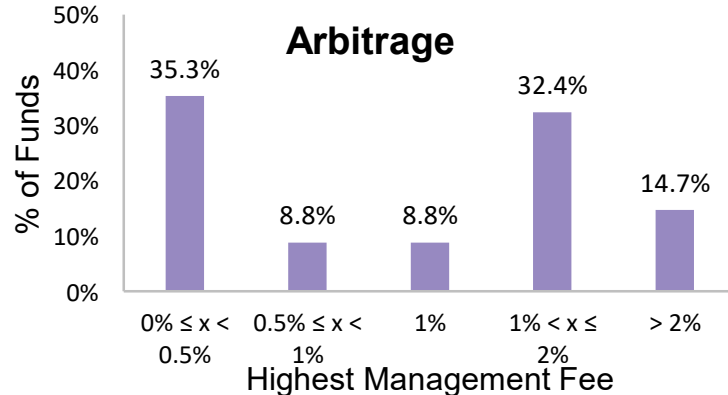
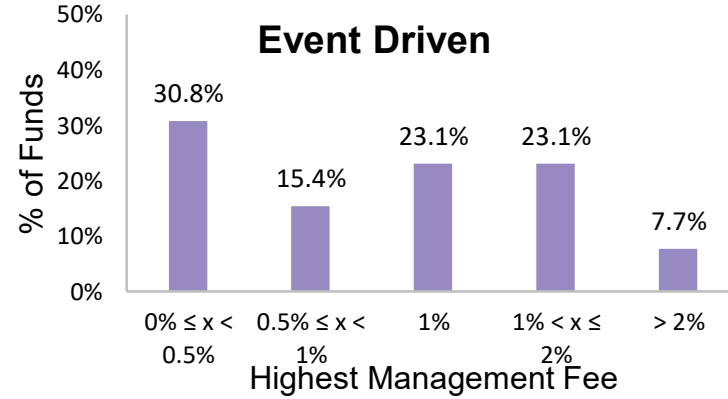
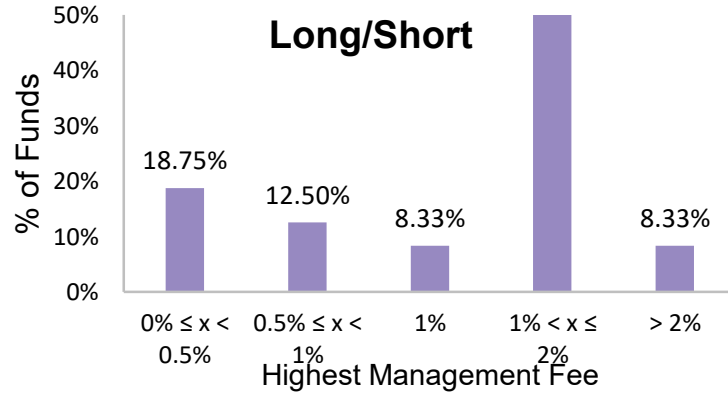
Management Fee: Summary by Strategy



Management Fees: Lowest by Strategy



Management Fees: Highest by Strategy



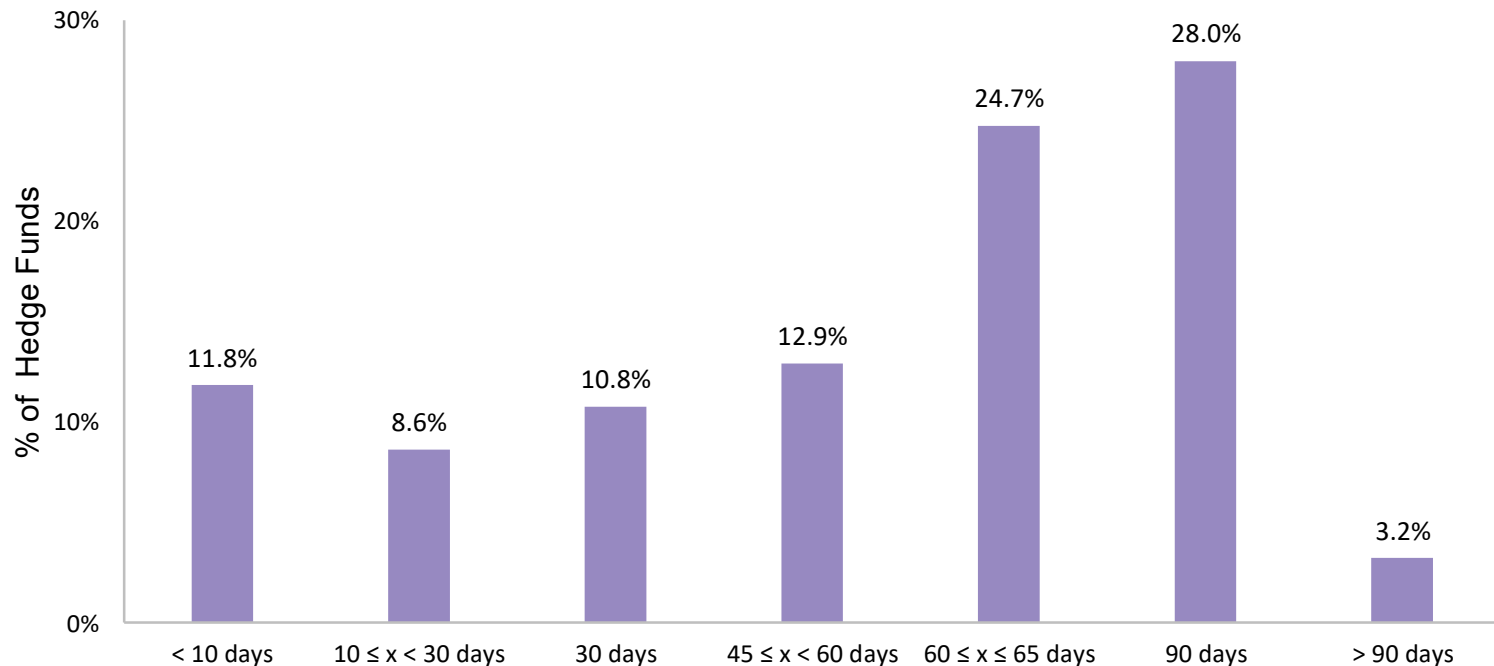
Expenses

- Organizational Expenses
 - Increased use of caps, particularly in hybrid funds
 - Amortization over 60 months or some other time period remains market approach, but can vary
- Operating Expenses
 - More detailed transparency in wake of SEC scrutiny
 - Investors are focused on:
 - Use of in-house teams and affiliated service providers for legal, compliance, accounting, administrative and other operational needs
 - Sponsor overhead, including compensation, regulatory expenses, technology and other operational costs
 - Allocation of expenses among sponsor clients

