Emerging Hedge Funds: Today versus 2006

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Andrew D. Beer Bio

Current Founder & Managing Member, Beachhead Capital Management, LLC

- Liquid Alts, hedge fund replication specialist
- $500MM+ AUMs

2003 Co-Founder, Pinnacle Asset Management, LLC

- Commodity fund of hedge funds
- $2 billion AUMs today

2004 Co-Founder, Apex Capital Management, LLC

- Greater China hedge fund
- $1.5 billion AUMs 2008; "ATM-ed" 2009-2010

2006 Model

Start with $1-10 million; build track record

Hire third party marketing firm and engage cap intro at prime broker

Raise capital in $1-3 million increments from

- Small fund of funds,
- Swiss private banks
- Family offices

Above $50 million, raise capital from larger fund of funds

- Very low due diligence threshold
- Allocators compete to find "next big thing"
- Everything "worked"
- View that "smaller is better"

Today: A Different World

1. Swiss Private banks exit post-Madoff
2. Small fund of funds disappear
3. Third party marketers discredited
4. Consultants disintermediate funds of funds
5. CYA risk dominates due diligence
6. Larger funds pitched as “best in breed”

- All capital post-crisis flows to largest managers
- “Emerging” redefined as $500 million to $1 billion in AUMs

Pockets of Opportunity

Offer a better alignment of interest

- declining management fee, hurdle, multi-year incentive fee

Offer Managed Accounts or unbundled services

- attempt to address minimum investment and due diligence hurdles

Explore other distribution channels

- e.g. multi-manager mutual fund sub-advisory

Key Takeaways

You need a distribution plan

It's a lot harder than it used to be

Convergence of alts and traditional creates obstacles (price competition) and opportunities (new investor pool)