

The Simmons & Simmons Hedge Fund Side Letter Survey 2025

The 2025 Survey

We have recently carried out our second comprehensive survey of side letters entered into by hedge funds and/or their managers on which the London office of the Simmons & Simmons hedge fund practice has advised. The survey covers side letters reviewed during the previous year.

In our survey, we measure the prevalence of 5 common business terms – **most favoured nation (MFN), transparency/risk reporting, enhanced liquidity, fee discounts and capacity rights.**

We also track details of certain other terms as well as categorise the investors requiring side letters by both **investor type** and **region.**

We published our first survey of side letters in 2022, and this new survey includes comparisons with the data from that previous survey.

"Our new side letter survey is a reminder of the importance of US fund of funds and endowments to new managers. We have developed a lot of experience in the terms that these investors are seeking in their side letter negotiations."

Devarshi Saksena



Key Findings

- **MFN clauses** were again by far the most prevalent of the 5 common business terms we measured, appearing in 61% of side letters.
- Amongst other restrictions on the scope of MFN provisions, 89% of MFN provisions had a “size qualifier” – i.e. where the right to be offered benefits received by another investor is contingent on that other investor’s investment not being larger – and 96% were restricted to rights relating to fees, liquidity and/or information rights.
- The second most prevalent of the 5 common business terms was **transparency/risk reporting** at 24% - with 17% of side letters reviewed committed to full transparency of the portfolio, which in every case was provided on a time-lagged basis.
- Side letters, with very few exceptions, included **notification obligations** of different types. Common provisions included notification of (1) proceedings against a fund party (57%), (2) regulatory action against a fund party (57%) and (3) changes to service providers (43%). Notification of “key person events” was required in 17% of cases – perhaps made less common as a result of the widespread practice of including key person notification commitments in the fund offering memorandum.
- “**Government plans/sovereign wealth investors**” now represent the largest single category for investors with side letters - at 41% (up from 15% in 2022).
- “**Endowments**” (34%) and “**fund of funds**” (23%) are the second and third most frequently occurring investor categories – but these are the most common investor categories for side letters with newer managers (55% and 36% respectively).
- There have been no significant changes in the **global regions** in which side letter investors are located since our 2022 survey: (1) North America (60%), (2) Asia/Australasia (20%), (3) Europe (14%) and the Middle East (6%).

