Elliott Management performance underwhelms, but its fees stay high

(Name),

As you know, (Investor) is an investor with hedge fund and private equity firm Elliott Management ("Elliott"), run by Paul Singer.[1]

We are writing to ensure that you are aware of deterioration in the performance of Elliott's funds.

Given that Elliott is currently seeking capital for a new fund, it is timely for existing limited partners to assess Elliott's performance, fees, and overall value before entrusting further capital to this firm.[2]

Elliott Management has two primary hedge funds, Elliott International Ltd and Elliott Associates LP.[3] The returns of these two flagship funds have varied substantially over the last several years, according to reports by investment consultant Cliffwater, which advises multiple Elliott investors.[4]

As Table 1 below illustrates, over the past five years through September 2019 Elliott International Ltd. generated a 6.01% annualized return, according to Cliffwater, compared to 10.84% for the S&P 500. Over the past five years through October 2019 Elliott Associates LP generated a 7.03% annualized return compared to 10.78% for the S&P 500.[5]

2018 proved especially difficult for Elliott Associates: the hedge fund generated a return of just 2.91%.[6] (See annual results in table 2 below.)

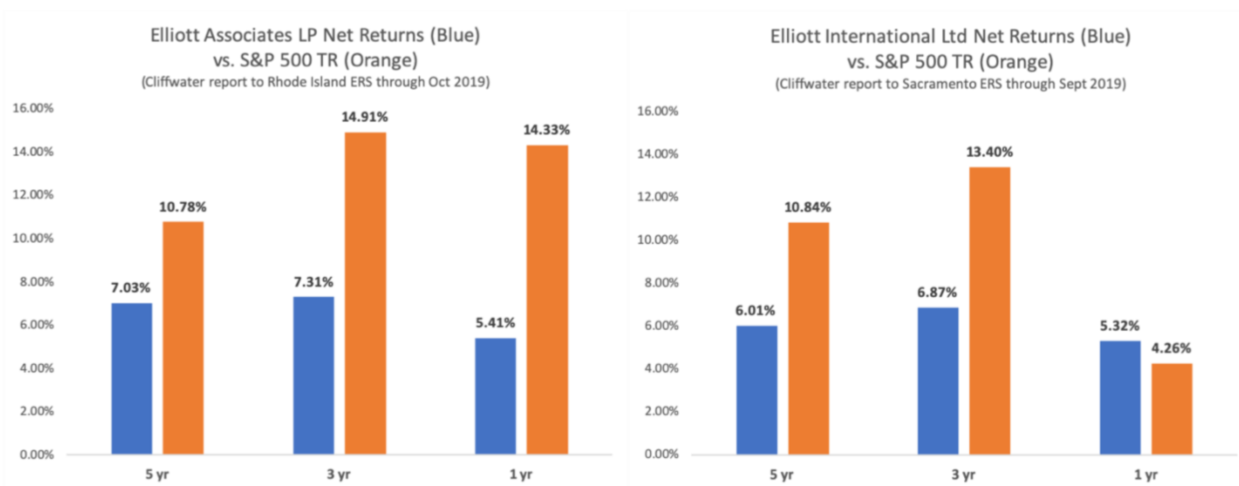

Table 1 (Source: Cliffwater report to RI ERS, Cliffwater report to Sacramento County ERS)

Despite underwhelming performance, Elliott fees stay high

Although Elliott Associates has generated single-digit net returns in six of the last nine years, the hedge fund's fees have stayed high, according to reports by the Employees Retirement System of the State of Rhode Island, an investor in Elliott Associates LP. Rhode Island, like other Elliott investors, pays Elliott a management fee (1.5%) and a performance fee (typically 20% of gross returns). Despite the drops in its investment performance, Elliott has collected a performance fee during each of the last seven reported fiscal years (ending in 2018).[7] In fiscal year 2018, Rhode Island reported paying Elliott fees of 3.68%. By comparison, Rhode Island's overall expense ratio across all of its investments was 0.97%.[8]

In a July 2019 article, *Institutional Investor* reported that around 37% of hedge funds offer investors the protection of a hurdle rate in calculating performance fees, up from 33% in 2016.[9] An investor in Elliott Associates LP in 2011 reported that the hedge fund did not utilize a hurdle rate when calculating performance fees, which appears to be borne out by Rhode Island ERS reports.[10]

As Table 2 below illustrates, while Elliott's annual returns dipped as low as 2.5% in calendar year 2015 and 2.9% in 2018, Elliott's fees have not dropped below 2.18% and have risen as high as 4.64% over the past several years. Since 2011, Rhode Island has gained an average of around 8.4% annually on its Elliott Associates investment, as compared to a 14.1% annualized return for the S&P 500. But over these same years, Elliott's fees averaged 3.72%, more than twice the annual management fee of 1.5%. In Elliott's worst performing years, its fees appear to have eaten up a substantial part of the gross return it generated for the Rhode Island ERS.[11]

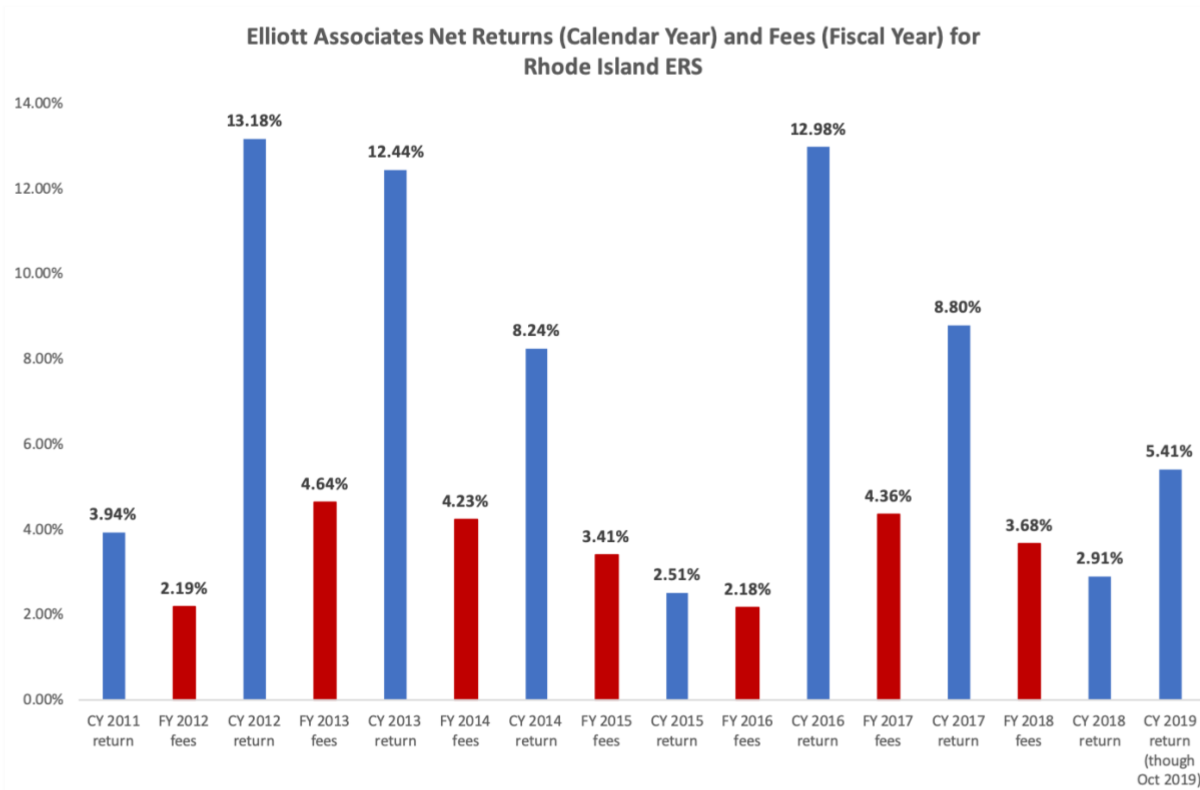

Table 2 (Source: Cliffwater report to RI ERS, RI ERS investment expense reports 2012-2018)

Elliott assets have grown, raising questions about hedge fund manager's ability to deploy new capital

Elliott has kept fees high despite the fact that its assets under management have grown substantially over the last several years, in part through new fundraising.

Elliott's regulatory (i.e. gross) assets under management have more than doubled from $29.7 billion in 2012 to $67.7 billion in 2019 (off a peak of $74.2 billion in 2018).[12]

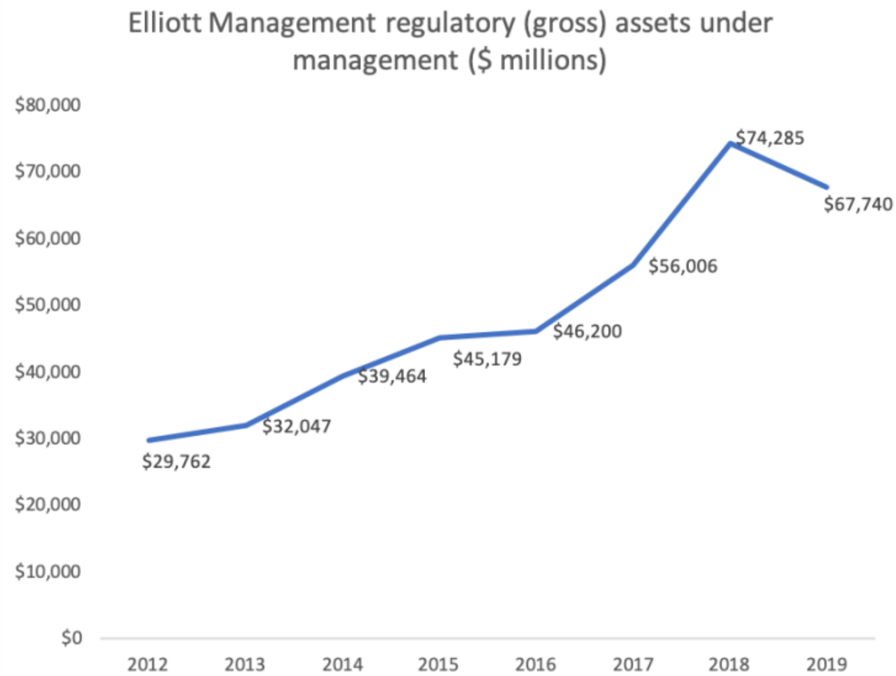

Figure 1 (Source: [Hedge Fund Alert Top 200 hedge fund managers, 2013-2019.)]

A 2018 study by researchers at Purdue University, Loyola Marymount University, Australian National University, and Renmin University found that increasing hedge fund size leads to lower returns. "When funds grow larger over their life cycles, managers are likely to have diminishing performance incentives because most of their compensation comes from the asset-based management fee," the researchers noted.[13] Elliott last raised capital for its hedge funds in 2017 and is currently seeking $4 billion in additional capital.[14]

In recent years, Elliott has grown by diversifying into new strategies. For example, in November the *Wall Street Journal* reported that Elliott has raised $2 billion for private equity-style takeovers.[15] Elliott's recent private equity ventures include the acquisition of troubled bookseller Barnes & Noble through a buyout in August 2019.[16] Elliott previously owned Midwestern retailer Shopko along with private equity firm Sun Capital.[17] Shopko filed for bankruptcy in 2019 and announced it was liquidating, laying off nearly 23,000 workers.[18]

Given Elliott's underwhelming returns in recent years, particularly since it last raised new capital in 2017, investors may ask whether Elliott can profitably deploy new capital they give to the hedge fund firm. And given Elliott's persistently high fees, investors may be concerned that such a large share of the investment returns are captured by Elliott.

We urge (Investor) to consider Elliott's rapid growth in assets under management, underwhelming performance, and persistently high fees when evaluating whether to continue investing with the fund.

Please let me know if you have any questions.

Regards,

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1 "Elliott Raises $2 Billion for Buyouts, Preps $4 Billion Hedge-Fund Push," Wall Street Journal, Nov 4, 2019.
2 "Elliott Raises $2 Billion for Buyouts, Preps $4 Billion Hedge-Fund Push," Wall Street Journal, Nov 4, 2019.
3 Elliott Management SEC form ADV, Sept 6, 2019.
4 Cliffwater report to Sacramento County Employees Ret Sys, Sept 18, 2019. Cliffwater report to the Employees Ret Sys of the State of Rhode Island, data as of Oct 31, 2019.
5 Cliffwater report to Sacramento County Employees Ret Sys, Sept 18, 2019.
6 Cliffwater report to the Employees Ret Sys of the State of Rhode Island, data as of Oct 31, 2019.
7 Employees' Retirement System of Rhode Island Investment Expense Analysis, FY2012-2018.
8 Employees' Retirement System of Rhode Island Investment Expense Analysis, FY2018.
9 "Hedge Funds Still Winning the Fee Battle With Investors," Institutional Investor, Jul 9, 2019.
10 New Jersey Division of Investment memo regarding Elliott Associates LP, Oct 7, 2011.
11 Employees' Retirement System of Rhode Island Investment Expense Analysis, FY2012-2018.
12 Hedge Fund Alert Top 200 hedge fund managers, 2013-2019.
13 "If you want to run a hedge fund that beats the market, keep it small," CNBC, May 16, 2018. "The Performance Life Cycle of Hedge Funds: Can Investors Achieve Lasting Performance?" Chao Gao, Tim Haight, Chengdong Yin, Chengsi Zhang, last revised Oct 26, 2019.
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16 "Elliott Completes Acquisition of Barnes & Noble," Media release, Aug 7, 2019.
17 See page 10, "Management Agreement": https://www.sec.gov/Archives/edgar/data/1277406/000110465907060758/a07-19027_1ex99d1.htm.
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