March 2023 Edition

PIVOTAL POINT OF VIEW

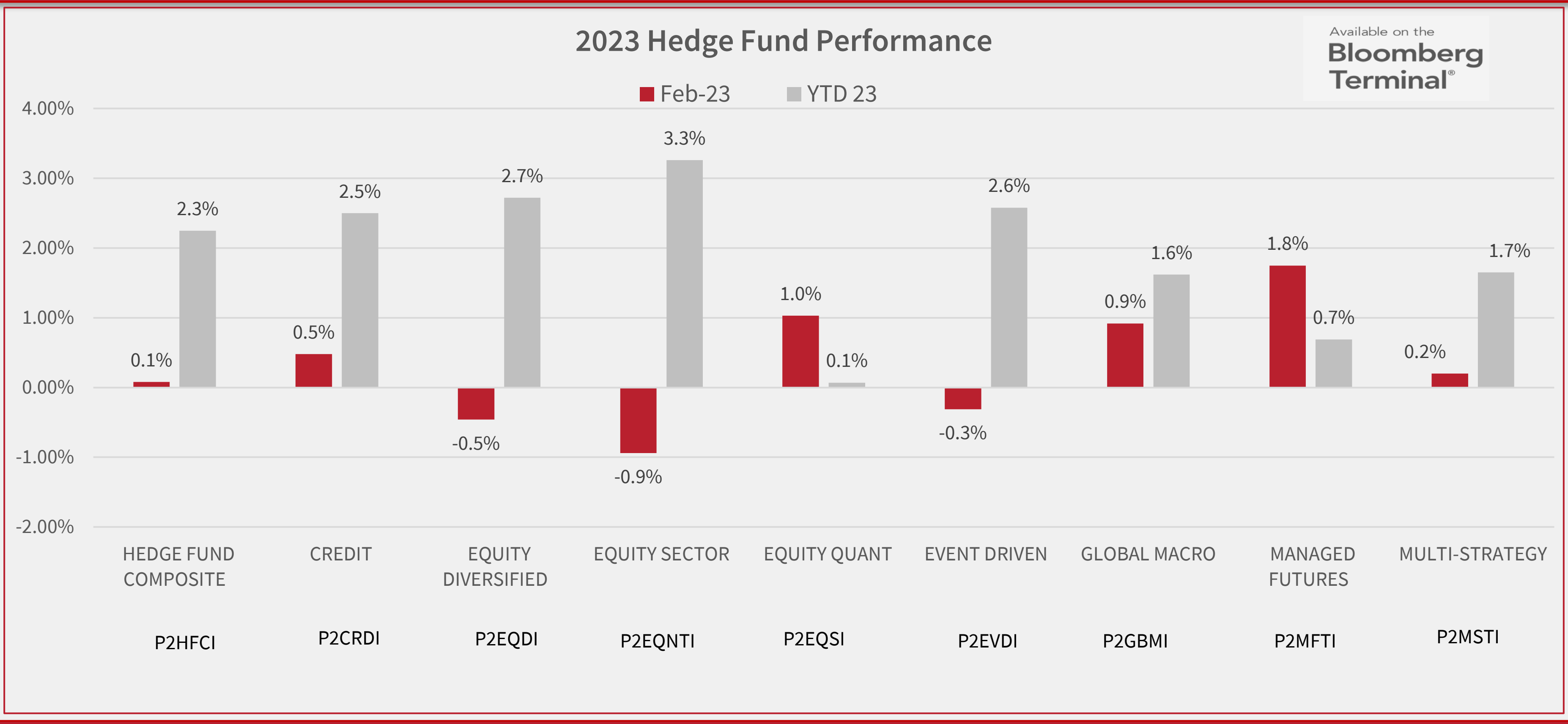
Where hedge fund consulting intersects with comprehensive data, cutting edge analytics and transparency

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 0.1% in February amid declining equity markets. The S&P 500 declined 2.4% and the Nasdaq and Russell 2000 fell -1.1% and -1.8%, respectively. The whipsaw and volatility continues from 2022 as the S&P 500 and most other major markets were negative after rallying in January. Meanwhile, the PivotalPath Composite Index has generated modest positive performance in 10 out of the last 14 months.

