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Hedge Fund Launches Plunge, Liquidations Surge amid Pandemic

By Lydia Tomkiw July 8, 2020

It has become increasingly difficult to launch, grow and scale a hedge fund business, with more closures than launches in recent years – and 2020 looks likely to only accelerate the trend, according to recent data.

New hedge fund launches fell to an estimated 84 during the first quarter, the lowest level since the fourth quarter of 2008, during the global financial crisis, according to Hedge Fund Research. And liquidations hit 304 during the same period earlier this year, rivaling fund closure levels last seen at the end of 2015, HFR data shows.

Global figures compiled by EurekaHedge tracked a similar trend this year, with 114 launches and 441 closures through June. The firms closing shop so far this year had an average of $30 million in assets under management in the EurekaHedge data.

“Given the challenges especially this year, we expect the tough environment for new entrants to persist,” the EurekaHedge team wrote in an email to *FundFire*.

But there is optimism that launches expected later this year will have a better chance at succeeding. “The higher barriers to entry should see more quality managers entering the industry,” EurekaHedge said.

The current environment poses various challenges for new launches, which are competing with established managers that have opened up existing funds to new capital and launched new strategies, says **Brendan Kalb**, a partner in the investment management group at **Morgan Lewis**. New funds are also facing challenges remotely coordinating the infrastructure they need, he says.

But for a manager building a track record, the last several months have provided investment opportunities to demonstrate they can provide downside protection amid volatile conditions, he adds.

“I think there are some bright spots, and I am cautiously optimistic about the some of the Q1 and Q2 launches that were pushed to Q3 and Q4… But the situation is very fluid,” Kalb says.

Well-known managers have been part of these trends, closing shop and specific funds in some cases, as well as supporting new launches. **John Paulson**'s hedge fund Paulson & Co. told investors earlier this month it will convert into a family office and no longer manage external capital after previously signaling such a move was possible. London-based **Lansdowne Partners** announced the closure of its main hedge fund.

But **Louis Bacon** of **Moore Capital** is set to provide a $1 billion seed to one of his employees, **Rami Abdel-Misih**, who is spinning out with **Mane Global**, a long/short equity fund, as first reported by the *Financial Times*.

There is a slew of launches still coming this year, including the anticipated launch of **Anomaly Capital Management** from **Benjamin Jacobs**, the former co-CIO at Viking Global Investors. But some managers can be expected to push back launches they had planned for this year until the first or second quarter of 2021, due in part to challenges investors are facing conducting due diligence amid a pandemic, a prime brokerage source told *FundFire*.

The increasing costs of launching new strategies, as well as the success the large multi-strategy hedge funds have had in attracting talent that otherwise may have spun out with new launches over the last few years have been key factors in the lower launch numbers, says **John Culbertson**, president and CIO at **Context Capital Partners**.

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But pandemic-fueled business lockdowns may be less of a factor in dampened launches, as funds and investors are adapting to the new digital environment, he adds. Context ran two virtual cap intro events last month and has five more coming over the summer.

"There's more of an openness and willingness to take meetings digitally," he says. Investors are willing to devote 30 minutes to hear from managers versus traveling to meet a fund.

But the question still remains: "How far down the path will institutional capital go toward an allocation when it's only a virtual interaction?" Culbertson says.

Context is planning to host its flagship Miami cap intro conference next year if regulatory bodies allow such live events, he adds.

Many firms launching hedge funds today still are missing key ingredients, including a business plan, a dedicated line item for sales and marketing, and professionally made pitchbooks and websites, says **Dan Sondhelm**, CEO of **Sondhelm Partners**.

“They have that belief if you build it investors will come, even though year after year after year… it doesn’t work that way,” he says. “You have to be able to tell your story to the right people often enough that some of them will evolve into clients.”

The COVID-19 pandemic environment has also brought added launch challenges. “A lot of these hedge fund managers are new to Zoom, are new to digital marketing,” he says. “They don’t have the infrastructure in place to do the things the big guys are doing.”

Launch preparations have been active among long/short equity healthcare funds as well as TMT funds as allocators adapt to virtual platforms, says **Steven Menna**, national hedge fund segment leader at KPMG. But questions remain about an economic recovery as well as the upcoming presidential election, he adds.

“I’m encouraged with the activity,” he says. “The question is if each one of these launches can take off and how the marketplace from an allocation standpoint works in the third and fourth quarter.”

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