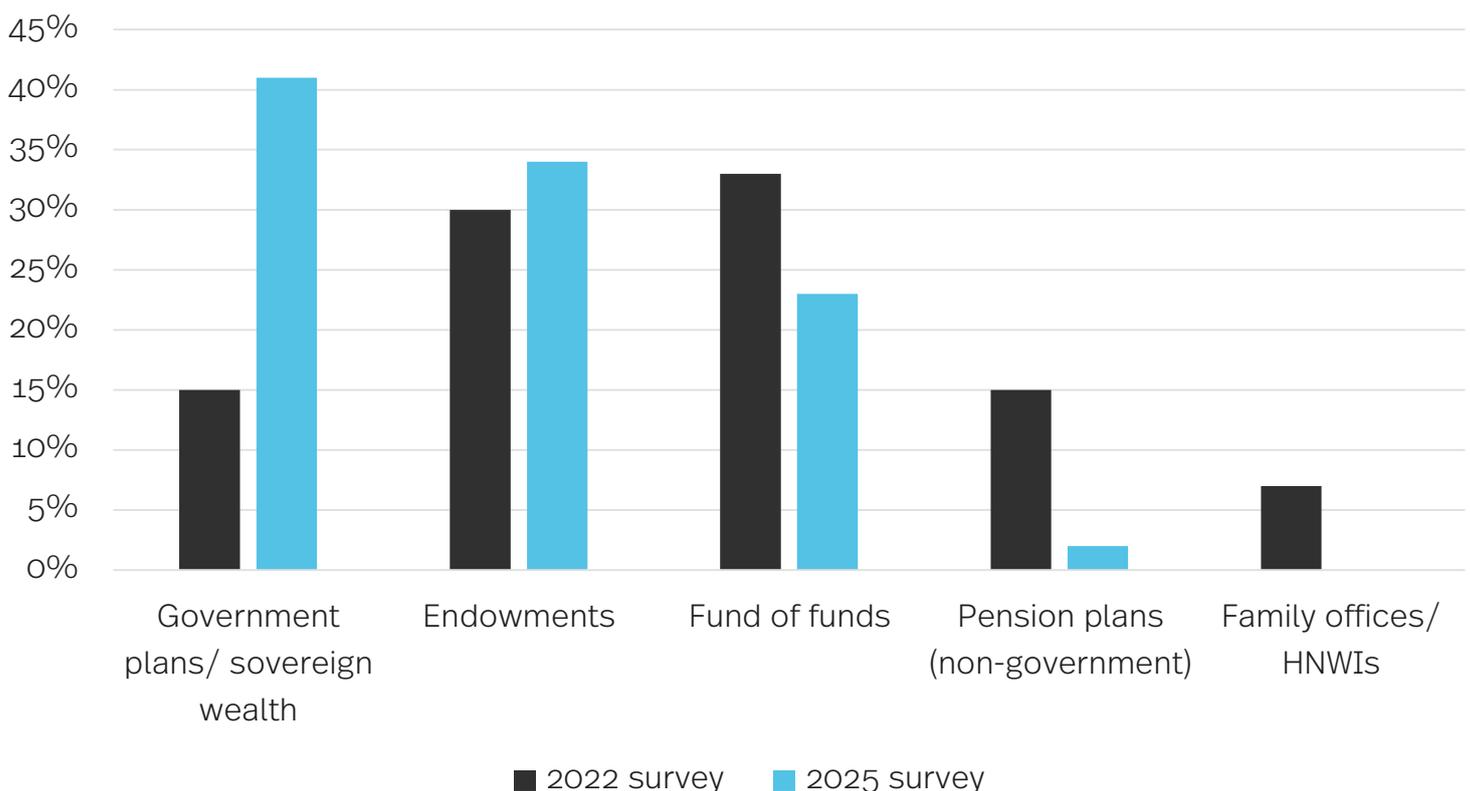
Investor Types

4 investor types accounted for the whole survey in the following order of frequency: (1) Government plans and sovereign wealth investors, (2) endowments, (3) fund of funds and (4) pension plans (non-Government).

None of the side letters reviewed were with family offices or high net worth investors. This reflects the “institutionalisation” of the hedge fund investor base that has taken place over several years. Even in the area of digital asset funds launched by newer managers, where we see the majority of investors tending to be small family offices and high net worth investors, our experience is that those investors typically do not request a side letter. Requests for management fee discounts from early-stage investors in such funds are often simply dealt with through the creation of “early bird” share classes.

Looking at trends between newer managers and mature managers, we see that Government plans and sovereign wealth investors, which is the largest investor category overall, represents just 9% of side letters with newer managers. This may be a reflection of these investors’ typical “ticket sizes”, not wanting to represent too large a proportion of the investor base and/or preferences towards well-established managers.

