



Evan Katz
Keynote Speaker
at University of Denver

“Hedge Funds 101, The State of the Hedge Fund Industry, and How to Get a Great Job and Keep It!”





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Hedge Fund Newsletter: <https://bit.ly/HedgeFundNewsletter>
(Or you can just wait and scan the QR code on the last slide.)

Evan Katz Background

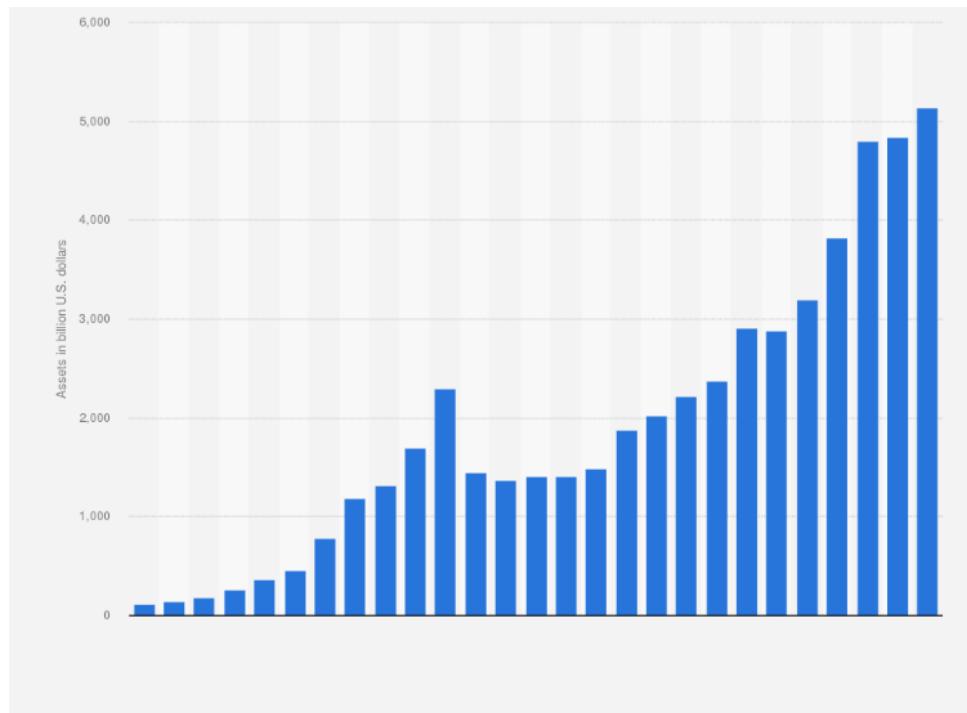
- Born on Long Island, N.Y.
- Wharton (Finance Major)
- Harvard Law School (same class as M.O.)
- 20 Years in Hedge Funds
- Director on H.F.A. B.O.D. 2014-2019
- “Best H.F. Fundraiser” Nominated 2021-23
- “Young Leadership Award” in 2011



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State of the Hedge Fund Industry in 2025:

- **AUM** – Now, about \$5 trillion! (*explain why*)





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State of the Hedge Fund Industry (continued):

- **“Hottest” Strategy** – Private Credit/Lending!
- **Warning:** But always remember what often happens with “hot” stocks and investment strategies (e.g., tulips, dot.com, subprime, Bitcoin/cryptocurrency, SPAC’s, etc.)! When everyone gets very excited about a stock or strategy, and piles in, including your barber!

State of the Hedge Fund Industry (continued):

- Smaller Managers – As always, they continue to outperform, but they still get vastly fewer investors and dollars. As the old expression goes, *“Nobody ever got fired for buying IBM!”* (Ask your parents!) So, how does a fund every get to be \$1-\$10+ billion if “Most investors never will invest in a <\$500MM fund.”?!? The complete disconnect between the best interests of investors and the people who manage their assets (career risk!).

State of the Hedge Fund Industry (continued):

- **Major Regulatory Changes** – 5th Circuit recently struck down the SEC's proposed regulations that would have prohibited a hedge fund's giving certain preferential treatment/information to one investor, without also giving it to all investors.
- **Notice to Other Investors** – Might have been ok.
- **Portfolio/Performance Information** – How can a P.M./I.R. person now ever take an investor's call?!? Very similar to "Reg FD"!

