BOREALIS
STRATEGIC CAPITAL PARTNERS, LP

DECEMBER 2022

HEDGE FUND NEW LAUNCH LANDSCAPE: 2022 EDITION

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 enjoy sharing our latest observations on the new launch landscape. As a follow-up to our last report, published August 2021, we are pleased to share a 2022 year-in-review.

We have broken our observations up into two sections: Firm/Organization trends and Investment Strategy trends.

EXECUTIVE SUMMARY – HIGH LEVEL OBSERVATIONS

Entrepreneurs on edge

Amid heightened volatility in financial markets during 2022, we observed a substantial drop-off in the number of new hedge fund launches. As it stands, new launch volume for 2022 is tracking approximately 20% lower than the trailing 3-year average from 2019-2021.

Florida: Sun, Sand, and Sortino Ratios?

In 2022, more than 1 in 12 U.S.-based new launches were based in Florida – and its share has steadily grown over the last 4 years. Since 2020, Florida's new launch share has overtaken those of Illinois and Massachusetts and, at its current pace, may overtake California for the #2 spot by next year (trailing only the NY/CT/NJ Tri-State region – which we consider as one for the purposes of this study).

Credit comes to a crawl

Amid the headwinds of rising interest rates and recessionary expectations, the number of credit-focused hedge fund launches slowed materially in 2022 (9% of launches, down from 15% in 2020). Without a substantial volume of defaulting credits materializing yet, many credit investors have shelved plans to launch a fund until the backdrop and investor appetite become more certain.

Platform progenies

For the second straight year, Citadel and Millennium represent the two most common launchpads for new hedge funds. The growth of these multi-manager platforms' assets has been commensurate with their hiring of investment talent over the last decade. Naturally, this is also reflected in the share of newly launching hedge funds led by portfolio managers coming from these firms.

OVERVIEW

THE NEW LAUNCH MANAGER SAMPLE

This study focuses on those managers that launched or attempted to launch hedge funds in the years 2019-2022. In aggregate, this includes a total sample of 1,926 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 December 2nd, 2022):

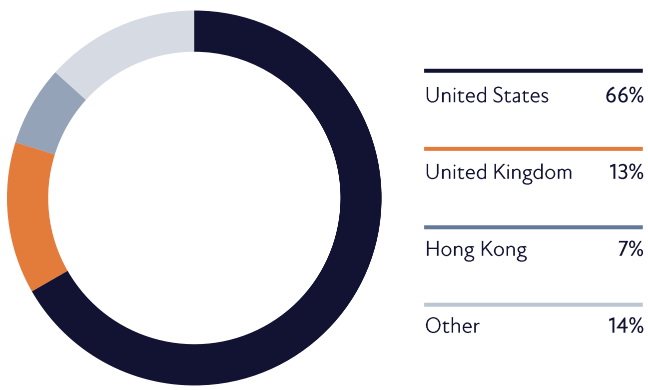
2019	2020	2021	2022	TOTAL SAMPLE
494	504	526	402	1,926

FIRM/ORGANIZATION TRENDS

NEW LAUNCHES BY COUNTRY OF ORIGIN

U.S.-based funds still comprise the majority of new launches in 2022 (66%), followed by the U.K. (13%) and Hong Kong (7%). These metrics are generally in line with historical norms. While hardly moving the needle, we have observed – both anecdotally and in the data sample – an uptick in Puerto Rico-based launches (2%), driven in part by the territory's attractive tax incentives for hedge fund managers (a significant portion of whom happen to be digital asset-focused).

BREAKOUT BY COUNTRY (2022)



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).

