BOREALIS
STRATEGIC CAPITAL PARTNERS, LP

AUGUST 2021

HEDGE FUND NEW LAUNCH LANDSCAPE: 2021 REPORT

Observations from the front lines

As investors focused solely on backing early-stage hedge funds, our firm has a unique perspective of the hedge fund industry. We have met with thousands of newly-launching managers since forming Borealis and wanted to share our latest observations on the new launch landscape.

This report highlights trends in the new launch landscape for hedge funds; private equity, private credit, and private real estate strategies are excluded.

EXECUTIVE SUMMARY – HIGH LEVEL OBSERVATIONS

"The reports of my death have been greatly exaggerated." - Mark Twain
Many stories have been written over the last decade about the imminent "decline of the hedge fund industry," but our proprietary internal data, as well as publicly available industry data, continue to show a robust flow of 350-700 hedge fund launches each year.

Closing the gender gap
After years of being underrepresented in new launches, the number of female-led firms has grown considerably, albeit from a low base, over the last year.

Performance, performance, performance
Trends in new launches track recent relative performance. For example, as discretionary strategies have outperformed systematic/quantitative strategies, we have seen an acceleration in the number of new launches with a discretionary orientation relative to a systematic/quantitative one. The same holds true for equity vs macro and healthcare vs generalist strategy trends.

The era of specialization
As many industries have become more specialized, so too has the hedge fund industry – depth is besting breadth. We have observed an uptick in sector-focused new launches taking share from generalist managers.

Socially responsible uptake
Confronting climate change is an increasingly important factor affecting many global economies and its increasing prominence is reflected in a surge of new launches focused on clean energy and related industries.

THE NEW LAUNCH MANAGER SAMPLE

This study focuses on those managers that launched or attempted to launch hedge funds in the years 2019-2021. In aggregate, this includes a total sample of 1,405 so-called new launches (please see the Methodology section at the end of this report for more detail on how we define new launches).

Below is a breakout by year (as of August 10, 2021):

2019	2020	2021 (TO DATE)	TOTAL SAMPLE
484	493	428	1,405

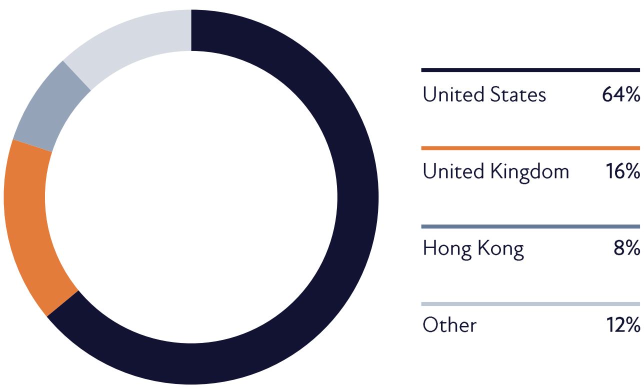
We have divided our observations into three sections: Firm/Organization trends, Investment Strategy trends, and Fund Structure trends.

FIRM/ORGANIZATION TRENDS

NEW LAUNCHES BY COUNTRY OF ORIGIN

U.S.-based funds still comprise the majority of new launches in 2021 (64%), followed by the U.K. (16%) and Hong Kong (8%). Looking across this multi-year timeline, we have observed that these figures have remained generally static over the last 2 ½ years.

BREAKOUT BY COUNTRY (2021)



Methodology note: Percentages reflect composition of all new launches for the periods defined above. For this analysis, if a manager has multiple office locations, we considered only the primary office location (informed by the location of the key investment decision maker).

