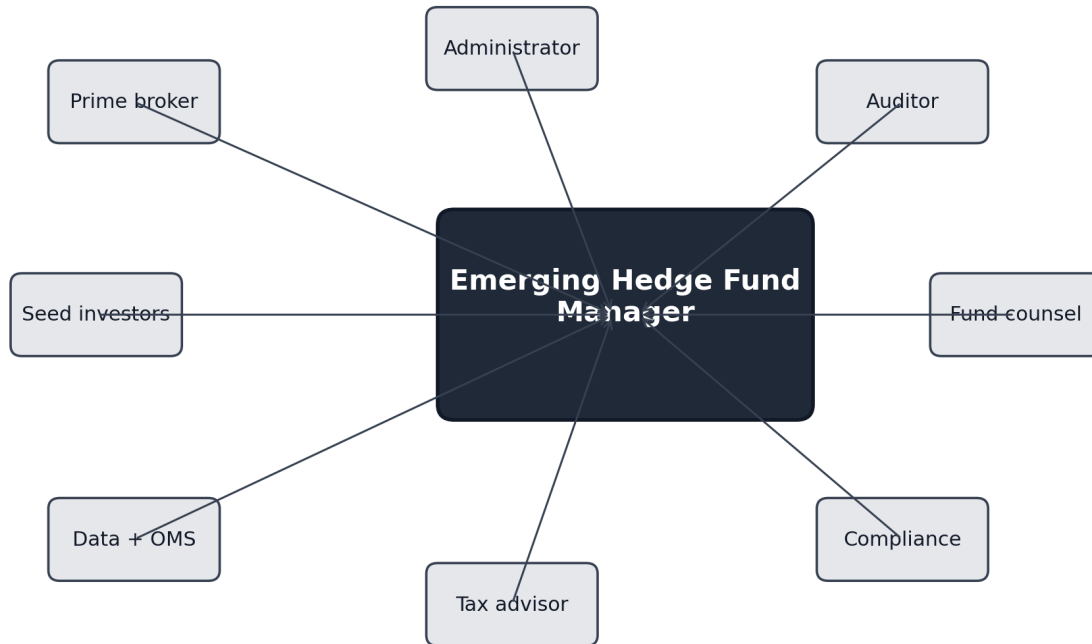


Wall Street Hedge Fund Launch Business Plan

A practical founder execution manual for launching, structuring, operating, and raising capital for an emerging hedge fund manager in the United States



Launch credibility is built by independent controls around a focused investment edge.

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Important note: This report is a strategic business planning document, not legal, tax, investment, or regulatory advice. A hedge fund sponsor must retain qualified fund counsel, tax advisers, compliance consultants, and auditors before soliciting investors or trading capital.

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1. Founder Conclusion: The Realistic Launch Thesis

The practical answer is that an emerging Wall Street hedge fund should not begin by trying to look like Citadel, Millennium, Point72, or a diversified multi-strategy platform. It should begin as a narrow, liquid, verifiable investment business that can explain exactly why it should exist, why the edge is repeatable, why losses will be contained, and why investors can trust the operating infrastructure before the manager has institutional scale.

For a first fund, the strongest default launch thesis is a focused public-markets strategy: a liquid equity long/short fund with catalyst-driven, special-situation, or event-aware research, low-to-moderate leverage, hard exposure limits, independent administration, annual audit, clean monthly reporting, and a founder whose own capital is meaningfully invested. This strategy is understandable to family offices, high-net-worth investors, RIAs, fund-of-funds analysts, and eventually institutional allocators. It requires skill, but it does not require the impossible infrastructure burden of a full multi-strategy, high-frequency quant, complex volatility, or distressed credit platform.

The 2026 market context is favorable but unforgiving. HFR reported global hedge fund industry capital at an all-time peak above \$5.22 trillion in Q1 2026, after the industry surpassed \$5 trillion at year-end 2025 [S17][S18]. That does not mean emerging managers will easily raise money. It means allocators accept hedge funds as a portfolio tool, while most new money still favors managers with established risk controls, infrastructure, reputation, and proven capacity. The founder therefore has to sell a controlled business, not merely a good idea.

Launch recommendation: Build a Delaware private fund complex targeting \$10 million to \$25 million in anchor capital for a controlled soft launch, \$50 million to \$75 million by month 12, \$100 million to \$150 million by month 24, and institutional readiness only after at least 18 to 24 months of clean performance, reporting, operational controls, and investor references.

The founder should measure success by capital trust milestones rather than headline performance. A 15 percent return with uncontrolled gross exposure, weak attribution, no audited statements, and vague compliance is less fundable than a 7 percent return with transparent risk, repeatable process, independent NAV, clean audit, and monthly investor reporting.

Minimum Viable Hedge Fund: What Must Be True Before Launch

Requirement	Investor-grade standard	Why it matters
Strategy definition	A one-page investment mandate with eligible securities, expected holding period, liquidity, target gross/net exposure, concentration limits, and portfolio construction rules.	Investors fund repeatable process, not vague intelligence.
Founder edge	A clear explanation of information advantage, analytical advantage, execution advantage, or behavioral advantage, backed by examples.	Capital allocators need to believe the return source can persist after capital arrives.
Track record	Ideally 24 to 36 months of portable performance, account statements, risk reports, and attribution. If unavailable, create a documented incubator account before scaling.	The first institutional objection will be: prove the edge before you charge fees.
Risk controls	Daily exposure report, position limits, stop-loss review triggers, liquidity buckets, drawdown rules, and independent administrator NAV.	Operational credibility is the first gate in serious due diligence.
Legal documents	PPM, LPA or operating agreement, subscription agreement, Form D process, compliance manual, privacy/cyber policies, valuation policy, code of ethics, and marketing review workflow.	Bad documents make a good strategy uninvestable.
Service providers	Fund counsel, prime broker or introducing broker, administrator, auditor, tax adviser, compliance consultant, OMS/PMS, data vendors, and cybersecurity support.	Allocator trust is borrowed from the institutional quality of the ecosystem around the founder.

2. Nature of the Hedge Fund Business and Category Distinctions

A hedge fund is not primarily a product. It is a private investment operating company that sells trust in a manager to generate risk-adjusted returns under a defined mandate. The business combines four engines: investment alpha, risk survival, operational credibility, and investor relations. A founder who lacks any one of these engines will struggle to raise or retain capital.

Business type	Core activity	Capital source	Liquidity	Return engine	Regulatory and business posture
Hedge fund	Actively trade or invest in public or liquid private markets using long/short, derivatives, leverage, hedging, or arbitrage techniques.	Accredited investors, qualified purchasers, family offices, RIAs, funds of funds, institutions.	Usually monthly/quarterly subscriptions and quarterly/annual redemptions with notice; gates or side pockets possible.	Absolute return, downside control, alpha, convexity, diversification.	Private fund exemption plus adviser regulation; heavy investor due diligence.
Traditional asset manager	Manage long-only portfolios, mutual funds, ETFs, SMAs, model portfolios.	Retail, institutional, retirement platforms, advisers.	Usually daily or platform-driven liquidity for registered products.	Benchmark-relative performance, asset allocation, scale fees.	Registered fund and adviser regulation; distribution and brand scale.
Private equity firm	Acquire controlling or influential stakes in private companies, improve operations, exit through sale or IPO.	Institutional LPs, pensions, sovereign funds, endowments, family offices.	Long lockups, often 8 to 12 years.	Illiquidity premium, leverage, operational improvement, multiple expansion.	Private fund structure; intensive deal, tax, and portfolio company work.
Family office	Manage capital for one or several wealthy families.	Family balance sheet.	Flexible, based on family needs.	Capital preservation, tax, estate, direct deals, lifestyle and legacy goals.	Not necessarily a public capital-raising business; may avoid adviser registration depending on facts.
RIA	Provides investment advice for compensation; may manage SMAs, portfolios, or private funds.	Individuals, institutions, private funds.	Depends on account or fund.	Advice, asset allocation, planning, manager selection, portfolio management.	Adviser registration or exemption; fiduciary obligations; Form ADV for registered advisers [S1][S8].

The key difference is that a hedge fund founder must prove two things simultaneously: the ability to make money and the ability not to lose investor trust. Many managers can pitch an idea; very few can survive drawdowns, maintain discipline, communicate transparently, and pass operational due diligence while still generating returns.