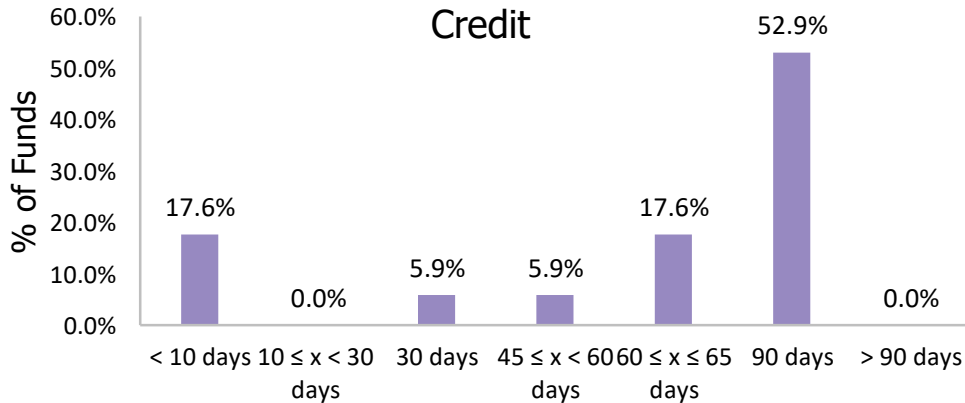
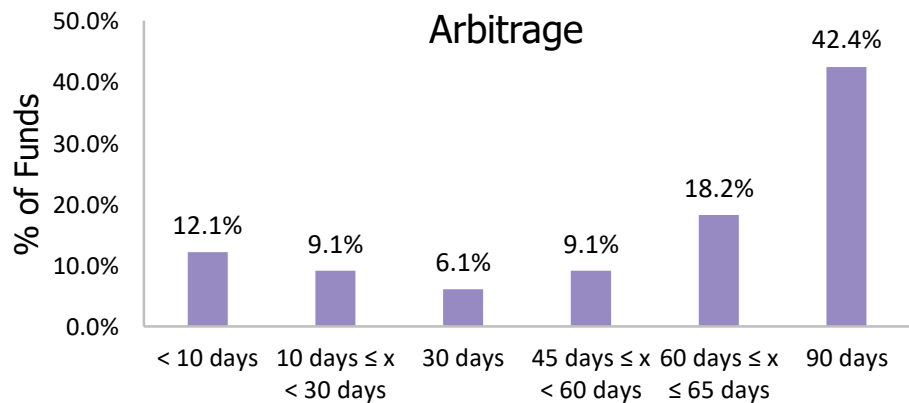
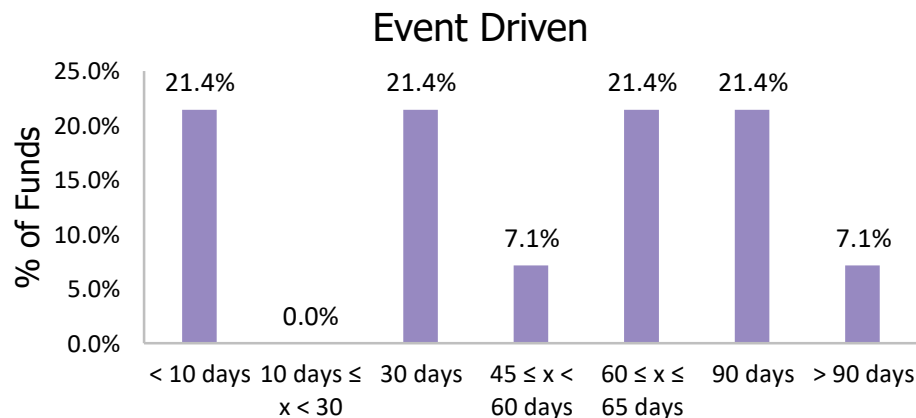
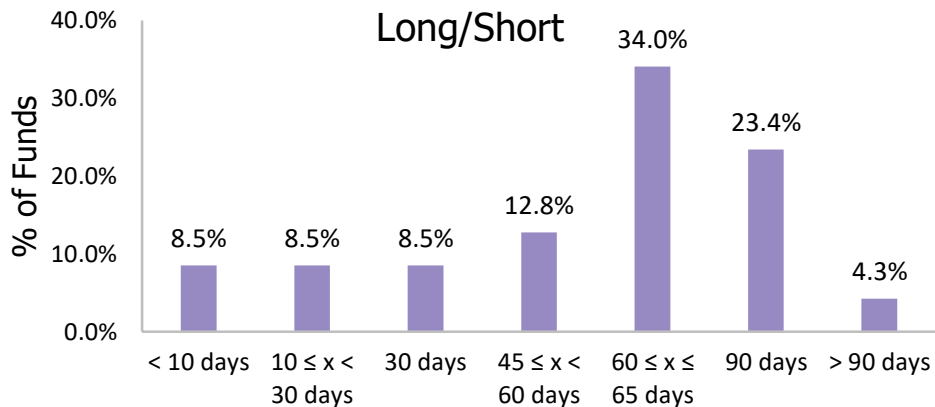
Renewed Focus on Liquidity

- BNY Mellon survey reveals that liquidity is one of three most important factors in portfolio construction (together with tax considerations and investment strategy)
- Proposed increase in tax rate applicable to endowments: increase in desire for liquidity?

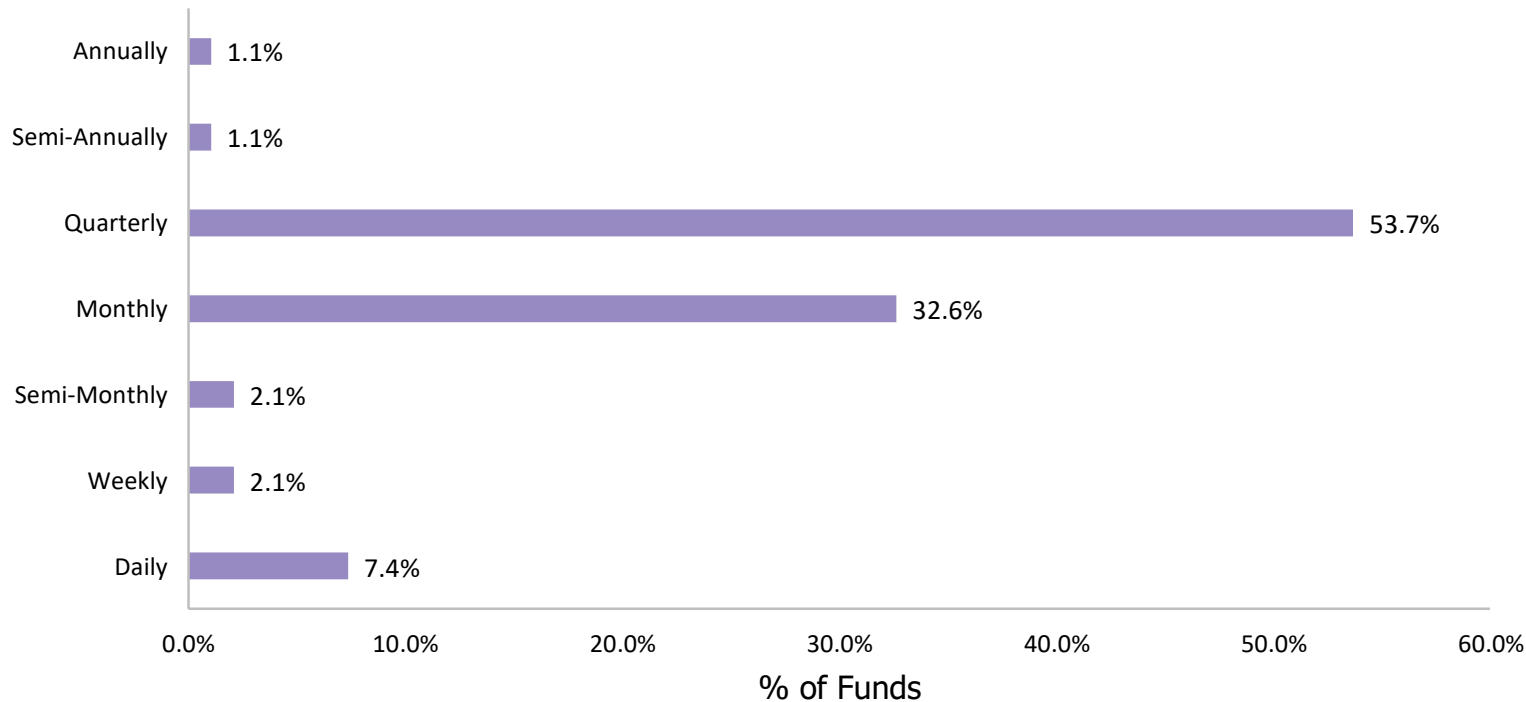
Redemptions: Notice Requirements (Across Strategies)



