Hedge Fund Confidence Index

Emerging managers lead hedge fund confidence rally

AIMA, in partnership with Simmons & Simmons and Seward and Kissel, are proud to present the 14th quarterly Hedge Fund Confidence Index (HFCI), which provides a snapshot of fund managers' confidence in their economic prospects for the coming 12 months. A full time series of confidence levels since Q4 2020 can be found on the second to last page of this report.

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 measuring 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).

Q1 2024 results

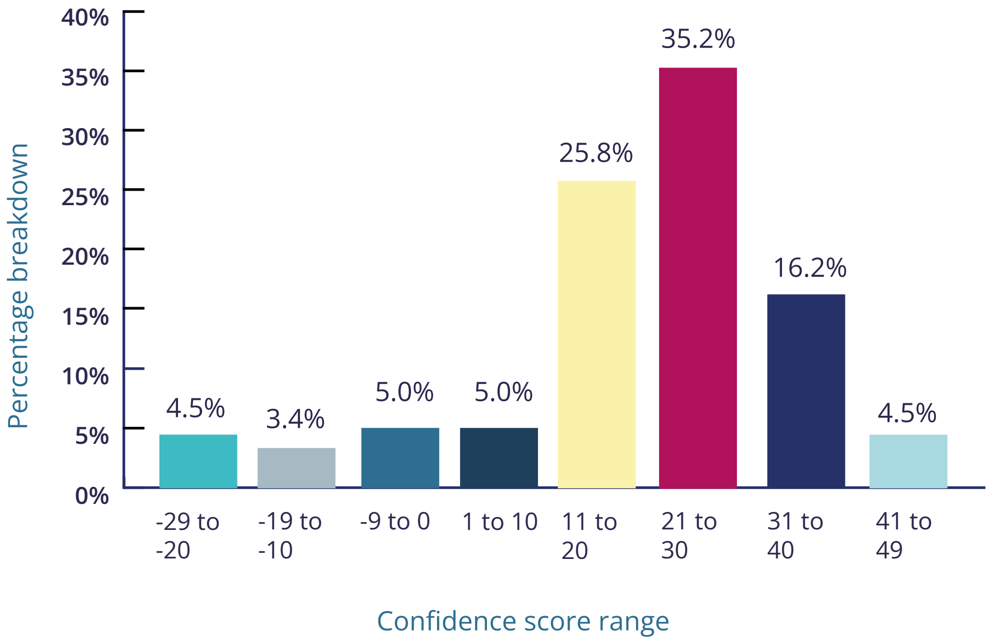
The Q1 2024 edition of the Hedge Fund Confidence Index (HFCI) surveyed approximately 180 hedge fund firms worldwide, collectively managing approximately US$900 billion in assets. The results show an average confidence level of +19, an increase of three points from the previous quarter.

Survey respondents reported a higher confidence levels than in the last quarter of the previous year, which continues an emerging trend over 14 quarters whereby Q1 confidence levels after Q4 lows. As a measure of the entire population surveyed, over 85% of those polled in the first quarter had a positive confidence score.

Q1 overall confidence score: +19.0

Figure 1, Q1 overall confidence score

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).

