



HEDGE FUND RESEARCH, INC.

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**HEDGE FUND LIQUIDATIONS RISE DESPITE PERFORMANCE GAINS,
FUND OF FUNDS CONSOLIDATION ACCELERATES**

*Industry leverage moderates from pre-crisis levels;
Incentive fees continue to decline*

CHICAGO, (June 8, 2010) – After falling steadily for four quarters, hedge fund liquidations rose again in the first quarter of 2010 with 240 funds closing during the period, according to the **HFR Market Microstructure Industry Report** released today by Hedge Fund Research (HFR), the leading provider of hedge fund industry data and analysis. Liquidations were disproportionately skewed towards Fund of Funds (FOF), with 102 FOF closing in the quarter, this marks the seventh consecutive quarter in which FOF liquidations have exceeded new launches.

Aggregate industry leverage employed by hedge funds has continued to moderate relative to five years ago, with seventy percent of all funds, which manage eighty-three percent of industry capital, utilizing some form of leverage. In the **HFR Special Report: Hedge Fund Leverage**, Relative Value Arbitrage and Macro strategies commonly employ higher levels of leverage than Event Driven and Equity Hedge strategies. Standard leverage metrics vary broadly across the hedge fund industry, with over half of all funds typically employing between 1 and 2 times investment capital. Larger funds typically exhibit a greater usage of leverage, with nearly 30 percent of all funds greater than \$1 billion employing leverage in excess of two times their investment capital.

Incentive Fees continue to fall as fund performance dispersion declines

Indicative of continued pressure from investors for more attractive investment terms, average incentive fees declined by 8 basis points to 19.12 percent in 1Q 2010, the steepest drop since 2Q 2008, although average management fees were unchanged for the quarter at 1.58 percent. Performance dispersion between the best and worst deciles of performance narrowed in the less volatile period, with the top decile of all hedge funds returning an average of +15.2 percent, while the bottom decile lost an average of -8.6 percent.

“Both investors and fund managers are continuing to exhibit a heightened sensitivity to leverage and risk, even with the benefit of the performance recovery from 2009,” said Ken Heinz, President of HFR. “Managers are employing lower levels of leverage in response to higher realized asset volatility and higher costs of obtaining leverage, as well as investor preference for a less volatile return profile.”

About HFR

Hedge Fund Research, Inc. (HFR) is the global leader in the alternative investment industry. Established in 1992, HFR specializes in the areas of indexation and analysis of hedge funds. HFR Database, the most comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed the industry’s most detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. HFR produces over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. With performance dating back to 1990, the HFRI Fund Weighted Composite Index is the industry’s most widely used standard benchmark of hedge fund performance globally. The HFR suite of Analysis Products leverages the HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more nuanced analysis. *For the hedge fund industry’s leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.***

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