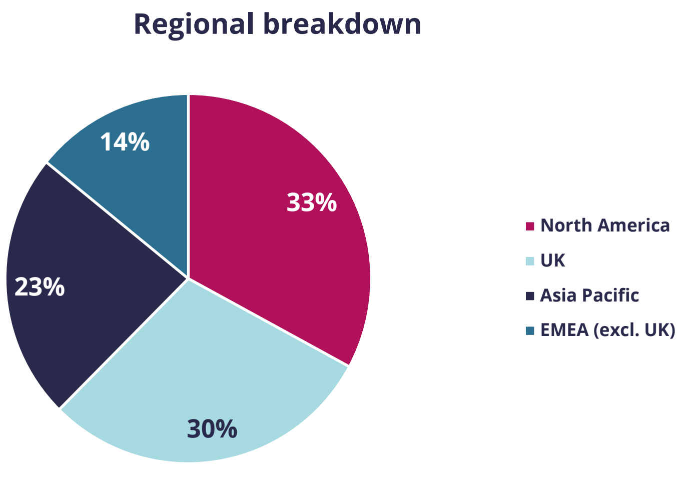
Hedge Fund Confidence Index

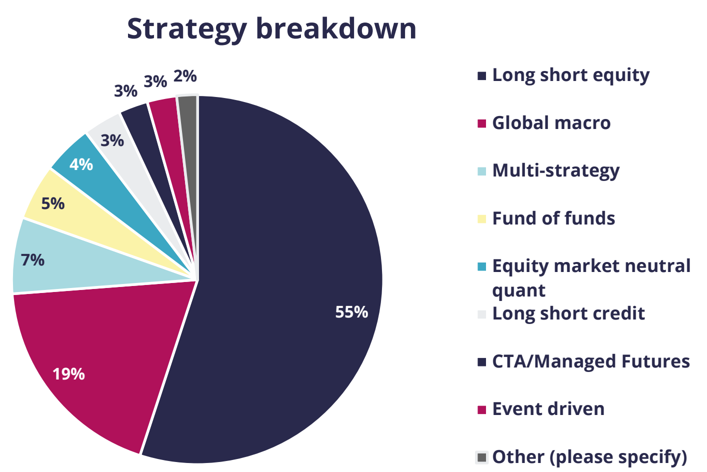
The AIMA Hedge Fund Confidence Index (HFCI) is a new global index that measures the level of confidence hedge funds have in the economic prospects of their business over the next 12 months. A product of AIMA, Simmons & Simmons and Seward & Kissel, the HFCI is calculated during the final two weeks of 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$3 trillion