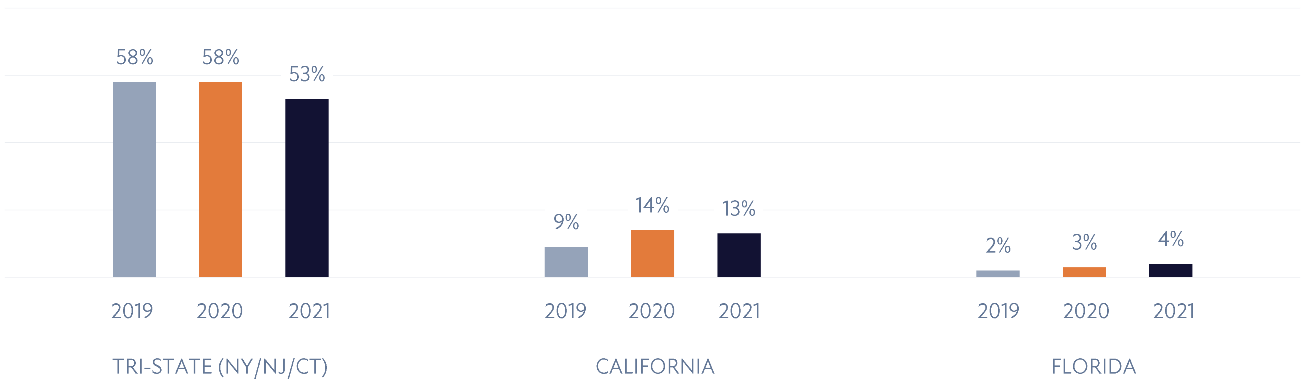
U.S.-BASED NEW LAUNCHES BY STATE

Within the subset of U.S.-based new launches, there are some interesting trends underneath the surface. The post-COVID shift out of the New York tri-state region is notable We believe the region's onerous tax regime, the greater penetration and uptake of virtual meetings/conferences (thanks to Zoom and other alternatives), and quality of life considerations have led to this exodus.

Conversely, despite broader population shifts to the contrary, our data shows a steady increase in California-based launches. We suspect the dominant presence of Silicon Valley and hedge funds' increased appetite for private exposure contribute to this trend.

While off a much smaller base, we also see the same upward trend in Florida-based launches, which is likely attributable to a more benign state income tax environment.

NOTABLE YoY COMPARISONS



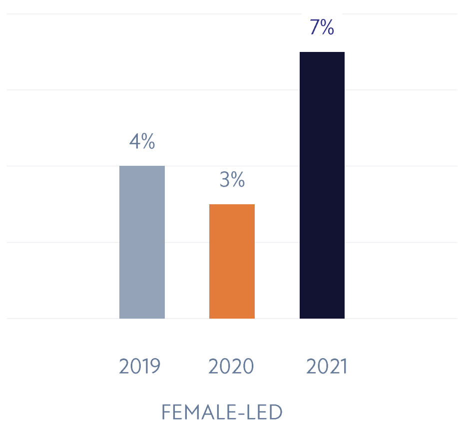
Methodology note: Percentages reflect composition of all new launches for the periods defined above. For this analysis, if a manager has multiple office locations, we considered only the primary office location (informed by the location of the key investment decision maker).

FEMALE-LED NEW LAUNCHES

As the investment industry continues to prioritize gender diversity, we have observed a significant uptick in funds that are female-led. In fact, 2021 already features more new launches that are female-led than in either 2019 or 2020 (despite the year being less than two-thirds complete at the time of this publication). While 7% is still a very low number in the absolute, it represents a greater than 100% increase in the overall percentage of new launches from 2020 levels.

Methodology note: Percentages reflect composition of all new launches for the periods defined above. For fund and strategy attributes, we rely largely on manager descriptions and cannot necessarily attest to the veracity of such qualities that are often self-defined. Female-led does not necessarily reflect majority ownership, only a lead position in the investment decision making process (CIO, co-CIO, etc.)

NOTABLE YoY COMPARISON



DECISION-MAKING STRUCTURE

Managers featuring a single Chief Investment Officer (relative to Co/Multi-CIO models) remain the preferred model, increasing in each of the past 3 years. Anecdotally, we continue to observe that allocators generally prefer the single CIO, which likely explains this trend. For those managers that do want to have a co-pilot, they typically embrace a CIO/head of research model instead of the traditional co-PM structure.