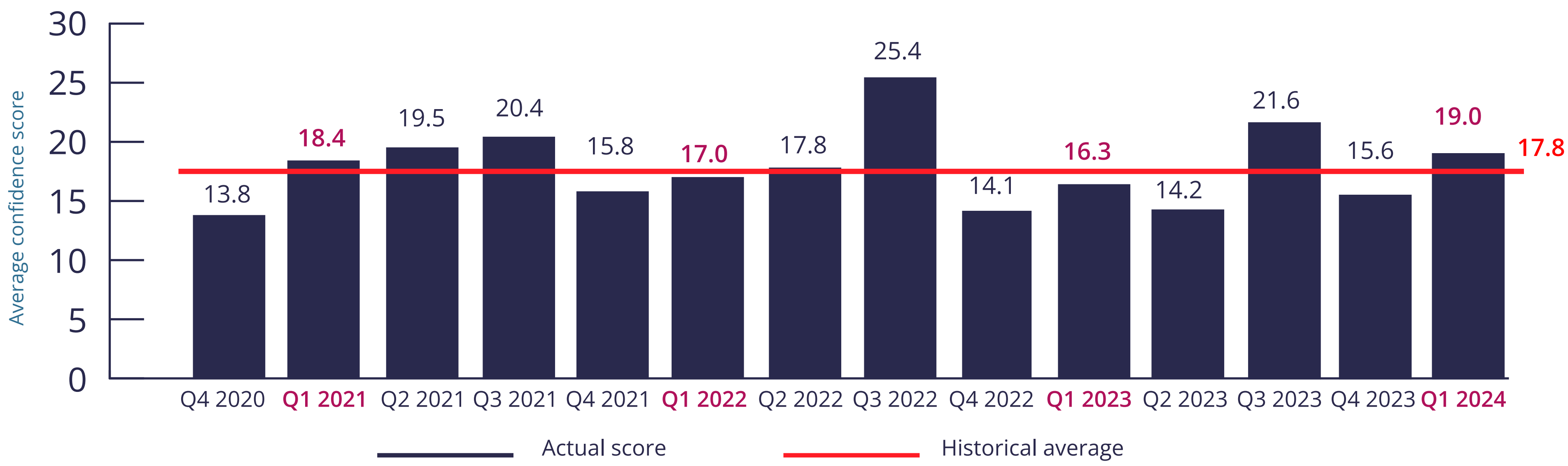


Trend analysis - Global Confidence Returns

Historically, the overall confidence score rebounds in Q1 after lows in Q4. However, this quarter, the bullish sentiment was the highest of any Q1 score since the HFCI launched, taking the overall score back above the historical average. The overall number was reinforced by smaller hedge fund managers (those managing less than US$1 billion), which reported a significant uplift in overall confidence that aligned them with their larger peers.

The increase occurred across all regions, particularly EMEA (excl. UK). Almost all strategies also reported greater confidence levels, led by global macro and private credit fund managers.

Figure 2, HFCI scores over time



Insights: What's driving confidence among hedge funds?

Over 80% of hedge fund managers polled this quarter cited the overall performance of their funds and their firm's ability to generate revenue and manage costs as the two factors that increase their confidence levels the most. Meanwhile, 70% of firms polled consider their ability to raise capital as a source of optimism.

Survey respondents based in APAC expressed expressed greater optimism than their global counterparts in several key areas, including delivering on performance, managing their bottom line and raising capital. The latter two categories had over 90% of APAC respondents citing that these increased their confidence levels. Interestingly, despite hedge fund managers based out of the Middle East scoring high confidence numbers, just under 40% are basing their confidence levels on their ability to raise capital, and over half are saying that it is more challenging to manage their bottom line. As for the remaining regions, the view is similar to that expressed in Q4 2023, with most firms expressing confidence in their ability to continue to deliver performance for their investors, raise capital and manage the bottom line.