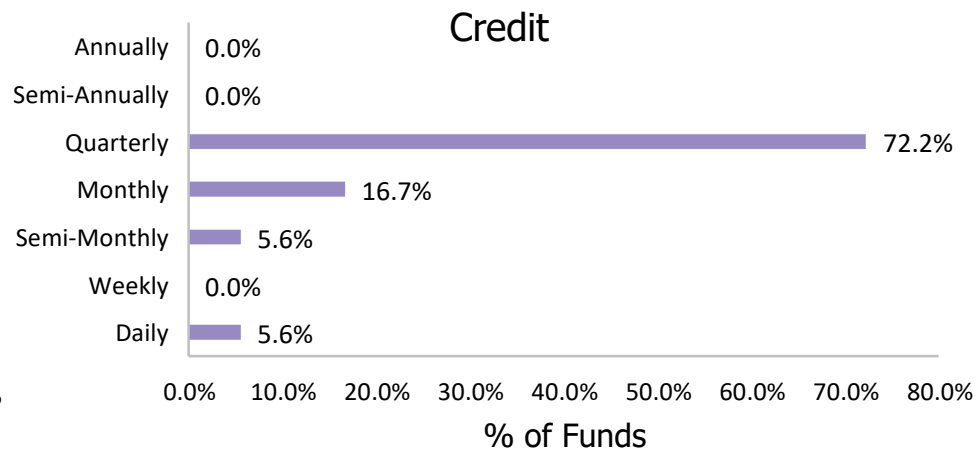
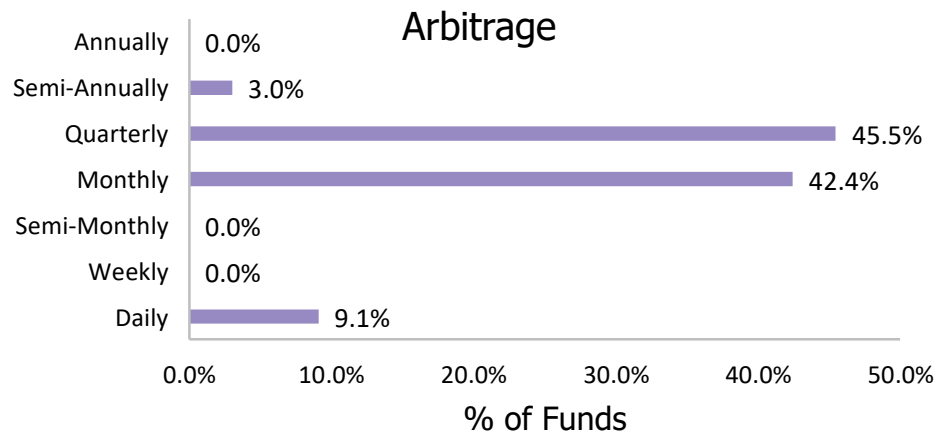
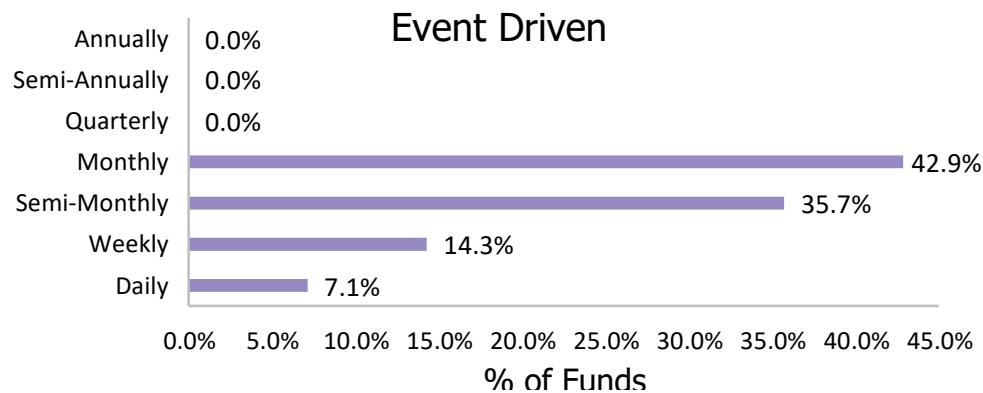
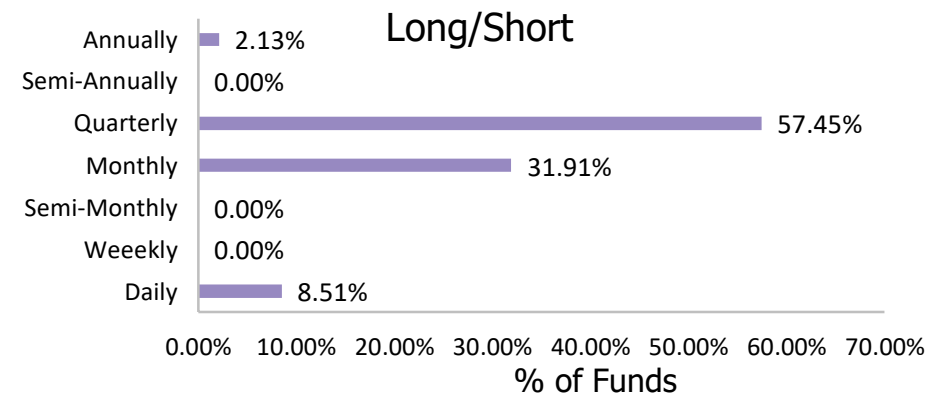
Redemptions: Notice Requirements (Strategy by Strategy)



Redemptions: Frequency (Across Strategies)

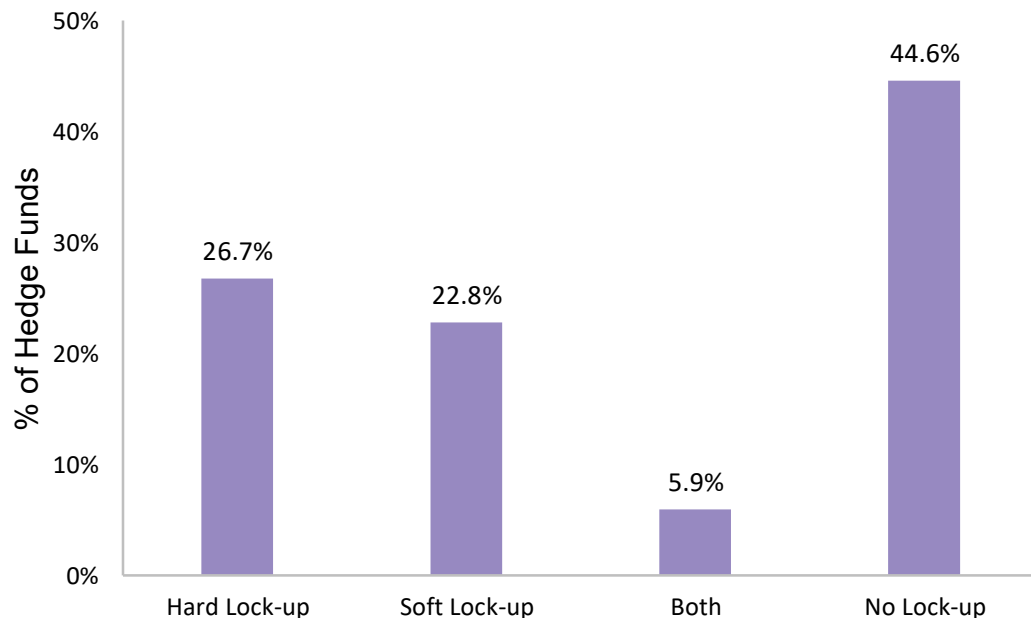
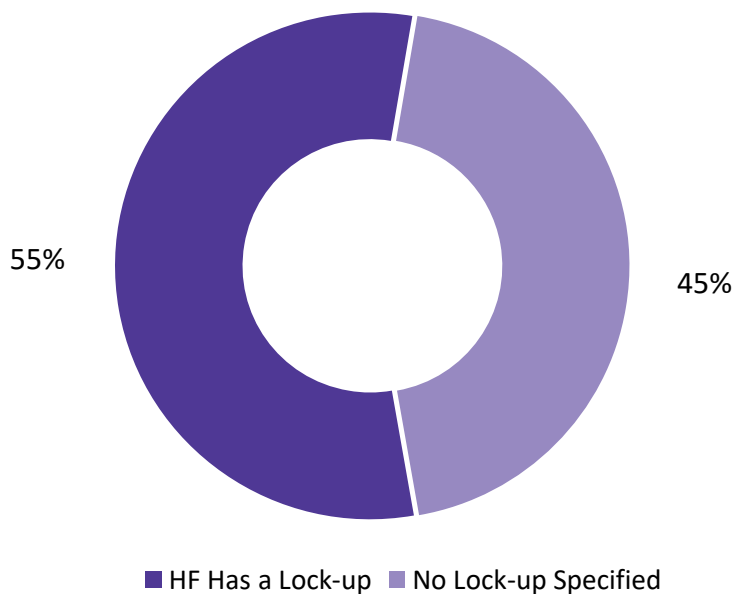


Redemptions: Frequency (Strategy by Strategy)

