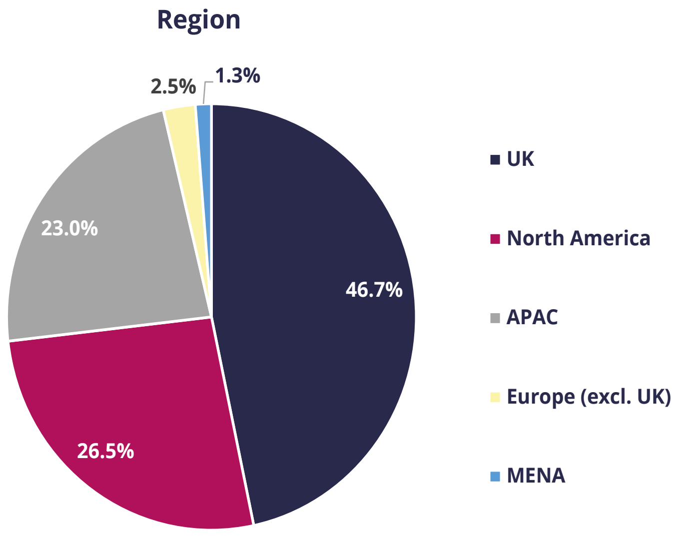
Hedge Fund Confidence Index

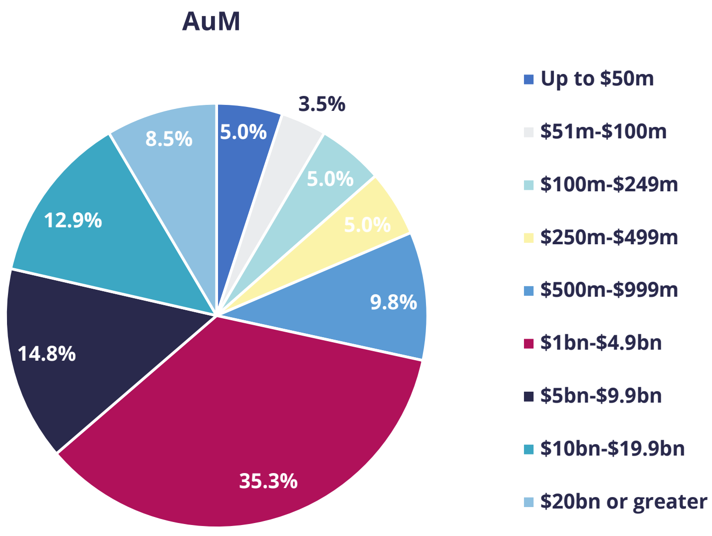
The AIMA Hedge Fund Confidence Index (HFCI) is a new global index that measures the level of confidence hedge funds have in the economic prospects of their business over the next 12 months. A product of AIMA, Simmons & Simmons and Seward & Kissel, the HFCI is calculated during the final two weeks of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