Figure 3, Ability to raise capital

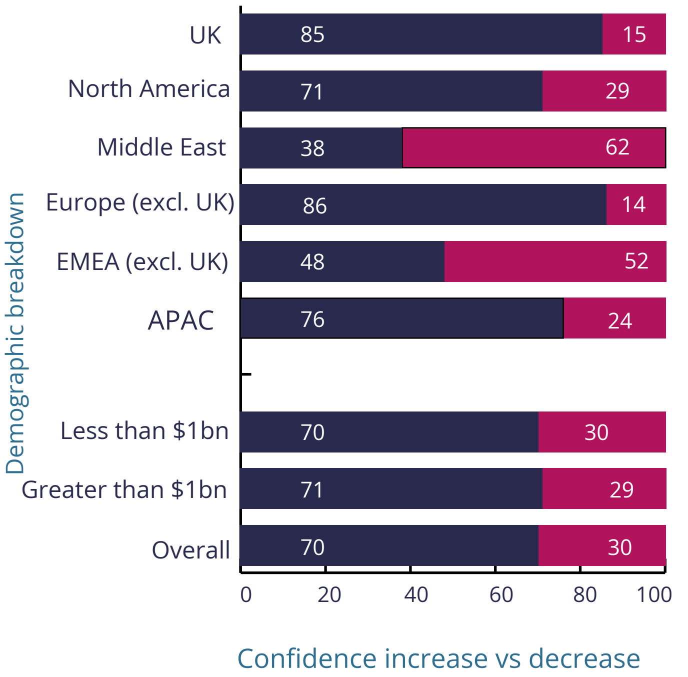


Figure 4, Ability to generate revenue and manage costs

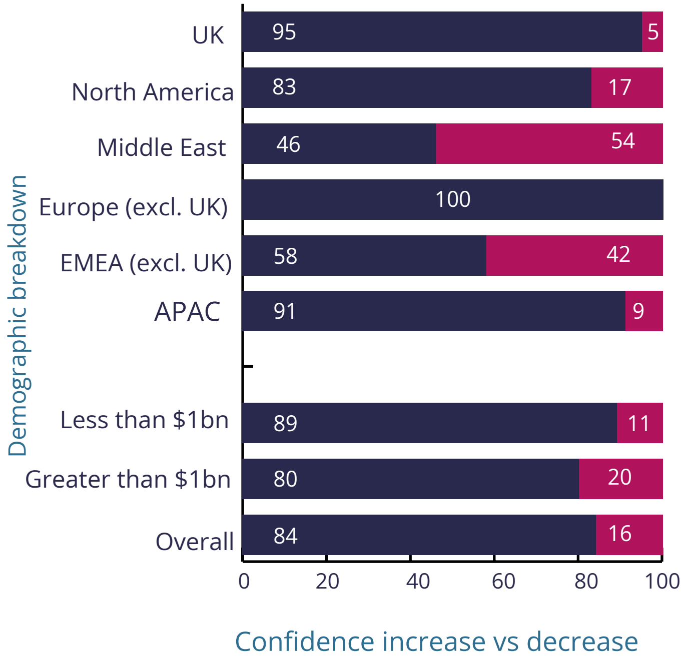
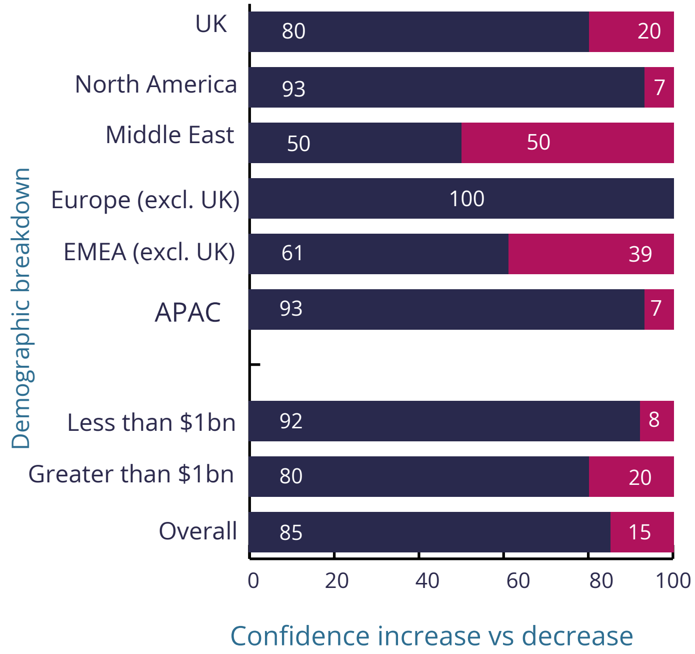


Figure 5, Overall performance of the fund(s)



Increases my confidence   Decreases my confidence

Breakdown by hedge fund location

The latest HFCI saw higher confidence levels reported across the board, with the average confidence score hitting the highest for a Q1 report since records began.