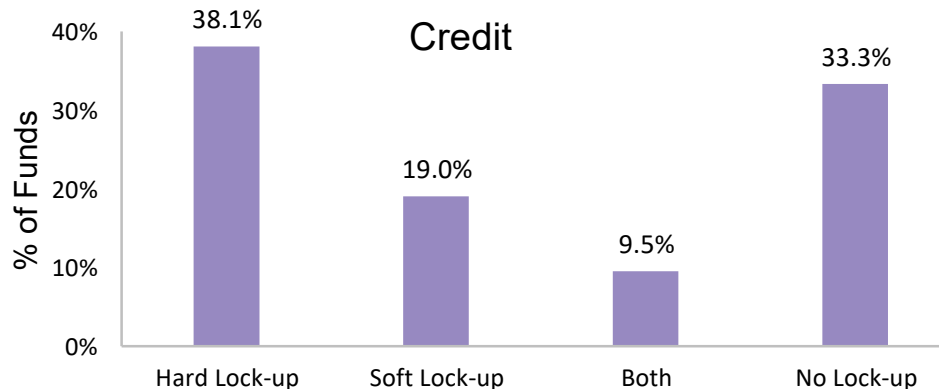
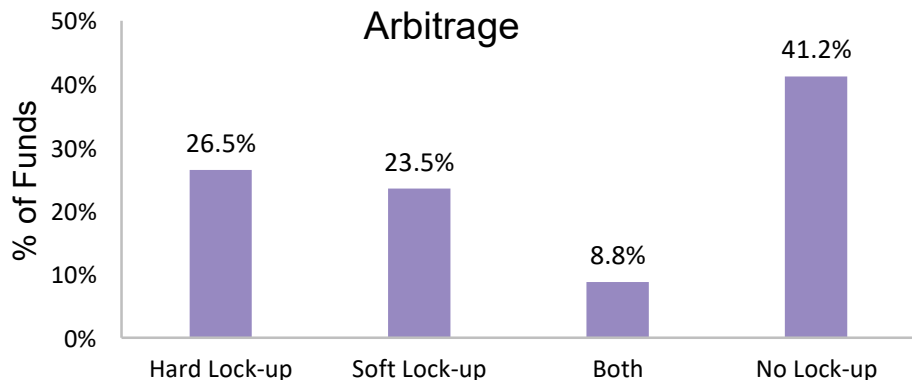
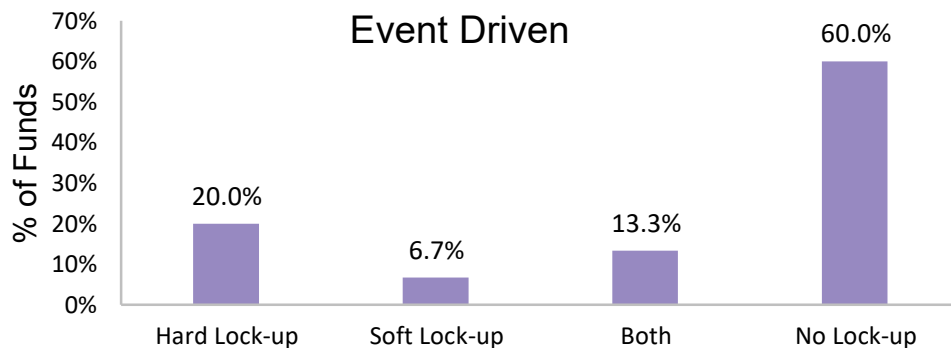
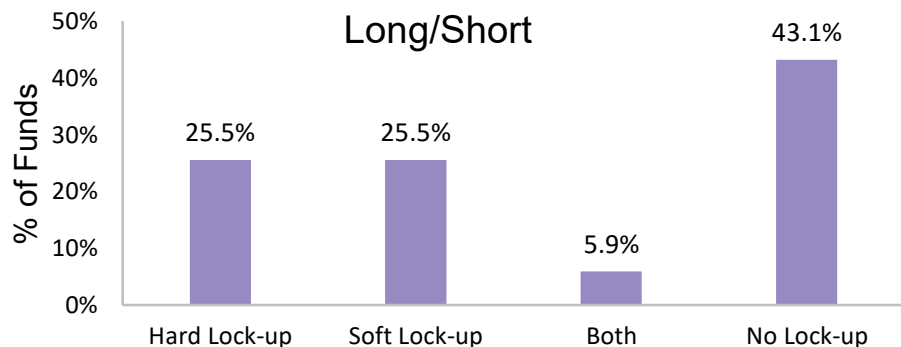


Redemptions: Lock-ups (Prevalence Across Strategies)

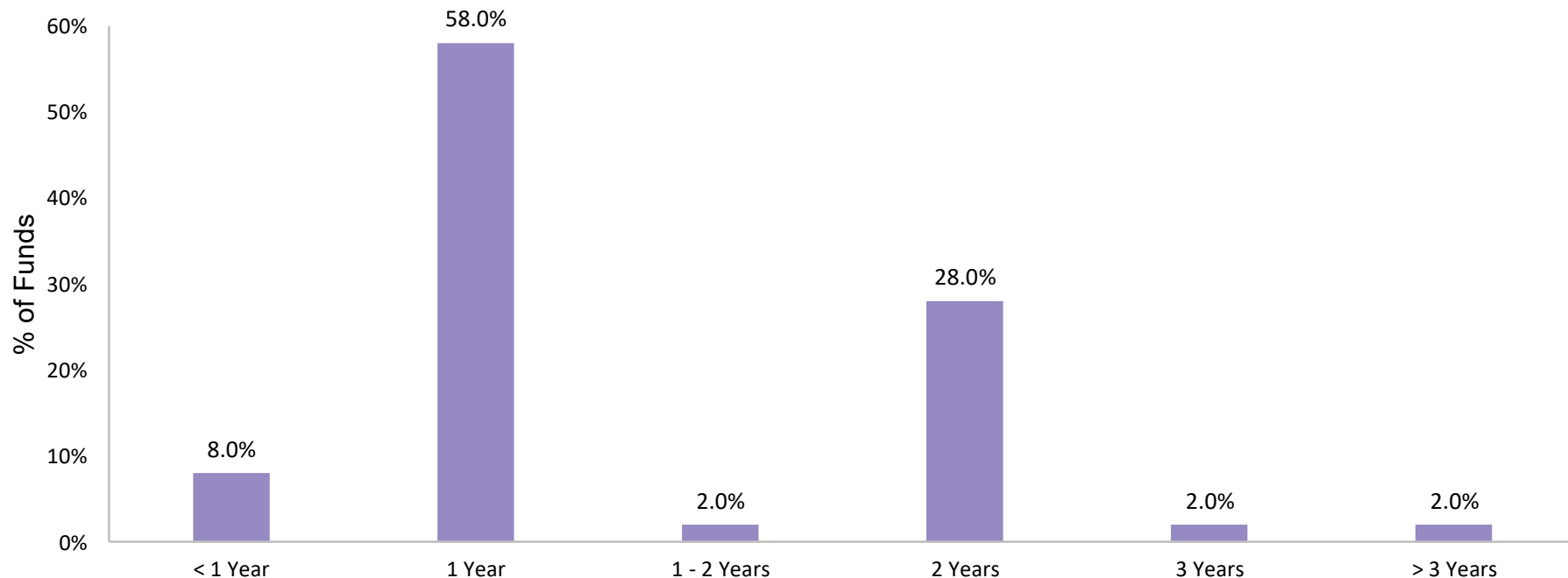
55% of Hedge Funds had a Lock-up



Redemptions: Lock-ups (Prevalence, Strategy by Strategy)

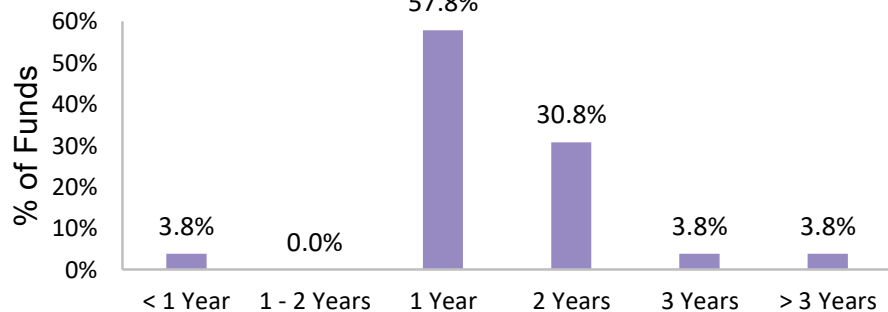


Redemptions: Lock-ups (Duration, Across Strategies)

