Seward & Kissel LLP

The Seward & Kissel 2017/2018 Form ADV Study

Introduction

Driven by our continuing commitment to understanding the dynamics of the entire hedge fund marketplace, Seward & Kissel has sought to bring the latest industry thought leadership to our clients and friends over the past decade through the publication of various data analytics studies. Nearly ten years ago, we first introduced the *Seward & Kissel New Hedge Fund Study*, which focuses on the key terms and structures of newly-launched hedge funds. More recently, we began to publish the annual *Seward & Kissel Side Letter Study*, which analyzes agreements that both new and mature managers often enter into with certain strategic investors. In keeping with the life cycle sequencing of our previous publications, we are pleased to debut our latest study, one that focuses on some key business trends for the largest SEC-registered hedge fund advisers, *The Seward & Kissel Form ADV Study*.

Study Methodology

In order to conduct the Form ADV Study, we randomly selected a significant number of the top 200 hedge fund managers[1] (measured by regulatory assets under management ("RAUM")) registered with the SEC as investment advisers (the "Advisers"). We then reviewed the 2017 and 2018 annual Form ADV filings of the Advisers found on the SEC's publicly-accessible IARD web site (filed by April 2018 and 2019, respectively[2]), and analyzed various pieces of information in the Forms ADV. As with our other studies, our focus was on the identification of key business trends, as opposed to legal/compliance issues. Moreover, we sought to parse the data in various ways, including by separating out the results between Advisers primarily focused on equity strategies (the "Equity Advisers") and those investing in one or more strategies where equities were not a primary focus (the "Other Advisers"). Lastly, when comparing changes between 2017 and 2018, we only considered a change to be "material" in nature if it was one that was greater than 10%. We believe that the number of Advisers included in the Form ADV Study is sufficiently large enough to extract various key data points that may be instructive as to the current state of the hedge fund industry.

[1] Source: *Hedge Fund Alert*, April 25, 2018.

[2] It should be noted that (i) it is often difficult to draw conclusions from Form ADV data, as there may be different interpretations for how to answer certain questions and (ii) RAUM data in a Form ADV annual amendment can be as of any date within 90 days of the filing, while other data points (such as number of employees, social media accounts, etc.) should be current as of the date of the Form ADV filing.

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The Study's Findings

The primary motivation for the Form ADV Study was to better understand how the volatile markets of the past two years may have impacted these Advisers' businesses. Accordingly, the Study analyzed, among other things, regulatory assets under management, separately managed accounts advised, private funds advised, number of employees, social media presence, and the use of outside marketers and/or solicitors.

Regulatory Assets Under Management

In 2018, many Advisers experienced material declines in RAUM as compared to 2017. Overall, 46% of the Advisers experienced a material decline in RAUM, although the decline was more significant for the Equity Advisers. In particular, 74% of the Equity Advisers experienced material RAUM declines, while only 12% of them had a material gain in RAUM. While some Other Advisers had material RAUM decreases, in total it amounted to just 23.5% of the Other Advisers, whereas 53% of the Other Advisers experienced no material change and another 23.5% had a material increase in RAUM.

Separately Managed Accounts Advised

The Study found that the vast majority of both Equity Advisers and Other Advisers did not advise separately managed accounts ("SMAs"). 69% of all Advisers in the Study did not have SMA clients, while only 31% advised them. These findings were consistent over both years covered by the Study, and the percentages were fairly consistent as between the Equity Advisers and the Other Advisers.

Private Funds Advised

According to the data, most Advisers did not add new private fund clients during the time period covered by the Study. Of all the Advisers, only 27% showed a net increase in private fund clients advised, while 33% reflected a net decrease and 40% remained the same. As between Equity Advisers and Other Advisers, the most interesting findings were that 37% of the Other Advisers actually showed a net decrease in private fund clients (as compared to just 26% for Equity Advisers), and 47% of the Equity Advisers had no change in private fund clients disclosed (versus 35% for the Other Advisers).

Number of Employees

Since there was a fair amount of RAUM volatility detected in the Study, we were also interested in understanding the changes in the number of employees reported, given the costs associated with maintaining large employee payrolls on what could be a smaller asset base.

Among all Advisers, 56% reported no material change in the number of employees reported, 21% reported a material increase and just 23% disclosed a material decrease[3]. With respect to the Other Advisers, 53% disclosed no material changes in personnel headcount, 23.5% indicated a material increase and 23.5% reported a material decrease. With regard to Equity Advisers, despite their 2018 RAUM performances, 59% reported no material change, 18% indicated a material increase and only 23% indicated a material decrease in personnel reported.

Lastly, in cases where Advisers reported material increases or decreases in their personnel, generally advisory employees were represented twice as often as compared to other non-advisory staff, both for increases and decreases reported.

Social Media Presence

Given the recent fund-raising challenges of the industry, and the success that many companies in other fields have had with social media as a marketing tool, we also reviewed Form ADV disclosures regarding the Advisers' social media presence. As it turns out, the Advisers were fairly conservative in both years of the Study in terms of their social media footprint. Among all Advisers, 12% disclosed no social media presence, 44% reported one or more web sites, 32% reported one or more web sites and a LinkedIn page, and the remaining 12% disclosed one or more web sites, a LinkedIn page and some other social media account such as Twitter or Facebook. The distinctions between the Equity Advisers and the Other Advisers were insignificant.

Use of Outside Marketers

We also examined whether Advisers were using outside marketers and/or solicitors. With respect to all Advisers, 53% of them reported using outside marketers and/or solicitors, while 47% did not. However, of the Equity Advisers, only 26% disclosed the use of these types of arrangements, whereas 63% of the Other Advisers indicated that they engaged outside marketers and/or solicitors. These findings were virtually identical over both years of the Study.

3 It should be noted that some personnel decisions may have occurred after the latest Forms ADV were filed, which could impact these findings.

Contact

We hope that you find *The Seward & Kissel Form ADV Study* helpful. If you have additional input that you would 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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