

Hedge Fund Confidence Index



Global confidence levels among hedge funds return to historic highs boosted by stronger capital raising prospects

AIMA, in partnership with Simmons & Simmons and Seward and Kissel, are proud to present the 12th 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 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).

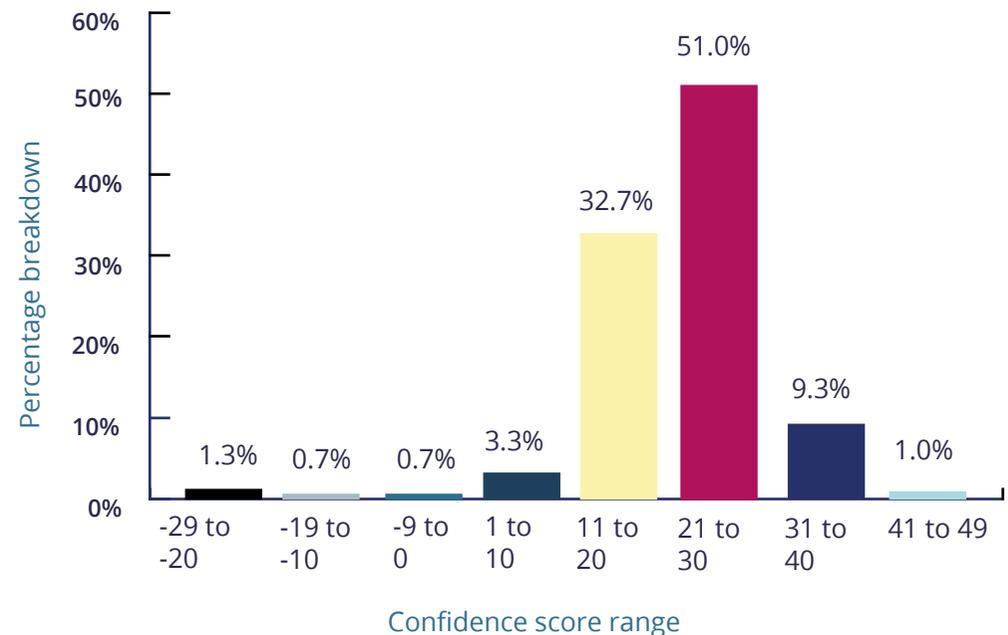
Q3 2023 results

Based on a sample of 300 hedge funds (accounting for approx. US\$2.2 trillion in assets) that participated in **the industry poll taken throughout the week ending 29 September 2023**, the average measure of confidence (in the economic prospects of their business over the coming 12 months) is **+21.6**, up seven points on the confidence score reported in Q2. This quarter's score is likely bolstered by an overweighting of larger hedge fund managers (those with an AUM greater than US\$1 billion), who historically record higher scores. This edition is also overweight hedge funds pursuing equity-focused strategies that are enjoying a resurgence, contributing to the confidence uplift. Almost all (97%) hedge fund respondents recorded a positive confidence score with all regions and almost all strategies' confidence scores back above their respective rolling averages.

Q3 overall confidence score: +21.6

Figure 1, Q3 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).

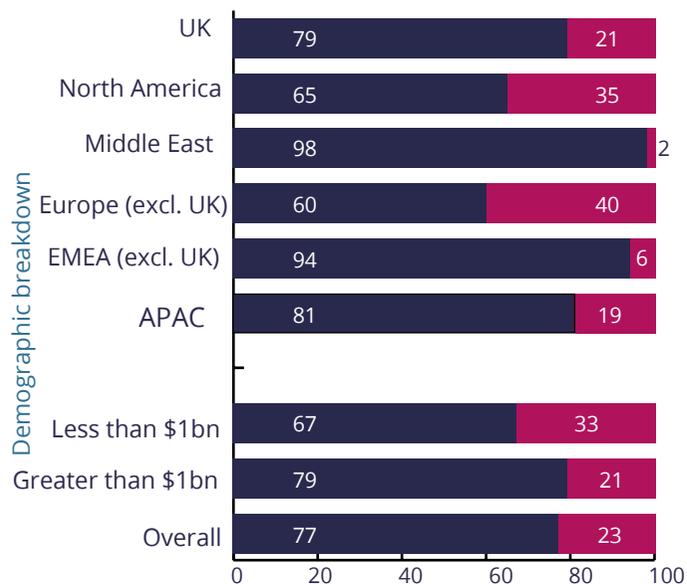


New insights: What's driving confidence among hedge funds?