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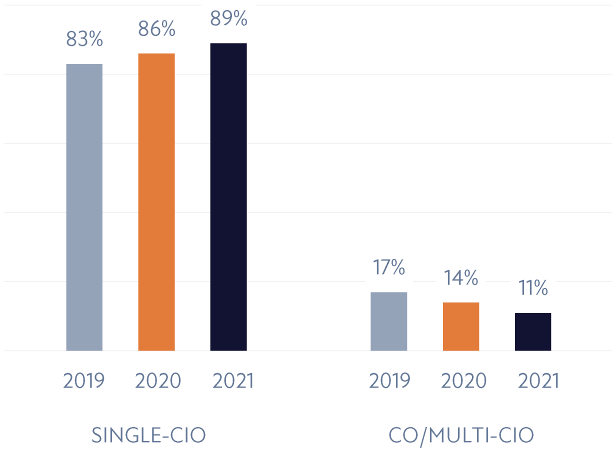
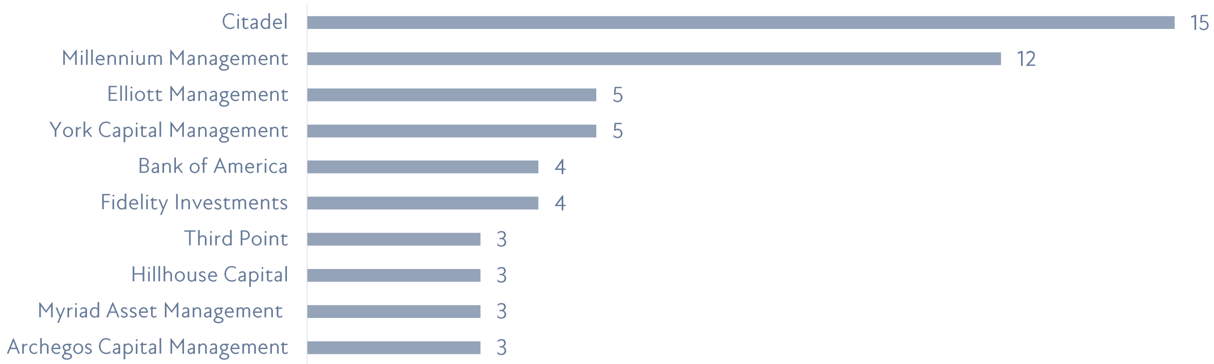
NOTABLE YoY COMPARISONS



COMMON PEDIGREES

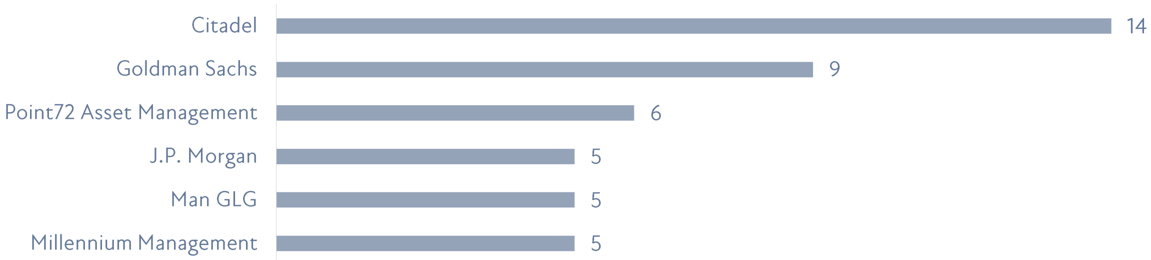
Newly launching managers come from a variety of backgrounds and pedigrees. With the reduction of risk-taking capacity at investment banks in recent years and the contraction of long-only actively managed mutual funds over a longer period of time, large hedge funds have become the primary training ground for new launches. Below is a list of firms that have spawned some of the most launches, thus far, in 2021:

NOTABLE 2021 LAUNCH PEDIGREES (BY COUNT)



For the year 2020, the most common firms from which new launches spun out were:

NOTABLE 2020 LAUNCH PEDIGREES (BY COUNT)



Methodology note: For "pedigree" data, we only considered the key investment principal's last employer if the investment manager had a singular decision-making process. For firms with co/multi-CIO decision making structures, we considered the last employer for each of the key decision makers.

INVESTMENT STRATEGY TRENDS

NEW LAUNCHES BY STRATEGY CLASSIFICATION

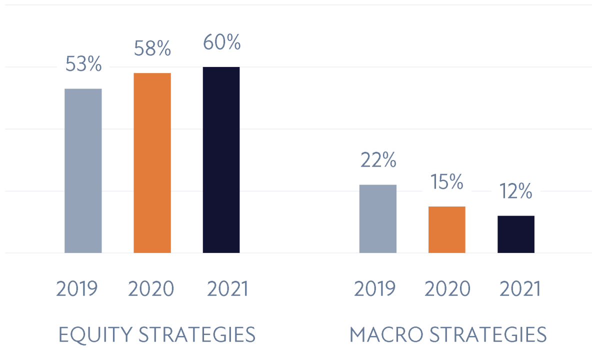
The new launch landscape continues to be dominated by equity-focused strategies. While not a new phenomenon, this outsized share is driven by a variety of factors, including the depth of liquidity in equity markets, the recent strong returns, and the lower barriers to entry for equity funds (including regulatory requirements and brokerage hurdles).

We have observed two important trends in strategy orientation. The first is a prominent and consistent multi-year decline in macro strategy launches, which is largely offset by a similar increase in equity strategy launches. We view the decrease in macro fund launches as a function of investor demand. With risk assets generally performing well over the last 10+ years, allocators, in aggregate, seem to have less demand for the perceived defensive and low correlation attributes typically associated with macro strategies.

BREAKOUT BY STRATEGY (2021)

Equity	60%
Credit	13%
Macro	12%
Event	7%
Opportunistic	7%
Other	2%

NOTABLE YoY COMPARISONS

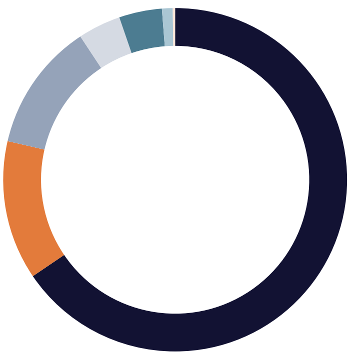


Methodology note: Percentages reflect composition of all new launches for the periods defined above. Strategy classifications are our own. We rely largely on manager descriptions and cannot necessarily attest to the veracity of such qualities that are often self-defined.

NEW LAUNCHES BY REGIONAL FOCUS (ALL STRATEGIES)

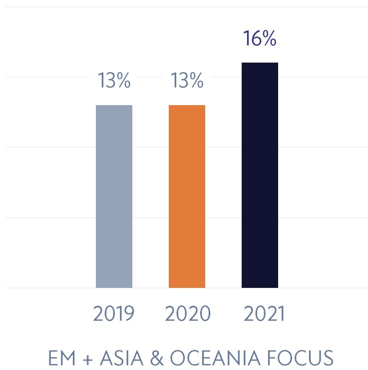
The majority of new launches either do not specify a geographic focus or explicitly have a global focus (for the purpose of this exercise, both are considered "global"). However, looking across all strategies, there is a small but notable increase in mandates focused on Asia & Oceania and Emerging Markets. We believe this increase is related to heightened allocator interest in capital markets perceived as less developed and potentially more inefficient.

BREAKOUT BY GEOGRAPHICAL FOCUS (2021)



Global	65%
North America	13%
Asia & Oceania	12%
Europe	4%
Emerging Markets	4%
Latin America	1%
Middle East & Other	<1%

NOTABLE YoY COMPARISON



Methodology note: Percentages reflect composition of all new launches for the periods defined above. Regional classifications are our own. If a manager focuses on more than one region, or does not have a specific regional focus, they are considered global.

NEW LAUNCHES BY SECTOR FOCUS (EQUITY ONLY)

Within equity-focused strategies, generalist mandates continue to comprise the majority of new launches, while TMT/Consumer sector specialists remain the predominant sector specialist category.

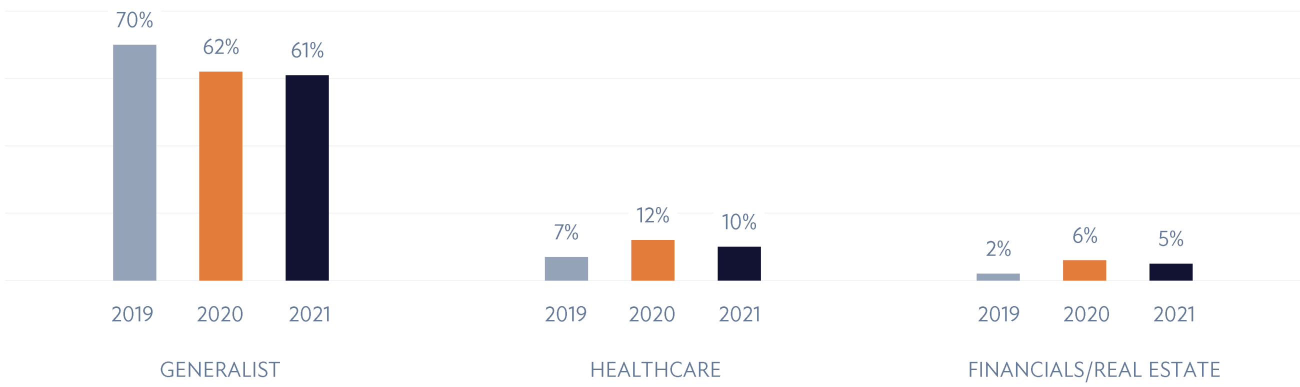
BREAKOUT BY SECTOR FOCUS (2021)

Generalist	61%
TMT/Consumer	16%
Healthcare	10%
Energy/Industrials/Materials/Utilities	8%
Financials/Real Estate	5%

However, beneath the surface, there has been a material shift away from generalist-focused mandates in favor of sector specialist models. As more training grounds for portfolio managers (including multi-manager platforms) prioritize sector-focused coverage models, and allocator interest in sector-specific mandates grows, it seems reasonable to expect this trend to continue.

