

HEDGE FUND FEES: INVESTOR VIEWS AND FUND MANAGER REACTION

We look at investors' attitudes to hedge fund fees and conditions and how hedge fund managers are reacting to these concerns.

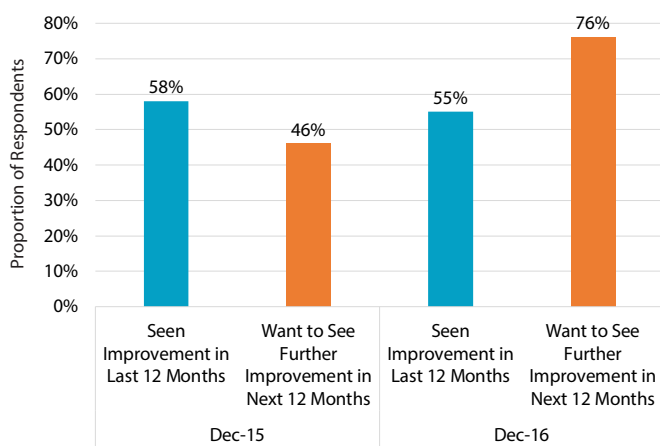
MANAGEMENT FEES

Management fees continue to be at the forefront of investors' concerns. Although the majority of respondents to Preqin's last three investor interviews reported that they had seen an improvement in this area, over three-quarters (76%) of investors surveyed in December 2016 want to see further improvements in management fees over the course of 2017 (Fig. 1).

As illustrated in Fig. 2, fund managers have reacted to investors' calls for lower management fees: the mean fee for hedge funds launched each year has generally decreased over the course of the past decade, driving the average management fee across the industry to 1.56%. There has also been a notable drop in the proportion of new hedge funds entering the market charging a traditional 2.00% management fee; the proportion fell to an

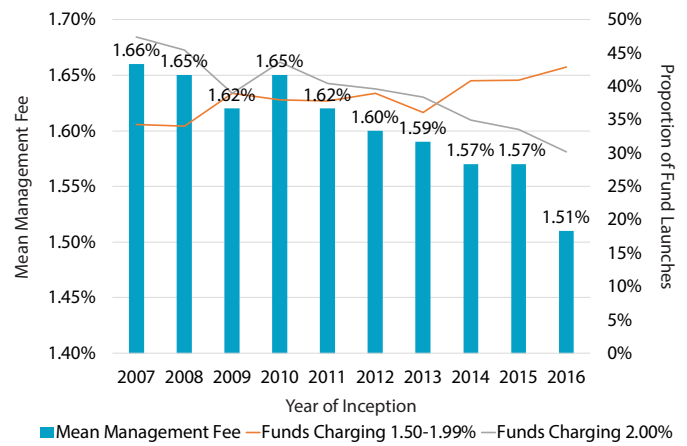
all-time low of 30% in 2016. Furthermore, 2014 represented the first year on record in which funds charging a 2.00% management fee no longer represented the largest proportion of launches: 41% of 2014 hedge fund launches charged a fee of 1.50-1.99%, compared with 35% charging 2.00%. Since then, these figures have both continued in contrasting trajectories.

Fig. 1: Investor Views on Hedge Fund Management Fees, 2015 vs. 2016



Source: Preqin Investor Interviews, December 2015 - December 2016

Fig. 2: Mean Hedge Fund Management Fee and Fee Distribution by Year of Inception



Source: Preqin Hedge Fund Online

DATA SOURCE:

The 2017 Preqin Global Hedge Fund Report is the most complete and in-depth review of the industry available. Covering a wide range of topics, with expert commentary, key trends from recent years, historical statistics, league tables and survey results, the Report offers exclusive insight into the latest developments affecting the industry.

Assembled by our dedicated teams of multilingual analysts based around the world, the 164-page 2017 Preqin Global Hedge Fund Report includes all the most important developments alongside historical data, enabling you to put recent trends into context.

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LEVEL OF PERFORMANCE FEES

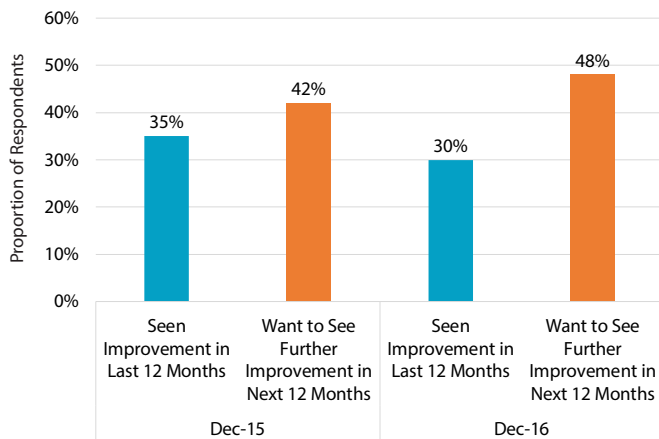
Approximately a third of investors surveyed in each of Preqin's last three investor interviews have witnessed an improvement in the level of performance fee they are charged; however, nearly half (48%) of investors surveyed in December 2016 are seeking further improvements

to the amount charged in performance incentives (Fig. 3).

