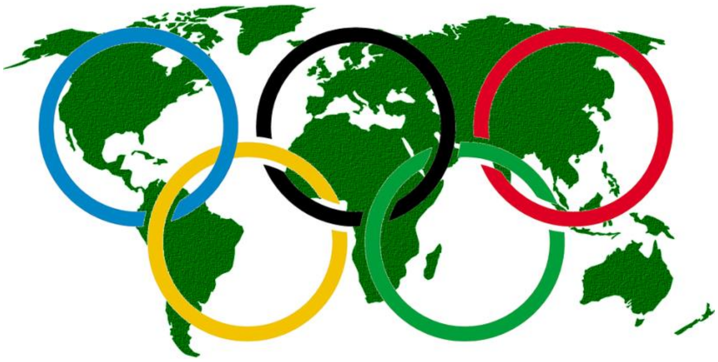
IPAF Industry Professionals serving as non-executive directors to Alternative Funds



There is a new argument doing the rounds about why hedge fund directors only need to be paid an amount that barely equates to the minimum wage: this is that the large investors keep such a beady eye on their investments, that they are in effect doing the job themselves. Therefore these large investors consider the directors to be box tickers and superfluous to the actual governance process.

I hope I am hearing every reader cry: "Outrageous!". Particularly if you happen to be a smaller investor without the resources to mount a 24 hour guard on every investment manager. And will these vigilant large investors be minding the interests of their smaller co-investors? That is a rhetorical question, of course.

Any large investor with this mindset should be ashamed of him/herself; and any fund manager that subscribes to this view is just plain short-sighted. This firm statement can, thanks to Preqin's recent report*, be substantiated. The section entitled "How Investors Source and Select Hedge Funds" makes very interesting reading. Over 200 institutional investors were interviewed about their selection processes. Top 3 reasons that result in potential investors removing a fund from their screening list:

1. Unfavourable fund terms (70%)
2. Lack of team track record (57%)
3. **Poor governance (45%)**

Further, the report found that of the 13,946 hedge funds open for investment, on average potential investors screened 220 funds per annum and only committed to 2. I think it is fair to say that a fund probably only gets one shot at making an investor's short-list, so to fail on governance grounds is really stupid – and easily preventable.

And if that is not a sufficiently convincing argument, then the same report listed investors' views on the key issues facing hedge funds in 2018. Guess what? Governance came in as 5th (above transparency and regulation). Not a gold medal winner, admittedly, but in the frame. And certainly higher up the medals table than in previous years.

** Preqin Investor Outlook: Alternative Assets, H1 2018*

About IPAF

IPAF provides Industry Professionals – independent, knowledgeable and experienced people - as non-executive directors to Alternative Funds. IPAF is run from London with a panel of 17 directors across 7 jurisdictions: Cayman, Luxembourg, Ireland, Switzerland, the Channel Islands, Malta, and the UK. All the IPAF directors are independent of each other and no additional fee is charged by IPAF to a fund that selects a member of its panel: the fund only pays the director's fees. For more information please email info@ipafgroup.com.