



Evan Katz

Keynote Speaker

**at The Wharton School of the
University of Pennsylvania**

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



Benoni Capital

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(Or you can just wait and scan the QR code on the last slide.)

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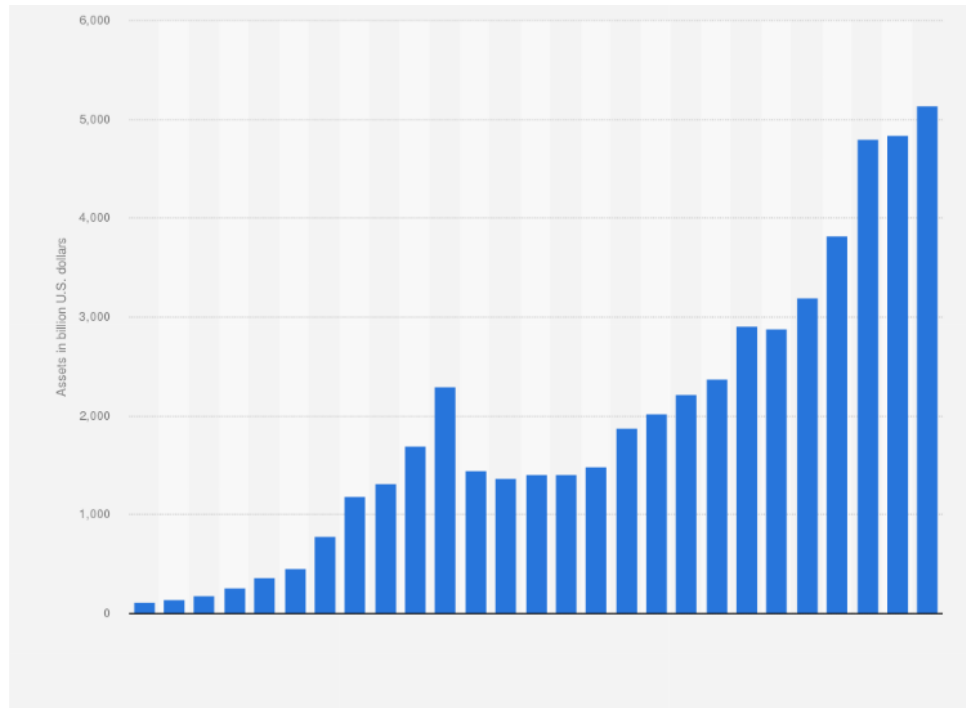
Evan Katz Background

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



State of the Hedge Fund Industry in 2025:

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





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**

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And Pretty Much Anything Else Nowadays!

