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HEDGE FUND LAUNCHES STEADY TO BEGIN 2018 AS LIQUIDATIONS FALL

Launches exceed liquidations for second consecutive quarter; FY 2017 closures lowest since 2011, fees hit record low

CHICAGO, (March 23, 2018) – Hedge fund launches exceeded liquidations in 4Q 2017 for the second consecutive quarter, as total hedge fund industry capital began 2018 at a record $3.21 trillion. An estimated 190 funds launched in 4Q, up from 176 in 3Q and in line with the number of 4Q16 launches, bringing the full year 2017 total to 735 fund launches, 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.

Fund liquidations declined sharply in 2017 as industry asset growth accelerated, with 784 funds closing in the year, representing a decrease of 25% from the 1,057 liquidations in 2016. Additionally, fund liquidations for 2017 were the lowest for a calendar year total since 775 funds liquidated in 2011. On a quarterly basis, fund liquidations totaled 166 in 4Q17, an increase over the 137 in the prior quarter, though representing a decline over the 4Q16 of 275 liquidations.

The HFRI Fund Weighted Composite Index® gained +8.6 percent in 2017 while not producing a negative month for the calendar year. Through February, the Index has added +0.6 percent YTD 2018, with early performance led by Equity Hedge and Technology exposures. The HFRI Equity Hedge (Total) Index was up +1.1 YTD through February, while the HFRI EH: Technology Index has climbed +4.9 percent over the two-month period.
Hedge fund performance dispersion widened in both 4Q17 and FY 2017, with the average of the top decile posting the highest FY gain since 2013. The top decile of hedge funds was up an average of +13.4 percent in 4Q, while the bottom decile fell -5.8 percent, representing a dispersion of 19.2 percent. For FY2017, the top decile of funds averaged a +38.4 percent return, while the bottom decile fell an average of -13.4 percent, a one-year performance dispersion of 51.8 percent.

Average hedge fund management and incentive fees began 2018 at the lowest level since HFR began estimating in 2008. Average management fees declined -1 basis point over the prior quarter to 1.44 percent, while the average incentive fee fell 10 bps to 17.0 percent. The average management fee for funds launched in 2017 was 1.34 percent, representing a slight increase over the 1.31 percent management fee for 2016 launches. However, the average incentive fee for funds launched in the 2017 declined to 16.97 percent, a drop of over 40 bps from 2016 launches. As reported previously, HFR estimates that only approximately 30 percent of all hedge funds currently charge equal to or greater than a 2-and-20 fee structure.

“The hedge fund industry has accelerated into 2018 with increasing launches and the fewest fund closures since 2011, as industry capital eclipsed a new record to begin the year,” stated Kenneth J. Heinz, President of HFR. “The prevailing financial market environment in 2018 represents a significant shift from the pro-equity environment of 2017, with transitional politics driving transitional economics, which has expanded the opportunity set for hedged, long/short investing. It is likely that investors will continue to increase allocations to hedge funds and alternative investments not only to preserve capital through these transitions but to benefit from the opportunities created.”

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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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