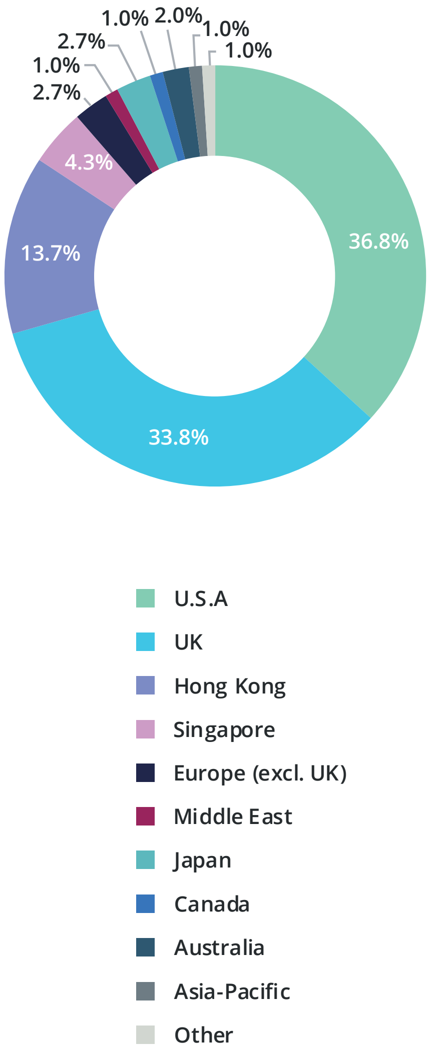
Hedge Fund Confidence Index

The AIMA Hedge Fund Confidence Index (HFCI) is a new global index that measures the level of confidence hedge funds have in the economic prospects of their business over the next 12 months. A product of AIMA, Simmons & Simmons and Seward & Kissel, the HFCI is calculated during the final two weeks of each quarter and published at the start of the subsequent quarter.

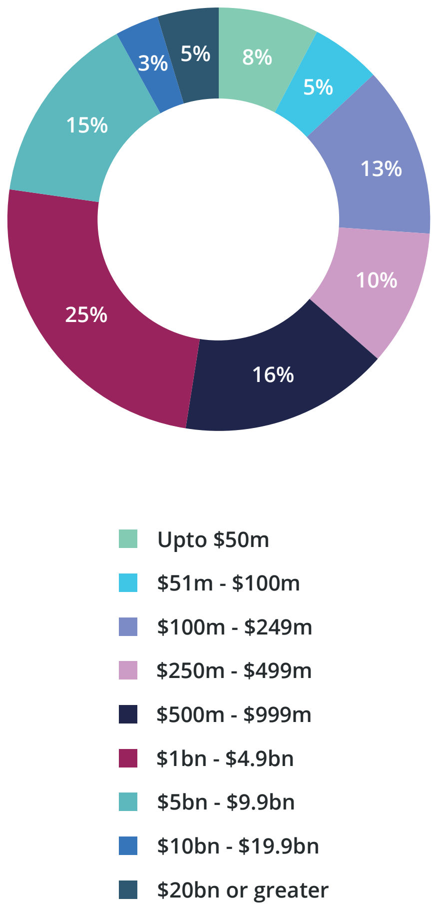
Selecting the appropriate level of confidence, respondents are asked to choose from a range of -50 to +50, where +50 indicates the highest possible level of economic confidence for the firm over the next 12 months. When considering how best to measure their level of economic confidence, hedge fund respondents are asked to consider the following factors: their firm's ability to raise capital, their firm's ability to generate revenue and manage costs, and the overall performance of their fund(s).