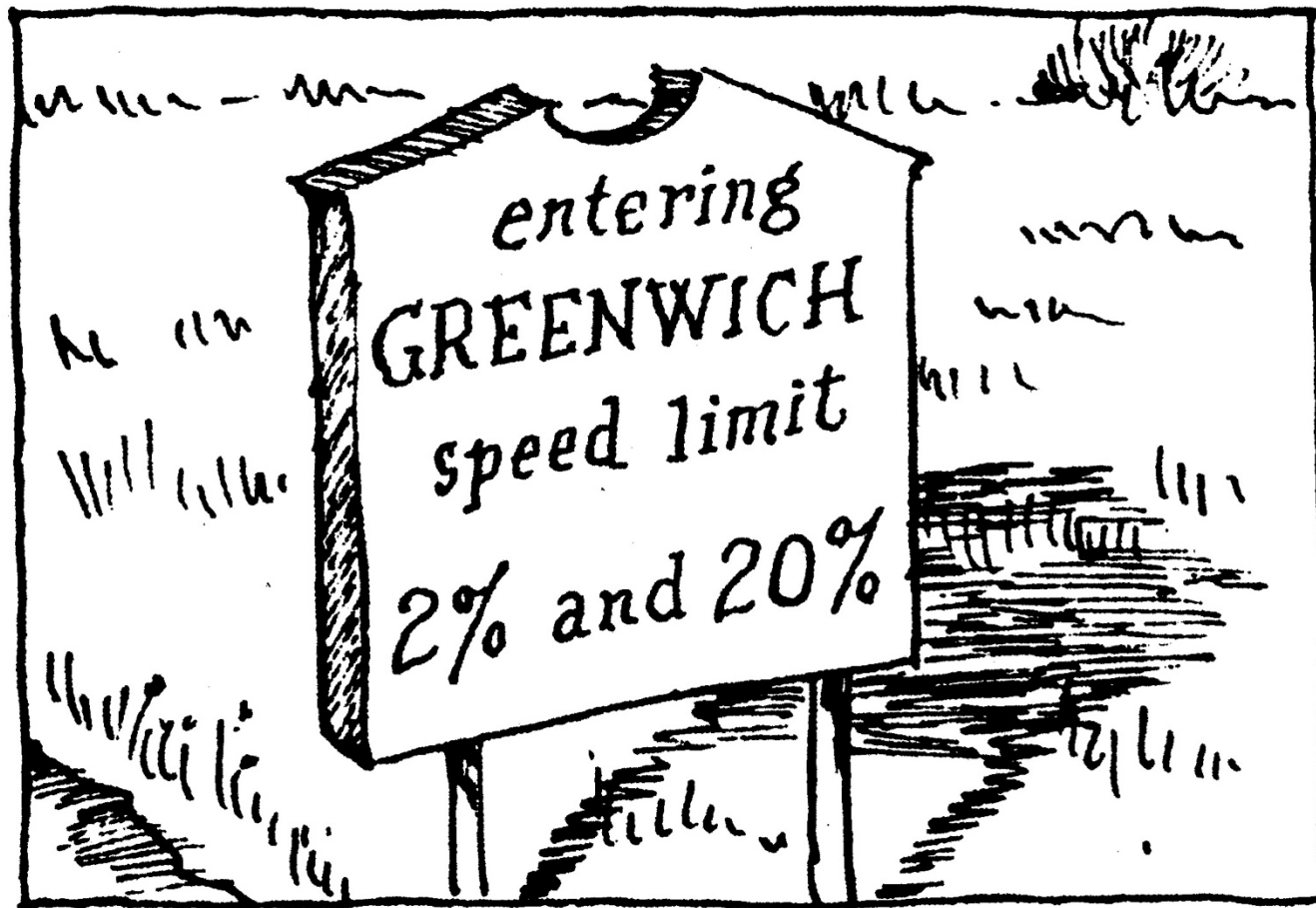
- **Artificial Intelligence (*huge emergence!*)**
- **Auto or Credit Card Loans (collateralization)**
- **Commodities (e.g., oil/gas, gold/silver, corn/wheat)**
- **Crypto (BlackRock, Fidelity, GS, JPM, MS!)**
- **Currencies (FX, G10, etc.)**
- **I.P. – Patent Licensing and/or Litigation**
- **Life Settlement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

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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**

