

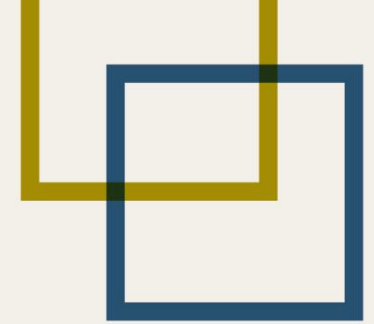


Hedge
Fund
Association
Webinar

CURRENT STATE OF THE SEEDING MARKET

ADVANCING TRANSPARENCY, EDUCATION AND TRUST.
www.HedgeFundAssoc.org

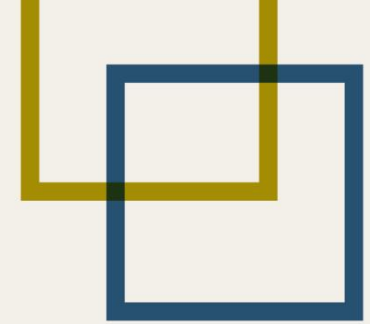
JUNE 11, 2020 – EVENT SPONSOR
THANK YOU



**Tannenbaum Helpern
Syracuse & Hirschtritt** LLP

HEDGE FUND ASSOCIATION

OVERVIEW



The Hedge Fund Association (HFA) is a global non-profit organization, represented on 5 continents, serving hedge funds, PE/VC/RE and wealth management firms, investors and industry professionals. The HFA serves its members through top-level networking, educational events, media relations and industry advocacy.



NORTH AMERICA



EUROPE



SOUTH AMERICA



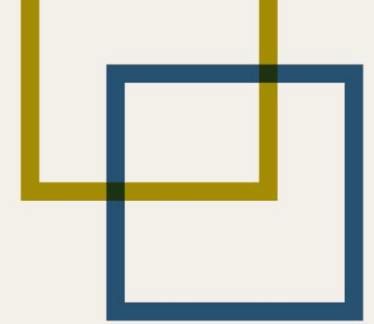
ASIA



AUSTRALIA

HEDGE FUND ASSOCIATION

ABOUT US



- Global non-profit volunteer-driven organization founded in 1996
- Membership is open to hedge funds, investors and service providers
- Organizes frequent educational and networking events annually
- Regional Chapters worldwide drive HFA's program calendar
- Educates the public, media and government about hedge funds
- For membership and event information visit **HedgeFundAssoc.org**

JUNE 11, 2020

HFA WEBINAR SPEAKERS



CAROLINE LOVELACE
Managing Partner, Rose Hill Park
Alternative Asset Managers



ERIC HOERDEMANN
Partner & Chief of Research
and Risk, Stride Capital



MICHELE ITRI
Partner, Tannenbaum Helpern
Syracuse & Hirschtritt LLP



WAYNE DAVIS
Partner, Tannenbaum Helpern
Syracuse & Hirschtritt LLP
MODERATOR



HOLLY SINGER
Vice President, HFA
President, HS Marketing
WELCOME REMARKS

TODAY'S WEBINAR – SPEAKER BIOS

MODERATOR – WAYNE DAVIS



Wayne Davis
Partner
Tannenbaum
Helpern Syracuse
& Hirschtritt LLP

Wayne H. Davis is co-chair of Tannenbaum Helpern's Investment Management Practice and a member of the firm's Management Committee.

Wayne advises U.S. and non-U.S domiciled venture capital, private equity and hedge funds, as well as family offices, on all aspects of their business, including structuring and formation, governing regulation, seed capital and financing arrangements, and the implementation of select investment strategies. Wayne has represented numerous investment funds, financial institutions and investors in connection with counter-party defaults and liquidations, including in the context of the Lehman Brothers and MF Global-related insolvency proceedings in both the U.S. and the U.K., as well as in numerous investment fund insolvency-related matters.
davis@thsh.com

TODAY'S WEBINAR – SPEAKER BIOS

CAROLINE LOVELACE



Caroline Lovelace
Managing Partner
Rose Hill Park
Alternative Asset
Managers

Caroline Lovelace, Founder and Managing Partner of Rose Hill Park, has nearly 20 years' experience in financial services and 15 years' experience in alternative investments including direct venture capital, private equity (direct and co-mingled funds) and hedge funds (comingled funds).