Strategy Highlights: Reversals across most indices from January with the Equity Sector Index giving back 0.9% while remaining +3.3% for the year. The Managed Futures Index reversed its temporary setback in January, gaining: +1.8% for the month and is now +0.7% YTD. Equity Quant recovered with a 1.0% gain bringing it back to positive YTD. All high-level strategies are positive YTD.

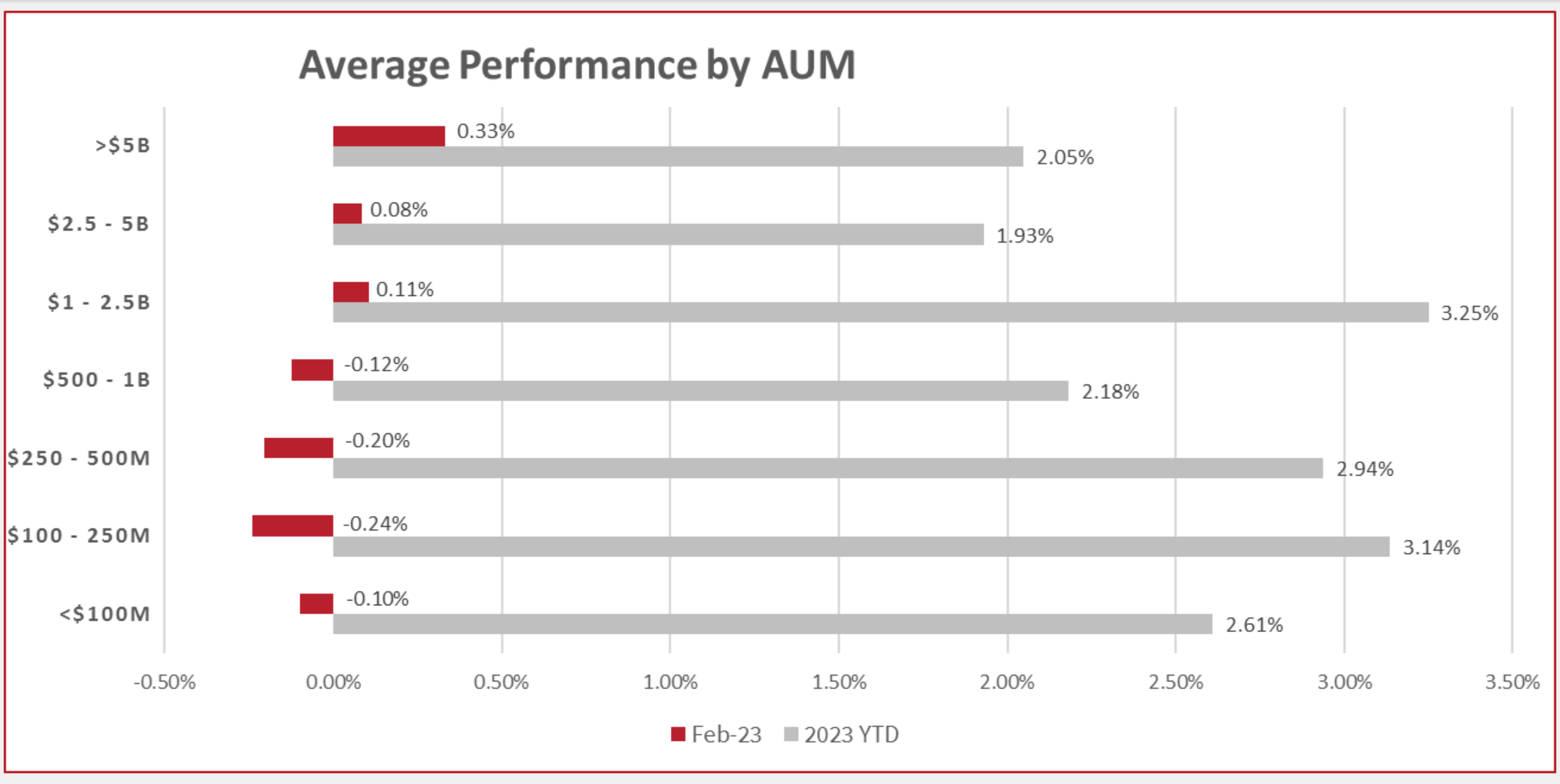


The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in February, Managed Futures and Global Macro continued to produce the highest alpha while Equity Sector remained at the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

