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Contacts:

Hedge Fund Research, Inc.
Kenneth Heinz
Chicago/312.658.0955
info@hfr.com @HFRInc
@KennethJHeinz

MacMillan Communications
Mike MacMillan/Chris Sullivan
New York/212.473.4442
chris@macmillancom.com

CitySavvy
Henrietta Hirst
London/+44 (0) 20 3691 7560
henrietta@citysavvy.com

HEDGE FUND LIQUIDATIONS RISE IN THIRD QUARTER, REVERSING TREND FROM FIRST HALF OF 2018

Liquidations exceed launches for 1st time since 2Q17; Management, incentive fees fall for new launches

CHICAGO, (December 12, 2018) – Hedge fund liquidations exceeded launches in 3Q 2018, reversing a four-quarter trend of net growth in the number of funds, with liquidations rising over the prior quarter while launches were essentially flat over 2Q. For 2018 through 3Q, the number of new hedge fund launches narrowly exceeded liquidations by a margin of 450 to 444, 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 rose in 3Q18 after falling for 4 consecutive quarters, with 174 funds liquidating compared to 137 in the same period last year. Liquidations in 3Q also exceeded the 2Q total of 125.

An estimated 144 funds launched in 3Q18, representing a narrow decline from the prior quarter launch total of 148, but a more precipitous drop over 3Q17 launches of 190, which was the highest quarterly launch total since 2Q16.

The HFRI Fund Weighted Composite Index® gained +0.5 percent in 3Q18, though 4Q declines have lowered the YTD return through November to -2.0 percent, inclusive of a -3.1 percent loss in October. The trend of larger fund outperformance has continued throughout 2018, with the HFRI Asset Weighted Composite Index essentially unchanged YTD, narrowly declining by -0.06 percent. The HFRI Relative Value (Total) Index has led all strategies for 2018 with a YTD gain of

+2.1 percent, while the HFRI Relative Value Index (Asset Weighted), inclusive of large credit multi-strategy funds, has produced a YTD return of +3.12 percent. The leading area of hedge fund performance on the year continues to be Technology, with the HFRI EH: Technology Index returning +7.4 percent YTD.

Hedge fund performance dispersion narrowed slightly in 3Q18 with only minimal declines in the top and bottom performance deciles. The top decile of HFRI constituents averaged a return of +10.2 percent in 3Q18, a decrease from the +12.7 percent average in 2Q18, while the bottom decile fell an average of -10.2 percent, essentially unchanged from the prior quarter decline of -9.9 percent. The top/bottom decile dispersion of 20.4 represents a modest decline over the prior quarter dispersion of 22.6 percent. In the trailing 12 months ending 3Q18, HFRI decile dispersion expanded to 40.4 percent, up from the prior quarter total of 38.0 percent, with the top decile gaining an average of +26.0 percent while the bottom decile fell -14.3 percent.

Average hedge fund management fees remained at the lowest level since HFR began publishing these estimates in 2008, while average incentive fees fell from the prior quarter. Average management fees industry-wide remained unchanged at an estimated 1.43 percent, while the average incentive fee narrowly fell by -5 bps to 16.93 percent. The average management fee for funds launched in the first three quarters of 2018 was 1.30 percent, essentially unchanged from the 2017 launch average of 1.34 percent. The average incentive fee for funds launched in the first three quarters of 2018 was 17.58 percent, an increase of +61 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.

“Financial market volatility accelerated through the third quarter and into year-end on ongoing trade and tariff negotiations, contributing to decreased investor risk tolerance and an increase in fund liquidations. Recent performance trends industry-wide have been mixed with stronger relative performance from larger funds and credit multi-strategy funds, with HFRI performance decile dispersion rising over the rolling 12-month period,” stated Kenneth J. Heinz, President of HFR. “Hedge fund launches have remained steady despite the challenging environment, as investors continue the process of adjusting to and rebalancing for the higher volatility environment which has defined recent months. It is likely that the trends toward funds exhibiting strong performance, lower fees and greater liquidity, as well as continuing interest in risk parity and risk premia products, will extend into and drive industry growth through 2019.”

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