

Hedge funds cut fees for investors

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The hedge fund industry, infamous for imposing high fees, is finally beginning to cut these charges amid heavy outflows and investor complaints after a year of losses.

Three hedge funds contacted by the Financial Times admitted to cutting their fees for new investors, usually by lowering management fees by half a percentage point to between 1 per cent and 1.5 per cent, and performance fees from 20 per cent to 10 per cent.

A few privileged investors have always been able to gain such favourable terms. However, what makes the current trend striking is that the number of special deals is proliferating fast.

Chris Lombardy, an executive at Kinetics Partners, an industry consultant, said the fee cuts started when some funds halted redemptions during the financial crisis. "Some managers offered investors fee reductions in exchange for staying in," he said.

Guy Haselmann, a principal at Gregoire Capital, a hedge fund that invests in fund of funds, said: "Fees are coming down, and they will continue to come down . . . generally the funds aren't kicking and screaming too badly, they want more permanent capital."

One hedge fund manager said: "It used to be that we gave our standard rate (2 per cent and 20 per cent performance fee) most of the time. Now, new investors paying that would be in the minority."

Another manager who recently opened a new fund said: "We have cut our fees for our latest fund, though it would be catastrophic if that got out."

Pension funds, under pressure to regain losses, are also making a push for lower fees. A few months ago, Calpers wrote to the 26 funds managing its \$6bn in hedge funds with a list of demands, one of which was a fee cut in the form of a "clawback" on fees if the fund did well after a money-losing year.

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