Estimated assets under management for hedge fund respondents: US$1.87 trillion



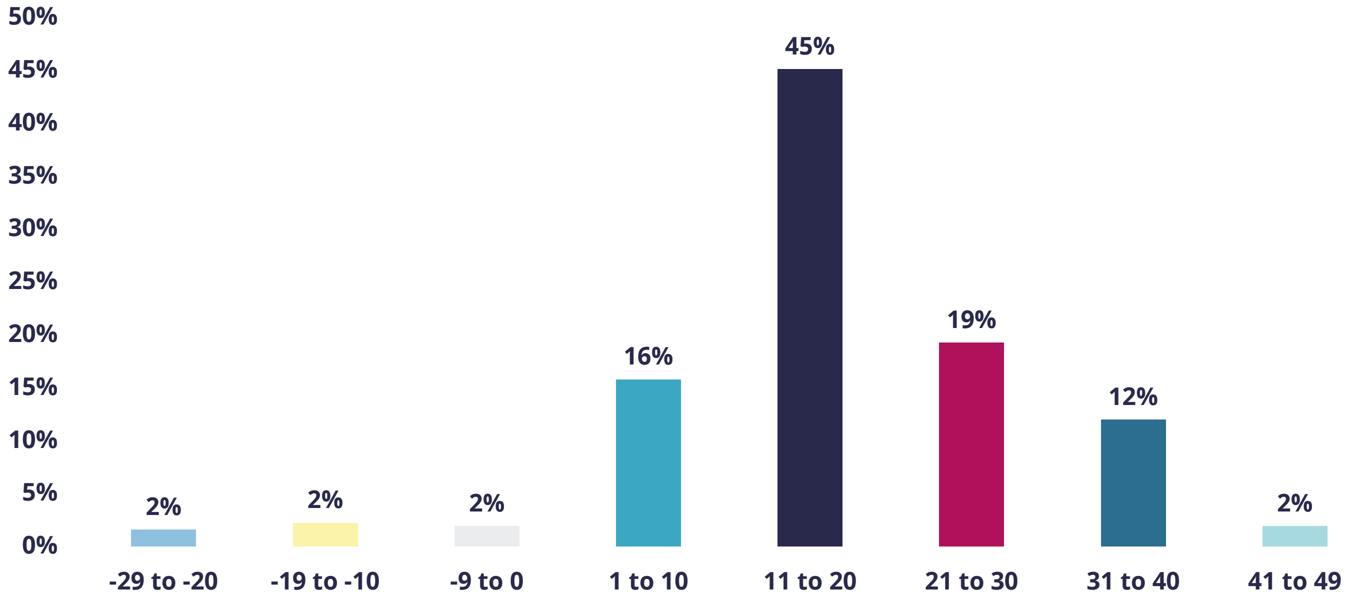


Q1 2022 results

Based on a sample of more than 300 hedge funds (accounting for approx. US$1.9 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 +17,[1] just over one point higher than the score reported in the fourth quarter of last year. Amidst greater market turbulence, increasing geo-political tensions in Ukraine, as well as a renewed set of regulatory challenges in particular for the private fund industry in the US, over 90% of all hedge funds that participated in the index are confident in the economic prospects of their business over the coming 12 months.

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of +50 to -50? (Hedge fund managers)

Q1 overall confidence score: +17

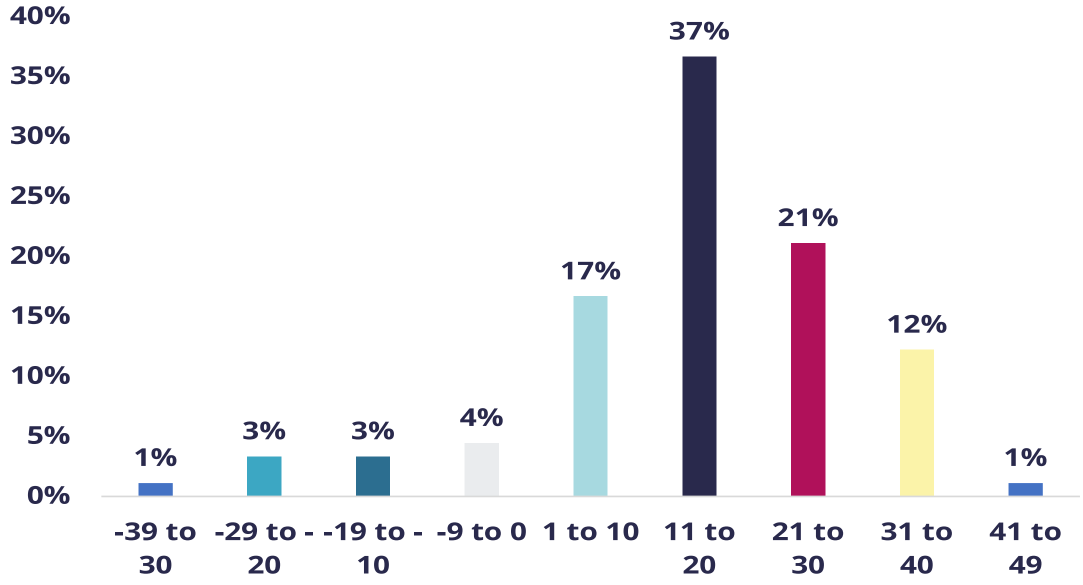


1 The average confidence numbers and charts within are based on confidence scores between -49 and +49. This has been done to remove outliers which would otherwise skew results.

