

**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

Baltimore City Fire & Police Employees' Retirement System	J. Safra Sarasin
BCV Asset Management	John D. and Catherine T. MacArthur Foundation
Bimcor Inc	Kern County Employees' Retirement Association
Brightwell Pensions	Korea Investment Management
Brunei Investment Agency	LAB Ltd.
BW Gestão de Investimentos Ltda.	Los Angeles County Employees Retirement Association
CDPQ	Meketa Fiduciary Management
CIBC US Private Wealth Management	Mitsubishi UFJ Trust and Banking Corporation
Credit Suisse Pension	New Mexico Educational Retirement Board
Employees Retirement System of Texas	NGS Super
Fire & Police Pension Association of Colorado	North Dakota Department of Trust Lands
Försäkringsbolaget PRI Pensionsgaranti, ömsesidigt	Pension Fund Association
Fondaco sgr	Pictet Group
Fondo de Ahorro de Panamá	Pragma Gestão de Patrimônio LTDA
FS Fiduciary Services LLC	Public Employees Retirement System of New Mexico
GIC	RBC Wealth Management
Healthcare of Ontario Pension Plan Trust Fund	San Francisco City and County Employees' Retirement System (SFERS)
Ilmarinen Mutual Pension Insurance Company	Sandstone Capital Pte. Ltd. (Wah Hin)
Indiana Public Retirement System	

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SECOR Asset Management	Treis
Smithsonian Institution	TTC Pension Plan
Soros Fund Management	University of Missouri System
South Carolina Retirement System Investment Commission	UTIMCO (University of Texas/Texas A&M Investment Management Co.)
Strategic Investment Management, LLC	University of Toronto Asset Management Corporation
Suva	Utah Retirement Systems
Teacher Retirement System of Texas	Utah School and Institutional Trust Funds Office
Texas Permanent School Fund Corporation	Virginia Retirement System
Texas Treasury Safekeeping Trust Company	West Virginia Investment Management Board
Tokyo Marine Asset Management Co., Ltd	Wyoming Retirement System
Hedge Fund Investment Group	
Trans-Canada Capital	

CONSULTANTS AND ADVISORS

Aksia LLC	Cambridge Associates LLC	NEPC
Albourne	Meketa Investment Group	Verus