Hedge Fund Launches in Q1 2013

What was the most prominent hedge fund strategy among hedge funds launched in Q1 2013? Where are the majority of funds launched based? Alison Forrer provides a breakdown of hedge funds launched in the first quarter of 2013.

Single-manager hedge funds were the dominant structure launched in Q1 2013, representing 81% of all new fund launches (Fig. 1). CTAs represent just 5% of all hedge fund launches in Q1 2013 compared to 10% and 9% in the same period in 2012 and 2011 respectively. This follows two years of disappointing performance in 2011 and 2012 (annual returns of -0.05% & 0.23% respectively). CTA launches in 2012 were at their lowest since 2006, and from the slow start in 2013 it appears it could be another year where CTA launches are overshadowed by hedge funds pursuing other strategies.

The rate of fund of hedge funds launches, in terms of numbers, has been steadily decreasing in recent years following some difficult years in terms of performance, investor appetite and decreasing assets under management. In 2011, the number of funds of hedge funds launched was approximately half that of 2010; 87 funds of funds were launched in 2011 compared to 154 in 2010. In 2012, fewer funds of funds still were launched; just 70 vehicles. In Q1 2013 there were just 13 funds of hedge funds launched. If this low rate of launches continues for the rest of the year it will represent the smallest number of funds of hedge funds launched in any single year since 2000.

Geographical Location of Hedge Funds in Q1 2013

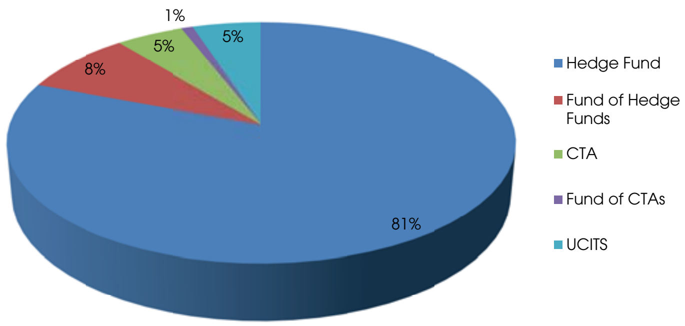
Fig. 2 shows the geographic location of hedge fund managers that have launched a new vehicle in Q1 2013. Eighty-one percent of new fund launches are managed by North America-based firms, indicating that the most established region for hedge fund management remains the most common region for hedge fund launches. In contrast, the number of launches by Europe-based managers has been relatively low, with just 12% of all funds launched coming from this region, considered to be the other main centre for hedge fund management, with 23% of fund management groups based in Europe. Within Europe, the impending AIFMD (Alternative Investment Fund Manager Directive) has led to many hedge fund managers delaying new launches in order to ensure that existing funds meet the new regulations in advance of the mid-2013 deadline. Therefore, we could see more funds raised by Europe-based managers coming into market in the second half of the year following the 22nd July AIFMD compliance deadline.

Core Strategies

Fig. 3 shows the core strategy breakdown of new hedge funds launched in Q1 2013 and over the past five quarters. Long/short strategies represent well over half of known hedge fund launches in the first quarter of 2013; this is the highest proportional representation of this fund type over the last five quarters. Long/short strategies, and in particular those that are equity focused, such as long/short equity and long-bias, have been increasing in terms of launches in order to take advantage of the rallying equity markets. As Fig. 4 demonstrates, of all funds launched in Q1 2013, 83% are equity focused. Investor demand for long/short strategies has also been strong over the quarter, with over 50% of fund searches initiated in Q1 including a long/short component.

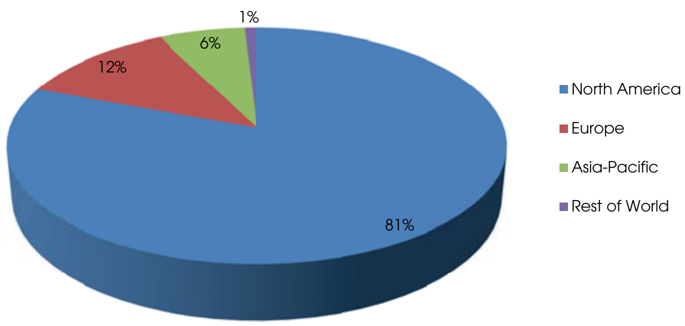
Macro strategies hedge funds account for 14% of launches in Q1 2013, a significant dip from the previous quarter, when macro

Fig. 1: Breakdown of Hedge Fund Launches in Q1 2013 by Structure



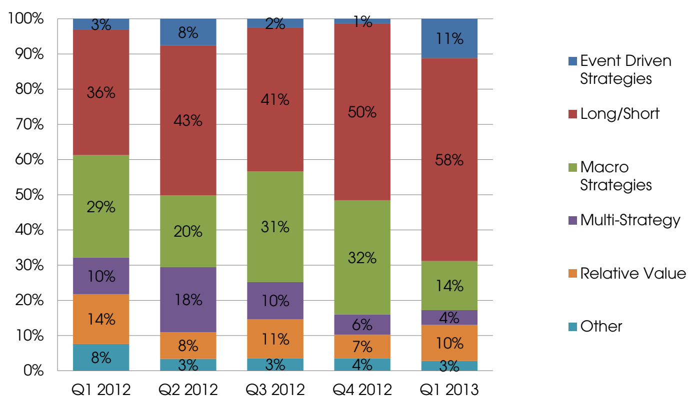
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Hedge Fund Launches in Q1 2013 by Geographic Location



Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Hedge Fund Launches by Core Strategy, Q1 2012 - Q1 2013



Source: Preqin Hedge Fund Analyst

strategies funds represented 32% of all funds. In the second half of 2012, fund launches in the macro sector represented over 30% of all funds launched, substantially higher than its usual 20-25% level. This dip at the beginning of 2013 could have resulted from a large number of managers opening funds at the end of the previous year. Performance of macro strategies funds continues to disappoint, but investors still show a strong appetite for these funds. Therefore, Q2 2013 will be an interesting period for the strategy, as we wait to see if fund managers will launch more new funds in order to tap into investor appetite rather than waiting for a better returns environment.