Previous to Rose Hill Park, Ms. Lovelace was a founding partner of Pine Street Alternative Asset Management and Co-Portfolio Manager for its seed fund for emerging hedge funds with a focus on woman and minority-owned managers. Ms. Lovelace was also a key element in the successful fundraise of a \$200MM seed allocation from a large state pension plan. Before Pine Street, Ms. Lovelace was a managing director of Provident Group Asset Management where she was responsible for hedge fund research, new manager selection and oversight of the due diligence process. In addition, Ms. Lovelace worked with Hedge Fund Research Inc. to conduct the first comprehensive survey of the woman and minority-owned hedge fund universe. Previously, Ms. Lovelace spent several years with J.P. Morgan Chase & Co. in New York, first in investment banking then moving to J.P. Morgan Capital, the firm's direct private equity division, to invest in and manage a portfolio of healthcare and financial services investments. She served on the board of Directors/Advisors for several private companies.

Ms. Lovelace holds a BA (Economics) from Harvard University and an MBA (Finance) from The Wharton School, University of Pennsylvania. caroline.lovelace@rosehillpark.com

TODAY'S WEBINAR – SPEAKER BIOS

ERIC HOERDEMANN



Eric Hoerdemann
Partner & Chief of
Research/Risk
Stride Capital

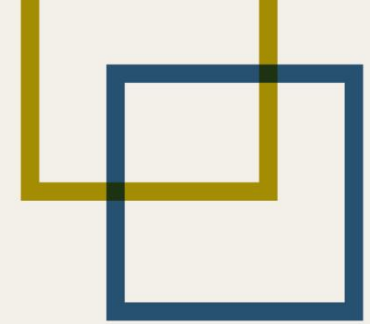
Eric joined Stride Capital in 2013 and is a Partner and Chief of Research, bringing 25 years of manager research and portfolio management experience. Eric has directed more than \$15 billion of investments to external managers globally, including investing the first institutional capital in numerous early stage and emerging managers.

Prior to joining Stride, Eric spent seven years as Vice President and leader of the small cap equity team at SEI, responsible for directing investments of over \$5 billion in 25 external managers across multiple portfolios. Eric was also a rotating member of SEI's firm-wide investment committee, which oversaw over \$100 billion of invested capital. He spent the previous five years at Goldman Sachs where he was a Vice President and responsible for over \$10 billion invested in non-U.S., regional, and global equity managers. Eric began his investment career in the asset allocation team at SEI.

He graduated magna cum laude from Lehigh University and is a CFA charterholder.
ehoerdemann@stridecapital.com

TODAY'S WEBINAR – SPEAKER BIOS

MICHELE ITRI



Michele Itri
Partner
Tannenbaum
Helpern Syracuse
& Hirschtritt LLP

Michele Itri is a partner in Tannenbaum Helpern's Tax Law Practice and focuses on the tax and legal aspects of onshore and offshore investment funds, financial instruments, international transactions, and corporate and real estate transactions. She works closely with clients to structure transactions to achieve the most favorable tax results.

Prior to joining Tannenbaum Helpern, Michele was an associate at Paul, Weiss, Rifkind, Wharton & Garrison and Dewey Ballantine LLP.

She is a graduate of Harvard Law School (J.D. 1998) and Colgate University (B.A. 1995). itri@thsh.com

TODAY'S WEBINAR – SPEAKER BIOS

INTRO REMARKS – HOLLY SINGER



Holly Singer
Vice President, HFA
President, HS Marketing

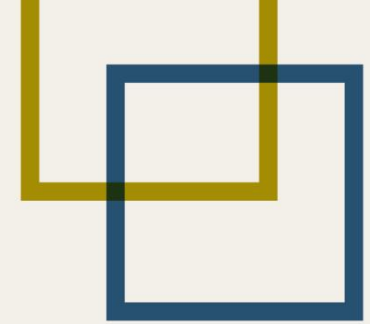
Holly serves as Vice President for The Hedge Fund Association (HFA). Holly has been a speaker at numerous industry seminars and conferences and has authored articles for various publications.

Holly Singer is president and founder of HS Marketing LLC, a marketing communications and public relations firm specialized in the alternative investment community. Her professional experience over the past 2 decades has been dedicated to enhancing the branding, communications capabilities and industry awareness of investment managers and service providers.

