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HEDGE FUND LAUNCHES RISE AS INDUSTRY POSITIONS FOR GROWTH IN 2021

New launches exceed liquidations for first time since 2Q18; HFR Cryptocurrency surges as HFRI 500 tops DJIA for 2020

CHICAGO, (December 30, 2020) – New hedge fund launches increased to the highest level in five quarters in 3Q 2020 on optimism in the US economy, as managers and investors positioned for acceleration of performance gains and capital growth into 2021, 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 an estimated 151 in 3Q20, the highest quarterly launch total since 2Q19 and exceeded the estimated quarterly liquidations for the first time since 2Q18. Launches in the most recent quarter exceeded the 2Q estimate of 129 new funds, bringing the YTD 2020 launches to 364 through 3Q, a period which included a record low number of fund launches in 1Q as the global pandemic began.

Fund liquidations fell to an estimated 137 in 3Q20, the lowest liquidation total since 2Q18 and marked a decline of over 50 percent from the 304 liquidations in 1Q20. Through 3Q20, an estimated 619 funds liquidated in 2020, with nearly half of those occurring in 1Q.

The investable HFRI 500 Fund Weighted Composite Index® advanced +5.1 percent in November, increasing its YTD return to +6.1 percent and topping the +3.9 percent YTD gain of the DJIA. The HFRI 500 Equity Hedge Index led strategy performance in November with a +7.5 percent return, bringing YTD performance to +10.9 percent. Over the first eleven months of the year, the

HFRI 500 EH: Technology Index led all strategy performance with a +23.5 percent return. In addition to strong performance of the HFRI Indices, the HFR Cryptocurrency Index surged +52 percent in November, bringing the YTD return to +156 percent.

Hedge fund performance dispersion leveled off in 3Q20, with the average performance of both the top deciles falling over the 2Q surge. The top decile of HFRI constituents gained +21.5 percent in 3Q20, while the bottom decile fell -8.8 percent, resulting in a top/bottom dispersion of 30.2 percent. By way of comparison to the prior quarter, the top decile gained +41.4 percent in 2Q20 while the bottom decile fell -9.3 percent, representing a top/bottom dispersion of 50.7 percent.

Average hedge fund management fees remained flat from the prior quarter at an estimated 1.37 percent, while the average industry-wide incentive fee declined by 1 basis point to end 3Q at 16.36 percent. Both figures represent the lowest level for both fees since HFR began publishing these estimates.

For funds launched in 3Q20, the average management was an estimated 1.36 percent, in line with the global industry average of 1.37 and above the 2Q average of 1.27 percent. The average incentive fee for funds launched in 3Q20 was an estimated 17.97 percent, above the total industry-level average of 16.36 but in-line with the average incentive fee of 17.44 for funds launched last year.

"After posting strong gains through the tumultuous 2020, investors are actively increasing exposure to hedge funds, including cryptocurrency strategies, and are positioning for growth in capital and new launches in 2021," stated Kenneth J. Heinz, President of HFR. "Macroeconomic and geopolitical risks have shifted heading into 2021, with near-term focus on the resolution of US congressional elections, the incoming presidential administration, the economic impacts of UK/European trade relations, and the efficacy of vaccination programs globally. Hedge funds have successfully navigated extreme dislocations throughout 2020 and, as a result of this, are likely to continue attracting institutional investors as a portfolio mechanism to reduce overall volatility and direct equity and interest rate beta, while opportunistically positioning for elevated levels of volatility across asset classes into 2021."

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