

AIMA Hedge Fund Confidence Index in partnership with Simmons & Simmons and Seward & Kissel



The AIMA Hedge Fund Confidence Index (HFCI) is a new global index which measures the level of confidence that 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 every quarter, with a measure taken at the end of each 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 month period and -50 indicates the lowest level of economic confidence for the firm over the same period. An index level of zero (0) indicates a neutral level of confidence.

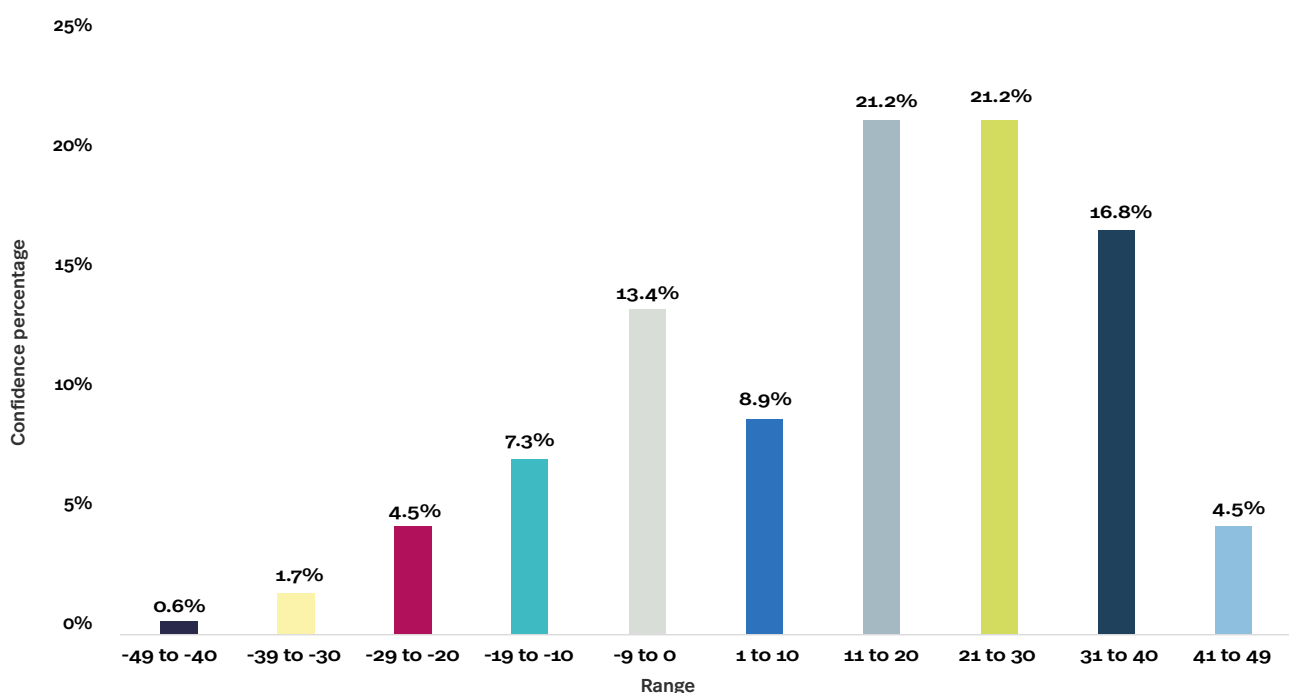
When considering how best to measure their level of economic confidence, hedge fund respondents are asked to take into account the following factors; their firm's ability to raise capital, their firm's ability to generate revenue and manage costs, and the overall performance of their fund(s).

December 2020 Hedge Fund Confidence Index:

Based on a population of over 200 hedge fund firms globally who took the HFCI in December, the average measure of confidence (in the economic prospects of their business over the next 12 months) on a scale of -50 to +50 globally is **+14**. Over 70% of all managers that reported to this index cited a positive confidence measure.

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)

Confidence score: 14



Upon closer examination of the results, from a regional perspective, Americas based hedge funds (including North America, LATAM) based are the most confident region globally with an average confidence rating of **+20**. In comparison, the average confidence rating for EMEA and UK based managers is half that of the Americas with a score of **+10**, while APAC based managers score an average confidence rating of **+11**.

Observing the firm's confidence level based on their size; we split the population of responses into larger firms (i.e. firms managing greater than \$1 billion in assets) accounting for 48.5% of total number of responses and smaller firms (i.e. firms managing up to \$1 billion in assets) accounting for 51.5% of total number of responses. Larger firms on average score a confidence rating of **+11**, significantly lower than their smaller counterparts that score a confidence rating of **+17**.

¹ Source: Various hedge fund indices reporting end of November.