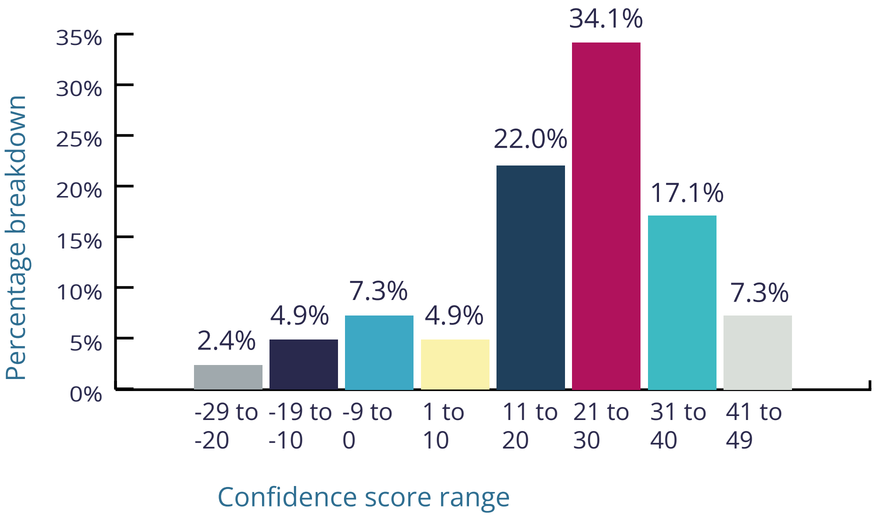
EMEA-based hedge funds continue to enjoy the highest levels of confidence versus their global peers, driven by hedge fund managers based in the UAE, which undoubtedly received another boost following the news that the Middle Eastern financial hub will be removed from the Financial Action Task Force (FATF) grey list, following its introduction in 2022.

Upon closer examination of the EMEA ex-UK population of funds that polled, none reported negative confidence scores, with the average being +23. The overall Q1 confidence score was boosted by positive sentiment reported by billion-dollar global macro, CTA/managed futures and multi-strategy funds.

By comparison, UK-based survey respondents scored lower than those elsewhere in EMEA and all other global peers, with an average confidence score of +17.5. The UK's average confidence score was dragged lower by long-short equity and long-only funds, which are the two lowest strategies as a measure of confidence this quarter. Indeed, long-only funds reported an average score of -1.

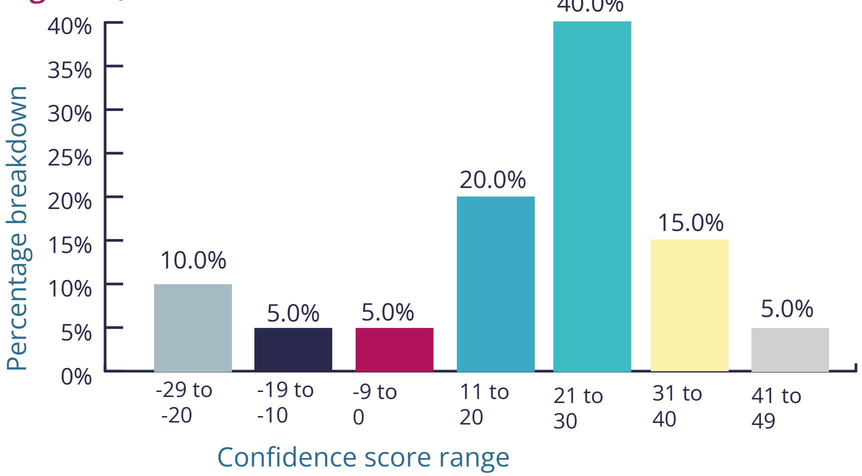
That aside, the average confidence score of UK-based fund managers increased by over five points from the confidence low reported in the fourth quarter of last year, reverting to the historic mean.

