**Hedge Fund Project**

Student Name

Institutional Affiliation

Supervisor

Due Date

**Hedge Fund Project**

**Fund Structure**

The hedge fund targets the real estate sector, with the rise in the value of the sector. Investing in real estate means that the partnership will thrive with the increase in income. The need for proper housing has led to an increase in the investment in the sector, and the cost of construction is lower than the income to be achieved through the sale of properties. Understanding the demography, interest rates, the economy and government policies will facilitate the development of affordable projects with higher returns on investment.

The funds will facilitate the purchase of land and the development of the property (Wiljubrg *et al.*2018). Through the analysis on real estate, the findings were that individuals prefer to stay away from towns and industrial areas, therefore the best location for development should be out of town. Developing away from urban areas means that the land rates are lower reducing the overall cost of production. The financial analysis has shown that the returns of the project will double in considering the location of the projects. In analyzing the project, the hedge fund considered the legal policies binding hedge funds and has involved the relevant stakeholders in the fund.

Investing in the fund is secure considering the involvement of Barclays Capital as the prime broker in the investment. The uncertainties that come with real estate development are covered by the prime broker who will facilitate financing, clearing, and settlement of securities transactions, custodial services, and research when required. Covering these aspects will ensure the smooth running during the development of projects, therefore, minimizing the development cost by avoiding overrun cost. The executing broker will facilitate in ensuring the completion and processing of the real estate projects promptly and within the established policies and procedures. The fund has put into consideration all the service providers required for the smooth running of the fund and the selection is independent and free of bias.

**Fee structure**

The real estate projects aim at developing residential units and it is required that the investor contribute 1.5% of the real estate to facilitate the investment manager. The purpose is to compensate for the time and expertise used in managing the real estate development funds. In ensuring the management fees, the project will be managed professionally, therefore, ensuring quality results are achieved. Motivating the manager will boost the morale which in turn translates to the achievement of the desired goal on a timely basis. The development of real estate projects requires enough capital which translates to millions, and to ensure the security of the portfolio it is important to remunerate the manager who works towards the goal and objectives.

In setting the performance fee at 18%, the manager will work towards achieving the desired results (Montgomery *et al.* 2018). The performance fee acts as an extra motivation to the manager who will work hard to achieve extra profits. Real estate development gets returns during the construction and after the completion of the project, the sales team approaches viable clients who invest in the project. The purchase of the residential units during construction facilitates raising capital to ensure the completion of the project in time where the viable customers pay upfront for the residential units. Through selling the residential units, the manager working with the sales team ensures that the investor achieves a return on investment. The decrease below the watermark will lead to the team losing the performance fee which is the measure of the results.

**Subscription and Redemption Terms**

Subscription and redemption for the investors are set on an annual basis, this is because real estate projects are long-term projects. Considering that several projects will be developed, the fund strives to create a long-lasting relationship with the investor whose portfolio is high and there is a need to work as a unit to achieve the desired goals. Maintaining the relationship facilitates a good working relationship and builds trust between the parties involved in the project. The hedge fund has set the subscription fee at 50 million US dollars and the redemption fee stands at 10 million US dollars. Lock-ups stand at fifteen months from the initiation of the project, allowing for the company to generate profits that will enable the payback. In case the investor wishes to redeem them during the lock-up period, there is a penalty of 5% of the investment.

**Strategy**

The hedge fund's strategy is long/short equity focusing on real estate and property management. Through the acquisition of existing properties that are underperforming and the development of projects from scratch (Janoschka *et al.* 2020). Engaging in both keeps the hedge fund on track by ensuring that they operate with the market odds. The hedge fund invests through the publicly traded stock of existing real estate companies mainly the real estate investment trusts. It also operates through purchasing properties that are underperforming at low rates, these properties are located in different locations.

Diversification of the portfolio ensures that the fund maximizes profits and reduces risk. The fund achieves this thorough analysis of the industry by experts, this secures the investor's contribution to the investment. through maximizing profits, the fund manager is in a position to generate more income and the investor is assured of a return on investment. The hedge fund works towards ensuring reliability, risk management, and creating diversity. Decision-making is an important aspect of the investment, in this case, real estate development. To come up with the best result, fundamental and quantitative analysis is necessary for maximizing long-term returns for the investments.

Quantitative analysis helps in calculating financial ratios and determining the value of the investment and fundamental analysis facilitates in achieving the fair value of the investment.

**Companies fitting within the Strategy**

Angelo, Gordon, and Company is one of the largest real estate hedge funds and has adopted investment-grade securities strategies. The company has invested more than $35 billion in credit and real estate assets. Cerberus Real Estate Capital Management operates as a real estate hedge fund and is the subsidiary of Cerberus Capital Management. The hedge fund invests in debt and equity of commercial and residential properties and portfolios; it also invests directly in real estate operating companies. The company invests in direct equity, hybrid investments, distressed debt, and high-yielding senior loans.

**References**

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