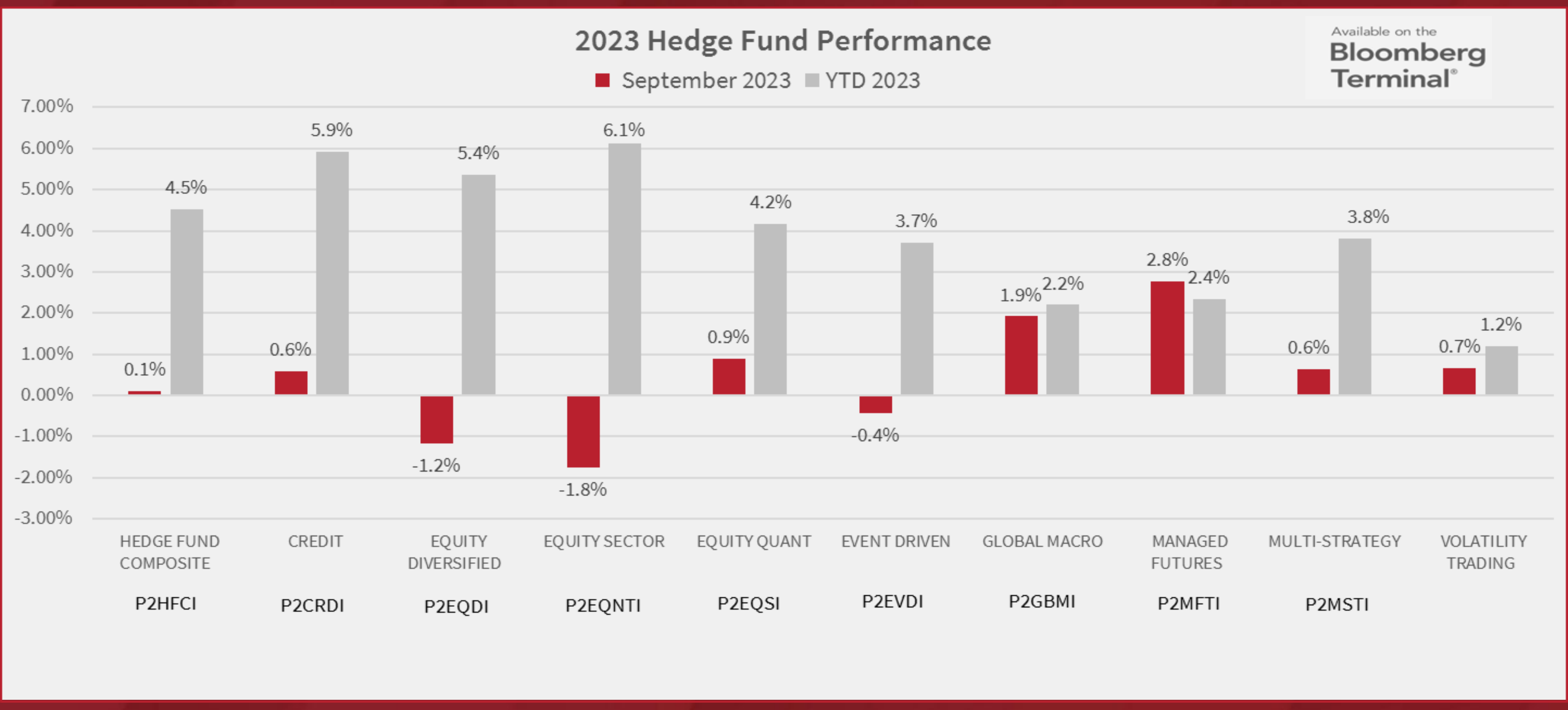
PIVOTAL POINT OF VIEW

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 was essentially flat, +10bps, in September amid interest rate concerns and global hard landing recession fears. The S&P 500 Index (S&P) and Nasdaq Index (Nasdaq) continued to decline. The S&P declined 4.8% and the Nasdaq declined 6.0%. Year-to-date (YTD), the **PivotalPath Composite Index** is up 4.5%, while the S&P is up 13.1% and the Nasdaq has climbed 26.3%.

Strategy Highlights: The major hedge fund strategy Indices were mixed in September. The Equity Sector and Equity Diversified Indices declined 1.8% and 1.2% respectively, while Managed Futures and Global Macro rose 2.8% and 1.9%. YTD, all Indices are now positive. The Equity Sector Index continues to lead the pack, +6.1% YTD, followed by Credit +5.9%.



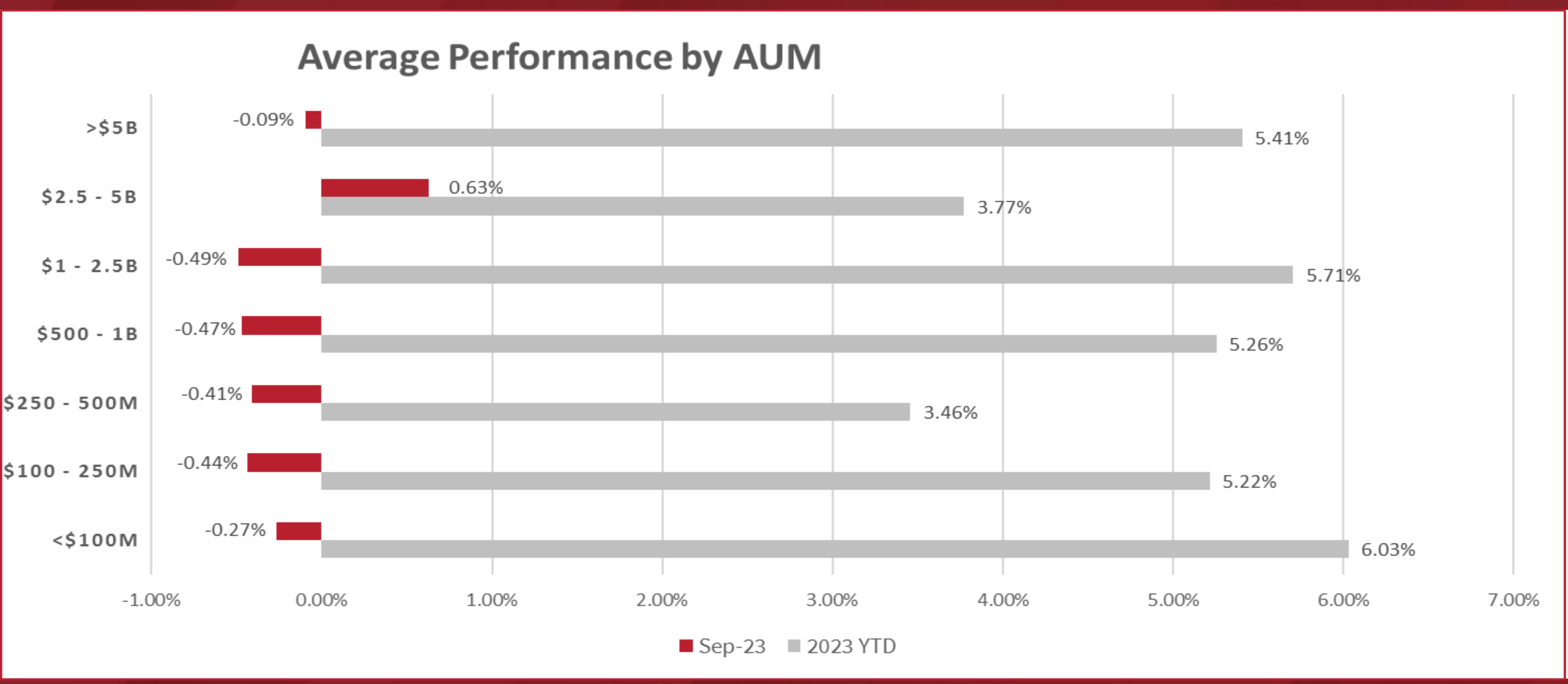
The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending September, Credit continued its climb to the top, while the Managed Futures Index fell from the top spot to the bottom. Multi-Strategy alpha rose again. All strategies have produced positive alpha for the past 2 rolling 12-month quarters.

Alpha Leaderboard

12M Rolling Over S&P 500

Q1 2023	Q2 2023	Q3 2023	2019	2020	2021	2022
3.0% Global Macro	5.9% Managed Futures	6.3% Credit	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
2.7% Multi-Strategy	4.4% Credit	6.2% Multi-Strategy	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
1.7% Credit	4.2% Multi-Strategy	4.2% Composite	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
1.5% Equity Diversified	4.1% Global Macro	3.8% Equity Sector	3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
1.2% Composite	4.1% Equity Sector	3.7% Global Macro	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro	1.1% Multi-Strategy
-0.8% Event Driven	3.5% Composite	3.4% Equity Diversified	2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
-0.9% Managed Futures	1.8% Equity Diversified	3.2% Event Driven	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.8% Equity Sector	1.1% Event Driven	2.1% Managed Futures	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

As illustrated in the graph below, on average, most AUM bands had a difficult September. The $2.5B-$5b band produced the only positive return due to the concentration of Global Macro and Managed Futures funds in that band. YTD, all AUM bands are positive with the $1B-$2.5B and <$100M bands continuing to lead the way.



Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite Index rose** 10 bps in September, leaving the Index +4.5% YTD while the S&P fell 4.8% leaving it up 13.1% YTD.
  - The **PivotalPath Composite Index** continues to generate alpha relative to the S&P rising to 4.2%. Its beta to the S&P remains low and declined further in September to 0.11 which continues to be the the lowest level since April 2004.
  - In September, half the funds reporting, had positive performance, with an average return of 2.0%, while the other half declined by 2.5%.
  - Of particular interest, YTD 75% of hedge funds are positive (average +9.1%) and 25% are negative (average -6.5%).
  - Performance in September was led by Managed Futures and Global Macro Indices, +2.8% and +1.9% respectively, powered by the further rise in rates.
  - Within the Equity Sector Index (-1.8%), TMT declined 2.1%, followed by Healthcare, which fell 1.6%.
- **The Backdrop: China, Inflation, and the Fed's Next Move**
  - Economic focus shifted to the potential global slowdown, higher interest rates for longer and the potential for a hard landing. The market reaction to the heightened uncertainty was a continued risk-off posture as the S&P declined 4.8%, the Nasdaq 5.8%, the DJIA 3.5%, and the Russell 2000 6%. All these indices remain positive YTD, although the spread between indices ranges from the Nasdaq at+26% to the DJIA which is modestly positive at +1.1%.
  - The higher for longer and hard economic landing scenarios fueled the US 10-year Treasury yield to increase from 4.11% to 4.57% in September, as well as the US 2-Year yield which increased from 4.86% to 5.04%.
  - The economic concerns and higher rates caused broad sector declines. In order of September declines, Real Estate (XLRE) declined 8%, followed by Biotech (XBI) 7.8%, Technology (XLK) 6.7% and Industrials (XLI) 6.3%. Utilities(XLU) and Biotech are down the most YTD, 16% and 12% respectively. On the plus side, Technology (XLK), while lower for the past two months is still up 32%. Consumer Discretionary (XLY) is up 24.6% YTD.
  - Volatility spiked with the VIX finishing at 17.52 vs the relatively low levels of 13.57% in August and 13.63% in July.
- **Dispersion remains at historical average, well off April lows:**
  - PivotalPath's **Dispersion Indicator** reading of 3.5 was just above its historical monthly average of 3.1 (with data going back to January of 2008) after hitting a 46-month low in April. This comes after a multi-year period in which it consistently sat at extreme historic highs. It did not spike with increases in volatility in September.
- **Factor Performance (we use the Dow Jones U.S. Thematic Market Neutral factors as a proxy):**
  - Results for the month were mostly positive:
    - Value rose a modest 50bps in September bringing it to -8.1% YTD. Growth, which is the inverse of Value, declined 50bps and is as +8.1% YTD.
    - Low Beta gained 5.2% adding to a rally of 6.7% in August, though is still -12.4% YTD.
    - The Momentum factor also gained significantly +3.2% adding to August's +7.1% but is -7.8% YTD.
- **Inferred Leverage** of US Equity Long/Short Fundamental funds
  - The **Equity Diversified U.S. Long/Short Fundamental Index** exposure to the S&P fell to 0.3 over the last 12 months through September. This is now the lowest exposure to the S&P 500 since September of 2017 and December of 2009 before that. Exposure remains far below the levels seen in 2019-2021 when it averaged above 0.5 and lower than its historical mean of 0.43 since January of 2008.
- **Notable Takeaway**
  - Last month we spoke about the Managed Futures sizable short exposure to Treasury futures. That exposure worked out well last month as rates continued their path higher. However, investors remain negatively exposed to a sudden rally in Treasuries, or a flight to quality event, like we saw in March of this year around the regional banking turmoil.

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 08/14/2023. Historic performance available on Bloomberg.
Tickers: P2HFCI, P2CRDI, P2EQDI, P2QNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI, P2MSTI & P2VOLI

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