The Hedge Fund Revenue Reality

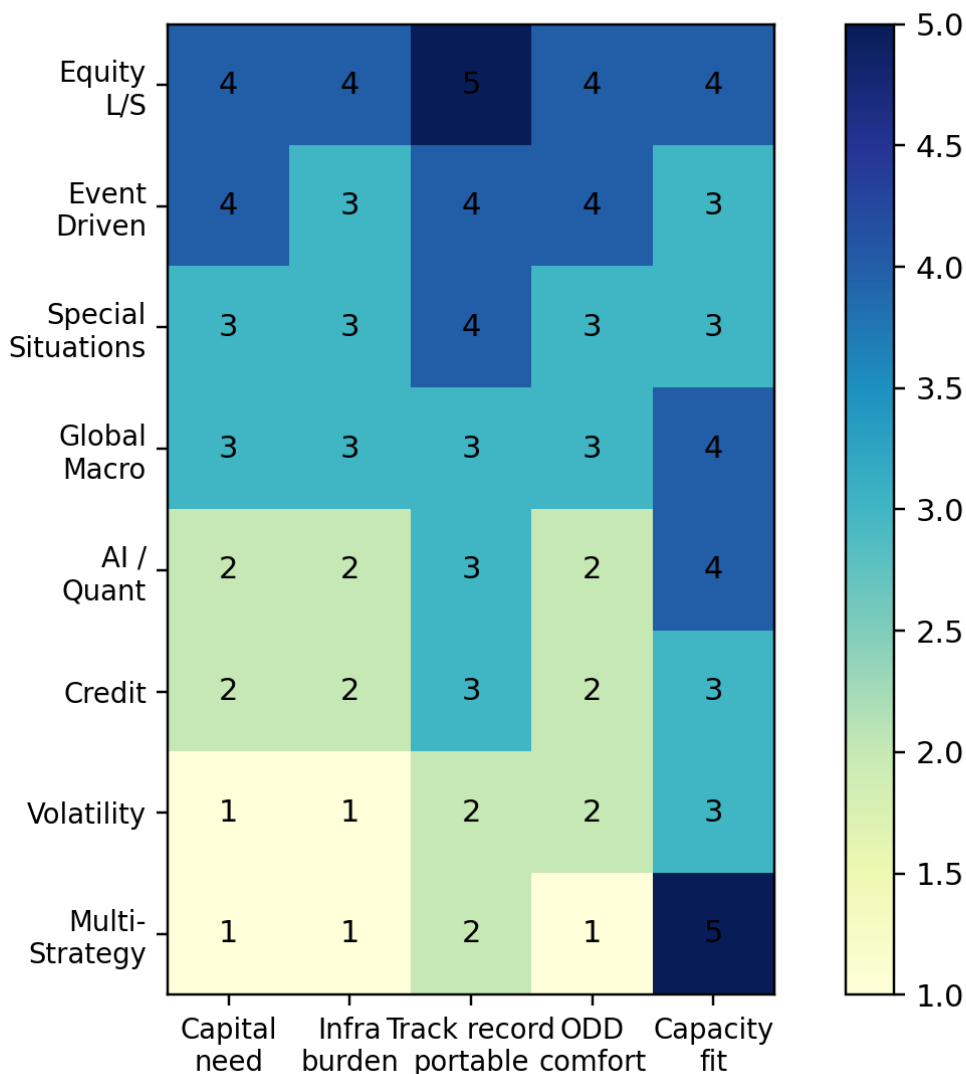
The old 2-and-20 fee model is not the default for emerging managers. Founders should assume fee pressure and design the business to survive mostly on management fees, with incentive fees treated as upside. A practical founder model is 1.25 percent to 1.50 percent management fee and 15 percent to 20 percent performance allocation, with founders class terms such as 1-and-15 or 0.75-and-15 for early anchor investors. Performance fees must be structured around qualified-client rules if the adviser is registered or otherwise subject to Advisers Act performance fee restrictions; the SEC adjusted qualified-client dollar thresholds effective June 29, 2026 to \$1.4 million AUM with the adviser or \$2.7 million net worth [S10].

A launch budget that depends on incentive fees is fragile. Incentive fees arrive only if performance exists, loss carryforwards are cleared, high-water marks are exceeded, and investors do not redeem. Management fees are the base operating revenue; incentive fees are the entrepreneurial payoff.

3. Investment Strategy Selection for an Emerging Manager

The central strategic decision is not what sounds attractive; it is what can be credibly diligenced by investors with limited data. An emerging manager should choose a strategy where the founder can demonstrate a repeatable edge, where liquidity permits clean risk control, where service providers can support the instruments, and where early AUM is not too small to execute.

Emerging Manager Strategy Feasibility Score (1 = weak, 5 = strong)



Practical Strategy Ranking

Strategy	Emerging-manager feasibility	Best launch condition	Main obstacle	Practical verdict
Equity long/short	High	Founder has sector expertise, variant perception, short discipline, portfolio/risk process, and access to differentiated research.	Crowded market; many allocators are skeptical of generic L/S beta.	Best default if positioned narrowly and measured against factor and beta exposures.

Strategy	Emerging-manager feasibility	Best launch condition	Main obstacle	Practical verdict
Event-driven	Medium-high	Founder can analyze mergers, spin-offs, restructurings, activism, index events, regulatory outcomes, or litigation catalysts.	Deal breaks, timing risk, legal complexity, capacity limits.	Good if combined with equity L/S and hard sizing rules.
Special situations	Medium	Founder has niche sourcing and can exploit forced selling, balance-sheet complexity, litigation, corporate actions, or small/mid-cap neglect.	Liquidity and mark-to-market pain.	Attractive wedge but must avoid illiquid private-equity-like positions in a hedge fund wrapper.
Global macro	Medium	Founder has a demonstrated macro process, liquid instruments, disciplined risk, and experience trading rates, FX, equity indices, commodities, or ETFs.	Allocators dislike story-driven macro without a track record.	Possible, but start simple and risk-budgeted; avoid discretionary hero trading.
Credit	Medium-low	Founder has real credit underwriting, restructuring, loan/bond experience, and access to data and legal analysis.	Liquidity, marks, covenant analysis, dealer relationships, side pockets, and default workouts.	Difficult unless founder has institutional credit record and patient capital.
AI / quant	Medium-low	Founder has verified research stack, clean data pipeline, live paper-trading evidence, reproducible code, and infrastructure.	Data cost, overfitting, tech risk, short live record, hard explainability.	Viable only if the edge is narrow and explainable; avoid buzzword positioning.
Volatility	Low	Founder has options-market experience, margin systems, stress testing, and counterparty support.	Tail risk, margin calls, model risk, investor fear after losses.	Not recommended for first-time launch unless it is the founder's proven specialty.
Multi-strategy	Very low	Team has multiple proven PMs, risk office, capital, prime brokerage support, and institutional allocators.	Too much complexity, high fixed cost, no credible institutional comparison.	Do not launch as multi-strategy. Build a focused book first.

Recommended Wedge: Liquid Catalyst-Driven Equity Long/Short

A practical launch mandate is a liquid catalyst-driven equity long/short strategy with special-situations overlay. The book should concentrate on 25 to 45 positions, mostly U.S. listed equities, with an explicit sector focus where the founder can establish authority. The portfolio can include longs in underappreciated quality or change stories, shorts in deteriorating balance sheets or crowded narrative stocks, and event positions around earnings inflections, strategic reviews, spin-offs, index inclusions, regulatory rulings, litigation milestones, capital allocation changes, or management transitions.

This wedge is fundable because it gives investors a comprehensible due diligence object. They can review investment memos, position history, performance attribution, risk limits, drawdown behavior, exposure reports, and monthly letters. It also keeps the operational stack manageable: listed securities, prime brokerage custody, standard administrator NAV, audited financials, and conventional legal documents.

Strategy Guardrails for Launch

Guardrail	Founder launch standard
Universe	U.S. listed equities and liquid ADRs; ETFs and index futures only for hedging; options only if documented and small.
Position count	25 to 45 core positions; no single long above 8 percent NAV at cost; no single short above 4 percent NAV at cost.
Gross exposure	Target 120 percent to 180 percent; hard maximum 220 percent during first 12 months unless investor-approved.

Guardrail	Founder launch standard
Net exposure	Target 20 percent to 70 percent net long; hard range -10 percent to 90 percent.
Liquidity	At least 85 percent of portfolio liquid within five trading days under conservative volume assumptions.
Drawdown controls	At -5 percent monthly drawdown: risk review; -8 percent from high-water mark: reduce gross by 25 percent; -12 percent: freeze new risk and notify investors; -15 percent: formal risk committee review.
Short book	No binary fraud-only shorts without catalyst; borrow availability and cost checked before trade; no position where borrow recall could create uncontrolled loss.
Options / derivatives	Permitted only for hedging or defined-risk expressions with pre-trade scenario analysis.
Investor reporting	Monthly NAV, performance attribution, exposure summary, top contributors/detractors, risk exceptions, and concise letter.

4. Investment Edge, Track Record, Research, Risk, Leverage, and Loss Control

A hedge fund edge must be stated in operational language. Investors will not fund generic claims such as disciplined process, deep research, proprietary insights, or AI-enhanced analysis unless those claims are converted into observable behavior, repeatable decision rules, and past examples.

Investment Edge Framework

Type of edge	What it means	Evidence investors will ask for	Weak version to avoid
Information edge	Better, faster, or more structured collection of legally obtained information.	Research logs, channel checks, expert networks with compliance controls, primary research notes, differentiated data.	Rumors, insider-looking language, vague network claims.
Analytical edge	Superior interpretation of public data, accounting, incentives, industry structure, or policy.	Investment memos, forecasts versus actuals, attribution by thesis, examples of variant perception.	Generic valuation screens.
Behavioral edge	Ability to exploit forced selling, crowding, neglect, panic, indexing flows, or career-risk-driven mispricing.	Case studies showing entry, sizing, holding period, and exit discipline.	Contrarianism without catalyst.
Execution edge	Better sizing, hedging, liquidity management, short borrow management, or trading discipline.	Trade blotter review, slippage data, borrow-cost history, post-trade analysis.	Uncontrolled turnover or concentration.
Operational edge	Ability to deliver clean reporting, independent NAV, prompt audit, and transparent risk.	Service-provider references, monthly reporting packages, audited statements.	Belief that operations can be fixed after capital is raised.

