2025 Edition:
The Seward & Kissel Established Manager Hedge Fund Study

SEWARD & KISSEL LLP

Since 1890

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, while 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 *Seward & Kissel Established Manager Hedge Fund Study: 2025 Edition* (the "Study" or the "2025 Edition") focuses on those Seward & Kissel investment manager clients that have been in business for at least five years and have at least $1 billion in regulatory assets under management primarily attributable to hedge funds ("Established Managers"). Established Managers utilize different approaches in seeking to increase their assets under management, including the: implementation of new classes or series in their existing funds; launch of brand new hedge funds; entry into separately managed account relationships; execution of side letters; and/or the creation of SPVs. The 2025 Edition focused solely on those Established Managers that set up new classes or series in their existing funds or launched new hedge funds in 2024.

The Study's key findings, as well as comparisons to the findings in the 2024 New Hedge Fund Study, are set forth below:

I. Investment Strategies:

The Established Manager fund strategies within the 2025 Edition fell into two principal buckets: (i) traditional strategies (e.g., long/short, commodities/futures, debt/equity) and (ii) bespoke strategies intended to be more directional in nature in order to take advantage of a particular current economic trends (e.g., interest rates, inflation, bear or bull market environment). Unlike the 2024 Edition of the Established Manager Study (the "2024 Edition", "2024 Study" or "previous study"), where only about 10% of the funds were of a bespoke variety, the 2025 Edition saw a significant rise in bespoke strategies to 38% of the Study overall, particularly of the long-only variety. With regard to the traditional strategy funds, 35% were equities-focused, 35% had a debt/equity focus and the rest offered commodities/futures strategies.

In contrast, the hedge funds in the 2024 New Hedge Fund Study reflected various traditional strategies (but no bespoke strategies) as follows: 77% of the funds utilized an equity or equity-related strategy and the remaining 23% of funds were split among quantitative, global macro, credit, crypto and commodity-related strategies.

