Hedge Fund Manager Compensation

by Kate Rapoport

Although the financial crash of 2007 and 2008 greatly impacted hedge funds as they did the rest of the financial industry, these funds have been regaining their footing in the last two years. The small hedge funds have been slower to return to record profitability, but the large hedge funds are back to making record returns. The majority of money invested with hedge fund managers went to large funds in 2010; those with assets under management of more than $1 billion. Small fund managers, those with under $220 million under management are finding it more difficult to raise new capital and as a result have been slower to hire new staff and expand.

A hedge fund manager will typically receive both a management fee and a performance fee from the fund. An average manager may charge a management fee of 2% of the fund's net asset value each year and a performance fee of 20% of the fund's profits. Management fees are usually calculated and paid monthly or quarterly. Hedge fund managers whose funds performed particularly well during the year can profit greatly from the performance fee.

However, the 2/20 formula does not tell the whole story. One needs to research the assets under management of the current funds the manager is involved with and how much of the hedge fund is owned by the research subject. A good place to start looking for this information is the ADV form on the SEC.gov website. Not all hedge funds are required to file this form, but many do. The form can be found here: http://adviserinfo.sec.gov/IAPD/content/search/iapd_orgsearch.aspx. If it is not possible to find the ownership percentages, try to find out how many managing directors/owners there are. Once the assets under management and the number of the partners/owners are found, apply the 2/20 formula to figure out the management and performance fees and divide it amongst the partners/owners.

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