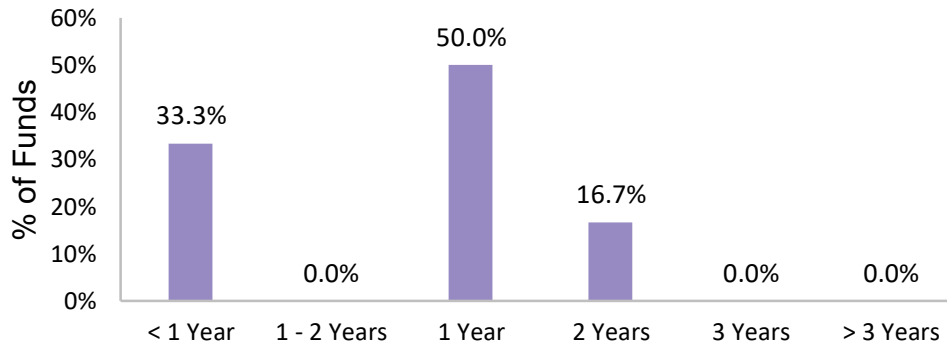


Redemptions: Lock-ups (Duration, Strategy by Strategy)

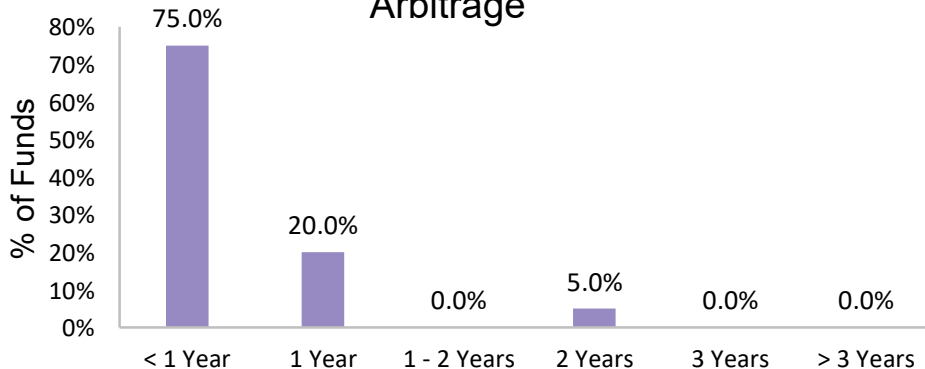
Long/Short



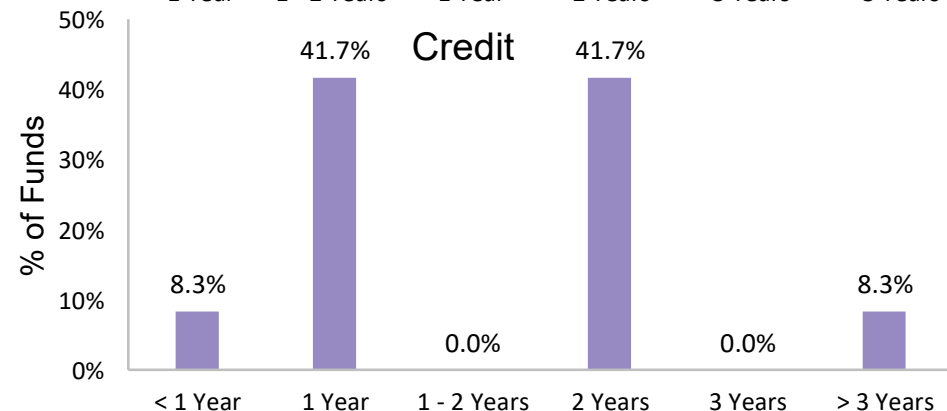
Event Driven



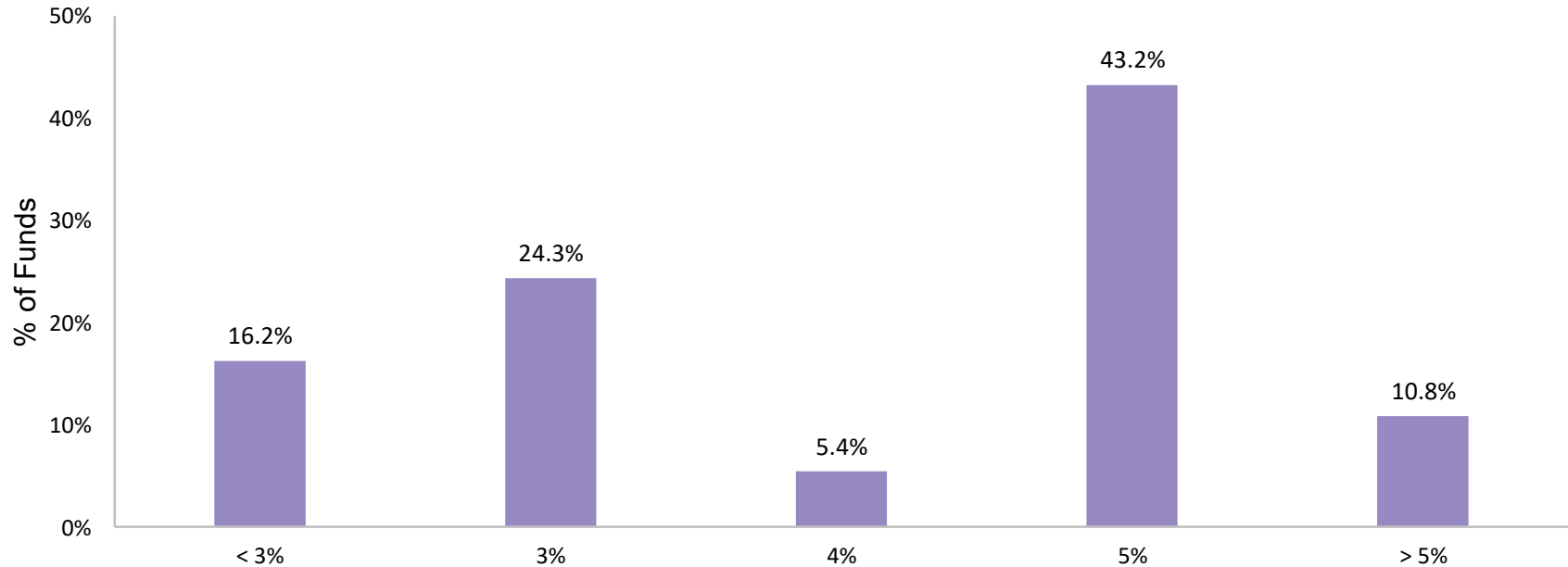
Arbitrage



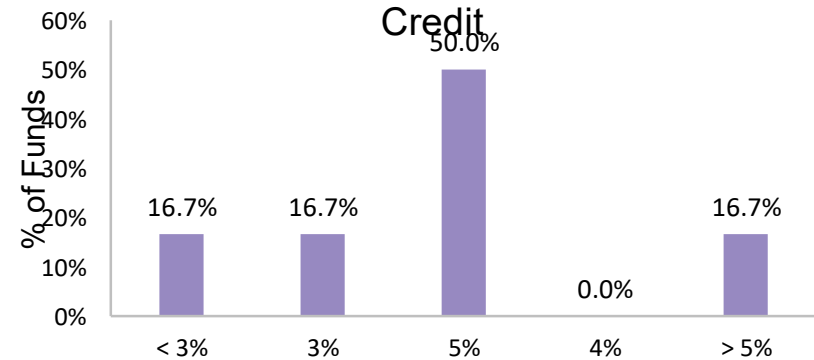
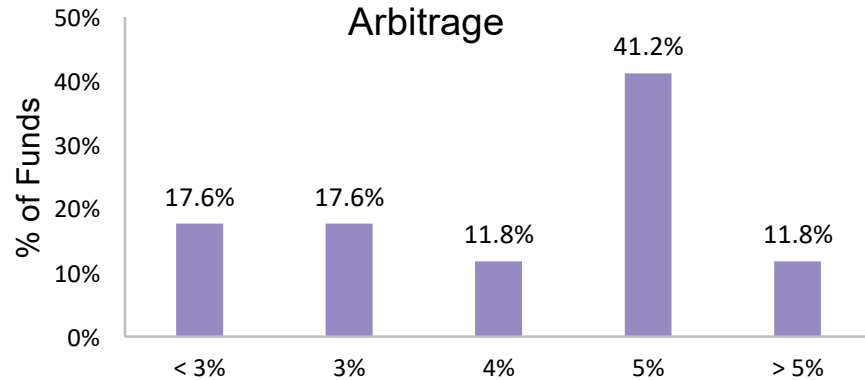
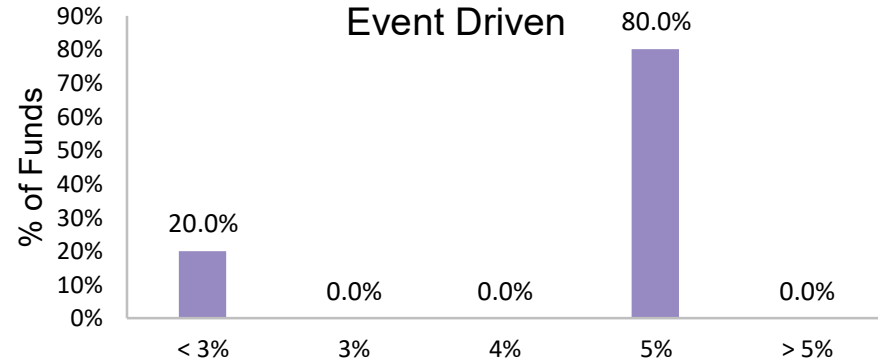
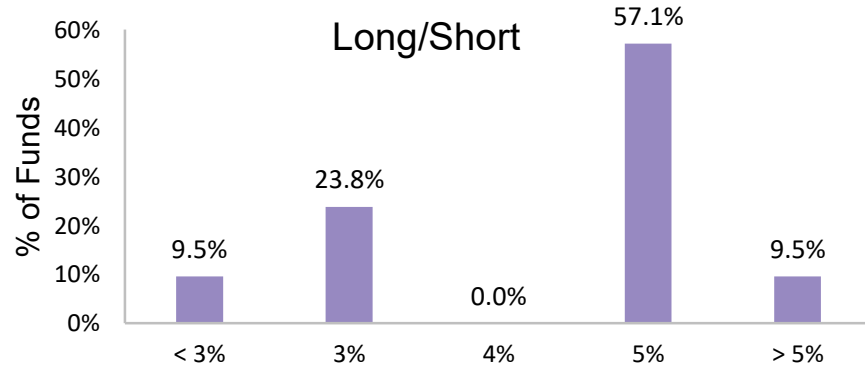
Credit



