

Hedge Fund Confidence Index



HFCI posts modest quarterly gains in confidence to begin 2023

AIMA, in partnership with Simmons & Simmons and Seward and Kissel are proud to present the 10th quarterly **Hedge Fund Confidence Index (HFCI)**, which provides a snapshot of fund manager 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.

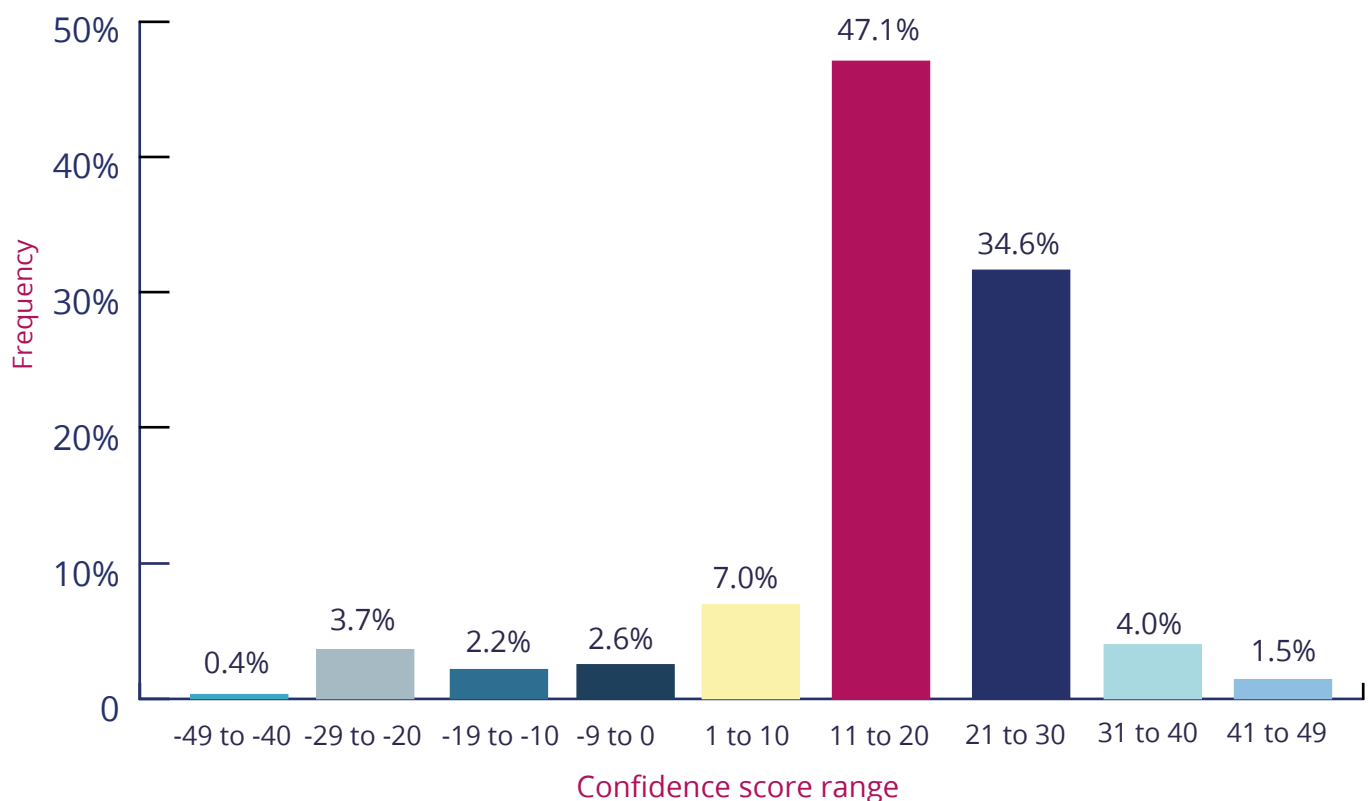
Selecting the appropriate level of confidence, respondents are asked to choose from a range of -50 to +50, where +50 indicates the highest possible level of economic confidence for the firm over the next 12 months. When considering how best to measure their level of economic confidence, hedge fund respondents 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).

Q1 2023 results

Based on a sample of 272 hedge funds (accounting for approx. US\$1.9 trillion in assets) that participated in **the industry poll taken throughout the week ending 31 March 2023**, the average measure of confidence (in the economic prospects of their business over the coming 12 months) is +16.3, marking an improvement in sentiment since the end of last year, albeit trending slightly below the historical average (see HFCI scores overtime).

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).

Q1 overall confidence score: +16.3



HFCI scores over time



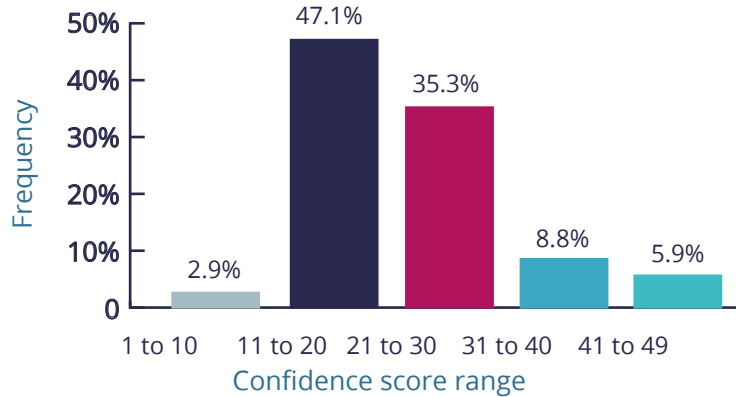
Breakdown by hedge fund location

On a regional basis, the UK remains the standout in terms of consistently high confidence relative to other comparable peers. The UK's pool of respondents is dominated by relatively large long-short equity, global macro and multi-strategy funds all of which were among the most confident strategies. Elsewhere, EMEA (excl. UK) was notable for being extremely overweight fund managers based in the Middle East. Taken alone, Middle Eastern fund managers reported an average confidence score of +22.6. Similar to the UK, these fund managers are most likely to be larger and follow long-short equity of global macro strategies. It also had 100% of respondents reporting a positive sentiment score.

Meanwhile, APAC's confidence score is dragged down by half of the population of respondents being smaller managers, along with some extreme scores reported across the region from global macro managers, fund of funds, long-short equity – that all reported an average score around -20. The average AUM of APAC-based managers (\$3.7 billion) is dwarfed by UK and Middle Eastern respondents – \$8.7 billion and \$8.2 billion, respectively – underscoring the notion that confidence might primarily be a function of size more than other factors. Of UK-based fund managers, 96% posted a positive confidence score, compared to 80% of APAC-based respondents. Interestingly, all of the larger fund managers that reported a negative score are based in APAC, providing further drag on average confidence.

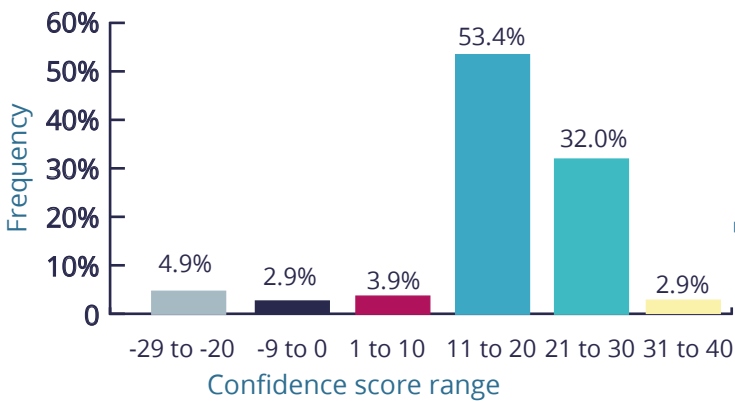
Turning to APAC, the region remained fairly consistent in its outlook throughout 2022 although the Q4 downturn only narrowly beat its lowest-ever score, recorded in Q4 2020. The region had a slightly greater proportion of smaller managers and also a relatively high percentage of respondents representing the smallest cohort of managers, both of which served to depress the average confidence number.

