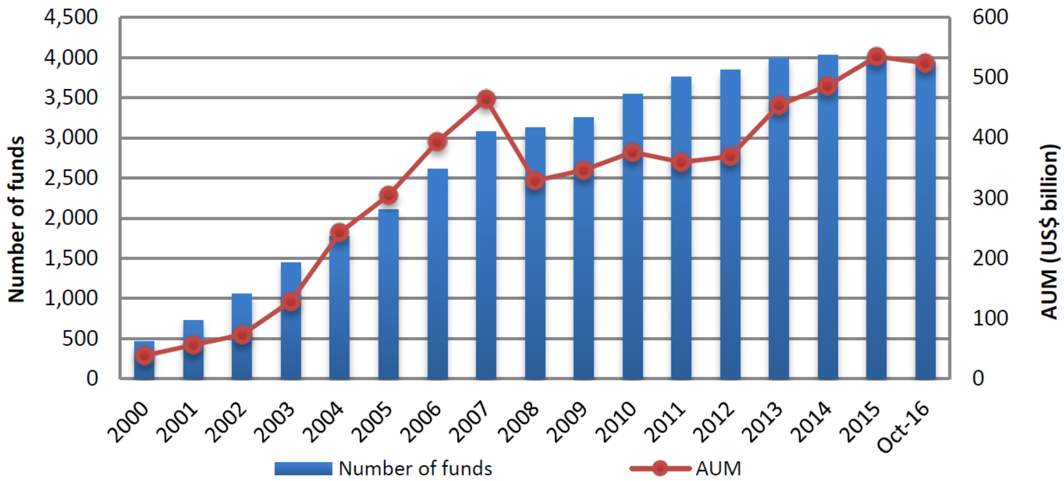
Hedge Funds News Flow - December 2016 / January 2017

A Glance at the European Landscape of Hedge Funds in 2016

In its December Hedge Fund report, Eurekahedge provides a comprehensive insight into the landscape of the European hedge fund industry:

- As illustrated by the graph below, as of October 2016 European assets under management amounted to USD 524.5 billion, managed by 3,949 hedge funds. This means that 569 funds have been shut down since 2015. In October 2016 alone, 221 funds were liquidated. However, at the same time, 186 fund were launched.
- 2016 showed controversial trends: in the first six months investor inflows of USD 5.4 billion partially compensated the negative performance amounting to USD 8.2 billion. Conversely, Q3 and Q4 2016 were driven by net outflows which increased to USD 12.8 billion, while at the same time performance-driven gains amounted to USD 4.9 billion. Average management fees declined from 1.6% in 2006 to 1.3% in 2016. Over the same period of time, average performance fees fell from 17.1% to 14.7%.
- Between 2011 and 2016, the proportion of fund managing less than USD 100 million declined from 65% to 52%. In the same period of time, the proportion of funds managing more than USD 500 million has increased from 11% to 19%.
- A close look at head office locations reveals an interesting pattern for Swiss hedge funds: As expected, the UK represents the "location of choice" for 39% of the hedge fund managers, followed by Luxembourg (16%) and - in third place - Switzerland, with a market share of 10%. On the other hand, while representing a popular location for hedge fund domiciles, Cayman Islands account for only 2% of European managers' head office location.

European hedge fund industry: growth since 2000



Source: Eurekahedge

Global pressure on fees from the side of institutional investors

As already indicated above in the context of the European hedge fund industry, fee reductions and flexibility regarding incentives have become increasingly important on a global basis as well, not at least as a result of the uninspiring performance by several industry leaders in 2016. According to Barclays, two-thirds of funds offer a fee discount of some kind, such as discounts by using a scale of fees based on assets under management.

A mixed bag of performance figures for 2016

As a result of disappointing heavy weights like pharma and banking stocks, the Swiss performance Index closed slightly in the red last year, thus clearly underperforming global hedge funds which increased an expected 4%. European equity markets in general, expressed by the Euro Stoxx 50 (+0.7%), remained on the sideline as well. On the other hand, the S&P 500 gained 9.3%. A major part of this gain has happened since Donald Trump's surprise victory an, leading also to a better trading pattern for hedge funds and - as a positive consequence - to better headlines in the press regarding the hedge fund industry as a whole.

New optimism for the hedge fund year 2017

Following a challenging 2016, the outlook for 2017 looks more encouraging again: An increasing number of hedge fund managers are optimistic that they will be able to take advantage of improved market conditions as a result of less interventions from the side of central banks. US stocks are forecast to rise further on Donald Trump's plans to boost infrastructure spending, lower taxes and decrease regulation on businesses. What might help as well is the reduction in cross-asset correlation as generating alpha is obviously easier in an environment of low correlation and high volatility.