Track Record: What Counts and What Does Not

The best track record is a portable record from a recognized institution where the founder had clear responsibility for decisions and risk. The second best is a separately managed account, proprietary account, or incubator fund with third-party statements, daily or monthly returns, and position-level attribution. The weakest evidence is a backtest, unaudited model portfolio, selective trade examples, or a newsletter history. Backtests may support research but do not substitute for risk-bearing capital.

Track-record type	Fundraising value	How to package it
Institutional PM record	Very high if attributable and verified.	Obtain permission where possible; prepare attribution, risk, drawdown, capital allocation, and role explanation.
Incubator fund or SMA	High if third-party verified and strategy-consistent.	Use administrator or custodian reports; create monthly tear sheets and audit if feasible.
Personal account	Medium if complete and strategy-consistent.	Avoid cherry-picking. Provide full account statements and explain limitations.
Model portfolio	Low-medium.	Use as research history only; clearly label as non-trading record.
Backtest	Low.	Provide methodology, costs, slippage, survivorship-bias controls, and live transition plan.

Research Capability

For a founder-led hedge fund, research must be institutionalized before scale. Each position should have a written memo with thesis, valuation, catalyst, variant perception, risk, expected return, downside case, liquidity, borrow status for shorts,

factor exposure, and exit rules. Each month, the founder should review every position against its thesis rather than against price movement alone.

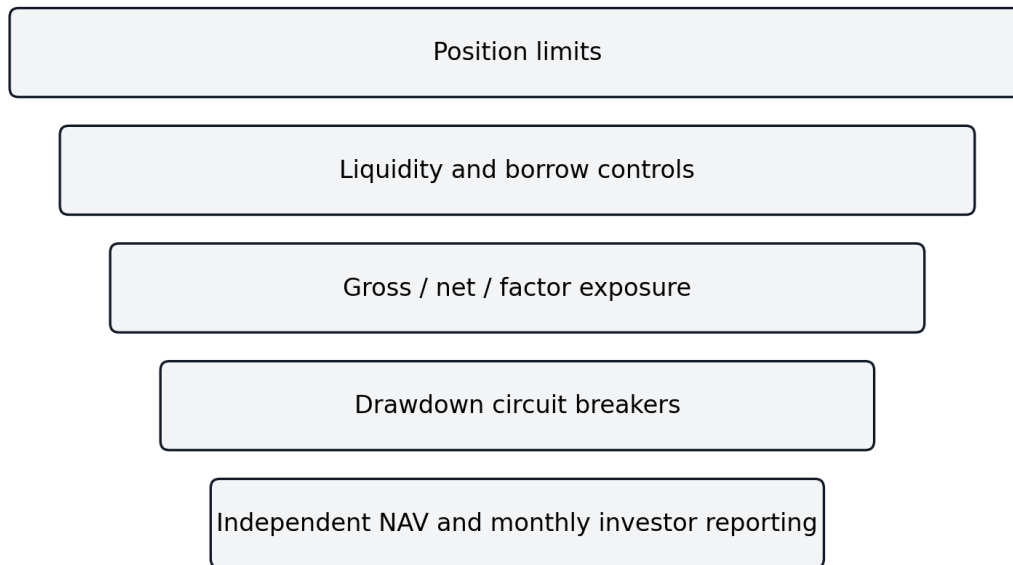
Research artifact	Minimum content	Investor due diligence use
Investment memo	Thesis, business model, catalyst, variant perception, valuation, downside, sizing, exit rules.	Shows process consistency and decision discipline.
Pre-mortem	What would make the idea fail; observable disconfirming evidence.	Shows humility and loss-control mindset.
Position update	New information, price action, estimate changes, risk changes, sizing action.	Shows monitoring discipline.
Post-mortem	Original thesis versus outcome; error type; process change.	Shows learning loop.
Research calendar	Earnings, conferences, regulatory dates, litigation milestones, macro events.	Shows operational control over catalyst timing.

Portfolio Construction Method

The emerging manager should run a portfolio where position sizing is based on expected return, downside risk, liquidity, correlation, catalyst certainty, and thesis maturity. Equal conviction should not mean equal size. A liquid, asymmetric idea with clear catalyst can be larger than a high-upside idea with binary risk. Shorts must generally be smaller than longs because loss potential, borrow recalls, and squeeze risk are asymmetric.

Portfolio rule	Launch standard
Core long sizing	2 percent to 6 percent at cost; maximum 8 percent for highest-conviction liquid ideas after risk review.
Core short sizing	1 percent to 3 percent at cost; maximum 4 percent for highly liquid, borrow-secure, non-binary shorts.
Event position sizing	Size to downside probability; merger or legal outcomes should be sized by expected loss, not headline spread.
Cash	Keep 5 percent to 15 percent cash or equivalents to manage redemptions, margin, and dislocations.
Sector exposure	No sector above 35 percent gross without explicit investor disclosure and risk justification.
Factor exposure	Monitor market beta, size, value, momentum, quality, rates sensitivity, and crowding.
Liquidity bucket	Daily report showing one-day, five-day, and ten-day liquidation estimates under volume limits.

Risk System Must Be Fundraising Evidence, Not Only Internal Control



Allocator test: Can the manager explain every loss, every exposure, and every exception before being asked?

Leverage Principles

Leverage is not a badge of sophistication. It is a claim on the future liquidity of the fund. An emerging manager should use leverage only when the investment process has demonstrated loss control. Early leverage should be limited, transparent, and tied to liquidity. Gross exposure can be used as a portfolio construction tool; borrowing to rescue losing positions should be prohibited.

- **First 6 months:** gross exposure target 100 percent to 150 percent; hard cap 175 percent unless hedging requires temporary increase.
- **Months 6 to 12:** gross target 120 percent to 180 percent; hard cap 220 percent if drawdown is below 5 percent and liquidity tests are passed.
- **After month 12:** leverage policy may expand only after investor notice, administrator reporting support, prime-broker margin analysis, and risk committee approval.
- **Prohibited behavior:** doubling down to protect ego, using short-dated options to recover losses, borrowing against illiquid positions, hiding factor exposure through derivatives, or relying on expected inflows to meet margin.

Loss-Control Standards

Loss control must be pre-committed. Investors know losses will occur; they want to know how the manager behaves when wrong. The fund should distinguish between normal volatility, thesis impairment, risk-limit breach, liquidity event, and operational error. Each category should trigger a specific action.

Loss event	Trigger	Required action
Single-position adverse move	Long down 15 percent from cost or short up 10 percent from cost.	Update memo within 48 hours; re-underwrite thesis; hold/add/reduce decision documented.
Monthly drawdown	Fund down 5 percent in a month.	Reduce new risk, review factor exposure, communicate if material drivers are unusual.

Loss event	Trigger	Required action
Peak-to-trough drawdown	Down 8 percent.	Reduce gross by 25 percent unless documented hedges caused loss and exposures are under limits.
Severe drawdown	Down 12 percent.	Freeze new discretionary risk, notify key investors, convene adviser/risk review.
Critical drawdown	Down 15 percent or more.	Formal capital preservation mode; consider temporary trading reduction; investor call.
Operational error	Trade, NAV, valuation, compliance, or cyber incident.	Escalate to CCO/counsel/admin; document cause and remediation; disclose if material.

5. U.S. Legal Structure and Regulatory Launch Map

The standard U.S. hedge fund architecture separates the investment manager, general partner, and fund vehicle. The fund sells limited partnership interests or membership interests in a private placement. The adviser manages the fund under an investment management agreement. The GP or managing member controls the fund entity and usually receives the performance allocation. Investors subscribe through documents that verify eligibility, representations, risk acceptance, tax information, and AML/KYC information.

Base Entity Structure

Entity	Common form	Role	Founder action
Investment manager	Delaware LLC or home-state LLC registered/qualified as needed.	Receives management fee; employs team; enters advisory agreement with fund.	Form before marketing; obtain EIN; operating agreement; bank account; insurance.
General partner / managing member	Delaware LLC.	Controls fund; receives performance allocation/carried interest.	Separate from manager to isolate economics and liabilities.
Domestic fund	Delaware limited partnership or Delaware LLC.	Accepts U.S. taxable investors and some tax-exempt investors depending on structure.	Use Delaware LP for classic GP/LP structure; final choice with counsel.
Offshore fund	Cayman exempted company or LP, often in master-feeder structure.	Accepts non-U.S. and U.S. tax-exempt investors seeking blocker treatment.	Do not launch offshore until investor demand justifies cost.
Master fund	Delaware/Cayman vehicle in master-feeder.	Aggregates trading for domestic and offshore feeders.	Usually phase two after anchor demand.

