



## **Robert Olman: Hedge funds adapt after ‘perfect storm’**

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The ‘perfect storm’ of 2008 revealed several flaws in the hedge fund model.

With the decision by multiple funds to drop their gates in response to a tsunami of redemption requests, the mismatch of the liquidity in the funds’ investment portfolio and the liquidity provided to the investors became apparent.

Forward-thinking hedge funds are launching new funds (or restructuring) to resolve the liquidity mismatch while maintaining the integrity and scope of their investment process in a number of ways.

For example, many firms are using paired offerings, especially in the credit, ABS and distressed spaces: one with monthly lock-ups and conservative target returns, which will invest in liquid products; the second with longer lock-ups, approaching a private equity-like structure, with more aggressive target returns.

With this structure, fund managers can pursue short-horizon, actively traded investment strategies, as well as the longer-term investments involving less liquid assets.

We are also witnessing a trend towards managed accounts and away from co-mingled investments, particularly provided to the larger investors such as sovereign wealth funds.

These responses to liquidity mismatch also have a profound effect on performance fees charged by the manager.

The 2 and 20 fee structure is not necessarily the default for managed accounts, nor for the longer lock-ups required in the funds with multi-year target holding periods. To say it is exclusively downward pressure on fee structure is an over-simplistic and deficient conclusion.

Rather, it is a rational response to investor and manager needs for liquidity, sustainability and returns.