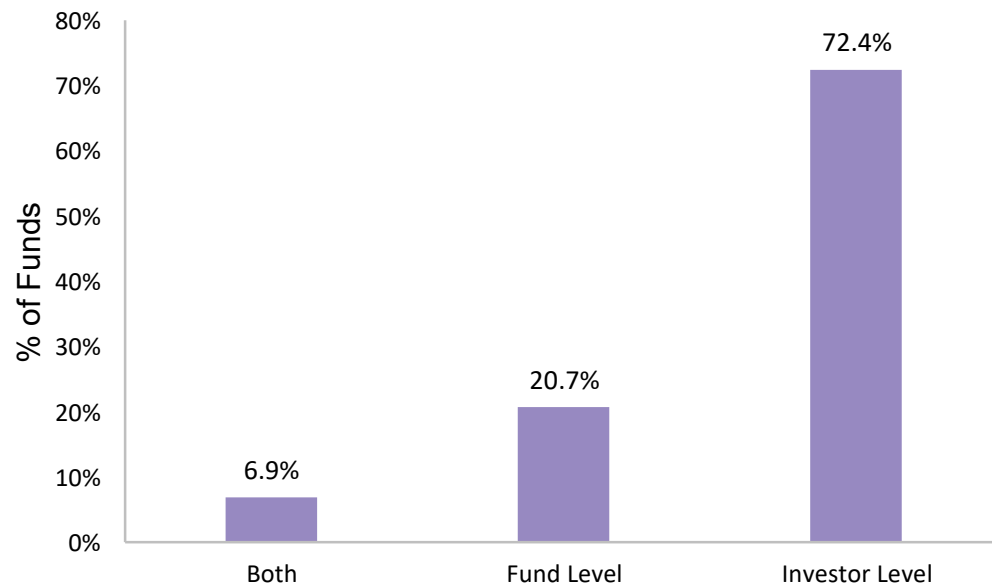
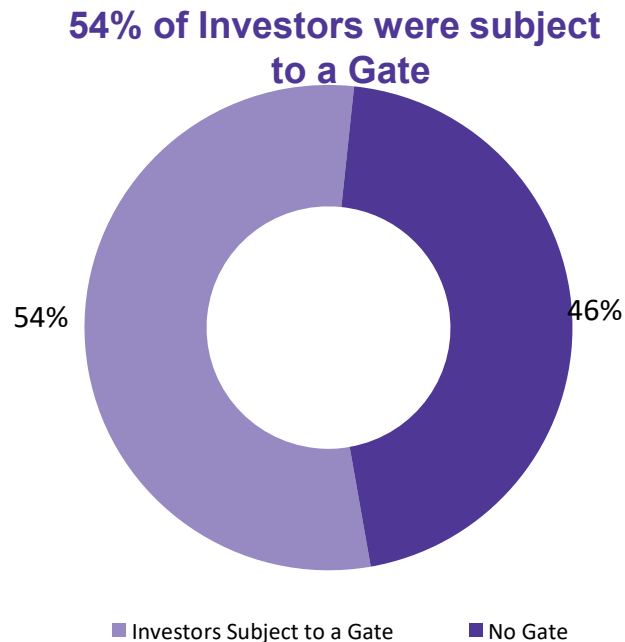
Redemptions: Lock-ups (Soft-Lock Fees, Across Strategies)



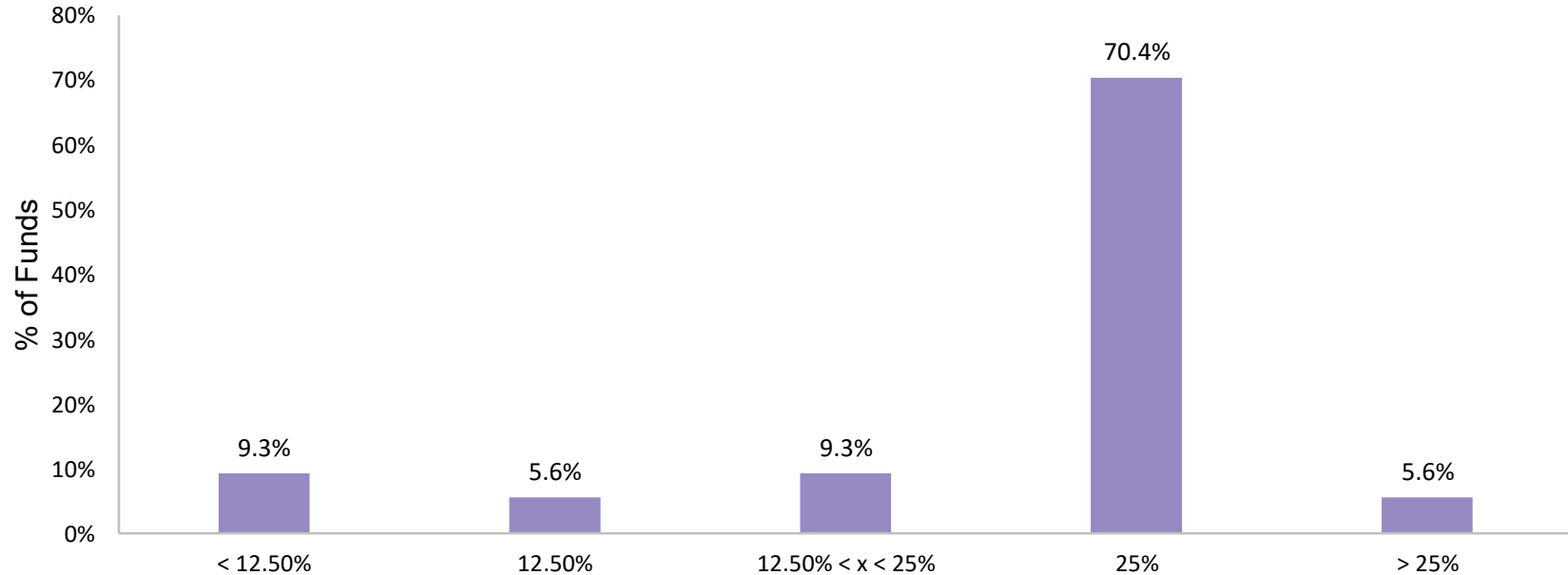
Redemptions: Lock-ups (Soft-Lock Fees, Strategy by Strategy)



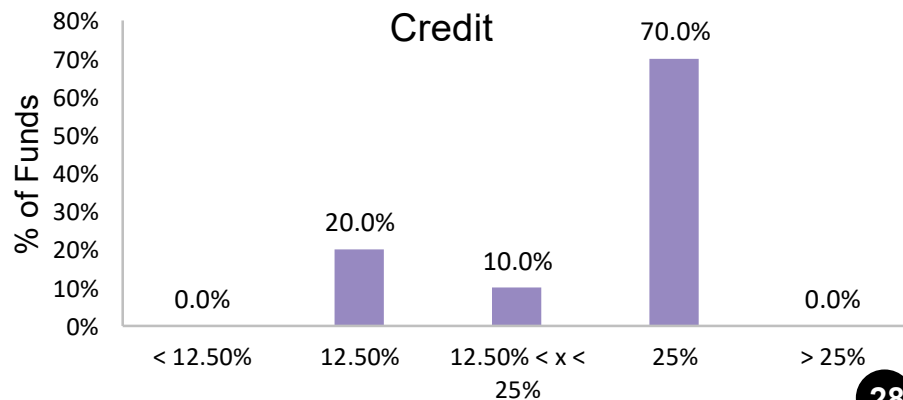
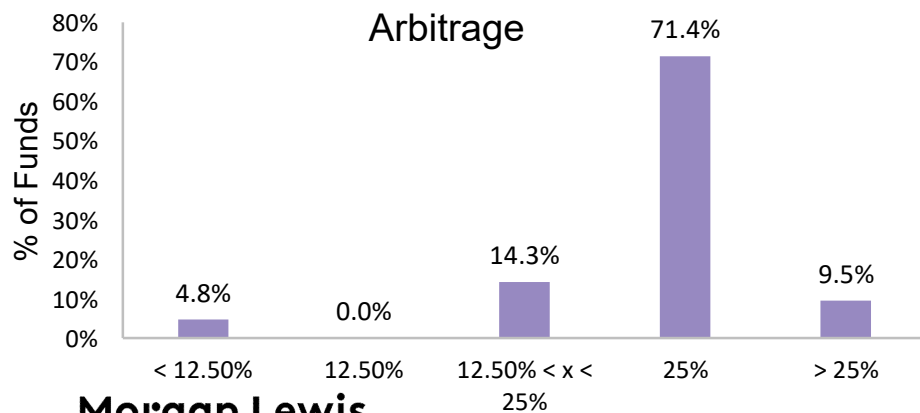
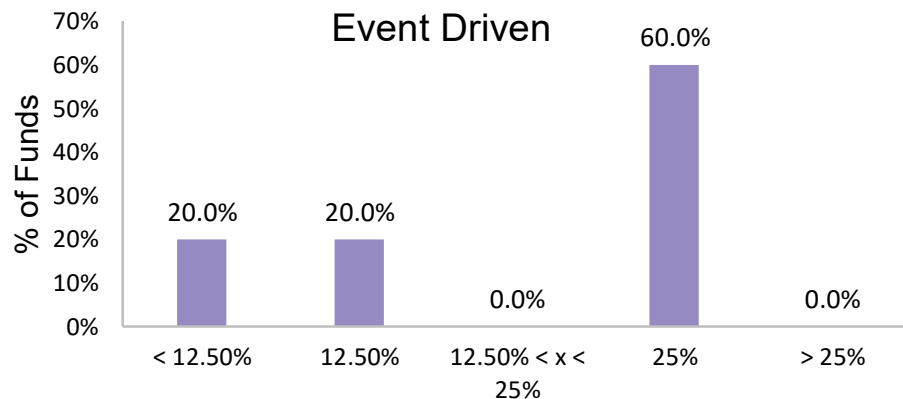
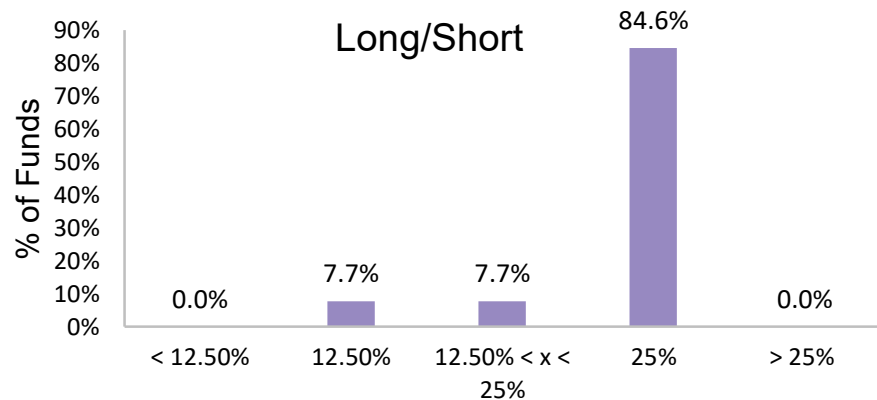
Redemptions: Gates (Prevalence, Across Strategies)



Redemptions: Gates (Threshold, Across Strategies)



Redemptions: Gates (Threshold, Strategy by Strategy)

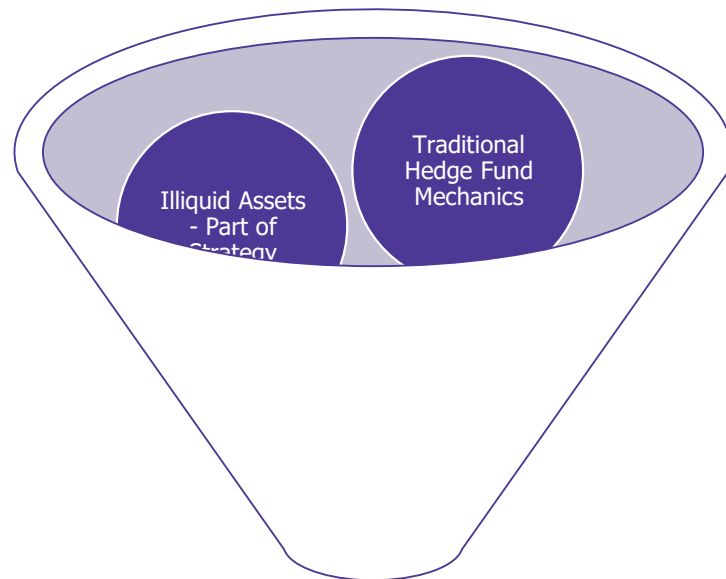


Hybrids Becoming Increasingly Popular

The Hybrid Model



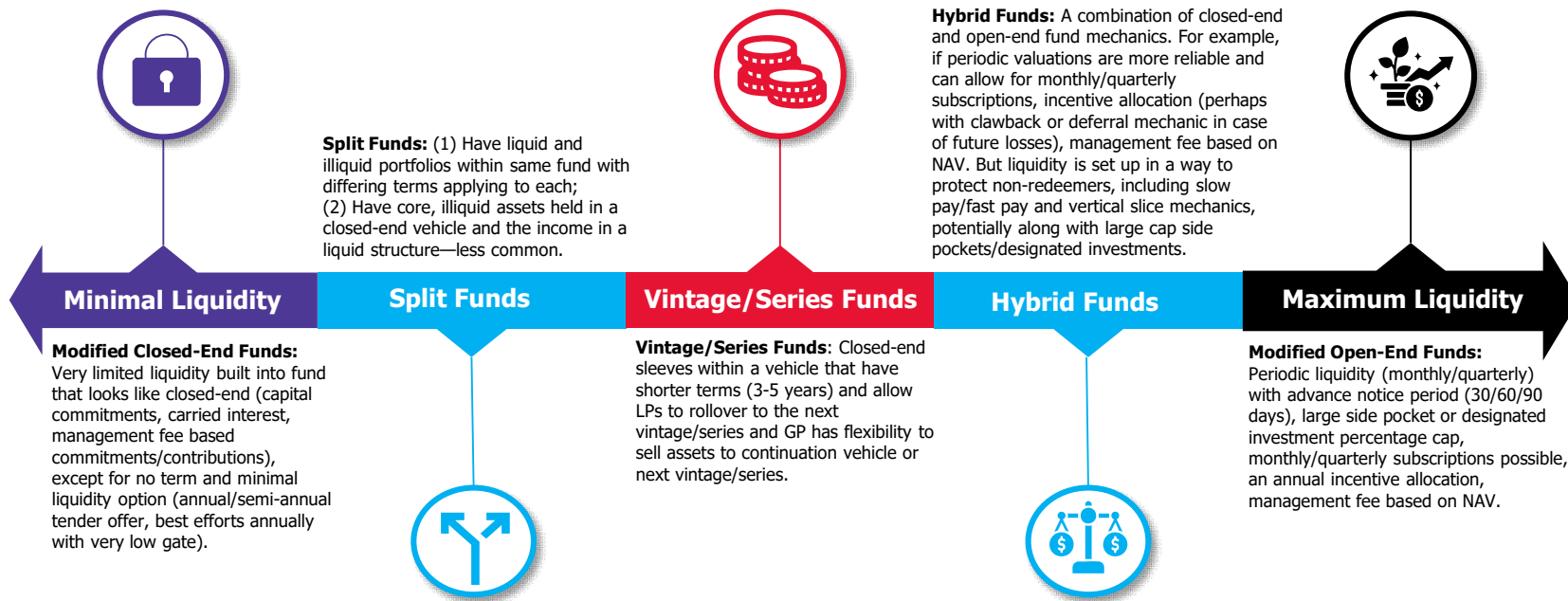
Source: [Hybrid Cars Retake The Limelight As EV Sales Slow. What It Means For Ford, GM, Tesla. | Investor's Business Daily](#)