In a new development for the HFCI, we get under the hood to determine the dominant factor driving confidence among hedge funds this quarter.

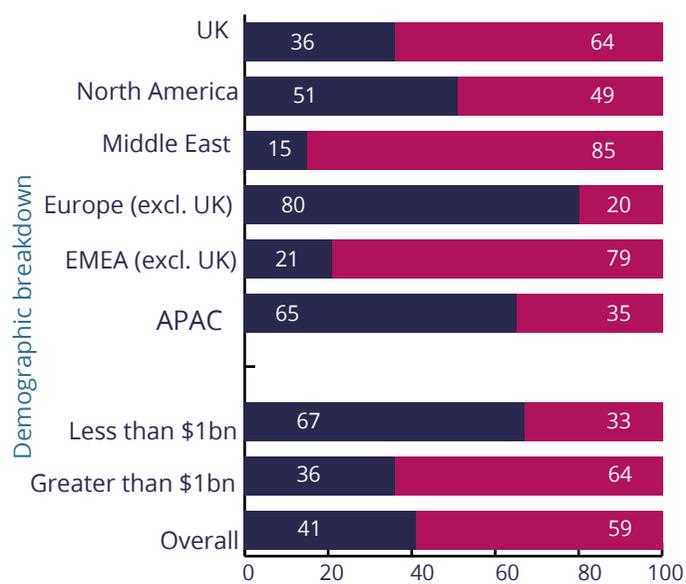
The breakdown of these responses can be found below.

Figure 2, Ability to raise capital



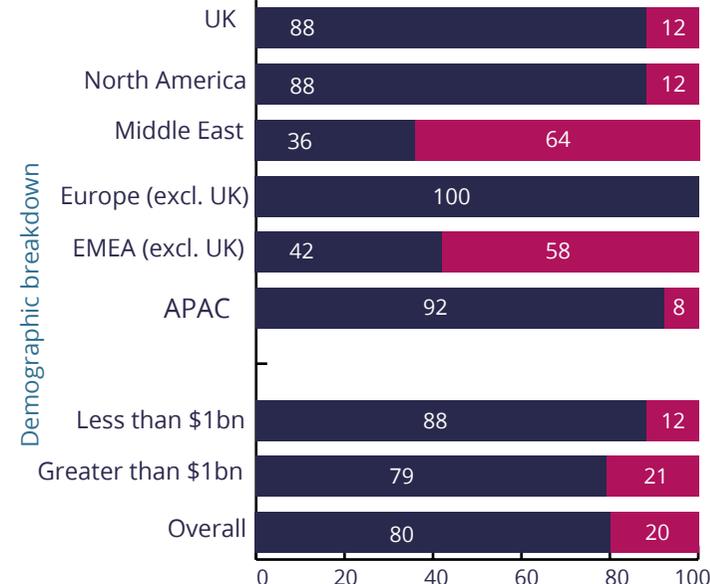
Confidence increase vs decrease

Figure 3, Ability to generate revenue and manage costs



Confidence increase vs decrease

Figure 4, Overall performance of the fund(s)



Confidence increase vs decrease

● Increases my confidence ● Decreases my confidence

Q3 confidence uptick trend emerges

With the HFCI in its third year, it's now observable that Q3 has been the most confident quarter of each year and the only quarter where the overall confidence score has always been above +20 since records began – Q4 2020.