- **What Is a Hedge Fund?**
- **Who Started the First Hedge Fund?**
- **And in What Year Did He Do So?**
(Hint: Diamond Anniversary!)

Original Answer (1949, 75 Year Anniversary!):

- Alfred Winslow Jones (“A.W. Jones”)
- Trading Stocks
- Long/Short Equity + Leverage
- Make Money (or Lose Less) Regardless of Which Way the Markets Move
- Less Correlated (esp. to down markets)
- Can Anyone Tell Me What “Alpha” Is?

Traditional Answer (Until Most Recently):

(There are many types of hedge fund strategies. I will explain each one.)

- Long Short Equity – Still #1 by far.
- Activist
- Algorithmic/Quantitative/Systematic
- Convertible Arbitrage
- Fixed Income
- Global Macro
- Managed Futures (CTA's and CPO's)
- Market Neutral
- Merger Arb
- Sector Funds (e.g., biotech, technology)
- Stat Arb and Vol Arb

And Pretty Much Anything Else Nowadays!

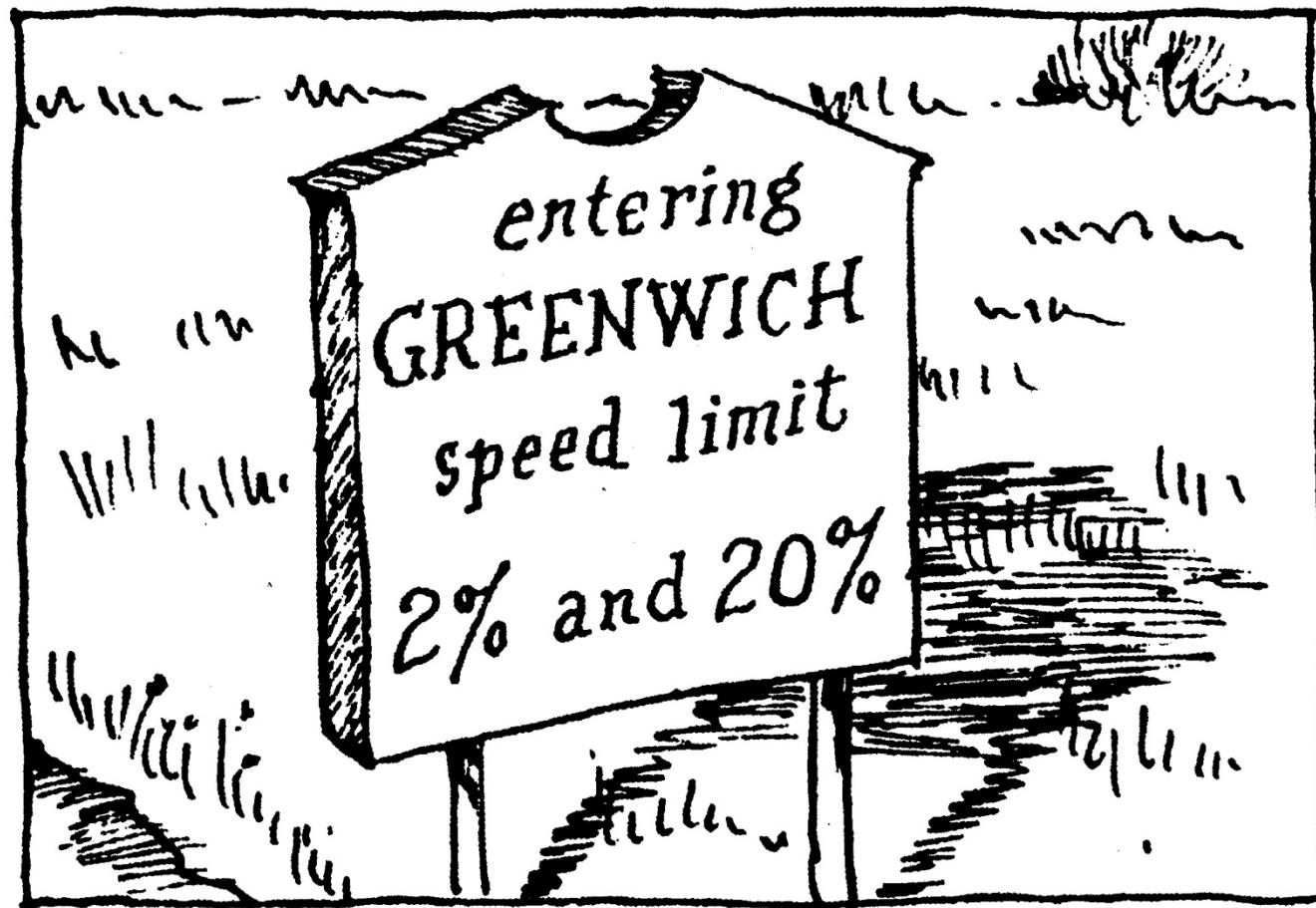
- Artificial Intelligence (*huge emergence!*)
- Auto or Credit Card Loans (collateralization)
- Commodities (e.g., oil/gas, gold/silver, corn/wheat)
- Crypto (BlackRock, Fidelity, GS, JPM, MS!)
- Currencies (FX, G10, etc.)
- I.P. – Patent Licensing and/or Litigation
- Life Settlement (*discuss*)
- Litigation Finance (IP, Mass Tort, etc.)
- Mortgages (Fannie Mae, Freddie Mac)
- Private Credit / Private Lending – HOT!

