



NJORD
INVESTMENTS LTD
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WATERFALL STRUCTURE : *AN EXAMPLE*

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RECAP

Hedge Fund Fee Structure:

Hedge Funds typically follow the **2 and 20** compensation structure consisting of an annual **2%** fee of Assets under Management (AUM) once the hurdle rate is met and a **20%** performance fee charged on profits generated beyond the hurdle rate.

Hurdle Rate:

The hurdle rate is the **minimum** rate of return that must be achieved before the AUM fee and the performance fee can be charged.

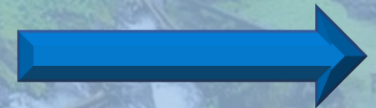
EXAMPLE

If you're a hedge fund investor, understanding the fund's waterfall policy is essential. A waterfall explains how a fund's investors and manager get paid. It outlines who gets paid first and how much of a fund's profits an investor will receive.

The details of this structure can best be demonstrated through a sample scenario:

- ❖ At Njord Investments limited we follow the **2 and 20** compensation structure and have set our hurdle rate at **15%**. Our lock-up period is two years.
- ❖ Mr. John decides to become a Limited Partner (LP) and invests \$150,000 with us. After the two-year lock-up period, Mr. John decides to redeem at **26%** (our most recent ROI). After the AUM and performance fees are charged (as the hurdle rate has been met), Mr. John receives \$183,926.40 at redemption.

Let's breakdown the calculations of the fee structure to see how we arrive at this redemption value.



B R E A K D O W N

It is vital that our investors understand our waterfall structure and have a clear understanding of the fees charged by Njord. We continue with the scenario proposed earlier:

- ❖ After some time has passed since Mr. John's initial \$150,000 investment, we hit our hurdle rate of **15%** and the **2%** AUM fee can be charged.
 - Value after meeting the hurdle rate: $\$150,000(1.15) = \$172,500$.
 - **2%** AUM Fee: $\$172,000(0.02) = \3450 .
 - Value **after 2%** AUM fee charged = $\$169,050$.
- ❖ The two-year lock-up period has passed, and Mr. John redeems at **26%**. His investment **grew a further 11%** after meeting the hurdle rate. The **20%** performance fee is to be charged on profits generated **after** the hurdle rate is met.
 - Value at end of lock-up period: $\$169,050(1.11) = \$187,645.50$
 - **20%** performance fee on profits: $(\$187,645.50 - \$169,050)(0.2) = \$3719.10$
 - Value at redemption: $\$183,926.40$
- ❖ After all fees are charged Mr. John makes a **22.6%** profit on his initial investment.

Summary:

Initial Investment	\$150,000.00
Total Fees Charged	\$7169.10
Redemption Value	\$183,926.40