

Hedge Fund Law Blog

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Hedge Fund Series LLC

The Series LLC

Most hedge funds are structured as either limited partnerships or as limited liability companies (LLCs). Some hedge funds, however, are structured as series limited liability companies. The series limited liability company is a relatively new statutorily created entity. The series LLC is one entity with a group of series each of which is bankruptcy remote from each other series. This means that the assets of one group or series of assets are protected in the event another group or series of assets becomes subject to suit or other action. This article discusses the primary uses for the Series LLC in the hedge fund industry, the advantages and disadvantages of the series LLC and other issues involved with the formation of a hedge fund as a series LLC.

Primary Uses for the Series LLC

Currently the Series LLC is used most often for real estate investors. Many people who own real estate own each property through a separate entity in order to make sure their assets are protected from one other. Similar to this idea, the real estate investor will hold each property in a separate series, but underneath the larger series LLC umbrella.

In the same way hedge fund managers can have the asset protection features of many disparate entities, but under one umbrella. For instance a manager may have a very risky program and a very conservative program. Normally a manager would not want to combine these programs because the risky program could potentially wipe out the assets of the conservative program. The manager could use the series LLC to offer each program as part of an overall management package and the potential investors could choose the amount of their investment which would be allocated to each program.

Another example of how the Series LLC is used in the hedge fund industry is with the very large asset management companies and other players like the investment banks. In essence these groups will use the Series LLC as a way to white label programs by other management companies. The way that this typically works is that a large management company will offer say 25 different programs under the series umbrella. Each program will be a separate series which will be managed by another management group. The fees will be dictated by what the offering documents state and will usually be split between the sponsor of the series LLC and the manager of the individual series. In this way the large asset management company can offer their clients a wider range of instruments than they normally would be able to and can also keep the assets within their programs.

Advantages of the Series LLC for Hedge Funds

The central advantage of the Series LLC is a reduction in the organizational costs of a establishing numerous entities. Before the Series LLC, if a hedge fund sponsor wanted asset protection for 25 different asset management programs then the group would need to establish 25 different entities and make sure that each of those entities had the appropriate registered agent services scheduled. In addition to purely a monetary consideration, this raises a paperwork and hassle consideration which is why some sponsor/managers will choose the Series LLC structure.

Disadvantages of the Series LLC for Hedge Funds

There are potential issues for the Series LLC that the hedge fund sponsor will want to discuss with the hedge fund attorney. This includes:

- integration issues
- the number of potential investors in the fund (3(c)(1) issues and 3(c)(7) issues)
- ERISA issues (Series LLC's should discuss having institutional ERISA investors in the fund with an experienced hedge fund attorney and/or with an ERISA expert)

In addition to these more legal issues, there are other cost considerations. For example, a Series LLC is unlikely to receive reduced audit and administration costs. For more information on structuring a hedge fund and issues related to the Series LLC, please see the following hedge fund law articles:

- [Hedge Fund Structure: LP and LLC Issues](#)

- Hedge Fund Structure and Organizational Chart
- Offshore Hedge Fund Structure and Organizational Chart
- Hedge Funds and ERISA
- Hedge Fund Tax
- Start Up Hedge Fund Timeline
- Hedge Fund Service Providers
- Hedge Fund Investors Overview

This entry was posted in Hedge Fund Structure and tagged Delaware series llc, hedge fund entity, hedge fund formation, hedge fund law, Hedge Fund Structure, limited liability company, llc, series limited liability company, series llc, structure of hedge fund on December 10, 2008 [<http://www.hedgefundlawblog.com/hedge-fund-series-llc.html>] by Hedge Fund Lawyer.

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