July 2023 Edition

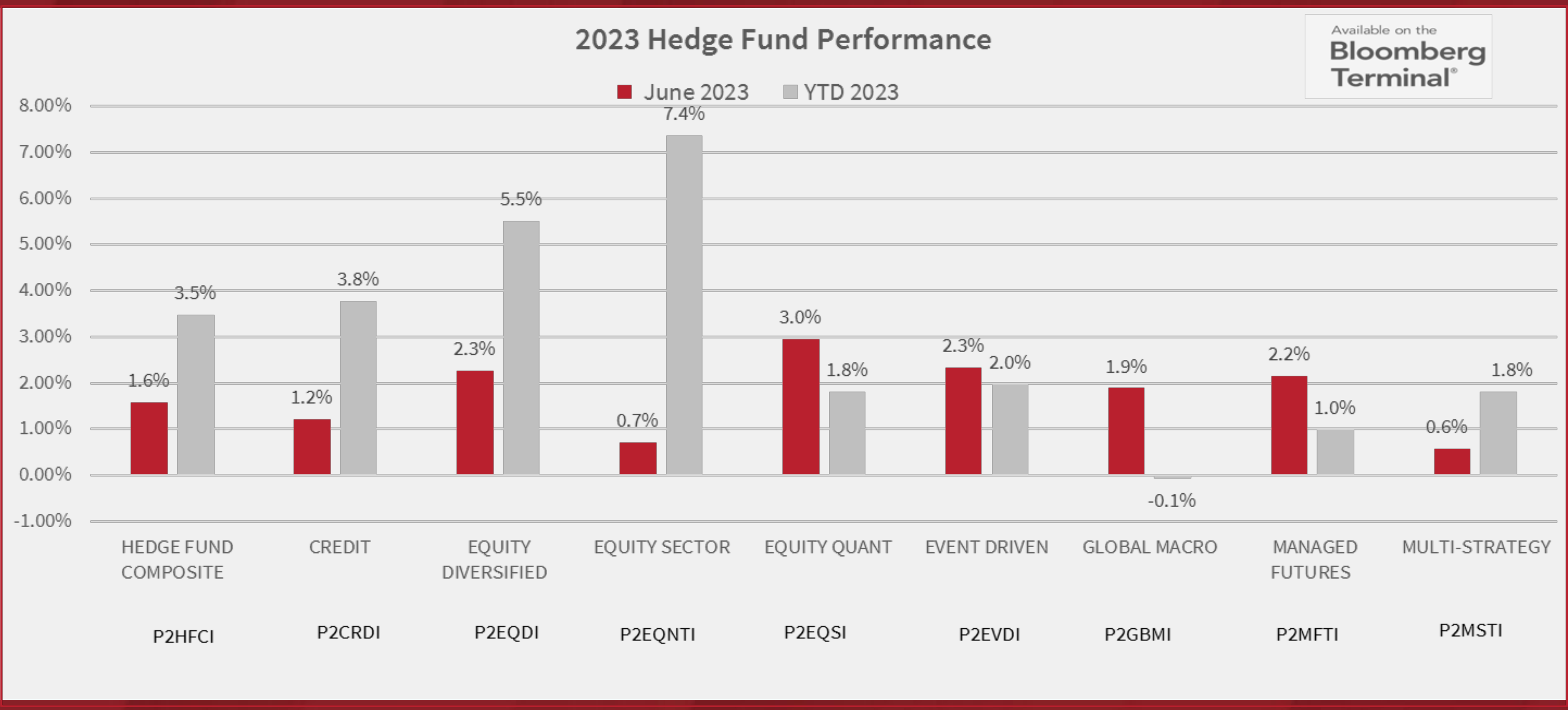
PIVOTAL POINT OF VIEW

For allocators evaluating hedge fund performance, context matters.

Every month, on behalf of over $300B in client hedge fund capital, PivotalPath tracks over 2,500 institutionally-relevant hedge funds, spanning >$3T 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 1.6% in June as the US debt ceiling was resolved early in the month and optimism of a soft landing and hope that the Fed was nearing the end of its interest rate hiking cycle. The S&P 500 Index (S&P) and Nasdaq Index (Nasdaq) both rose 6.6%. Year-to-date, the PivotalPath Composite Index is up 3.5%, the S&P is +16.9% and the Nasdaq has climbed 31.75%.

Strategy Highlights: All major hedge fund strategy Indices gained ground in June. They are now each positive in 2023 with the exception of Global Macro which performed well in June but remains -0.1% for the year. The Equity Sector Index continues to lead the pack up 7.4% YTD. In June, the Equity Quant Index gained the most appreciating 3%.



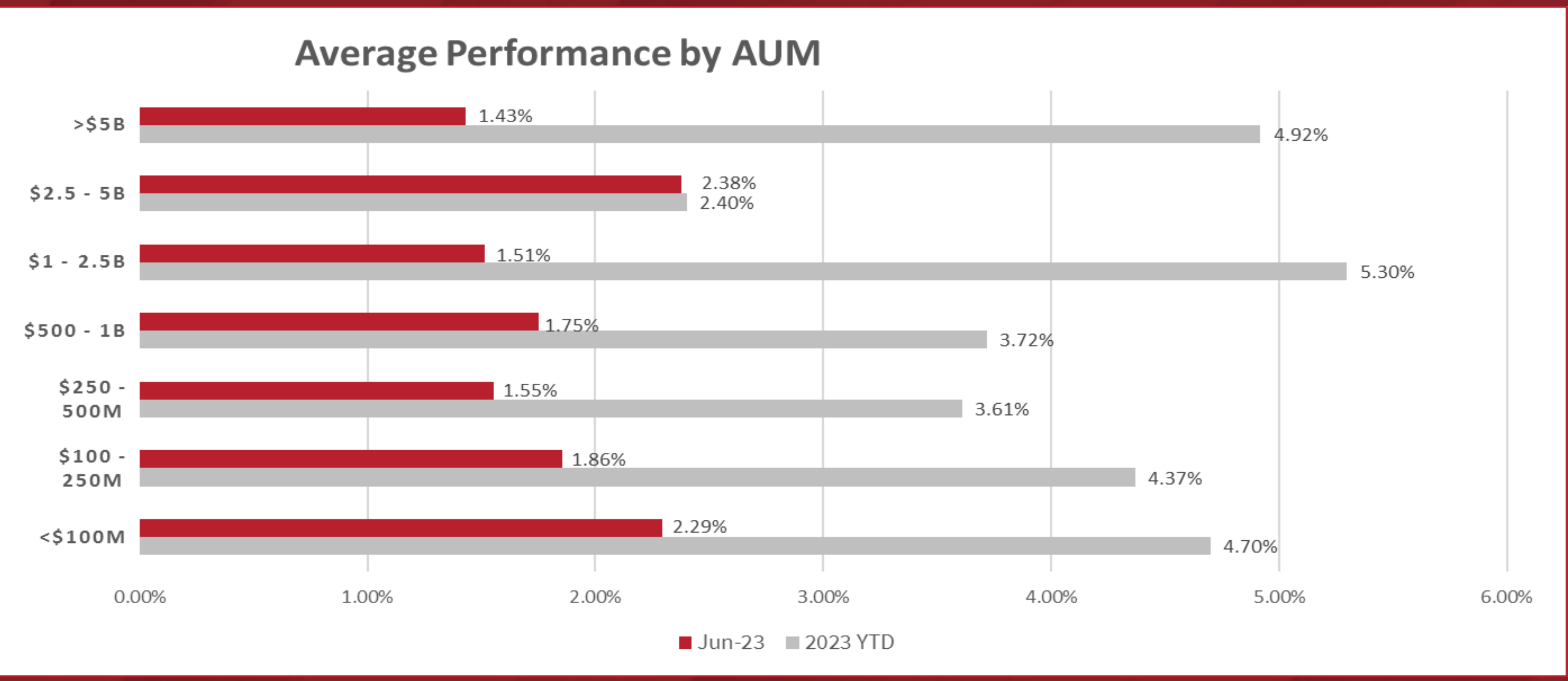
The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in June, the Managed Futures Sector continued to rise in the rankings and is now back at the top of the group.