3(c)(1), 3(c)(7), and Investor Eligibility

Most hedge funds avoid registration as investment companies by relying on Investment Company Act exclusions under Section 3(c)(1) or 3(c)(7). SEC materials describe private funds as pooled vehicles excluded from investment company status under these sections [S1]. In practical launch terms, 3(c)(1) is the common initial structure because it can accept accredited investors subject to owner limits. 3(c)(7) is more institutional because investors generally must be qualified purchasers, which raises the investor threshold and improves institutional signaling but narrows the initial capital pool.

Choice	Practical meaning	Best use	Founder warning
3(c)(1)	Generally up to 100 beneficial owners; investors are typically accredited investors; performance fee rules may require qualified clients depending on adviser status and facts.	First fund targeting HNW, family offices, RIAs, and smaller allocators.	Do not overfill with tiny checks; investor count is scarce capacity.
3(c)(7)	Investors are qualified purchasers; can support a much larger investor base.	Institutional, family office, and sophisticated capital base.	Harder initial fundraising because QP threshold excludes many HNW investors.
Hybrid / parallel	May run separate 3(c)(1) founders fund and later 3(c)(7) institutional fund.	Useful when early capital is HNW but later capital is institutional.	Requires careful allocation, conflicts, and documentation.

Private Placement: Regulation D

The offering is normally conducted under Regulation D, most often Rule 506(b) if the founder is relying on pre-existing substantive relationships and does not want public solicitation. Rule 506(b) allows unlimited capital raising from accredited investors but prohibits general solicitation [S3]. Rule 506(c) permits general solicitation, but all purchasers must be accredited investors and the issuer must take reasonable verification steps [S4]. A first-time fund should usually start with 506(b), because most serious allocators want controlled, relationship-driven access rather than social-media-style fundraising.

Investment Adviser Registration: RIA or ERA

The adviser registration analysis is fact-specific. SEC materials state that private fund advisers are generally required to register with the SEC or state regulators unless an exemption applies, and that size and investment activities generally determine registration requirements [S1]. U.S. advisers solely to private funds with less than \$150 million in private fund assets under management in the United States may rely on the private fund adviser exemption from SEC registration, but may still be Exempt Reporting Advisers and may have state-level obligations [S2]. Form ADV is the core registration/reporting framework for registered advisers and includes private-fund adviser concepts such as umbrella registration [S8].

Status	When relevant	Practical obligations	Founder decision
State-registered adviser	Adviser below SEC threshold and not exempt under state law.	State registration, exams, filings, compliance obligations.	Review home state and investor states with counsel.
Exempt Reporting Adviser	U.S. adviser solely to private funds with less than \$150mm in U.S. private fund AUM, if conditions met.	File limited Form ADV reports; still subject to anti-fraud rules and investor diligence.	Likely first analysis for sub-\$150mm private-fund launch.
SEC Registered Investment Adviser	Generally required above thresholds or if no exemption applies.	Form ADV, compliance program, code of ethics, books/records, custody, marketing, exams.	Often necessary as the fund scales or by investor demand.

Current 2026 Regulatory Notes

- The Fifth Circuit vacated the SEC private fund adviser rules in 2024; the founder should not assume those vacated rules apply as adopted, but should expect investors and exam staff to keep asking about fees, side letters, preferential terms, conflicts, and reporting [S13].
- On April 20, 2026, the SEC and CFTC proposed amendments to Form PF that would raise the filing threshold for all filers to \$1 billion and raise the large hedge fund adviser threshold from \$1.5 billion to \$10 billion, but the proposal is not a final rule as of this report date [S11][S12].
- FinCEN postponed the effective date of the Investment Adviser AML Rule from January 1, 2026 to January 1, 2028. Even so, prime brokers, administrators, banks, and institutional investors will still expect KYC, sanctions screening, beneficial ownership diligence, and source-of-funds controls [S14].
- CFTC/NFA analysis is required if the fund uses futures, swaps, commodities, or certain derivatives. CFTC Regulation 4.13 contains CPO registration exemptions, and NFA requires annual affirmation of certain CPO/CTA exemptions within 60 days after year-end [S15][S16].
- The SEC Marketing Rule governs adviser advertisements and performance presentation; SEC staff FAQs emphasize restrictions around showing performance results unless requirements are satisfied [S6][S7].

Core Legal Documents

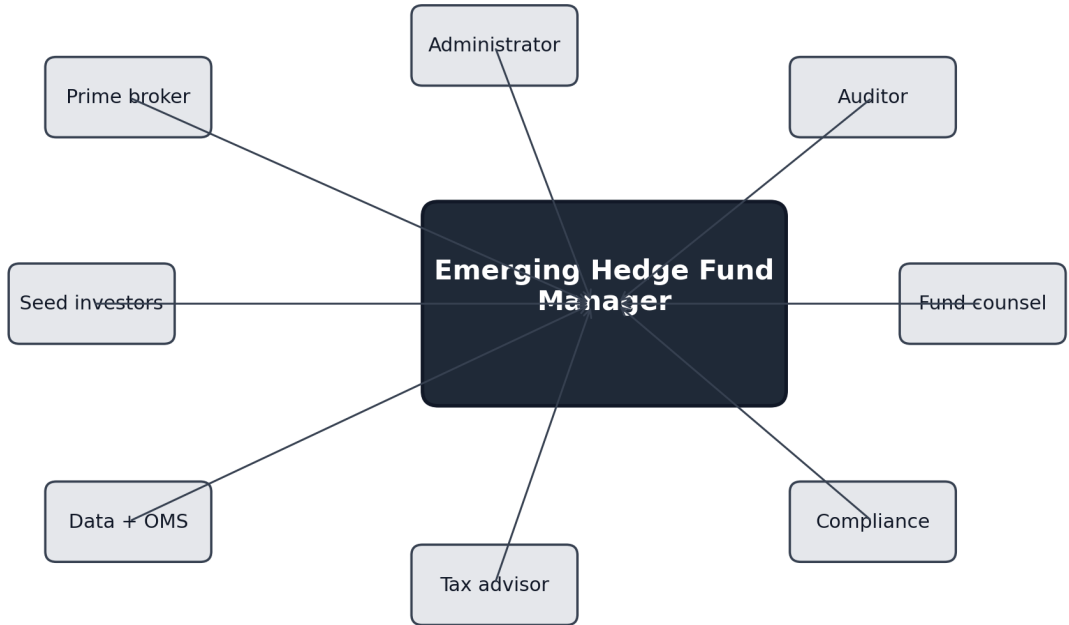
Document	Purpose	Founder standard
Private Placement Memorandum (PPM)	Risk disclosure, strategy, fees, conflicts, terms, management, tax, ERISA, legal notices.	Specific to actual strategy and operations; no boilerplate promises.
Limited Partnership Agreement / Operating Agreement	Governs fund economics, withdrawals, allocations, GP authority, valuation, expenses, gates, side pockets, indemnification.	Must match PPM and subscription documents exactly.
Subscription Agreement	Investor representations, eligibility, AML/KYC, tax forms, privacy, ERISA, investor questionnaire.	Create clean workflow for capital calls, acceptance, and investor files.
Investment Management Agreement	Authorizes manager to manage portfolio and receive fees.	Defines authority, fees, liability, termination, and conflicts.

Document	Purpose	Founder standard
Compliance Manual	Policies on trading, code of ethics, personal trading, MNPI, marketing review, cybersecurity, valuation, privacy, gifts, political contributions.	Should reflect actual workflow, not generic binder.
Valuation Policy	Methods for pricing listed securities, thinly traded names, derivatives, fair value, side pockets.	Administrator and auditor must be able to execute it.
Side Letter Policy	Controls preferential liquidity, MFN rights, reporting, fee terms, capacity rights.	Avoid uncontrolled promises that poison future fundraising.
Form D / Blue Sky filings	Private offering notice filings after first sale and state filings.	Calendar and counsel-managed; no missed deadlines.

6. Wall Street Partner Selection and Operating Infrastructure

The founder cannot self-certify institutional quality. The operating stack is how the market validates the fund. Prime broker, administrator, auditor, law firm, compliance consultant, and tax adviser are not back-office vendors; they are trust infrastructure. A smaller but reputable provider that understands emerging managers is better than an elite provider that gives the fund little attention.

