

**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

<b>BCV Asset Management</b>	<b>Public Employees Retirement System of New Mexico</b>
<b>Bimcor Inc</b>	<b>South Carolina Retirement System Investment Commission</b>
<b>Brightwell Pensions</b>	<b>Suva</b>
<b>BW Gestão de Investimentos Ltda.</b>	<b>Teacher Retirement System of Texas</b>
<b>CDPQ</b>	<b>Texas Permanent School Fund Corporation</b>
<b>Credit Suisse Pension</b>	<b>Texas Treasury Safekeeping Trust Company</b>
<b>Employees Retirement System of Texas</b>	<b>Trans-Canada Capital</b>
<b>Fire &amp; Police Pension Association of Colorado</b>	<b>UTIMCO (University of Texas/Texas A&amp;M Investment Management Co.)</b>
<b>FS Fiduciary Services LLC</b>	<b>University of Toronto Asset Management Corporation</b>
<b>GIC</b>	<b>Utah Retirement Systems</b>
<b>Healthcare of Ontario Pension Plan Trust Fund</b>	<b>Virginia Retirement System</b>
<b>Indiana Public Retirement System</b>	<b>West Virginia Investment Management Board</b>
<b>John D. and Catherine T. MacArthur Foundation</b>	<b>Wyoming Retirement System</b>
<b>Kern County Employees' Retirement Association</b>	
<b>Korea Investment Management</b>	
<b>Pragma Gestão de Patrimônio LTDA</b>	

## CONSULTANTS

**Aksia LLC**

**Albourne LLC**

**Verus**