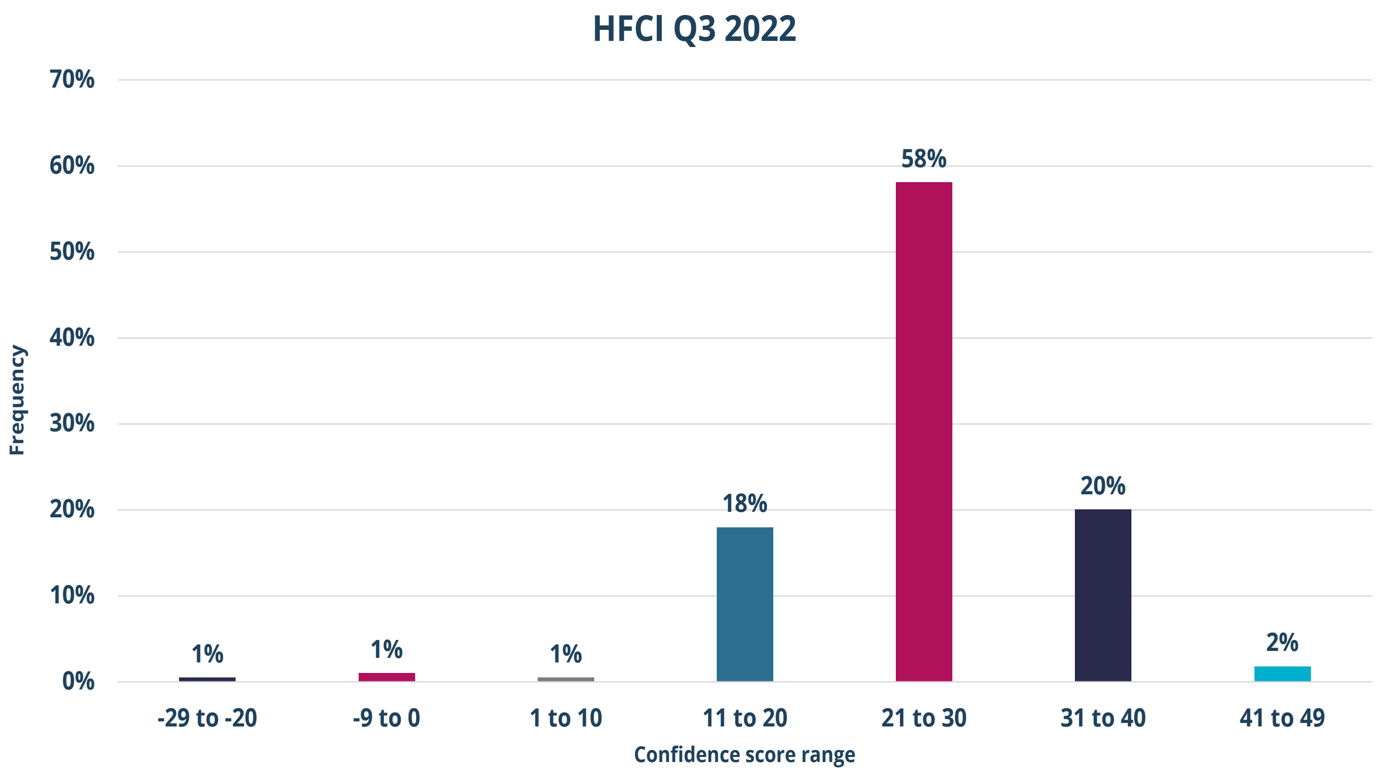




Q3 2022 results

Based on a sample of 389 hedge funds (accounting for approx. US$3 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 +25.4 , the highest score reported by hedge funds since this index began two years ago. In the ongoing bear market beset by geopolitical and macroecononomic turbulence, capital preservation and outperformance is top of mind for investors. To that end, hedge funds have reasserted their value proposition, offering the best downside protection as a proportion of broader market declines.

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).

