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HEARD ON THE STREET

Trimming Hedge Fees

By **GREGORY ZUCKERMAN**
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When the going gets tough, the weak cut fees. At least that is the approach of Camulos Capital, which is offering to roughly halve its fees in a bid to retain clients after a 20% decline this year.

A general price war isn't likely. Top hedge-fund performers will turn up their noses at cutting fees, a move usually viewed as a desperate cry for help. After all, investors want the best managers, not the cheapest.

But smaller and less-established funds should reconcile themselves to pressure on fees, which look especially extravagant in a lower-return environment. Indeed others sitting on losses also are discussing fee reductions to bring in new money.

How should this work? A dirty secret of the hedge funds is high management fees, usually 2% or more of assets. Sure, there are computers to buy and support staff to pay. But for most large equity-focused funds, a 1% management fee easily covers costs. The rest usually lands in the pockets of the hedge-fund manager, who also enjoys a 20% incentive fee on the returns generated.

Camulos, a \$2.5 billion fund, will cut its management fee to 1.25% while also halving the incentive fee to 10% for two years. Others, in a less challenged position, might aim to mollify investors with just a management fee cut, while retaining the incentive portion.

After all, it has never made sense for hedge funds to command higher recurring management fees than mutual funds, as well as the hefty incentive fees that allow them to attract the best talent.

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