Breakdown by hedge fund by size

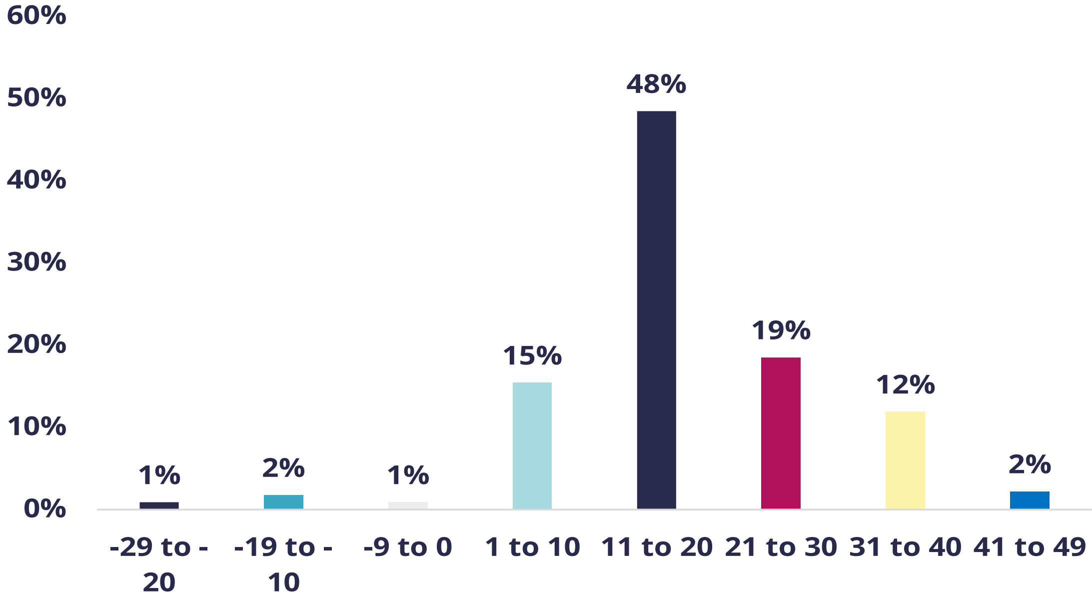
Observing the funds' confidence levels based on size, we split the population of responses into larger funds (for those that manage greater than US$1 billion in assets) accounting for 72% of the total number of responses while smaller funds (for those that manage US$1 billion or less) make up the remaining 28%. In comparison to the fourth quarter, larger fund managers express the highest levels of confidence, posting three points higher than smaller managers.

Less than US$1bn



Confidence score: +15

Greater than US$1bn



Confidence score: +17.7

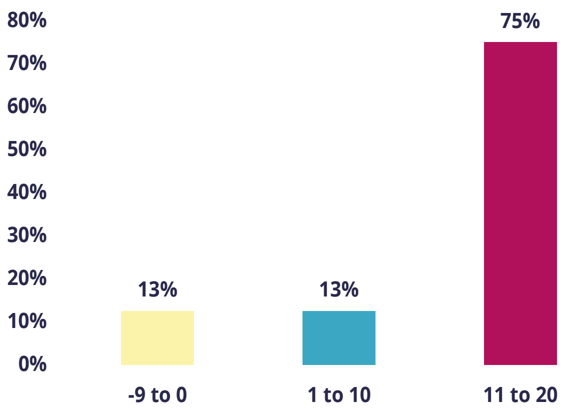
Breakdown by hedge fund location

On a regional basis, two out of the three global regions posted lower confidence levels than in the fourth quarter of last year. Hedge fund firms in the UK continue to buck the trend set by their regional peers, with the average confidence score by UK hedge funds being above +20 for the second time in the last three quarters. Notably, nearly half of all participants (47%) this quarter are UK based, helping to underwrite the global average confidence score.

By comparison, confidence levels among APAC and North American hedge fund managers continue their downward trend of recent quarters with the latter reporting their lowest confidence score to date, 42% from the high recorded in Q2 last year.

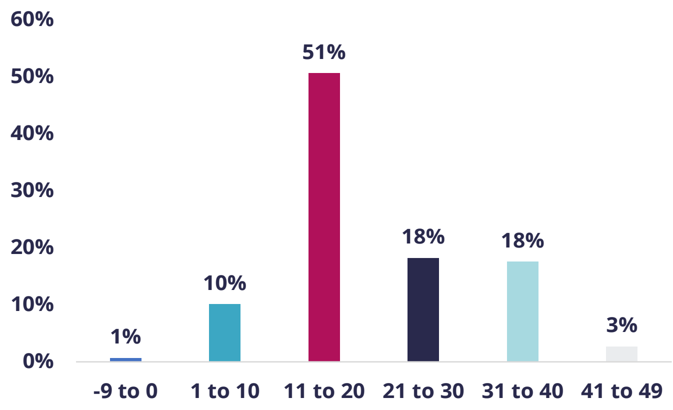
The largest disparity in the confidence scores reported this quarter is reflective of the region where hedge funds are based rather than their strategy or size.

EMEA (excluding UK)



