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NEW HEDGE FUND LAUNCHES DECLINE TO LOWEST LEVEL SINCE 2008

Number of liquidations also fall;
Launches in Europe remain steady in 2019 while US, Asia decrease

CHICAGO, (December 20, 2019) – New hedge fund launches declined in 3Q, reversing the trends of the first half of the year, with the number of launches falling to the lowest level since 4Q08, despite a steady flow of European-located new launches. Launches totaled an estimated 102 in 3Q19, bringing the YTD total to 391 new funds, 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 YTD launch total puts the industry on pace to fall below 500 new launches for 2019, which would represent the lowest annual total for new funds since 328 funds launched in 2000.

European-located funds led launches not only in 3Q, but extended a trend observed so far throughout 2019. In the quarter, 76 of the 102 launches were from European-located firms, while for the year, 285 of the 391 launches (73 percent) were from European-located firms

Overall fund liquidations declined sharply from the prior quarter, as 141 funds closed their doors in 3Q, compared to 186 liquidations in the prior quarter and 174 liquidations in 3Q18. For the year, 540 funds have liquidated, which is on-pace to exceed last year’s liquidation total of 659, though it would also represent the second-lowest calendar year liquidation total since 2007. The third quarter 2019 represents the fifth consecutive quarter in which liquidations exceeded launches, although the net decline of -39 funds in the industry was the second smallest net decline over those five quarters.

The HFRI Fund Weighted Composite Index® (FWC) gained +8.5 percent YTD through November 2019, led by the +11.2 percent gain in the HFRI Equity Hedge (Total) Index. With these gains, the HFRI FWC performance is on pace for the highest calendar year performance since 2010.

Hedge fund performance dispersion remained compressed but widened mostly in 3Q19, with the average performance of both the top and bottom deciles falling. The top decile of HFRI constituent performance gained +7.91 percent for the quarter, falling from +10.3 percent in 2Q and +21.1 percent in 1Q19. The bottom decile of constituents in 3Q declined -10.96 percent, falling from a decline of -6.2 percent in 2Q19. The top/bottom dispersion of 18.9 percent in 3Q19 represents a modest increase of 240 basis points over the 2Q dispersion of 16.5 percent. The trailing 12-month decile dispersion of 40.8 remains slightly below the 43.4 percent dispersion from calendar year 2018, as both top and bottom deciles improved, with the top HFRI decile gaining +21.3 over the trailing 12 month period ending 3Q, while the bottom decile fell -19.5 percent over the same period.

Average hedge fund management fees industry-wide remained at the lowest level since HFR began publishing these estimates in 2008, while the average incentive fee fell slightly from the prior quarter. The average management fee fell by 1 basis point to an estimated 1.39 percent, while the average incentive fee fell narrowly by 10 bps to 16.4 percent.

The estimated average management fee for funds launched in 3Q19 was 1.26 percent, in line with the prior quarter average of 1.25 percent and the YTD average of 1.23 percent. The average incentive fee for funds launched in 3Q19 was 16.63, an increase of +98 basis points over the prior quarter but below the YTD launch average incentive fee of 17.05.

"New fund launches fell in 3Q19 as global equity markets temporarily paused strong YTD performance, with the launch decline reversing a trend of launch increases in the first half of the year. Following the 3Q decline in risk tolerance, risk-on behavior has reasserted itself into 4Q as volatility associated with certain components of trade negotiations, Brexit and political uncertainty has subsided driving U.S. equities to record highs," stated Kenneth J. Heinz, President of HFR. "While it is likely for launches to resume the 1H19 trend in 4Q19 as a result of the increased investor risk tolerance, it is also likely for launches to rise and liquidation to continue to fall as institutional investors position for increasing geopolitical risks in 2020, with these led by the U.S. election, Brexit, and inevitable interest rate increases from suppressed or, in many cases, still negative levels. Funds positioning for these risks and opportunities are likely to lead performance and attract investor capital for both new and existing products in early 2020.

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About HFR®

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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