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HEDGE FUND LAUNCHES RISE AS MACRO LEADS INDUSTRY THROUGH INFLATION VOLATILITY

Quarterly launches 2nd highest since 2017 as HFRI 500 Macro surges; Incentive fees fall despite continued volatility

CHICAGO, (June 30, 2022) – New hedge fund launches jumped to the highest level since 1Q 2021 and reached the second highest quarter since 4Q 2017 as the HFRI 500 Macro Index surged through global inflation-induced financial market volatility, 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 185 in 1Q22, jumping from 113 in 4Q21, representing the highest launch rate since 189 new funds launched in 1Q of last year, and the second-highest quarter since 190 funds launched in 4Q17. In the trailing 12 months ending 1Q22, an estimated 610 total new hedge funds have launched. New Macro hedge fund launches reached 45 in 1Q, topping both Event-Driven and Relative Value Arbitrage, and trailing only Equity Hedge funds, which saw an estimated 78 new funds launch.

The number of hedge fund liquidations increased narrowly from the prior quarter, as an estimated 126 funds closed its doors in 1Q22, up slightly from 117 fund liquidations in 4Q21. In the trailing 12 months ending 1Q22, an estimated 494 funds have liquidated.

The investable HFRI 500 Macro Index has surged +14.1 percent YTD through May, as generational inflation has contributed to steep equity market declines, rising interest rates and concerns regarding a slowing US economy. After producing a strong +9.9 percent return in 2021, the HFRI 500 Fund Weighted Composite Index has exhibited strong defensive capital preservation over the volatile start to 2022, topping equity market losses by over 2000 basis points by posting a narrow decline of -1.4 percent through May.

The performance dispersion of the HFRI FWC expanded over the prior quarter but narrowed over the rolling 12 months, as the top decile of index constituents returned an average of +19.8 percent in 1Q22, increasing from +10.4 percent in the prior quarter, while the bottom decile declined by an average of -18.6 percent in 1Q, representing a top/bottom decile dispersion of 38.4 percent. Over the trailing four quarters, the top decile of index constituents returned an average of +33.2 percent, while the bottom decile declined by an average of -22.2 percent, representing a top/bottom decile dispersion of 55.4 percent. While dispersion remains high, this figure trails the 85.1 percent dispersion produced in calendar year 2020.

Hedge fund fees remained steady to begin 2022, as the average industry-wide management fee was unchanged at an estimated 1.36 percent in 1Q22, while the average incentive fee decreased narrowly by 4 basis points to 16.03 percent. Both estimated fees represent the lowest level since HFR began publishing these estimates in 2008. Average management fees for funds launched in 1Q22 also remained steady from launches in the prior quarter, declining only 1 basis point to 1.36 percent. Average incentive fees for funds launched in 1Q22 declined to an estimated 15.6 percent, down slightly from the average incentive fee of 16.2 percent from funds launched in 4Q21.

"Macro hedge fund performance and industry-wide defensive outperformance of steep equity and fixed income losses drove a strong environment for new hedge fund launches in 1Q22. New launches are driven by strong institutional demand for inflation protection and defensive capital preservation through unprecedented geopolitical and macroeconomic uncertainty," stated Kenneth J Heinz, President of HFR. "This year has been dominated by powerful risk-off sentiment as gains across uncorrelated Macro strategies have accelerated through the mid-2022 with contributions from commodity, fundamental discretionary, and quantitative trend-following exposures. As these trends continue to dominate performance through mid-year, it is likely that institutional investors will continue to expand allocations to both Macro funds and the entire industry with the objective of defensive capital preservation, reduced portfolio duration, and powerful inflation protection from these increased allocations."

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