Holly earned an MBA in Finance from NYU's Stern School of Business and a BA in Political Science from Trinity College in Hartford, CT. holly@hsmarketing.com Follow me on Twitter and LinkedIn.

TODAY'S WEBINAR

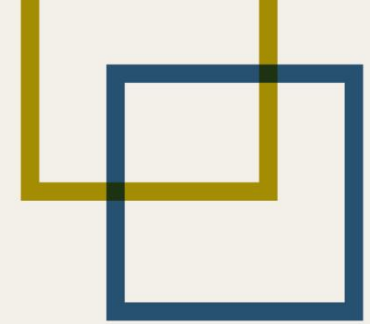
DISCUSSION TOPICS – OVERVIEW



- Seeding framework – early stage capital defined, range of structures
 - Revenue-based vs. equity vs. first loss
 - SMA vs. funds
 - Operating support, incubation (Passive vs. active)
 - Legal structures and negotiations, exit strategies
 - Capital commitments – terms, time horizon, amounts
- Pricing levels
- Current environment for seed capital raising, Pandemic impact
- Criteria for managers to attract seed capital
- Advice to emerging managers

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES

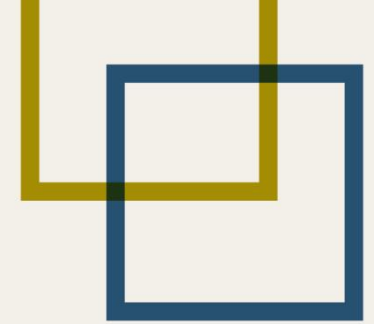


Revenue-based vs. equity vs. first loss

1. **Revenue Sharing Arrangements** – contractual arrangement in which seeder is entitled to receive a percentage (typically ranging 15-25%) of **gross** or top-line revenues of the investment manager.
 - Can be a lower percentage share since seeder participating in gross revenues, rather than net profits in an equity arrangement
 - Seeder is not concerned with monitoring and measuring the manager's expenses, so manager can maintain more independence
 - Some seeders are willing to bear certain of the manager's designated expenses or to structure the revenue share to kick in only once the manager has received a threshold amount of revenues
 - Carry/incentive share typically received through a special limited partner participation in the master fund for tax purposes.
 - Typically, seeder also entitled to a percentage of proceeds on a sale or IPO of the manager/general partner

SEEDING FRAMEWORK

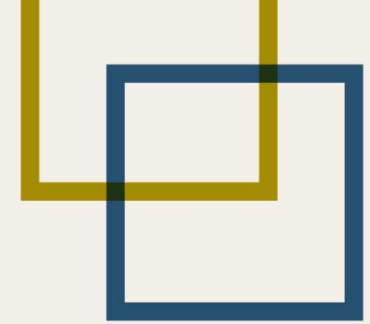
EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



2. **Equity Interests** – seeder given an equity interest in manager and GP entities
 - Seeder shares in **net profits** and capital proceeds on sale/IPO of manager/GP
 - Seeder more involved in monitoring manager's expenses and will typically seek caps on principal and employee compensation
 - Generally, equity structures not efficient for non-US seeders due to US tax issues

SEEDING FRAMEWORK

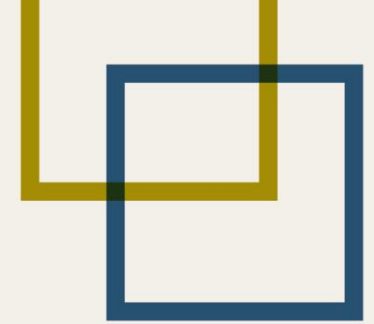
EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



3. **First Loss Capital** – platform provider allocates capital to a separately managed account for the manager to trade, and manager is required to contribute capital equal to a fixed percentage ranging from 10%-20% of the total managed account, depending on the provider.
 - Manager receives a higher than industry normal performance fee (up to 50%) and for this higher payout the manager's capital sits in a first position with respect to losses (*i.e.*, if there are losses generated by the managed account, the losses are first allocated to the manager's capital). Manager is entitled to 100% of future profits until made whole for prior loss allocations.
 - Arrangements allow managers to grow their AUM and build a track record without giving up a piece of their businesses to a seeder; manager maintains autonomy and discretion over business.