Figure 6, North America



Confidence score: +20.1

Figure 7, UK

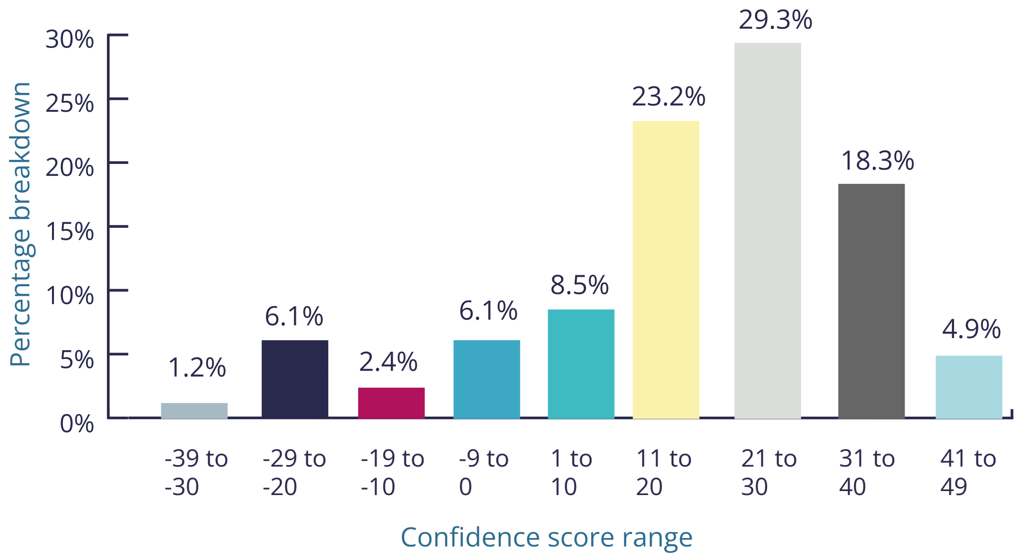


Confidence score: +17.5

APAC-based funds also rallied strongly. Like in the UK, APAC firms' overall confidence score was negatively impacted by long-short equity and long-only funds, accounting for nearly 40% of all those polled from the region this quarter.

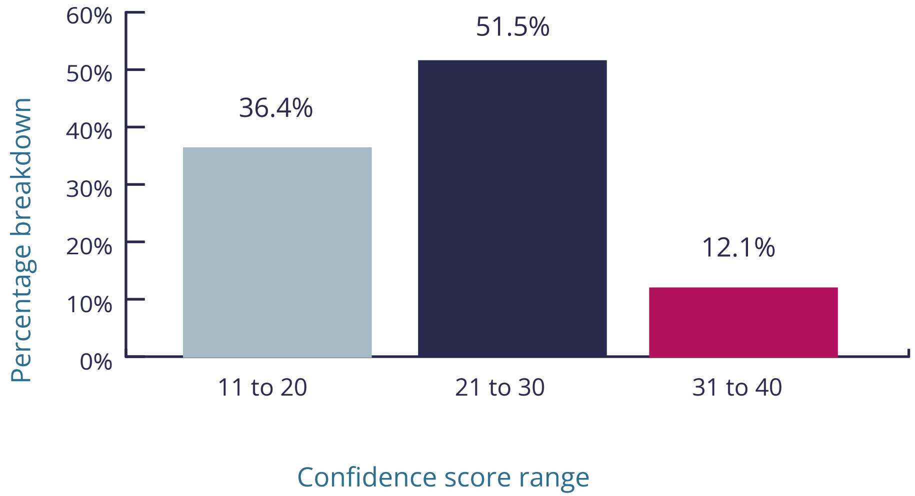
Observing the time series of funds based in the APAC, the latest confidence score belies a pattern over the past year where the previous quarter reports down, followed by a return to higher confidence, followed by a lower confidence score and then a higher confidence score.