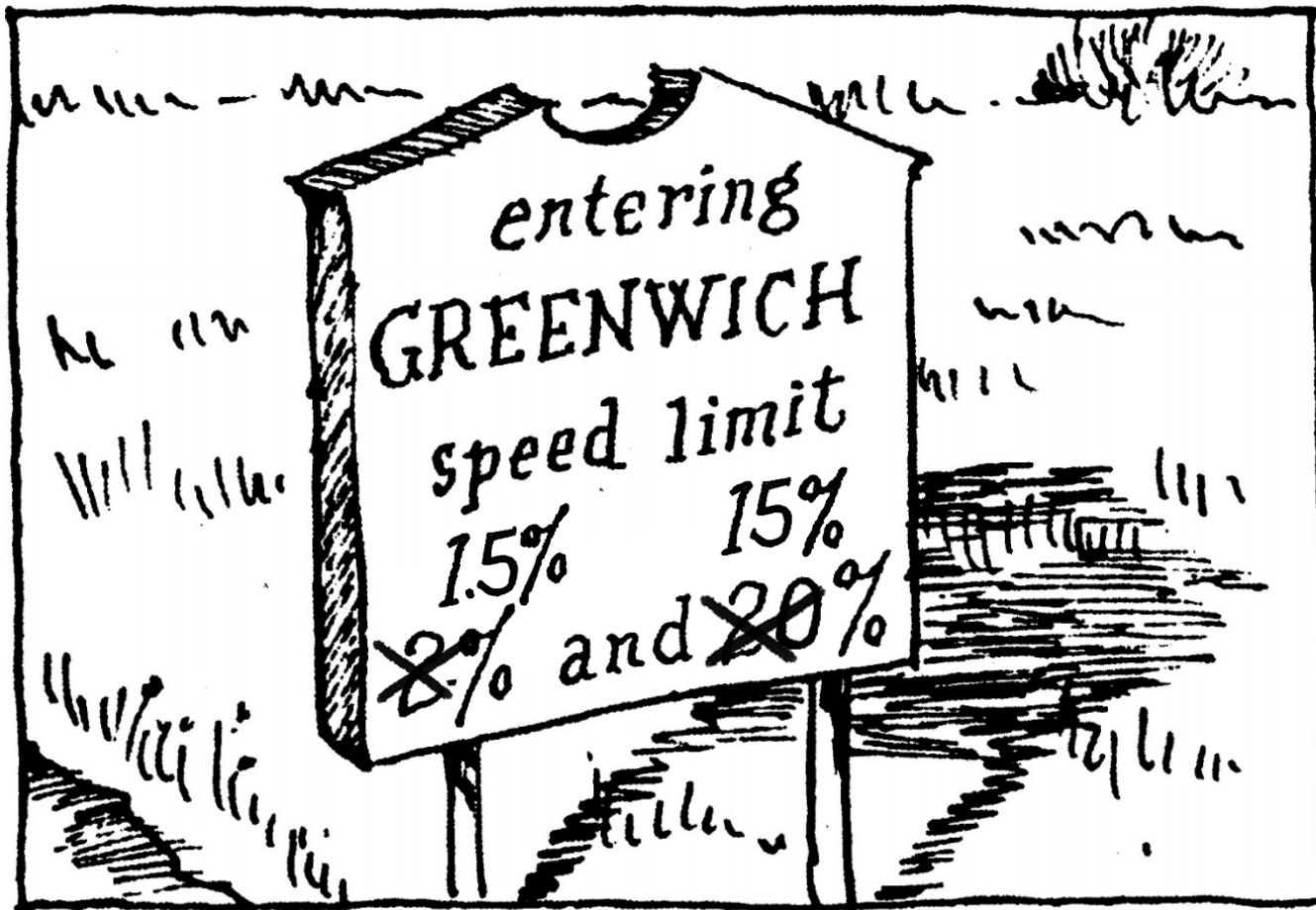
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- **Lots of “Quantitative Easing” (Easy Money and Very Low Interest Rates) Post the 2008-2010 Financial Crisis**
- **Most HF’s Cannot “Outperform” the S&P in a Straight Up Bull Market**
- **So, Hedge Fund Fees Came Down**
- **But, Then Came 2023! S&P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

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

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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?**

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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?**

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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)**

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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?**

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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.

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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”)!**

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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 off first!**
- **Dinner – Don't be your boss' conversation!**

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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 Philly 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!



