April 2023 Edition

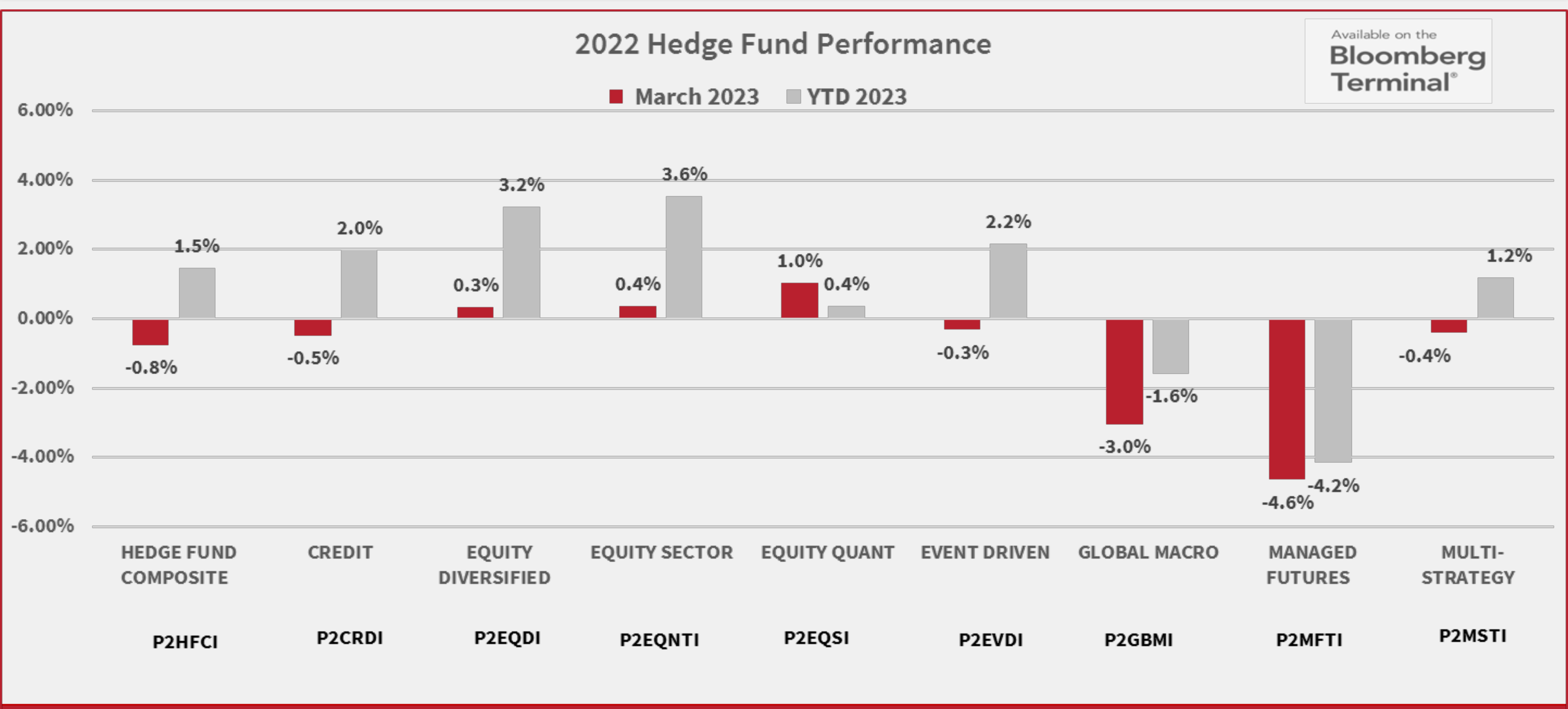
PIVOTAL POINT OF VIEW

For allocators evaluating hedge fund performance, context matters.

Every month, on behalf of over $250B in client hedge fund capital, PivotalPath tracks over 2,600 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 -0.8% in March amid banking failures, concerns of financial contagion risks and historic shifts in interest rates. The S&P 500 Index rose 3.7% and the Nasdaq and Russell 2000 had mixed performance: +6.7% and -5.0%, respectively. Amid overall financial market volatility and significant dispersion of performance among hedge fund strategies, the PivotalPath Composite continues to minimize losses in down months.

