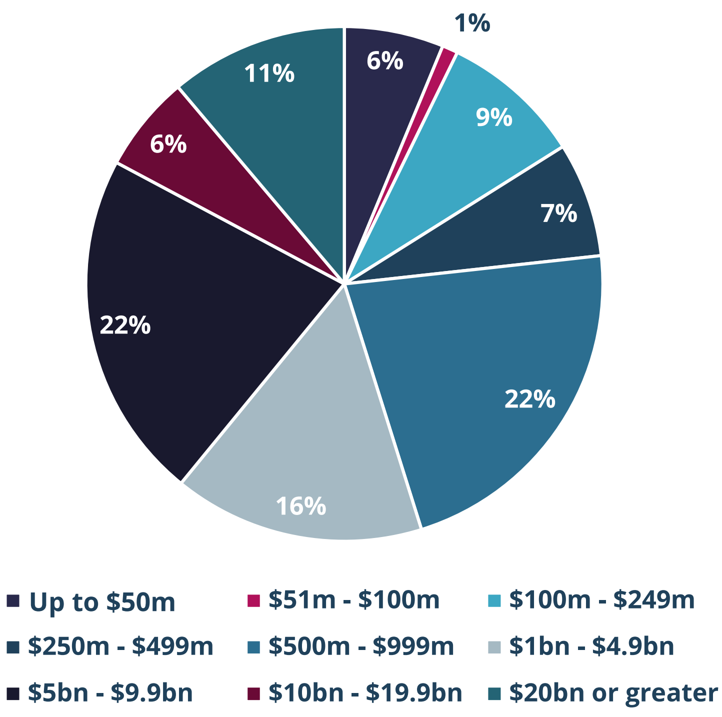
Hedge Fund Confidence Index

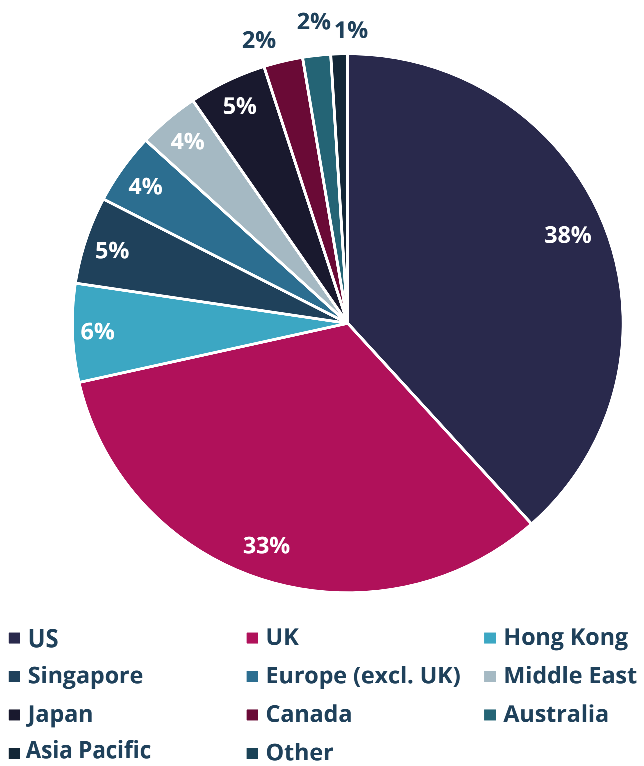
The AIMA Hedge Fund Confidence Index (HFCI) is a new global index that measures the level of confidence hedge funds have in the economic prospects of their business over the next 12 months. A product of AIMA, Simmons & Simmons and Seward & Kissel, the HFCI is calculated during the final two weeks of 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$1.7 trillion





