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HEDGE FUND LAUNCHES, LIQUIDATIONS STEADY INTO 4Q AS FUNDS POSITION FOR RATES, INFLATION PEAK

Industry growth continues as launches exceed liquidations for 2nd consecutive quarter; Fees near historic lows as industry positions for inflows

CHICAGO, (December 29, 2023) – New hedge fund launches and liquidations were steady into the fourth quarter as managers positioned for the peak of generational inflation and the conclusion of aggressive interest rate increases which have dominated the past two years. The estimated number of new hedge fund launches in 3Q23 was steady at 127, a narrow decline from the prior quarter of 133 in 2Q23, bringing the YTD total to an estimated 353 launches thus far in 2023, 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 number of hedge fund liquidations was also steady in 3Q23, with closures falling slightly to as an estimated 100 funds in 3Q23, a slight decline from the prior quarter estimate of 109 liquidations. In the trailing twelve-month period ending 3Q23, an estimated 449 funds launched, while an estimated 455 funds liquidated.

The HFRI Fund Weighted Composite Index® (FWC) advanced +4.8 percent YTD through November, led by the recent surge in Equity Hedge and Event Driven strategies, and complemented by steady gains in Relative Value Arbitrage. The HFRI Equity Hedge (Total) Index advanced +6.6 percent YTD through November, the HFRI Event-Driven (Total) Index gained +6.0 percent YTD, and the HFRI Relative Value (Total) Index added +5.9 percent YTD through November.

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 +11.1 percent in 3Q23, while the bottom decile declined by an average of -10.0 percent, representing a top/bottom decile dispersion of 21.1 percent, compared to a top/bottom dispersion of 22.82 percent in 2Q23. In the trailing twelve-month period ending 3Q23, the top decile of FWC constituents returned an average of +32.7 percent, while the bottom decile declined by an average of -15.1 percent, representing a top/bottom decile dispersion of 47.9 percent.

Hedge fund fees declined through 3Q23, as managers positioned for growth and inflows to begin 2024. The average industry-wide management fee declined 1 basis point from the prior quarter to 1.35 percent, while the average incentive fee decreased by 18 bps to 16.01 percent. For funds that launched in 3Q23, the average management fee was an estimated 1.22 percent, while the average incentive fee was an estimated 17.82 percent.

"Hedge fund performance and growth trends continue to be dominated by inflation and interest rates with these having experienced a major inflection point in late 2023 as inflation and interest rates posted sharp declines into year-end, easing and reversing the primary source of volatility in financial markets for the past two years," stated Kenneth J. Heinz, President of HFR. "Strong performance through this intense volatility is likely to drive performance and capital flows through 1H24 with leadership from multi-strategy funds which have successfully navigated this market cycle. While managers and investors alike are positioning for this welcome decline in rates, funds also continue to position for the possibility of unexpected reversals or unpredictable dislocations which can occur as a result of geopolitical risk or shifts in the macroeconomic outlook. Institutions are likely to remain focused on specialized inflation and interest rate trading, and expanding their exposures to hedge funds which have both demonstrated their robustness and increased their portfolio focus on these areas in recent months."

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