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HEDGE FUND LIQUIDATIONS FALL TO HISTORIC LOW

HFRI dispersion narrows on uncertainty over virus, spending, inflation; Launches exceed closures as industry capital surpasses historic $4T milestone; Average management, incentive fees remain unchanged for quarter

CHICAGO, (December 21, 2021) – New hedge fund liquidations fell to a record low in 3Q as total industry capital surpassed the historic $4 trillion milestone to begin 4Q21, 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. Hedge fund liquidations fell to only 102, the lowest total since 2Q 2006, as investors maintained or increased positions in existing hedge funds, driven by the uncertain macroeconomic environment including rising inflation, increased government spending, tapering of Federal Reserve bond purchases and the impact of Omicron coronavirus variant.

New hedge fund launches also declined to an estimated 132 in 3Q 2021, though exceeded the estimated number of liquidations for the fifth consecutive quarter, which followed eight consecutive quarters of contraction. Launches in the trailing four quarters totaled 676 new funds, a total which tops calendar year totals for the past three years dating back to 2017 when 735 funds launched.

Strong HFRI performance and new fund launch trends are expected to accelerate into 2022, with total industry capital eclipsing a historic milestone to begin 4Q21. As previously reported by HFR, total hedge fund industry capital increased to a record $4.04 trillion in October 2021.

Led by Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, the investable HFRI 500 Fund Weighted Composite Index® has gained +8.72 percent YTD through November 2021, while the HFRI Fund Weighted Composite Index® (FWC) has advanced +8.83 percent. The HFRI 500 Event-Driven Index leads strategy performance YTD with a +13.1 percent return through November. Event-Driven sub-strategy performance has been driven by the HFRI 500 ED: Distressed Index, which has surged +21.4 percent in 2021, while the HFRI 500 ED: Activist Index has gained +14.7 percent.

The performance dispersion of the HFRI FWC in the trailing 12-month period ending 3Q21 narrowed from the record level period ending 1Q21, with the average of both the top and bottom deciles falling. For the quarter, the top decile of index constituents returned an average of +10.2 percent, while the bottom decile fell an average of -11.3 percent, creating a quarterly decile dispersion of +21.5 percent. In the trailing four quarters, the top HFRI decile surged +75.8 percent while the bottom decile declined -9.1 percent, creating a decile dispersion +84.9 percent.

Average hedge fund fees industry-wide were unchanged from the prior quarter with management fees steady at 1.36 percent, while the average incentive fees were also steady at 16.17 percent. Both estimated fees represent the lowest level since HFR began publishing these estimates.

For new funds launched in 3Q21, the estimated average management fee declined to 1.16 percent, which is slightly below the 2020 average for new launches of 1.24 percent. The average incentive fee for funds launched in 3Q21 was an estimated 16.45 percent, below the 2Q21 average incentive fee of 17.0 percent.

"Rising macroeconomic uncertainty continues to dominate hedge fund industry trends, driving institutional investors positioning for this uncertainty and looking for portfolio capital protections to maintain or increase allocations to existing managers, resulting in a historic low in fund liquidations. The forward uncertainty is driven by concerns regarding rising inflation, government spending, higher US interest rates and continued spread of the Omicron variant," stated Kenneth J Heinz, President of HFR. "These uncertainties continue to drive financial market volatility into year-end, with powerful risk-off sentiment dominating through mid-December after industry capital reached historic levels to begin 4Q. Leading global institutions continue to expand allocations to funds which offer specialized, enhanced exposure to these trends as well as evolving cryptocurrency markets, balancing defensive capital protection with dynamic, opportunistic exposures. With industry capital having eclipsed a historic milestone, managers positioned for these powerful trends are likely to continue to attract institutional investor interest into 2022."

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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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