CO/INVESTOR CLUB

Hedge Funds

A hedge fund is a limited partnership where high net worth or accredited investors get their money managed by fund managers who are the general partners. A limited partnership (LP) is a partnership of two or more partners. There is the general partner, in this case, the hedge fund manager, who oversees and runs the hedge fund, while the limited partners, in this case, the investors, do not partake in managing the business. The general partners of an LP have unlimited liability and the limited partners have limited liability up to the amount of their investment in the partnership.

Hedge funds are alternative investments and usually charge higher fees than mutual funds, exchange traded funds, or other more standard types of investment accounts. They are considered more illiquid as they often require a lock-up period. Hedge funds cannot usually accept money from anyone who is not an accredited investor. Accredited investors are individuals with an annual income that exceeds $200,000 or a net worth, excluding their primary residence, of $1 million or more.

The strategies used by hedge funds cover a range of investment ideologies and risk tolerances. Hedge funds can invest in equities, real estate, fixed income, commodities, currencies, and derivatives. The typical fees associated with hedge funds are called “2 and 20,” with a 2% management fee based on the net asset value of each investor’s shares and a 20% performance fee for profits.

When considering investing in a hedge fund, one should inquire about the strategies the fund uses and the risks that are common alongside those strategies. It is essential to understand the fund manager, the fees associated with participation, and the manager’s past performance.

20 Best-Performing Hedge Funds of All Time