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HEDGE FUND LAUNCHES FALL IN 4Q, RISE FOR FY 2023 AS MULTI-STRATEGIES LEAD GROWTH TREND

Liquidations top launches for quarter for 1st time since 1Q23; Fees steady, uptick from historic lows

CHICAGO, (March 28, 2024) – New hedge fund launches fell while liquidations were steady in 4Q to conclude 2023 as managers positioned for falling inflation and an improving economic outlook, albeit with geopolitical risk rising to historic levels. The estimated number of new hedge fund launches in 4Q23 fell to 85, the lowest since 3Q22, though bringing the total number of estimated launches to 438 funds for 2023, 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 number of hedge fund liquidations was also steady in 4Q23, with closures rising slightly to as an estimated 104 funds for the quarter, a modest increase from the prior quarter estimate of 100 liquidations. For the full year 2023, an estimated 415 funds liquidated. Launches were led by Multi-Strategy funds, with total launches in Relative Value Arbitrage totaling 147 for 2023 and over half of the launches in 4Q. Multi-strategy funds continue to expand in strategic scope with trading team/podshop approaches, with these also increasing exposures to cryptocurrency and AI.

The HFRI Fund Weighted Composite Index® (FWC) gained +8.1 percent in 2023 and added +2.4 percent over the first two months of 2024, having now posted four consecutive positive months leading into March. Equity Hedge leads strategy performance YTD 2024 with the HFRI Equity Hedge (Total) Index advancing +3.0 percent through February. EH sub-strategies were led by the HFRI EH: Sector-Healthcare Index, which gained +7.9 percent over the first two months of the year, the HFRI EH: Quantitative Directional Index, which advanced +6.5 percent, and the HFRI EH: Sector-Technology Index, which added +4.0 percent YTD through February. Equity Hedge led all strategies for 2023, as the

HFRI EH (Tota) Index advanced +11.4 percent for the calendar year. Macro hedge funds have also started off strong in 2024, as quantitative, trend-following CTA strategies, represented by the HFRI Macro: Systematic Diversified Index, gained +5.4 percent over the first two months of the year.

The performance dispersion of the HFRI Fund Weighted Composite Index® (FWC) increased in 4Q from the prior quarter, as the top decile of index constituents returned an average of +20.5 percent in 4Q23, while the bottom decile declined by an average of -9.0 percent, representing a top/bottom decile dispersion of 29.5 percent, compared to a top/bottom dispersion of 21.1 percent in 3Q23. For the full year 2023, the top decile of FWC constituents returned an average of +37.7 percent, while the bottom decile declined by an average of -15.3 percent, representing a top/bottom decile dispersion of 53.0 percent.

Hedge fund fees concluded 2023 near historic lows, though shorter term trends show increases into year end, as managers positioned for growth and inflows in 2024. The average industry-wide management fee was unchanged from the prior quarter at an estimated 1.35 percent, while the average incentive fee saw a minimal quarterly increase of 3 bps to end the year at an estimated 16.04 percent. For funds that launched in 4Q23, the average management fee rose an estimated 1.5 percent, while the average incentive fee increased to an estimated 18.23 percent. Similarly, for funds that launched in calendar year 2023, the average management fee fell an estimated 4 bps to 1.3 percent, while the average incentive fee rose an estimated 24 bps to 17.98 percent.

“Hedge fund performance and growth trends shifted into year end 2023, from being dominated by inflation and interest rates, to focusing on growth (both industry and improving broader economic) with an increased emphasis and impact on multi-strategy growth and exposures to cryptocurrency and AI technology,” stated Kenneth J. Heinz, President of HFR. “While managers position for and build out trading teams to increase expertise and exposures in these areas, funds are also increasingly focused on geopolitical risk, encompassing not only military conflicts and the potential for expansion or new conflicts to emerge, but also on upcoming elections, potential for policy shifts and downstream economic impacts on supply chains, including the possibility of unexpected reversals or unpredictable dislocations which can occur as a result of geopolitical risk or shifts in the macroeconomic outlook. Institutions are likely to remain focused on both these opportunities and risks, increasing their exposures to hedge funds which have demonstrated their robustness and increased their portfolio focus on these areas in recent months.”

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