BOREALIS

STRATEGIC CAPITAL PARTNERS, LP

JANUARY 2024

HEDGE FUND NEW LAUNCH LANDSCAPE: 2023 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 analyzed 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 December 2022, we are pleased to share a 2023 year-in-review.

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

EXECUTIVE SUMMARY – HIGH LEVEL OBSERVATIONS

Languishing Launches

New launch volume in 2023 roughly mirrors the level observed in 2022 – which was approximately 20% lower than the trailing 3-year average from 2019-2021 – suggesting that the slowdown in hedge fund launch volume observed and discussed last year was more than a temporary blip.

"Pod" Power

In a year characterized by some as "peak pod," the resulting rate of hiring and personnel turnover within the multi-manager platforms was evident in our data set with (i) fewer managers launching firms, in the aggregate, (ii) fewer sector specialists choosing to go off on their own (relative to generalists), and (iii) an elevated number of new launches featuring Millennium and Citadel pedigrees.

Future Focus

While new fund launch trends typically tend to correlate most closely with past performance (as in, the best performing asset classes tend to feature the most launches), we saw two strategies buck the trend in 2023: Credit and Healthcare-focused strategies – two segments of capital markets that have not benefitted from strong beta tailwinds, but appear to be surging instead based on the implied opportunity set going forward.

New York, New York

The share of Tri-State based launches (NY, NJ, and CT) looks to be hitting a post-COVID high, bouncing back from a multi-year decline, and reaffirming that it's once again the capital of the hedge fund industry.

OVERVIEW

THE NEW LAUNCH MANAGER SAMPLE

This study focuses on those managers that launched or attempted to launch hedge funds in the years 2019-2023. In aggregate, this includes a total sample of 2,286 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 21st, 2023):

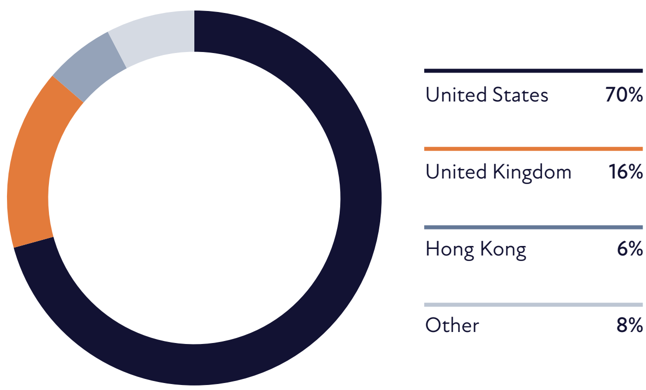
2019	2020	2021	2022	2023	TOTAL SAMPLE
496	502	525	382	381	2,286

FIRM/ORGANIZATION TRENDS

NEW LAUNCHES BY COUNTRY OF ORIGIN

U.S.-based funds still comprise the majority of new launches in 2023 (70%), followed by the U.K. (16%) and Hong Kong (6%). These metrics are generally in line with historical norms, albeit with U.S. based launches continuing to tick higher in each of the past three years.

BREAKOUT BY COUNTRY (2023)



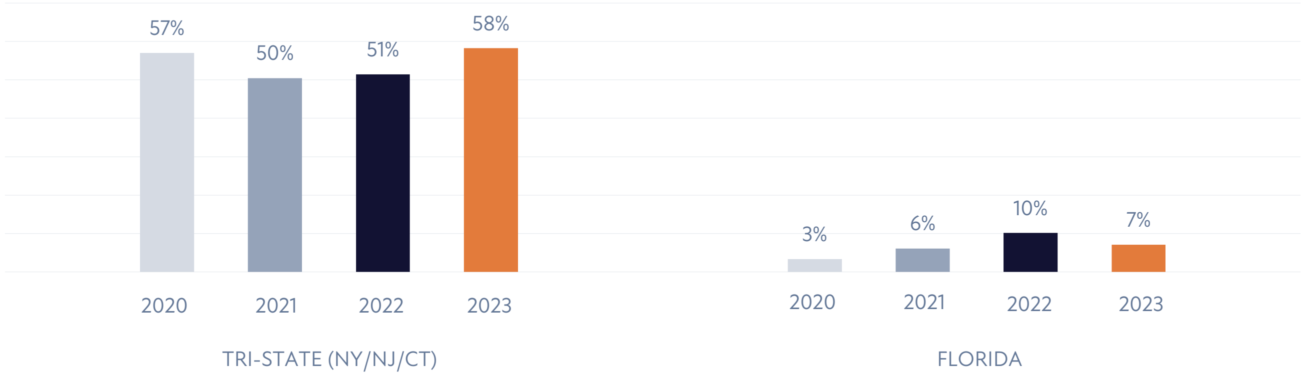
Methodology note: Percentages reflect composition of all new launches for the periods defined above. For this analysis, if a manager has multiple office locations, we considered only the primary office location (informed by the location of the key investment decision maker).