Breakdown of respondents:

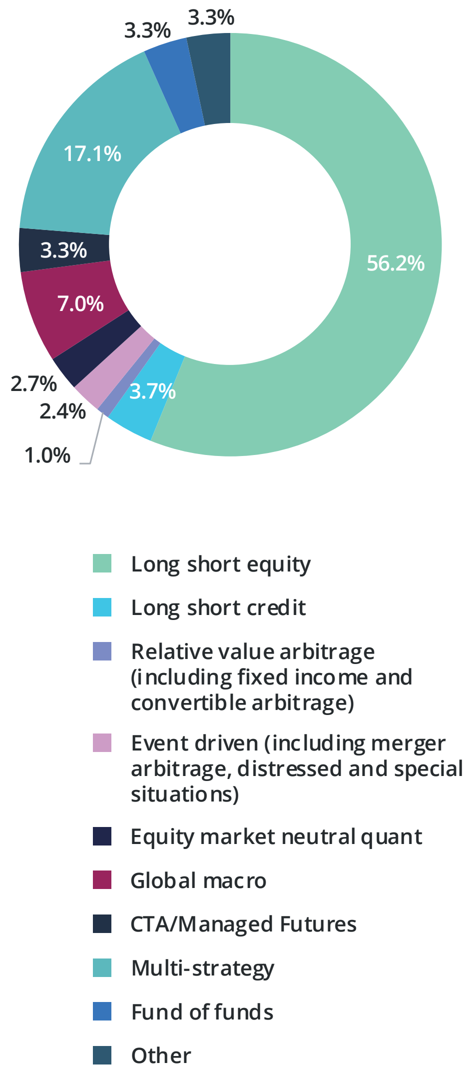
Location breakdown of respondents



Size breakdown of respondents



Full Strategy of breakdown of respondents

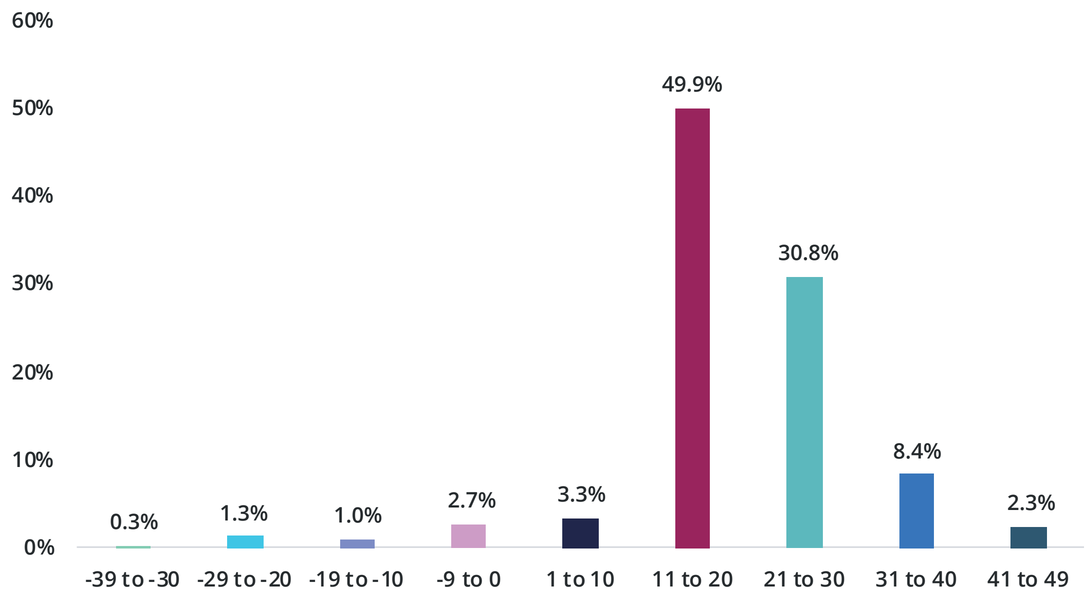


Q2 2021 results

AIMA

simmons + simmons

SEWARD & KISSEL LLP

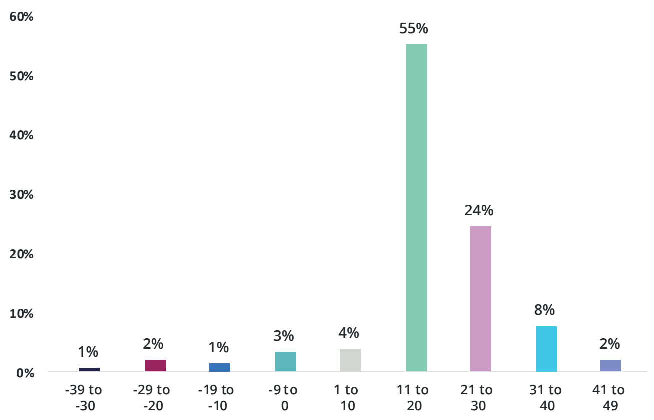


Average confidence score: +19.5

Based on a sample of more than 300 hedge funds (accounting for approx. US$1 trillion in assets) that participated in the index, the average measure of confidence (in the economic prospects of their business over the coming 12 months) is +19.5[1], up from the average rating of +18.4 reported in Q1. Like the first-quarter result, over 90% of hedge funds express confidence in the economic prospects of their business over the coming 12 months.

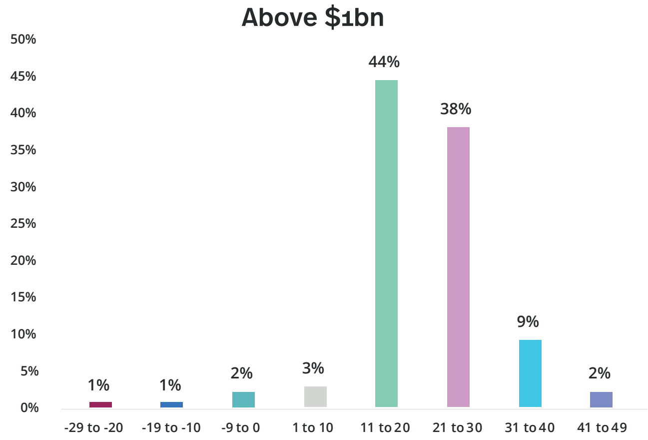
On a regional basis, all funds posted higher confidence scores than the previous quarter. North America-based hedge funds (which count in the majority US-based funds) continue to express the highest level of confidence globally, scoring on average +22.5 for this quarter, followed by APAC with an average score of +18.2, while EMEA (which includes UK funds) scored +17.7 (up from +17.3), while UK funds alone scored +17 (up from +16.4).

Less than $1bn



Average confidence score: +18.1

Above $1bn



Average confidence score: +21.1

Observing the funds' confidence level based on size, we split the population of responses into larger funds (for those that manage greater than US$1 billion in assets) accounting for 48% of the total number of responses and smaller funds (for those that manage US$1 billion or less) accounting for 52%. Both larger and smaller hedge funds express high levels of confidence with larger firms being the most confident with a rating of +21.1 versus their smaller counterparts scoring a confidence rating of +18.1.

[1] The average confidence numbers and charts within are based on confidence scores. This has been done to remove outliers which would otherwise skew results

Overview

Despite increased industry headline risk and news that market activity will be under closer scrutiny by policymakers, hedge funds continue to express strong confidence levels for the coming 12 months. Boosted by the ongoing success of COVID-19 vaccinations, particularly in the US and UK, and lockdown restrictions being lifted, there is growing optimism that the pandemic is nearing its end.

Industry confidence continues to grow amidst strong industry performance and capital inflows:

Optimism across the hedge fund industry is the highest it has been for many years underpinned by several factors.

Firstly, fund performance. There are some variations in average returns between the data aggregators that measure industry performance, but the results remain resounding. As of the end of May, hedge funds, on average, have posted double-digit returns, net of fees throughout 2021. Performance dispersion remains prominent with some hedge funds continuing to deliver exceptionally strong returns. Acknowledging this, industry commentators report performance as being the best YTD performance over the past 25 years[2].

Among the funds that reported to the HFCI this quarter, multi-strategy funds enjoyed the highest levels of confidence (+22) followed by long/short equity (+18.8), long/short credit (+18.8), and global macro funds (+18.8).

Multi-strategy funds continue to produce strong returns for investors, notably, some of the larger funds in this space have reported consistent solid returns over the quarter, resulting in them receiving the lion's share of capital investment from institutional investors[3].

Equity hedge funds remain among the best performing investment strategies, likely taking advantage of the market dislocation and volatility. Sector focused strategies have also enjoyed a good performance period. Funds investing in biotech, healthcare and technology all continue to report good returns amidst growing investor interest.

