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HEDGE FUND LIQUIDATIONS FALL TO LOWEST LEVEL SINCE 2007

Management, incentive fees mixed industry-wide, fees rise for new launches; Launches exceed liquidations for fourth consecutive quarter

CHICAGO, (September 20, 2018) – Hedge fund launches exceeded liquidations in 2Q 2018 for the fourth consecutive quarter, although both launches and liquidations fell through mid-2018.

Fund liquidations declined through mid-2018 after falling sharply in 2017, with 125 funds liquidating in 2Q18 compared to 222 in the same period last year, the lowest quarterly total since 3Q07, 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.

An estimated 148 funds launched in 2Q18, down from 180 in 2Q17, equaling the lowest quarterly launch total since 148 funds were started in 1Q09.

The HFRI Fund Weighted Composite Index® has gained +1.8 percent YTD through August 2018, with performance led by Equity Hedge on strong gains in Technology, Healthcare and Energy, though both Event-Driven and Relative Value Arbitrage have also advanced. The HFRI Equity Hedge (Total) Index returned +2.3 percent YTD through August, led by the HFRI EH: Healthcare Index, which surged +14.5 percent. The HFRI EH: Technology Index has also jumped +11.6 percent YTD through August.

Hedge fund performance dispersion increased in 2Q18 over the low level seen the prior quarter as the performance of both the top and bottom quartiles increased. The top decile of HFRI constituents averaged a return of +12.7 percent in 2Q18, an increase from the +9.4 percent average in

1Q18, while the bottom decile fell an average of -9.9 percent, representing a performance increase from the -11.2 average percent drop in 1Q. The top/bottom decile dispersion of 22.6 percent points represents a marginal increase from the 20.7 percentage points of 1Q18. In the trailing 12 months ending 2Q18, fund performance dispersion totaled 37.9 percent, which is down from the calendar year 2017 performance dispersion of 51.8 percent.

Also in 2Q 2018, average hedge fund management and incentive fees remained at the lowest level since HFR began publishing these estimates in 2008, despite increases in average fees for newly launched funds. Average management fees industry-wide remained unchanged at 1.43 percent, while the average incentive fee fell -13 bps to 16.98 percent. The average management fee for funds launched in 2Q18 was 1.46, an increase of +27 bps from the prior quarter and an increase of +12 bps over the calendar year 2017 launch average management fee of 1.34 percent. The average incentive fee for funds launched in 2Q18 was 18.44 percent, representing an increase of +128 bps over 1Q18 and an increase of +147 bps over the calendar year 2017 launch average incentive fee of 16.97 percent.

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.

"Hedge fund industry growth and performance has been steady through mid-2018, as the tension between US economic growth and US equity dollar gains has not only contrasted with slower growth or weakness in non-US regions, but the disparity has widened in recent months. Institutional investors continue to expand alternative allocations through this process, strategically balancing the risks associated with the fluid impacts of trade and tariff discussions while carefully considering fundamental aspects of fees and liquidity on portfolio performance," stated Kenneth J. Heinz, President of HFR. "Hedge fund positioning has continued to defensively and opportunistically shift away from the equity beta that dominated 2017 to encompass more neutral-biased, arbitrage positioning across export and trade-sensitive exposures, while maintaining a cautious outlook toward mean-reverting currency trades and EM volatility while maintaining core exposures to specialized areas such as US technology. These trends, as well as an increased emphasis on alternative portfolio exposures, including risk parity and risk premia, are likely to continue to evolve and serve as the catalysts for growth into 2019."

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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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