



Hybrid Structures

Hedge Fund Managers Turn to Hybrid Fund Structures to Reconcile Fund Liquidity Terms and the Duration of Assets

Jul. 5, 2018

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Many managers structure new funds so that the duration and liquidity of each fund matches as closely as possible the duration and liquidity of the assets in the fund's portfolio. For example, hedge funds that invest in less liquid assets – such as distressed debt, shares of private companies and real estate – may incorporate fund terms more traditionally associated with private equity funds.

These “hybrid” funds have several goals:

1. to avoid a disorderly liquidation of assets at inopportune times;
2. to align expectations, allowing investors to assess the fund's liquidity profile at the time of investment rather than after an investment is made; and
3. to do directly – retain assets and avoid sales at distressed prices – what various managers have been forced to do indirectly, via side pockets, gates, redemption suspensions and similar tools.

This article explores the rationale for employing a hybrid structure; the range of hybrid terms and structures (including components derived from traditional private equity and hedge fund models); and the strategies for which hybrids may be particularly well-suited.

See “[Beyond the Master-Feeder: Managing Liquidity Demands in More Flexible Fund Structures](#)” (May 25, 2017); and “[How Can Liquid Hedge Funds Be Structured to Accommodate Investments in Illiquid Assets?](#)” (Feb. 3, 2011).

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