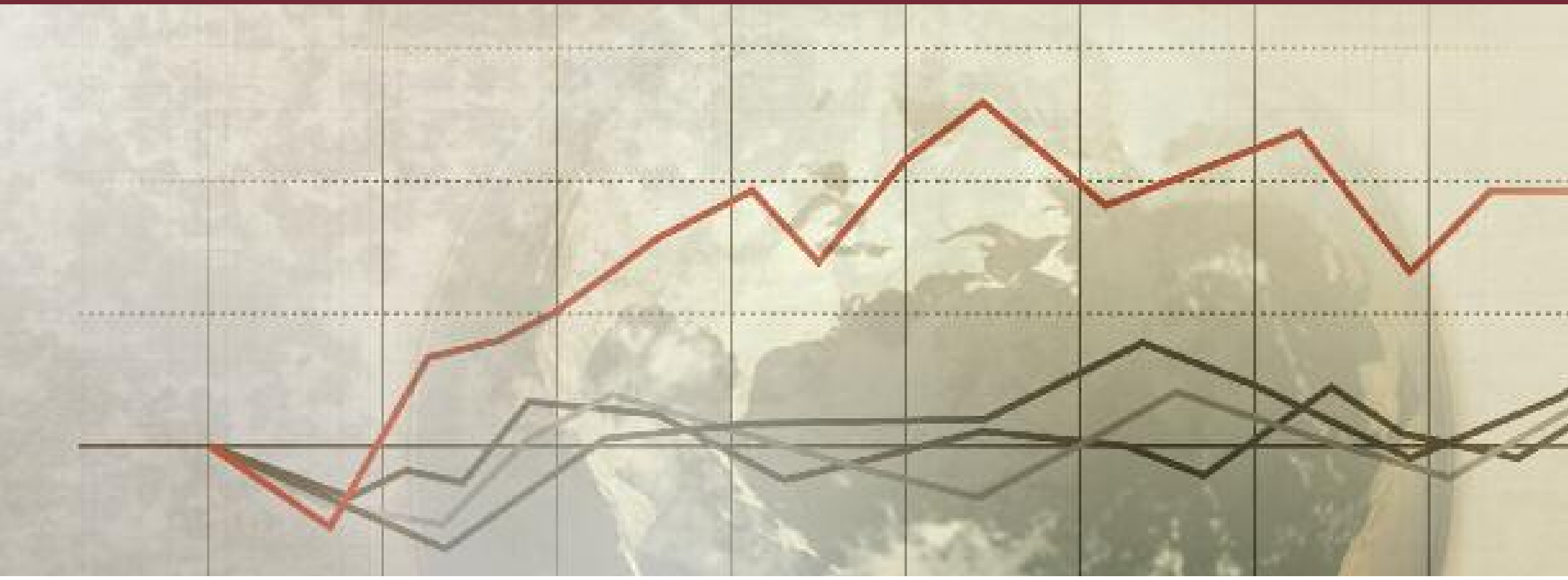
SEWARD & KISSEL LLP

THE SEWARD & KISSEL NEW HEDGE FUND STUDY

2012 Edition



Introduction and Key Findings

Driven by our commitment to understanding the dynamics of the hedge fund marketplace, each year Seward & Kissel conducts a hedge fund study of newly formed hedge funds sponsored by new U.S.-based managers entering the market in 2012. The study covers the 2012 launches of Seward & Kissel clients; we believe that the number is large enough to extract a representative sample of important data points that are relevant to the hedge fund industry. The study analyzed investment strategies, incentive allocations/management fees, liquidity and structures, as well as whether any form of strategic capital was raised. The study did not cover managed account structures or funds of one that may have a wider variation in the fee arrangements and/or other terms.

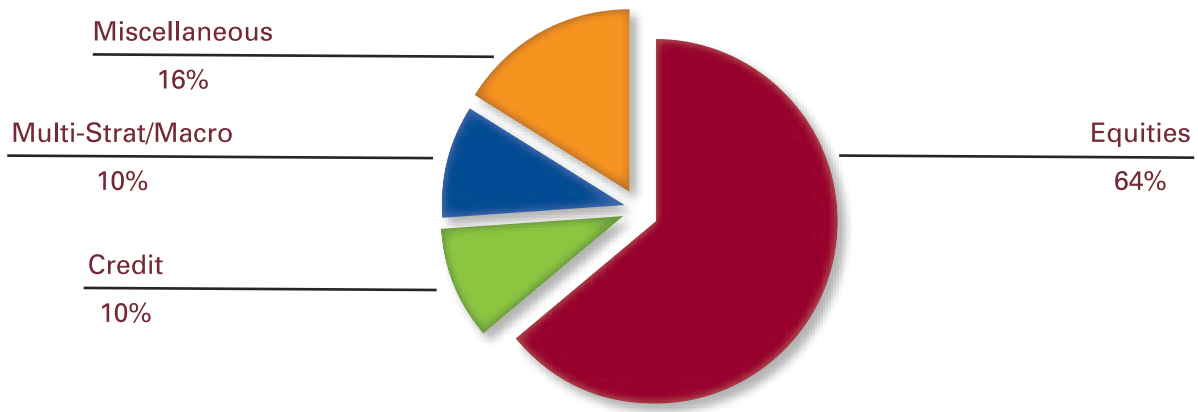
The study's key findings, set forth in greater detail below, include:

