

## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Introduction to the Survey

**The questions in this survey seek to explore the various set of arrangements that managers of alternative investment funds (specifically hedge funds and private credit funds) have to best align their interests with their clients (investors).**

**All data provided from this survey will be collated and retained by AIMA for the purposes of publishing the 2022 Alignment of Interests research report, which will be made publicly available. Data from this survey will only be presented or shared in the aggregate. It will not be attributed, or attributable, to any specific firm or person. The survey should take no more than 10 minutes to complete. Thank you for your support.**

\* 1. What is the primary investment strategy of your principal flagship fund? Please select one option from the list below.

- |  |  |                                      |
|--|--|--------------------------------------|
| <input type="radio"/> Long short equity  | <input type="radio"/> Equity market neutral quant' | <input type="radio"/> Fund of funds  |
| <input type="radio"/> Long short credit  | <input type="radio"/> Global macro                 | <input type="radio"/> Private Credit |
| <input type="radio"/> Relative value arbitrage (inc fixed income and convertible arbitrage)  | <input type="radio"/> CTA/Managed Futures          |                                      |
| <input type="radio"/> Event driven (inc merger arbitrage, distressed and special situations) | <input type="radio"/> Multi-strategy               |                                      |
| <input type="radio"/> Other (please specify)   |  |                                      |

\* 2. What is the net asset value (in US\$) of your alternative investment firm?

- |  |   |
|--|---|
| <input type="radio"/> Less than \$100m | <input type="radio"/> \$1bn - \$4.9bn   |
| <input type="radio"/> \$100m - \$249m  | <input type="radio"/> \$5bn - \$9.9bn   |
| <input type="radio"/> \$250m - \$499m  | <input type="radio"/> \$10bn - \$19.9bn |
| <input type="radio"/> \$500m - \$999m  | <input type="radio"/> \$20bn or greater |

\* 3. How do investors access your flagship fund's investment strategy? Please select from one of the options below.

- ☐ Commingled fund
- ☐ Separate Account
- ☐ Joint Venture
- ☐ Club Deal
- ☐ Other (please specify)



## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (general)

**Please provide a response to each of the questions that follow. In each case, unless specified otherwise, the questions are addressed to the flagship/main share class of the fund.**

\* 4. How do you best describe how your firm currently aligns interests with your investors?

Please check all that apply

- ☐ Significant personal capital is invested in the fund.
- ☐ The fund offers a wide menu of differentiated fee terms for investors.
- ☐ Allow for investors to co-invest alongside the fund
- ☐ Customised solutions made available for investors (i.e. managed accounts, fund of one etc..)
- ☐ Set management fees to cover just fixed costs (with minimal margin)
- ☐ All of the above
- ☐ Other criteria that you consider (please specify)



## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

## Alignment of Interests (general)

\* 5. Other than performance, please rank in order of importance what is most important to you (*1 being the most important, 4 being the least important*) when you consider an alignment of interests between your firm and your investors.

	Knowledge sharing - to understand better how to interact with a particular investor and cater better to their needs
	Cross-selling opportunities for the fund - investors may be more open to investing in other products developed by the hedge fund manager.
	New product development - investors can help with the launch of any new products.
	Stickier ticket with investors -Investors are likely to be more loyal to managers who demonstrate a strong alignment of interests

\* 6. From the list below, please check the box on what terms your firm offers investors in order to better improve their alignment of interest with them. Please check all that apply

- ☐ Greater transparency of the fund
- ☐ Preferential fee terms
- ☐ Customised solutions (i.e., managed accounts, fund of one etc...)
- ☐ Offer investors co-investment opportunities
- ☐ Longer fee crystallisation periods
- ☐ Tiered management fees - provision to adjust the management fee downward as the AUM of the fund(s) increase.
- ☐ Fund hurdle rates
- ☐ Enhanced performance fee structures
- ☐ All of the above
- ☐ Other (please specify)

\* 7. Please provide to the closest estimate what is the standard management fee charged by your flagship fund. Please limit your answer to the nearest two decimal points. (e.g. 1.40%)

\* 8. Please provide us to the closest estimate what are the standard performance fee charged by your flagship fund. Please limit your answer to nearest two decimal points. (e.g. 15.00%)

## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (fee terms)

\* 9. To what extent has your flagship fund's management fee changed over the past three years?