U.S.-BASED NEW LAUNCHES BY STATE

Tri-State based launches (NY, NJ, and CT) made up 58% of all US-based launches in 2023, hitting a 5-year high and suggesting that the region has bounced back from the COVID-timed exodus we observed in 2021 and 2022. So, amid all the stories that have been written about the investment industry's exodus from New York, the 2023 new launch data set suggests otherwise.

Conversely, we observed a reversal in the share of Florida-based hedge fund launches in 2023, bucking a persistent upward multi-year trend from 2020-2022.

YoY COMPARISONS



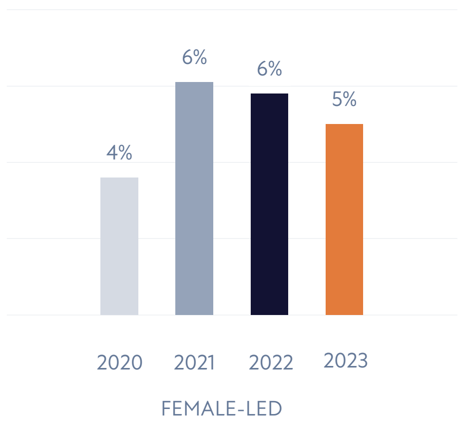
Methodology note: Percentages reflect composition of all new launches for the periods defined above. For this analysis, if a manager has multiple office locations, we considered only the primary office location (informed by the location of the key investment decision maker).

FEMALE-LED NEW LAUNCHES

2023 new launch volume also happened to exhibit a slowdown in the share of female-led launches, which fell to 5% (as a percentage of all new launches).

While there were a small handful of particularly high profile launches in 2023 led by women founders, the breadth of this trend did not match the perceived "star power."

YoY COMPARISON



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.)

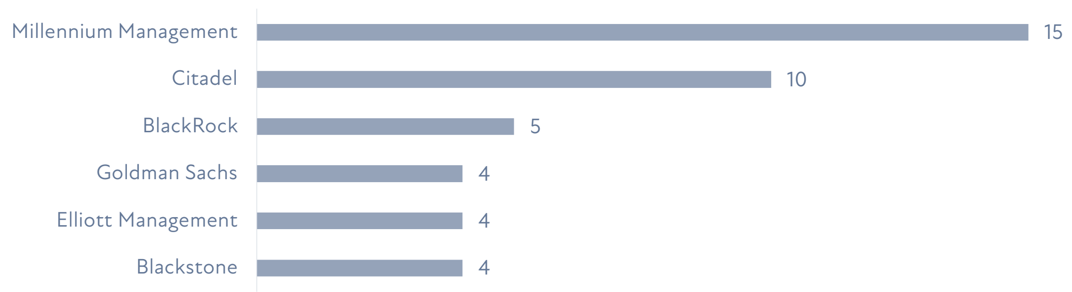
COMMON PEDIGREES

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?"

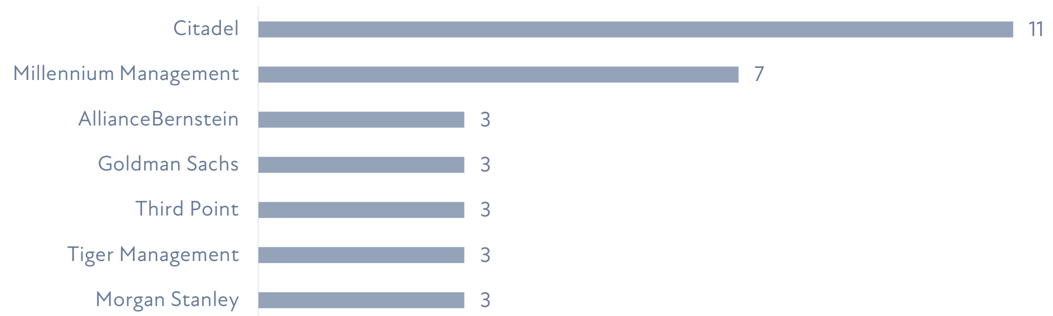
For the third consecutive year, Citadel and Millennium have represented the two most common sources for new launches (albeit in a different order this year). In fact, the combined share of Citadel and Millennium pedigrees in 2023 represents approximately 7% of all new launches, which is higher than normal. As the size of these multi-manager firms continue to grow – in conjunction with the natural personnel turnover inherent in the business model – we would expect these numbers to remain elevated for some time.