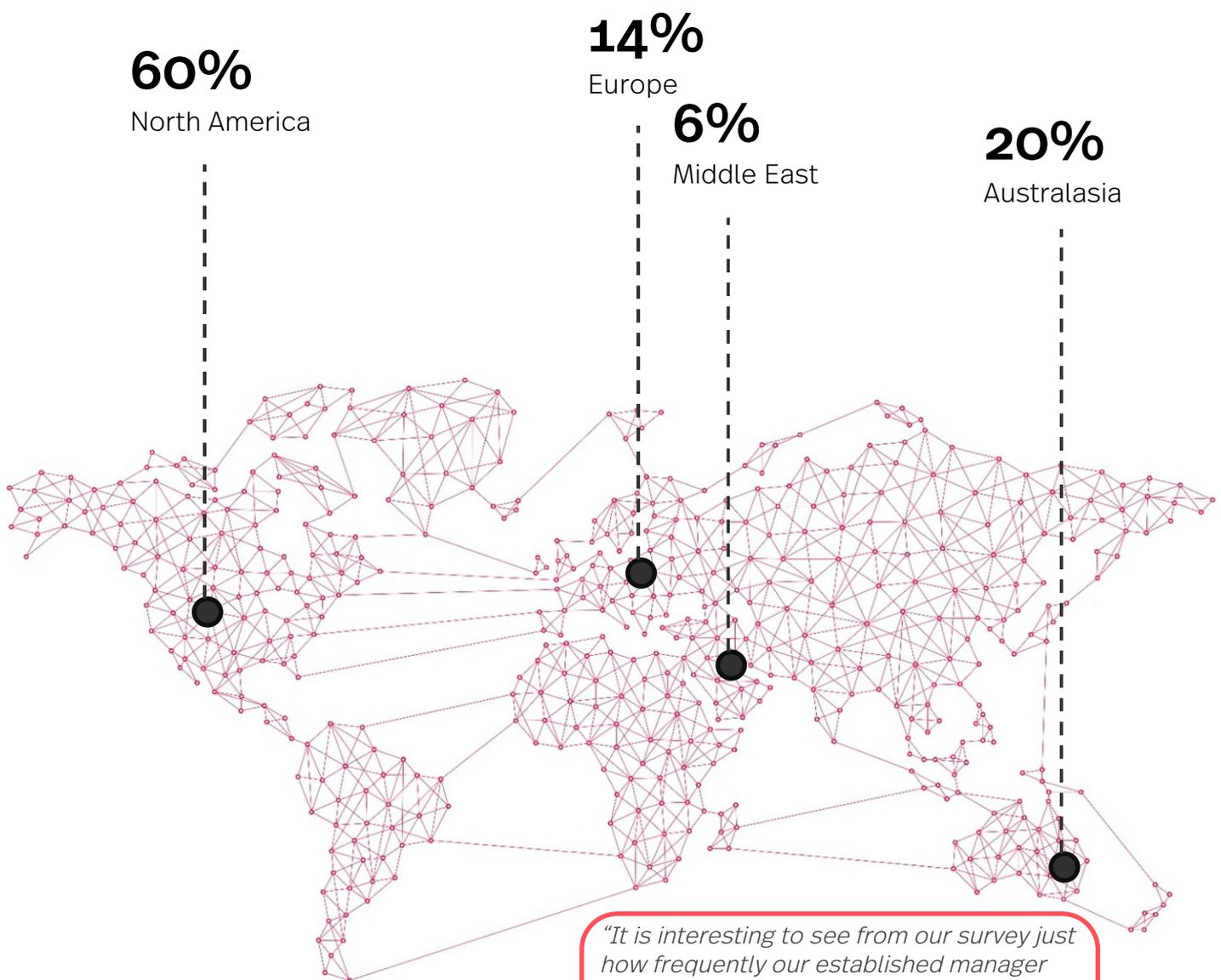
2022 Survey vs 2025 Survey



Investor Regions

The investors covered in the survey were located in the 4 broad regions in the following order of frequency: (1) North America, (2) Asia/Australasia, (3) Europe and (4) the Middle East.

Although the overall data for these regions is very similar to our 2022 survey, US investors have become even more important to newer managers – now representing 82% of side letters (up from 60% in 2022). It is also interesting to see that European investors came from only 4 countries - the UK, Finland, Germany and Luxembourg.



"It is interesting to see from our survey just how frequently our established manager clients are negotiating side letters with government plans and sovereign wealth investors around the world."

Lucian Firth



Common business terms

Our survey measured the frequency at which the following 5 common business terms appeared across the reviewed side letters: (1) MFNs (61%), (2) transparency/risk reporting (24%), (3) capacity rights (17%), (4) fee discounts (7%) and (5) enhanced liquidity (2%). See the “Focus on MFNs” section below for more detail on MFN provisions.