EMEA (excluding UK)



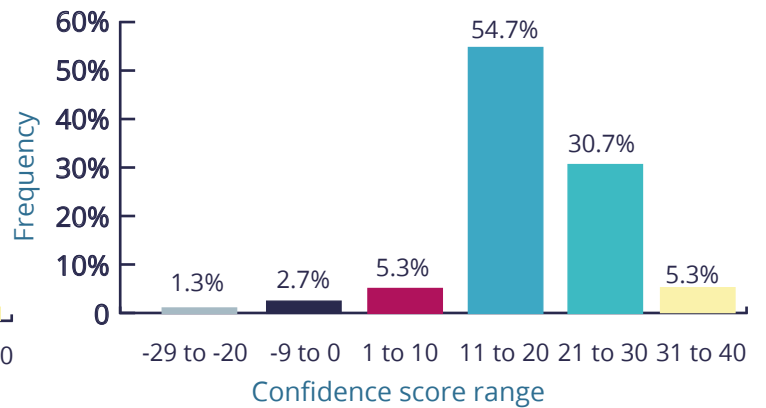
Confidence score: +22.2

North America



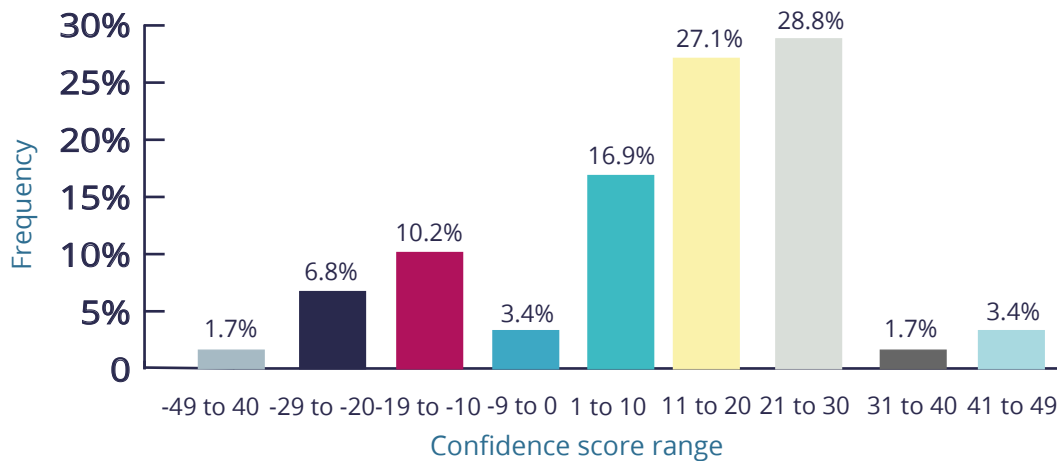
Confidence score: +16.4

UK



Confidence score: +18

APAC



Confidence score: +10.6

Commentary: Larger managers weather March madness to retain positive outlook

Fund managers have overwhelmingly managed to maintain a positive outlook in their economic prospects for the coming year with over 90% reporting a positive confidence score, despite this poll being taken amid a particularly tumultuous period in financial markets.

The high-profile drama around Silicon Valley Bank and Credit Suisse, followed by concerns around regional US banks more broadly caught many investors off guard and drove some hedge funds to trim their exposure to US banks and banking stocks.

Overall, the highly-fluid environment is instilling uncertainty across financial markets that undermines confidence and gives a distinct impression that gains today may be lost tomorrow.

Meanwhile, the retrenchment of inflation in some markets and noises from central banks that it may hike rates still further are also adding to the melee of factors impacting hedge funds and forcing regular portfolio recalibrations.

There are some green shoots of optimism, however, with recent data on fund launches indicating they were on the rise in Q4 2022, with 96 funds making their debut, rising from 71 in the prior quarter, the lowest level since Q4 2008, according to the latest HFR Market Microstructure Report. Away from the front office, operational challenges abound for fund managers of all sizes that must carefully consider ongoing investments in technology and talent as higher costs and volatility become the new normal.

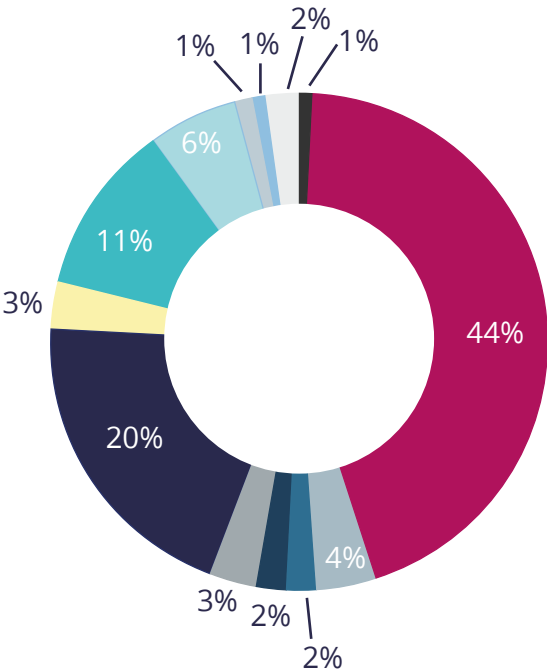
Finally, regulatory challenges globally, but particularly in the US, that began in early 2022 continue to rumble on with scant detail on what the final version of the sweeping reforms might look like, and the ultimate impact on the business model of firms unknown. The prospect of many more months of regulatory limbo will not be appealing to firms seeking long-term stability.

Notwithstanding these headwinds, the headline finding of the first HFCI of 2023 is that the average fund manager remains cautiously optimistic for the future and the volatility will also bring new opportunities to offset the challenges.

Breakdown of respondents

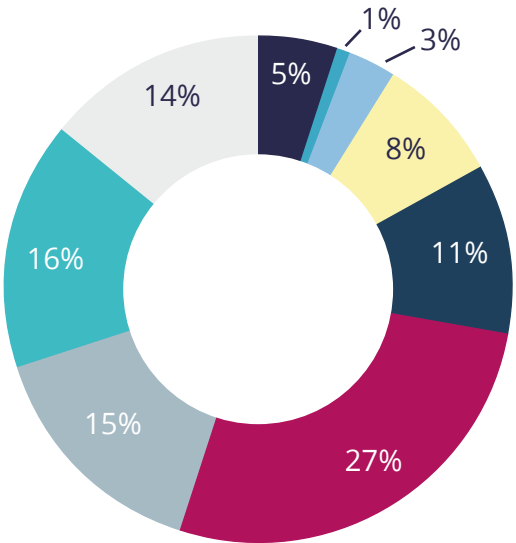
Estimated assets under management for hedge fund respondents: US\$1.9 trillion

Strategy Breakdown



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

AUM Breakdown



- Up to \$50m
- \$51m - \$100m
- \$100m - \$249m
- \$250m - \$499m
- \$500m - \$999m
- \$1bn - \$4.9bn
- \$5bn - \$9.9bn
- \$10bn - \$19.9bn
- \$20bn or greater

Hedge fund confidence index over time

Category	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Average
Overall	13.8	18.4	19.5	20.4	15.8	17.0	17.8	25.4	14.1	16.3	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	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	16.3
APAC	11.1	17.2	18.2	19.5	16.0	14.8	15.6	23.3	13.8	10.6	16.0
EMEA (excl. UK)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.6	14.9	22.2	22.6
North America	19.7	19.6	22.5	20.4	13.9	13.0	16.4	23.2	13.5	16.4	17.9
UK	9.7	16.4	17.0	21.3	18.2	20.7	21.0	25.6	15.1	18.0	18.3

Tom Kehoe, Global Head of Research and Communications at AIMA, said:
“Despite the March madness that beset global financial markets, hedge funds remain cautiously optimistic, with the current environment also presenting investment opportunities. Further reasons for optimism include increased hedge fund appetite among investors looking to best preserve their savings while the pipeline for new fund launches is slowly picking up.”

Steve Nadel, Partner at Seward & Kissel, said: *“While the nearly 16% increase in the average HFCl score from last quarter is encouraging, it remains to be seen whether this momentum will continue given the current market environment.”*

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