Wharton Q&A:

- 1. How would you recommend breaking into the industry for someone from a quantitative (but not business) background?**
 - A. Learn as much as you can about hedge funds, both generally and especially regarding quant.*
 - B. Learn and become highly proficient at the most common hedge fund quant programming languages (e.g., C++, Java, MATLAB, Python).*
 - C. Network extensively.*
 - D. Get a hedge fund internship and mentor.*

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2. What are trends you see in newer hedge fund/private equity firms that you believe determine their success?

- A. HF's: The ever-increasing use of quant and AI.*
- B. PE: The continued growth of private credit, and the expansion into new fields and niches (e.g., social media influencer expansion financing!)*

3. How have recent advances in LLMs and AI influenced the way funds approach investing or research? And looking ahead, how do you see the industry evolve as AI continues to evolve?

I worked in AI for many years, and the advances of LLMs are staggering! Funds are using both off-the-shelf and custom AI, and “turning them loose”.

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4. How does a typical LP presentation go? What aspects of your fund will be most important for LPs?

Presentation: *(A) Always first ask the investor for an update (get info!), (B) Fund Introduction, (C) Fund Detailed Presentation, and (D) Q&A.*

Important: *(A) Track Record, (B) Management Team, (C) Infrastructure, (D) Service Providers*

5. How did you know that you would be able to excel at fundraising? I'm also interested, but have only been exposed to the idea--not even process--during internships in PE and VC.?

Luck! Totally fell into it. I had several friends that had operating companies and hedge funds, and I just discovered that I was very good at fundraising.

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6. How do you convince large institutional investors to invest millions of dollars of their capital?

You cannot “convince” investors to do anything, especially to invest \$50, \$100 or \$250 million! Rather, you have to build a very high-quality fund, team and track record, and implement best practices. And also hire a great top fundraiser!

7. What is the most interesting / unintuitive trend in the markets that you’ve noticed recently?

A. The very harsh and stark reminder that investors hate uncertainty (tariff flipflopping, etc.)!

B. Governments supporting cryptocurrencies.

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8. What is by far your biggest takeaway from all your years in the hedge fund space (could be technicals, psychological, or emotional takeaways)?

Risk is critical! Many huge firms (e.g., Bear, Lehman) and top funds (e.g., LTCM) have been destroyed by overconcentration and overleverage.

9. How does your background in law support your current role?

It helps me to much better understand hedge fund compliance, law, regulation, etc. But do not even think of going to law school, which is three years, unless you are going to practice law full time! You can learn enough hedge fund law on your own.

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- 10. What is the most important skill you look for in hedge fund and private equity job candidates?**
(A) Smart (obviously), (B) articulate, (C) has accomplished a lot, (D) has created things, and taken the initiative (HLS), (E) some personality, but not too much, (F) humility/maturity. I.e., someone who will do a great job, and not be a big PIA).
- 11. What lessons from Wharton have been most applicable in your career in finance?**
Most of what I studied at Wharton (economics and finance) are the fundamental “building blocks” of investing. The most valuable career lessons all have been “on the job training”, many discussed here.

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12. Best skills you learned in the industry?

- A. Work hard, and do excellent work (obviously).*
- B. But do the “A-” job, because the “A+” job will take you twice as long and far too much time.*
- C. If you are going to be late with something (it will happen!), definitely let people know in advance.*
- D. Take the initiative to create and do valuable approved projects that you were not asked to do.*
- E. Always do, on time, the “grunt” part of your job!*
- F. Network extensively, publish, and speak publicly.*
- G. Always carry business cards (not just QR code!).*
- H. At industry events, take notes on business cards!*
- I. Always carve out and set aside time to follow up!*

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13. Do you think the strong flow of LP dollars towards private credit will continue, or revert back to the mean (i.e., convergence between PE and credit LP commitments)?

I think that more PC has become the “new normal”, due to both (A) PC creativity (e.g., social media expansion capital!), and (B) more bank regulations.

14. What is the key factor in identifying successful Portfolio Managers?

Easy! Simply look up the funds that Benoni and I work with! Also, (A) their track record (obviously), (B) what their current/former peers say about them, and (C) how they navigated the most difficult markets.

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15. How has the increase in retail trading affected certain strategies that hedge funds used to employ? Are there any that have “washed away”?

A. Meme Stocks – Short HF’s are staying away.

B. Cryptocurrency – Huge retail speculation and trading has enabled experienced funds that are professionally run to make large returns (the varsity team playing in the freshman league!).

16. What are the next most important factors to success in your industry aside from the connections you developed throughout your career?

It really mostly boils down to (A) experience, (B) expertise/skills, (C) network, and (D) ability to grow firm revenues/profits (e.g., alpha, investors).

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17. What is one piece of advice you would give to a freshman just starting off learning all of this?

First, take a wide variety of classes, because you might discover something else that you like even more! Regarding hedge funds, (A) read a lot of hedge fund news and periodicals, (B) join and participate in industry associations, (C) intern, and (D) find a great mentor (just 15 minutes/month!).

18. What was the most pivotal moment in your career that shaped your investing philosophy?

Experiencing and living through the Great Recession of 2008-2009, and then the 2020 COVID meltdown.

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- 19. How do you evaluate the trade-off between short-term performance and long-term investment strategy?**
Institutional investors (and also most family offices) typically allocate to funds and managers for the long-term (Warren Buffett quote). That is, investors do not conduct months of due diligence just to redeem if a fund has a bad month or year. But all investors do have maximum short-term drawdowns!
- 20. What are some common mistakes that you see new analysts and associates make in HF's and PE?**
*A. "Fall in love" with a company, position or stock.
B. Not appreciate the critical need for risk controls.
C. Not knowing when to take profits (skill + art!).
D. Being totally "adrift" in their first bear market.*

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21. Given rising interest rates, how are you adjusting your portfolio or investment approach?

As always, interest rate changes make things a bit easier for some of our hedge funds and PE funds, and a bit more difficult for others. It depends on the fund and the strategy. But most still do well.

22. What's a market inefficiency that you believe is underappreciated right now?

I agree with the conventional wisdom that the most followed companies and markets have to be, and typically are, relatively efficient, at least most of the time. Hence, the greater alpha elsewhere (e.g., less followed companies and sectors, and niche private equity and private credit opportunities). Rothschild!

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23. How do you see the regulatory landscape evolving for hedge funds and PE over the next decade?

Quite clearly, the new administration is much more “light touch”, totally reversing the ongoing and recent trend of more regulation (e.g., BOI/CTA). And the incoming SEC Chairman also likely will be “light touch” too. After that, likely a reversion.

24. What has been your most unconventional or contrarian investment idea that paid off?

Usually the markets are largely accurate. So, most great investments are lots of hard work, research, and finding opportunities, rather than being “contrarian”. Also, the risk of “going broke before you are proven right.” (John Paulson almost did!).

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25. How do you assess the scalability of an investment strategy when launching a new fund?

For hedge funds, their scalability and investment “capacity” is largely a function of (A) the liquidity of the stocks or other financial instruments that are being traded, (B) the number of positions that are in the investment portfolio, and (C) the fund’s holding period, and its portfolio’s typical “turnover”.

26. What is one lesson about risk management that you learned the hard way?

I always have been focused on and sensitive to the need for prudent and sensible risk limits, so I did not need to learn them “the hard way”. But I have witnessed many firms (Bear, Lehman) that forgot.

27. How do you approach managing portfolio concentration versus diversification?

There have been a lot of studies regarding this. The answer depends upon (A) how many truly great investment ideas you have, (B) the volatility of the stocks, and (C) the amount of leverage you use.

28. What's your perspective on the role of activist investing in today's market?

For the two decades that I have worked with hedge funds and on Wall Street, activism (and also so-called "constructivism") always have been a legitimate and ever-increasing form of investing. And like all strategies, activist investing is a very unique and highly specialized skillset.



More Questions?



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