Alternative Definition of Hedge Fund:

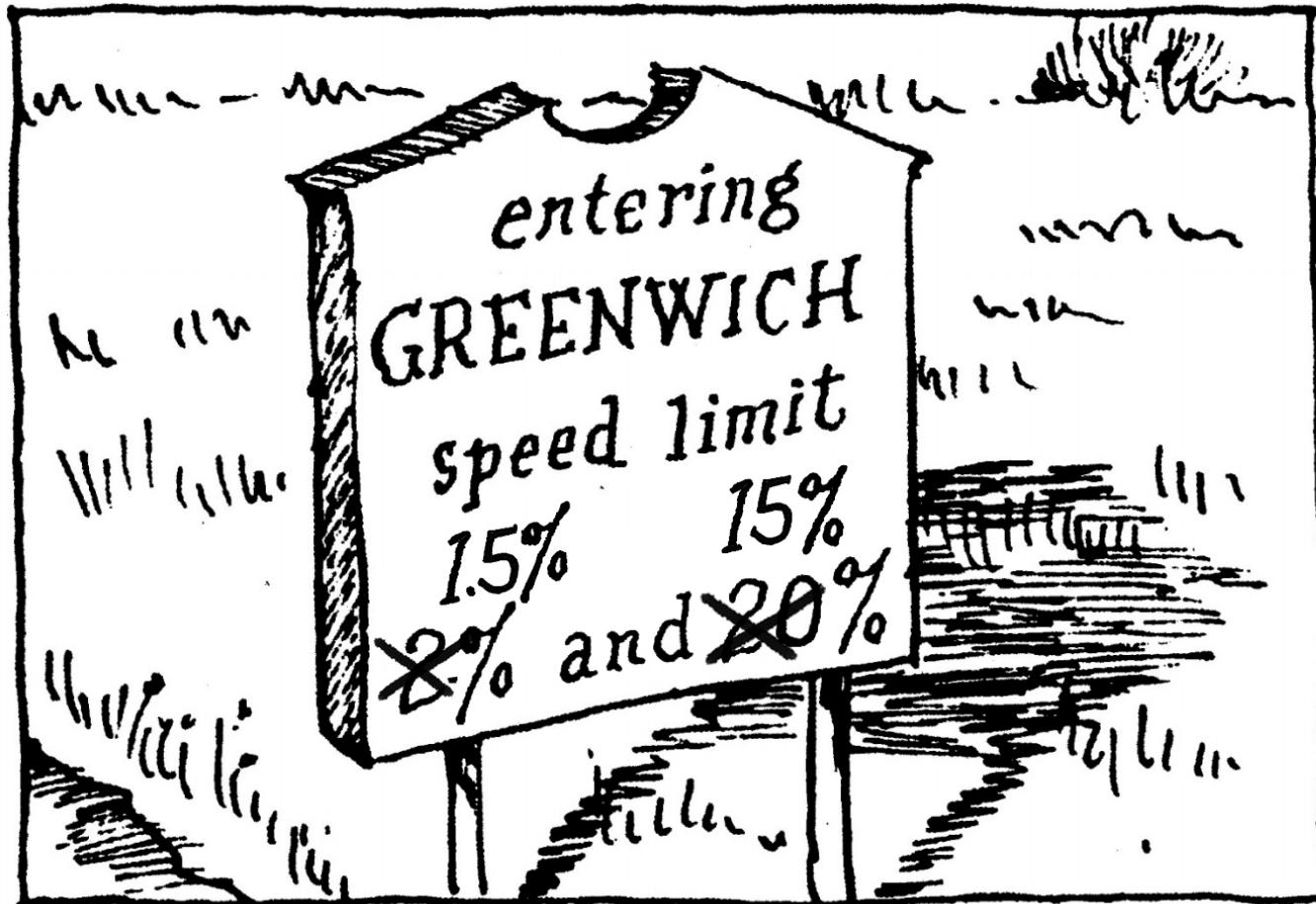
- Liquid (usually; but sometimes not; quasi PE)
- Trades Instruments on a Market or O.T.C.
- Not a Mutual Fund
- Charges a Management Fee (1.0, 1.5%, 2%)
- Charges a Performance Fee (15-20%)
- Traditionally Was 2% and 20%
(But Do You Really Need 2% to Run a \$5-10B+ H.F.?)
- Rarely a HF Performance Fee “Hurdle Rate”
- Investment Subscriptions Typically Monthly
- Redemptions Typically Quarterly w/Notice



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- Lots of “Quantitative Easing” (Easy Money and Very Low Interest Rates) Post the 2008-2010 Financial Crisis
- Most HF’s Cannot “Outperform” the S&P in a Straight Up Bull Market
- So, Hedge Fund Fees Came Down
- But, Then Came 2023! S&P -19.44%!



- **How Are Hedge Funds Structured?**
- **What Types of Entities?**
- **How and Where Are They Created?**



The Fund: ABC Hedge Fund, LP (Delaware)

The I.M.: ABC IM, LLC (Delaware)

The G.P.: ABC GP, LLC (Delaware) (*why both?*)

Offshore: Cayman (or Bermuda, B.V.I., Ireland, Luxembourg)
For U.S. ERISA NFP (E/F/P/401k)
To Block UBTI (*explain*)
Non-U.S. Avoid Tax Withholding
Master Feeder Structure

SMA's: Separately Managed Accounts
(*Discuss the history of SMA's pre/post-Madoff.*)

- **What Are The “Service Providers” That You Need to Run A Hedge Fund?**
- **And What Exactly Does Each Service Provider Do For Their Hedge Funds?**

Service Providers

- **Accountants – Audit and Tax**
(The “Big 4”, Anchin, CohnReznick, EisnerAmper, Marcum)
- **Administrator – Citco, MUFG, NAV, SS&C, etc.**
- **Attorneys – Onshore and Cayman/Offshore**
(Akin, Kleinberg, Schulte, Seward, Morgan Lewis, Sidley, etc.)
- **Bank – Fund, I.M. and G.P. Accounts**
- **Compliance Consultant – ACA, etc.**
- **Cybersecurity – Now a major SEC issue.**
- **Insurance – D&O and E&O policies (*discuss*)**
- **Prime Broker (Cap Intro) – Citi, G.S., M.S.**

- **Who Works at Hedge Funds?**
- **What Does Each Person and Role Do?**

Who Works at a Hedge Fund?

- Portfolio Manager(s) (the “P.M.(s)”)
- Analysts – Supporting Investment Research
- Quants – Coding and Models
- Chief Financial Officer (“C.F.O.”)
- Chief Operating Officer (“C.O.O.”)
- Accounting/Trading (“Back Office”)
- Chief Risk Officer (“C.R.O.”) – *We will discuss.*
- General Counsel (“G.C.”)

- **What Are a Hedge Fund's Principal Docs?**

What Are a Hedge Funds Principal Docs?

- One-Pager (a/k/a Tear Sheet)
- PowerPoint (“PPT” a/k/a “Pitchbook”)
- Private Placement Memorandum (“PPM”)
- Limited Partnership Agreement (“LPA”)
- Subscription Docs (a/k/a “Sub Docs”)
- Investment Management Agreement (“IMA”)
- Virtual Data Room – Contains all the above, plus copies of the fund’s audited financial statements, Form ADV, Form PF, etc.).

