

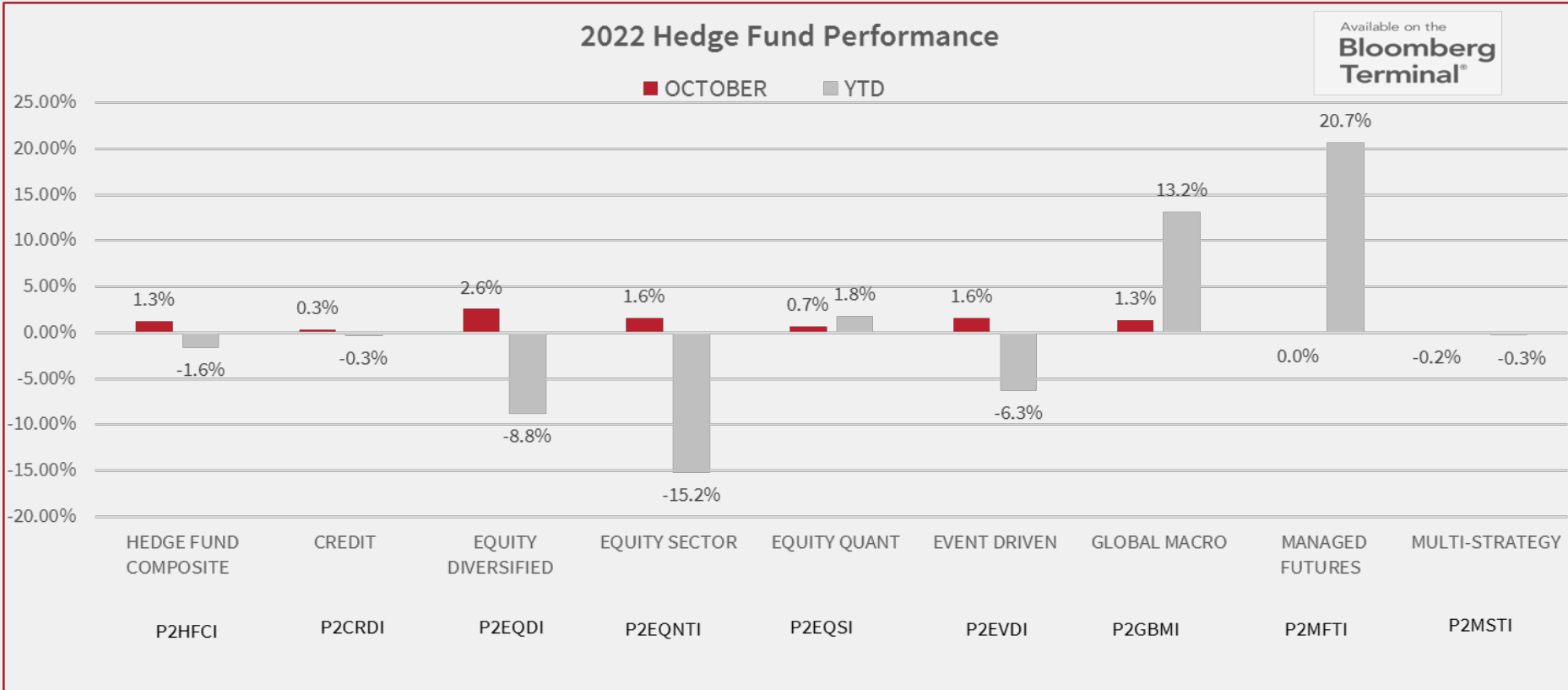
# PIVOTAL POINT OF VIEW

**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:** Hedge funds performed relatively well and consistently against a backdrop of volatile yet appreciating equity markets by the end of October. The PivotalPath Hedge Fund Composite Index gained 1.3%, recovering losses in September of 1.2%. YTD the PivotalPath Composite Index is down 1.6% compared to the S&P 500 which, after gaining 8% in October, remains down 18% YTD. The Nasdaq gained 4% in October and is down 30% YTD.