Hedge fund managers have responded to this pressure and moved away from the standard 20% structure (Fig. 4); however, not at the same rate as management fees.

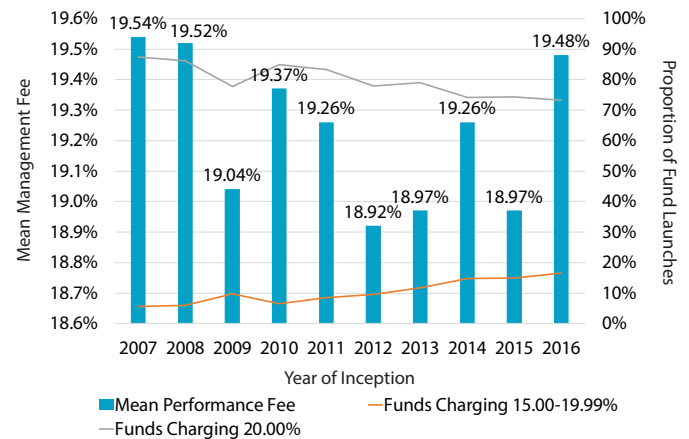
While a significant 73% of funds launched in 2016 charge a 20% performance fee, this figure has declined from 87% in 2007. Furthermore, the proportion of funds deploying a performance fee of 15.00-19.99% has nearly tripled since 2007, from 6% of launches to 17% in 2016.

Fig. 3: Investor Views on the Level of Hedge Fund Performance Fees Charged, 2015 vs. 2016



Source: Preqin Investor Interviews, December 2015 - December 2016

Fig. 4: Mean Hedge Fund Performance Fee and Fee Distribution by Year of Inception



Source: Preqin Hedge Fund Online

HOW PERFORMANCE FEES ARE CHARGED

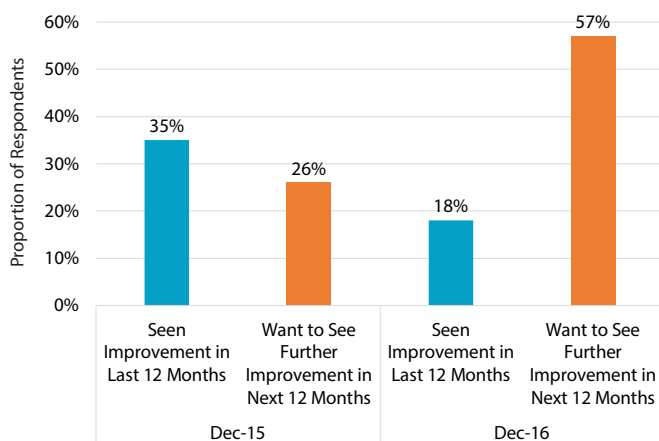
Although the performance fee has come under less scrutiny than the management fee in recent years, a growing proportion of investors are seeking a change in how this fee is charged rather than a change in the absolute level. The majority (57%) of those interviewed in the latest Preqin survey believe performance fees and how they are charged form a key area for managers to improve in the coming 12

months, up from only 26% in December 2015 (Fig. 5).

Consequently, a growing proportion of managers are setting restrictions on performance fees to protect investors' capital, predominantly by using hurdle rates, high-water marks and clawbacks. High-water marks are the most commonly used provision – 77% of managers use

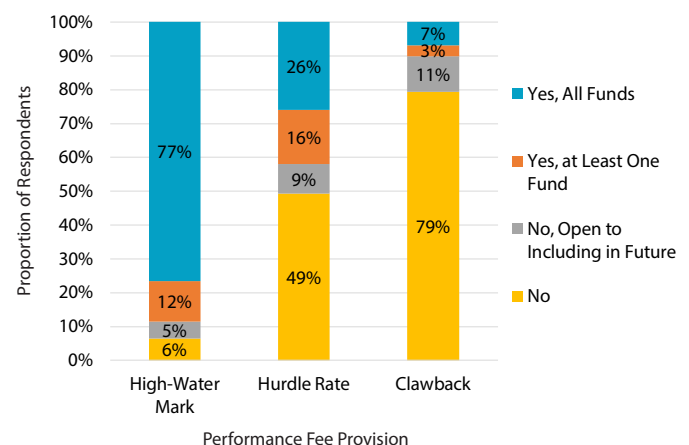
them on all their funds – while clawbacks, which incentivize consistent performance and protect investors from further losses, are currently utilized by 10% of managers; however, a further 11% are open to including this provision in the future (Fig. 6). This suggests further receptiveness by managers to cater to investors' demands and ensure they are not paid for short-term periods of positive performance.

