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HEDGE FUNDS LOWER FEES AS FED RAISES RATES

Liquidations surpass 2009 level; New fund launches also decline

CHICAGO, (March 17, 2017) – Hedge fund liquidations increased in the fourth quarter even as the industry surpassed the $3 trillion milestone, bringing the number of closed funds for 2016 to the highest level since 2008. Hedge fund liquidations increased to 275 in 4Q, rising from 252 in the prior quarter, though falling from the 305 funds liquidated in 4Q15, 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.

For the full year 2016, liquidations totaled 1,057, surpassing the 1,023 liquidations from 2009, though falling well short of the record of 1,471 liquidations from 2008. As previously reported by HFR, total hedge fund industry capital increased to a record of $3.02 trillion to end 2016, surpassing the previous record of $2.97 trillion from the prior quarter. The total number of hedge funds, including fund of hedge funds, declined to 9,803.

New launches totaled 153 in 4Q, down from 170 in the prior quarter and 183 in 4Q15. The number of launches in the fourth quarter represents the lowest quarterly total since 1Q09 and marks the fifth consecutive quarter of net contraction in the overall number of funds. New launches totaled 729 in 2016, a steep decline from the 968 launches in 2015.

Average management and incentive fees declined narrowly in 4Q 2016 over the prior quarter. The average hedge fund management fee fell to 1.48 percent in 4Q, a decline of 1 basis point (bps), while the average incentive fee fell 10 bps to 17.4 percent. The average management fee for funds launched in

2016 fell to 1.33 percent, declining from 1.6 percent for 2015 launches. The average incentive fee for funds launched in 2016 declined to 17.71 percent, down 4 bps from 2015 fund launches.

HFRI performance dispersion increased for both 4Q and 2016. The top decile of HFRI performance gained an average of +13.73 percent in 4Q, while the bottom decile declined -10.1 percent, falling from averages of +14.77 and -7.1 percent, respectively, in 3Q16. For the full year 2016, the top HFRI decile averaged a +32.7 percent return, an increase from +20.3 percent in 2015, while the bottom decile fell an average of -15.5 percent, increasing from -25.1 percent in 2015. Dispersion between the top and bottom HFRI deciles slightly increased to 48.2 percent in 2016, up from the 45.1 percent dispersion in 2015. The HFRI Fund Weighted Composite Index® gained +5.5 percent in 2016.

"Hedge fund liquidations in 2016 surpassed the post-Financial Crisis peak despite total industry capital surpassing the $3 trillion milestone, underscoring the shifting investor risk tolerance and steadily increasing concentration of investor capital in mid-to-large hedge fund firms," stated Kenneth J. Heinz, President of HFR. "The hedge fund industry fee structure continues the process of evolving to meet increased investor demands, as well as persistently low, albeit increasing, level of interest rates. Continuation of the process of macroeconomic normalization is likely to drive strong performance across a wide range of strategies in 2017."

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