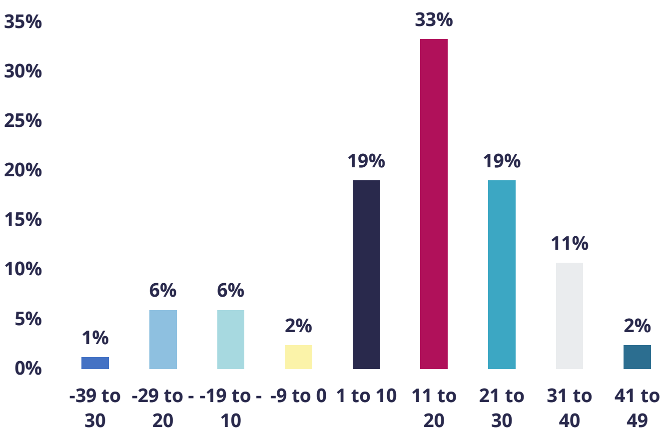
Confidence score: +11.8

UK



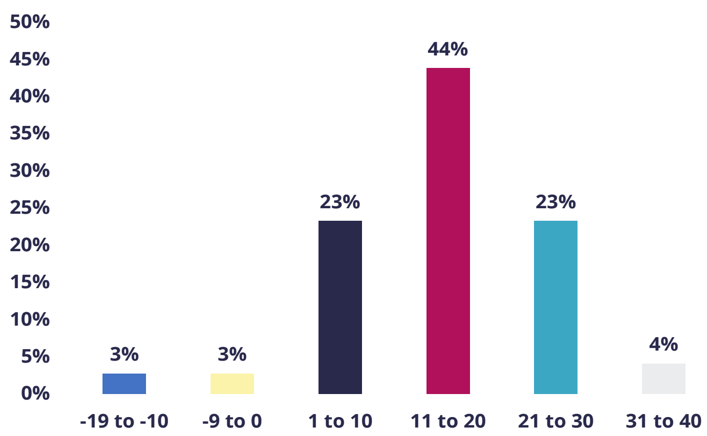
Confidence score: +20.7

North America



Confidence score: +13

APAC



Confidence score: +14.8

Confidence levels reported by hedge funds remains resilient

Confidence levels reported by hedge funds remains resilient despite a number of prevailing headwinds impacting the global economy, including the war in the Ukraine and subsequent economic sanctions being imposed, consumer price inflation being at a 40-year high, not forgetting new regulatory and compliance demands.

Through the end of February, hedge fund returns has been mixed. While some fund strategies have experienced a challenging start to the year, others have thrived. Undoubtedly performance dispersion across the industry has become even more pronounced.

Upon closer examination of the hedge fund strategies that we polled, global macro (+19) and multi-strategy (+18) reported the highest confidence scores. It is therefore little wonder why both were voted as being among the most popular strategies that investors would allocate to in the first six months of this year.[2] As we close the quarter, indications are that investors have made good their intentions, with industry vendors suggesting that there has been net inflows over the quarter.

Elsewhere, regulatory and compliance headwinds across the industry have intensified, in particular for private funds following a series of proposals announced by the SEC in March. If approved in their current form, they would represent a serious overhaul of existing market practices, with potentially disruptive consequences.

Despite these challenges and the threat of more still to come, the industry's global confidence score for Q1 reflects the fact that hedge funds are reinforcing their value proposition of offering investors financial security and uncorrelated returns during uncertain times.

Comparison of results of HFCI: Q4 2020 to Q1 2022

	Average confidence score					
Breakdown of HF Managers	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**
Overall	+13.8	+18.4	+19.5	+20.4	+15.8	+17
Less than US$1bn	+16.6	+17.2	+18.1	+18.3	+16.2	+15
Greater than US$1bn	+10.8	+19.4	+21.1	+21.8	15.5	+17.7
Europe (ex UK)	-	-	-	-	-	+11.8
EMEA (including UK)	+9.7	+17.3	+17.7	+20.9	+17.5	-
UK	+9.7	+16.4	+17	+21.3	+18.2	+20.7
North America	+19.7	+19.6	+22.5	+20.4	+13.9	+13
APAC	+11.1	+17.2	+18.2	+19.5	+16	+14.8

2 US Investor Intentions H1 2022 (With Intelligence)

UK *"Overall sentiment amongst UK managers seems to be holding despite challenging market conditions. By contrast to other regions, UK manager confidence is close to the highs of Q3 last year, no doubt reflective of the UK's rapid emergence from lockdown during Q1 2022. We see encouraging signs amongst our UK hedge fund managers for the rest of 2022 - specific themes we predict are continued appetite for exposure to crypto and other digital assets as well as more diversification into private markets using hybrid funds."* **Devarshi Saksena, Partner, Hedge Funds, Simmons & Simmons.**

US *"When evaluating North American-based manager confidence over the duration of the HFCI, confidence levels were trending positively until Q2 2021, shortly after COVID-19 vaccines were beginning to be distributed. The last 12 months has presented managers with volatile financial markets as well as a volatile geopolitical environment, so there's a lot of uncertainty regarding the next 12 months and we're seeing that reflected among confidence levels in this HFCI report."* **Steve Nadel, Partner, Investment Management Group, Seward & Kissel**

Tom Kehoe, global head of research and communications at AIMA, said: *"Despite greater market turbulence, increasing geopolitical tensions around the war in Ukraine as well as a renewed set of regulatory challenges in particular for the private funds industry, confidence levels reported by hedge funds remains resilient, underpinned by a strong showing from UK-based managers that polled. How markets digest these challenges over the next quarter and to the extent that sentiment among UK managers will continue to be strong will be interesting to see."*