Overview:

December's hedge fund confidence index is taken amidst strong positive news flow globally. As we come to the end of a tumultuous year, news regarding the availability of COVID-19 vaccines and a change to the US administration in 2021 is likely to have contributed to boosted hedge fund performance globally.

Cautious optimism for 2021

As of the end of November, hedge funds on average had returned 9% net of fees for the year, with performance in November being one of the strongest on record. Performance dispersion remains prominent with some hedge funds continuing to deliver exceptionally strong returns while others have encountered a more challenging time. Citing a confidence rating of +14, hedge funds globally are cautiously optimistic regarding the economic prospects for their business over the coming 12 months.

The environment and implications from COVID-19 demonstrated that in times of market volatility and business uncertainty – hedge funds fulfil an important role in an investor's portfolio. As has been the case where markets have sharply corrected, hedge funds continue to minimise risk and deliver on performance, better than most asset classes.

This has not gone unnoticed among investors with recent reports highlighting that allocations to the alternative portfolio has either met or exceeded their expectations. This sentiment has been loudly echoed through conversations that we have held with asset allocators who tell us that they are reinforcing their interest in hedge funds.

Among the funds that reported to the HFICI in December multi-strategy and long/short equity funds score the highest on confidence. Over the course of this year these funds have been among the best performers and not surprisingly are seeing the most interest from investors.

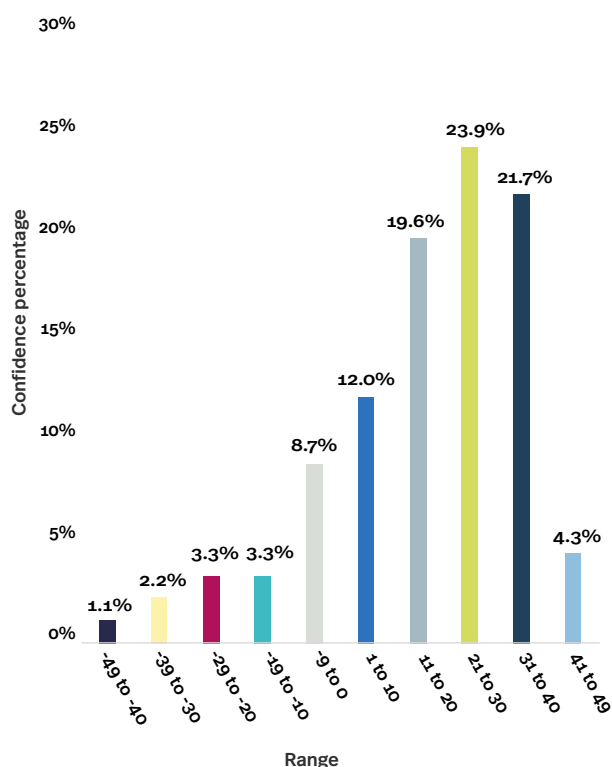
Optimism among smaller managers for 2021

Notably, the average confidence score of smaller managers is 1.5 times the confidence score cited by larger managers. Some of the smallest funds have been among the very best industry performers this year. Smaller managers have the ability to be more nimble than the larger managers and given the economic environment, there is confidence that there will be pockets of opportunity, which will be easier for smaller managers to capitalize on. Their smaller portfolio sizes are proving particularly useful in being able to navigate through a series of sharp market corrections this year.

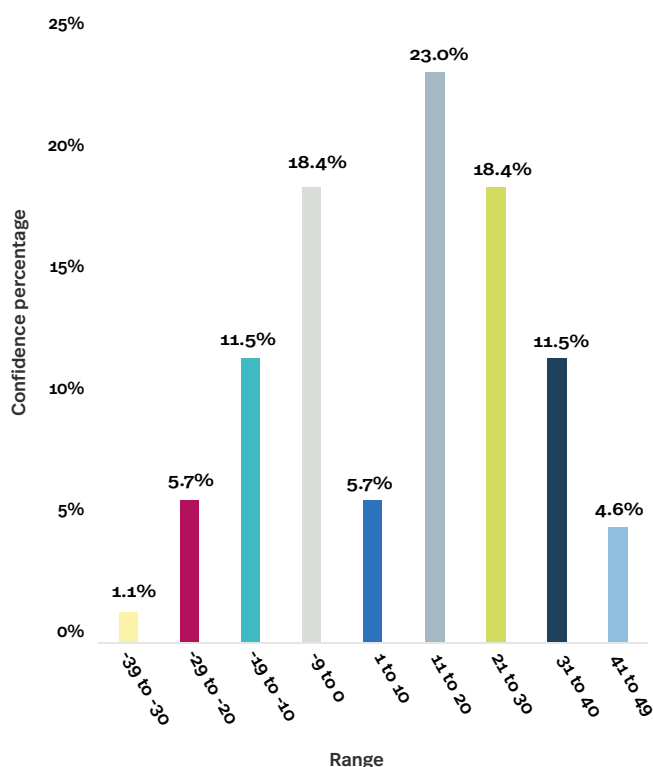
Additionally, some proposed and existing regulations appear to be in the favour of smaller managers as they will likely not meet the thresholds of regulators. With these factors swinging in favour of smaller managers, it's unsurprising that allocators have increased their appetite for such managers. Recent research from the third party marketing firm Murano found that requests for boutique managers from investors increased by more than 20% in Q3 of this year, compared to the same period last year. Perhaps virtual fundraising has helped to level the playing field across the industry with investors being much more open to meeting with hedge fund managers of all sizes, although the very largest managers continue to attract the lion's share of investment capital.

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? (By AuM, split above and below \$1bn)

Less than \$1bn - Confidence score 16.6



Above \$1bn - Confidence score 10.8



² WSJ article <https://www.wsj.com/articles/some-small-hedge-funds-reap-big-gains-in-tough-times-11607337001>

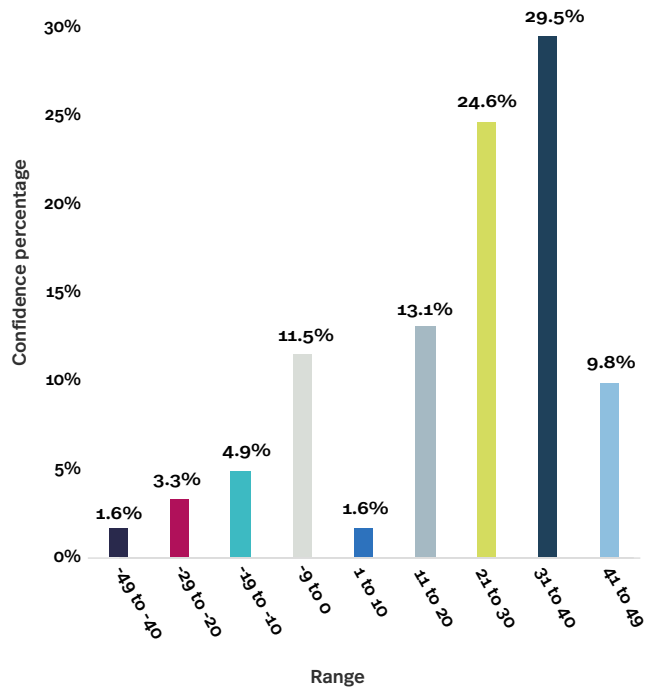
Americas based managers are the most confident

Examining the regional scores, the high confidence rating from the Americas is underpinned by approximately 50% of respondents in the region running multi-strategy and/or long/short equity funds and just over 50% of respondents being comprised of smaller managers, all of whom cite the highest confidence rating. Another potential contributor to the high level of confidence among Americas based managers may be the certainty around the 2020 Presidential election results. Now with certification of the electoral votes in December, there is more certainty going into the new year and more predictability from the new administration. President-elect Biden is viewed as more of a moderate with the potential to reach across the aisle.

By comparison EMEA based managers have the lowest confidence score of less than half that reported by Americas based managers. With 2020 drawing to a close and continued uncertainty regarding a Brexit outcome, EMEA managers may have been affected by a sense that regional interest in their product is not currently expanding to any significant extent and marketing in EU27 is expected to become more challenging for many managers based in the UK.

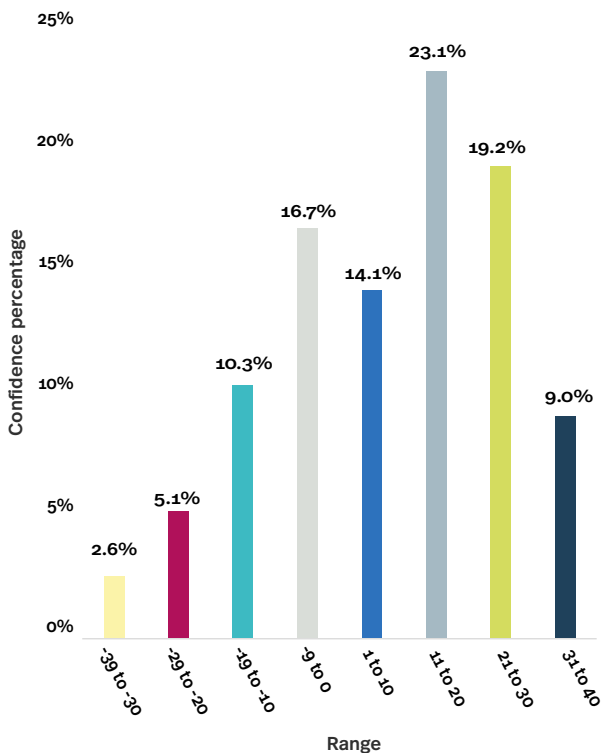
Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of 50 to -50? (By region)