Partner	Selection criteria	Red flags	Launch recommendation
Prime broker	Balance-sheet strength, securities lending, margin terms, short borrow, capital introduction, reporting, startup desk, custody workflow.	Unclear margin policy, weak borrow desk, no startup support, hidden financing costs.	Interview at least three; negotiate minimums and reporting deliverables.
Fund administrator	Independent NAV, investor allocations, subscriptions/redemptions, financial statements support, tax package coordination, SOC reports.	Manual processes, slow closes, weak investor portal, poor hedge-fund expertise.	Choose before accepting capital; administrator NAV is allocator credibility.
Auditor	PCAOB/recognized fund practice, hedge fund experience, responsiveness, tax coordination.	No private-fund practice, late audit timing, unfamiliar with complex securities.	Audited statements are a fundraising asset.
Fund counsel	Private funds practice, SEC/CFTC knowledge, side-letter discipline, practical startup budget.	Generic corporate counsel, boilerplate documents, no capital-raising awareness.	Counsel should map structure, offering, adviser status, and marketing rules.
Compliance consultant	ADV/IARD support, manual, testing calendar, email review, marketing review, annual review, mock exams.	Template-only manual, no testing, no escalation process.	Engage before pitch deck distribution.
Tax adviser	Partnership tax, K-1s, trader tax issues, state tax, offshore/blocker planning, carried interest.	No hedge fund tax expertise.	Design tax workflow before accepting tax-exempt or offshore investors.
Data vendor	Market data, fundamentals, estimates, transcripts, corporate actions, borrow/short data where needed.	Consumer-grade data for institutional decisions.	Start lean; avoid data subscriptions that exceed evidence value.
Trading platform / OMS	Order capture, allocations, restrictions, compliance, FIX connectivity, audit trail.	Spreadsheet trading without audit trail.	Even small funds need clean trade records.
Risk system	Exposure, factor, liquidity, stress, drawdown, concentration, scenario reports.	Only P&L; tracking; no pre-trade risk.	Can begin with robust third-party/prime reports plus internal dashboard.
Capital introduction	Introductions to family offices, seeders, consultants, platforms.	Promises of capital; pay-to-play vibes.	Useful but not a substitute for founder-led fundraising.



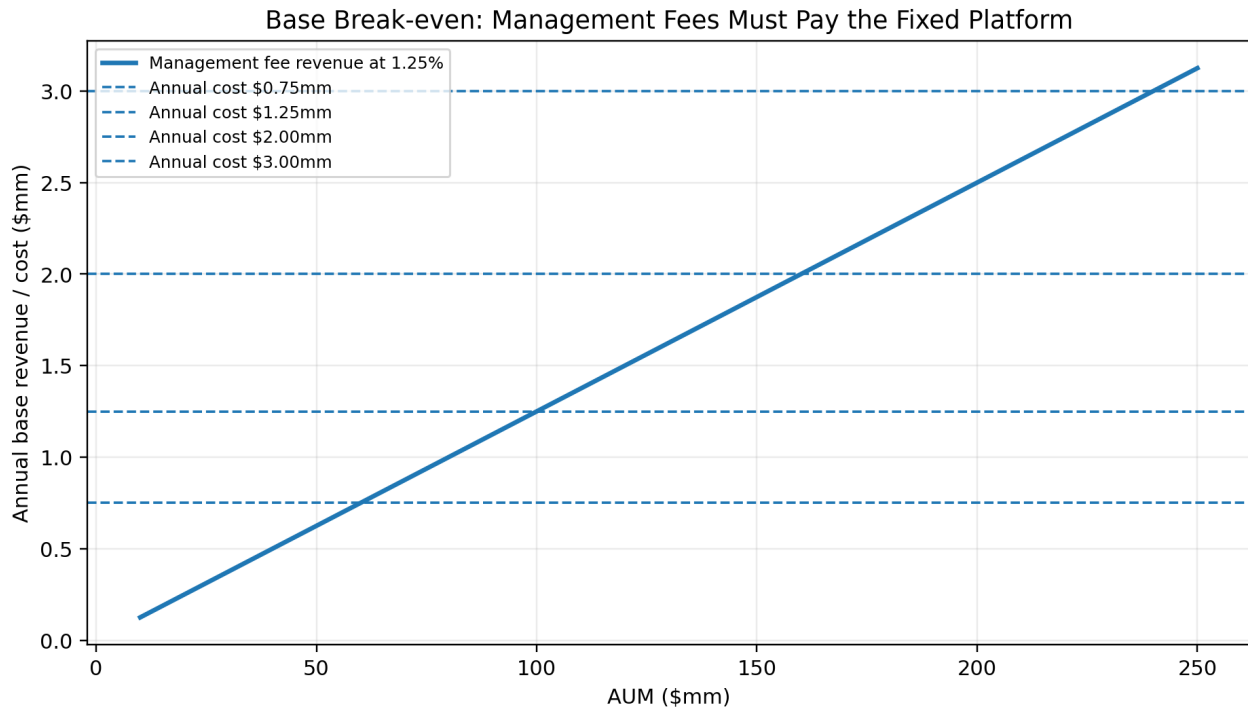
Launch credibility is built by independent controls around a focused investment edge.

Minimum Operating Stack by Launch Stage

Stage	AUM	Operating stack
Pre-launch	0 to \$5mm committed	Fund counsel, draft documents, compliance consultant, entity formation, pitch materials, research archive, personal/incubator track record, administrator proposals, prime broker discussions.
Soft launch	\$10mm to \$25mm	Executed fund documents, administrator live, prime brokerage/custody live, audit engagement, tax engagement, Form D/blue sky process, monthly report template, risk dashboard.
Credible emerging manager	\$25mm to \$75mm	Dedicated operations support, formal DDQ, investor portal, cyber policy, valuation committee, quarterly investor calls, audited statements, compliance testing.
Institutional candidate	\$100mm to \$250mm	Richer reporting, independent risk analytics, stronger CFO/COO function, consultant database presence, referenceable investors, operational due diligence package.

7. Capital Requirements, Cost Structure, Fees, and Break-even AUM

The economics of an emerging hedge fund are brutal because fixed costs arrive before revenues. A founder should not launch unless personal capital, seed capital, or committed management-company runway can fund at least 18 months of operations without relying on incentive fees. The fund should be launched only when the founder can afford to say no to bad capital, bad terms, and strategy drift.



Realistic AUM Milestones

Milestone	AUM target	Meaning	Capital-raising interpretation
Legal launch	\$5mm to \$10mm	Technically possible to launch, but economics weak.	Do only if founder has personal runway and strong pipeline.
Soft launch	\$10mm to \$25mm	Can trade and build live record with controlled costs.	Good for friends/family, HNW, first family offices.
Credible emerging manager	\$50mm to \$75mm	Management fees begin to support institutional infrastructure.	Can approach more family offices, RIAs, smaller funds of funds.
Break-even platform	\$75mm to \$125mm	Can support lean team, audit, admin, data, compliance, and founder salary.	Still fragile if fees are discounted.
Institutional conversation	\$150mm to \$250mm	Operational due diligence becomes more realistic.	Consultants and larger allocators may watch seriously.
Durable boutique	\$300mm+	Business has franchise value if performance and retention hold.	Can hire analysts and expand capacity carefully.

Three-Year Cost Structure

Cost category	Year 1 lean launch	Year 2 credible build	Year 3 institutional readiness
Personnel	Founder minimal salary plus one analyst/ops hybrid: \$250k-\$500k	Founder, analyst, ops/controller, part-time CCO support: \$500k-\$900k	Founder, 1-2 analysts, COO/CFO or controller, IR support: \$900k-\$1.6mm

Cost category	Year 1 lean launch	Year 2 credible build	Year 3 institutional readiness
Legal and compliance	Formation, docs, filings, compliance manual: \$125k-\$300k	Ongoing compliance, side letters, marketing reviews: \$100k-\$250k	Mock exam, policies, additional funds/accounts: \$200k-\$400k
Administration and audit	Admin, audit, tax: \$100k-\$250k	Admin/audit/tax with more investors: \$175k-\$350k	More complex statements, investor reporting: \$275k-\$600k
Data, research, OMS, risk	Lean Bloomberg/data stack plus OMS/risk: \$100k-\$300k	Expanded datasets, research tools: \$200k-\$500k	Institutional risk/reporting stack: \$400k-\$900k
Office, technology, cyber, insurance	\$75k-\$200k	\$150k-\$300k	\$250k-\$500k
Marketing and investor relations	Pitch materials, travel, CRM, events: \$50k-\$150k	Family office/RIA roadshows: \$125k-\$300k	Consultant databases, conferences, IR content: \$250k-\$600k
Total realistic range	\$700k-\$1.7mm	\$1.25mm-\$2.6mm	\$2.3mm-\$4.6mm

Fee Model Choices

Fee model	Use case	Pros	Cons
1.5% / 20%	Strong track record and capacity constraint.	Signals confidence and supports business.	Harder for unknown founder; fee resistance.
1.25% / 15%	Default emerging manager institutional-friendly model.	More fundable; enough base revenue at scale.	Requires larger AUM for break-even.
Founders class 1% / 15%	First \$25mm-\$50mm for early believers.	Creates urgency and rewards early risk.	Do not over-discount permanent economics.
Seed deal with revenue share	Strategic seed investor provides \$25mm-\$75mm plus support.	Solves launch capital and credibility.	Can be expensive: revenue share, capacity rights, governance limits.
Hurdle / fulcrum variants	Sophisticated allocators or fee-sensitive channels.	Aligns better with investor outcomes.	Complex documents and administration.