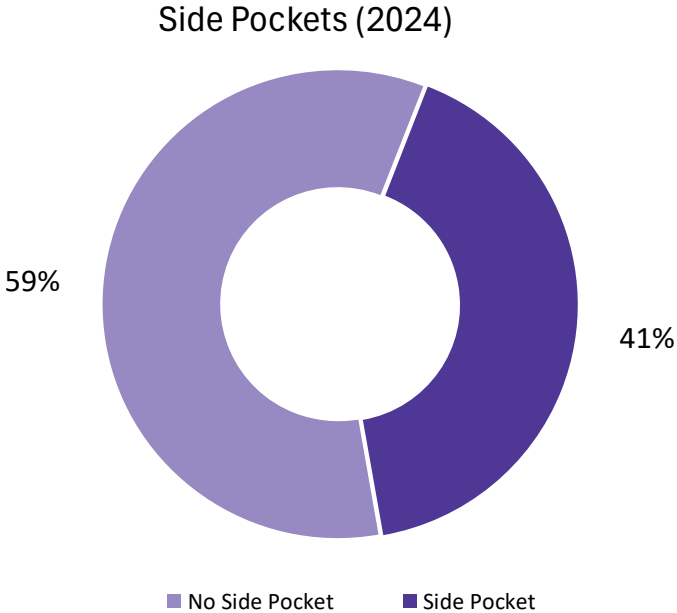
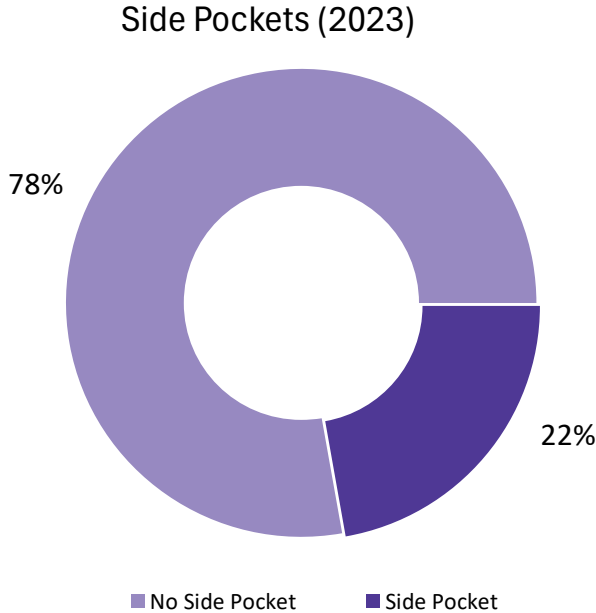
Hybrid Fund

Evergreen Private Fund Structures

- Evergreen private funds and their terms generally fall along a continuum of liquidity:



Side Pockets (Designated Investments)



Side Pockets | Impacts on Core Fund Mechanics

Fees

Management Fees
(exclude, charge on cost,
charge on NAV)

Performance Fees (exclude
+ add back to general
portfolio, separate carry)

Step-Downs after "Term"

Liquidity

Cap on Side Pockets/DIs

New Subscriptions Don't
Participate

Cannot Redeem

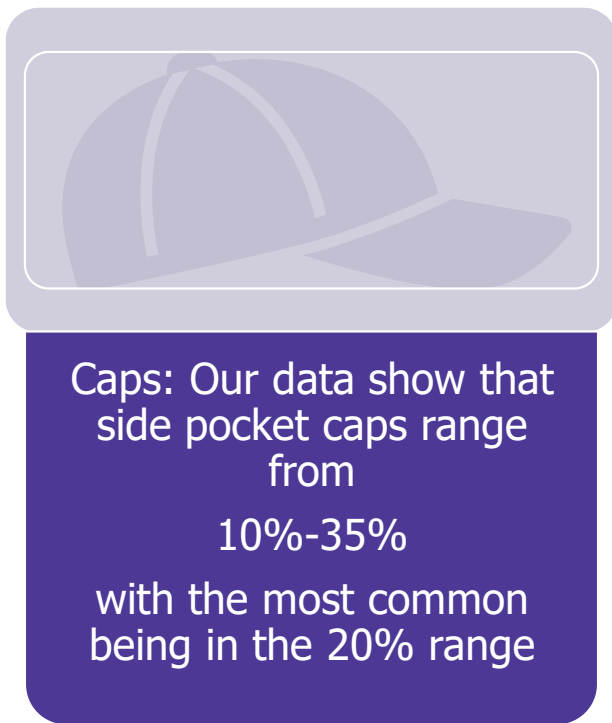
Operations

Separate
Accounting/Valuation

Cash Management

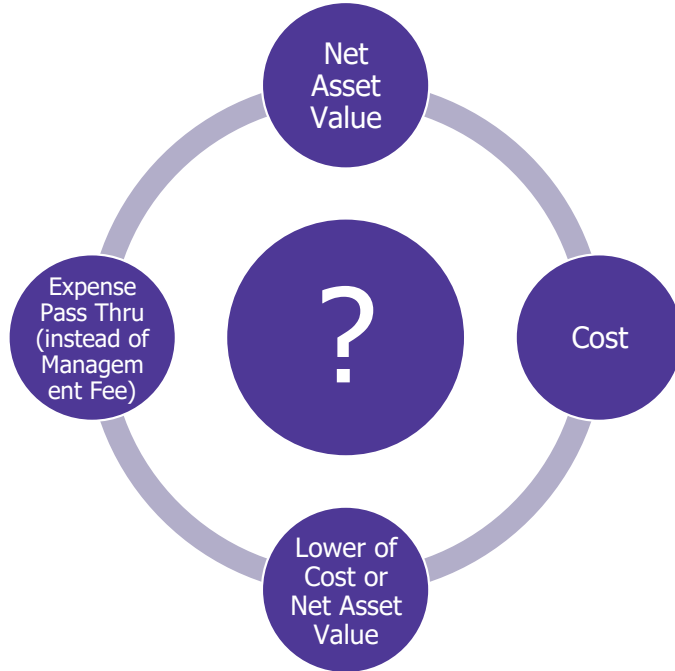
Performance
Notations/Variations

Side Pockets | Caps

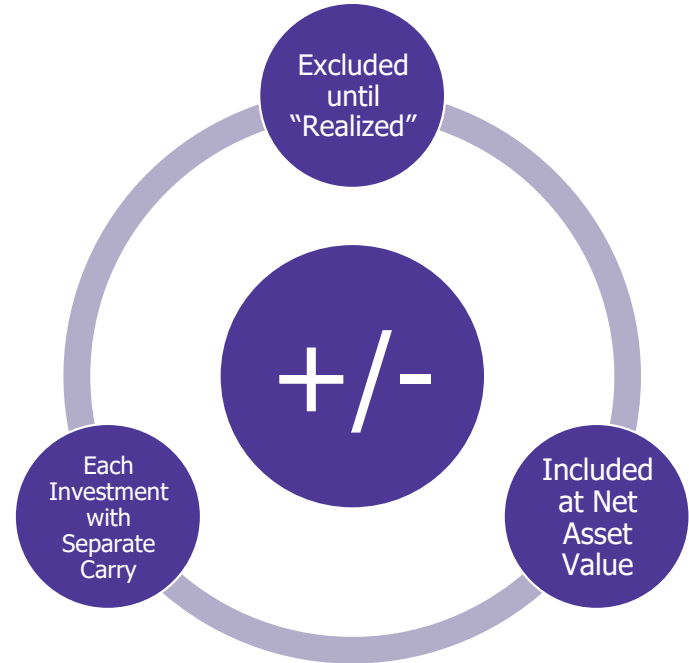


Side Pockets | Fee Terms

Management Fee Base



Performance Allocation



Slow Pay/Fast Pay

Side Pocket
Assets

Less Liquid
Assets

Liquid
Assets