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HEDGE FUND LAUNCHES NEAR RECORD LOW IN 1Q20

Fund liquidations highest since 2015 while average fees edge lower; HFRI 500 tops DJIA as decile dispersion expands

CHICAGO, (June 30, 2020) – New hedge fund launches declined to a near-record low in 1Q20, as the beginning of the global coronavirus pandemic and ensuing lockdowns drove intense volatility across asset classes, steep equity market declines, and near record lows in investor risk tolerance, 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 funds launches totaled an estimated 84 in 1Q20, the lowest quarterly estimate since the Financial Crisis in 4Q08. Despite the exponential increase in volatility over the prior quarter, the 1Q20 launch total was only slightly lower than the estimated 89 launches in 4Q19. As previously reported by HFR, launches for full-year 2019 totaled 480.

Fund liquidations surged to an estimated 304 in 1Q20, the highest liquidation total since 4Q15 and an increase of over 50 percent from the 198 liquidations from the prior quarter. As previously reported, an estimated 738 funds liquidated in 2019, exceeding the 2018 total of 659 liquidations, but falling slightly below the 2017 total of 784 liquidations. The 1Q20 launch/liquidation totals represent the seventh consecutive quarter in which estimated liquidations outpaced launches.

The investable HFRI 500 Fund Weighted Composite Index® advanced +1.9 percent in May 2020, increasing its YTD return to -3.9 percent, which tops the -11.1 percent YTD decline of the DJIA through the first five months of the year. The HFRI 500 Event-Driven Index led strategy performance in May with a +2.95 percent gain, followed by the HFRI 500 Equity Hedge Index, which added +2.8 percent for the month. Over the first five months of the year, the HFRI 500 RV: Volatility Index led all strategy performance with a +9.9 percent return.

Hedge fund performance dispersion ballooned in 1Q20, with the average performance of both the top and bottom deciles falling as the coronavirus pandemic began. The top decile of HFRI constituents gained +15.5 percent in 1Q20, while the bottom decile fell -40.7 percent, resulting in a top/bottom dispersion of 56.2 percent. By way of comparison to the prior quarter, the top decile gained +16.8 percent in 4Q19, while the bottom decile fell only -6.5 percent, representing a top/bottom dispersion of 23.3 percent in the fourth quarter.

Average hedge fund management fees and incentive fees industry-wide each declined by 1 basis point from the prior quarter, falling to 1.38 percent and 16.40 percent in 1Q20, respectively, representing the lowest level for both fees since HFR began publishing these estimates.

For funds launched in 1Q20, the average management was an estimated 1.14 percent, a decrease from the 2019 average of 1.22 percent. The average incentive fee for funds launched in 1Q20 was an estimated 17.16 percent, also representing a decline from the prior year's estimated 17.44 percent fee.

"New fund launches fell to historic lows in 1Q20 as the coronavirus pandemic drove steep losses across global financial markets, despite strong outperformance of the HFRI throughout the pandemic volatility," stated Kenneth J. Heinz, President of HFR. "While the launch environment to begin 2020 has been extremely challenging as direct result of the drop in investor risk tolerance, institutional allocators which had reduced, eliminated, or failed to implement hedge funds or other risk-reducing alternative allocations were subjected to higher levels of portfolio volatility. As financial markets adjust to heightened levels of volatility over the intermediate term, we expect interest from forward-looking institutional investors to drive a more favorable launch environment through 2H20."

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HFR (Hedge Fund Research, Inc.) 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, **Hedge Fund Research is The Institutional Standard.**

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