- **What Types of Entities or People Are The Most Common Investors in Hedge Funds?**

Hedge Fund Investors – Individuals

- U.S. – All taxable, so all onshore (Delaware).
- Non-U.S. – All offshore (e.g., Cayman), in order to avoid U.S. tax withholding.
- High-Net Worth – “Accredited Investors”
- Family Offices:
 - Single-Family Offices (“SFO’s”)
 - Multi-Family Offices (“MFO’s”)
- Investor Clubs (e.g., Tiger 21)



Hedge Fund Investors – Institutional

<u>Investor Type</u>	<u>For \$?</u>	<u>Del./Cayman</u>
• Endowments	NFP	Offshore
• First Loss (<i>explain</i>)	FP	Onshore
• Foundations	NFP	Offshore
• Funds of Funds	FP	Onshore
• Insurance Co's	???	???
• OCIO's	NFP	Offshore
• Pensions	NFP	Offshore
• Seeders (<i>explain</i>)	FP	Onshore

- Who Regulates Hedge Funds?

It Depends on What They Trade

- Equities – U.S. Securities and Exchange Commission (“SEC”)
- Futures – Commodity Futures Trading Commission (“CFTC”)
- Neither – E.g., rare baseball cards, or rare wines – No regulator. But the SEC always has anti-fraud jurisdiction.

Hedge Fund “Blowups”

- All Investments Are Bad/Wrong – NEVER!
- The Basic/Stupid Mistakes – ALWAYS!
 - Too Concentrated in Very Few Positions
 - Too Concentrated in Just a Few Sectors
 - Too Much Leverage (or Far Too Much!)
 - Not Having Hard Stop-Losses

And Usually All or Most of the Above!
- Bear Sterns, Lehman Brothers, Long-Term Capital (Read “When Genius Failed”)!

Hedge Fund Frauds

- Highly Sophisticated Frauds – RARE!
- Simple Detectable Frauds – ALMOST ALL!
 - Self-Administering (Madoff, \$65B Ponzi)
 - Fake Orders (Petters, \$3.65B Ponzi)
 - Fake Legal Settlements (Rothstein, \$1.2B)
 - Unsupported Valuations (Level 3 Assets)

All very easily detected frauds, if investors had just checked with independent third parties!

How to Get a Job in Hedge Funds?

(LinkedIn & Recruiters Are When You Already Have Some Experience.)

- Albourne Village – Also has H.F. news too.
- LinkedIn – Set up alerts. A ton of H.F. jobs.
- Recruiters – Google “Hedge Fund Recruiters”
(Atlantic Group, Coda, Glocap, Selby Jennings, WhiteCap, etc.)
- Pro Tip! – Do an advanced search on LinkedIn
for senior people who both (A) work in hedge
funds and also (B) went to your college too!
- Trade Organizations – Join, Attend, Network!
And eventually seek a leadership position.
(AIMA, CalALTs, CFANY, CTHFA, HFA, MFA, Texas AIA)

How to Keep a Hedge Fund Job or *Any* Job

- Do exceptional quality work (obviously!).
- Brainstorm, find and do additional helpful projects that you were not assigned.
- If possible, be a revenue generator (many clients/investors are your best job security!)
- Do well, and on time, even the annoying part of the job (e.g., expense reports, time sheets)
- Attitude – The P.I.A. people get laid of first!
- Dinner – Don't be your boss' conversation!

A Few Random But *Critical* Life Lessons:

- Networking – Take notes on business cards!
- Get Mentor – Ask a leader for 15 mins./mo.
- Diversify Stock in Your Company – *Explain.*
- Dating, Marriage, Kids – Enjoy Denver or NYC, but do not get too caught up in the scene. Because life can quickly pass you by.



Follow-Up Advise and Questions:



Please email next week. And if you do not hear back from me after two weeks, please follow up!