- ☐ Revised upward
- ☐ Revised downward
- ☐ Remained the same

\* 10. Does your fund offer preferential terms for the management fee that it charges to investors?

- ☐ Yes
- ☐ No

\* 11. Do you structure different management fees on committed capital than invested capital? Please select one of the options from the list below.

- ☐ Yes, we charge less fees on committed capital, by 50% or more.
- ☐ Yes, we charge less fees on committed capital, by 25% to 50%
- ☐ Yes, we charge less fees on committed capital by 25% or less.
- ☐ Yes, we do not charge fees on committed capital
- ☐ No, we charge the same fees on committed and invested capital.

\* 12. How do you allocate returns to investors of your flagship fund? Please select the most appropriate response from one of the options below.

- ☐ American distribution waterfall (i.e. the GPs performance is evaluated against the hurdle rate on a deal by deal basis and the GP is paid interest on a deal by deal basis).
- ☐ European distribution waterfall (i.e. the GPs performance is measured against the hurdle rate at the fund level, and is only paid carried interest once the fund returns all capital contributions and the preferred return, if any)
- ☐ Hybrid distribution waterfall (designates American waterfall model for certain types of income (e.g. for operating income) and European waterfall for different income (e.g. sole proceeds)
- ☐ Not relevant to my fund.

## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (fee terms)

\* 13. From the list of preferential terms provided to investors below, what do you consider most important to you when negotiating the management fee on any one or more funds that you offer. Please check all that apply

- ☐ Founder share classes pay a lower management fee
- ☐ Fund offers a lower management fee with a higher performance fee
- ☐ Fund provides tiered (declining) management fee rates.
- ☐ Fund offers lower fees to larger investors (through a specific share class, share rebate, MFN).
- ☐ Fund management fees are reduced in return for longer lock-up periods and/or notice periods
- ☐ Fund offers greater transparency of the portfolio in return for a higher management fee
- ☐ Fund's management fees are aligned with the operating costs of the firm (research, operations, administration, trading) rather than in line with AUM.
- ☐ All the above
- ☐ Other (please specify)

\* 14. What is the minimum AUM level at which you would tier fees for investors. Please choose from one of the options below.

- ☐ On commitments of \$25m of AUM or higher.
- ☐ On commitments of \$50m of AUM or higher.
- ☐ On commitments of \$100m of AUM or higher.
- ☐ On commitments of \$250m of AUM or higher.
- ☐ We do not currently tier fees, but would consider doing so.
- ☐ We would not consider tiering fees under any circumstances.

## Alignment of Interests (fee terms)

\* 15. To what extent would you be prepared to forego all management fees via a specific share class in return for a higher performance fee?

- ☐ Yes, I would do this.
- ☐ Yes, but I would pass through more expenses to the fund.
- ☐ No, this would not be feasible
- ☐ I would reduce, but not fully forego the entire management fee
- ☐ I'm prepared to consider this option.

\* 16. Please selection from one of the options below as to what is the type of high watermark used in your fund?

- ☐ Standard High Watermark (i.e. the fund is losing money, then fund manager has to return fund to previous high AUM level before being paid any incentive)
- ☐ Modified High Watermark (reset the High Watermark to zero)
- ☐ Amortising High Watermark (amortise any losses over time)
- ☐ Multi year rolling High Watermark
- ☐ Benchmark High Watermark
- ☐ No High Watermark

\* 17. Do you use hurdle rates in the design of the fund's performance fee?

- ☐ Yes
- ☐ No

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2022 Alignment of Interests Questionnaire for Alternative Investment Funds

Alignment of Interests (hurdle rates)

\* 18. What do you use as your benchmark for your fund's hurdle rate?

- ☐ A fixed based percentage
- ☐ An index based percentage
- ☐ Pre-agreed alpha hurdle set between manager and investor.
- ☐ Not applicable

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2022 Alignment of Interests Questionnaire for Alternative Investment Funds

**Alignment of Interests (hurdle rates)**

\* 19. From the list of choices below, what index based percentage do you use as your hurdle rate benchmark?

