

Hedge Fund Liquidations Increase, Leading To Fee Flexibility

Stockholm (HedgeNordic) – Hedge fund liquidations totalled 1,057 for 2016, with an increase of 23 to 275 total for Q4 2016, according to the latest Hedge Fund Research Market Microstructure Report. This brings the number of closed funds to the highest level since 2008, even as the hedge fund industry surpassed the symbolic USD 3 trillion mark in Q4. The total number of hedge funds, including fund of hedge funds, receded to 9,803.

“Hedge fund liquidations in 2016 surpassed the post-financial crisis peak despite total industry capital surpassing the USD 3 trillion milestone, underscoring the shifting investor risk tolerance and steadily increasing concentration on investor capital in mid- to large hedge fund firms,” said 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 normalisation is likely to drive strong performance across a wide range of strategies in 2017.”

The development is likely to be having an influence on the decline or increasing flexibility (reported here) of average management and incentive fees. The former receded slightly in Q4 2016 to 1.48% on average according to HFR research, amounting to a decline of 1 bps, with the latter falling 10 bps to 17.4%. The average management fee for funds launched in 2016 fell to 1.33%, declining from 1.6% for the previous year. The average incentive fee for funds launched in 2016 declined to 17.71%, down 4 bps.

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