Break-even Logic

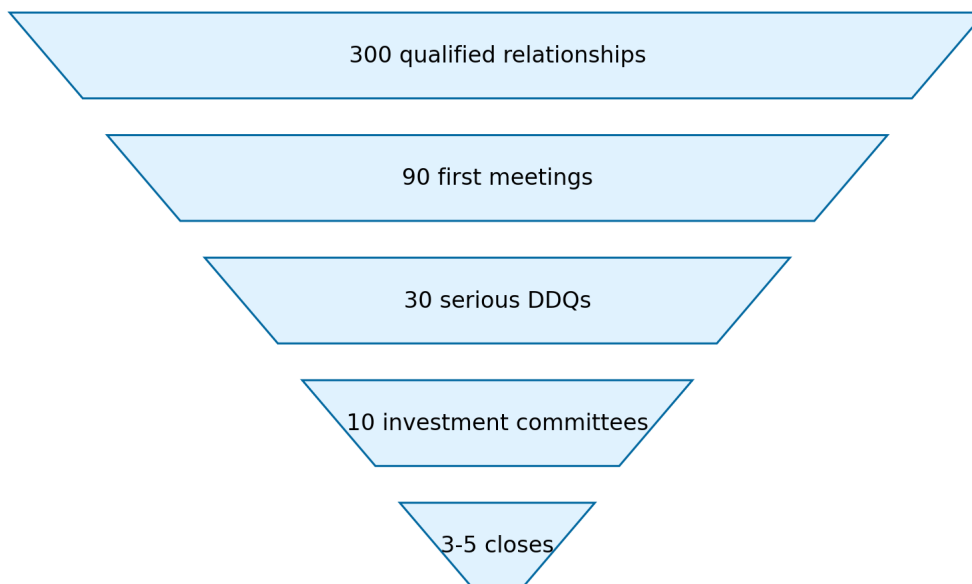
At a 1.25 percent management fee, \$50 million AUM generates only \$625,000 of annual base revenue before expenses. That is not enough for a serious institutional platform. At \$100 million AUM, base revenue is \$1.25 million, enough for a lean but still constrained business. At \$150 million, base revenue is \$1.875 million, which can support a stronger team and reporting stack. Therefore the founder should treat \$100 million to \$150 million as the real survival target, not as a vanity milestone.

Incentive fees can transform the economics, but they cannot be budgeted as fixed operating revenue. A fund that earns 10 percent net before incentive fee on \$100 million with a 15 percent performance allocation may generate \$1.5 million of incentive compensation, but a flat year generates zero. The operating company must survive flat years.

8. Capital Raising Strategy and Investor Due Diligence Standards

Capital raising is the core business process of a hedge fund startup. It is not a final step after the strategy is built. The founder must design the strategy, documents, reporting, and operating stack around the question: what evidence would cause a skeptical investor to wire capital?

Capital Raising Funnel for a First-Time or Emerging Manager



Investor Segment Strategy

Investor segment	What they want	Minimum evidence	Best approach
Founder capital / close network	Trust in founder, simple terms, downside honesty.	Personal capital invested, clean documents, clear risk controls.	Use only appropriate accredited/qualified investors; avoid casual fundraising language.
High-net-worth investors	Access, confidence, founder relationship, understandable strategy.	Simple deck, monthly reporting sample, risk limits, service providers.	Educate carefully; avoid overpromising returns.
Family offices	Process, alignment, niche edge, capacity, downside plan.	DDQ, track record, references, admin/audit, detailed strategy memo.	Target single-family offices first; multi-family offices may require more process.
RIAs / wealth platforms	Client suitability, liquidity, reporting, low headline risk.	Audited financials, operational setup, risk language, fee clarity.	Position as diversifier with controlled volatility; platform approval takes time.
Funds of funds	Repeatable alpha, ODD pass, capacity, manager maturity.	Full DDQ, risk reports, attribution, compliance record, service provider references.	Good year-two target after live record.
Institutional allocators	Institutional process, scale, team depth, low operational risk.	24-36 month record, \$100mm+ AUM, audit history, team, risk system.	Do not waste early time unless warm anchor or seed process exists.

Seed Investor Acquisition Strategy

A seed investor is not merely the first large check. A real seed investor can provide anchor capital, operational credibility, risk oversight, investor introductions, and business runway. In exchange, seeders often seek economics such as revenue share, equity in the management company, capacity rights, fee discounts, most-favored-nation rights, or governance protections. The founder should compare the value of certainty versus the cost of permanent economics.

Seed path	Capital target	Economics	Best for	Risk
Founder-funded soft launch	\$5mm-\$15mm	No seeder economics.	Founder with capital and patient close network.	Slow growth; low external validation.
Family office anchor	\$10mm-\$50mm	Fee discount, capacity, transparency, sometimes revenue share.	Founder with direct trust relationship.	Anchor may demand too much control.
Professional seeding platform	\$25mm-\$100mm	Revenue share, equity stake, term rights, governance.	Institutional-quality founder with strong record.	Economics can cap long-term upside.
Strategic RIA platform	\$10mm-\$75mm over time	Platform fees, reporting, model allocation.	Strategy suitable for wealthy clients.	Slow diligence and client concentration.

Capital Raising Funnel and Conversion Math

For an unknown or emerging manager, a practical funnel may require 300 qualified relationships to produce 90 first meetings, 30 serious DDQ processes, 10 investment committee discussions, and 3 to 5 closes. The founder should treat investor outreach as a CRM-driven institutional sales process, not informal networking. Every investor should be tagged by type, qualification, ticket size, timing, objections, next step, and required evidence.

Stage	Founder activity	Conversion objective
Relationship mapping	Build list of qualified family offices, HNW networks, RIA gatekeepers, seeders, funds of funds, former colleagues.	300 qualified prospects.
First meeting	Explain strategy, founder edge, risk controls, terms, and why now.	90 investor conversations.
Diligence package	Send deck, one-pager, tear sheet, DDQ, service-provider list, legal summary, sample report.	30 serious DDQs.
Deep diligence	Provide attribution, risk data, memos, references, operations review, legal docs.	10 IC-ready investors.
Closing	Subscription documents, wiring, KYC/AML, side-letter negotiation, onboarding.	3-5 closes to reach \$10mm-\$25mm soft launch.

Due Diligence Standards Investors Require

AIMA describes its due diligence questionnaires as industry-standard templates for investors evaluating hedge fund managers and for managers reviewing service providers [S19]. AIMA also announced a 2025 edition of its investment manager DDQ with refinements to modular due diligence [S20]. An emerging manager should prepare its own DDQ before investors ask for it. The DDQ should be truthful, internally consistent, and supported by documents.

Investor diligence area	What they ask	What the fund should prepare
Firm and ownership	Who owns the manager and GP? Any outside economics? Any disciplinary history?	Ownership chart, bios, ADV/IARD status, disciplinary disclosures, conflicts log.
Investment process	How are ideas sourced, approved, sized, monitored, and exited?	Investment process memo, sample research memos, portfolio construction policy.
Risk management	What are gross/net limits, stress tests, liquidity controls, drawdown actions?	Monthly risk report, risk policy, exposure dashboard, exception logs.
Performance	What is the track record, attribution, volatility, drawdowns, benchmark/factor exposure?	Tear sheets, administrator statements, attribution tables, verified track record notes.
Operations	Who calculates NAV, holds assets, reconciles trades, approves expenses?	Administrator agreement, prime broker reports, reconciliation workflow.
Compliance	Who is CCO? What policies govern MNPI, personal trading, marketing, gifts, political contributions, cyber?	Compliance manual, code of ethics, marketing review log, annual testing calendar.
Valuation	How are securities priced? Who approves fair value?	Valuation policy, pricing hierarchy, valuation committee minutes.

Investor diligence area	What they ask	What the fund should prepare
Liquidity and terms	Subscriptions, redemptions, gates, side pockets, lockups, notice periods.	Term sheet, PPM/LPA excerpts, liquidity stress tests.
Service providers	Who are the PB, admin, auditor, counsel, tax adviser?	Service-provider list and contact-ready references.
Cyber and business continuity	How are systems protected? What happens if founder is unavailable?	Cyber policy, BCP, vendor backups, key-person plan.

Monthly Investor Report Template

Page	Content
1. Executive summary	Monthly return, YTD return, since-inception return, AUM, volatility, drawdown, gross/net exposure, top contributors/detractors.
2. Portfolio and risk	Sector exposures, factor exposures, long/short book attribution, liquidity, top positions range, concentration.
3. Investment commentary	What worked, what did not, thesis updates, new positions, exited positions, risk changes.
4. Transparency appendix	Performance table, terms, service providers, contact, compliance legend, important disclosures.

9. Brand Positioning: Trust Before Reputation

A new hedge fund does not have the luxury of reputation. It must manufacture trust through design. Trust is created when the founder says exactly what the fund does, proves that the operating stack is independent, communicates losses before investors ask, and avoids exaggeration. The best emerging-manager pitch is not: we are the next great Wall Street fund. It is: we are a tightly controlled, founder-led strategy with a narrow edge, transparent risk, independent infrastructure, and disciplined capital growth.

Differentiated Positioning Formula

Positioning component	Bad version	Good version
Market identity	Opportunistic multi-strategy hedge fund.	Founder-led catalyst equity long/short strategy focused on U.S. mid-cap industrial, financial, technology, or policy-sensitive companies.
Edge claim	Deep research and proprietary insights.	Repeatable process for identifying earnings inflections and corporate actions before consensus revisions.
Risk claim	We manage risk carefully.	Gross 120%-180%, net 20%-70%, no single long above 8%, no single short above 4%, -8% drawdown risk reduction.
Investor promise	High returns in all markets.	Liquid, transparent, risk-controlled exposure to mispriced corporate change and short-side deterioration.
Founder credibility	Wall Street experience.	Documented decision history, own capital invested, monthly attribution, independent NAV, annual audit.