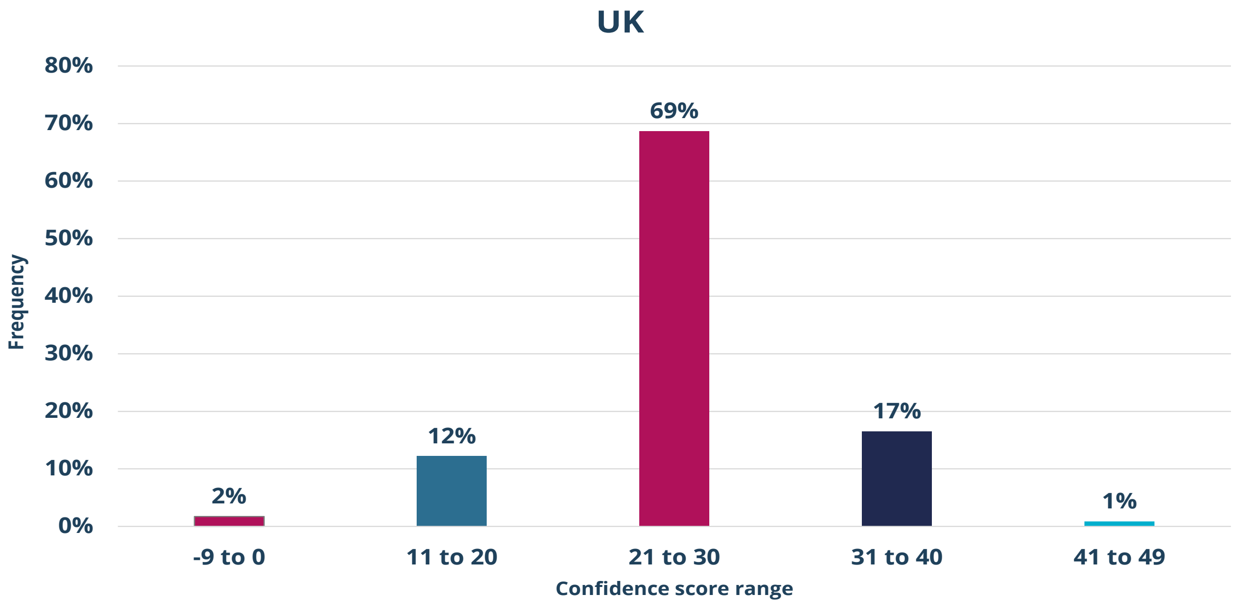


Q3 overall confidence score: +25.4

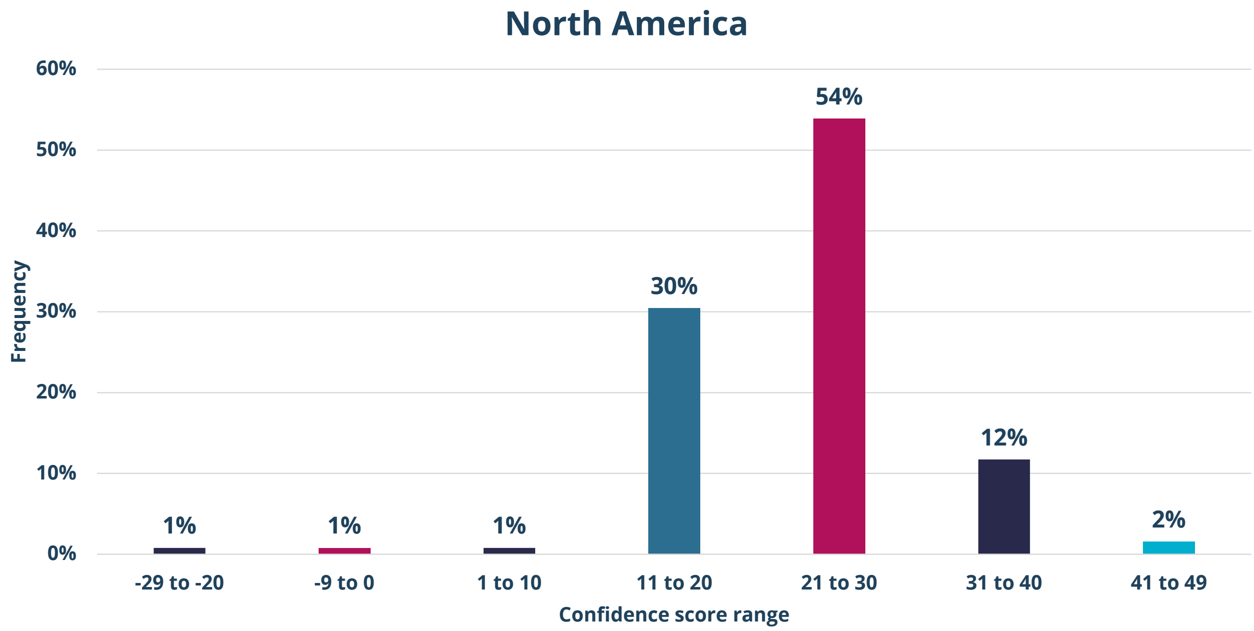
Breakdown by hedge fund by size

Observing fund managers' 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 an estimated 67% of the total number of responses while smaller funds (for those that manage US$1 billion or less) make up the remaining 33%. For the third successive quarter, larger fund managers express the highest levels of confidence, posting nearly two points higher than smaller managers; albeit by a smaller divergence than previous quarters (see table below).

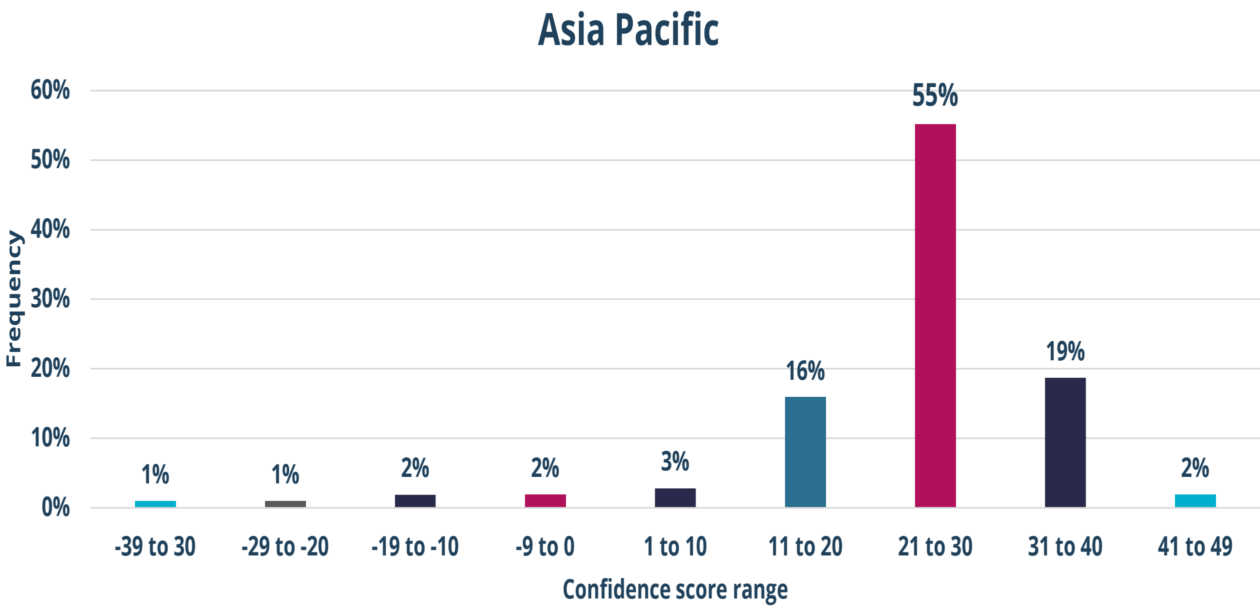
Breakdown by hedge fund location



Confidence score: +25.6



Confidence score: +23.2



Confidence score: +23.3

On a regional basis, all major global regions posted higher confidence levels than their previous score, and the highest confidence scores to date. Firms that demonstrated the highest levels of confidence were EMEA (excl. UK) based fund managers, with those in the Middle Eastern reporting an average score of +31, almost eight points higher than the average score reported by North American based funds.

Notably, among the population of respondents from the Middle East and Europe-based funds, these predominantly comprised macro funds and multi-strategy funds, both enjoying the highest confidence levels of all the strategies that reported to the index this quarter. By comparison, 60% of all North American based funds that we polled are long-short equity funds which reported the lowest levels of confidence among the strategies well represented in the index this quarter.

Commentary: Hedge funds reassert their value proposition to investors.

Amid continued gloomy economic forecasts for the coming 12 months, including the expectation for further market corrections, hedge funds are reasserting their value proposition among allocators globally as being the best capital preservation agent and portfolio risk mitgant.

From a performance perspective, the average hedge fund is down between 4%-6% on the year (according to various data providers), although some hedge fund strategies, (global macro and managed futures to name but two) are delivering some very strong gains for their investors.

By comparison, a 60/40 portfolio investor (for a long time regarded as being the optimum investment strategy for pension plans and other institutional investors) has lost nearly 20% year to date. While investor appetite for hedge funds gives reason for cautious optimism, headwinds (in particular regulatory and compliance issues) continue to intensify.

The US in particular has witnessed an unprecedented inflow of new industry proposals which, if enacted, would make managing business extremely challenging and expensive for private funds. Not a week seems to go by without another proposal being put forward by the US SEC, amidst the most serious overhaul of existing market practices for the private funds industry. Elsewhere, European and APAC hedge fund managers are also having to consider a raft of new industry regulation being discussed which would impact how they manage their business.

Comparison of results of HFCI: Q4 2020 to Q3 2022

	Average confidence score							
Breakdown of HF Managers	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**
Overall	+13.8	+18.4	+19.5	+20.4	+15.8	+17	+17.8	+25.4
Less than US$1bn	+16.6	+17.2	+18.1	+18.3	+16.2	+15	+14.5	+23.6
Greater than US$1bn	+10.8	+19.4	+21.1	+21.8	15.5	+17.7	+20	+25.4
Europe (ex UK)	-	-	-	-	-	+11.8	+14.1	-
EMEA (including UK)	+9.7	+17.3	+17.7	+20.9	+17.5	-	+20.8	-
EMEA (exl. UK)	-	-	-	-	-	-	-	+30.6
UK	+9.7	+16.4	+17	+21.3	+18.2	+20.7	+21.03	+25.6
North America	+19.7	+19.6	+22.5	+20.4	+13.9	+13	+16.4	+23.2
APAC	+11.1	+17.2	+18.2	+19.5	+16	+14.8	+15.6	+23.3

Muneer Khan, Partner, Middle East, at Simmons & Simmons, said: *"It is pleasing to see the positive sentiment expressed from those based in the Middle East. The high scores for the region are possibly due to increased oil and gas revenues, as well as more focused government economic diversification efforts, leading to managers attracting more AUM from sovereign and sovereign related investors in the region. We have also over the past 12-18 months seen an increasing flow of managers setting up in financial centres such as the DIFC in Dubai, to support their marketing efforts and in order to attract and retain portfolio manager talent relocating from the US, Europe and Asia."*

Steve Nadel, Partner, Investment Management, at Seward & Kissel, said: *"It appears as if the latest HFCI score for North American-based hedge fund managers may be reflective of the increased certainty managers now have about the Fed's future direction on interest rates and thus they are able to plan accordingly in terms of implementation of their strategies."*

Tom Kehoe, Global Head of Research and Communications at AIMA, said: *"Amid increasing turbulence across financial markets, hedge funds are reasserting their value proposition among investors who crave for capital preservation and portfolio diversification. Headwinds remain in the form of new regulatory and compliance demand, particularly coming out of the US as well as higher inflation levels and interest rate tightening, both likely to impede on a firm's ability to manage their business."*