

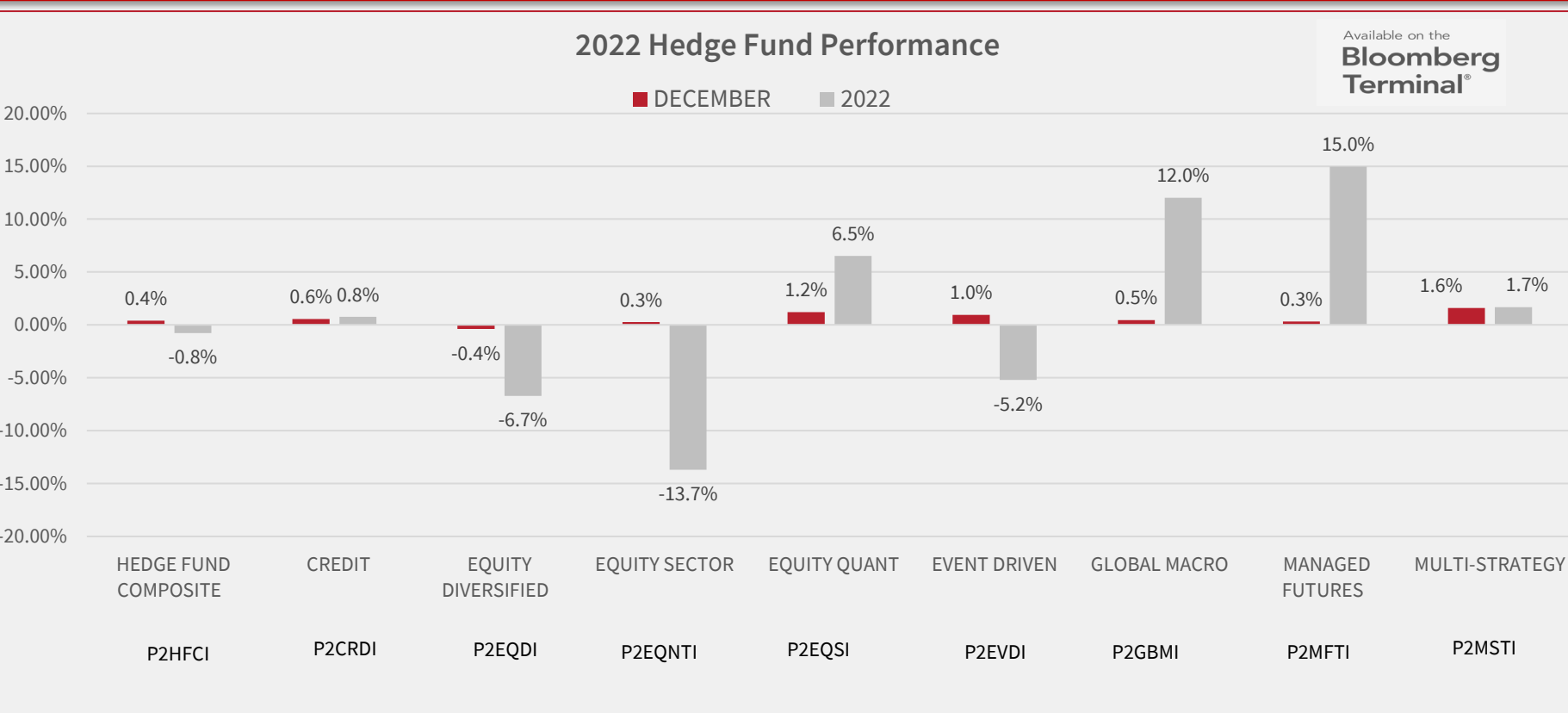
PIVOTAL POINT OF VIEW

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: Hedge funds performed well in 2022 against a backdrop of volatile and declining equity markets. In December, the PivotalPath Hedge Fund Composite Index rose 0.4% versus the S&P 500's decline of 5.6%. For the year, the PivotalPath Hedge Fund Composite Index lost 0.8% compared to the S&P 500 which fell 18.1%. The Nasdaq declined 6.0% in December and was down 33% for the year.

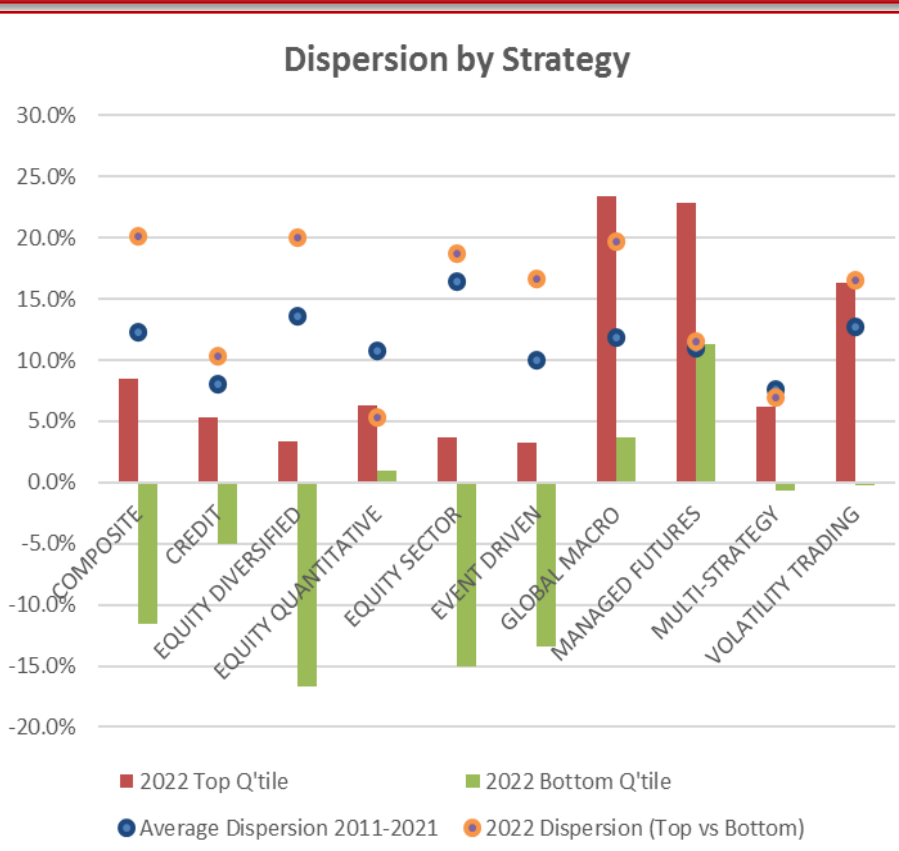
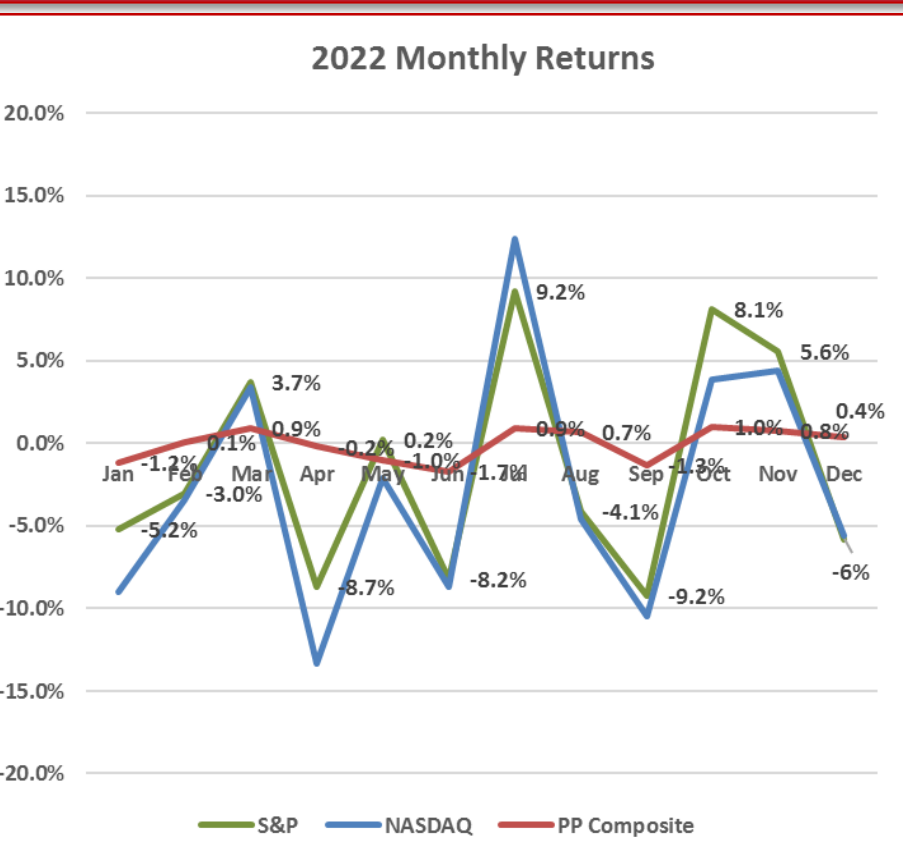
Strategy Highlights: With the exception of Equity Diversified, all hedge fund strategies were positive in December. The Multi-Strategy Index performed the best in December (+1.6%). For YTD 2022, Managed Futures and Global Macro continued to top the charts, generating positive performance in 8 of the 12 months of the year.



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 December, Managed Futures and Global Macro continued to produce the highest alpha while Equity Sector remained at the bottom. The PivotalPath Composite returned to generating positive alpha as did Multi-Strategy.