- 64% of the funds had equity or equity-related strategies (up 14% from the 2011 study).
- Management fees were generally higher for non-equity strategies, while incentive allocation rates continued to be pegged at 20% of annual net profits across all strategies.
- More funds permitted monthly redemptions in 2012 as compared to 2011 (the percentage increased from about 25% in 2011 to 36% in 2012), and a higher percentage of equity strategies had lockups or gates as compared to non-equity strategies.
- Sponsors of both U.S. and offshore funds set up master-feeder structures over 80% of the time. Most offshore funds were established in the Cayman Islands.
- In the area of seed capital, the initial funding in many of the bigger deals was between $75 million and $150 million typically locked up for two or three years; for the smaller deals, the amounts ranged from $10 million to $50 million.

Investment Strategies

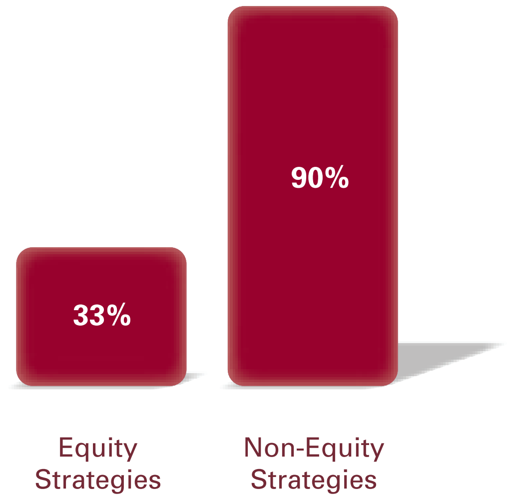
About 64% of the funds included in the study involved an equity or equity-related strategy (not including multi-strategy offerings which generally involved both equity-related as well as other strategies). This represents an increase from the 50% figure in the 2011 study. About 55% of the equity/equity-related offerings were focused on U.S. and North American equities, while the rest had more of a global focus. Approximately 30% of the equity/equity-related strategies had a sector focus, with the most popular sector focuses being healthcare and TMT. About 10% of the funds included in the study were multi-strategy/macro offerings, approximately 10% were credit or credit-related strategies, and the balance consisted of quantitative, special situations, structured products, commodities/futures and miscellaneous other strategies.

Investment Strategies



Incentive Allocations/Management Fees

Frequency of 2% Management Fee



Generally, incentive allocation rates continued to be pegged at 20% of annual net profits. Moreover, all funds had some type of 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 decreased slightly in 2012 to 1.6875% per annum of net assets (from 1.71% in 2011) and the median rate was 1.75% per annum. However, unlike in 2011, there was a big difference in management fee rates charged based on strategies employed, with only 33% of equity strategies charging 2% per annum, but 90% of all non-equity strategies charging 2% per annum. We believe this disparity may be due to the higher overhead typically needed to implement many non-equity strategies.

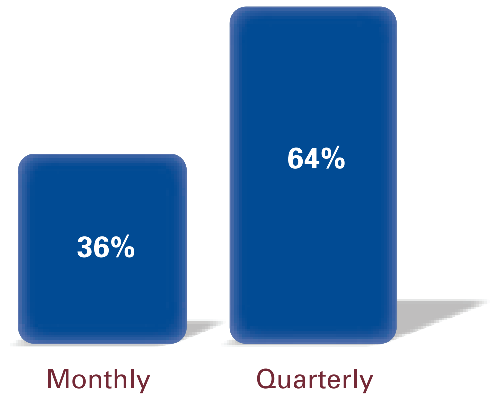
About 50% of the funds offered lower incentive allocation and/or management fee rates either to investors who agreed to greater than one year lock-ups (typically represented in the offering documents by different fund series, classes or sub-classes, or sometimes evidenced in a side letter) or to "founding" type investors (that may not have necessarily been tied to longer liquidity).