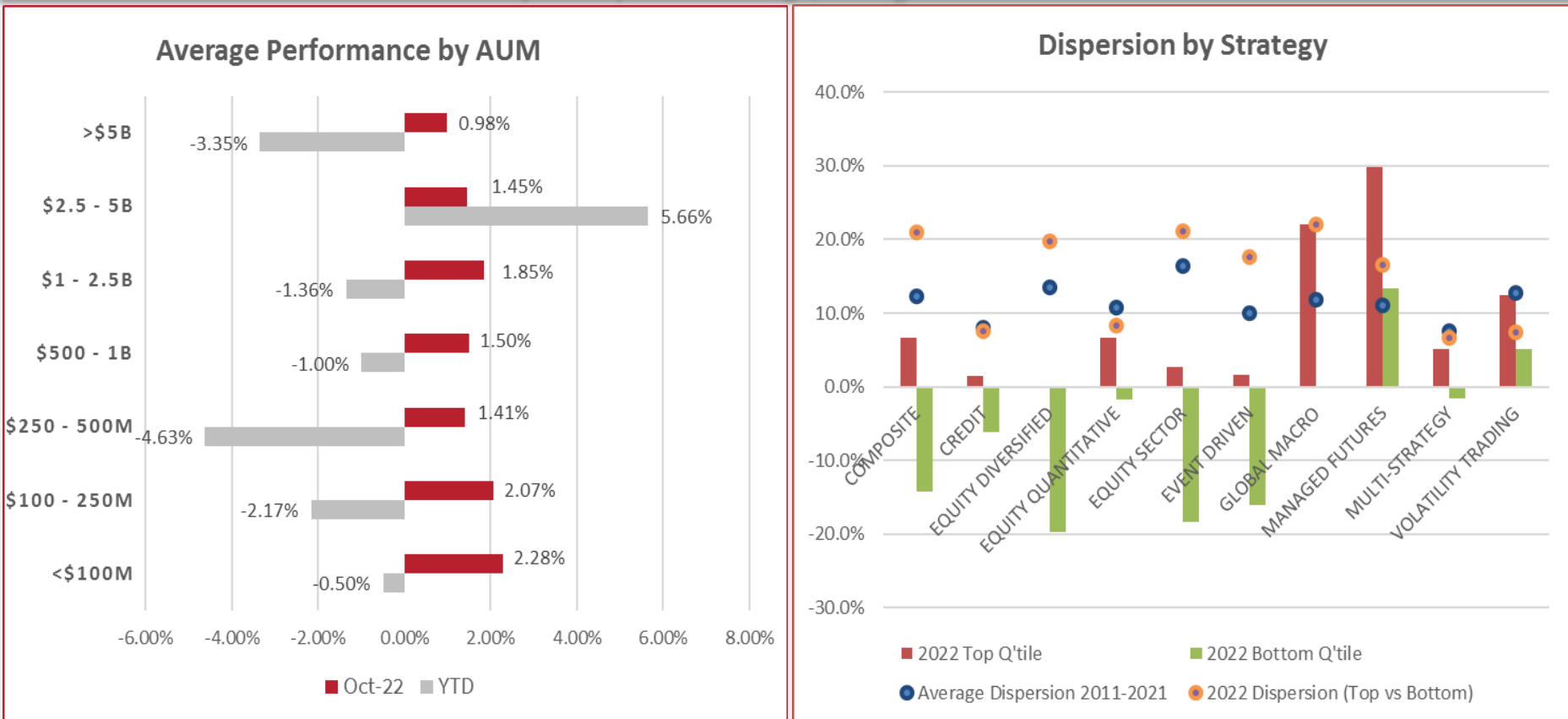
**Strategy Highlights:** Hedge fund sub-strategy performance was tame given the volatility during the month. Equity-oriented funds posted gains given the positive equity markets while other strategies were essentially flat. Managed Futures and Global Macro continue to lead YTD, up 20.7% and 13.2%, respectively.



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 October, Managed Futures and Global Macro continue to produce the highest alpha while the Equity Sector and Equity Diversified continue to generate significant negative alpha relative to the S&P 500. Multi-Strategy slipped into negative alpha territory for the first time this year, while Global Macro continues to produce higher alpha on the rolling 12-month basis.

