



Industry Professionals serving as non-executive directors to Alternative Funds

## Horrendous Hats



There are apparently new business buzzwords for 2020:

- Ripe: Polite description of a fashionable product, company or idea about to go horribly wrong;
- ELI5: Explain like I'm five years old.

Pressure on hedge fund fees has been a constant topic for some years now and this newsletter is not opining on the rights and wrongs of fee levels. But we are querying whether the current trend for managed accounts to pay zero management fees is an idea that has ripened and should be plucked and pulped.

Managed accounts, by their nature, are usually from the more sophisticated and larger investors, who wield all the clout. A new, small manager probably feels he/she has no choice but to accept the account. But if an investment manager can't survive a drawdown period (and never having such a period should in itself raise concerns), then the managed account can destroy the very investment opportunity it sought to exploit.

IPAF is concerned with corporate governance. While managed account holders can ask for what they want, it is our business to query whether this trend is adversely affecting the incorporated flagship fund vehicle. If the size of the managed accounts significantly outweighs the size of the fund, but the fees paid on it are the reverse, then there is a problem.

The Investment Manager needs to build an infrastructure to cope with the managed accounts but, if the management fee paid by the managed account holders is non-existent and therefore cannot support that infrastructure, then the Investment Manager becomes dependent on performance fees to run the business. There is no financial cushion, no certainty and every incentive to take additional risk.

ELI5 how this is benefiting the industry? It is yet another example of how incredibly difficult it is for innovative managers to start up their businesses – let alone survive. And maybe the days of innovation and small managers are over, but even the current household names in the industry only had boutique-size funds less than 20 years ago (trust me, your author was there!). At this rate, there won't be anyone to replace them.

Caroline and Stella  
*Directors, IPAF Group*

### About IPAF

IPAF provides Industry Professionals – independent, knowledgeable and experienced people - as non-executive directors to Alternative Funds. IPAF is run from London with a panel of 16 directors across 7 jurisdictions: Cayman, Luxembourg, Ireland, Switzerland, the Channel Islands, Malta, and the UK. All the IPAF directors are independent of each other and no additional fee is charged by IPAF to a fund that selects a member of its panel: the fund only pays the director's fees. For more information please email [info@ipafgroup.com](mailto:info@ipafgroup.com).