Figure 8, APAC



Confidence score: +17.7

Figure 9, EMEA (excl.UK)

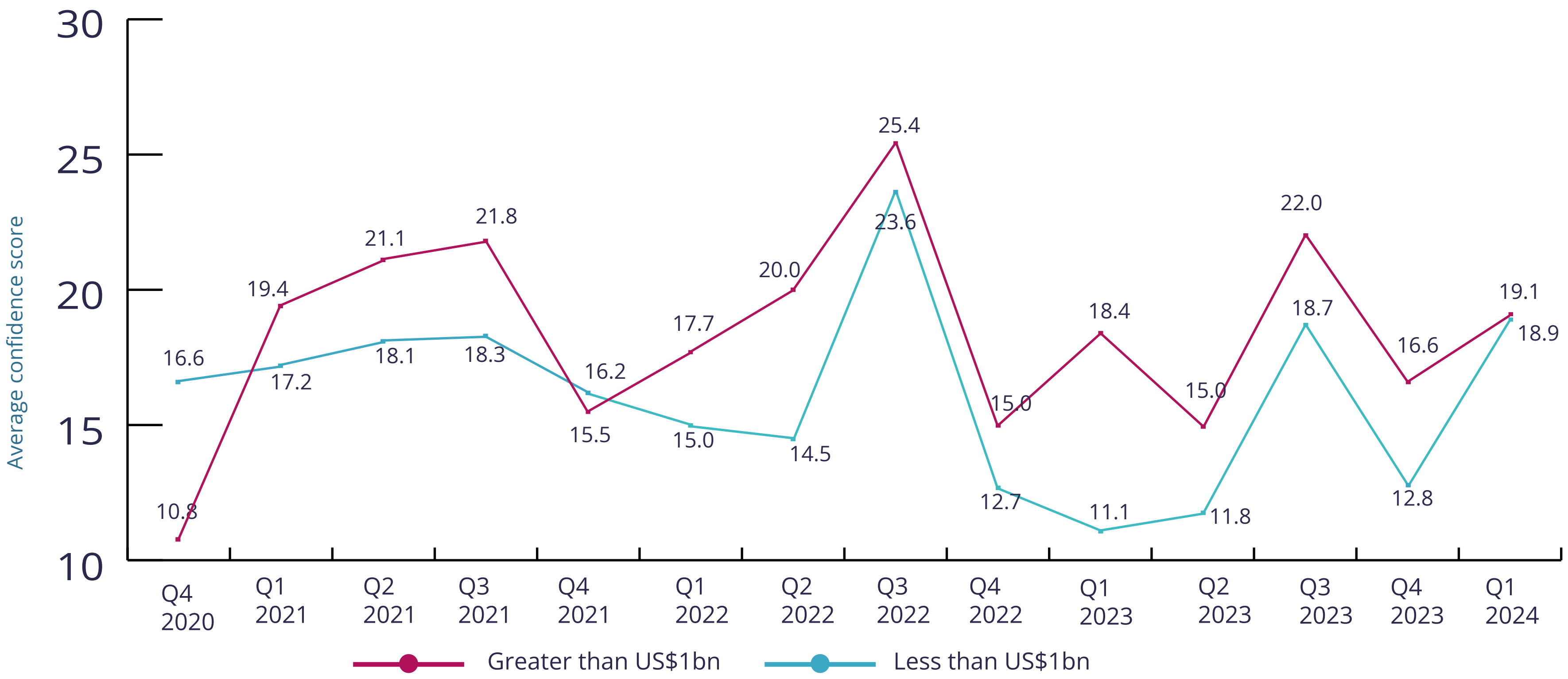


Confidence score: +23.1

Breakdown by hedge fund AUM

Larger and smaller hedge fund managers have reported the same confidence scores for the first time. The convergence was driven by smaller firms with an average confidence score three points higher than the group's historical average. Larger hedge fund managers are also more bullish than at the end of last year, but the reversal in sentiment is less substantial than with their smaller peers.

Figure 10, AUM comparison over time



Commentary: Surging stock markets and lower interest rate hopes boost confidence levels among hedge funds

Global hedge fund confidence is on the rise amid leading US equity markets smashing through record highs towards the end of the first quarter as well as notable strong performances from leading stock market indices in Europe and Asia Pacific. While interest rates remain unchanged, the real question is not if, but how many cuts will occur this year. Historically, periods of monetary easing have led to rallies in equity markets. If this pattern holds, institutional investors might have the opportunity to adjust their investment strategies and consider alternative investments, a shift our data suggests is already beginning. However, this optimism could be challenged if unexpected high inflation delays the anticipated rate cuts, potentially undermining the recent progress.

Improved regulatory clarity in the US in the coming months could further enhance hedge fund managers' confidence by enabling better long-term planning. With interest rates expected to decrease and other challenges likely to lessen, the environment for raising capital appears increasingly favourable for hedge funds. Indications of an improving launch environment for hedge funds are evident, with several high-profile fund launches, especially in multi-strategy and credit funds, which remain highly popular among investors, expected soon.

Breakdown of respondents

Estimated assets under management for hedge fund respondents: US$2.2 trillion

Figure 11, Regional breakdown

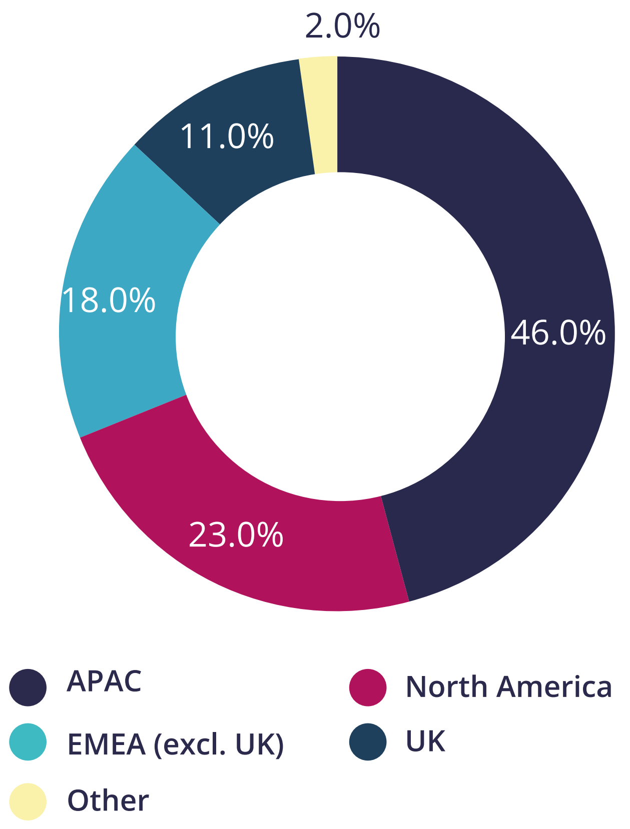
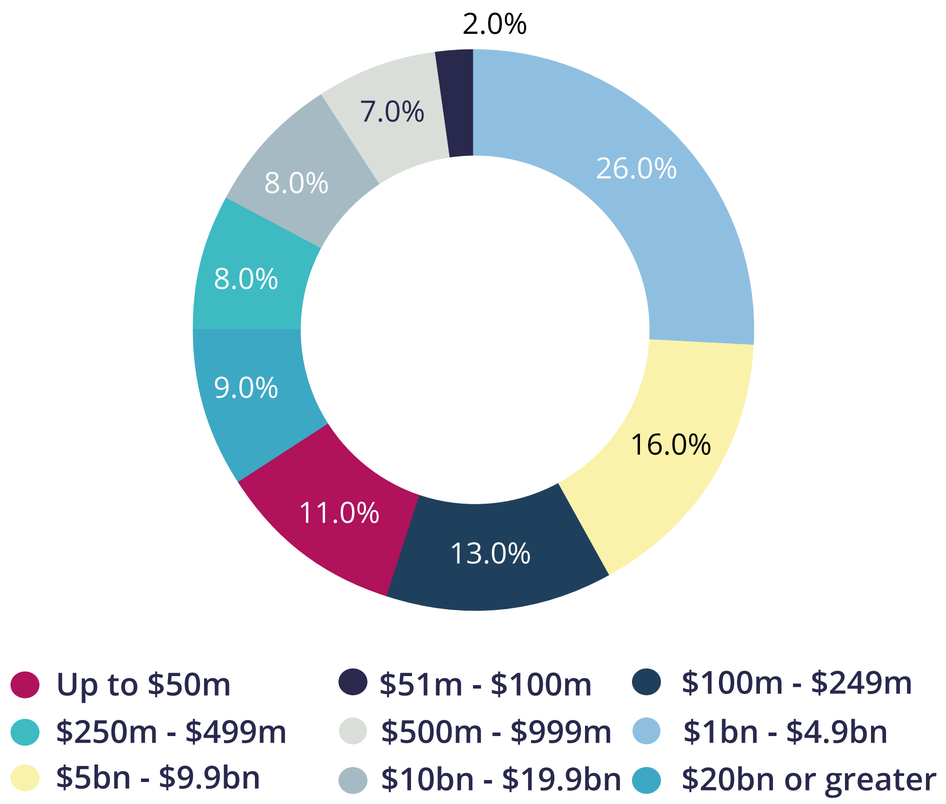


Figure 12, AUM (US$) breakdown



HFCI over time

Figure 13

Category	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Average
Overall	13.8	18.4	19.5	20.4	15.8	17.0	17.8	25.4	14.1	16.3	14.2	21.6	15.6	19.0	17.8
Greater than US$1bn	10.8	19.4	21.1	21.8	15.5	17.7	20.0	25.4	15.0	18.4	15.0	22.0	16.6	19.1	18.4
Less than US$1bn	16.6	17.2	18.1	18.3	16.2	15.0	14.5	23.6	12.7	11.1	11.8	18.7	12.8	18.9	16.0
APAC	11.1	17.2	18.2	19.5	16.0	14.8	15.6	23.3	13.8	10.6	9.4	19.3	15.7	17.7	15.7
North America	19.7	19.6	22.5	20.4	13.9	13.0	16.4	23.2	13.5	16.4	16.7	19.5	16.7	20.1	17.9
UK	9.7	16.4	17.0	21.3	18.2	20.7	21.0	25.6	15.1	18.0	14.5	21.3	12.6	17.5	17.8
EMEA (excl. UK)	-	-	-	-	-	-	-	30.6	14.9	22.2	15.2	27.0	18.5	23.1	21.6

Tom Kehoe, Global Head of Research and Communications at AIMA, said: *"The Q1 2024 Hedge Fund Confidence Index underscores a notable resurgence in optimism within the hedge fund industry, marking a robust start to the year. Hedge fund managers, particularly smaller firms, appear more bullish about their ability to raise capital, manage costs, and generate returns for investors. Further reasons for hedge funds to be optimistic come in the shape of anticipated rate cuts and possible lesser industry regulatory headwinds as the year evolves".*

Devarshi Saksena, Partner at Simmons & Simmons, said: *"Amidst a landscape of global economic transformation, it's great to see the optimism from APAC firms who are also leading the charge in performance, capital management, and fundraising. This buoyant sentiment is echoed in the EMEA region, with UAE-based hedge funds reaching new heights of confidence, particularly following their removal from the FATF grey list. While the UK's hedge funds navigate a more modest confidence trajectory, the global market's bullish trends and the potential shifts in monetary policy signal a pivotal moment for hedge funds worldwide to recalibrate and thrive."*

Nicholas Miller, Partner at Seward & Kissel, said: *"North American-based hedge managers are the most confident they have been in Q1 since the launch of the HFCI. In addition, smaller managers are the most confident compared to their larger peers as capital raising shows signs of improving, especially in the new launch space. The HFCI results are especially encouraging given the onslaught of recent regulations from the SEC that are proving difficult and expensive for smaller managers."*