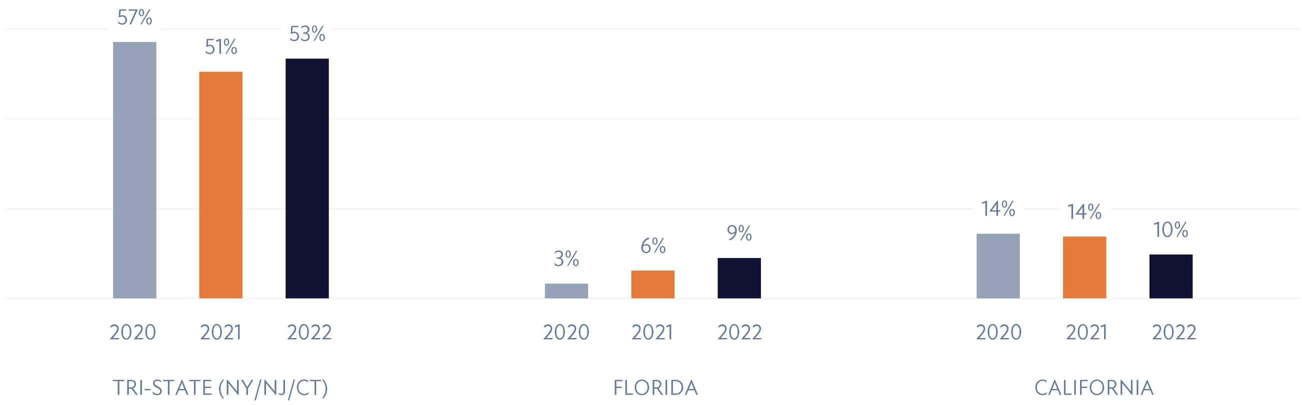
U.S.-BASED NEW LAUNCHES BY STATE

Much has been written about the recent hedge fund exodus from New York, driven by a variety of regulatory, tax, and lifestyle factors. As it applies to newly launching hedge funds, we have observed the same trend, with the share of Tri-State (NY/NJ/CT) launches (as a % of all U.S.-based launches) falling from 57% to 51% between 2020 and 2021. However, in 2022, the region's share recovered a portion of that loss (53%), once again reinforcing that the Tri-State region remains the capital of the U.S. hedge fund industry.

With that said, we would be remiss not to point out the multi-year trend around Florida-based hedge funds. Florida's share of new hedge fund launches has ticked higher in every year since we began cataloguing this information.

One additional observation: Many Florida-based hedge funds have featured PMs moving to the state in conjunction with establishing their new business. However, given the number of bellwether hedge funds adding offices (Elliott and Millennium, for example), or even moving their headquarters down to Florida (Citadel, for example), the native talent pool is deepening.

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).

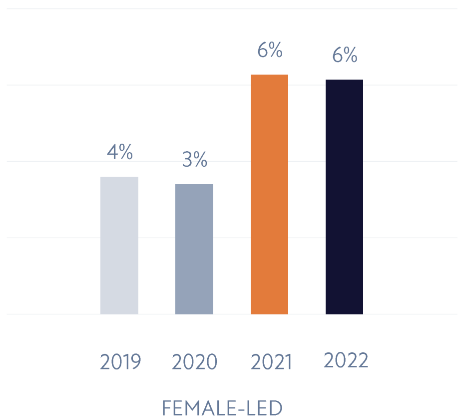
FEMALE-LED NEW LAUNCHES

The industry's emphasis on gender diversity continues to have an impact on the number of female-led launches. Last year, we saw the share of female-led launches double from 3% to 6% and were curious to see if this was a one-time blip or the start of something more sustainable. To date, it appears to be more of the latter, with female-led launches holding the same share in 2022.

Another aspect worth highlighting here is that while the volume has increased, so too has the perceived quality. To that point, several of the more highly anticipated launches in 2022 were led by women (an element that Bloomberg covered last December).

Methodology note: Percentages reflect composition of all new launches for the periods defined above. For fund and strategy attributes, we rely largely on a 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.)

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 4 years. Allocator preference for single decision-maker structures, combined with multi-manager platforms breeding single decision-maker strategies, likely drive this dynamic. To that end, we have observed that "capital introduction" groups at prime brokers have been appropriately proactive in advocating that managers go to market with a single decision-maker structure.