Pitch Deck Structure

Slide	Investor question it must answer
1. One-sentence fund thesis	Why should this fund exist?
2. Founder credibility	Why should we trust this manager with capital?
3. Strategy and universe	What exactly will the fund buy, short, hedge, and avoid?
4. Edge and process	Why is the return source repeatable?
5. Portfolio construction	How will ideas become a portfolio?
6. Risk management	How will losses be contained?
7. Track record / incubator results	What evidence exists?
8. Operations and service providers	Who independently verifies NAV, custody, audit, tax, and compliance?
9. Terms and capacity	What are the fees, liquidity, lockup, minimum investment, and fund capacity?
10. Current opportunity set	Why now? What examples show current mispricing?
11. Founder alignment	How much personal capital is invested? How is compensation aligned?
12. Next step	What diligence package is available and what is the closing timeline?

Capital Raising Message Discipline

- Never guarantee performance, downside protection, institutional demand, or future capacity.
- Do not market backtests as actual performance; label hypothetical performance and comply with Marketing Rule requirements [S6][S7].
- Do not imply SEC approval, prime-broker endorsement, auditor endorsement, or administrator endorsement.
- Do not present a fund as institutional-grade until the operational facts support that claim.
- Use precise language: target, policy, process, limit, historical, unaudited, audited, hypothetical, estimated, preliminary.

10. Required Team Structure and Operating Cadence

The founder should not overhire before product-market fit, but also should not pretend one person can be CIO, trader, analyst, COO, CCO, CFO, IR head, and operations controller. The team should be staged around AUM and operational risk.

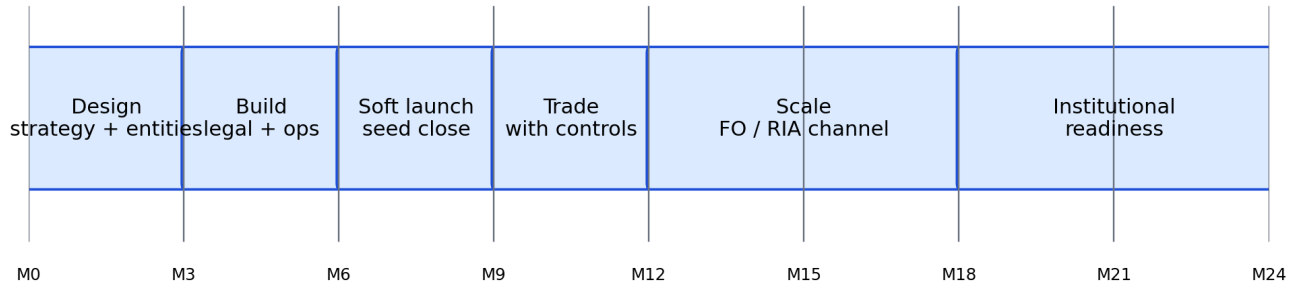
Stage	Team	What must be covered
Pre-launch	Founder/CIO plus outsourced counsel, compliance, admin proposals, tax, and part-time operations consultant.	Strategy, documents, pitch, entity formation, investor pipeline, track-record packaging.
Soft launch \$10mm-\$25mm	Founder/CIO, analyst or research associate, outsourced CFO/COO, compliance consultant.	Research, trading, daily reconciliation, monthly report, investor communication.
\$50mm-\$100mm	Founder/CIO, analyst, operations/controller, outsourced or part-time CCO, IR support.	Scalable reporting, DDQ response, service-provider management, pipeline maintenance.
\$150mm+	CIO, 1-2 analysts, COO/CFO, CCO/compliance lead, operations associate, IR/capital raising.	Institutional due diligence, deeper risk systems, investor relations, business continuity.

Weekly Operating Cadence

Cadence	Meeting or process	Output
Daily	Pre-market risk and liquidity check.	Exposure, cash, margin, borrow, news, catalyst calendar.
Daily	Post-trade reconciliation.	Trade blotter, breaks, allocation review, compliance restrictions.
Weekly	Investment meeting.	New ideas, thesis updates, exit reviews, short book review.
Weekly	Risk meeting.	Gross/net, factor, sector, liquidity, drawdown, stress tests, exceptions.
Monthly	Investor reporting close.	NAV, attribution, letter, exposure summary, compliance review.
Quarterly	Business review.	AUM pipeline, expenses, vendors, performance, team needs, compliance testing.
Annual	Audit, tax, compliance review.	Financial statements, K-1s, ADV updates, policy testing, investor annual letter.

11. 24-Month Roadmap and 100-Day Execution Plan

Do not institutionalize complexity before investors can verify process.



24-Month Execution Roadmap

Period	Execution priorities	Capital target	Evidence created
Months 0-3	Define strategy; build research archive; select legal structure; form entities; prepare pitch; begin investor mapping; interview service providers.	Soft-circle \$5mm-\$15mm.	Investment policy, risk policy, draft deck, provider term sheets, pipeline CRM.
Months 4-6	Finalize PPM/LPA/subscription docs; sign admin/PB/auditor/tax; launch compliance manual; prepare DDQ; secure first close.	\$10mm-\$25mm first close.	Live fund documents, operations workflow, first investor files, reporting template.
Months 7-12	Trade live with strict risk; publish monthly reports; hold quarterly calls; document every position; pursue family offices and RIAs.	\$25mm-\$75mm.	6-12 months live results, attribution, risk exceptions, investor references.
Months 13-18	Complete audit; improve risk analytics; add analyst/ops; deepen seed/fund-of-funds pipeline; refine capacity story.	\$75mm-\$125mm.	Audited financials, stronger DDQ, service provider references.
Months 19-24	Institutional-readiness push; consultant databases; larger allocators; possible 3(c)(7) or offshore feeder assessment.	\$100mm-\$150mm+.	24-month record, mature reporting, ODD package, business continuity plan.

100-Day Execution Plan

Days	Actions	Deliverables
1-10	Write the investment mandate; choose target strategy; define universe, limits, liquidity, fees, and investor type.	Two-page strategy mandate and one-page fund thesis.
11-20	Compile track record, trading examples, research memos, attribution, and founder biography.	Track-record book and founder credibility package.
21-30	Interview fund counsel, administrator, prime brokers, auditor, compliance consultant, tax adviser.	Provider comparison matrix and budget.
31-45	Form manager/GP/fund entities; draft PPM/LPA/subscription; build compliance manual outline; select administrator and PB.	Entity documents and legal draft set.

Days	Actions	Deliverables
46-60	Build pitch deck, DDQ, monthly report sample, risk dashboard, CRM.	Investor data room v1.
61-75	Hold 20-30 qualified investor discovery meetings; document objections; revise materials.	Objection map and revised deck.
76-90	Negotiate anchor terms; finalize offering docs; complete PB/admin onboarding; prepare Form D/blue sky workflow.	Closing checklist and first-close schedule.
91-100	Accept first capital only if docs, custody, admin, compliance, and reporting are live.	First close or delayed launch decision.

12. Failure Modes, Mistakes to Avoid, and Success Scenarios

Most hedge fund startups fail for business reasons before investment genius can matter. They launch with too little capital, poor investor targeting, excessive costs, weak operations, vague strategy, no credible track record, or a founder who cannot communicate under stress. The market is not short of fund ideas; it is short of managers whom investors can trust with uncertainty.

Common Failure Modes

Failure mode	What it looks like	Prevention
Under-capitalized launch	Fund starts with \$2mm-\$5mm, fees cannot pay bills, founder raises while distracted by trading.	Do not launch until capital, runway, and service providers are realistic.
Generic strategy	Deck sounds like every other long/short fund.	Narrow the edge by sector, catalyst, data, process, and risk.
No track record	Founder asks investors to fund a theory.	Run incubator/SMA record before launch if no portable record.
Operational shortcuts	No independent admin, weak audit, manual spreadsheets, unclear valuation.	Build institutional basics before first close.
Excessive leverage	Good months hide fragile risk; one shock damages credibility.	Keep leverage modest until live process proves itself.
Bad side letters	Early investors receive uncontrolled terms that future investors reject.	Use side-letter policy and counsel-controlled MFN process.
Founder ego	Refuses to cut losses, blames market, hides mistakes.	Pre-commit drawdown rules and transparent communication.
Wrong investors	Takes capital from people who need liquidity, do not understand risk, or require constant handholding.	Screen for suitability and expectations.
Compliance marketing errors	Uses testimonials, hypothetical performance, or public claims incorrectly.	Pre-clear marketing under Marketing Rule workflow [S6][S7].

Realistic Success Scenarios

Scenario	Assumptions	Outcome
Base success	Launch with \$15mm-\$25mm; 8%-10% annualized net return; max drawdown below 8%; clean audit; good monthly reporting.	Reach \$50mm-\$75mm by month 18 and become credible to family offices and funds of funds.
Strong success	Launch with \$50mm anchor; founder has portable record; first-year net return 10%+ with controlled volatility; strong references.	Reach \$150mm-\$250mm by month 24 and begin institutional conversations.
Slow but viable	Launch with \$10mm; returns modest but risk controlled; founder has strong content and reporting.	Survive to 24 months, then raise after audit and longer record.
Performance without trust	Returns strong but reporting weak, risk opaque, admin late, compliance casual.	Fundraising stalls despite returns.

