

An aerial photograph of a coastline, showing waves crashing against a rocky shore. The water is a deep blue, and the waves are white with foam. The sky is not visible, as the image is dominated by the ocean and the land.

RISEON

EXPLAINER

# What Are HWM & DDR ?

2025 Edition – RiseOn

# HIGH WATER MARK (HWM)

A HIGH WATER MARK PROTECTS INVESTORS FROM UNFAIR FEES.

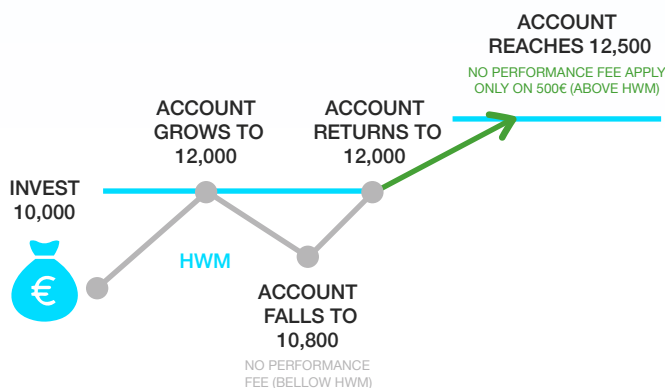
A High Water Mark (HWM) is the highest value an investment account has ever reached, including all deposits, withdrawals, profits, and losses. It is widely used in investment structures that charge performance fees because it ensures you only pay fees on new gains, not on money that has already been recovered after a decline.

## WHY IS HWM IMPORTANT?

HWM ensures fairness, transparency and alignment: You never pay performance fees twice for recovering previous losses. | Fees only apply when your account exceeds its previous peak value. | It aligns incentives: the manager earns only when you reach a new high.

## Simple Example

1. You invest 10,000.
2. Your account grows to 12,000 new HWM is now 12,000
3. Then, it drops to 10,800.
4. Performance fee is paused, no new fee applies.
5. When your account later rises to 12,500:
  - Performance fee is only charged on the 500 gained above the HWM 12,500 - 12,000;
  - Gains used to “recover” from loss from 10,800 back to 12,000 do not incur a new fee.



## DYNAMIC DRAWDOWN RELATIVE (DDR)

A CLEARER PICTURE OF DOWNSIDE VOLATILITY.

DDR measures the worst percentage drop from HWM to low equity during a defined period. It is one of the most important metrics in evaluating risk because it reflects how much an investor's balance may fluctuate before recovering.

## How DDR is calculated

$$\text{DDR} = (\text{Peak Value} - \text{Lowest Value}) \div \text{Peak Value}$$

Example:

- Peak: 1,000
- Drop to: 880
- $\text{DDR} = (1,000 - 880) \div 1,000 = -12\%$

## **HAVE QUESTIONS?**

Contact the RiseOn team for real-world examples or to request a personalized simulation.

## **GLOSSARY**

**HIGH WATER MARK (HWM):** Highest account value ever reached for performance-fee calculation.

**HIGH WATER EQUITY (HWE):** Highest equity value ever reached including open trades.

**DYNAMIC DRAWDOWN RATIO (DDR):** Worst percentage drop from a high to a low during a defined period.

**PERFORMANCE FEE:** Fee charged only on profits above the HWM.

**SIGNAL SERVICE:** Provides trading signals; does not manage accounts or execute trades on behalf of clients.

**DRAWDOWN:** The measure of decline from a peak to a lower value.

**MANAGED ACCOUNT:** An investment account professionally run on your behalf, often with rules like HWM.

**MANAGED FEE:** A recurring annual fee, calculated and charged monthly, based on the net asset value (NAV) of the client's account.