Q4 2021 results
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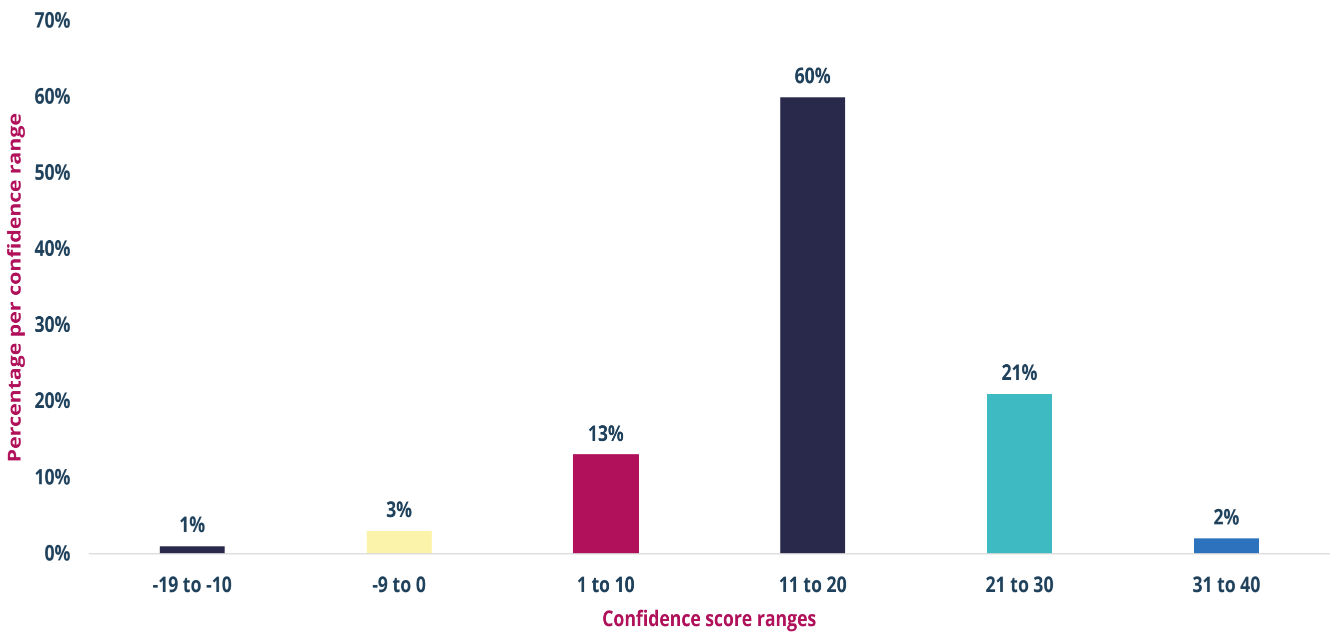
Based on a sample of more than 300 hedge funds (accounting for approx. US$1.7 trillion in assets) that participated in the index, the average measure of confidence (in the economic prospects of their business over the coming 12 months) is +15.8[1], nearly five points lower than the score reported in Q3.

While the Q4 index reported the lowest confidence score this year, over 90% 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).

Q4 overall confidence score: +15.8

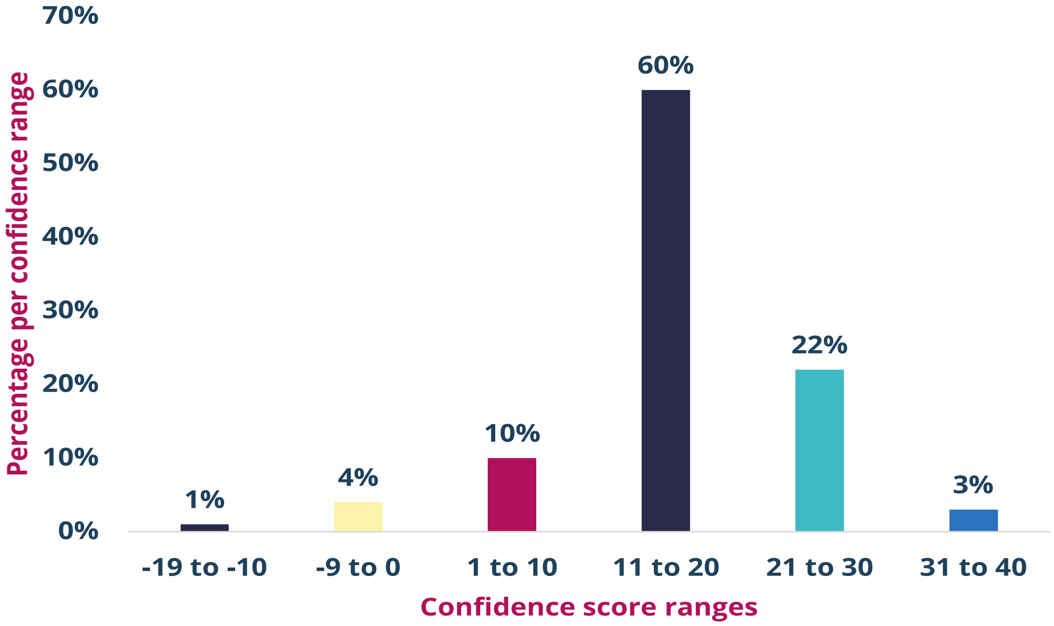


1 The average confidence numbers and charts within are based on confidence scores. This has been done to remove outliers which would otherwise skew results.

Breakdown by hedge fund by size:

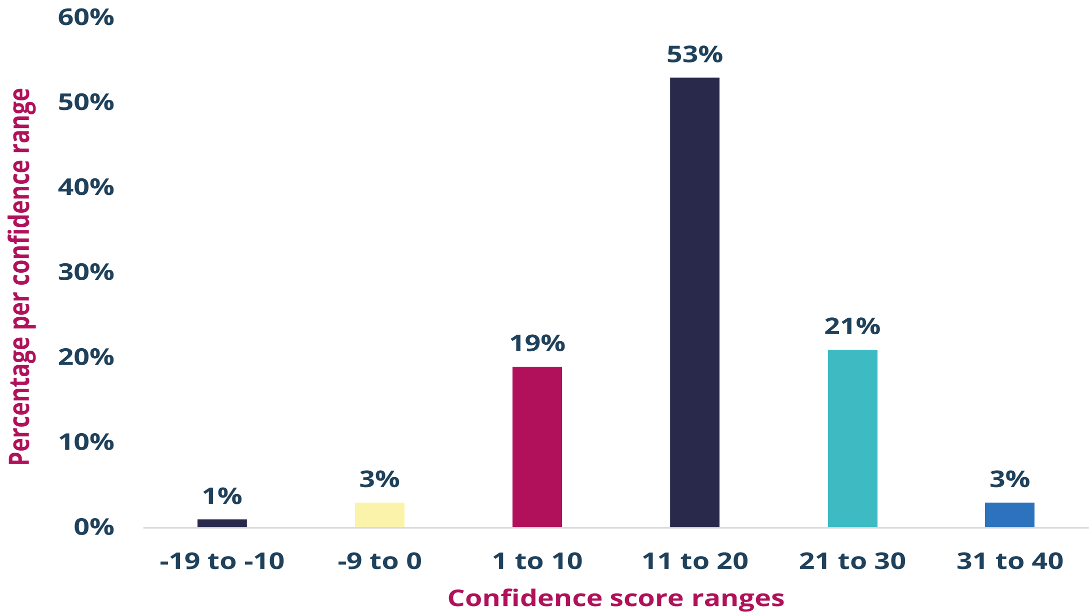
Observing the funds' confidence levels based on size, we split the population of responses into larger funds (for those that manage greater than US$1 billion in assets) accounting for just over half of the total number of responses (55%) while smaller funds (for those that manage US$1 billion or less) make up the remaining 45%. Upon closer examination of the assets under management from the respondents, 58% of the total AuM are reported by the largest managers (with US$10 billion AuM or greater).

Less than US$1bn



Confidence score: +16.2

Greater than US$1bn

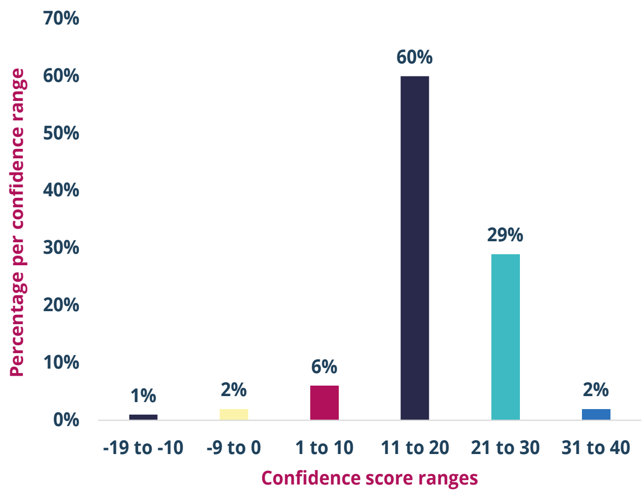


Confidence score: +15.4

Breakdown by hedge fund location:

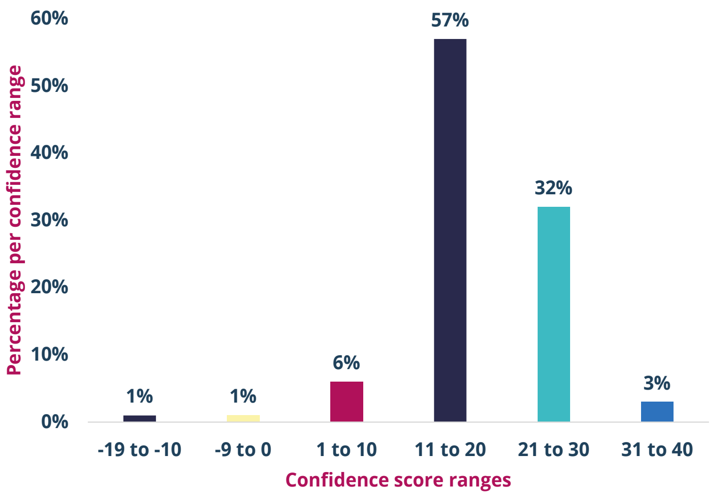
On a regional basis, all four regions posted lower confidence levels than in Q3. Hedge fund firms in North America continue to demonstrate a more cautious tone with confidence numbers having declined for a second consecutive quarter. Compared to their regional peers, confidence numbers across North American firms fell the sharpest, losing six points from the previous quarter, compared to a three-point loss elsewhere.

EMEA (includes UK)