Conversely, 72% of 2023 new launches came from firms where they were the sole spin-out during the year – which indicates that new launch pedigrees, in the aggregate, are quite diverse.

2023 LAUNCH PEDIGREES (BY COUNT)



2022 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.

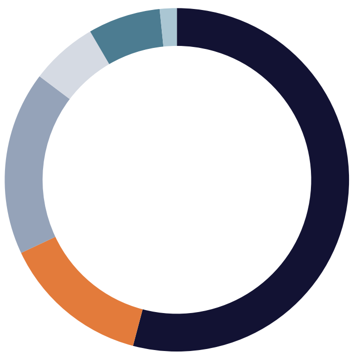
INVESTMENT STRATEGY TRENDS

NEW LAUNCHES BY STRATEGY CLASSIFICATION

In last year's New Launch Landscape, we noted a material slow-down in credit-focused launches, while anecdotally observing that several high quality distressed and credit-centric special situations launches looked to be coming on the radar in 2023 – a trend that did ultimately manifest itself in the annual data.

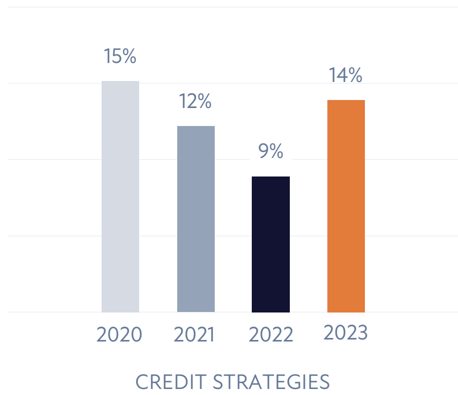
With the spike in credit yields over the last two years – creating dispersion and volatility across the asset class – we observed a resurgence in credit-focused launches in 2023, jumping from 9% to 14% of all launches YoY.

BREAKOUT BY STRATEGY (2023)



Equity	54%
Credit	14%
Macro	17%
Event	6%
Opportunistic	7%
Other	2%

YoY COMPARISON



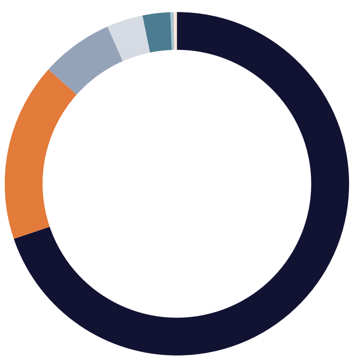
Methodology note: Percentages reflect composition of all new launches for the periods defined above. Strategy classifications are our own.

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, Asia-focused hedge fund launches fell in 2023, from 11% to 7% in our dataset, following a multi-year initiative from allocators to invest in the region.

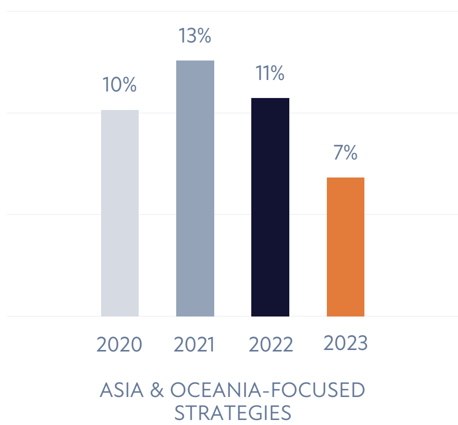
In speaking with a variety of industry participants, our understanding is that allocators have cooled on deploying capital into Asia, which appears to have impacted launches. Anecdotally, we heard of multiple instances where allocators who are governed by a board are reticent to take the potential career risk of recommending something China-focused today given the perception that it is now a political third rail.

BREAKOUT BY GEOGRAPHICAL FOCUS (2023)



Global	70%
North America	17%
Asia & Oceania	7%
Europe	3%
Emerging Markets	3%
Latin America	0%
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.

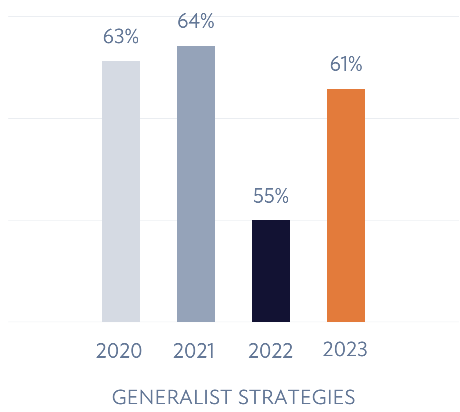
NEW LAUNCHES BY SECTOR FOCUS (EQUITY ONLY)

One trend that we did not expect to see such a stark reversal in was the rebound in generalist equity mandates at the expense of sector-specialist mandates. Anecdotally, we do not get the impression that this is driven by any sort of change in allocator demand – but instead, was supply driven. Our working theory is that the hiring trends and personnel growth across the multi-manager platform landscape – which often emphasizes portfolio managers with industry specialization – was profound enough in 2023 to remove a considerable portion of sector specialists from the new launch pool.

BREAKOUT BY SECTOR FOCUS (EQUITY ONLY: 2023)

Generalist	61%
TMT/Consumer	16%
Healthcare	13%
Energy/Industrials/Materials/Utilities	7%
Financials/Real Estate	2%

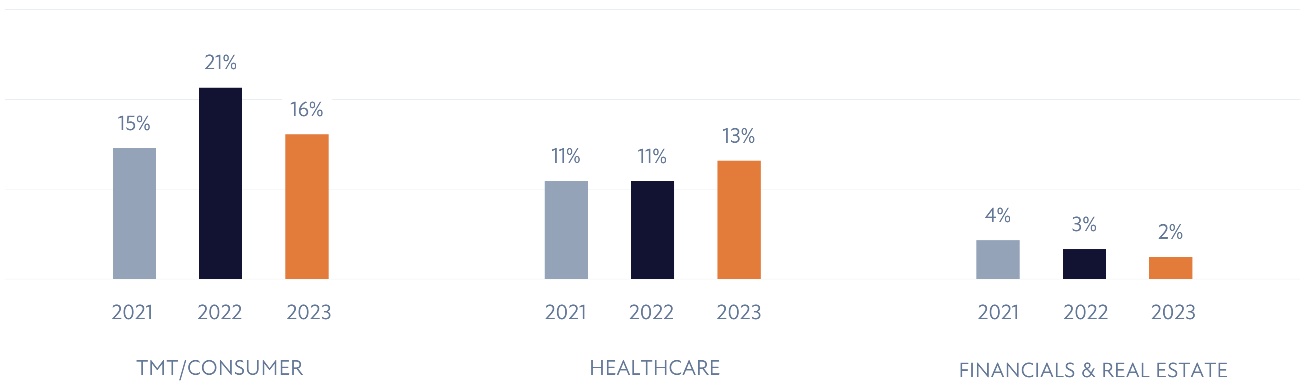
YoY COMPARISON



Within the pool of sector specialist mandates, the share of of equity healthcare specialists looked to have hit a multi-year high (comprising 13% of all equity launches) on the back of the multi-year dislocation in biotech.

On the other side of the spectrum, the number of financials and real-estate focused launches slowed to a trickle, perhaps reflecting the implied concerns around the sustainability of certain banking and real estate-centric business models in a higher interest rate regime.

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 highlighted last year, the fervor around digital assets in 2022 reached a fever pitch, which was reflected in our data set. Not surprisingly, the new launch volume continues to loosely mirror the trailing price of Bitcoin, falling from 15% of all hedge fund launches in 2022 to 5% in 2023.

As the market capitalization of the digital asset ecosystem came back to earth, in combination with the numerous well-publicized incidents of fraud, malfeasance, and risky behavior, our impression is that allocator interest in the space remains generally tepid.

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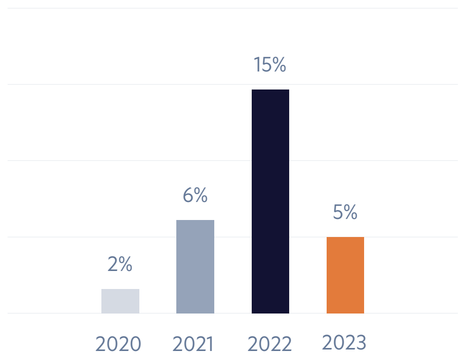
YoY COMPARISON



DIGITAL ASSET COMPONENT

ESG MANDATES

With our standard caveat – what constitutes an ESG strategy is less clear than other classifications – we note the rather precipitous decline of new launches that describe their strategy as ESG-focused. Specifically, the new launches in our dataset that incorporated ESG as a core element of their investment strategy fell from from 6% in 2021 to 2% in 2023, following several years of allocator hesitancy and evolving priorities on the topic.

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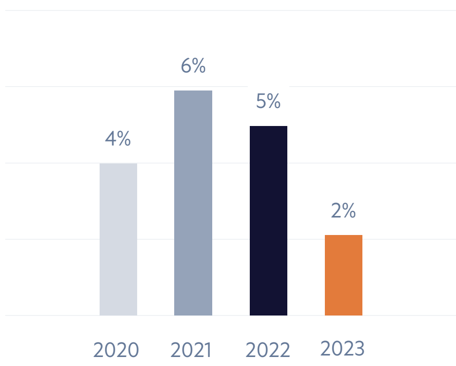
YoY COMPARISON



ESG MANDATES

QUANTITATIVE & SYSTEMATIC STRATEGIES

The decrease in quantitative or systematic-centric strategies is a continuation of a multi-year trend that may reflect the high (and growing) barriers to entry amid a technological arms race in quantitatively focused investment firms. When we started this project in 2019, these strategies represented over one-quarter of all hedge fund launches – versus approximately 15% in 2023.

While still early, our impression is that the implementation of Artificial Intelligence technology looks like it will be something that only compounds the barriers to entry, as opposed to democratizing the quant space.

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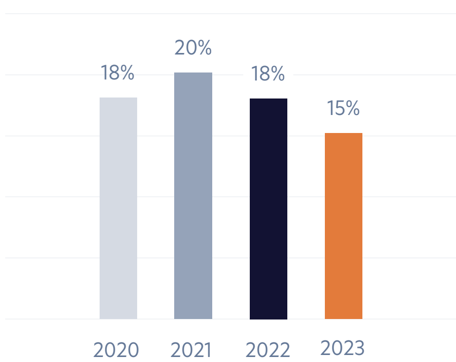
YoY COMPARISON



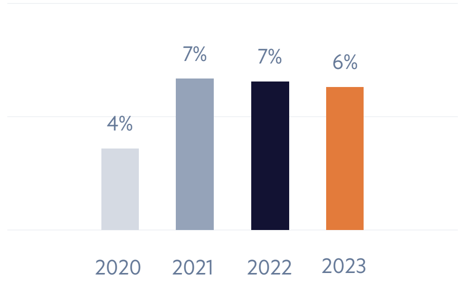
QUANTITATIVE & SYSTEMATIC STRATEGIES

HYBRID STRATEGIES & STRUCTURES

We would be remiss not to note the persistent flow of what we would term “hedge fund adjacent” strategies, leveraging hybrid fund structures, while seeking to address opportunities that typically fall between public and private market strategies. These types of strategies have consistently comprised about 6-7% of all new launches over the last 3 years and appear to be here to stay.

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.

YoY COMPARISON



PUBLIC/PRIVATE HYBRID STRATEGIES

CONCLUSION

2023 was, once again, a slower year for new hedge fund launches. We postulate that there are a few drivers for this drop in volume, including:

i. Allocators seeking to raise liquidity and battle the “denominator” effect associated with illiquid portfolio holdings, thus reducing capital availability

ii. An uncertain macro outlook and potential for continued market choppiness

iii. Multi-manager platforms spending aggressively in a war for portfolio management talent

All that is to say: For a prospective hedge fund manager who (i) doesn't have an immediate pathway to raising an initial capital base, (ii) runs a strategy that doesn’t benefit from market volatility, and/or (iii) invests in a style that better suits a multi-manager platform, starting a hedge fund in 2023 was not likely in their best interest.

We believe there to be credible arguments for why each of these factors are cyclical – and a reversal in one or more of them may quickly lead to a relative boom in new launch volume. Anecdotally, however, the quality of talent at the high end of new launch landscape remains impressive – particularly in strategies seeking to tolerate more volatility and illiquidity, in an attempt to monetize the recent capital flight to the other end of the spectrum.

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, which may shift in later reports.

The data presented are as of December 21, 2023.