Americas - Confidence score: 19.7

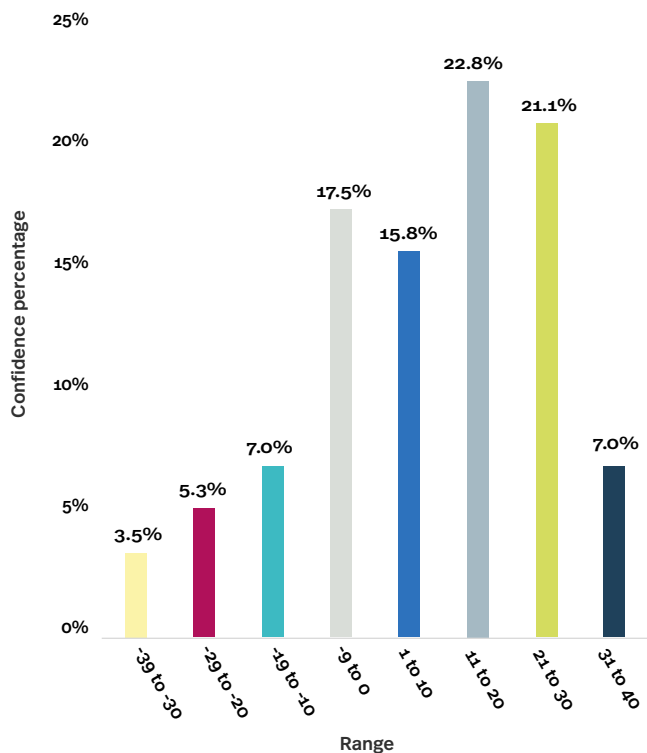


Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of 50 to -50? (By region)

EMEA - Confidence score 9.7



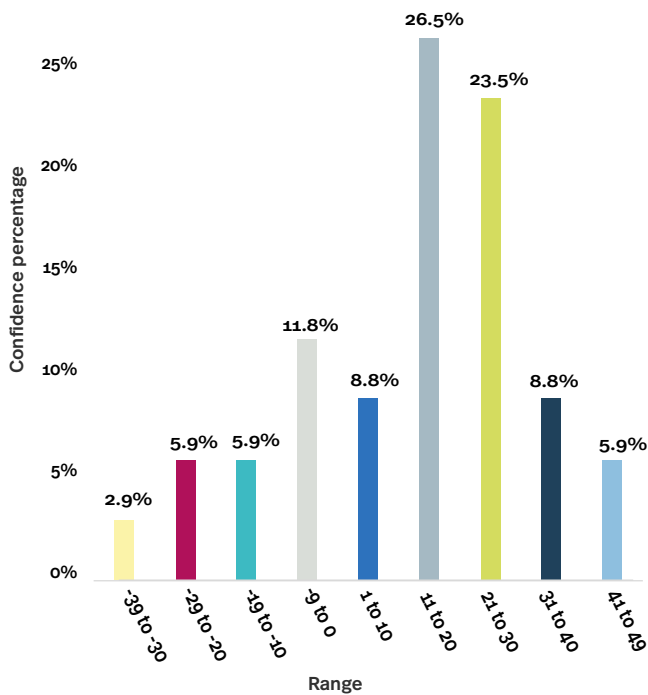
UK - Confidence score 9.7



In a similar vein, APAC is showing a mixed picture. The US-China trade tension has worried the wider financial services industry in both the hedge fund hubs of Hong Kong and Singapore. Much capital raising still relies on US allocations and with travel restrictions in place for the foreseeable future, this has restricted many managers. In Hong Kong there are additional concerns related to the political environment - whilst Singapore managers are likely to be more optimistic.

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? (By region)

APAC - Confidence score: 11.1



Hedge Funds express cautious optimism for 2021

2021 is shaping up to be the year in which major sources of uncertainty through 2020 resolve, allowing confidence to return to boardrooms and investors. For hedge funds, that presents an opportunity for returns to continue to grow and perhaps to aspire to the golden era following the global financial crisis in 2008. Our survey shows a cautious optimism which may suggest the current sentiment lies somewhere between the two.

The major uncertainties expected to resolve include COVID and US leadership, with the roll-out of mass vaccination programmes and the inauguration of President-Elect Biden both expected to inspire renewed confidence and possible further reduction in volatility: VIX has fallen from 'typical' crisis-highs but remains above inter-crisis mean levels.

For hedge funds that presents an opportunity for returns to resume their immediate pre-pandemic levels or perhaps, as some commentators have suggested, to aspire to a new golden era. The next HFCI to be taken in March will provide us with a better guide as to what direction the industry is most likely to take.

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