Hedge Fund Managers Become more Flexible on Fees

Managers view investor demands over fees as a key driver of change in 2017; three-quarters report to Preqin they are prepared to lower their rates

As hedge fund managers seek to rebuild investor confidence in the wake of a challenging 2016, they have pinpointed performance and fees as the key areas that will influence the industry in the year ahead. Preqin's survey of 276 hedge fund managers in November 2016 finds that net investor outflows through the year were felt by the wider industry, and many managers found fundraising and retaining investor capital to be significant challenges. With several of the high-profile investors announcing redemptions in 2016, and citing fees as a key driver behind this, hedge fund managers are responding with changes to their fee structures. Three-quarters are willing to reduce their fees, and many intend to spend more on marketing in the year ahead in a bid to overcome investor scepticism about the value of investing in hedge funds.

For more information and analysis, see the full H1 2017 Hedge Fund Manager Outlook here:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Hedge-Fund-Manager-Outlook-H1-2017.pdf

Key Hedge Fund Manager Outlook Facts:

- Performance and investor demands for more favourable fees were cited by 73% and 64% of fund managers respectively as **key drivers of change facing the industry in 2017**.
- This compares with 33% of fund managers that cited performance and 28% that cited fees as drivers of change in 2016, indicating **concerns around these areas are growing** in light of an increasingly cautious investor base.
- As many investors reduced their hedge fund exposure last year, **47% of fund managers said it was harder to raise capital in 2016** compared to 2015, and 36% said that it was harder to retain assets.
- In fact, **net investor redemptions from hedge funds accelerated through the year**, despite the industry returning 7.30%, its best performance year since 2013. Many investors cited performance and fees as reasons for reducing their investments.
- However, hedge fund fees are on a downward trend: **average management fees dropped to 1.51%** among funds incepted in 2016, down from 1.57% in 2014 and 2015.
- Just **26% of managers revealed that they were not prepared to reduce their fees**. Ten percent are prepared to reduce performance fees, 37% would reduce their management fees, and 27% are open to reducing both.
- While 55% of institutional investors believe management fees improved over 2016, **more than three-quarters (76%) believe that the area needs further improvement over 2017**.

Amy Bensted, Head of Hedge Fund Products:

"Investor dissatisfaction shows no signs of abating in the early part of 2017, and it is clear that addressing investor pressure around performance and fees will be the key challenge for hedge fund managers in the year ahead. Managers will be looking to build on the three-year high returns of 7.30% seen in 2016 to restore confidence in the asset class as a whole, revive investor sentiment and begin reversing the trend of outflows from hedge funds. Although investors show high levels of concern about the short-term performance of the industry, hedge funds have proved their worth in the portfolio of institutional investors on a risk-adjusted basis over the long term.

However, improved performance alone is not enough to assuage investor concerns that hedge funds are not offering them sufficient value on their investments. Investors have also indicated that they want to see further reductions of hedge fund fees, and it seems as though managers are increasingly looking to provide them. Firms that can generate healthy returns for their investors and meet concerns over fees could truly set themselves apart from their peers in 2017."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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