

Investors Increase Pressure on Hedge Funds to Lower Fees

Despite industry moves towards lower management and performance fees, investors state that this is an area in need of further improvement

The latest research from Preqin on hedge fund fees finds that lower recent performance, high-profile redemptions and increased concern from investors on the issue of fees have influenced many hedge fund managers to bring their management and performance charges below the 2 & 20 'industry standard'. Just 35% of hedge funds tracked by Preqin currently charge both a 2.00% management fee and a 20.00% performance fee, and average fees have fallen over recent years – in 2016, the mean management fee is 1.57%, while the mean performance fee is 19.29%. Furthermore, among the most recent funds these fees are lower still: funds launched in 2016 have, on average, a 1.53% management fee and a 19.13% performance fee.

In part, this could be seen as a response from managers to increased and persistent concerns among investors in relation to fund fees. In Preqin's most recent survey of hedge fund investors, almost half (49%) cited fees as a key issue facing the industry over the next 12 months, the joint highest proportion. At the same time, 58% said that they did not believe their interests were aligned with those of managers. However, the issue around fees has seen some change over the past 12 months: 58% of investors said they had seen fund terms and conditions shift in their favour, compared to just 8% that thought they had changed in favour of managers. Additionally, 63% and 32% of investors cited management and performance fees respectively as an area of improvement over the past 12 months, although 73% and 60% respectively also cited these areas as in need of further improvement.

Round-up of Key Hedge Fund Fees Facts:

- Just 35% of hedge funds currently charge both a 2.00% management fee and 20.00% performance fee.
- On average, hedge funds launched in 2016, have a 1.53% management fee and 19.13% performance fee; in contrast, funds incepted in 2007 have a 1.66% mean management fee and a 19.48% mean performance fee.
- Almost half of investors (49%) cited fees as a key issue facing the industry over the next year, with 58% saying their interests were not aligned with firms'.
- Fifty-eight percent of investors said they had seen fund terms shift in their favour; 8% felt they had shifted in favour of hedge fund managers.
- Management and performance fees were cited by 63% and 32% of investors respectively as areas that had improved in the past year. However, 73% and 60% respectively cited these areas as needing further improvement.
- Funds with top quartile five-year annualized performance charge 19.67% in performance fees on average, compared to 18.75% for funds in the bottom quartile over five years.
- On average, funds with \$5bn or more in assets charge 1.69% and 20.32% in management and performance fees respectively, compared to 1.55% and 18.93% for funds with less than \$100mn.

To access further information and analysis, please see the full report below:
<https://www.preqin.com/docs/newsletters/hf/Preqin-Hedge-Fund-Spotlight-September-2016.pdf>

Comment:

"The hedge fund industry has now seen an extended period of lower performance, and four out of five investors recently stated that their hedge fund investments had not met their expectations in this area. In these circumstances, it is not surprising that increasing scrutiny has been paid to the fees that hedge funds charge – especially in the wake of some high-profile investors citing fees as a factor in them reducing or liquidating their hedge fund portfolios. More than half of investors surveyed by Preqin have mentioned both management and performance fees as areas in need of improvement, and a high proportion currently feel that their interests are not aligned with those of managers.

However, there is evidence that the industry has seen a general shift away from the '2 & 20' fee structure, despite it still being considered the industry standard by many. The hedge fund market is increasingly crowded, and many smaller or newer managers are seeking to make their lower fees a way to differentiate themselves from their competitors. It is true that the largest, oldest, and best performing hedge funds are still able to command higher fees, but if investors are prepared to commit to a lesser-known fund, they may find many opportunities that offer them a significantly lower fee rate."

Amy Bensted – Head of Hedge Fund Products, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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