Global macro strategies are very much back in vogue as investors look to macro funds for their ability to navigate the threat of inflation, particularly in the US and UK economies. The accompanying volatility in equity and commodity prices is typically a good environment for macro funds to outperform. A note on managed futures strategies which also continue to perform well, after a challenging 2020.

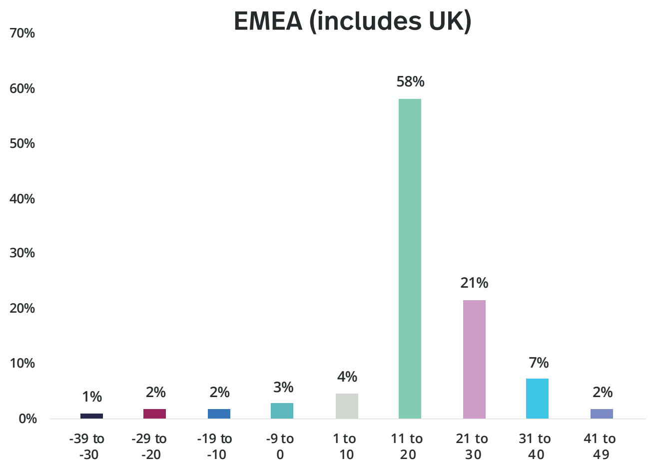
Secondly, the continued strong performance has not gone unnoticed by investors with hedge funds enjoying a renaissance. Increasingly investors are looking to the qualities that hedge funds demonstrate in being able to manage any downside risk from market volatility as well as the heterogeneity of their investment strategies which can provide the best potential for significant diversification as well as the highest potential for generating out-performance. Industry consensus points to all regions benefitting from capital inflows YTD. In May alone, the global industry grew by an estimated US$41 billion, extending gains for the year of approximately US$67 billion. On a regional basis[4], the US has received the most inflows, closely followed by APAC and EMEA. APAC has recorded seven consecutive months of inflows. Elsewhere, in the Middle East, government-owned firms and investment firms are increasingly using hedge funds for asset allocation. Many institutions, including sovereign wealth funds, are using hedge fund strategies to deploy their resources.

Thirdly, investors are increasingly seeing allocations to hedge funds as an effective route to gain exposure to digital assets and ESG-focused strategies. Increasing numbers of hedge funds are exploring the crypto space, with some notable names entering the market over the past quarter. Interest in this area is expected to grow further, with hedge fund participation being the catalyst for new investment strategies to be developed.

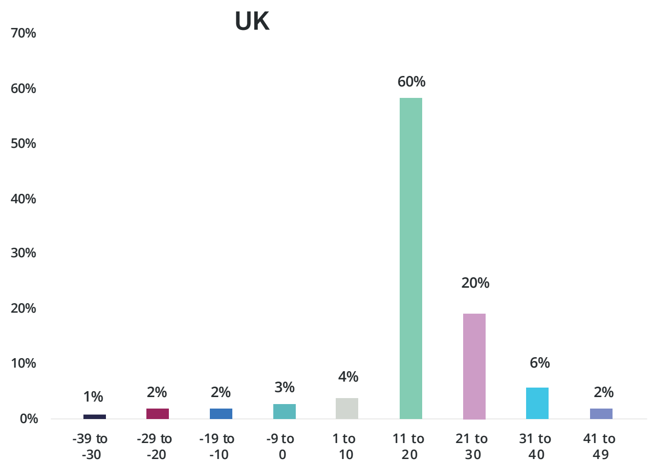
Fund confidence is at the highest level recorded to date for all regions.

[2] https://www.hfr.com/news/hedge-funds-extend-gains-as-inflationary-pressures-build
[3] https://www.opalesque.com/industry-updates/6422/widespread-inflows-continue-into-hedge-funds.html
[4] Estimates provided by HFM Pageant Media.