The shift away from generalist mandates has favored Healthcare specialists, as well as Financials/Real Estate-focused specialists, each of whom have seen a pronounced increase in market share over the past couple years:

NOTABLE YoY COMPARISONS



Methodology note: Percentages reflect composition of all new launches for the periods defined above. If a manager focuses on multiple sector buckets (as presented below), or do not state a specific sector focus, they are considered a generalist in their sector orientation.

SYSTEMATICALLY-BASED STRATEGIES

We have observed a sustained and substantial reduction in systematically/quantitatively-based strategies as a percentage of all new launches – driven predominantly by a decrease in systematic macro, but also a modest decrease in systematic equity. We believe the decline is attributable to a couple of factors. First, managers and allocators have recognized the substantial barriers to entry for launching a systematically/quantitative-based strategy (data sets, computing power, research talent, etc.). Also, as systematic strategies have underperformed discretionary strategies, allocator appetite has waned.

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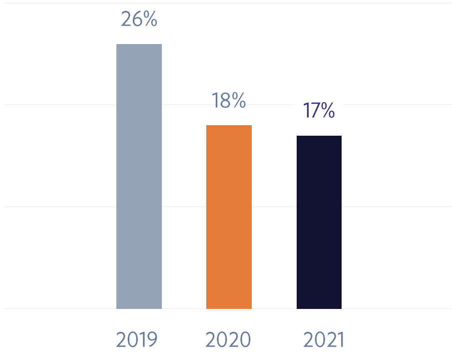

SYSTEMATICALLY-BASED STRATEGIES

ESG MANDATES

While the definition of what constitutes an ESG strategy is less clear than other classifications, we have seen a steady shift higher in new launches that describe their strategy as ESG-focused/compliant. If allocators' appetite for ESG continues to develop and the industry forms more standardized approaches to defining and measuring ESG, we suspect this trend will persist.

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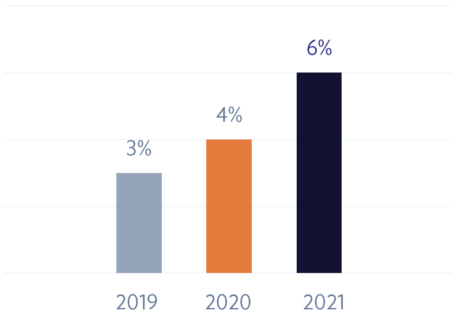

ESG MANDATES

STRATEGIES WITH A "CLEAN ENERGY" COMPONENT

While a relatively new classification, the shift towards strategies that invest in "Clean Energy" is notable both in terms of the entire new launch universe, but even more so as it relates to Equity Energy strategies, specifically. We have seen many long/short equity energy investors adapt by incorporating "Clean Energy" into their investment strategies.

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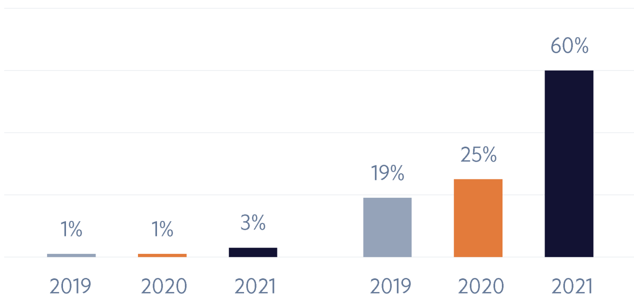

LAUNCHES W/CLEAN ENERGY COMPONENT

EQUITY ENERGY STRATEGIES W/CLEAN ENERGY COMPONENT

DIGITAL ASSET STRATEGIES

While digital asset-related stories are pervasive in the financial press and mainstream media, the number of strategies trading digital assets remains a relatively small fraction of new launches. In addition to skepticism on the viability of the "asset class," there are other reasons for the relatively few new launches that incorporate digital assets, including the short trading history of the asset class, the uncertain ability to hedge, and the lack of liquidity and scalability.

