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NEW HEDGE FUND LAUNCHES RISE AS RISK TOLERANCE RETURNS

*Fund liquidations steady as HFRI dispersion narrows;
Average, vintage management and incentive fees grind lower*

CHICAGO, (June 28, 2019) – New hedge fund launches increased to begin 2019, rising from the trough the industry experienced to conclude 2018, while liquidations held steady as the sharp reversal in investor risk tolerance drove financial markets into V-shape recovery. Total hedge fund launches climbed to 136 in 1Q19, an increase over the 111 launches in the volatile 4Q18, according to the latest *HFR Market Microstructure Report*, released today by HFR[®], the established global leader in the indexation, analysis and research of the global hedge fund industry.

The 136 new launches brings the rolling 12-month launch total to 544, falling below the 561 launches from calendar year 2018 and representing the lowest total for a 12-month period since 2000.

1Q19 also represents the third consecutive quarter in which liquidations exceeded launches, reversing what had previously been a four-quarter trend of net growth in the number of funds. Fund liquidations were steady in 1Q19, narrowly declining to an estimated 213, in line with the 215 liquidations from 4Q18. The 1Q19 liquidations brings the rolling 12-month liquidation total to 727, topping the 659 liquidations from calendar year 2018 but representing the second lowest liquidation total since 2007.

Despite posting its first monthly decline for the year in May, the HFRI Fund Weighted Composite Index[®] has gained +5.0 percent YTD through May 2019, led by the HFRI Equity Hedge

(Total) Index, which has gained +6.4 percent. Risk Parity strategies have also posted strong returns for 2019, with the HFR Risk Parity Volatility 15 Institutional Index jumping +14.5 percent.

Blockchain and Cryptocurrency funds have surged in 2019, with the HFR Cryptocurrency Index gaining +82.5 percent through May. Prior to the 2019 performance surge, the universe of Blockchain focused funds had steadily increased to approximately 40 funds, with these managing approximately \$2.5 billion in investor capital.

Hedge fund performance dispersion narrowed significantly in 1Q19, with the average performance of both the top and bottom deciles of HFRI constituents posting sharp increases over 4Q18. The top decile posted an average gain of +21.12 percent, up from +8.5 percent in 4Q18, while the bottom decile decline fell to -5.8 percent, down from an average of -23.3 percent. This top/bottom dispersion 26.9 percent represents a dispersion decline of nearly 500 basis points over the 4Q dispersion of 31.8 percent. The 12-month rolling decile dispersion also narrowed over calendar year 2018, with both top and bottom deciles improving: the top HFRI decile gained +20.95 in trailing year while the bottom decile fell -17.8 percent, implying a dispersion of 38.72 percent a decline of nearly 500 basis points from the 2018 performance dispersion of 43.4 percent.

Average hedge fund management fees industry-wide remained at the lowest level since HFR began publishing these estimates in 2008, while the average incentive fee fell slightly from the prior quarter. The average management fee fell by 2 basis points to an estimated 1.41 percent, while the average incentive fee fell narrowly by 30 bps to 16.60 percent.

The average management fee for funds launched in 1Q19 was 1.19 percent, a decline of -10 bps from the 2018 launch average of 1.29 percent. The average incentive fee for funds launched in 1Q19 was 18.79, a decline of 4 bps from the 4Q18 launch average incentive fee of 18.83 percent, but representing an increase over the full year 2018 launch average incentive fee of 17.90 percent.

“Powerful risk-on sentiment drove performance and new launch trends across hedge fund, risk premia, risk parity and blockchain exposures through early 2019, though trade-related risks have tempered gains into the second quarter. New fund launches have seen increases in launch size, with investor emphasis on liquidity, low fees and innovative applications of ESG and Diversity concepts,” stated Kenneth J. Heinz, President of HFR. “Investors and fund managers continue to position for the W-shaped financial market environment, with oscillating patterns of risk-on and risk-off trends dominating industry and strategy performance into 2H19. New launches which offer institutional investors efficient access to these trends of increased liquidity, low fees and tactical positioning, including ESG and Blockchain exposures are likely to lead industry growth in coming quarters.”



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HFR (Hedge Fund Research, Inc.) is the global leader in the alternative investment industry, specializing in the indexation and analysis of hedge funds. Established in 1992, HFR produces the HFRI, HFRX and HFRU Indices, the industry's most widely used benchmarks of global hedge fund performance. HFR calculates over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. HFR Database, a comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed a detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. The HFR suite of analysis products leverages HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more sophisticated analysis. For the hedge fund industry's leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.**

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