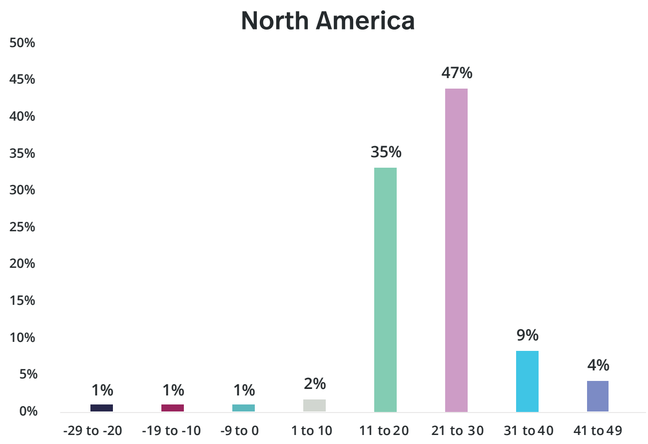
Breakdown by hedge fund location



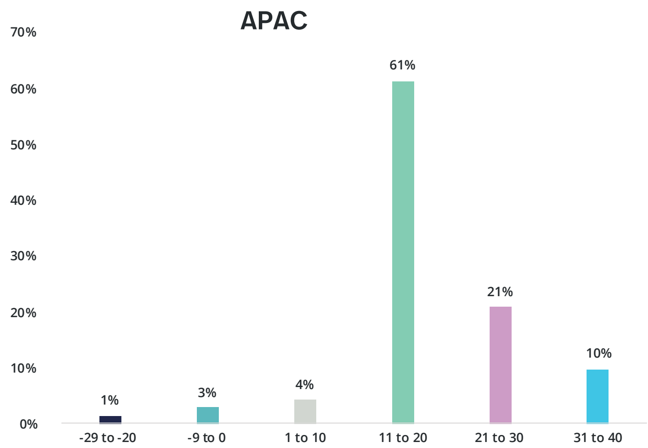
Average confidence score: +17.7



Average confidence score: +17



Average confidence score: +22.5



Average confidence score: +18.2

Comparison of results of HFCI: Q4 2020, Q1 2021 and Q2 2021

Breakdown of HF Managers	Ave Confidence Score Q4 2020	Ave Confidence Score Q1 2021	Ave Confidence Score Q2 2021
Overall	+13.8	+18.4	+19.5
Less than $1bn	+16.6	+17.2	+18.1
Greater than $1bn	+10.8	+19.4	+21.1
EMEA (including UK)	+9.7	+17.3	+17.7
UK	+9.7	+16.4	+17
North America	+19.7	+19.6	+22.5
APAC	+11.1	+17.2	+18.2

Examining the regional scores, America based, and APAC funds continue to report the highest level of confidence.

Observations from the market

APAC and certain parts of the US major business districts are seeing increased numbers return to the office. Fund managers with larger workforces appear to be returning to the office at a slower rate than those with smaller teams. There are also pockets in the market where certain teams or personnel that need to collaborate in person are already back in the office or expect to be soon.

The launch environment continues to remain robust, especially among hedge fund firms and investors they have previously worked with. Multi-strategy and global macro funds are attracting the most interest, but activist hedge funds are also the subject of growing interest. There is an increased interest in digital assets, too, and in funds investing in those assets. The market suggests that new launch activity will increase in Q3.

For new managers, the fund raising market is still challenging, with any efforts concentrated among managers that have pre-existing investor relationships and/or a strong track record.

Despite increasing numbers of people returning to the office leading to more in-person meetings, most continue to be held virtually. There is a greater level of confidence in the virtual outreach with examples of new businesses being successfully onboarded.

New challenges on the horizon

Despite the impressive confidence levels posted by the industry, it is still facing some legal and business headwinds with a wide variety of challenges including increased regulatory scrutiny in the US, Europe, the UK and elsewhere. Talent management and operational hurdles also persist, not to mention adjusting to the new post-COVID environment. For now, at least, the industry appears to be confident that these and other challenges will not dampen the wave of optimism sweeping the globe as it moves closer to exiting the pandemic.

Notes

- On behalf of AIMA, Simmons & Simmons, and Seward & Kissel, we would like to thank everyone who took the time to participate in the survey and share their insights. These views have been pivotal in helping us form this valuable report.
- The average confidence numbers and charts which follow are based on results between -49 and 49, this has been done to remove outliers which would skew results.