

More Hedge Funds Launching than Closing

Stockholm (HedgeNordic) – Hedge fund launches outnumbered liquidations for a third consecutive quarter, according to the latest HFR Market Microstructure Report released by Hedge Fund Research (HFR). However, the number of both hedge fund launches and closures decreased sharply in the first quarter of 2018.

An estimated 158 hedge funds were launched in the first quarter of 2018, compared to a total of 190 funds launched in the fourth quarter of 2017. The first-quarter figure represents the lowest quarterly number of launches since the last quarter of 2016, which registered 153 new launches. Meanwhile, hedge fund liquidations totaled 145 in the first quarter 2018, compared to a much higher figure of 259 recorded in the same quarter of the previous year. There were 166 fund liquidations recorded in the last quarter of 2017, with the number of hedge funds closing their doors during the 12-month period that ended March 31, 2018 reaching 670. The first-quarter figure of closures was the second-lowest quarterly number for liquidations since HFR started tracking the data in 2008.

With valuations stretched across asset classes and the hunt for value becoming more challenging, the need for risk diversification might, perhaps, explain the number of hedge fund launches outnumbering liquidations for three consecutive quarters. And hedge fund fees have been on a continuous decline as well. According to HFR, average management and incentive fees charged by hedge funds were at the lowest level at the beginning of 2018 since the data provider started tracking fees in 2008, though the average incentive fee increased slightly. The average management fee decreased by one basis point quarter-over-quarter to 1.43 percent, whereas the average incentive fee increased two basis points to 17.11 percent.

More importantly, the average management fee charged by the hedge funds launched in the first quarter of 2018 equaled only 1.19 percent, a decrease of five basis points from the previous quarter. The hedge funds launched during 2017 charged a management fee of 1.34 percent on average. The average incentive fee for vehicles launched in the first quarter of the year was 17.2 percent, marking a rise of 19 basis points over the average fee charged by all hedge funds launched during 2017. HFR estimates that only around 30 percent of all hedge funds charge fees equal to or greater than the fees under the 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.”, Kenneth J. Heinz, President of HFR, was cited in the latest HFR Market Microstructure Report.