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HEDGE FUND LAUNCHES ACCELERATE AS HFRI SURGES INTO 2021

New launches exceed liquidations, highest quarterly launch total since 4Q17; HFR Cryptocurrency Index extends record levels

CHICAGO, (March 25, 2021) – New hedge fund launches increased in the fourth quarter of 2020 to the highest level since 4Q17 on optimism regarding the U.S. economic reopening and rising expectations for growth, 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.

New hedge fund launches increased to an estimated 175 in 4Q20 and exceeded the estimated quarterly liquidations for the second consecutive quarter, after eight quarters of contraction. Launches in 4Q exceeded the 3Q estimate of 151 new funds, bringing the FY 2020 launches to 539, a period which included a record low number of launches in 1Q as the global pandemic began.

Fund liquidations also increased in 4Q20 to 151, a slight uptick from the prior quarter but also marking a decline of over 50 percent from the 304 liquidations in 1Q20. For the full year 2020, an estimated 770 funds liquidated, a small increase over the estimated 738 liquidations in 2019 and the highest full-year total since 784 funds closed in 2017.

The industry launch trends to finish 2020 appear poised to continue into 2021, as early 2021 performance has been strong. The investable HFRI 500 Fund Weighted Composite Index® jumped +14.25 percent in the trailing four months ending February 2021, as the HFRI Fund Weighted Composite Index surged +16.6 percent over the same time frame, the strongest four-month period in over 20 years. The HFRI Equity Hedge (Total) Index led strategy-level performance over the trailing four months with a gain of +21.9 percent, while the HFR Cryptocurrency Index surged +205.6 percent.

As previously reported by HFR, total hedge fund industry capital surged to a record $3.6 trillion to begin 2021.

For 4Q20, hedge fund performance dispersion widened over the prior quarter, with the average performance of both the top deciles increasing, including a sharp increase in the top decile. The top decile of HFRI constituents gained +38.3 percent in 4Q20, while the bottom decile fell -5.3 percent, resulting in a top/bottom dispersion of 43.6 percent. By way of comparison to the prior quarter, the top decile gained +21.5 percent in 3Q20 while the bottom decile fell -8.8 percent, representing a top/bottom dispersion of 30.3 percent. For the full year 2020, the top HFRI decile gained +60.3 percent, the highest top decile performance since the top decile gained 99.96 percent in 2009. The bottom decile fell -24.8 percent for FY 2020, the fourth largest decline since 2009.

Average hedge fund management fees again remained flat from the prior quarter at an estimated 1.37 percent, while the average industry-wide incentive fee declined by 1 basis point to end 4Q at 16.35 percent. Both figures represent the lowest level for both fees since HFR began publishing these estimates.

For funds launched in 4Q20, the average management fee was an estimated 1.23 percent, below the global industry average of 1.37 and above the 3Q average of 1.36 percent for funds launched in the prior quarter. The average incentive fee for funds launched in 4Q20 was an estimated 16.3 percent, in line with the total industry-level average of 16.36 but below the average incentive fee of 17.44 for funds launched in 2019.

"New hedge fund launches continued to rise as industry expansion accelerated into 2021, driven by the strongest performance gains since 2000, as both managers and investors positioned for strong growth throughout 2021. Volatile trends, including an increase in trading volume from retail investors and a renewed interest in strategies focused on both out of favor, deep value equites, as well as stocks with high short interest, have increased idiosyncratic equity volatility in recent months," stated Kenneth J. Heinz, President of HFR. "Having navigated extreme dislocations and volatility in 2020, hedge funds are maintaining an intense focus on ongoing new strains of coronavirus as well as vaccination progress, while at the same time focusing on evolved risks for 2021 including interest rate sensitivity, increasing inflation expectations, and geopolitical tensions across North America, Europe and Asia. Managers positioned for these powerful trends are likely to lead industry performance and growth in 2021."

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HFR 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, **HFR is The Institutional Standard.**

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