Q1 2022	Q2 2022	Q3 2022	Q4 2022	2018	2019	2020	2021
12.0% Managed Futures	16.1% Managed Futures	17.6% Managed Futures	10.2% Managed Futures	2.1% Credit	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit
9.5% Global Macro	8.7% Global Macro	10.9% Global Macro	10.0% Global Macro	1.3% Equity Sector	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy
7.0% Credit	2.1% Multi-Strategy	0.2% Multi-Strategy	2.2% Credit	1.1% Multi-Strategy	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven
4.7% Multi-Strategy	1.8% Credit	2.0% Credit	1.1% Composite	-0.4% Event Driven	3.2% Composite	6.6% Composite	3.1% Composite
1.4% Composite	-1.0% Composite	-0.6% Composite	1.1% Multi-Strategy	-0.36% Composite	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro
-0.3% Event Driven	-5.5% Event Driven	-4.4% Event Driven	-1.2% Equity Diversified	-1.6% Managed Futures	2.5% Global Macro	2.5% Credit	0.7% Managed Futures
-3.8% Equity Diversified	-6.2% Equity Diversified	-6.0% Equity Diversified	-2.3% Event Driven	-2.4% Equity Diversified	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified
-14.6% Equity Sector	-16.8% Equity Sector	-16.0% Equity Sector	-9.5% Equity Sector	-2.6% Global Macro	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector

As illustrated in the graph below, monthly volatility was high throughout the year across equity markets, while the PivotalPath Composite remained unusually steady. While dispersion has come in during Q4, it remains historically elevated across most strategies.



Pivotal Context

- **The Hedge Fund Takeaway:**
 - The **PivotalPath Composite Index** appreciated 0.4% in December and is down 0.8% for the year.
 - The **Composite's** (cumulative) spread above the S&P 500 rose significantly in December and is 18.6% for the year which is the largest outperformance since 2008.
 - **The smooth ride continues:** In addition to the 2022 outperformance vs. the S&P 500, the PivotalPath Composite has maintained a volatility of 3.5% vs. volatility of 23.5% exhibited by the S&P 500 over the last 12 months. *The Composite has maintained volatility below its 25-year average during a time when the S&P 500's volatility is more than 50% above its 25-year average.*
 - Once again, the month-to-month seesaw continued. After positive equity market performance in November, December declined significantly with the S&P up 5.6% then down 5.8%, while the **PivotalPath Composite Index** was up 0.8% in November and up 0.4% in December.
 - The three strongest sub-sector indices in 2022 were all within **Global Macro: Quant +15.9%, Multi-manager +13.1%, and Commodities +12.9%**.
 - The weakest sub-sector indices in 2022 were all **Equity related: TMT -21.4%, European Activist -21.2%, Consumer/Retail -12%, Equity Special Situations -11%, and lastly, US Activist -8.7%**.
- **The Backdrop: Inflation, Recession fears, China (Covid and Economy) and the Fed all continued to drive markets**
 - As mentioned above, December gave back gains from October and November, ending the year without any holiday rally. Inflation, recession concerns and a covid-driven slowdown in China along with remaining supply chain issues all contributed to the weak performance.
 - **Global equity** markets saw weak performance in December with all global markets we track negative except for China's CSI 300 and Hang Seng.
 - From an **Equity Sector** perspective, all sector SPDR indices we track were also negative in December. Consumer Discretionary (XLY) was down 11.6% for the month and 36.8% for the year. This is followed by Communications (XLC) -6.8% and -38%, Technology (XLK) -8.4% and -28%, and Real Estate (XLRE) -5.9% and -29%.
 - **Bonds and commodities:** The US 10-year Treasury yield rose to 3.87% and the 2 year rose to 4.43% with the inverted yield curve flattening slightly from 70bps to 56bps. The Dow Jones Commodity Index was flat for the month while natural gas futures fell 35%. Both are up approximately 20% for the year.
 - **Volatility** as measured by the VIX rose 5 points to 25.4%.
- **Dispersion:**
 - Dispersion of hedge fund performance remains the highest since the 2008-2009 Financial Crisis. The PivotalPath Composite Index dispersion between the 75th percentile and the 25th percentile was 20.1% compared to a ten-year average of 12.3%.
 - Dispersion is historically high in almost all indices but led by Equity Diversified at 20.6%, followed by Equity Sector at 18.7%.
- **Factors (represented by the Dow Jones U.S. Thematic Market Neutral factors) and PivotalPath Baskets:**
 - The best performing factor in December was the low beta factor, up 4.6%, followed by momentum, which was up 2.9% for the month.
 - The value factor was the top performer in 2022, up 24.3% for the year.
 - The size factor was the laggard, but still positive, in both December (+30bp) and YTD (+1.8%).
 - All PivotalPath baskets were negative for the year except the PivotalPath U.S. Cyclical Sectors Basket which was up 1.8% in December and +3.6% for the year, driven by energy and value-oriented companies.
- **Leverage** of US Equity long/short 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 0.39 to the S&P 500 in the last 12 months through December, off the May low of 0.35, indicating that long/short funds in general have become slightly less bearish on equities, consistent with our numerous conversations with portfolio managers.

For access to sub-indices, underlying funds and additional research, visit www.pivotalpath.com

Source: PivotalPath data as of 11/14/2022. Historic performance available on Bloomberg.
Tickers: P2HFCCI, P2CRDI, P2EQDI, P2EQNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI

