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NEW HEDGE FUND LAUNCHES RISE AS INDUSTRY CAPITAL SURPASSES HISTORIC MILESTONE

***HFRI dispersion steady as investors position for inflation;
Launches highest since 2017 as capital surpasses historic \$4T milestone;
Incentive fees fall on increased institutional inflows***

CHICAGO, (March 25, 2022) – New hedge fund launches rose the highest level since 2017 as total industry capital remained above the historic \$4 trillion milestone to begin 2022, 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. An estimated 614 new funds launched in 2021, the highest calendar year total since 2017 when 735 new funds launched.

Meanwhile, an estimated 527 funds liquidated in 2021, the lowest total since 2004 when 296 funds liquidated. Total industry capital was \$973 billion in 2004, in contrast to over \$4 trillion to begin 2022 as investors maintained or increased positions in existing hedge funds. Factors which have contributed to the declining number of liquidations during the recent uncertain macroeconomic environment include generational inflation, increased government spending, rising interest rates, and increased geopolitical tensions.

After producing a strong +9.9 percent return in 2021, the investable HFRI 500 Index has exhibited strong defensive capital preservation over the volatile start to 2022, topping equity market losses with a narrow decline of -1.2 percent through February. Uncorrelated Macro strategies have led performance thus far in 2022, advancing +3.8 percent through February, with strong gains across Fundamental Discretionary, Commodity and Systematic Trend-Following strategies.

The performance dispersion of the HFRI FWC narrowed in 2021, as top decile of index constituents returned an average of +45.1 percent over the year, while the bottom decile declined by an average of -14.7 percent, representing a top/bottom decile dispersion of 59.7 percent. In comparison, the top/bottom decile of dispersion in 2020 was 85.1 percent.

Hedge fund fees remained relatively steady in 2021, as the average industry-wide management fee decreased by one basis point from 1.37 percent to 1.36 percent over the year, while the average incentive fee declined from 16.35 percent to 16.1 percent in 2021. Both estimated fees represent the lowest level since HFR began publishing these estimates in 2008. However, for new funds that launched in 2021, the estimated average management fee rose from 1.24 to 1.33 percent from the prior year, while the average incentive fee for funds launched in 2021 decreased from 17.25 percent to 16.18 percent when compared to funds that launched in 2020.

“New hedge fund launches in 2021 exceeded totals from each of the prior three years, while liquidations fell to its lowest level since 2004, when industry capital was less than a quarter of the current level. Strong growth trends continue to be driven by rising geopolitical and macroeconomic uncertainty, with institutional investors positioning for this uncertainty and looking for portfolio capital protections. These concerns from the prior year have only been increased by the early 2022 volatility and expectations for significant interest rate increases,” stated Kenneth J Heinz, President of HFR. “Powerful risk-off trends and gains across uncorrelated Macro strategies have exceeded through the early 2022 volatility, with contributions from commodity, fundamental discretionary and quantitative trend-following. These strategies have not only navigated the inflation/interest rate-sensitive trends, but also the surging energy prices and military escalation of uncertainty regarding the Russian invasion of Ukraine. As these trends continue to dominate performance through the first quarter, it is likely that both Macro funds and the industry as a whole are likely to attract increased institutional capital flows through mid-2022.”

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About HFR®

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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