Liquidity

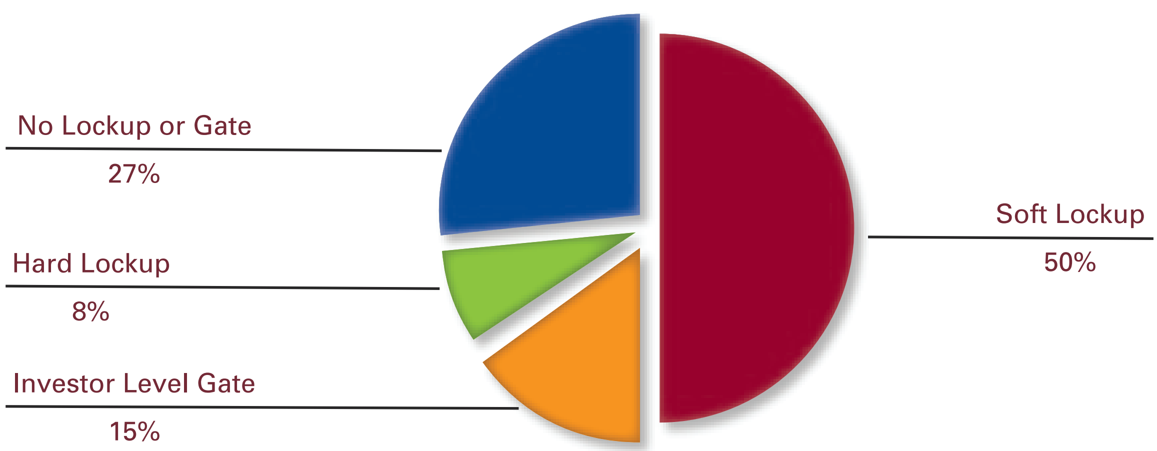
More funds permitted monthly redemptions in 2012 as compared to 2011 (the percentage increased from about 25% in 2011 to 36% in 2012), while conversely less funds had quarterly redemptions (down to 64% in 2012 from 75% in 2011). Note, however, that some of these funds did have lockups or gates, as discussed in further detail below. Notice periods were usually 30, 45 or 60 days, however, there were about 10% of funds at 90 days.

In the flagship class of the fund (i.e., generally, the one charging a 20% incentive allocation and a 1.5–2% management fee), approximately 50% of the funds had a soft lockup (usually, one year with at 3%–4% redemption fee payable to the fund); 15% had an investor level gate; 27% had no lockup or gate of any sort; and the rest had a hard lockup (usually, one year and non-rolling). Looking at liquidity lockups and gates based on investment strategies deployed, 60% of the non-equity strategies had a lockup and/or gate, while 78% of the equity strategies had a lockup and/or gate. There were no examples of fund level gates.

Redemption Frequency



Redemption Lockups and Gates



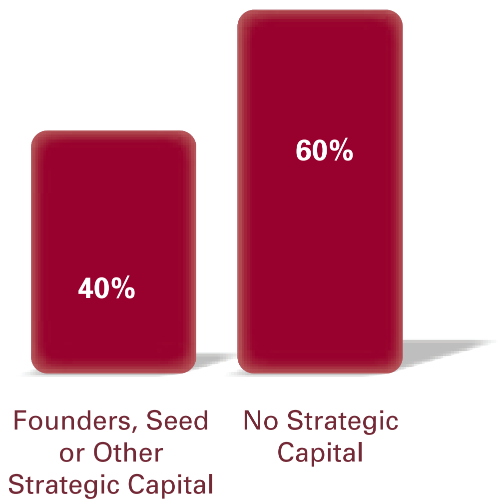
Structures

Sponsors who offered both U.S. and offshore funds set up master-feeder fund structures over 80% of the time. Most offshore funds were established in the Cayman Islands. Following the trend we first began to see in 2011, there continued to be a fair number of managers who initially launched just a U.S. stand-alone 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 continued to opt to have their funds rely on the Section 3(c)(7) exemption, however, about 1/3 of the funds relied only on the Section 3(c)(1) exemption (as compared to 25% in 2011). Finally, the stated minimum initial investment was set at $1,000,000 in about 70% of the funds, 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 2012, it is not surprising that about the same percentage of funds (i.e., about 40%) as in 2011 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, of the funds we studied, the 2012 environment saw a bit of a dip in allocations made by the largest “seed capital” investors, however, this decrease was made up for to a degree by a continuing entry into the marketplace by a number of new seeders (some of whom were doing one-off transactions in the space). The initial funding in many of the bigger deals was between $75 million and $150 million typically locked up for two to three years. For the smaller deals, usually with less well-known managers, the amounts ranged from $10 million to $50 million.

Strategic Capital



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.

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