- ☐ Libor only (SOFR)
- ☐ Libor plus spread (SOFR)
- ☐ Other index only
- ☐ Other index plus spread
- ☐ Not applicable

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2022 Alignment of Interests Questionnaire for Alternative Investment Funds

**Alignment of Interests (hurdle rates)**

\* 20. From the list of choices below, what fixed percentage do you use as your hurdle rate benchmark?

- ☐ 0-1.0%
- ☐ 1.01%-1.5%
- ☐ 1.51%-3%
- ☐ 3.01%-5%
- ☐ 5.01%-7%
- ☐ >7%
- ☐ Not applicable

\* 21. How has your fund's hurdle rate changed over the past three years?

- ☐ Increased
- ☐ Decreased
- ☐ Stayed the same
- ☐ Not applicable

\* 22. What is your flagship fund's catch-up provision. Please select from one of the options below.

- ☐ 100%
- ☐ 80%
- ☐ 60%
- ☐ 50%
- ☐ We have no catch-up provision.



2022 Alignment of Interests Questionnaire for Alternative Investment Funds

**Alignment of Interests (fee crystallisation, expenses)**

\* 23. What is your fund's fee crystallisation period?

- ☐ N/A - there are no crystallization of fees
- ☐ Quarterly or less
- ☐ Semi-annual
- ☐ Other (please specify)
- ☐ Annual
- ☐ Rolling 3 years
- ☐ Greater than 3 years

\* 24. Which of these expenses would your fund be able to "pass through" to its investors?

Please select all that apply.

- ☐ Service Provider Costs (e.g. fund admin, custody)
- ☐ Fund Expenses (e.g. Director fees, Audit fees, Publication costs)
- ☐ Operating Expenses (e.g. employee compensation, regulatory reporting costs, transfer agency fees)
- ☐ Operational Costs (i.e. legal set-up fees)
- ☐ Payment for research (i.e. broker research, expert networks)
- ☐ Placement Agents
- ☐ Alternative data sets
- ☐ None of the above

\* 25. From the range of options below, please select the most appropriate level you cap any operating expense that you pass through the fund.

- ☐ 0-25bps
- ☐ 25-50bps
- ☐ 50-100bps
- ☐ 100bps
- ☐ Prefer not to say/Non applicable



2022 Alignment of Interests Questionnaire for Alternative Investment Funds

**Alignment of Interests (own investment)**

\* 26. Do your principals and employees invest in the fund?

- ☐ Yes - they are required to.
- ☐ No.
- ☐ Option is available for principals and employees if they want to invest or not.

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## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (own investment)

\* 27. To what extent are your principals and employees invested in the fund?

- ☐ 1%-5% of the fund's AUM
- ☐ 5.01% -10% of the fund's AUM
- ☐ 10.01%-15% of the fund's AUM
- ☐ 15.01% -20% of the fund's AUM
- ☐ >20% of the fund's AUM
- ☐ No money is invested on behalf of the principals and employees.

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## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (co-investment)

\* 28. Does your fund(s) offer co-investment opportunities to your investors? Choose from one option that best describes your approach below.

- ☐ Yes
- ☐ Yes - only to existing investors
- ☐ Not currently - but we are actively pursuing how to do this.
- ☐ Not currently but would consider this option.
- ☐ No

\* 29. If you answered yes to the above question, please select from one of the options below what fee arrangement you have in place.

- ☐ Pay the fee for co-investment only.
- ☐ Discounted management fees in exchange for co-investment
- ☐ Co-invest in a certain ratio to your fund investment at a discounted fee.
- ☐ Fee-free co-investment
- ☐ N/A (No Co-investment)



## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (co-investments)

\* 30. When offering co-investment opportunities, do you think it is important to. Please check all that apply

- ☐ offer the opportunity to all clients/fund investors
- ☐ disclose the existence of co-investment vehicles to other clients
- ☐ disclose the terms of co-investment vehicles to other clients
- ☐ have a co-investment allocation policy
- ☐ ensure, prior to launch, that the co-investment opportunity does not have a materially adverse impact on the liquidity of other clients
- ☐ All the above
- ☐ Other (please specify)

- ☐ Not applicable

\* 31. Does your firm offer a perpetual life (i.e. evergreen fund structure) vehicle? Please select from one of the options below.

- ☐ Yes, we do.
- ☐ No, but we would expect to have such a vehicle in place over the next three years.
- ☐ No.

