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HEDGE FUNDS LAUNCHES RISE AS INVESTOR RISK TOLERANCE INCREASES

Liquidations moderate in 1Q17; Average incentive, management fees fall

CHICAGO, (June 16, 2017) – New hedge fund launches in 1Q 2017 increased for the first time since the first quarter of 2016 as both hedge funds and equity markets gained through the first part of the year, and measures of financial market volatility fell to record lows. New hedge fund launches totaled 189 in 1Q, up from 153 in the prior quarter, 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.

Hedge fund liquidations declined narrowly in 1Q17 as total industry assets continued to grow. Hedge fund liquidations fell to 259 in the period, down from 275 in the prior quarter. For the one-year period ending 1Q17, liquidations totaled 1,025, while 712 new funds were launched. As previously reported by HFR, total hedge fund industry capital increased to a record $3.07 trillion in 1Q17, surpassing the previous record of $3.02 trillion from the prior quarter. The total number of active hedge funds, including fund of hedge funds, declined to 9,733 in the first quarter.

Average hedge fund management and incentive fees declined narrowly in 1Q17, as the average management fee fell by 1 basis point (bp) to 1.47 percent in 1Q, and the average incentive fee fell 10 bps to 17.3 percent. The average management fee for funds launched in 1Q17 increased to 1.4 percent, up slightly from 1.3 percent for 2016 launches, while the average incentive fee for funds launched in 1Q17 fell to 17.1 percent, down 30 bps from 2016 fund launches. HFR estimates that approximately 30 percent of all hedge funds currently charge management and incentive fees equal to or greater than 2-and-20.

HFRI performance dispersion fell slightly in 1Q, as the top decile of hedge funds gained an average of +14.1 percent, while the bottom decile declined -7.0 percent (a dispersion of 21.1 percent), representing a modest decline from +13.7 and -10.1 percent, respectively, in 4Q16 (23.8 percent dispersion). Over the trailing 12 month period ending 1Q, the top decile of funds averaged a +36.5 percent return, while the bottom decile fell an average of -13.8 percent, a one-year performance dispersion of 50.3 percent.

"Hedge fund launches saw an uptick to begin 2017 as total industry capital extended above the $3 trillion milestone, investor risk tolerance increased, and expectations for near-term financial market volatility declined," stated Kenneth J. Heinz, President of HFR. "The recent increase in launches and moderation in liquidations is consistent with the trend of fee structures evolving to meet institutional investor demands and requirements. It is likely these trends will remain central to industry growth for the balance of the year."

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