Fig. 5: Investor Views on How Hedge Fund Performance Fees Are Charged, 2015 vs. 2016



Source: Preqin Investor Interviews, December 2015 - December 2016

Fig. 6: Fee Provisions Provided by Hedge Fund Managers



Source: Preqin Fund Manager Survey, November 2016

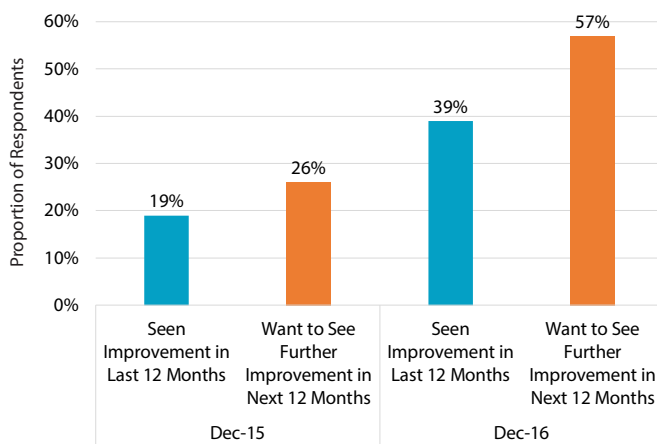
TRANSPARENCY

As can be seen in Fig. 7, 57% of investors surveyed in December 2016 are looking for better transparency from hedge fund managers in 2017. One way in which managers have responded to this need is to offer a managed account structure, which allows investors greater transparency of the underlying

investments and more control over the hedge fund manager's decisions, as well as the opportunity to access more favourable fees. The proportion of hedge fund launches each year represented by managed accounts has doubled since 2010 as investors seek the benefits of the structure (Fig. 8). Furthermore, of

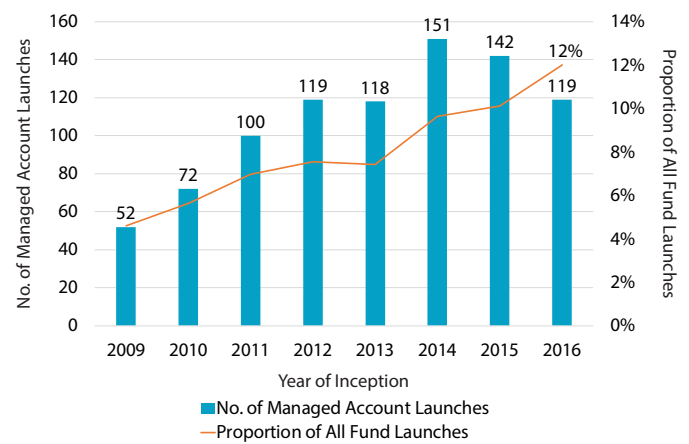
the hedge fund managers surveyed by Preqin in November 2016, 32% plan to invest more in investor relations in 2017, compared with just 11% that intend to do so in 2016, as managers look to better serve their investors through increased communication channels.

Fig. 7: Investor Views on Hedge Fund Transparency, 2015 vs. 2016



Source: Preqin Investor Interviews, December 2015 - December 2016

Fig. 8: Managed Account Launches by Year of Inception



Source: Preqin Fund Manager Survey, November 2016

SAMPLE FIRMS THAT REDUCED FEES IN 2016

Firm	Location	Fee Type Changed	Details
Brevan Howard Capital Management	Jersey	Management Fee	The firm no longer charges a management fee on profits generated by its listed BH Macro Fund.
Caxton Associates	New York, US	Management Fee	The firm reduced the management fee for those investing above \$500mn to 2.20% from 2.50%. They will also be launching a new share class for investors willing to lock up their money for three years which has a 2.00% management fee.
Moore Capital Management	New York, US	Management Fee	The hedge fund manager lowered the management fee from 3.00% to 2.50% on its Moore Macro Managers Fund.
Och-Ziff Capital Management	New York, US	Management Fee	The firm reduced management fees by 25bps for its OZ Master, Asia and Europe multi-strategy funds, which charged between 1.50% and 2.50% in management fees.
Pershing Square Capital Management	New York, US	Performance Fees	The firm is offering a new share class in which it will not charge any performance fees on gains less than 5.00%, after that, the performance fee will be 30.00%.
Tudor Investment Corporation	Connecticut, US	Management and Performance Fees	The hedge fund manager reduced the level of fees charged for a share class that contains the majority of their flagship fund's capital twice in the past eight months, from 2.75% and 27.00% in mid 2016 to 1.75% and 20.00% of assets and profits respectively as at March 2017.
Winton Capital Management	London, UK	Management and Performance Fees	The hedge fund manager reduced both the management and performance fees of its flagship funds from 1.00% and 20.00% to 0.90% and 16.00% respectively.

Source: Preqin Hedge Fund Online