Event driven strategies hedge funds, which seek to take advantage of corporate events, represent 11% of newly launched hedge funds in Q1 2013. In 2012, the number of event driven strategies launches was relatively low; 5% of funds launches in 2012 pursued the strategy as compared to 10% in 2011 and 8% in both 2010 and 2009. Event driven strategies hedge funds posted the highest rate of cumulative returns at 9.44% over the last 12 months (as of 31st March 2013) of any single strategy. This is also true over annualized three- and five-year periods (8.01% and 8.94% respectively). The strong returns of this more illiquid strategy over the short and longer terms, has led to some investors taking on some illiquidity risk in their portfolios and seeking out event driven strategies for new investment. However appetite for certain event driven strategies such as distressed and pure event driven has fallen over the past year. Despite this, the growing opportunities for event driven funds in both recovering and distressed economies, has resulted in renewed enthusiasm by fund managers to launch funds which pursue the strategy.

First-Time Fund Managers

As Fig. 5 demonstrates, a number of new managers entered the hedge fund market with their first vehicle in the first quarter of 2013. There continues to be a number of proprietary desk spin-offs from investment banks launching hedge funds following the Volcker Rule, as well as some significant fund launches created by spin-outs from existing hedge funds. For example, Continuum Investment Management, formed by a group of Citadel executives, has launched its first fund, a fixed income vehicle, seeded by Grosvenor Capital Management in January 2013.

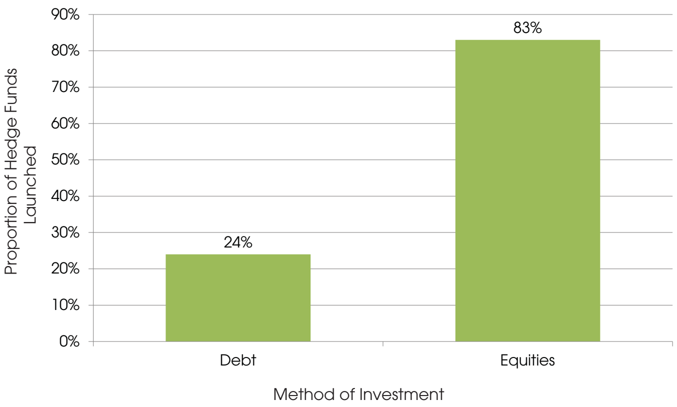
However, established managers have also been launching funds in significant numbers; a quarter of all funds launched in Q1 2013 have been by managers with at least five previous vehicles under management. For example, the $2.8bn, Odey Asset Management has launched both Odey Swan Fund, a UCITS IV version of Odey's flagship long/short fund, and Odey Orion Fund in the first quarter of the year.

Summary

Single-manager hedge fund launches dominate the landscape for new funds coming to market in 2013, with both CTAs and funds of hedge funds showing a significant decline in the number of new funds launched compared to previous years. North America-based fund managers are launching new funds in 2013 in the greatest numbers, as many Europe-based managers wait until after the AIFMD implementation deadline of 22 July 2013 before launching any new vehicles.

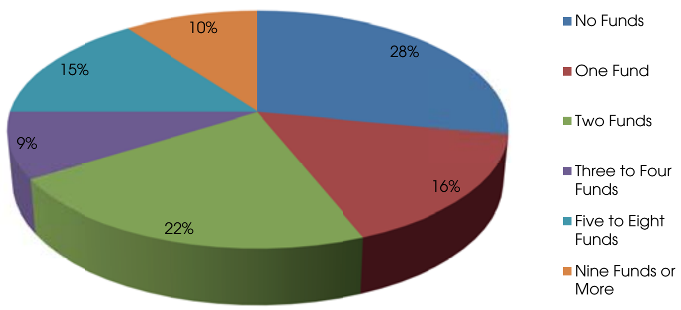
Hedge funds which seek to capitalize on the strong equity markets represent the largest number of launches over the first quarter of 2013, although event driven strategies have seen a resurgence following an extended period of strong returns and growing opportunities in the sector.

Fig. 4: Breakdown of Hedge Funds Launched in Q1 2013 by Method of Investment Used



Source: Preqin Hedge Fund Analyst

Fig. 5: Number of Existing Hedge Funds Managed by Firm Prior to Q1 2013



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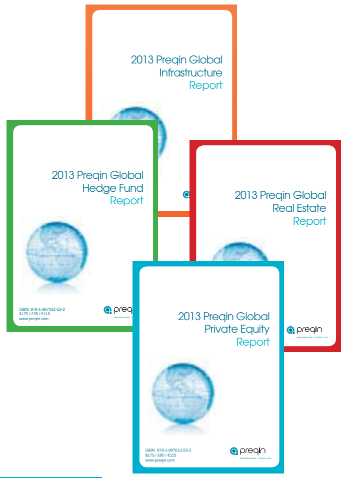

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