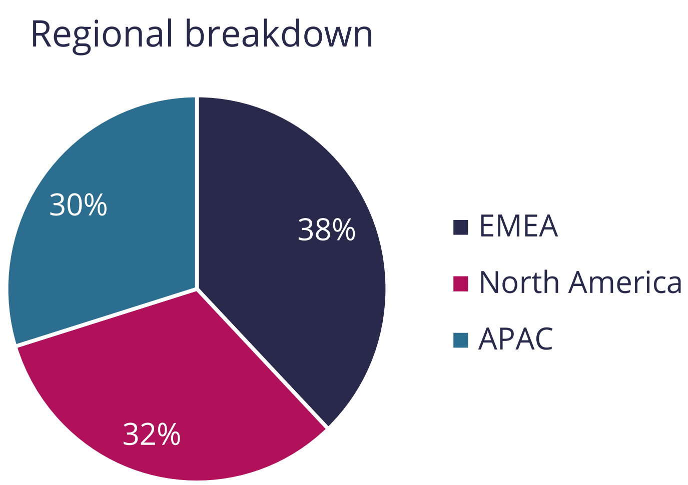
Hedge Fund Confidence Index

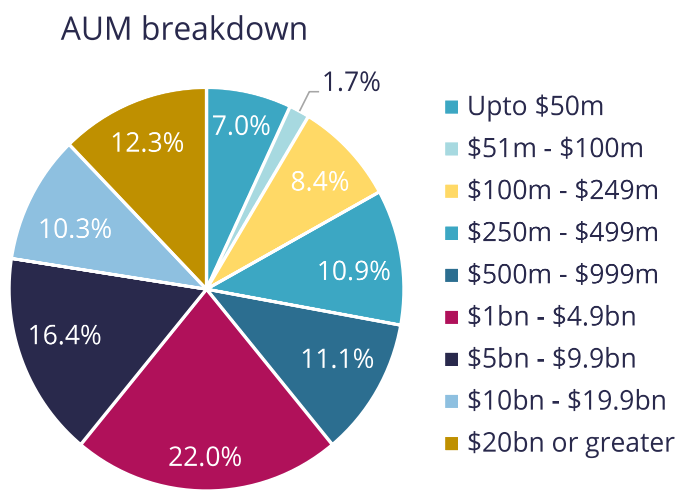
The AIMA Hedge Fund Confidence Index (HFCI) is a new global index that measures the level of confidence hedge funds have in the economic prospects of their business over the next 12 months. A product of AIMA, Simmons & Simmons and Seward & Kissel, the HFCI is calculated during the final two weeks of 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$2.2 trillion



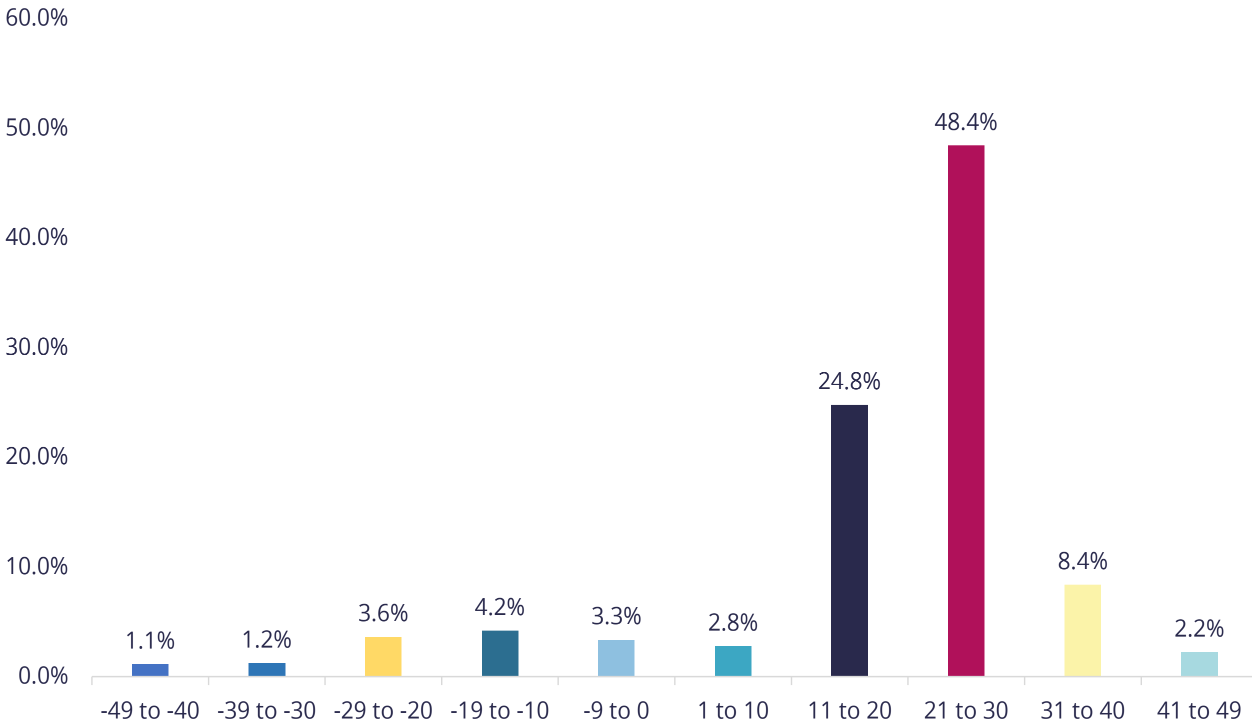


Q2 2022 results

Based on a sample of 360 hedge funds (accounting for approx. US$2.3 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 +17.8,[1] just under one point higher than the score reported in the first quarter of the 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 85% 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).

Q2 overall confidence score: +17.8

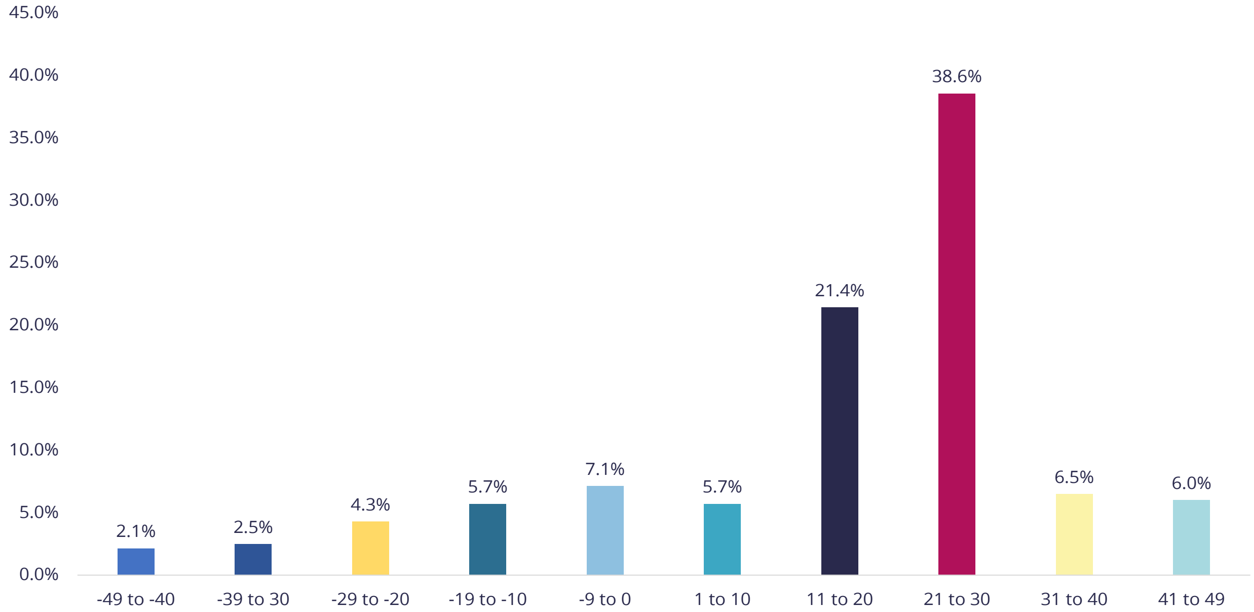


1 *The average confidence numbers and charts within are based on confidence scores between -49 and +49.This has been done to remove outliers which would otherwise skew results.*

Breakdown by hedge fund by size

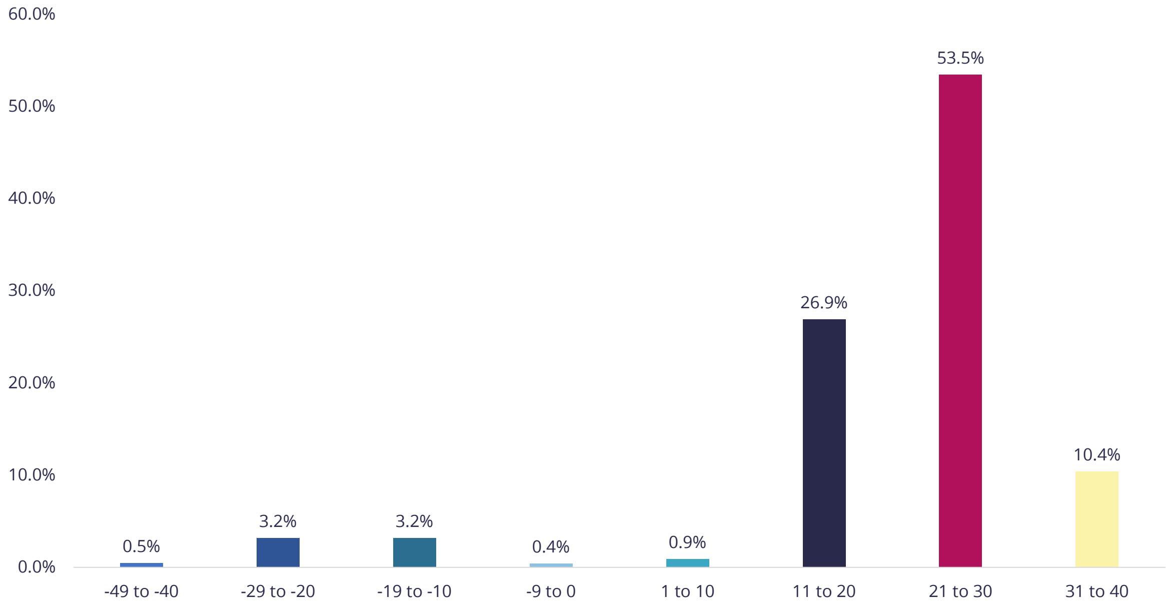
Observing the funds' confidence levels based on size, we split the population of responses into larger funds (for those that manage greater than US$1 billion in assets) accounting for 61% of the total number of responses while smaller funds (for those that manage US$1 billion or less) make up the remaining 39%. For the second successive quarter, larger fund managers express the highest levels of confidence, posting over five points higher than smaller managers.

Less than US$1bn



Confidence score: +14.5

Greater than US$1bn



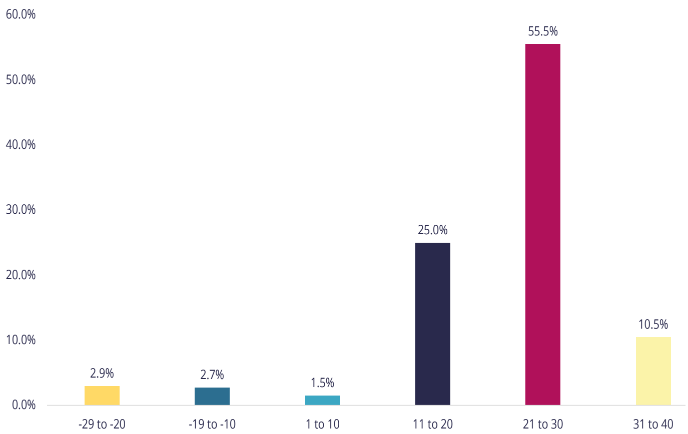
Confidence score: +20

Breakdown by hedge fund location

On a regional basis, all three global regions posted higher confidence levels than their previous score, in an almost complete reversal to the first quarter report, when two out of three regions reported lower confidence scores. Hedge fund firms in the UK continue to positively surprise on the upside, with the average confidence score being above +20 for the second successive quarter, having been above this threshold forfor three out of the four last quarters.

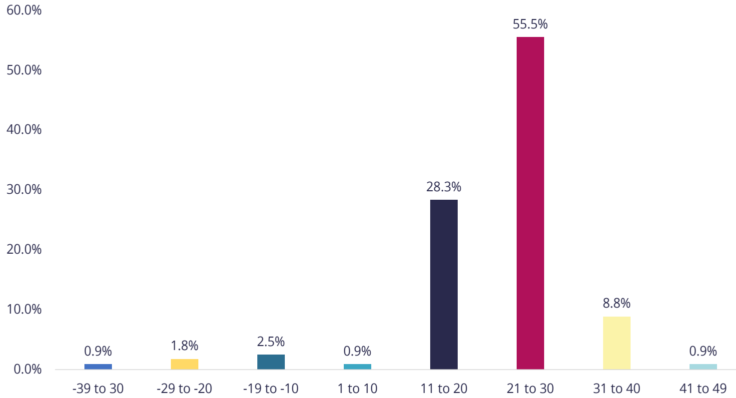
Confidence levels among APAC and North American fund managers have also picked up from the first quarter. The average confidence score in both regions lags the global leading score reported by UK fund managers. Confidence levels in the UK have been underpinned by a strong showing from global macro, CTA, multi-strategy and long-short credit funds. In comparison North American funds that polled were predominantly from relatively less confident long-short equity funds while the APAC confidence score was negatively impacted by digital asset funds (which scored on average +5.5).