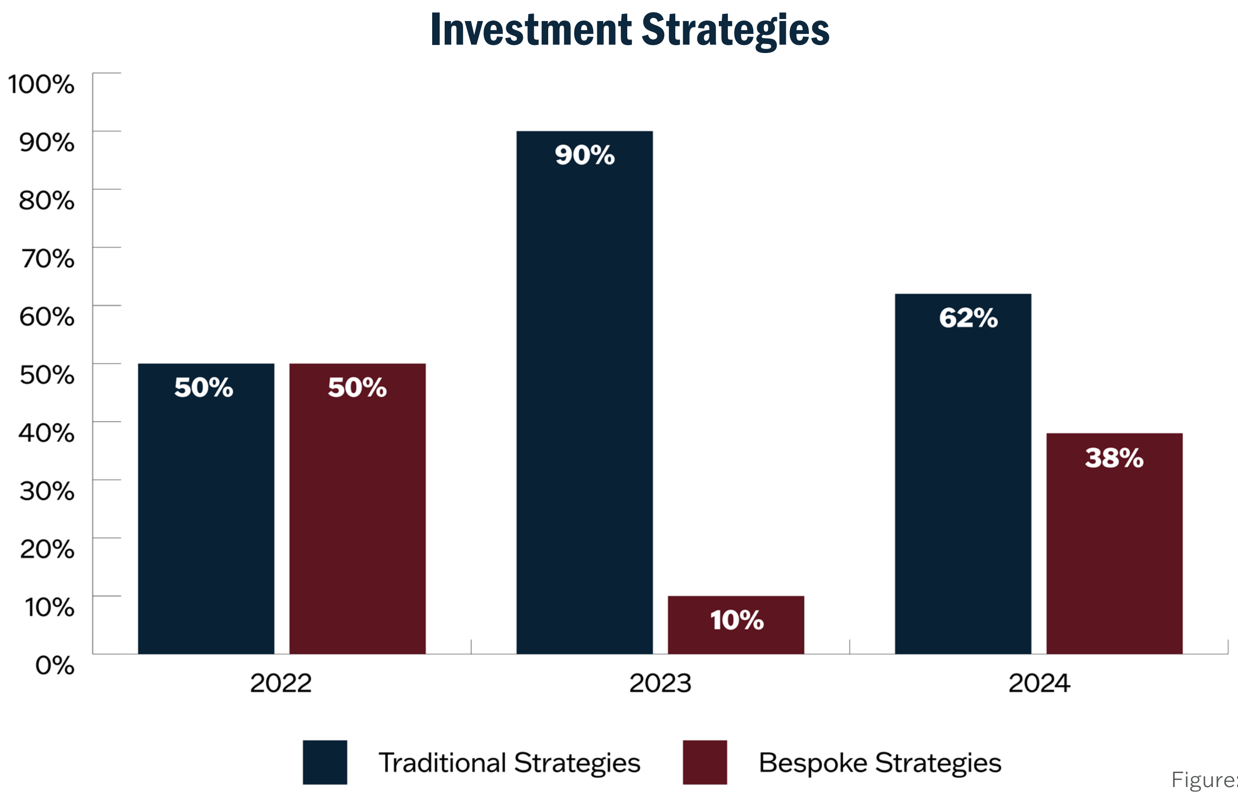

Figure: 1

II. Management Fees:

As in the 2024 Edition, there continued to be a significant divergence between the management fees charged by Established Managers to traditional strategy funds and those charged by Established Managers to bespoke strategy funds. The traditional strategy funds had a much higher management fee, with an average rate of about 1.8% in their standard class (the same as the previous study); with about 1/3 of the traditional strategy funds also offering a founders class with an average fee of approximately 1.2% (slightly below the 2024 Edition's 1.3% rate). By contrast, since the bespoke strategy funds were less alpha-focused, their management fees were much lower, and tended to offer a multi-tier sliding scale based on various AUM levels with a range of about 1.25% on the high end to 0.60% on the low end.

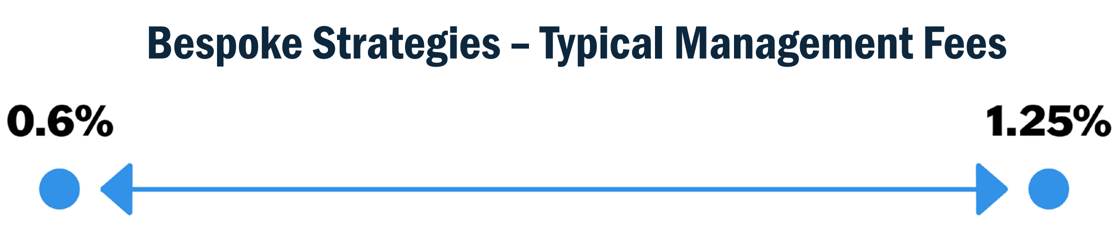

Figure: 2

Traditional Strategies – Management Fees

(Standard Class)

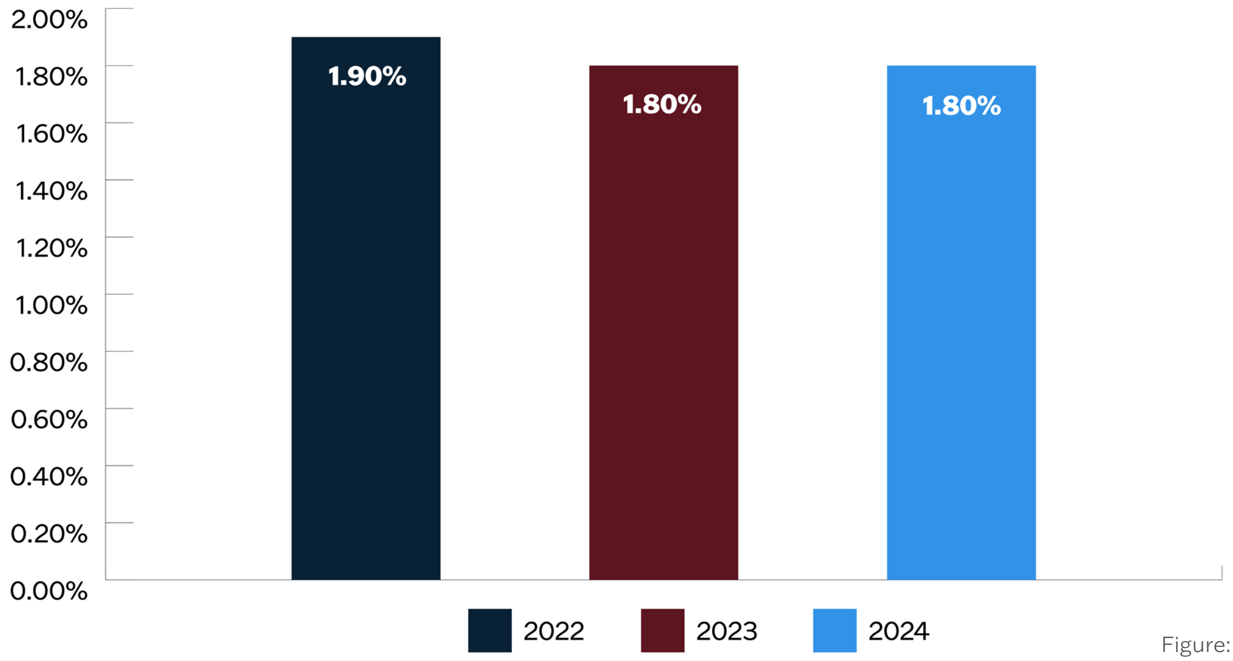

Figure: 3

The funds analyzed in the 2024 New Hedge Fund Study had an average management fee rate in their standard class (i.e., non-founders) of 1.4%. This represents a significant difference as compared to the much higher management fees found to be charged in the 2025 Edition by the Established Managers in their traditional strategy fund standard classes, which we believe is attributable to the greater bargaining power possessed by Established Managers and the significantly higher overhead costs often borne by them due to much larger staffs and operations.

