

**An Open Letter to the
Hedge Fund Industry**

**Regarding
the Usage of Cash
Hurdles in Incentive Fee
Arrangements**

Dear Hedge Fund Industry Members,

We, the undersigned investors and consultants, advocate for the implementation of cash hurdles in incentive fee arrangements across the hedge fund industry. The long-term health of the industry is dependent on a healthy alignment of interests between GPs and LPs, and we believe incentive payments on true value-add fixes a misalignment that has been present in fee structures throughout the maturation of the hedge fund industry.

This misalignment has become increasingly evident in recent years, as risk-free rates have reached mid-single digits. A hedge fund may collect significant incentive fees based solely on skill-less returns generated from short rebate, securities lending, unencumbered cash, etc. These returns are easily obtainable by LPs outside of a hedge fund structure for free. Earning cash returns is not the reason institutional LPs invest in hedge funds.

Furthermore, cash hurdles better promote proper risk taking, as the financial health of the GP is dependent on delivering the valuable good LPs seek – alpha. In 2023, a \$1B market neutral hedge fund could have earned ~\$52MM (5.25%) returns just by holding cash, and if that fund charged a 20% incentive fee on absolute returns, would have taken home \$10.5MM in compensation for taking zero risk. This is not sustainable, especially as it seems the risk-free rate may remain elevated for the foreseeable future; and it is not what LPs are asking GPs to do.

We recognize that the implementation of cash hurdles means adjustments to fee schedules and operational procedures within funds. However, it is our firm belief that the long-term benefits of proper alignment vastly outweigh short term challenges.

Therefore, we urge the hedge fund industry to embrace better alignment and adopt cash hurdles in incentive fee arrangements as a best practice standard.

Signed,

continued

HEDGE FUND INVESTORS

BCV Asset Management	Meketa Fiduciary Management
Bimcor Inc	Mitsubishi UFJ Trust and Banking Corporation
Brightwell Pensions	New Mexico Educational Retirement Board
Brunei Investment Agency	NGS Super
BW Gestão de Investimentos Ltda.	North Dakota Department of Trust Lands
CDPQ	Pension Fund Association
CIBC US Private Wealth Management	Pragma Gestão de Patrimonio LTDA
Credit Suisse Pension	Public Employees Retirement System of New Mexico
Employees Retirement System of Texas	RBC Wealth Management
Fire & Police Pension Association of Colorado	Sandstone Capital Pte. Ltd. (Wah Hin)
Försäkringsbolaget PRI Pensionsgaranti, ömsesidigt	SECOR Asset Management
Fondo de Ahorro de Panamá	Smithsonian Institution
FS Fiduciary Services LLC	Soros Fund Management
GIC	South Carolina Retirement System Investment Commission
Healthcare of Ontario Pension Plan Trust Fund	Strategic Investment Management, LLC
Ilmarinen Mutual Pension Insurance Company	Suva
Indiana Public Retirement System	Teacher Retirement System of Texas
J. Safra Sarasin	Texas Permanent School Fund Corporation
John D. and Catherine T. MacArthur Foundation	Texas Treasury Safekeeping Trust Company
Kern County Employees' Retirement Association	Tokyo Marine Asset Management Co., Ltd Hedge Fund Investment Group
Korea Investment Management	Trans-Canada Capital
LAB Ltd.	Treis
Los Angeles County Employees Retirement Association	TTC Pension Plan

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University of Missouri System

**UTIMCO (University of Texas/Texas A&M
Investment Management Co.)**

**University of Toronto Asset Management
Corporation**

Utah Retirement Systems

**Utah School and Institutional Trust Funds
Office**

Virginia Retirement System

**West Virginia Investment Management
Board**

Wyoming Retirement System

CONSULTANTS AND ADVISORS

Aksia LLC

Albourne

Cambridge Associates LLC

Meketa Investment Group

NEPC

Verus