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PRESS RELEASE - How are emerging hedge fund managers attracting capital and keeping their edge?

Emerging hedge funds are balancing competitive fee models and running lean operating models to remain attractive to investors, according to a **new research report** by the Alternative Investment Management Association (AIMA) in partnership with Marex Prime Services.

The report '**Standing Strong: Emerging Manager Survey 2024**' is the fourth report by Marex (formerly Cowen Prime Brokerage) and AIMA on emerging managers – those managing up to \$500m – produced over the past seven years.

Key areas of focus in the report include fees charged, employee numbers, costs (including the estimated breakeven costs), performance incentives, fund selection and strategy. Investor survey data explores the required minimum track records and AUM for managers before allocation, along with other possible barriers to allocation and recent sourcing trends. For the first time, respondents were also asked about ESG considerations and liquidity terms.

Hedge Fund Operational Drivers

- COVID-era efficiencies remain: Against a macro backdrop of rising costs, the average breakeven point has increased since 2022 where the COVID environment suppressed spending norms. However, hedge funds have focused on cost and operational efficiencies, allowing the latest breakeven figures to remain below pre-pandemic levels.
- Competitive fee model: The fee model offered by emerging hedge funds remains a vital tool for attracting investors, with the average management and performance fees well below the classic 2&20 model.

Investor Interest in Emerging Funds

The survey reveals several reasons emerging fund managers can be optimistic about investor interest.

- Investor behaviour: Investors are likelier to have placed their latest allocation with a new hedge fund manager than in 2022. More than 85% of investors rely on their personal networks or prime broker capital introduction teams to source new hedge fund managers.
- Strong interest in smaller funds: Two-thirds of investors surveyed are still open to allocating to emerging managers with less than \$100 million in assets under management (AUM), a welcome counterpoint to the industry's bifurcation trend.
- Track record requirements: Half of the investors surveyed said they would consider allocating to an emerging manager with a track record of less than a year.

However, investors also expect more from their managers regarding transparency and communications before making an allocation.

- The average time to close on new investments has increased from six to eight months since 2022, with investors taking a more sophisticated approach to due diligence, making emerging managers work harder to secure new tickets.

Tom Kehoe, Managing Director, Global Head of Research and Communications at AIMA (report co-author), said: *"This year's research highlights the remarkable resilience and adaptability of small and emerging managers. Despite higher costs and intense fee pressures, these businesses continue to stand strong, attract investors and expertly manage expenses to stay ahead".*

Jack Seibald, Global Co-Head of Prime Services and Outsourced Trading at Marex, said, *"Our in-depth research with AIMA continues our commitment to gaining insight into the evolving landscape of emerging managers and their investors. This year's findings highlight that fund managers are resolute in the face of geopolitical and macroeconomic headwinds as fees have held firm, costs are contained, and headcount has been maintained. By focusing on costs and efficiencies, smaller and emerging hedge funds are able to succeed in a challenging economic climate."*

Lawrence Obertelli, Head of EMEA Prime Service Sales at Marex (report co-author), said, *"As the only report focusing exclusively on emerging hedge fund managers and investors, this comprehensive dataset spanning seven years offers unparalleled insights into the industry's evolution. The depth and continuity of the data allow us to understand the unique challenges and opportunities these managers face with a level of detail that other reports don't typically do."*

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