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HEDGE FUND LAUNCHES RISE THROUGH MID-2020 AMIDST HFRI SURGE

*Fund liquidations fall after virus peak in Q1;
HFRI 500 tops DJIA as decile dispersion falls*

CHICAGO, (September 30, 2020) – New hedge fund launches rose from a near-record low in 1Q20, as investor risk tolerance began to recover from the global coronavirus pandemic 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 totaled an estimated 129 in 2Q20, the highest quarterly total since 153 funds launched in 2Q19. Despite the increase in launches in 2Q, the total number of estimated launches in the trailing four quarters remains historically low as a result of the 1Q20 volatility, with 404 funds launching over the past year.

Fund liquidations declined from the prior quarter, which saw the highest liquidation total in over four years. An estimated 178 funds liquidated in 2Q20, a sharp decline from 304 liquidations in 1Q20. Also driven by virus volatility, fund liquidations remain historically high with an estimated 821 liquidations the trailing four quarters.

The investable HFRI 500 Fund Weighted Composite Index[®] advanced +2.0 percent in August 2020, increasing its YTD return to +2.0 percent, topping the fractional decline of -0.4 percent YTD decline of the DJIA through August, as well as the -20.9 percent YTD decline of the FTSE 100. With the August gain, the HFRI 500 Fund Weighted Composite Index has surged +13.2 percent in the trailing five months, the strongest five-month period since Index inception in 2005.

Hedge fund performance dispersion fell sharply in 2Q20, with the average performance of both the top and bottom deciles rising over the respective 1Q troughs. The top decile of HFRI constituents gained +41.4 percent in 2Q20, while the bottom decile fell -9.3 percent, resulting in a top/bottom dispersion of 50.7 percent. By way of comparison to the prior quarter, the top decile gained +15.5 percent in 1Q20, while the bottom decile fell -40.7 percent, representing a top/bottom dispersion of 56.2 percent in the fourth quarter.

Average hedge fund management fees and incentive fees industry-wide declined from the prior quarter. Management fees declined one basis point to 1.37 percent while incentive fees declined 3 basis points to 16.37 percent in 2Q20, respectively, representing the lowest level for both fees since HFR began publishing these estimates.

For funds launched in 2Q20, the average management was an estimated 1.27 percent, an increase from the 1Q average of 1.14 percent, and the highest fee for new launches since 1.32 in 3Q18. The average incentive fee for funds launched in 2Q20 was an estimated 17.55 percent, also representing an increase from the prior quarter's estimated 17.16 percent incentive fee.

“New fund launches rose through mid-year from historic lows in 1Q as hedge funds posted strong performance through mid-year despite the coronavirus pandemic as well as ongoing social unrest in US and the uncertainty of the upcoming US election,” stated Kenneth J. Heinz, President of HFR. “As investor risk tolerance continues to recover into the second half of the year, institutions are expecting to increase or begin implementing allocations to hedge funds as components of diversified portfolio allocation and in response to the equity and credit market volatility of early 2020. Most institutions are positioning for elevated levels of realized volatility to continue for the foreseeable future and are interested in opportunistic exposures which both preserve capital and realize opportunities created by the uncertain macroeconomic and geopolitical environment.”

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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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