SEWARD & KISSEL LLP

February 21, 2012

Memorandum to Our Investment Management Clients and Friends

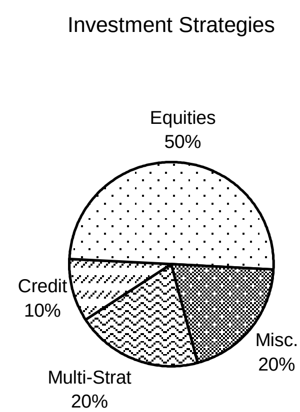
# 2011 New Hedge Fund Study

## Introduction

We recently conducted a new hedge fund study of our clients (covering only hedge funds sponsored by new U.S.-based managers entering the market in 2011, and not new funds sponsored by existing managers). The study covered investment strategies, fee and liquidity terms, and structures, as well as whether any form of strategic capital was raised. While the study covered what we estimate to be about 60% of the relevant 2011 new hedge fund startups, we believe that the sampling was large enough to extract certain important data points that we are now sharing. Set forth below are the study's key findings relating to hedge funds launched in 2011 or that were expected to be launched in the first quarter of 2012:

## Investment Strategies

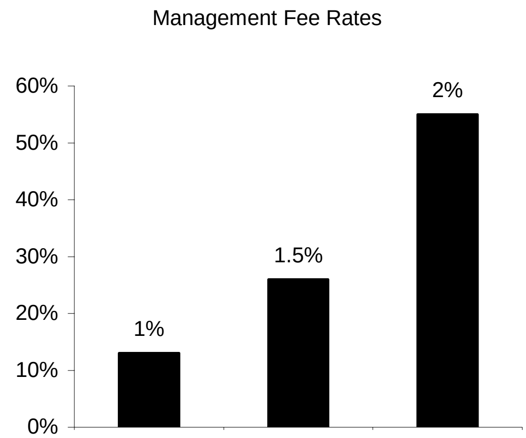
About 50% of the funds included in the study involved an equity or equity-related strategy (not including multi-strategy offerings which generally involved both equity-related as well as other strategies). About 1/3 of the equity/equity-related offerings were focused on U.S. equities, while the rest had a global focus. About 1/4 of the equity/equity-related strategies had a sector focus, with the most popular focuses being healthcare and financial services. About 20% of the funds included in the study were multi-strategy offerings, approximately 10% were credit or credit-related strategies, and the balance consisted of structured products, managed futures, commodities and miscellaneous other strategies.



## Incentive Allocations/Management Fees

Generally, incentive allocations/fees continued to be pegged at 20% of annual net profits. Moreover, all funds had high water mark provisions. Less than 10% of funds, in the aggregate, had modified high water mark provisions, hurdle rates or incentive allocation/fees measured over multi-year periods.

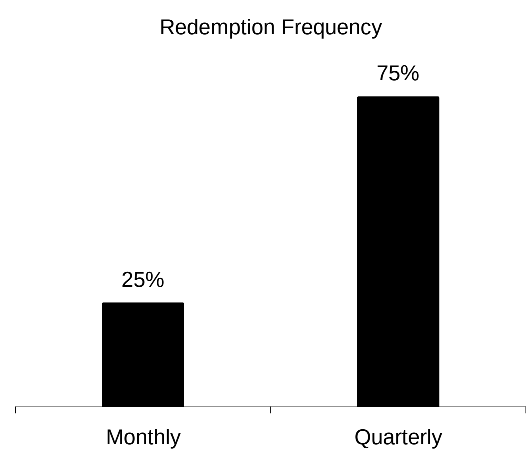
With respect to the management fees charged, there was a wider dispersion in management fee rates. The mean per annum rate was 1.71% per annum of net assets, with a majority of funds charging 2%, 26% charging 1.5% and 13% charging 1%. This trend was pretty similar within the broader represented investment strategies of equity and multi-strat.