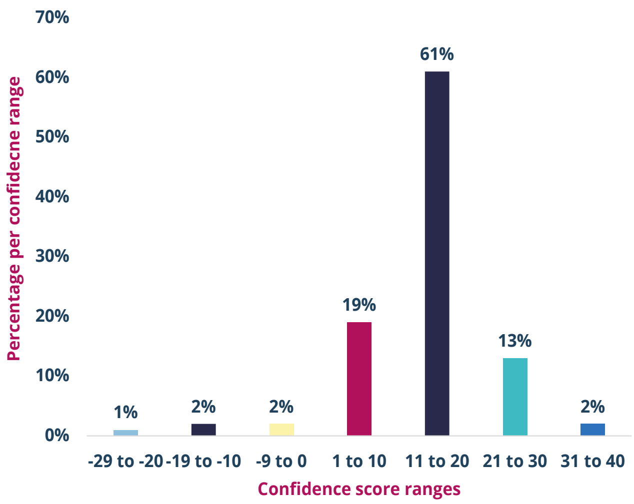
Confidence score: +17.5

UK



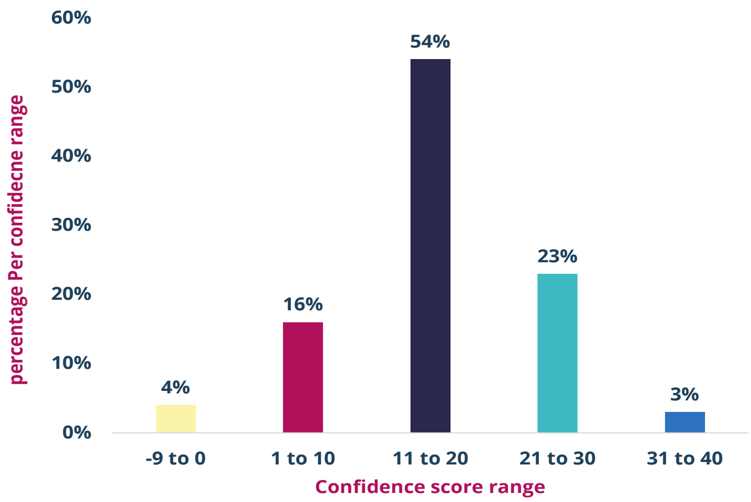
Confidence score: +18.2

North America



Confidence score: +13.9

APAC



Confidence score: +16.0

Hedge funds remain cautiously optimistic:

Confidence numbers across the industry reported lower in Q4 amidst a number of headwinds emerging including challenging performance and prevailing regulatory and compliance issues. November performance figures saw hedge funds give back some of the gains made over the past 18 months as financial markets got spooked by renewed fears regarding the spread of the Omicron coronavirus variant and to what extent this would arrest the pandemic recovery. Inflationary concerns exacerbated the problem, with bond markets experiencing a difficult time resulting in some macro funds enduring a challenging end to the month.

Regulatory and compliance headwinds have also picked up, with the pace of regulatory change accelerating in the UK and EU as each side seeks to forge a new path post Brexit while regulators in the US have hinted that asset management firms there are likely to see a greater volume of supervisory action over the coming year.

Despite these challenges, the mood across the industry remains upbeat with 90% of all respondents being positive about the economic prospects of their business over the coming 12 months. Notwithstanding the November performance setback, year to date, hedge funds on average are posting double-digit returns net of fees. Allocations to hedge funds continue to be brisk, including into new strategies (across both public and private markets) as investors look to the qualities of hedge funds to best manage any downside risk arising from market volatility and deliver on performance better than any other asset class.

Comparison of results of HFCI: Q4 2020 to Q4 2021

Breakdown of HF Managers	Ave Confidence Score Q4 2020	Ave Confidence Score Q1 2021	Ave Confidence Score Q2 2021	Ave Confidence Score Q3 2021	Ave Confidence Score Q4 2021
Overall	+13.8	+18.4	+19.5	+20.4	+15.8
Less than US$1bn	+16.6	+17.2	+18.1	+17.4	+16.2
Greater than US$1bn	+10.8	+19.4	+21.1	+21.8	+15.4
EMEA (including UK)	+9.7	+17.3	+17.7	+20.9	+17.5
UK	+9.7	+16.4	+17	+21.3	+18.2
North America	+19.7	+19.6	+22.5	+20.4	+13.9
APAC	+11.1	+17.2	+18.2	+19.5	+16.0

UK *"It is great to see confidence levels amongst UK managers continuing to be strongly positive. Despite the obvious challenges, managers are seeing opportunities in the markets and investors who want to put their money to work – and that is definitely reflected in the number of new funds we are working on. It will be interesting to see if the slight reduction of positive sentiment in the US crosses over to managers in the UK and elsewhere over the next quarter."* **Devarshi Saksena, Partner, Hedge Funds, Simmons & Simmons.**

US *"The results are surprising in that generally we find the market to be optimistic about the prospects of the coming year. Many of our clients continue to successfully launch new products and there are a number of new funds in the works for early 2022. However, the Q4 reporting period coincided with a significant market selloff and also concerns regarding inflation, and so that could be some of what we are seeing in these results."* **Nicholas Miller, Senior Associate, Investment Management, Seward & Kissel**.

Tom Kehoe, global head of research and communications at AIMA, said: *"The downturn in average confidence score for this quarter reflects the intensifying market headwinds of the moment, ranging from the growing volume of regulatory scrutiny to new COVID variants and inflationary uncertainty. Regardless, the latest score should not distract from what has been a strong year for many hedge funds overall. The data shows that vast majority of hedge funds remain cautiously optimistic about their economic prospects for the year ahead."*