July 2022 Edition

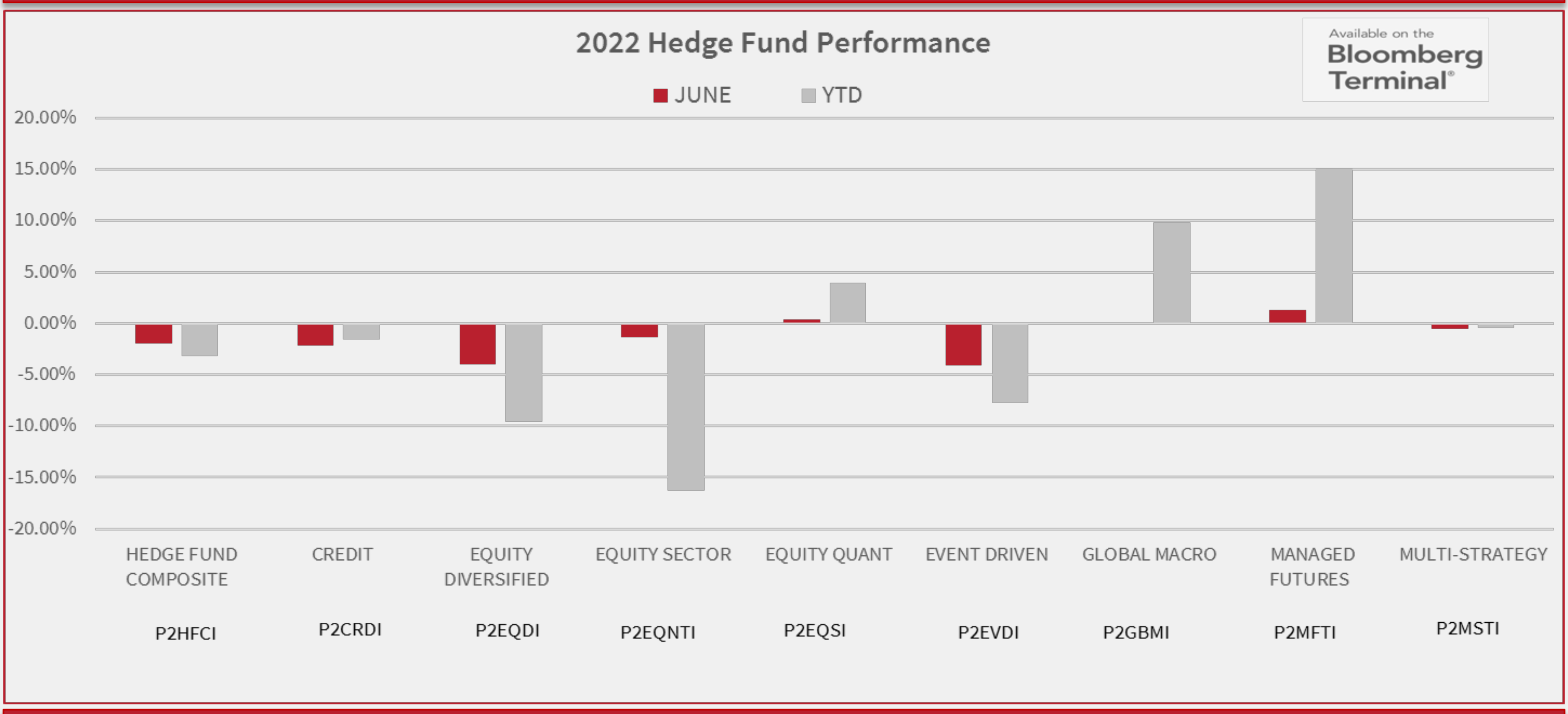
PIVOTAL POINT OF VIEW

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. We also provide average monthly performance of funds within separate AUM bands.

Key Takeaways: “Down small” is the new “up.” The PivotalPath Hedge Fund Composite Index lost 1.8% in June, compared to the S&P 500 which lost 8.3% and the Nasdaq index which lost 8.7%. Year to date, the PivotalPath Composite is down 3.2% vs. the S&P and Nasdaq which have declined 20% and 30%, respectively.

Strategy Highlights: Equity Quant and Managed Futures were the only strategies with modest positive returns for the month of June. The Equity Diversified Index lost 4% in June and is the second worst performing index YTD after Equity Sector, which are down 9.6% and 16.2% respectively. The YTD decline for Equity Sector is mainly due to poor performance in TMT, Healthcare and Consumer sub-indices.



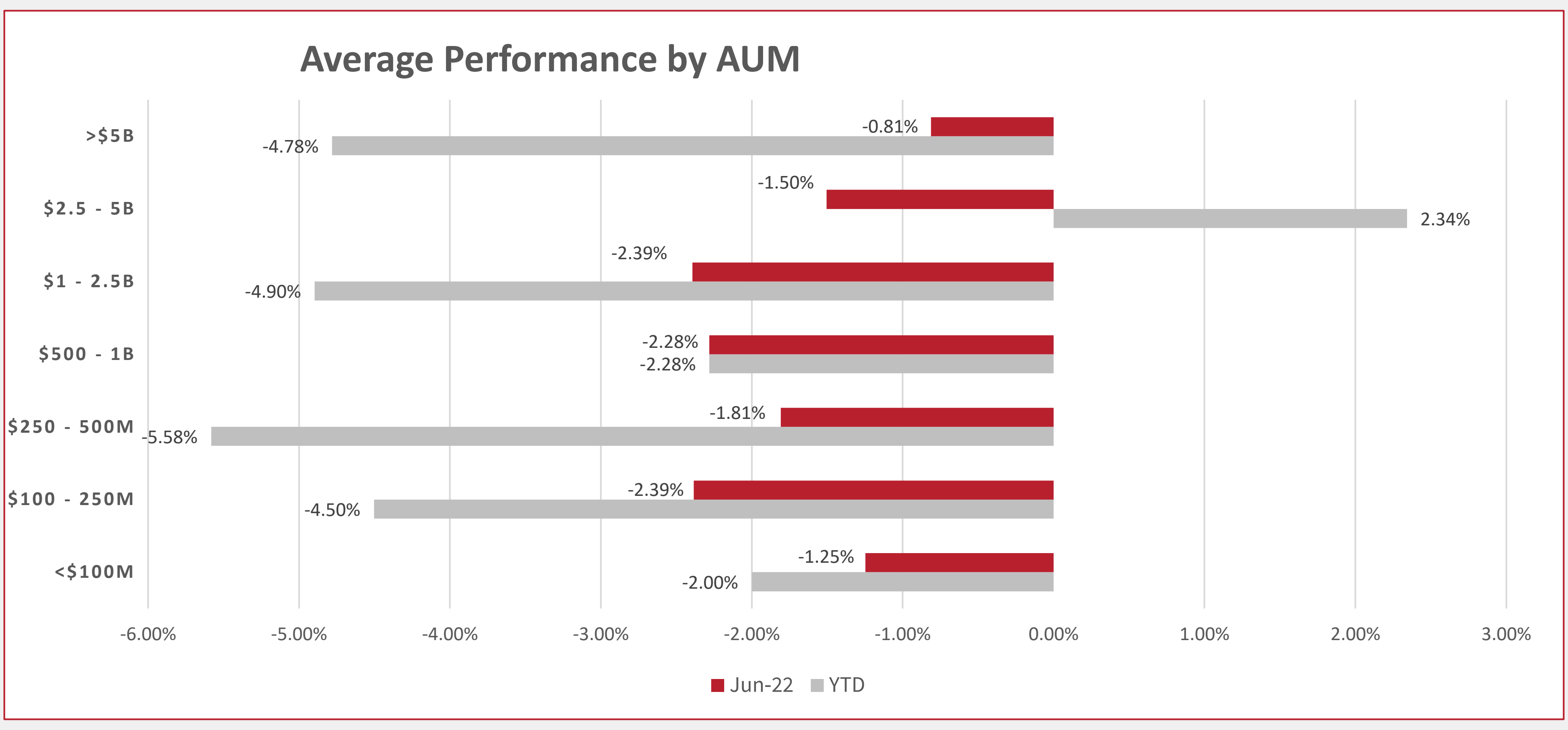
The chart below depicts alpha generation for each Pivotal Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in June, Managed Futures and Global Macro continue to produce the highest alpha while Equity Sector and Equity Diversified continue to generate significant negative alpha relative to the S&P 500. All indices except Managed Futures saw lower alpha generation vs the prior month’s rolling 12-month levels.

Alpha Leaderboard

12M Rolling Over S&P 500

Q1 2022	Apr-22	May-22	Jun-22	2018	2019	2020	2021
12.0% Managed Futures	16.6% Managed Futures	14.2% Managed Futures	16.1% Managed Futures	2.1% Credit	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit
9.5% Global Macro	10.5% Global Macro	8.6% Global Macro	8.7% Global Macro	1.3% Equity Sector	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy
7.0% Credit	5.6% Credit	3.9% Credit	2.1% Multi-Strategy	1.1% Multi-Strategy	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven
4.7% Multi-Strategy	4.6% Multi-Strategy	2.9% Multi-Strategy	1.8% Credit	-0.4% Event Driven	3.2% Composite	6.6% Composite	3.1% Composite
1.4% Composite	1.4% Composite	-0.1% Composite	-1.0% Composite	-0.36% Composite	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro
-0.3% Event Driven	-1.2% Event Driven	-2.4% Event Driven	-5.5% Event Driven	-1.6% Managed Futures	2.5% Global Macro	2.5% Credit	0.7% Managed Futures
-3.8% Equity Diversified	-4.2% Equity Diversified	-4.8% Equity Diversified	-6.2% Equity Diversified	-2.4% Equity Diversified	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified
-14.6% Equity Sector	-14.7% Equity Sector	-16.9% Equity Sector	-16.8% Equity Sector	-2.6% Global Macro	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector

June saw continued negative performance across most AUM bands leaving the vast majority down for the year. The one exception was the $500mm to $1B range due to some extreme outperformance within Global Macro along with numerous Managed Futures and Multi-Strat funds within the AUM band.



The Pivotal Point of View Commentary

- **The takeaway:**
  - The **Pivotal Composite Index’s** drop of 1.8% in June was its worst monthly return since March of 2020, though far from the 7.6% drop that month
  - The Composite’s (cumulative) spread above the S&P 500 YTD increased above 19%
    - One would have to go back to the financial crisis to find a larger outperformance in a calendar year or rolling 6-month period
  - The **PivotalPath Managed Futures Index** continued its stellar performance rising 1.4% (+15.2% YTD), which is even more impressive given the steep reversals in commodities and the energy complex specifically in June
  - The **Equity Quant Index** also did well, adding 0.4% in June and has gained ~4% YTD
  - The **Global Macro Index** was roughly flat (still +10% YTD) due to the drag from the Commodities (-2.9%) and Risk Premia (-1.5%) sub-indices
  - While the **Equity Diversified Index** fell 3.9% and the Equity Sector Index dropped 1.1%, there were bright spots in the **Equity Diversified Asian Long/Short Index** (+1.7%) and **Equity Sector Healthcare Index** (+3.5%)
  - The **Event Driven Index** fell 3.8% as all sub-indexes fell amid widening spreads and a weak M&A backdrop

- **The backdrop:**
  - After a slightly quieter May, June saw significant **equity** weakness, with the S&P 500, Russell 2000 and Nasdaq losing 8.25%, 8.37% and 8.71% respectively, contributing to their declines YTD of 20%, 24%, and 30% through June
    - This represents the worst first half for the S&P 500 since 1970
  - **China** was the positive outlier as exemplified by the CSI 300’s 9.7% return in June more than halving its loss to 9.2% YTD
  - While the **Healthcare** Sector SPDR was down in June, the bigger story driving hedge fund returns was the sharp reversal in biotech, demonstrated by the ~8% rally in SPDR S&P **Biotech** ETF while the PivotalPath Small Cap basket roared back with a 33% gain, leaving it -12% YTD.
  - **Technology** continued its slide, with the Technology Sector SPDR losing another 9.5% leaving it down ~27% YTD
  - **Commodities** gave back some of their recent gains, with the Dow Jones Commodity Index losing 8% (+21% YTD) and natural gas futures which fell 33% (+45% YTD)
  - **Bonds and loans** of all types fell in June with the Barclays High Yield Credit Bond Index shedding ~7%.
  - **The 10-Year Treasury yield** rose to 3.01% from 2.84% at the end of May, though well off its intra-month high of 3.47%

- **The drivers of performance?**
  - **Value**, as measured by the Dow Jones Market Neutral Value Index, fell for the first time since October 2021, losing 3.7% though still +23% YTD
    - Global Macro strategies, and Risk Premia in particular, have closely followed the value factor over the last 18 months registering a highly significant correlation of 0.7
  - **PivotalPath Social Distance Losers Basket** comprised of just ten stocks, including companies such as Darden Restaurants, Marriott and Delta, has a 0.84 correlation to the PivotalPath Composite Index, the highest of among over 250 risk factors and benchmarks.
    - For context, this compares to a 0.63 correlation to the S&P 500 over the same time (though with a historically low beta of just 0.17)

- **The equity impact:**
  - Just like the sectors they trade with a long bias, the equity sector focused **PivotalPath Healthcare Index** and **Technology Media and Telecom Index** have been competing for the biggest loser title in 2022 after vying for the biggest winners most of the past decade
  - The TMT Index has retaken the lead, falling 2.6% in June compared to a gain of 3.5% in the Healthcare Index, leaving the YTD losses at 20.5% and 16% for the top 2 worst performer spots among the 40+ hedge fund sub-indices PivotalPath tracks

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

Source: PivotalPath data as of 1/14/2022. Historic performance available on Bloomberg.
Tickers: P2HFCI, P2CRDI, P2EQDI, P2QNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI

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