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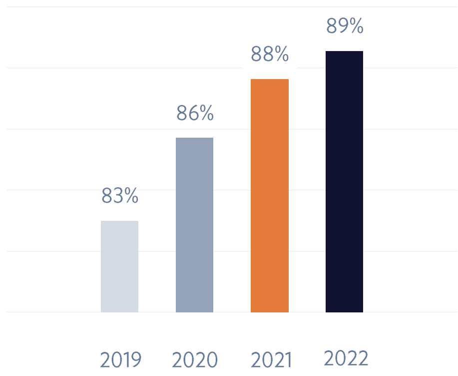
YoY COMPARISON



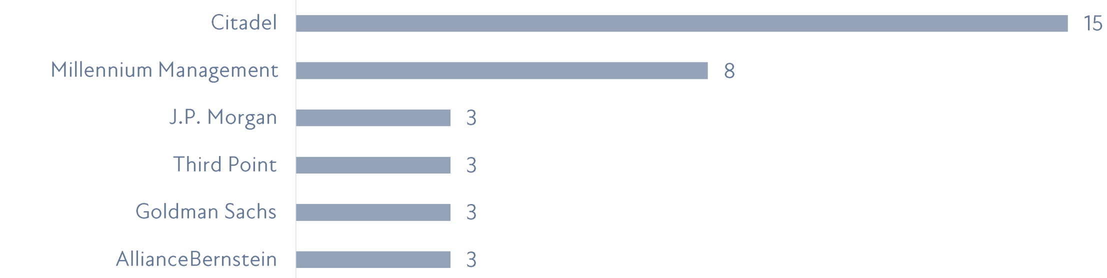
SINGLE CIO STRUCTURES

COMMON PEDIGREES

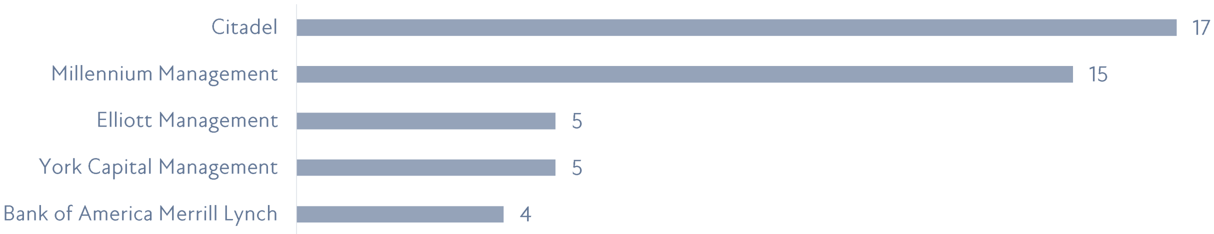
Newly launching managers come from a variety of backgrounds and pedigrees – and it is of no surprise that we often get asked the question: "Where are you seeing people spin out of most frequently?"

Over the last 2 years, the answer is the same: Citadel, followed by Millennium. The share of new launches originating from Citadel and Millennium, in aggregate, has accounted for 6% of all launches in both 2021 and 2022. Below is a list of firms that have spawned the most launches in 2022 (thus far) and 2021.

2022 LAUNCH PEDIGREES (BY COUNT)



2021 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.

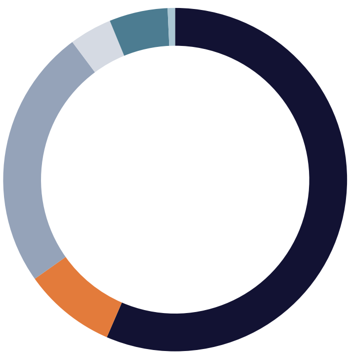
INVESTMENT STRATEGY TRENDS

NEW LAUNCHES BY STRATEGY CLASSIFICATION

On a strategy level, two trends stick out in 2022. First, the downdraft in credit-centric launches in 2022 is notable, down to 9% of all hedge fund launches. Not surprisingly, a rising rate environment, combined with uncertainty regarding the opportunity set and allocator interest, appeared to weigh on the performance and allocator interest in credit strategies during 2022. With that said, we have seen several high quality distressed and credit-centric special situations launches begin to percolate for 2023, suggesting that a handful of talented credit-focused investors may be preparing to launch funds in anticipation of a ripe opportunity set ahead.

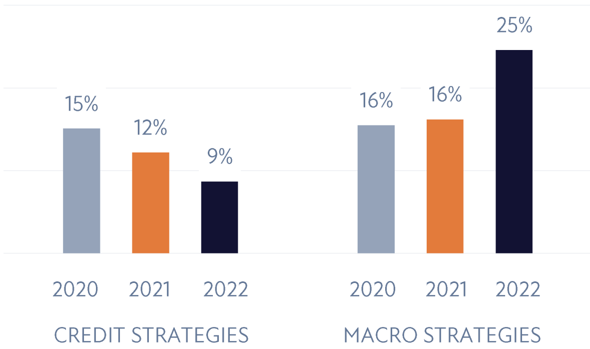
On the opposite end of the spectrum, 2022 appears to be the "Year of Macro-Based Strategies," which saw their share jump from 16% to 25% of all new launches. However, as we dig into the data, we observe that the headline number may be misleading, as the spike is entirely driven by digital asset strategies, which have gone from 2% to 6% to 14% of all new launches over the last 3 years. If you remove the impact of digital asset strategies, macro launches are roughly flat YoY.

BREAKOUT BY STRATEGY (2022)



Equity	57%
Credit	9%
Macro	25%
Event	4%
Opportunistic	6%
Other	1%

YoY COMPARISONS

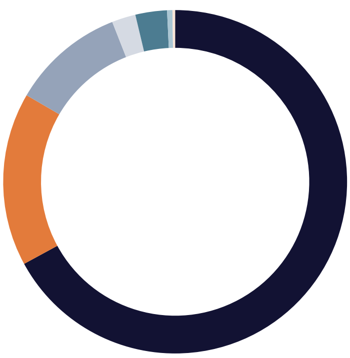


Methodology note: Percentages reflect composition of all new launches for the periods defined above. Strategy classificationsare our own.

NEW LAUNCHES BY REGIONAL FOCUS (ALL STRATEGIES)

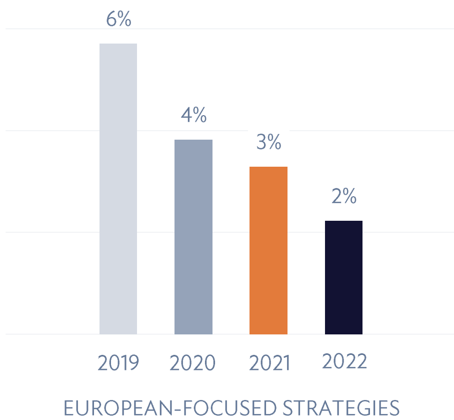
The majority of new launches either do not specify a geographic focus or explicitly have a global focus (for the purpose of this exercise, both are considered "global"). However, looking across all strategies, we would be remiss not to point out how the share of European-focused launches has slowed to just 2% of all launches (down steadily from 6% in 2019).

BREAKOUT BY GEOGRAPHICAL FOCUS (2022)



Global	67%
North America	16%
Asia & Oceania	11%
Europe	2%
Emerging Markets	3%
Latin America	1%
Middle East & Other	0%

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.

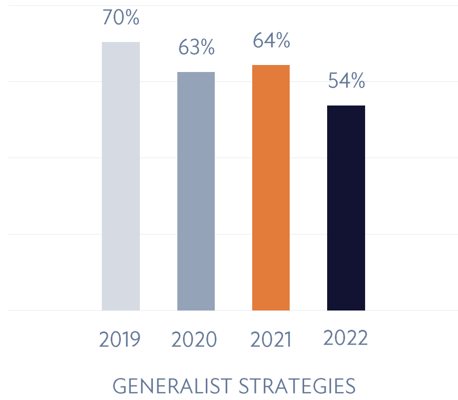
NEW LAUNCHES BY SECTOR FOCUS (EQUITY ONLY)

Within equity-focused strategies, generalist mandates continue to comprise the majority of new launches, but that share fell meaningfully in 2022, ceding share to specialist mandates. At this current pace, specialist equity mandates may overtake generalist equity mandates in 2023.

BREAKOUT BY SECTOR FOCUS (EQUITY ONLY: 2022)

Generalist	54%
TMT/Consumer	19%
Healthcare	13%
Energy/Industrials/Materials/Utilities	11%
Financials/Real Estate	4%

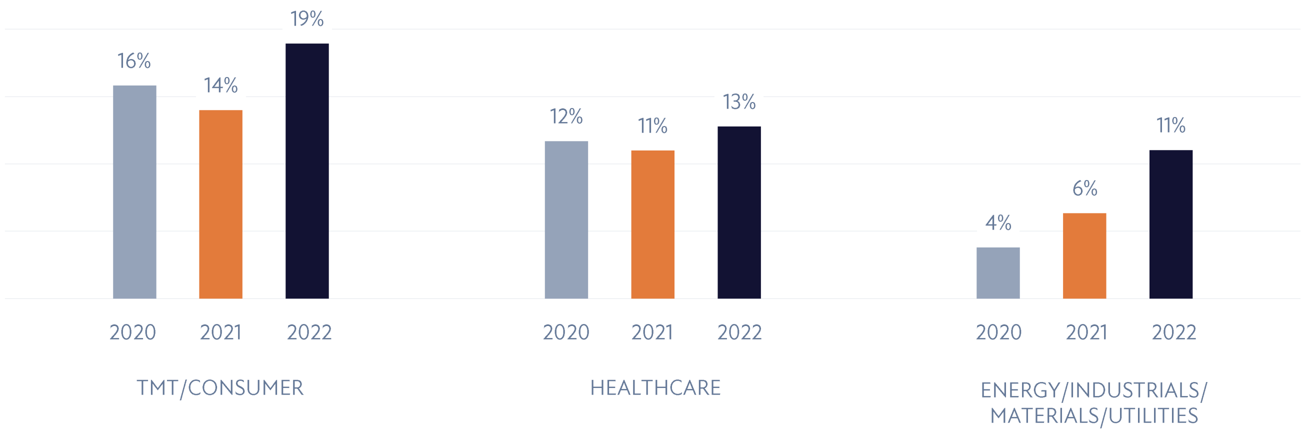
YoY COMPARISON



As discussed in last year's report, there has been a material shift away from generalist-focused mandates in favor of sector specialist models. As training grounds for portfolio managers (particularly multi-manager platforms) prioritize sector-focused coverage models and allocator interest in sector-specific mandates grows, it is difficult to project a material reversal in the near-term.

The shift away from generalist mandates in 2022 favored TMT/Consumer specialists, Healthcare specialists, and Energy/Industrials/Materials/Utilities specialists.

YoY COMPARISONS (EQUITY ONLY)



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

DIGITAL ASSET STRATEGIES

As previously discussed, the fervor around digital assets in 2022 reached a fever pitch (particularly early in the year) – which was reflected in our data set, with digital asset hedge funds launching at a rapid clip. We observed a wide array of different strategies: Long-only and long/short fundamental token strategies, de-fi and yield-focused strategies, relative value and arbitrage strategies, as well as systematic trend-following strategies. We also observed both traditional hedge fund-types and technologists launching digital asset-focused hedge funds. Despite that apparent optimism, it seems to us the exuberance from the manager side has not yet been met with the same excitement and acceptance from the institutional allocator side, at least in the form of actual capital flows.

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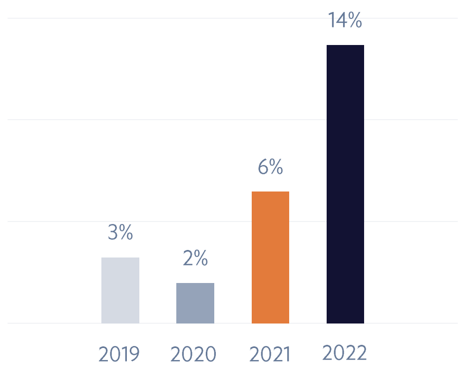
YoY COMPARISON



DIGITAL ASSET COMPONENT

ESG MANDATES

With our standard caveat – what constitutes an ESG strategy is less clear than other classifications – we note the stagnant growth of new launches that describe their strategy as ESG-focused. This is somewhat surprising given the amount of press dedicated to the topic. Our impression is that while ESG has been a huge initiative in traditional asset management, the definition and role of ESG within hedge fund strategies remains relatively murky (all the while, becoming a more polarizing political topic). That observation, combined with the outperformance of traditional energy year-to-date, may explain why 2022 appears to be a step backwards for ESG-centric hedge fund launches.

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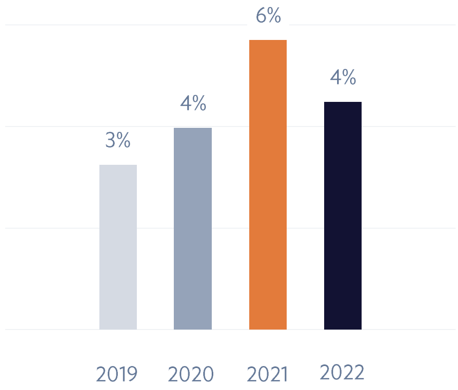
YoY COMPARISON



ESG MANDATES

"CLEAN ENERGY" STRATEGIES

While still small in absolute terms, we observe steady and continued increase in strategies with "clean energy" as a core component of their strategy. Based on conversations we have had in the market, this is predominantly the result of 3 key drivers:

i. The growing opportunity set of global companies focused on clean/renewable energy

ii. Growing interest from allocators seeking this exposure

iii. An influx of PMs formerly specializing in traditional E&P seeking to re-invent and re-apply their skillset to something with a secular growth tailwind

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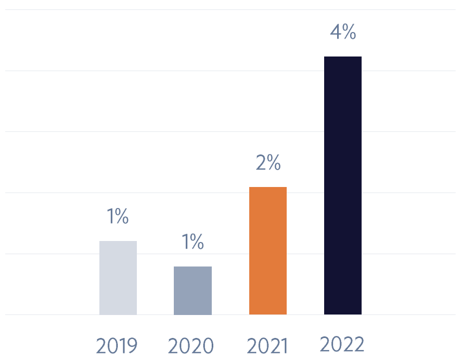
YoY COMPARISON



CLEAN ENERGY COMPONENT

PUBLIC/PRIVATE HYBRID STRATEGIES

While there was not a significant change YoY, we continue to see a push toward hybrid strategies and fund structures. Anecdotally, among managers and allocators alike, we note a growing acceptance that asset liquidity across equity, credit, and more niche markets may require a more thoughtful, bespoke, and hybrid approach than the traditional "all-or-nothing" style of asset allocation, which generally classified fund strategies and structures as either liquid or illiquid.

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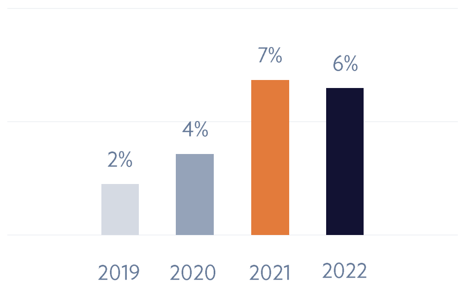
YoY COMPARISON



PUBLIC/PRIVATE HYBRID STRATEGIES

CONCLUSION

2022 was a slower year for new hedge fund launches, driven by macroeconomic uncertainty, a reduction in allocator dry powder, and ongoing reticence over fundraising in a post-COVID world (where allocator receptivity to in-person diligence remains mixed). With that said, we have begun to observe green shoots pointing to a potential rebound in new launches in 2023, driven by a variety of factors, including:

i. Investment losses and high-watermark concerns catalyzing the departure of key senior lieutenants

ii. An uptick in hedge fund closures, forcing investment talent to consider next steps

iii. The full vesting of deferred compensation from 2019-2020, in conjunction with relatively lean deferred compensation for 2021-2022

iv. An eagerness among certain investors to monetize a dislocated market with more compelling investment opportunities than 12-18 months ago

Time will tell whether those factors ultimately lead to a robust new launch environment in 2023, but our past research suggests that crisis periods can be particularly fruitful times to make the entrepreneurial jump.

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 December 2, 2022.