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HEDGE FUND LAUNCHES HIT HISTORIC LOW AS INVESTORS POSITION FOR RECESSION

Liquidations steady, also near historic low;
Outperformance of larger funds into year-end drives asset concentration

CHICAGO, (January 6, 2023) – New hedge fund launches in 3Q 2022 ticked lower than the prior quarter, reaching the lowest level since 4Q 2008 as investors navigated an uncertain and volatile tension between generational inflation and increased likelihood of an economic recession. Meanwhile, the HFRI Asset Weighted Composite Index gained +0.5 percent YTD through November, indicating larger managers have outperformed smaller funds, increasing asset concentration and contributing to a challenging new launch environment, 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 estimated number of new hedge fund launches decreased to only 71 in 3Q22, a decline from the estimated 80 launches in 2Q22, representing the lowest launch rate since only 56 new funds launched in 4Q 2008 at the depths of the Global Financial Crisis. The number of hedge fund liquidations also declined over the prior quarter, as an estimated 145 funds closed their doors in 3Q22, down from 156 fund liquidations in 2Q22.

In the trailing 12-month period ending 3Q22, an estimated 449 total new hedge funds have launched, while an estimated 544 funds have liquidated.

The investable HFRI 500 Macro Index surged +14.3 percent YTD through November, with gains driven by short equity and fixed income positions, as well as long commodity and US Dollar positions as the US Federal Reserve continued to raise interest rates to slow the generational inflation market environment. After producing a strong +9.9 percent return in 2021, the HFRI 500 Fund Weighted

Composite Index has exhibited strong defensive capital preservation in 2022, topping steep technology equity market declines by over 2400 basis points (bps) despite posting a narrow YTD decline of -2.78 percent through November.

The performance dispersion of the HFRI Fund Weighted Composite Index® narrowed over the prior quarter, as the top decile of index constituents returned an average of +10.9 percent in 3Q22, while the bottom decile declined by an average of -14.3 percent in 3Q, representing a top/bottom decile dispersion of 25.2 percent (compared to a top/bottom dispersion of 33.8 percent in 2Q22). Over the trailing four quarters, the top decile of index constituents returned an average of +28.4 percent, while the bottom decile declined by an average of -36.7 percent, representing a top/bottom decile dispersion of 65.1 percent.

Hedge fund fees declined slightly in 3Q22, with the average industry-wide management fee declining 1 basis point from the prior quarter to an estimated 1.35 percent, while the average incentive fee fell by 4 bps to 16.01 percent; both estimated fees represent their lowest levels since HFR began publishing these estimates in 2008. For funds launched in 3Q22, average management fees increased by 3 bps from the prior quarter to an estimated 1.35 percent. Average incentive fees for funds launched in 3Q22 was estimated at 17.23 percent, representing a decline of nearly 70 bps from the prior quarter though remaining above the overall industry-wide average.

"Through an unprecedented, intense, and unpredictable environment, both Macro funds and larger hedge funds across various strategies have driven industry-wide gains into the final month of 2022, topping steep equity market losses and posting YTD returns of +14.3 and +0.5 percent through November, respectively, for the HFRI 500 Macro Index and HFRI Asset Weighted Composite Index. While institutional investors maintaining significant allocations to these have benefitted from this defensive, conservative positioning, these trends have also contributed to a challenging environment for new and recently launched funds, as overall risk tolerance has declined, leading to institutions focusing allocations on well-established funds which have successfully navigated much of the 2022 volatility," stated Kenneth J. Heinz, President of HFR. "Similar risk off sentiment has also contributed to steady but historically low levels of fund liquidations, with institutions maintaining exposures through the current economic turmoil and tension between inflation and economic weakness heading into 2023. With significant uncertainty and wide disparity in economic outlooks into early 2023, it is likely that both launches and liquidations remain near historic levels, as institutions carefully evaluate opportunities and deliberatively position portfolios for volatility in 2023."

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