University of Denver Q&A:

1. What do you think separates a successful hedge fund from an average one?

Many factors, but very often including:

- A. Ego and emotion (both buying & selling);*
- B. Poor risk controls (e.g., over-concentration and/or too much leverage (LTCM!); and*
- C. Lack of operating capital and commitment to institutionalize and properly fundraise.*

2. How do you see the hedge fund industry evolving over the next decade?

A lot more use of artificial intelligence to analyze data, and to find new relationships and resulting profitable trades.

3. What are the most important skills for students aspiring to work in hedge funds?

The “usual”: Studying, hard work, dedication, discipline, going above and beyond, and also great networking to get the interview.

4. How do hedge funds differentiate themselves in a highly competitive market?

Putting up top performance is necessary, but it is not sufficient. Invest in marketing!

5. What strategies are currently most popular among institutional investors?

I hate the fads/trends (remember tulips, dot-com, subprime, SPAC's!). But now, FWIW, private credit. Also, increasingly crypto!

6. How can college students start building relationships in the hedge fund industry?

- A. Join national and regional hedge fund professional associations (see above list);*
- B. Attend many hedge fund conferences;*
- C. Use LinkedIn to cold e-mail hedge fund professionals who also went to D.U.*
- D. Ask one or more to be your once-a-month advisor/mentor. Just 15 minutes/month.*

7. What are the biggest challenges hedge funds face today?

For many, mediocre returns. Because, due to a lot of competition, and the democratization of information, it is much harder to make alpha.

8. What role do technology and A.I. play in hedge fund strategies?

A continuing and ever-increasing role. Not just for quant funds. Data always is critical.

9. How do hedge funds manage risk in highly volatile markets?

You have to manage risk in all markets, as things can change very quickly. Funds should have a CRO, or someone else who “owns” risk.

10. What advice do you have for someone looking to start a hedge fund?

Do so only if you have both a track record and operating capital (e.g., friend/family backers).

11. What factors do institutional investors consider before allocating capital to a hedge fund?

- A. Track record (obviously, the #1 factor);*
- B. Team experience, expertise and “pedigree”;*
- C. Infrastructure (is firm “institutional”?);*
- D. AUM (even though smaller funds often tend to perform better than larger funds!)*
- E. Relatedly, is the fund approved by their consultant. Many I.I.’s rely on consultants.*

12. How important is quantitative analysis compared to fundamental analysis in hedge fund strategies?

I see some convergence. That is, because, while there still are very many “pure” quant and systematic funds, even the fundamental funds are using more and more data, “alternative data”, “big data” and A.I.

13. What's your take on the future of alternative investments like private equity and venture capital?

There always have been, now are, and will be great funds, managers and opportunities in PE and VC, as well as hedge. Indeed, because (A) PE and VC relate and profit from great operating companies, as well as smartly investing in them, and (B) hedge funds have become more competitive and democratized, many investors are preferring PE and VC.

14. If you were in college today, how would you prepare for a career in hedge funds?

Take many finance and accounting classes. Read the best books regarding investing and HF's. Intern at a great firm. Try to get a job at a big Wall Street firm, in the analyst program.

15. How would a current college student go about creating a profitable strategy?

First, do the above. Then brainstorm and experiment, and then do what you do best.

16. What are the fundamental hard skills that you would recommend mastering to be successful in trading/investing?

Finance, math, accounting, data, technology.

17. If you could do it all again, where would you start?

Instead of law school, I would have done the analyst program at a major Wall Street firm.



18. What is your personal motto when it comes to life or trading/investing?

- A. Show up, always, and always on time;*
- B. Go above and beyond (volunteer);*
- C. Learn the toughest thing (brain surgery or the U.S. tax code, probably the latter); and*
- D. Build and keep relationships throughout your career, as you go along (e.g., my database and newsletter now have more than 100,000+ professional contacts).*

19. Over the course of your career, what are the most important things you've learned?

- A. *“Escalator” – Accomplishing anything takes a ton of hard work and a lot of effort (e.g., investing, skiing, tennis, violin, marriage).*
- B. *“Elevator” – But you can easily destroy a life or business by making just one very stupid decision (e.g., drunk driving, bad/no fund risk controls, not diversifying, Koby/JFK Jr.).*
- C. *Don’t be so stubborn that you do not seek candid and honest advice from your parents, close friends, and business colleagues.*



More Questions?



**Many Thanks to the
University of Denver, and to
All of the Event Attendees!**