Realistic Failure Scenarios

Scenario	Cause	Likely result
Capital starvation	Less than \$10mm after 12 months and no clear pipeline.	Founder shuts down or converts to SMA/advisory model.
Early drawdown	Down 12%-20% in first year with weak communication.	Redemptions, damaged references, failed second close.
ODD failure	Administrator, audit, valuation, or compliance gaps.	Serious investors stop diligence.

Scenario	Cause	Likely result
Strategy drift	Founder changes from equity L/S to macro/options/private deals to chase returns.	Investors lose confidence in mandate.
Bad economics	Seeder terms too expensive or early fee discounts permanent.	Management company has limited upside even if AUM grows.

13. Appendices

Appendix A - Launch Checklist

Area	Checklist
Strategy	Mandate, universe, portfolio construction rules, risk limits, liquidity policy, valuation policy, investment memo template, short policy.
Track record	Source data, account statements, attribution, risk metrics, drawdowns, benchmark/factor comparison, limitations disclosure.
Legal	Manager LLC, GP LLC, fund LP/LLC, PPM, LPA/operating agreement, subscription agreement, IMA, Form D, blue sky, privacy notices.
Regulatory	RIA/ERA/state analysis, Form ADV if required, Marketing Rule workflow, custody analysis, CFTC/NFA exemption or registration analysis, AML/KYC workflow.
Operations	Prime broker, administrator, auditor, tax adviser, bank account, OMS, trade allocation, reconciliations, expense approval, investor portal.
Compliance	Manual, code of ethics, personal trading, MNPI policy, gifts/entertainment, political contributions, cyber, BCP, email retention.
Capital raising	Deck, one-pager, DDQ, data room, CRM, investor qualification process, closing checklist, side-letter policy.
Reporting	Monthly report template, tear sheet, exposure report, attribution, risk exceptions, annual audit timeline, tax K-1 schedule.

Appendix B - Service Provider Interview Questions

Provider	Questions
Prime broker	What are minimum balances? What are margin terms? How is short borrow sourced? What reports are delivered daily? Can capital introduction help emerging managers? What happens in a stress period?
Administrator	How quickly is monthly NAV delivered? What instruments are supported? What is the investor portal? Who handles subscriptions/redemptions? What SOC reports exist?
Auditor	How many hedge fund audits did the team complete last year? What is the audit timeline? What valuation issues commonly delay audits?
Counsel	How many emerging hedge funds did the firm launch recently? What is the all-in budget? How will 3(c)(1), Reg D, adviser status, CFTC, and marketing be handled?
Compliance	What is included in the manual? How are marketing materials reviewed? How often are tests performed? Do you support mock exams and annual reviews?

Appendix C - Investor Data Room Index

- Pitch deck, one-page strategy overview, and current opportunity set.
- Founder biography, ownership chart, and disciplinary/conflict disclosures.
- Track record package, tear sheets, attribution, risk metrics, and methodology notes.
- PPM, LPA/operating agreement, subscription documents, and term sheet.
- DDQ, compliance manual summary, code of ethics, valuation policy, liquidity policy, side-letter policy.
- Service provider list, administrator overview, audit engagement, prime-broker setup, tax adviser.
- Sample monthly report, risk dashboard, exposure report, and investor letter.
- Cybersecurity and business continuity summary.
- KYC/AML onboarding instructions and investor eligibility questionnaire.

Appendix D - Source Notes and Current Regulatory Anchors

- [S1] SEC Small Business - Private Funds.** Private fund advisers are generally required to register with the SEC or state regulators unless an exemption applies; adviser size and activities drive the registration analysis.
<https://www.sec.gov/resources-small-businesses/capital-raising-building-blocks/private-funds>
- [S2] SEC - Exemptions for advisers to private funds under \$150 million.** SEC rulemaking materials describe the private fund adviser exemption for advisers solely to private funds with less than \$150 million in U.S. private fund assets under management.
<https://www.sec.gov/rules-regulations/2011/06/exemptions-advisers-venture-capital-funds-private-fund-advisers-less-150-million-assets-under>
- [S3] SEC - Regulation D Rule 506(b).** Rule 506(b) allows unlimited capital raising from accredited investors without general solicitation, subject to conditions.
<https://www.sec.gov/resources-small-businesses/exempt-offerings/private-placements-rule-506b>
- [S4] SEC Investor.gov - Rule 506 of Regulation D.** Rule 506 has two exemptions; 506(c) permits general solicitation if all purchasers are accredited investors and the issuer takes reasonable verification steps.
<https://www.investor.gov/introduction-investing/investing-basics/glossary/rule-506-regulation-d>
- [S5] SEC - Accredited Investors.** SEC materials summarize individual accredited investor tests based on wealth, income, and financial sophistication.
<https://www.sec.gov/resources-small-businesses/capital-raising-building-blocks/accredited-investors>
- [S6] SEC - Marketing Rule FAQ.** The Marketing Rule restricts adviser advertisements, including the presentation of performance results.
<https://www.sec.gov/rules-regulations/staff-guidance/division-investment-management-frequently-asked-questions/marketing-compliance-frequently-asked-questions>
- [S7] SEC - Investment Adviser Marketing Rule.** The SEC modernized investment adviser advertising and solicitation rules under Rule 206(4)-1.
<https://www.sec.gov/newsroom/press-releases/2020-334>
- [S8] SEC - Form ADV Instructions.** Form ADV is the core adviser registration and reporting form, including umbrella registration concepts for private fund advisers.
<https://www.sec.gov/files/formadv-instructions.pdf>
- [S9] SEC Custody Rule release.** Advisers with custody generally must maintain client assets with a qualified custodian, subject to rule conditions and audit/statement practices.
<https://www.sec.gov/files/rules/final/ia-2176.htm>
- [S10] SEC / Federal Register - Qualified Client thresholds.** Rule 205-3 performance fee qualified-client thresholds are being adjusted, effective June 29, 2026, to \$1.4 million AUM with the adviser or \$2.7 million net worth.
<https://www.federalregister.gov/documents/2026/05/01/2026-08480/order-approving-adjustment-for-inflation-of-the-dollar-amount-tests-in-rule-205-3-under-the>
- [S11] SEC and CFTC - proposed Form PF amendments.** On April 20, 2026 the SEC and CFTC proposed Form PF amendments to reduce reporting burden, including raising the filing threshold for all filers to \$1 billion.
<https://www.sec.gov/newsroom/press-releases/2026-40-sec-cftc-jointly-propose-amendments-reduce-private-fund-reporting-burdens>
- [S12] CFTC - Form PF proposed amendments fact sheet.** The proposal would also raise the large hedge fund adviser reporting threshold from \$1.5 billion to \$10 billion.
<https://www.sec.gov/files/ia-6959-fact-sheet.pdf>
- [S13] Fifth Circuit - National Association of Private Fund Managers v. SEC.** The Fifth Circuit vacated the SEC private fund adviser rules in 2024.
<https://www.ca5.uscourts.gov/opinions/pub/23/23-60471CV0.pdf>
- [S14] FinCEN - IA AML Rule delayed to 2028.** FinCEN postponed the effective date of the Investment Adviser AML Rule from January 1, 2026 to January 1, 2028.
<https://www.fincen.gov/news/news-releases/fincen-issues-final-rule-postpone-effective-date-investment-adviser-rule-2028>
- [S15] NFA - CPO/CTA exemption annual affirmation.** NFA states that certain CPO/CTA exemptions, including Rule 4.13(a)(3) and 4.14(a)(8), must be affirmed annually within 60 days after year-end.
<https://www.nfa.futures.org/electronic-filing-systems/exemptions.html>
- [S16] 17 CFR 4.13 - CPO registration exemptions.** CFTC Regulation 4.13 describes exemptions from registration as a commodity pool operator.
<https://www.law.cornell.edu/cfr/text/17/4.13>
- [S17] HFR - Q1 2026 Global Hedge Fund Industry Report.** HFR reported Q1 2026 global hedge fund industry capital at an all-time peak above \$5.22 trillion.
https://www.hfr.com/hfr-media/hfr_world/hfr-world-global-hedge-fund-industry-report-2026q1/
- [S18] HFR - 2025 year-end industry milestone.** HFR reported the hedge fund industry surpassed the \$5 trillion milestone at year-end 2025.
<https://www.hfr.com/media/market-commentary/global-hedge-fund-industry-capital-surges-past-historic-5-trillion-milestone/>
- [S19] AIMA - Due Diligence Questionnaires.** AIMA describes its DDQs as industry-standard templates for investor due diligence on hedge fund managers and related providers.
<https://www.aima.org/sound-practices/due-diligence-questionnaires.html>

[S20] AIMA - 2025 investment manager DDQ. AIMA announced the 2025 edition of its Illustrative Questionnaire for the Due Diligence of Investment Managers.
<https://www.aima.org/article/presenting-the-2025-edition.html>