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HEDGE FUND LAUNCHES AND LIQUIDATIONS BOTH DECLINE AS FUNDS FOCUS ON TRADE, M&A

Management fee falls to record low though incentive fees tick up; Launches exceed liquidations for third consecutive quarter

CHICAGO, (June 20, 2018) – Hedge fund launches exceeded liquidations in 1Q 2018 for the third consecutive quarter, as both launches and liquidations fell through early 2018. An estimated 158 funds launched in 1Q18, down from 190 in 4Q 2017, the lowest quarterly new launch total since 153 funds were started in 4Q16, 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 also declined in early 2018 after falling sharply in 2017, with 145 funds liquidating in 1Q18 compared to 259 in the same period last year, the lowest total since 3Q17 and the second lowest total since HFR began tracking liquidations in 2008. There were 166 liquidations in 4Q 2017, and 670 for the 12-month period ending March 31, 2018.

The HFRI Fund Weighted Composite Index® gained +1.4 percent YTD through May 2018, offsetting a -2.3 percent decline in late 1Q, with strong gains in January and May. HFRI performance continued to be led by Equity Hedge with strong gains in Technology, Healthcare and Energy, though both Event Driven and Relative Value Arbitrage have also gained. The HFRI Equity Hedge (Total) Index was up +2.3 YTD through May, led by gain of +8.5 the HFRI EH: Healthcare Index; HFRI EH: Technology Index gained +7.9 percent, while HFRI EH: Energy Index returned +6.1 percent YTD.

Hedge fund performance dispersion slightly widened in 1Q18, with the top decile of HFRI gaining +9.5 in 1Q18, down from an average of +13.4 percent in 4Q 2017, while the bottom decile decline fell to -11.2 percent, a more precipitous drop from the mild decline of -5.8 percent in 4Q. The top/bottom decile dispersion of 20.7 percent in 1Q is up marginally from the historically tight dispersion of 19.1 percent in 4Q17. The rolling 12-month dispersion ending 1Q18 totaled 40.7, which is down from the calendar year 2017 performance dispersion of 51.8 percent.

Average hedge fund management and incentive fees began 2018 at the lowest level since HFR began estimating them in 2008; in 1Q18 management fees declined to another record low while incentive fees rose slightly. Average management fees fell -1 basis point (bps) over the prior quarter to 1.43 percent, while the average incentive fee rose 2 bps to 17.11 percent. The average management fee for funds launched in 1Q18 was 1.19, a decrease of -5 bps from the prior quarter and a decline of -15 bps over the calendar year 2017 launch average management fee of 1.34 percent. The average incentive fee for funds launched in 1Q18 was 17.2 percent, representing an increase of +19 bps over the calendar year 2017 launch average incentive fee of 16.97 percent, although this was down from the 17.4 percent average from 4Q17. 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 has continued to record levels, with fund strategies and structures evolving as both fees and liquidity continue to influence investor allocation decisions, as investors position for challenges associated with ongoing trade uncertainty and expected higher US interest rates.," stated Kenneth J. Heinz, President of HFR. "Hedge fund positioning has shifted from the equity beta that dominated 2017 to more sophisticated, strategic exposures on complex and volatile themes including trade and tariff politics and economics, M&A across rapidly evolving media and telecom spaces, and exciting growth trends in Technology. These trends are likely to continue to drive hedge fund and financial market performance through mid-2018."

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