Alpha Leaderboard
12M Rolling Over S&P 500

Jan-23	Feb-23	2019	2020	2021	2022
10.9% Managed Futures	10.7% Managed Futures	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
9.3% Global Macro	8.9% Global Macro	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
3.5% Multi-Strategy	3.1% Credit	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
3.3% Credit	3.0% Multi-Strategy	3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
3.8% Composite	3.0% Composite	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro	1.1% Multi-Strategy
2.2% Equity Diversified	1.4% Equity Diversified	2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
0.6% Event Driven	-0.2% Event Driven	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.6% Equity Sector	-2.8% Equity Sector	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

As illustrated in the graph below, larger funds outperformed smaller funds due to the concentration of large Managed Futures and Multi-Strategy funds. Dispersion, as measured by the spread between the 75th percentile returns and 25th percentile returns, declined in February versus January. All AUM bands are positive YTD.



Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite Index** rose modestly (+0.1%) in February adding to positive performance in January. YTD, the PivotalPath Composite Index is +2.3% vs. the S&P 500 up 3.7% and Nasdaq up 9.5%. The **Composite's** volatility, however, remains historically low vs. the S&P 500 over the last 12 months through February. The S&P 500 Index generated volatility of 23.8% vs. 3.8% for the Composite, or 6.3x the volatility. For context, the volatility ratio of 6.3 is in the 98th percentile of rolling 12-month periods going back to 1998.
  - Hedge Funds broadly fared well. 52% of all funds reporting were positive in February. YTD, all strategies are positive with Equity Sector and Event Driven leading the pack at +3.3% and +2.6%, respectively.
  - Managed Futures posted gains (+1.8%) as yields backed up and the strategy is now positive on the year. While the Equity Sector Index gave back 0.9% in February, YTD it remains up 3.3% driven by Consumer/Retail, TMT, and Financials (prior to SVB and the fallout in March).
- **The Backdrop: Inflation continues to be pesky and sticky; recession fears increase along with the chance of a hard landing given the Fed's commitment to a 2% inflation target.**
  - After positive global equity performance in January, most major indices declined across most of Asia and the U.S. with Hong Kong's Hang Seng (-11.4%) leading the way lower and the S&P 500 (-2.4%), Russell 2000 (-1.8%) and DJIA (-4.2%) all falling. Europe was a bright spot globally with Euro Stoxx 50 (+1.8%) and FTSE 100 (+1.8%) as well as Japan with Topix (+1.0%) and the Nikkei 225 (+0.5%).
  - Within **US equity,** all sectors we monitor declined except for technology (XLK) which saw a modest increase of 0.4%. Notable declines during the month include Biotech (IBB) -6.9%, Energy (XLE) -6.9% as nat gas touched a 2020 low before rebounding, Real Estate (XLRE) -5.9% and Healthcare (XLV) -4.6%.
  - **Treasuries:** The **US 10-year Treasury** yield rose 12% to 3.92% while the 2 year rose 15% to 4.82%, further inverting the yield curve and continuing to signal a recession.
  - **Volatility** as measured by the VIX rose 6.7% to 20.7. Stay tuned for future **Pivotal Research which will analyze equity and hedge fund strategy performance in different volatility regimes.**
- **Dispersion and AUM: What a difference a month can make but one month doesn't make a trend…**
  - **PivotalPath's proprietary Dispersion Indicator** came down once again in February and YTD is only slightly above its monthly average dating back to January of 2008 after being well above average since 2020.
  - Larger funds outperformed smaller ones in February due to Trend following and Multi Strat strategies.
- **Factors and PivotalPath Baskets:**
  - All factors (represented by the Dow Jones U.S. Thematic Market Neutral factors) except for the value factor were up in February
  - Value lost 2.1% on the heels of losing 67 bps in January, after gaining 24% in 2022, the largest gain since 2002.
  - Momentum was the best performing factor in February (+3.1%) after being the worst performing in January (-11.7%)
  - The low beta factor also reversed course from January and returned 1.3% in February
  - The size factor is the only positive factor YTD (+4.4%)
- **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 February. This is slightly off the lows in May 2022 of 0.35, indicating that long/short funds in are somewhat less bearish on equities, but still below the levels seen in 2019-2021 when exposure averaged over 0.5.