Alpha Leaderboard

12M Rolling Over S&P 500

Q1 2023	Apr-23	May-23	Jun-23	2019	2020	2021	2022
3.0% Global Macro	2.2% Multi-Strategy	6.4% Equity Sector	5.9% Managed Futures	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
2.7% Multi-Strategy	1.8% Global Macro	3.1% Multi-Strategy	4.4% Credit	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
1.7% Credit	0.8% Credit	1.9% Credit	4.2% Multi-Strategy	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
1.5% Equity Diversified	0.6% Composite	1.8% Composite	4.1% Global Macro	3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
1.2% Composite	0.3% Equity Diversified	1.5% Managed Futures	4.1% Equity Sector	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro	1.1% Multi-Strategy
-0.8% Event Driven	0.0% Equity Sector	1.0% Global Macro	3.5% Composite	2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
-0.9% Managed Futures	-0.7% Managed Futures	0.6% Equity Diversified	1.8% Equity Diversified	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.8% Equity Sector	-2.8% Event Driven	-2.4% Event Driven	1.1% Event Driven	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

As illustrated in the graph below, all AUM bands were again positive for the month with larger funds outperforming. Year-to-date, all AUM bands are positive with the $1B-$2.5B band marginally leading the way.



Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite Index rose** 1.6% in June, bringing the index to +3.5% year-to-date vs. the S&P up 16.9% and the Nasdaq up 31.7%. The Russell 2000 Index also rose in June, breaking its 5-month slide. The index is now +7.24% year to date.
    - Even with a 19.6% rally in the S&P over the last 12 months, the **Composite Index** still generated alpha of 3.4% relative to it. Its beta of 0.1 is the lowest to the S&P since April of 2004.
  - Through June, 67% of funds are positive (average +8.1%) and 33% are negative (average -5.6%). Equity Sector and Equity Diversified continue to lead all Indices higher up 7.4% and 5.5% YTD, respectively.
  - Within the Equity Sector Index, the Financials Index recovered, rising 2.4% though remains down 5.4% YTD.
- **The Backdrop: Fed's Next Move, Debt Ceiling Crisis Resolved, Recession (Hard or Soft Landing)**
  - Economic uncertainty shifted away from the US Debt ceiling crisis to the Fed's interest rate decisions and recession fears. The market reaction was optimistic as the S&P rose 6.61%, the Nasdaq up 6.58%, the DJIA up 4.56%, and the Russell 2000 up 7.95%. All these indices are now positive on a year-to-date basis.
  - The **US 10-year Treasury** yield increased from 3.64% to 3.81% in June. The US 2-Year yield also rose from 4.40% to 4.87%.
  - The continued increase in the yield curve inversion increases the likelihood of a 2nd half recession and the potential of Fed cutting rates. Consumer Discretionary (XLY) rose 12% in June and is up 31.47% YTD. This is followed by Industrials (XLI) and Materials (XLB) rising 10.91% and 10.48%, respectively. Technology (XLK) continued it's recovery from 2022, rising 5.83% in June and 39.71% YTD.
  - Volatility increased in May, with the VIX +13.7%, its largest month of the year.
- **Dispersion off April lows:**
  - After retreating to a 46-month low in April, PivotalPath's **Dispersion Indicator** was back slightly above its historical average in June with data going back to January of 2008. This comes after a multi-year period in which it remained at extreme historic highs.
- **Factor Performance (We use the Down Jones U.S. Thematic Market Neutral factors as a proxy):**
  - Results continue to be mostly negative after a very strong 2022:
    - Value had a second positive month rising 1.6% bringing it to -9.5% YTD.
    - Low Beta continued to under-perform, declining 5.8% to -15.6% YTD.
    - The Momentum factor fell 2.6% and -8.52% YTD.
- **Inferred Leverage** of US Equity Long/Short Fundamental funds continues to be at the lower end of its historical range, though slightly off decade lows.
  - The Equity Diversified U.S. Long/Short Fundamental Index beta of dropped to 0.36 to the S&P 500 in the last 12 months through June. This represents the lowest exposure to the S&P 500 since May of 2022 and February of 2020 before that. Exposure is well below the levels seen in 2019-2021 when it averaged above 0.5 and is below the historical mean of 0.43 since January of 2008.

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

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

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