Q1 2022	Q2 2022	Q3 2022	Oct-22	2018	2019	2020	2021
12.0% Managed Futures	16.1% Managed Futures	17.6% Managed Futures	14.2% 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	12.8% 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	1.3% 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	-0.6% Multi-Strategy	-0.4% Event Driven	3.2% Composite	6.6% Composite	3.1% Composite
1.4% Composite	-1.0% Composite	-0.6% Composite	-0.7% Composite	-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	-4.6% Event Driven	-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	-5.3% Equity Diversified	-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	-17.3% Equity Sector	-2.6% Global Macro	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector

As mentioned above, October was a positive month on an absolute basis, with all AUM bands showing small but positive performance. 70% of funds had positive performance in October, bringing the number of funds with positive YTD performance up to 44% versus 42% as of September. Performance by AUM and dispersion continue to be closely linked this year as performance in the \$2.5B-\$5B range is being driven by Managed Futures and Global Macro – both leading performers and well above the 10-year dispersion average, having benefited from their size.



## Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite** appreciated **1.3%** in October and is down 1.6% for the year.
  - The Composite's (cumulative) spread **above** the S&P 500 fell to -16% YTD but is still the largest YTD outperformance since the 10-month period ending in June 2009.
  - **The smooth ride continues:** In addition to the YTD outperformance vs. the S&P 500, the PivotalPath Composite has maintained a volatility of 3.9% vs. volatility of 21.7% 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.*
  - The **PivotalPath Managed Futures Index** continues to lead with larger funds outperforming smaller ones. Large funds typically need to deploy more capital to medium/long-term trend following, which has captured the 2022 environment extremely well. The larger funds have done well in 2022 due to these restrictions from their large capital base—while smaller funds, which often benefit from nimbleness, have been less successful.
  - The **Global Macro Index** continues to generate positive returns, adding 1.3% in October. YTD, Global Macro is up 13.2%. This was the only index which generated higher alpha in October vs the S&P on a 12-month rolling basis.
  - The **Equity Sector Index**, which has had a difficult time in 2022, recovered in October with Financials, Healthcare and Energy posting strong returns.
- **The Backdrop: The Fed takes center stage**
  - The rollercoaster continued in October with all major US **equity markets** we track experiencing significant gains, reversing losses in September. This is after mid-month declines that saw the S&P drop as much as 5.6%. Markets reacted to economic news and the potential of a Fed pivot.
  - **Global equity indices** were a mixed bag in October. While Europe recovered along with the US, China markets declined due to the announcement of President Xi Jinping's third term and tightening power and control.
  - From a **Sector** perspective, October saw a complete reversal from September when all sectors were down. The winners this month were energy/MLPs, industrials, and financials, which tend to benefit in rising rate, inflationary environments. Healthcare stocks also had a strong month.
  - **Bonds and commodities:** The US 10-year Treasury yield increased from 3.83% to 4.05% at the end of October – the highest month-end yield since May 2008. The 2-year yield increased from 4.28% to 4.48% and is up 512% YTD. The Dow Jones Commodity Index and crude oil futures increased while natural gas futures were down for the month.
  - **Volatility** as measured by the VIX declined 18% in October after multi-month increases of greater than 20%.
- **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 through September is 21% compared to a ten-year annual average of 12%.
  - Dispersion is higher in almost all sectors and is almost double the 10-year average for the Global Macro strategy.
- **Factors:**
  - Most conventional factors performed well in October, with Value (as measured by the Dow Jones U.S. Thematic Market Neutral Value Index) leading the way up 4.5% and +19.3% YTD. The PivotalPath U.S. (as measured by the Dow Jones Sectors Basket was up 14.93% during the month, and is now +1.82% YTD, one of the few pockets that is positive on an absolute basis in 2022.
  - Momentum and Low Beta were up 3.06% and 2.11% on the month which are +12.94% and +16.83% respectively YTD.
- **Leverage** of US equity long/short funds continues to be at the lower end of its historical range but has been rising over the last 3 months.
  - The Equity Diversified U.S. Long Short Fundamental Index has a beta of 0.43 as of October, well off the May lows of 0.35 indicating that long/short funds in general have become slightly less bearish on equities since June.

For access to sub-indices, underlying funds and additional research, visit [www.pivotalpath.com](http://www.pivotalpath.com)

Source: PivotalPath data as of 11/14/2022. Historic performance available on Bloomberg. Tickers: P2HFCEI, P2CRDI, P2EQDI, P2EQNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI