February 2023 Edition

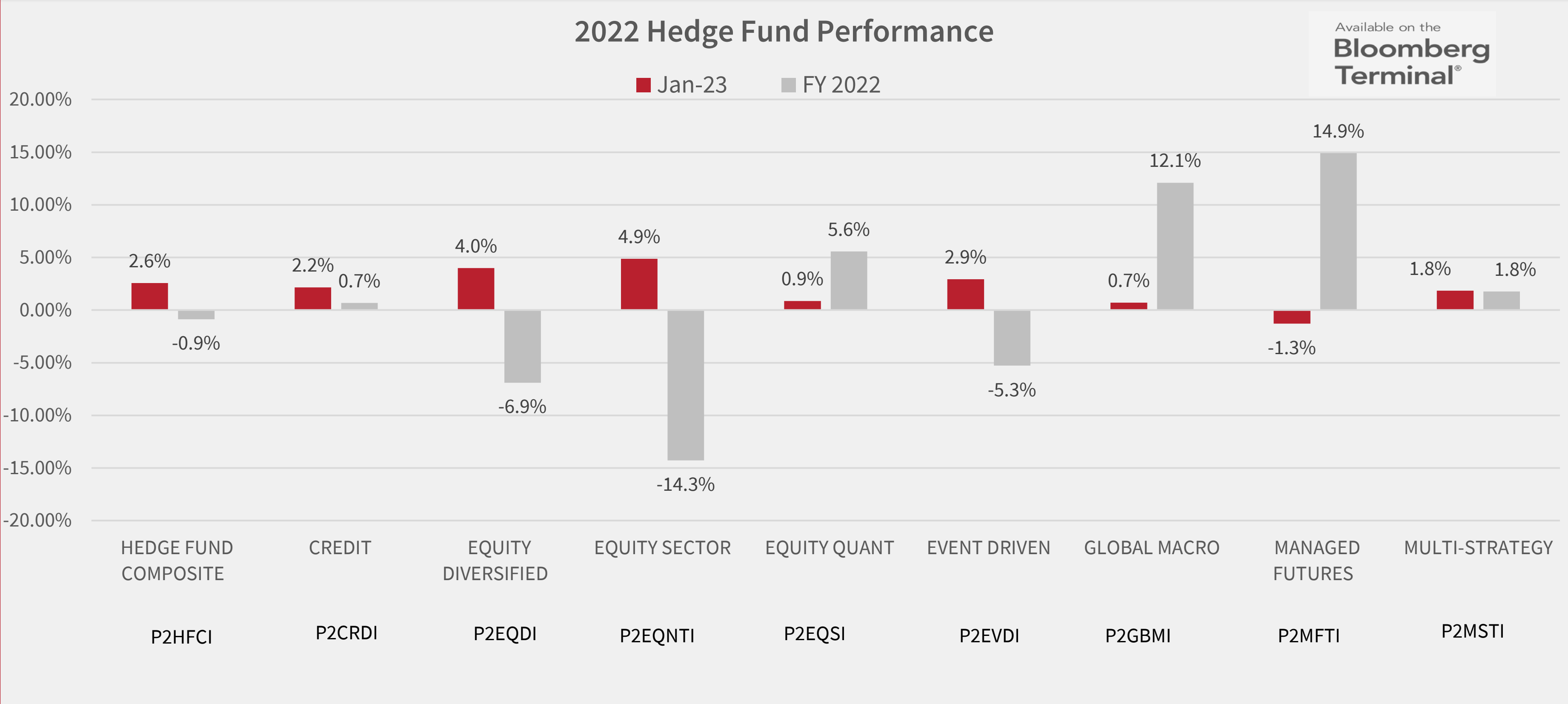
PIVOTAL POINT OF VIEW

For allocators evaluating hedge fund performance, context matters.

Every month, on behalf of over $250B in client hedge fund capital, PivotalPath tracks over 2,500 institutionally-relevant hedge funds, spanning >$2.5T of industry assets. Our monthly report contextualizes these data points, including analysis of hedge fund performance, as well as 12-month rolling alpha across high-level strategies.

Key Takeaways: The PivotalPath Composite Index returned 2.6% in January alongside appreciating equity markets. The S&P 500 rose 6.3% while the Nasdaq and Russell 2000 rose 10.7% and 9.7%, respectively. Globally, the Euro Stoxx 50 rose 9.8% and in Asia, the Hang Seng rose 10.7%

Strategy Highlights: With the exception of Managed Futures, all hedge fund strategies were positive in January. The Equity Sector Index and Equity Diversified Index performed best in January, reversing their bottom of the pack performance in 2022.



