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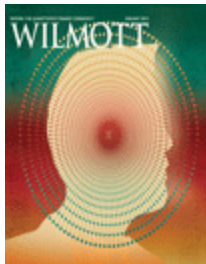
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HEDGE FUNDS

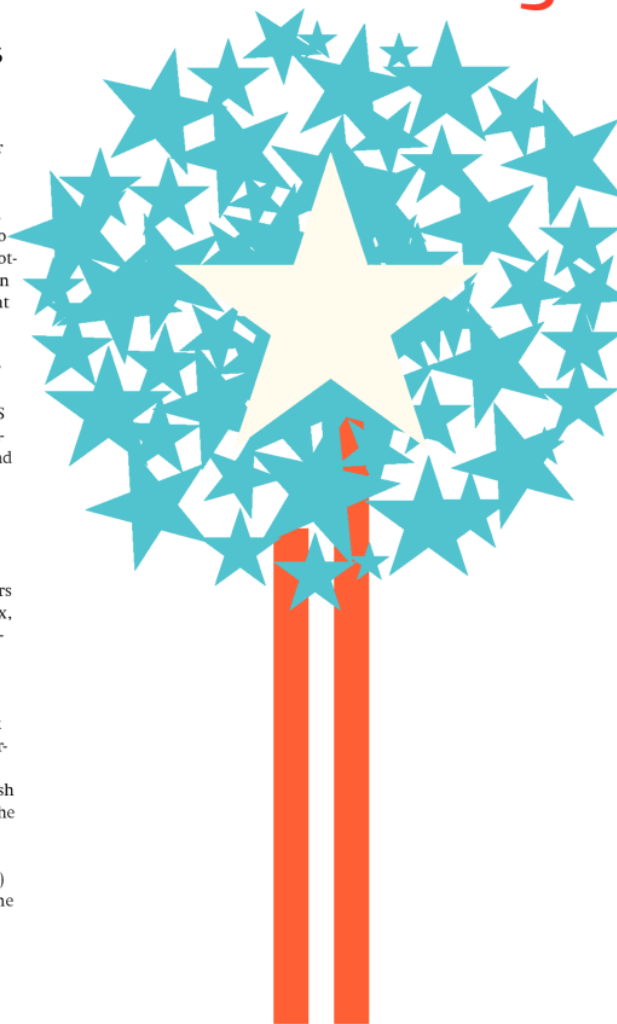
Despite recent law changes, the United States still offers a favorable environment for smaller hedge fund startups

Creating a hedge fund to protect and manage your assets or the assets of others for a fee is a practical way to earn a living. Successful hedge funds continue to attract the wealthy, the working not-so-wealthy, businesses, and pension funds looking for better investment options. Despite recent law changes, the United States still offers a favorable environment for smaller hedge fund startups. The purpose of this article is to highlight key US hedge fund development and planning issues of interest to hedge fund sponsors worldwide.

Why the United States?

Even if you are based in another country, consider forming a US hedge fund. The United States offers easy low-cost access to the legal, tax, accounting, retail, and institutional brokerage, and the regulatory services needed by a hedge fund sponsor to organize a hedge fund. Despite what some investors think about the purported negativity surrounding the United States, many more investors continue to establish US-based hedge funds because of the minimal expenses associated with starting a US hedge fund. Hedge fund sponsors (i.e., the organizer(s) of the hedge fund) based outside the

Strategic Hedge Fund Planning



United States are usually surprised and delighted to learn about the “light touch” of US regulation and low costs associated with forming a US hedge fund.

How long does it take to start a hedge fund?

It really depends on the particular circumstances because no two funds (including the people who want to start them) are completely alike. In the United States, companies can be formed in a matter of just a few minutes. For example, in the State of Florida, a company can be formed over the Internet in less than 10 minutes for about \$120 USD. In the United States, no minimal capital is needed to form a company. Even a US tax identification number (i.e., EIN or “employer identification number”) can be obtained quickly from the US Internal Revenue Service over the Internet.

In general, and assuming no registration is required, the average US hedge fund takes about four weeks to organize and launch, including the time needed to prepare offering documents and arrange for the hedge fund’s bank and brokerage accounts.

Minimal legal infrastructure needed

To start a US hedge fund, you generally need to form two business entities: the hedge fund and its investment manager. The hedge fund is typically set up as either a Delaware Limited Partnership (LP) or Limited Liability Company (LLC). For tax reasons, hedge fund sponsors based in New York or Texas should consider setting up three companies: the hedge fund, the investment manager, and a management company. The investment adviser can be set up as an LLC, or as some other type of business entity in

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