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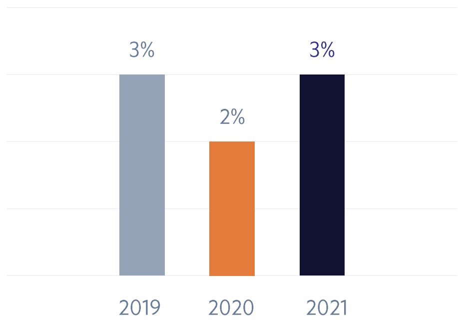

STRATEGIES W/DIGITAL ASSET COMPONENT

FUND STRUCTURE TRENDS

PUBLIC/PRIVATE HYBRID STRATEGIES

As allocator interest in private assets continues to grow, we have seen a material increase in the number of new launches employing hybrid models investing in both public and private assets. The deployment of these "crossover" strategies seems likely to continue as long as allocators seek increased exposure to private assets.

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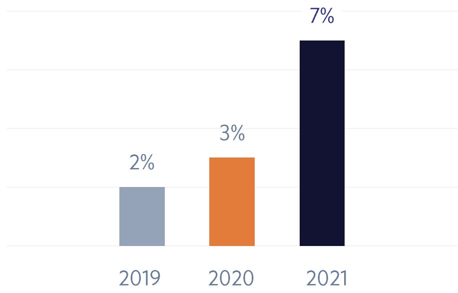

PUBLIC/PRIVATE HYBRID STRATEGIES

DRAWDOWN STRUCTURES

The aforementioned increase in public/private hybrid strategies is not necessarily matched by a material change in drawdown fund structures, indicating that some managers may be funding private investments from evergreen fund structures.

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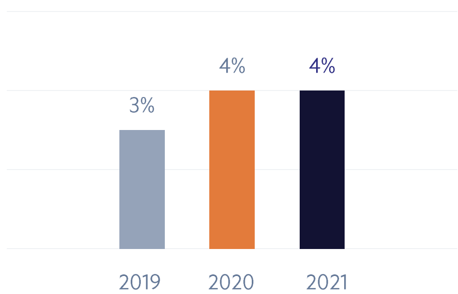
NOTABLE YoY COMPARISON



DRAWDOWN FUND STRUCTURES

MULTI-MANAGER STRUCTURES

With allocator demand for multi-manager platforms continuing to remain high, we have observed a corresponding increase in newly launching multi-manager strategies since 2019. Given the staffing, operational, and technological complexities of launching a multi-manager platform, however, it is not surprising that we saw a considerable decrease in multi-manager launches in 2020 before a pent-up supply came to market in 2021.

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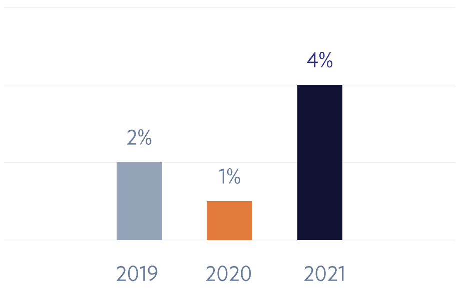

MULTI-MANAGER PLATFORMS

CONCLUSION

From our vantage point, new launch activity remains robust, as the industry responds to evolutionary pressures, shifts in financial markets, and the changing demands of allocators.

Looking ahead, we believe there is a significant supply of investment talent waiting out this period of COVID-induced uncertainty, eager to depart their current firms (or come off the sidelines) to start their own enterprises. As the world begins to return to normal, we are eager to see how the new launch environment continues to develop and are excited about the high caliber of talent that appears poised to make the entrepreneurial jump.

Let’s compare notes! We welcome your comments and feedback.

METHODOLOGY

A few words on methodology...

We believe the hedge fund industry suffers from an over-reliance on “bucketing” and we are generally loath to do it ourselves. While we believe each hedge fund firm is unique, for this study we created rules to standardize and track the hedge fund characteristics we felt were interesting and relevant. Throughout this study, we included notes on the assumptions and methodologies utilized.

The data set utilized is proprietary and was compiled from internal manager analysis, various news outlets, prime brokerage reporting, and other sources. This analysis includes all launches (including attempted launches) that were known to Borealis – referred to throughout as “New Launches” – and is not necessarily a complete summary of all launches throughout the industry.

Launch year “vintage” refers to the launch or attempted launch of a commingled limited partnership vehicle. Fund managers who attempted to launch a fund, but did not succeed, are still included in this study and their vintage year refers to the most recent targeted launch year.

The data presented are as of August 10, 2021.