EMEA



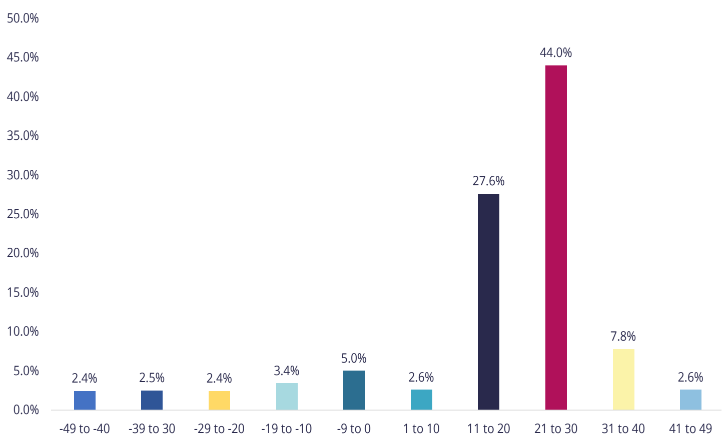
Confidence score: +20.8

UK



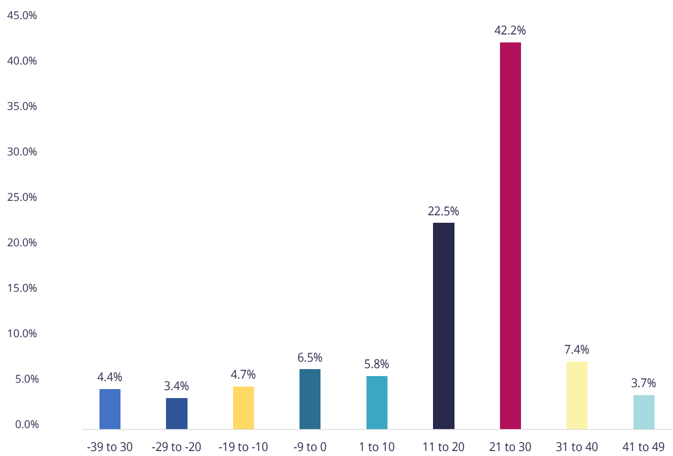
Confidence score: +21.03

North America



Confidence score: +16.4

APAC



Confidence score: +15.6

Hedge funds remain cautiously optimistic about their economic prospects

Confidence levels reported by hedge funds remains upbeat despite continued economic and geo-political headwinds impacting the global economy, including the war in the Ukraine, consumer price inflation being at a 40-year high, and subsequent tightening of monetary policy not forgetting increased regulatory and compliance demands. On a performance measure, hedge fund returns continue to be mixed. While some fund strategies have experienced a challenging start to the year, others have thrived with performance dispersion across the industry becoming even more pronounced.

Upon closer examination of the hedge fund strategies that we polled, CTA (+26), and global macro (+20.5) reported the highest confidence scores. The past quarter has seen news of some notable gains made by hedge funds for their investors across both of these strategies. In comparison, crypto hedge funds scored the lowest on confidence (+5.5), not too surprising, given the difficult conditions being reported across the asset class this year.

Regulatory and compliance headwinds across the industry 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 SEC, amidst the most serious overhaul of existing market practices for the private funds industry. European and APAC funds are also having to consider a raft of new industry regulation being discussed which would impact how funds manage their business.

Despite all of these challenges and the threat of more still to come, hedge fund managers globally remain cautiously optimistic about their economic prospects for the coming 12 months. In the wake of global financial markets experiencing sharp corrections and higher expected volatility, hedge funds are reinforcing their value proposition in best managing downside risk and offering financial security to investors.

Comparison of results of HFCI: Q4 2020 to Q2 2022

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

UK *"It is pleasing to see UK hedge fund managers showing resilience in the face of market turbulence. We see similar trends amongst our client base. Quant/systematic managers have performed well throughout recent market volatility – and there remains a high level of interest in crypto and other digital assets focussed products."*
Devarshi Saksena, Partner, Hedge Funds, Simmons & Simmons.

US *"The confidence among CTA managers is to be expected given the current macroeconomic and geopolitical environment. Fundraising among CTA managers is also aligned with their level of confidence, given the substantial inflows into those strategies thus far in 2022. With respect to regulatory and compliance headwinds in the US, we certainly anticipate an increased level of regulation but to what extent is still to be determined as many of the current SEC proposals have yet to be adopted."*
Dan Bresler, Partner, Investment Management, Seward & Kissel

Tom Kehoe, global head of research and communications at AIMA, said:
"As traditional asset classes come under increasing pressure from global macro factors from inflation to geo-political tension, hedge funds are coming to the fore to provide downside risk and uncorrelated returns for their investors.

"Although there is a wide dispersion in fund performance reported across the industry, the overall lift in confidence this quarter compared to Q1 reflects the better performance of the alternative investment market compared to traditional market investments during this challenging period."