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES

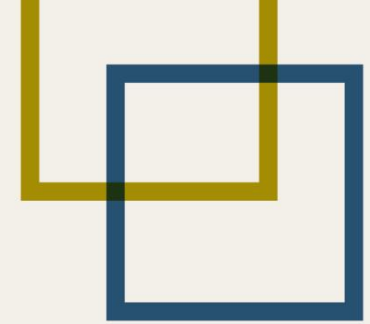


SMA vs. funds

- Seed capital may be invested into a commingled fund or a managed account
- In either event, existence of seed arrangement **MUST** be disclosed to fund investors in offering document.

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



Operating support, incubation (Passive vs. active)

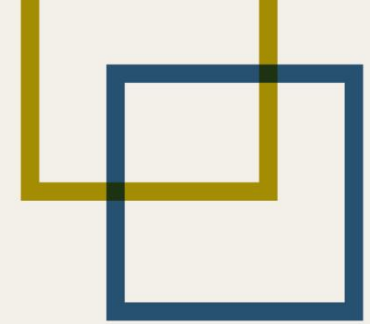
- **Incubators** – platforms that house fund managers in their own offices and provide back-office support during the manager's start-up period. Goal is to help manager spin-out and become operationally independent, but revenue sharing or equity arrangements provide the incubator with a continuing revenue share.
- **Working Capital** – some seeders offer managers working capital support through a capital contribution, working capital loan or prepayment of management fees to assist the manager with the early start-up costs.
- **Seed Support** – can include business development, marketing, risk management and governance and guidance on business operations and business issues.

Active vs. Passive Role of Seeder

- Many seeders take passive stakes in a manager and do not have day-to-day involvement in management, while some seeders require governance and control rights over the manager's business and funds

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES

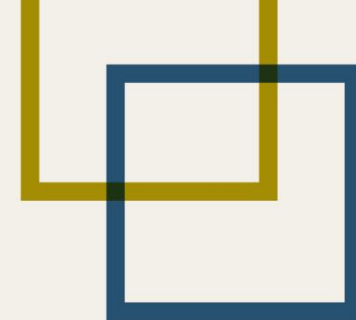


Governance rights sought by certain seeders:

- 1. Manager Control Rights.** Seeders may seek voting rights over certain key business and operational decisions of the manager – including risk management processes, certain hiring and firing decisions of key personnel, issuance of equity in the manager/GP, entering into certain contracts over a specified threshold amount, the annual budget, the incurrence of debt at the management company and extraordinary events (*i.e.*, liquidation, merger or sale of the manager’s business).
- 2. Fund Control Rights.** Seeder may seek to put restrictions on the manager’s portfolio composition for the fund, to limit withdrawals from the fund by key employees, consent rights over changes in fund service providers, and may seek to be a voting member or observer on the manager’s investment committee. Seeder may also seek to appoint a member to the limited partner advisor committee for a PE fund.

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



Legal structures and negotiations, exit strategies

1. Participation Rights for Seeded Fund and for other Products

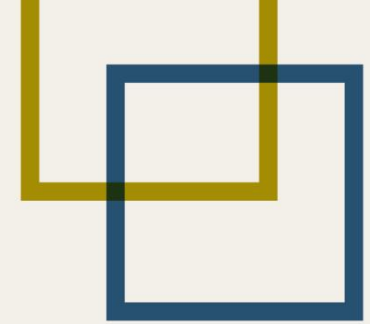
- Duration of revenue shares or equity interests vary widely, typically for 5-10 years and in some cases, in perpetuity. Sometimes duration marked by a threshold level of AUM.
- Usually continue after withdraw seed capital from fund
- Includes participation in management fees, incentive fees/carried interest and other fees received by the manager
- Many seeders negotiate “tail” economic rights to receive the same revenue participation rights in any new ventures started by key persons after they leave the manager for a designated period of time (usually 3-5 years).

2. Sunset/Buy-Back Rights

- **Buy-back rights** – managers seek to negotiate the right to end the seed arrangement by buying back the seeder’s equity interests or revenue rights after a specified period of time (generally 6-8 years), typically for a purchase price based on multiple of the manager’s average annual payments to the seeder over the prior 2-3 years (multiple is typically 4x-5x).

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



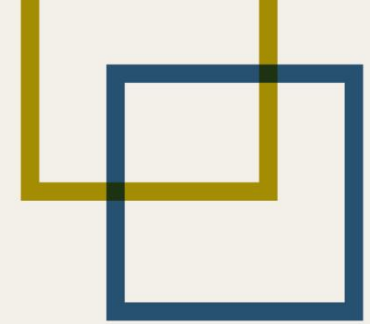
- **Sunsets** - alternatively, sunset rights can be negotiated in which the seeder's participation rights scale down over time or after the manager reaches certain AUM levels. In certain cases, seeders agree to terminate the revenue share after the seeder withdraws its investment after the lock-up period.
- **Put options** – put options may allow the seeder to put the participation rights back to the management company after a designated period of time or meeting certain AUM triggers.

3. Covenants from Key Persons

- Devotion of substantially all of their business time and effort to the manager's business
- Retention of at least 51% equity stake in the manager
- Investment of a percentage of the individual's net worth or a minimum dollar amount in the fund and/or requirement to reinvest a percentage of the manager's net profits back into the fund each year
- Non-compete/non-solicit of clients and employees, preventing the key persons from walking away from the seed deal.

SEEDING FRAMEWORK

EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES

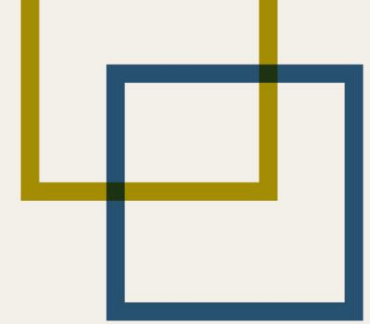


Capital commitments – terms, time horizon, amounts

1. **Investment Size** - initial commitments from seeders are typically 10-33% of overall target fund size
2. **Lock-up for Hedge Fund Investment**
 - Generally 2-3 years – provides emerging manager a stable asset base to build on
 - Seeders often negotiate the right to withdraw on certain trigger events (for example, adverse performance loss triggers (*i.e.*, a decline in performance of 15-20%), key person clauses, designated “bad-boy” events and breach by manager of seed agreement, fund documents or investment parameters)
3. **Fees**
 - Seeder will either pay reduced management/incentive fees on seed investment or pay full fees but take revenue share on seeded capital (typically not both)

SEEDING FRAMEWORK

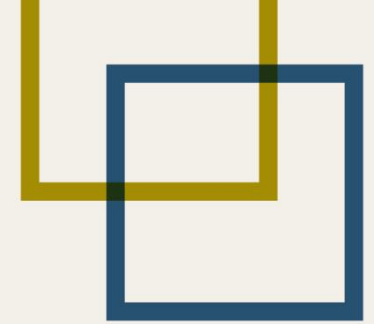
EARLY STAGE CAPITAL DEFINED, RANGE OF STRUCTURES



4. **Most Favored Nation (MFN) rights**
5. **Transparency** – seeders will typically require additional information rights to verify compliance with investment guidelines and calculate revenue share
6. **Capacity rights** – seeders will seek the right to invest additional amounts in a hedge fund or the manager’s successor PE funds (as a dollar amount or percentage of the fund’s AUM)

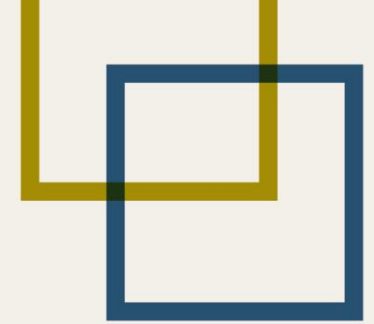
TODAY'S WEBINAR

FURTHER DISCUSSION TOPICS



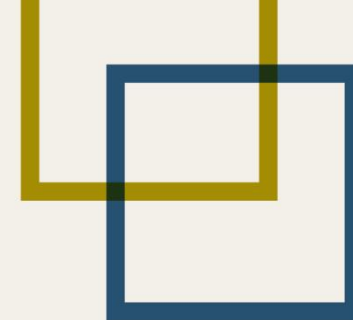
- Pricing levels
- Current environment for seed capital raising, Pandemic impact
- Criteria for managers to attract seed capital
- Advice to emerging managers

MAY 20, 2020 – EVENT SPONSOR
THANK YOU



**Tannenbaum Helpern
Syracuse & Hirschtritt** LLP

HFA THOUGHT LEADERS THANK YOU



Fund Services



CITRIN COOPERMAN[®]

Accountants and Advisors