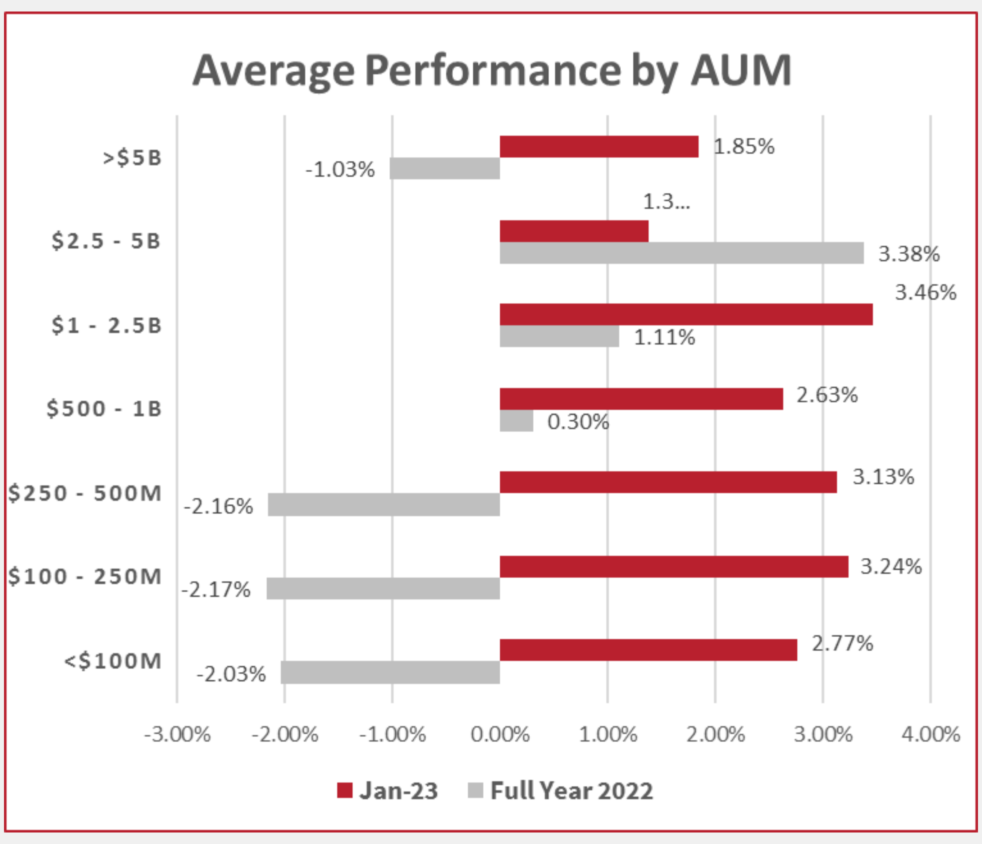
The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in January, Managed Futures and Global Macro continued to produce the highest alpha while Equity Sector remained at the bottom. All strategies generated positive alpha except Equity Sector, although less negative from 2021 and 2022.

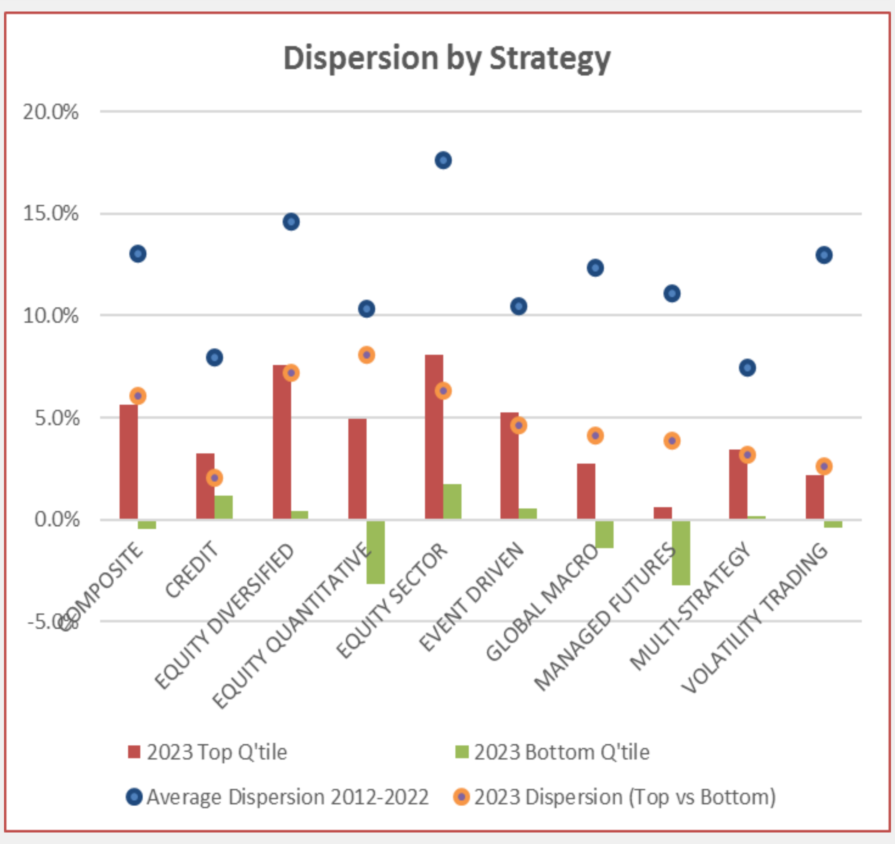
Alpha Leaderboard

12M Rolling Over S&P 500

Jan-23	2019	2020	2021	2022
10.9% Managed Futures	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
9.3% Global Macro	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
3.5% Multi-Strategy	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
3.3% Credit	3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
3.8% Composite	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro	1.1% Multi-Strategy
2.2% Equity Diversified	2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
0.6% Event Driven	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.6% Equity Sector	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

As illustrated in the graph below, funds across all AUM bands generated positive performance in January with funds above $2.5bn lagging the rest. Dispersion, as measured by taking the difference between the 75th percentile returns and 25th percentile returns, fell dramatically in January.





Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite Index,** after declining modestly (0.9%) in 2022, came roaring back to start 2023, appreciating 2.6% in January. This came alongside a recovery in equity markets and risk assets more generally. The S&P 500 rose 6.3% after declining 5.8% in December and falling 18% in 2022, representing its best start to the year since 2019 and January of 1990 prior to that.
  - The **Composite's** volatility, however, remains historically muted vs. the S&P 500. The S&P 500 Index generated volatility of 23.8% vs. volatility of 4.1% for the Composite over the last 12 months through January, or 5.8x the volatility. For context, the volatility ratio of 5.8 is in the 98th percentile of rolling 12-month periods going back to January of 1998.
  - Once again, the month-to-month seesaw continued into 2023. After positive equity market performance in November, December declined significantly followed by the recovery of 6.3%.
  - The strongest indices in January were **Equity Sector** (+4.9%), led by **Technology/Media/Telecom** (+6.0%) and **Healthcare** (+4.5%), and **Equity Diversified** (+4.0%), led by **Europe Long Short** (+5.4%) and **Asia Long Short** (+5.3%).
  - After topping the leader board in 2022, **Managed Futures** declined 1.3% in January as rising equity markets, a retreating dollar and falling interest rates reversed many of the strong trends that fueled its performance in 2022.
- **The Backdrop: Signs of inflation soften, recession fears fade, Covid peak in Asia and a possible Fed shift**
  - **Global equity** markets all rose, in part driven by continued momentum in Hong Kong off the back of the China reopening, with the Hang Seng rising 10.7% in January.
  - From an **equity sector** perspective, growth sectors outperformed value sectors. **Consumer Discretionary (XLY)** rose 15.1% followed by **Communication Services (XLC)**, which rose 14.8%, and **Technology (XLK)** rose 9.3%. **Real Estate (XLRE)** also appreciated 9.9%. Laggards in the value space were **Consumer Staples (XLP),** -1.1% , **Health Care (XLV),** -1.8%, and **Utilities (XLU),** -2%.
  - **Bonds and Commodities:** The **US 10-year Treasury** yield declined 36bps or 9.5% to 3.51% and the **US 2-year Treasury** yield fell 23bps to 4.2%. Natural gas futures fell by 40% during the month and is now down 57% from the highs last summer.
  - **Volatility** as measured by the VIX fell 10.5% to 19.4.
- **Dispersion and AUM: What a difference a month can make but one month doesn't make a trend…**
  - **Hedge Fund Dispersion** (as measured by the difference in performance between the 75th percentile and 25th percentile), which in 2022 was the highest since the 2008-2009 Financial Crisis, fell dramatically in January. The PivotalPath Composite Index dispersion between the 75th percentile and the 25th percentile fell from 20.1% to 6.1%. This compares to a ten-year average of 13.1%.
  - In contrast, PivotalPath's proprietary **Dispersion Indicator**, which takes the standard deviation of the entire universe of funds into account, remains elevated at the 86th percentile of all months going back to January of 2008. This indicates significantly more dispersion at the individual fund level that is somewhat muted in quartile performance numbers.
  - All AUM bands of funds did well in January. Smaller funds, those with $500mm or less, offset 2022 losses in the month of January alone.
- **Factors (represented by the Dow Jones U.S. Thematic Market Neutral factors) and PivotalPath Baskets:**
  - All factors we track were down for the month besides the **size** factor, which was up 3.9% in January. This helps explain the outperformance of the Russell 2000.
  - All PivotalPath Baskets were positive for the month except for the PivotalPath Covid Vaccine Developer Large Cap Basket (-3%). This basket includes value-oriented companies including JNJ (-7.5%) and Pfizer (-13.8%)
- **Leverage** of US Equity Long/Short Fundamental funds continues to be at the lower end of its historical range though off historic lows.
  - The Equity Diversified U.S. Long/Short Fundamental Index has a beta of 0.4 to the S&P 500 in the last 12 months through January. This is slightly off the May 2022 lows of 0.35, indicating that long/short funds in general continue to be slightly less bearish on equities, but still far from the levels seen in 2019 through 2021 when exposure averaged over 0.5.

For access to sub-indices, underlying funds and additional research, visit www.pivotalpath.com or email us at inquiry.pivotalpath.com

PIVOTAL PATH

Source: PivotalPath data as of 11/14/2022. Historic performance available on Bloomberg.
Tickers: P2HFCI, P2CRDI, P2EQDI, P2QNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI