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HEDGE FUND LAUNCHES STEADY AS FINANCIAL RISK SURGES, INSTITUTIONS SHOW INTEREST IN MULTI-ASSET INFLATION-FOCUSED STRATEGIES

Fees rise on record inflation, interest rate increases; HFRI 500 gains on Technology; HFR Cryptocurrency resumes rise

CHICAGO, (June 30, 2023) – New hedge fund launches were steady to begin 2023 as managers positioned for opportunities in Technology, Artificial Intelligence, and Cryptocurrency. Launches were concurrent with a sharp rise in financial risks in banks associated with the increases in interest rates and inflation over the past year, 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 estimated number of new hedge fund launches held steady at 93 in 1Q23, having increased from the historic low of 71 launches in 3Q22, which had been the lowest launch total since the depths of the Global Financial Crisis in 4Q08, but on par with the estimated 96 launches in 4Q22.

The number of hedge fund liquidations in 1Q23 declined from 4Q22, as an estimated 102 funds closed in 1Q23, falling from 144 in 4Q22. In the trailing twelve-month period ending 1Q23, an estimated 340 funds launched, while 547 funds liquidated.

The HFRI Fund Weighted Composite Index advanced +1.2 percent YTD through May, led by Equity Hedge and Relative Value strategies. The investable HFRI 500 Equity Hedge Index has led strategy gains to begin 2023, gaining +1.6 percent YTD through May, driven by exposure to Technology, Artificial Intelligence, and Cryptocurrency.

The performance dispersion of the HFRI Fund Weighted Composite Index® (FWC) decreased slightly from the prior quarter, as the top decile of index constituents returned an average of +13.3 percent in 1Q23, while the bottom decile declined by an average of -10.3 percent, representing a top/bottom decile dispersion of 23.6 percent, compared to a top/bottom dispersion of 27.9 percent in 4Q22. In the trailing twelve-month period ending 1Q23, the top decile of FWC constituents returned an average of +19.3 percent, while the bottom decile declined by an average of -25.1 percent, representing a top/bottom decile dispersion of 44.4 percent.

Hedge fund fees increased to begin 2023, driven not only by strong performance and capital inflows, but also sharp increases in interest rates and generational inflation. The average industry-wide management fee increased by 1 basis point (bp) from the prior quarter to an estimated 1.36 percent, while the average incentive fee increased by 18 bps to 16.17 percent; both estimated fees rising from their lowest levels since HFR began publishing these estimates in 2008.

For funds launched in 1Q23, average management fees increased by 3 bps from the prior quarter to an estimated 1.21 percent. Average incentive fees for funds launched in 1Q23 were an estimated 18.57 percent, an increase of 89 basis points from the prior quarter.

"Hedge fund performance, dispersion, fee, and launch trends in recent months have been driven by market cycles of inflation, interest rates, bank risk, geopolitical tensions, recession fears and Technology/AI exposures which are not only powerful, but comprise competing tensions, impacts and macroeconomic scenarios. The steady level of new fund launches combined with the decrease in liquidations indicates that institutions are increasing commitment to hedge funds as they seek to pare back high beta equity and illiquid private equity holdings in favor of opportunistic, specialized, defensive portfolio positions," stated Kenneth J. Heinz, President of HFR. "Strong demand from institutional investors has been focused on defensive portfolio capital preservation, opportunistic exposures through volatile financial turmoil, increasing interest in multi-strategy inflation trading teams, and on Technology, AI, and Cryptocurrency exposures. Institutions are likely to increase their exposures to hedge funds, both established and newly launched, which have demonstrated their robustness through several recent years of dislocations and intense volatility across the range of asset classes."

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