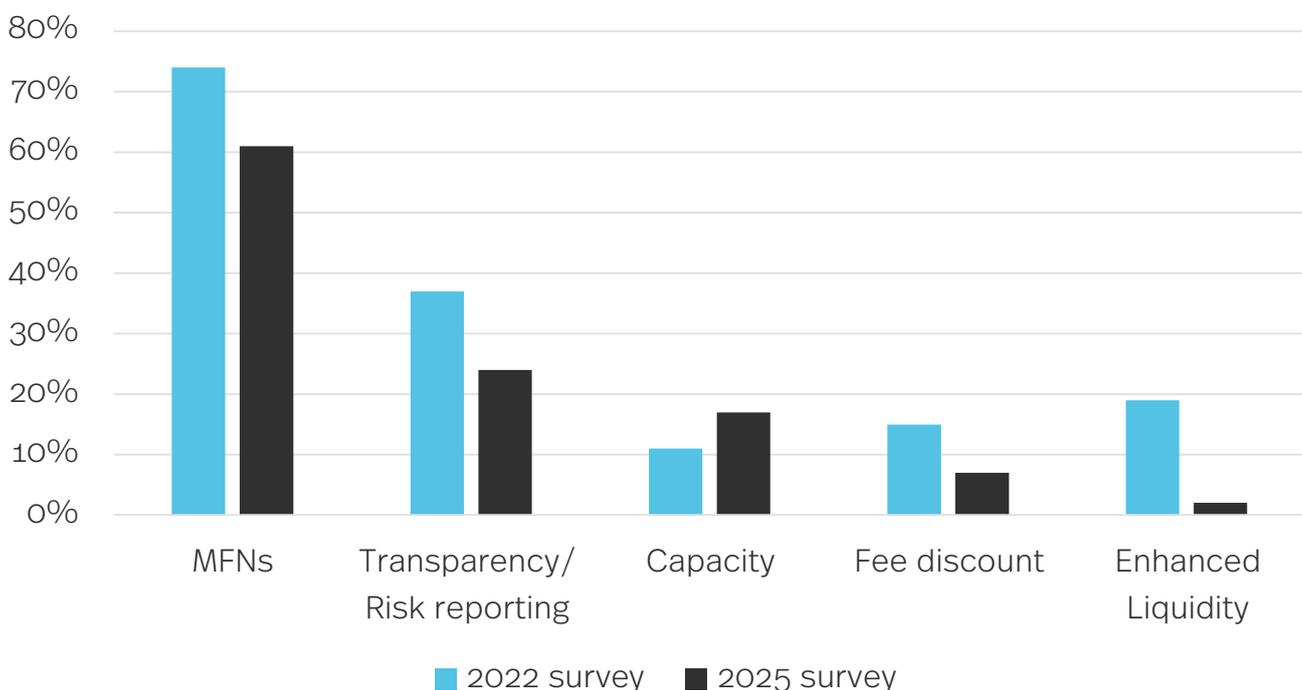
Commitments on transparency/risk reporting appear to be relatively common but it is interesting to see how infrequently (only 17% of side letters) this included full portfolio transparency – and that in every case this was provided on a “time-lagged” basis.

Fee discounts in side letters are perhaps surprisingly low at 7%. A possible explanation may be that several investors in the reviewed side letters secured investments in low fee share classes (e.g. “early bird” share classes) where no fee discounts needed to be recorded.

Capacity rights to invest further amounts in a fund are a common feature of side letter negotiations but appear in a relatively small proportion of the side letters in the survey. These were significantly more common in side letters with newer managers (36%) compared with mature managers (11%).

Enhanced liquidity provisions have fallen significantly since our 2022 survey - at 2% of side letters, down from 19%. (We exclude from our survey both (a) side letter commitments where it was expressed that all investors, not just the side letter holder, would benefit from the relevant additional liquidity opportunity/reduction in redemption restrictions and (b) clarifications around redemptions in kind, suspensions and gating.) The likely explanation is that the granting of enhanced liquidity to only one investor is often difficult for a fund board/governing body to reconcile with their fiduciary duties.

2022 Survey vs 2025 Survey



Focus on MFNs

MFNs are commitments to an investor that they will continue to receive the best terms available to any other investor in the same fund or group of related products. Our survey shows how common a provision an MFN is in a side letter (61% of cases) but also how these commitments are routinely limited by “size qualifiers”.

We found the following additional data from the MFN provisions reviewed:

- 89% included a size qualifier (the MFN rights are contingent on another investor’s investment not being larger) .
- 96% limited to rights relating to fees, liquidity and/or information rights.
- 100% included a requirement that a package of favourable and unfavourable rights is not to be treated as separate terms (a so-called “anti cherry-picking” provision).
- 67% limited to more favourable rights being offered in the same feeder fund only. (22% were limited to rights offered in the same master/feeder structure while 11% applied across all products using the same strategy.)

“An MFN provision is a very important part of a side letter which can, in some cases, lead to problems for managers after signing. Our survey shows that there are several restrictions which we successfully negotiate into side letters which will help limit the scope of these provisions.”