\* 32. Does your firm offer relationship pricing? Please select the most appropriate response from one of the options below.

- ☐ Yes we offer incremental discounts based on the number of investment mandates we have with an investor.
- ☐ Yes we offer incremental discounts based on certain AUM milestones being met with an investor
- ☐ Yes we offer incremental discounts based on certain revenue milestones being met with an investor
- ☐ Yes we do based on the length of the investor relationship
- ☐ No.



## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (fee negotiation)

\* 33. When negotiating fees with your investors, are they more focused on reducing the fund's performance fees or management fees?

- ☐ Performance fees
- ☐ Both management and performance fees
- ☐ Management fees
- ☐ Investors are not focussed on reducing either management or performance fees

\* 34. Which fee structure, if any, are you most likely to reduce on any one or more funds that you offer?

- ☐ Fund's performance fee
- ☐ Both the fund's management fee and performance fee
- ☐ Fund's management fee
- ☐ Neither the fund's management fee nor performance fee

\* 35. Have any of your investors negotiated their fund fee structure downwards over the past year?

- ☐ Yes
- ☐ No
- ☐ Other (please specify)

## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (fee negotiation)

\* 36. From the list below, what was the most persuasive argument investors have used for having the fee structure lowered on any one or more of the funds that you offer. Please check all that apply.

- ☐ Investor willing to have capital locked up for long period in exchange for lower fee
  - ☐ Day 1/ Seed investor
  - ☐ Strategic Importance of the investor
  - ☐ Downward pressure from the regulator
  - ☐ Fund was deemed to have too strong a beta element/competition from a long-only fund or ETF deploying similar strategy at a more competitive cost
  - ☐ Fund's risk exposure was too low
  - ☐ Size of investment
  - ☐ Period of underperformance reported by the fund.
  - ☐ All the above
  - ☐ Other (please specify)
- 
- ☐ None of the above

## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (Responsible Investment)

\* 37. Where is your organisation currently in its ESG implementation lifecycle? Please select from one of the options below.

- ☐ No implementation to date
- ☐ Raising awareness about ESG implementation
- ☐ ESG implementation in progress
- ☐ ESG implementation across the firm is already established.

\* 38. What are your organisations biggest challenges in making ESG-oriented investments? Please select from one of the options below.

- ☐ Lack of quality/consistent sustainability data
- ☐ Confusion over industry ESG terminology
- ☐ Not relevant to our strategy or mandate
- ☐ Lack of quality investment opportunities



## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (Responsible Investments)

\* 39. Which of the following best describes your firm's approach to responsible investing? Please check all that apply.

- ☐ N/A - Presently we have no ESG or RI policy.
- ☐ Using ESG factors to evaluate investment opportunities
- ☐ Negative screening of companies
- ☐ Green Bonds
- ☐ Direct engagement with companies on ESG issues
- ☐ Impact Investing.
- ☐ Other (please specify)

\* 40. Where relevant, at what stage of adoption are you regarding the use of responsible investment at your firm? Please check all that apply.

- ☐ No adoption to date
- ☐ We are a UNPRI signatory
- ☐ We have developed an internal responsible investment policy
- ☐ We have implemented ESG/RI in the funds that we offer.
- ☐ Promote active proxy voting
- ☐ All of the above
- ☐ Other (please specify)



2022 Alignment of Interests Questionnaire for Alternative Investment Funds

Investor demographic

41. How much of your flagship fund's AUM do the various investor types listed below account for?

	0%	1% - 10%	11% - 20%	21% - 40%	41% - 60%	61% - 80%	>80%
Pension Plans/funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Endowments/foundations/charities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sovereign wealth funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insurers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private banks (including bank platforms)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Family offices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fund of hedge funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High net worth individuals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
General government	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Wealth management platforms	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-financial corporations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Key employees of the investment manager	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Outsourced CIO	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fintech	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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## 2022 Alignment of Interests Questionnaire for Alternative Investment Funds

### Alignment of Interests (Contact information)

42. Contact information (Optional, for follow-up/feedback purposes)

Name

Company

Email Address

Thank you very much for your participation in our survey. If you have completed your response please click on submit below. If you have any questions please email [tkehoe@aima.org](mailto:tkehoe@aima.org)