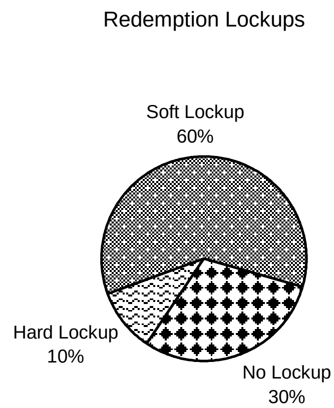

About 40% of the funds offered lower incentive allocation/management fee structures for investors who agreed to greater than one year lockups, typically represented by different fund series, classes or sub-classes.

## Liquidity

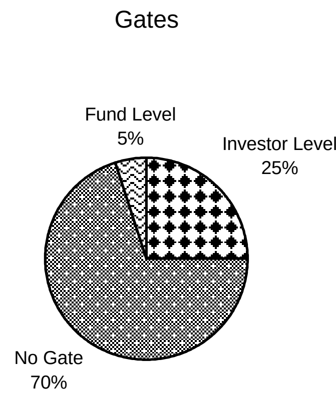
About 75% of the funds in the study permitted quarterly redemptions and the balance allowed for monthly exits (some subject to lockups, as discussed in further detail below). Notice periods were usually 30, 45 or 60 days.



Approximately 60% of the funds had a soft lockup (usually, one year at 3% - 4% payable to the fund), 30% had no lockup and the rest had a hard lockup (usually, one year and non-rolling).




About 1/4 of the funds in the study had an investor level gate (typically triggered if the investor sought to withdraw more than 25% of its investment) and a very small minority had a fund level gate.  The vast majority had no gate.

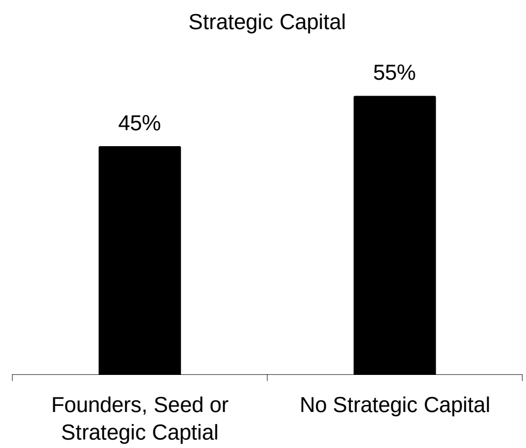



## Structures

Sponsors who offered both U.S. and offshore funds set up master-feeder fund structures approximately 80% of the time.  Most offshore funds were established in the Cayman Islands. There were a fair number of managers who initially launched just a U.S. standalone fund, many of whom were seeking to build a track record in order to attract offshore and U.S. tax-exempt investor interest down the road.  Most managers opted to have their funds rely on the Section 3(c)(7) exemption, with less than 25% of the funds relying on the Section 3(c)(1) exemption. Finally, the stated minimum initial investment was typically set at $1,000,000, with some outlier funds having a stated minimum of $250,000 on the low end and $5,000,000 on the high end.

**Founders, Seed or other Strategic Capital**

Given the still rather challenging capital-raising environment that existed in 2011, it is not surprising that approximately 45% of the funds obtained some form of founders (i.e., typically, early stage investors who are offered better fees often in exchange for a lockup), seed or other type of strategic capital. With respect to "founders classes", there was a fairly even split between those managers who built them into the offering documents and those who took a side letter approach. With respect to seed deals, the 2011 environment saw a number of prominent “seed capital” investors assisting the launch of a select group of well-pedigreed managers. The initial funding in many of those instances was between $75 million and $150 million typically locked up for two to three years. A number of less prominent “seed capital” investors (many being newer entrants into the space) sought to fill the void by funding less well-known managers with smaller amounts, typically ranging from $25 million to $50 million.

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We hope that you find this study helpful. If you have additional input that you'd like to share with us, or have any questions, please contact your primary attorney in Seward & Kissel's Investment Management Group.