Management Fees, Traditional Strategies – Established vs. Emerging Managers

(Standard Class)

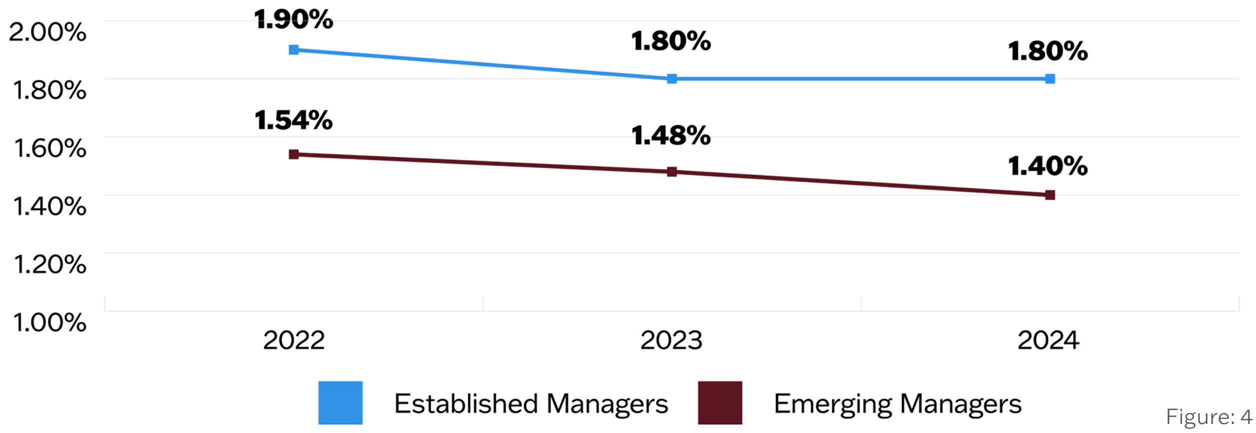

Figure: 4

III. Incentive Allocations:

Unlike the 2024 Edition, where none of the bespoke strategy funds charged an incentive allocation, the 2025 Edition's results were quite different. Since the dominant strategy for the bespoke offerings in the Study was a long-only strategy, it was not surprising that all of the long-only funds had an incentive allocation coupled with a market-tied hurdle rate that included a negative outperformance concept (i.e., if the fund is down for the year, but is down less than the hurdle, the manager still gets paid). On the other hand, all of the traditional strategy funds charged a 20% incentive allocation (which was slightly lower than the 22% rate in the prior study).

By comparison, the average standard class incentive allocation rate in the 2024 New Hedge Fund Study was 17%, with a significant 44% of such funds also assessing a hurdle rate.

IV. Withdrawals:

Unlike the 2024 Edition, there was a fair amount of liquidity divergence within each of the strategy categories. With respect to the traditional strategy funds, 50% of them had quarterly or monthly liquidity with an average of 20 days' notice (and these funds were commodities/futures-focused), while the remaining traditional strategy funds (focused on various equity strategies) had an average 45 days' notice with significant gates or lock-ups. With regard to the bespoke strategy funds, the average notice period was 51 days', and while most of the bespoke strategy funds offered quarterly liquidity with no gate or lock-up, about 20% had substantial lock-ups or gates.

Funds in the 2024 New Hedge Fund Study demonstrated greater liquidity constraints with both 95% 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 72% of the equity funds and 90% of the non-equity funds had lock-ups or investor level gates.

V. Fund Structures

All of the funds in the Study offered by Established Managers relied on the Investment Company Act Section 3(c)(7) exemption and focused on qualified purchasers only. Of such funds, all of the traditional strategy funds were established as master-feeder structures, while all of the bespoke strategy funds were stand-alone U.S. funds (which may indicate a risk aversion to long-only offerings by traditional offshore fund investors).

With regard to the 2024 New Hedge Fund Study, 55% of all managers initially launched just a U.S. stand-alone fund, about 60% of which relied on the Section 3(c)(1) exemption. Sponsors who offered both U.S. and offshore funds primarily continued to set up master-feeder fund structures, and such structures utilized the Section 3(c)(7) exemption about 66% of the time.

We hope that you find *The Seward & Kissel Established Manager Hedge Fund Study: 2025 Edition* 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.

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