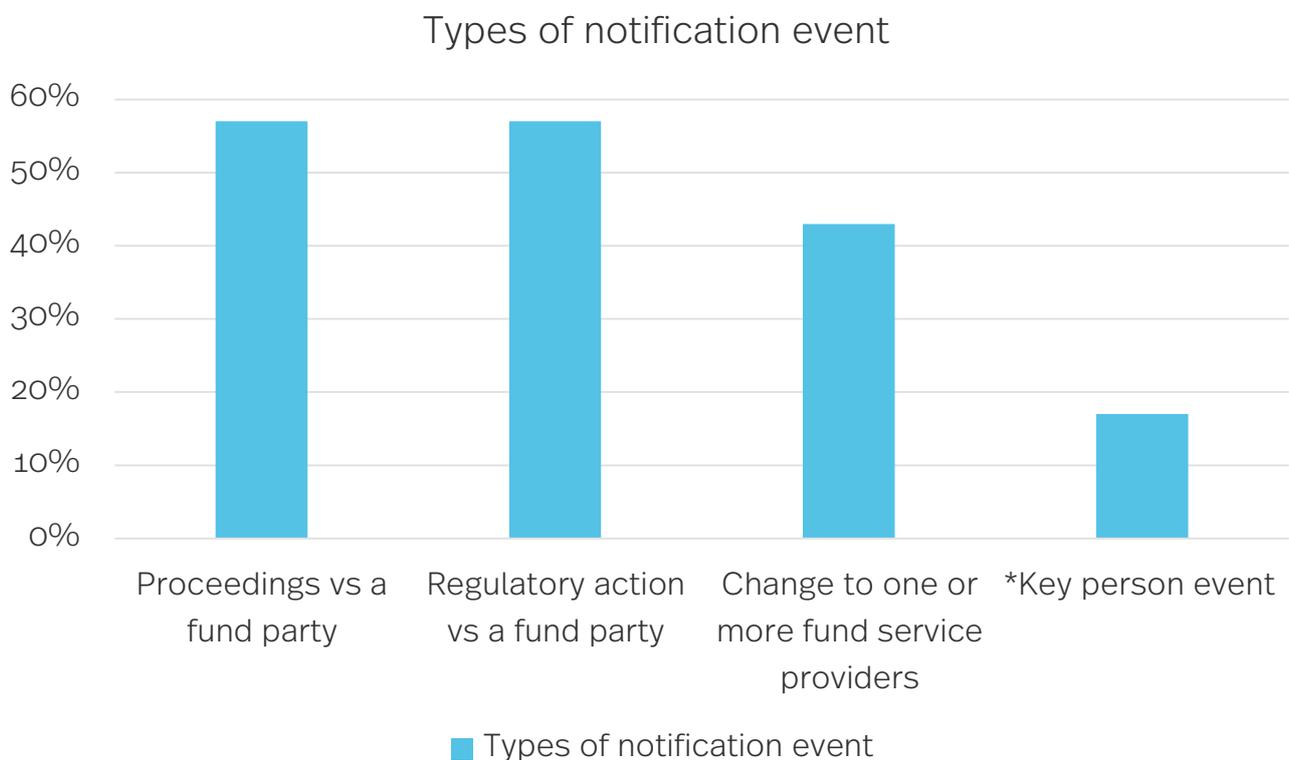
Sarah Crabb



Notification obligations

It is very common for side letters to include obligations on funds and/or their managers to notify an investor of different types of event occurring relevant to one of the fund parties or the investment generally.

The following types of notification event appeared in the reviewed side letters in the following order of frequency:



*this figure does not take into account equivalent commitments contained in the fund offering memorandum

Other common notification obligations on which we may collect data in future surveys include notice of suspension of dealings/NAV calculation and notice of material redemptions by a fund principal.

We have also been keeping a watch on restrictions in side letters on the types of investment to be made by the fund (restricted investments) – whether an outright ban on types of investment or a requirement to give prior notice before they are first acquired. This is a dynamic area where ESG and other factors specific to different investor groups around the world have an impact. Restricted investment provisions appeared in 13% of side letters in our survey, a slight increase on 2022.

Contact Us



Devarshi Saksena

Partner, FS Funds

E: Devarshi.Saksena@simmons-simmons.com

T: +44 20 7825 3255



Sarah Crabb

Partner, FS Funds

E: Sarah.Crabb@simmons-simmons.com

T: +44 20 7825 3597



Lucian Firth

Partner, FS Funds

E: Lucian.Firth@simmons-simmons.com

T: +44 20 7825 4155



Thomas Pointer

Partner, FS Funds

E: Thomas.Pointer@simmons-simmons.com

T: +44 20 7825 4182



Kate Tracey

Of Counsel, FS Funds

E: Katherine.Tracey@simmons-simmons.com

T: +44 20 7825 4820



Charlotte Thomas

Managing Associate, FS Funds

E: Charlotte.Thomas@simmons-simmons.com

T: +44 20 7825 5766