Strategy Highlights: The largest losses were primarily in Managed Futures and Global Macro, which led the Composite lower in March. March losses of 4.6% in Managed Futures and 3.0% in Global Macro was enough to offset earlier gains, dragging year-to-date performance into negative territory. Equity-oriented strategies appreciated modestly along with overall equity markets.



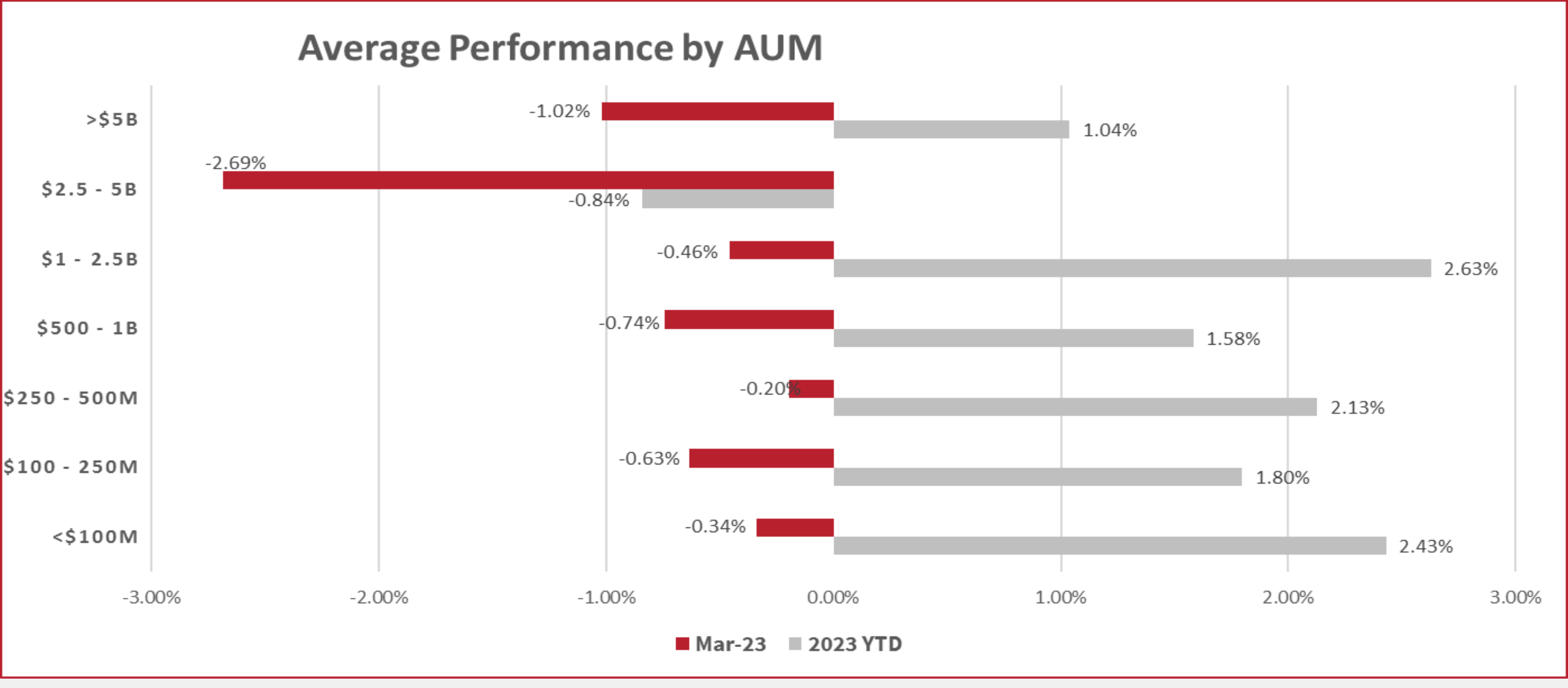
The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in March, Managed Futures alpha generation dropped dramatically as did Global Macro albeit less so while leading all sectors. Multi-Strategy maintained the most consistent alpha generation.

Alpha Leaderboard

12M Rolling Over S&P 500

Jan-23	Feb-23	Mar-23		2019	2020	2021	2022
10.9% Managed Futures	10.7% Managed Futures	3.0% Global Macro		7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
9.3% Global Macro	8.9% Global Macro	2.7% Multi-Strategy		5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
3.5% Multi-Strategy	3.1% Credit	1.7% Credit		4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
3.3% Credit	3.0% Multi-Strategy	1.5% Equity Diversified		3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
3.8% Composite	3.0% Composite	1.2% 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	-0.8% Event Driven		2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
0.6% Event Driven	-0.2% Event Driven	-0.9% Managed Futures		2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.6% Equity Sector	-2.8% Equity Sector	-1.8% 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 experienced the highest losses due to the concentration of large Managed Futures and Global Macro funds. Year-to-date, only funds in the $2.5B-$5B AUM band are negative.



Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite Index declined** modestly (-0.8%) in March, leaving the index at +1.5% year-to-date vs. the S&P 500 up 7.5% and Nasdaq up 17%. It should be noted the Russell 2000 and DJIA are up 2.3% and 0.4%, respectively. The **Composite's** volatility, however, remains historically low vs. the S&P 500 over the last 12 months through March. The S&P 500 Index generated volatility of 23.8% vs. 3.9% for the Composite, or >6x the volatility. For context, the volatility ratio of 6.1 is in the 96th percentile of rolling 12-month periods going back to 1998.
  - Hedge Funds overall were mixed for the month with 47% of all funds reporting positive returns (average +2.2%) and 53% in negative territory (average -3.2%). YTD, Equity Sector and Equity Diversified lead all indices, up 3.6% and 3.2%, respectively.
  - Within Equity Sector, regional banking turmoil led the Financial Index -7.3% for the month, its 5th worst monthly loss since January of 1998. The rally in treasuries helped the Technology/Media/Telecom Index higher which gained 2.6% in March and is up 7.2% year-to-date.
- **The Backdrop: Banking crisis sparked historic interest rate moves while muddying Fed policy going forward**
  - A regional banking crisis in March went global when Credit Suisse was forced to be acquired by UBS. Banks with longer dated fixed income instruments in their balance sheet portfolios got caught up in the need to mark-to-market those securities when depositors fled, creating the traditional "run on the bank" situation. More widespread crisis was averted through government intervention but not without interest rates declining more than 100 bps within eight trading sessions. As rates sank, and bank stocks declined, the effect on hedge funds with short fixed income exposure and long financials was pronounced, as described above.
  - Within **US equity, financials (XLF) and the KBW Bank Index declined by 10% and 25%, respectively. Declining rates, however, gave growth stocks a boost as technology (XLK) rose 10.6%.** Other movers include Communications (XLC): +8.4%, and Biotech (XBI): -8.0%, while the IBB was up 1.6%. Gold Futures rose 7.7%. Nat gas continued its decline and was down 19% in March and is down 50% for the year.
  - **Treasuries:** The **US 10-year Treasury** yield fell from 3.92% to 3.45% while the US 2-Year yield fell from 4.82% to 4.03%.
  - As noted in our mid-month analysis, **Historic Rally in Treasuries and the Effect on Managed Futures**, in the span of eight trading days between March 8th and March 17th, 2023, the US 2-Year Treasury rose an unprecedented 2.4% – the largest move in a single calendar month going back to 1998, when our data began. All while Managed Futures and Global Macro were short Treasuries in size, leading to historic losses.
- **Dispersion and AUM: The environment in March drove dispersion up.**
  - PivotalPath's proprietary **Dispersion Indicator** rose once again after falling in February. It remains elevated relative to its historic average, with March's dispersion ranking in the 77th percentile of months dating back to January of 2008.
  - Larger funds underperformed smaller ones in March primarily due to declines by large managers within Managed Futures and Macro strategies as described above.
- **Factors and PivotalPath Baskets:**
  - The Dow Jones U.S. Thematic Market Neutral factors were a mixed bag in March:
  - Value lost 5.7% and is now down 8.3% for the year after gaining 24% in 2022.
  - Momentum continued to recover from January's loss of 11.7%, gaining 5.5% in March, though still down 4.0% for the year.
  - The low beta factor also continued its recovery for January and returned 3.0% in March and is down 6.5% for the year.
  - The size factor reversed its February gain of 4.4% and was down 4.2% in March. The factor is flat on the year.
- **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 March. This remains slightly off the lows in May 2022 of 0.35, indicating that long/short funds are somewhat less bearish on equities, but still below the levels seen in 2019-2021 when exposure averaged over 0.5.

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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