Figure 5, HFCI scores over time



Breakdown by hedge fund location

For this quarter, the long-running tussle for the title of ‘most confident region’ between North America (over 90% US respondents) and the UK has been eclipsed by the Middle East, which recorded its highest-ever confidence score (+27.2), putting it above the UK (+21.3), the US (+19.5) and APAC (+19.3). The Middle East has steadily increased its presence in the HFCI since Q4 2022, with this edition receiving the highest-ever number of Middle Eastern respondents.

All these respondents not only recorded a positive confidence score but also gave a minimum score of +14, with over a dozen reporting their confidence as north of +30. Part of Middle Eastern respondents supreme confidence can be attributed to their average AUM size (US\$9.6 billion), which dwarfs the overall average of US\$7.3 billion. Larger managers consistently record higher confidence than their smaller peers. Breaking down down the three factors hedge fund managers consider when evaluating their economic prospects for the next 12 months, almost all (98%) Middle Eastern respondents cited capital raising as increasing their confidence, the highest proportion of any region.

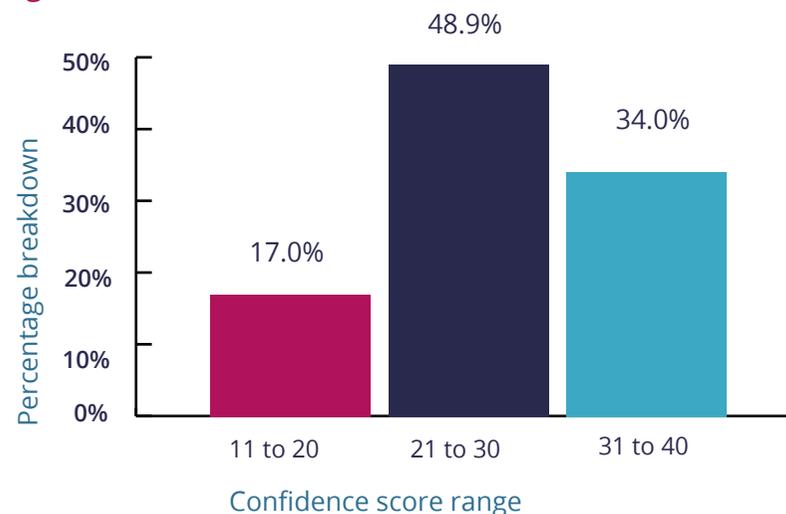
By contrast, the same respondents cited factor two as negatively impacting their confidence. The third factor for consideration was not seen as much of a concern as factor two, with 64% saying it decreased their confidence, implying that the managing costs aspect of the prior factor is the primary issue.

Turning back to the UK versus North America, the divergence this quarter is clearest in their attitudes towards capital raising and managing costs. 79% of UK respondents said capital raising increases their confidence compared to 65% in North America.

Of those in North America that said capital raising was a cause for concern, there was not an over-representation by any one investment strategy or AUM bracket, which runs counter to the common narrative that the often-cited bifurcation of the industry means smaller managers are disproportionately challenged by securing allocations. Hedge funds will be heartened by the latest Preqin¹ investor allocation data, which reports that 55% of investors said they plan to maintain their current hedge funds allocations while 28% plan to invest more capital.

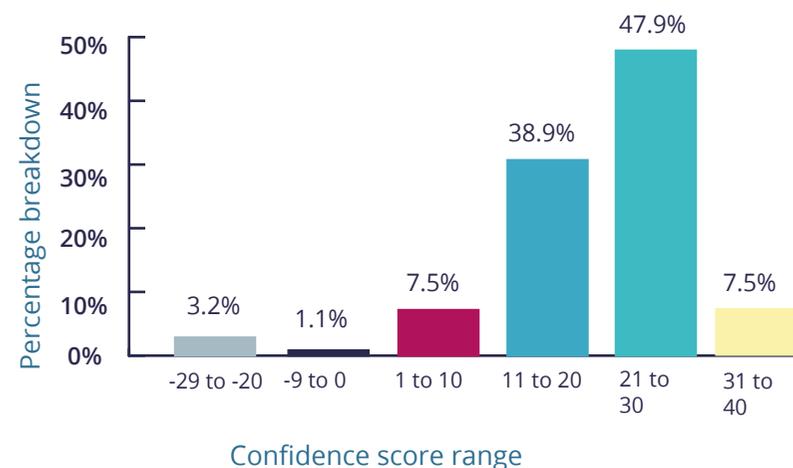
1 https://www.preqin.com/insights_research/blogs/hedge-funds-performance-update-august-2023

Figure 6, Middle East



Confidence score: +27.2

Figure 7, North America



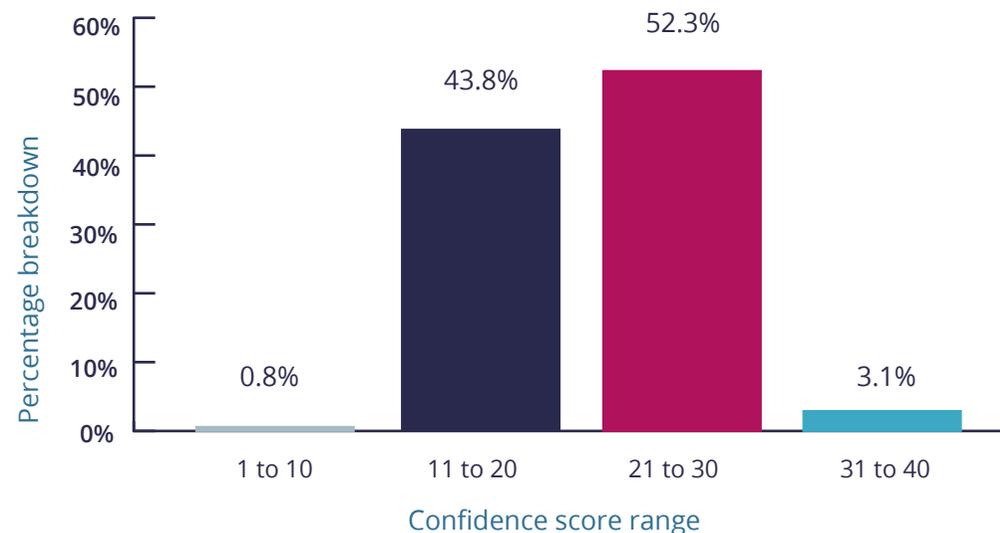
Confidence score: +19.5

UK respondents are more concerned by challenges in generating revenue and managing costs, with 64% of respondents saying this factor reduces their confidence, compared to 49% in North America.

APAC has seen a massive jump in confidence (+9.4 in Q2 to +19.3 this quarter). APAC is now once again closer in confidence with North America, although the below-average sample size for APAC does mean selection bias may be more present than usual in the respondent pool.

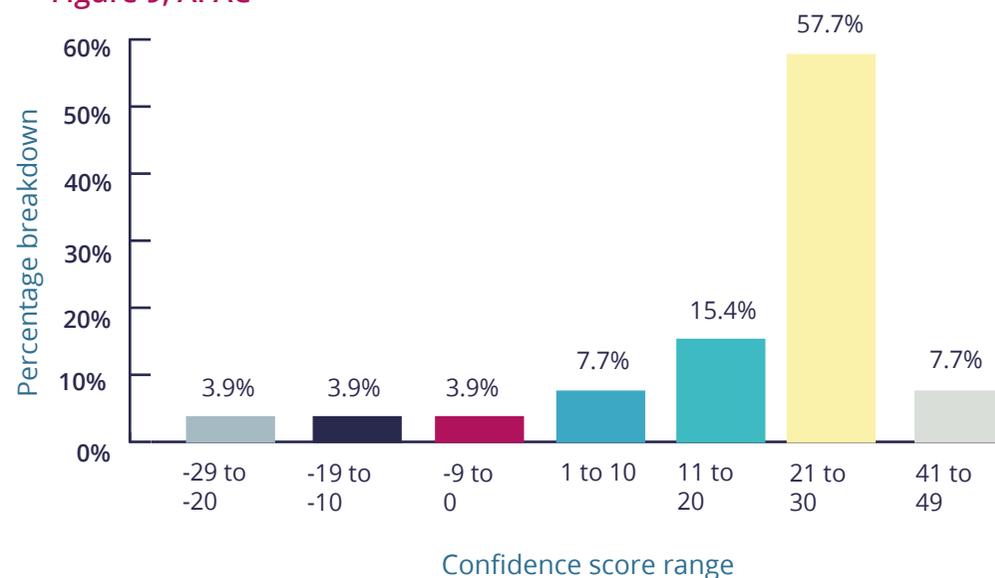
Within APAC, Hong Kong scored +19.8 – although this includes some extremely confident and unconfident scores – while Singapore scored +22.9 with a close cluster of scores. For Hong Kong, the disparate scoring reflects the ongoing uncertainty for the future of the financial hub which seeing challenges to its status as the gateway to mainland China and APAC more broadly.

Figure 8, UK



Confidence score: +21.3

Figure 9, APAC



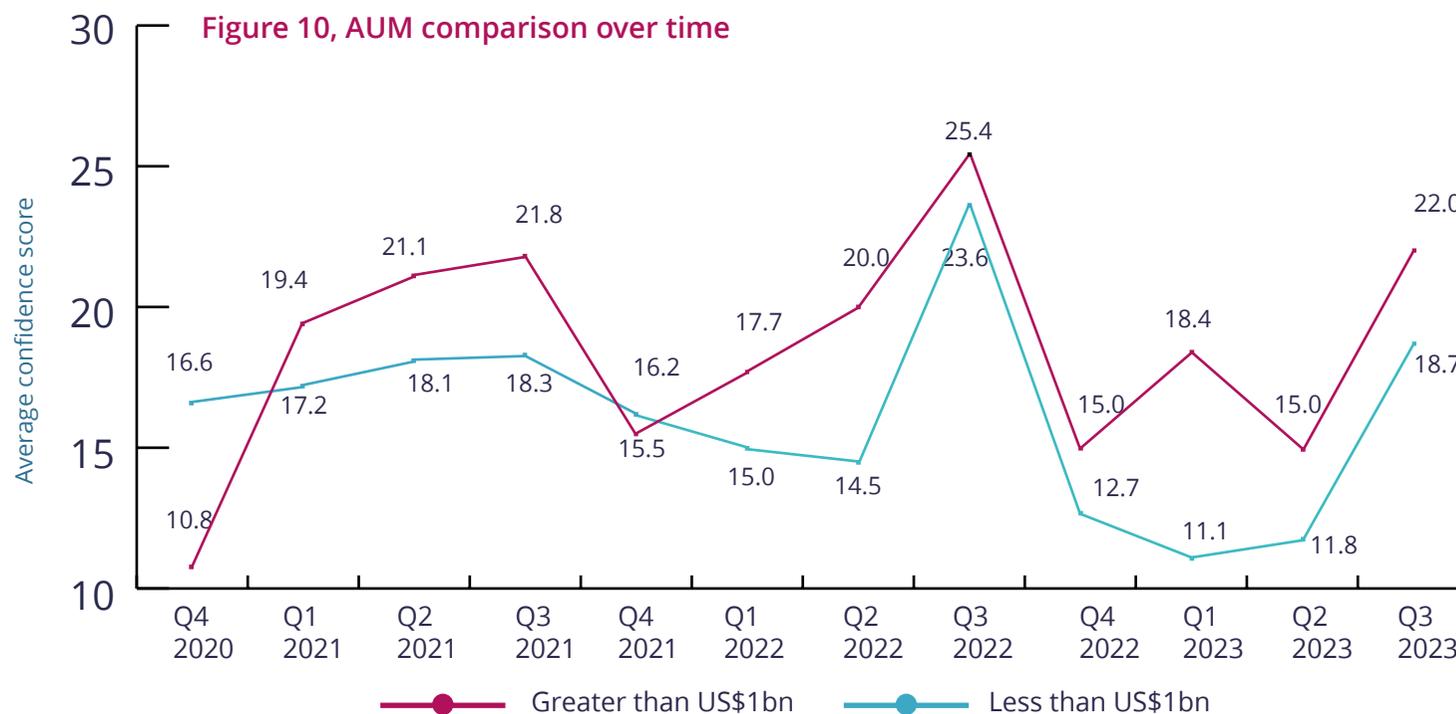
Confidence score: +19.3

Breakdown by hedge fund AUM

As noted above, larger fund managers (those with an AUM greater than US\$1 billion) have historically reported greater confidence than their smaller peers, and this quarter is no different. As Figure 10 demonstrates, their scores mostly remain in close proximity, indicating that the overall environment for asset managers impacts fund managers of all sizes similarly.

However, a greater AUM is not always synonymous with greater confidence. The UK (average AUM US\$ 6 billion) reported a higher confidence score than North America (average AUM US\$9.2 billion). Moreover, APAC scored roughly the same as North America with an average AUM of only US\$3 billion.

When analysing the three factors underpinning the confidence scores of larger and smaller fund managers, there is a 10-percentage point difference between their bullishness of capital raising, favouring larger fund managers. This margin is reversed when considering overall performance of the fund(s). The third factor produces the clearest difference. Less than half (36%) of larger managers consider their ability to generate revenue and manage costs a positive factor, compared to 67% for smaller managers.



Commentary: Rate hikes pause but the macro-drama continues, offering new investment opportunities and renewed confidence

Almost all (97%) of respondents returned a positive confidence score for Q3, marking a revival in their outlook for the next 12 months and offsetting the decline reported in the previous quarter. All regions and almost all strategies reported renewed bullishness in their economic prospects and ability to generate value for their investors.

Although a Q3 uptick is emerging as a trend over the period since we started this index, this quarter has also seen encouraging sign of changes to the macroeconomic environment and improvement in the overall economic outlook across several global regions that may have contributed to the score increases. Most notably, the inflation levels across various major economies appear to be getting under control and subsequently, the peak of interest rate hikes may also have been achieved, with signals of decreases also appearing. In response, Long-short equity firms' average confidence score sprang back to above +20 after several consecutive quarters in the low teens. Moreover, the Preqin All-Strategies Hedge Fund Benchmark is up by 6.85% year-to-date, with equity strategies providing the uplift with 8% average YTD returns.

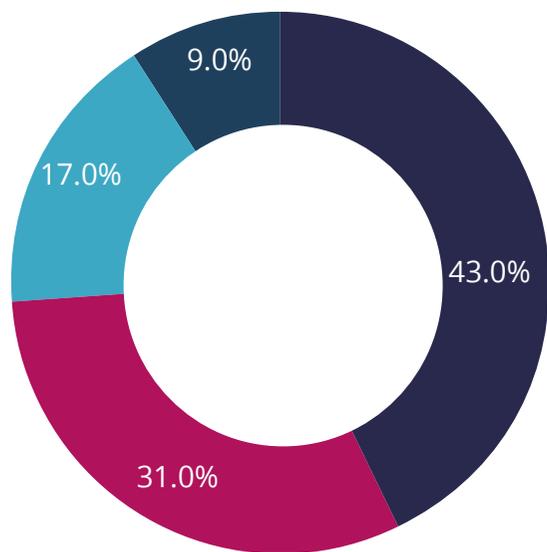
However, although there may be a break in macroeconomic clouds, longer-term challenges still stand out on the horizon, undermining positivity. In the US, short-term positivity in the trading environment may be offset by long-term concern about other factors – most notably regulatory upheaval – which is presenting a fundamental threat to the business model of US hedge fund managers with ever-increasing compliance costs and operational restrictions threatening to erode returns for investors. The already heightened concern around regulatory upheaval was ratcheted up further recently with the publication of the final Private Fund Adviser Rules. Other major changes – most notably the revisions to the Dealer Rule – are expected to make fund managers list of things to worry about even longer.

Uncertain and unfriendly regulatory environments appear to be a dividing line globally with those suffering from it namely the US and Hong Kong seeing their confidence scores being threatened, while those in more reliable governance frameworks such as Singapore and the UK presenting themselves as more surefooted going into the final months of the year.

Breakdown of respondents

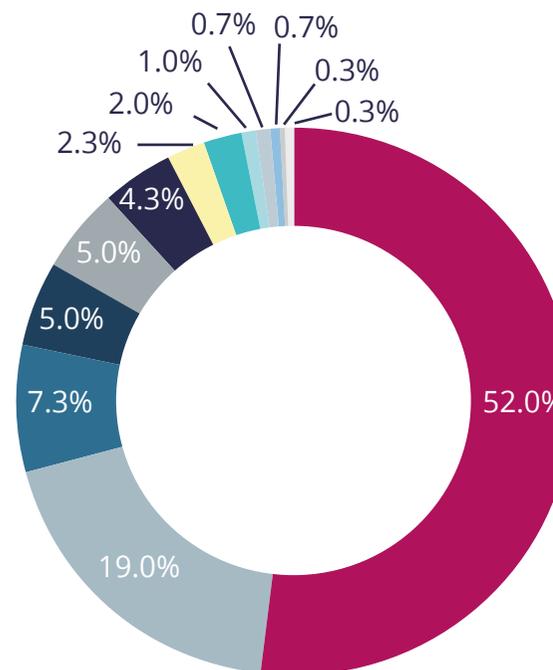
Estimated assets under management for hedge fund respondents: US\$2.2 trillion

Figure 11, Regional Breakdown



- APAC
- North America
- EMEA
- UK

Figure 12, Strategy Breakdown



- Long-short equity
- Global macro
- Multi-strategy
- CTA/Managed futures
- Equity market neutral quant
- Funds of funds
- Event driven
- Other
- Long only
- Private credit
- Long-short credit

Hedge fund confidence index 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	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	17.9
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	18.5
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	16.1
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
EMEA (excl. UK)	-	-	-	-	-	-	-	30.6	14.9	22.2	15.2	27.0	22.0
Europe (excl. UK)	-	-	-	-	-	-	-	-	12.8	0.0	9.8	25.5	16.0
Middle East	-	-	-	-	-	-	-	-	16.1	22.6	16.5	27.2	20.6
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	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	18.2



Tom Kehoe, Global Head of Research and Communications at AIMA, said: *“With signs that the higher inflationary environment in the US, UK and EU has begun to ease, confidence levels among some hedge funds in these regions has roared back from the near historic lows reported in the previous quarter. It remains to be seen whether the feel good factor is a temporary respite amid ongoing macro, geopolitical and industry regulatory concerns or if the industry feels the worst is over.”*

Muneer Khan, Partner at Simmons & Simmons, said: *“It is pleasing to see increased confidence in the Middle East market which reflects our own workflows from European, US and Asian managers. The ecosystem in the region has matured significantly over the last two years and has created various opportunities, in particular for capital raising and the acquisition/retention of portfolio management talent, which have been key drivers behind the latest inflow of hedge fund managers. As service levels and infrastructure further develop both in the UAE and the wider Middle East we expect to see more managers, both hedge and other alternatives, looking at building their presence in the region.”*

Steve Nadel, Partner at Seward & Kissel, said: *“With respect to the lower average confidence levels in North America regarding fundraising, this may be attributable to the fact that allocations coming from US taxpayers are becoming more challenging to secure as many are taking a more cautious approach when it comes to investment allocations, in part due to increasing interest rates, uncertainty about the upcoming presidential election next year and other macro factors.”*

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