HEDGE FUND LIQUIDATIONS FALL AS INVESTOR INFLOWS DRIVE RECORD CAPITAL

Launches steady as HFRI extends gains; Fee pressure contributes to average incentive, management fees declines

CHICAGO, (September 18, 2017) – Hedge fund liquidations declined in 2Q 2017 as new investor inflows increased total hedge fund industry capital to a record $3.1 trillion through mid-year, according to the latest HFR Market Microstructure Report, released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The number of liquidations fell to 222 in 2Q17, representing a decline from the prior quarter total of 259, as well as a narrow year-over-year decline from the 239 liquidations in 2Q16.

Meanwhile, hedge fund launches were steady in 2Q17, with 180 new funds opening as inflows resumed and total industry capital reached a record. The number of 2Q17 launches was slightly below the 189 launches in 1Q17 and the 170 launches in 2Q16.

The HFRI Fund Weighted Composite Index® has gained +5.4 YTD though August, with monthly performance gains in nine consecutive months.

Average hedge fund management and incentive fees declined narrowly from 1Q17 as the average management fee fell by 1 basis point (bp) to 1.46 percent in 2Q, and the average incentive fee fell 10 bps to 17.2 percent. The average management fee for funds launched in 2Q17 fell to 1.28 percent, as compared to 1.4 percent for 1Q17 launches, while the average incentive fee for funds launched in 2Q17 declined to 16.9 percent, down 21 bps from the prior quarter. HFR estimates that only approximately 30
percent of all hedge funds currently charge management and incentive fees equal to or greater than 2-and-20.

HFRI performance dispersion declined in 2Q, as the top decile of hedge funds gained an average of +10.1 percent, while the bottom decile declined -8.3 percent (a dispersion of 18.4 percent), representing a modest decline from +14.12 and -7.0 percent, respectively, in 1Q17 (21.1 percent dispersion). Over the trailing 12 month period ending 2Q, the top decile of funds averaged a +34.3 percent return, while the bottom decile fell an average of -15.4 percent, a one-year performance dispersion of 49.7 percent.

“Hedge fund liquidations declined as total industry capital eclipsed another record with new investor inflows, while the HFRI extended steady performance gains through mid-2017,” stated Kenneth J. Heinz, President of HFR. “We expect a continuation of the favorable trend in new launches, as well as expansion of the alternative investor base interest to also encompass Risk Parity & Risk Premia strategies. With equity markets continuing the pattern toward increasing record levels, investors continue to exhibit and demonstrate enthusiasm for hedge funds and alternative beta strategies as integral portfolio components.”

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HFR (Hedge Fund Research, Inc.) is the global leader in the alternative investment industry, specializing in the indexation and analysis of hedge funds. Established in 1992, HFR produces the HFRI, HFRX and HFRU Indices, the industry’s most widely used benchmarks of global hedge fund performance. HFR calculates over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. HFR Database, a 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 a detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. The HFR suite of analysis products leverages 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 sophisticated analysis. For the hedge fund industry’s leading investors and hedge fund managers, Hedge Fund Research is The Institutional Standard.

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