

## Key Takeaways:

- The **PivotalPath Composite Index** rose 2.0% in November, bringing the Index to +5.8% YTD. The **Index** continues to generate positive alpha of 3.9% relative to the S&P 500 (S&P) over the last 12 months.
- **Why didn't U.S. equity long short managers keep pace with the S&P in November?**  
1. They aren't designed to and 2. They performed better than expected. (*see bottom of page 2*)
- **Dispersion is good as long as it's positive.** PivotalPath's Hedge Fund Dispersion Indicator jumped to 4.5 in November after hovering around its long-term average of 3.1 for most of 2023. Almost all of the dispersion came from equity volatility on the upside.
- **Managed Futures** and Global Macro were among the few strategies suffering losses while treasuries and equities rallied.

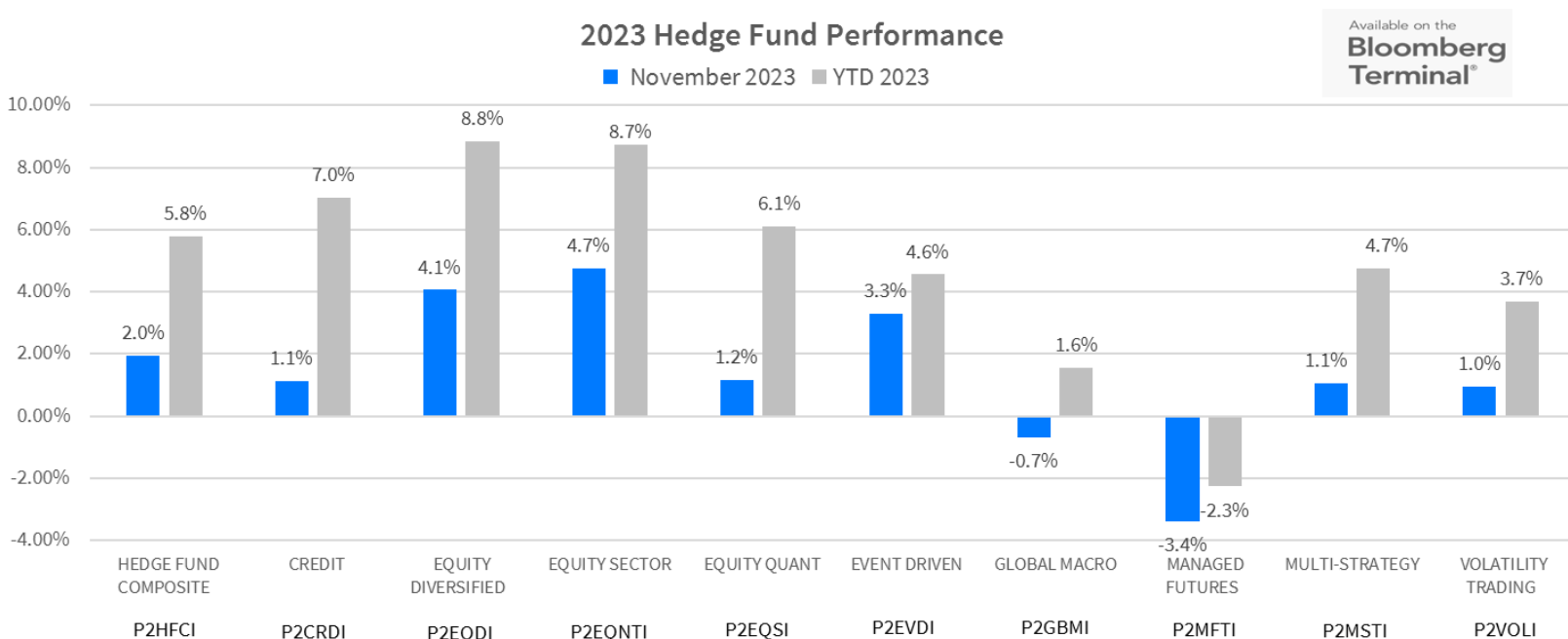
### ***For allocators evaluating hedge fund performance, context matters.***

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 and identifies trends to help gain unique insight into the hedge fund industry.

# 2023 Hedge Fund Performance

## Strategy Highlights:

- Reversing a broadly challenging October, almost all indices were positive for the month. **Managed Futures** and **Global Macro** were the two exceptions. Recall that we had discussed Managed Futures' sizable short exposure to Treasury Futures in our last two PPOVs and conducted a deeper dive [here](#).
- An almost mirror image in leaders and lagers compared to 2022, in 2023, most major Indices are positive with **Equity Diversified (+8.8%)**, **Equity Sector (+8.7%)** and **Credit (+7.0%)** Indices leading the way. **Managed Futures**, the star performer of 2022, is the only Index in negative territory in 2023.



## What we're seeing:

**\*Better than expected?** An OLS regression (using the last 18 months of data through October with a strong linear fit) of the **US Equity Long/Short Fundamental Index** against the S&P would have yielded a gain of 3.8%. The Index returned 4.3%. They have also produced significantly better than expected gains YTD due to higher alpha generation.

# Pivotal Context

## The Backdrop: Interest Rates and Global Demand

- Hedge fund performance jumped in November as economic data showed a long-awaited decline in inflation, resulting in falling bond yields, and surging equity markets.
- The market reaction to the positive data and news drove largest rebound since 2020 with the S&P up 9.1%, the Nasdaq +10.7%, the DJIA +8.8%, and the Russell 2000 +8.9%. November's strong performance brought all major equity indices into positive territory for 2023. The S&P is now up 20.8% while the economic bellwether Russell 2000 is up 2.7%.
- The US 10-year Treasury yield declined 60 bps to 4.33% (as yields move inversely to prices) while the US 2-Year yield declined 39bps to 4.68%.
- The new economic optimism around a soft-landing drove broad sector appreciation. Interest rate sensitive sectors led the way with Biotech (XBI) rising 14%, Technology (XLK) +12.9%, Consumer Discretionary (XLY) +11%. Energy (XLE) declined slightly due to lower oil prices, -0.7%.
- Forward looking volatility, as measured by the CBOE Volatility Index (VIX), fell to levels not seen since pre-COVID, though realized volatility remained high as global equity markets generated significant returns.

**Factor Performance** (we use Dow Jones U.S. Thematic Market Neutral factors) as a proxy:

US Equity Factors	MTD%	YTD%
Quality	-4.17	1.42
Size	0.19	-5.71
Value	-2.03	-11.80
Growth	2.03	11.80
Momentum	0.11	-3.73
Low Beta	-4.74	-10.94

# Alpha Leaderboard

- For the 12-month rolling period through November, **Credit** continues to produce the highest Alpha (+6.2%) followed once again by **Multi-Strategy** (+5.9%).
- **Managed Futures** produced the lowest alpha but shifted back into positive territory.

The chart below depicts alpha generation for each PivotalPath Index, sorted from high to low. Each strategy is color-coded for easy tracking.

Alpha Leaderboard									
12M Rolling Over S&P 500									
Q1 2023	Q2 2023	Q3 2023	Oct-23	Nov-23		2019	2020	2021	2022
3.0% Global Macro	5.9% Managed Futures	6.3% Credit	6.1% Credit	6.2% 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	5.3% Multi-Strategy	5.9% 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	3.2% Composite	3.9% 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% Equity Diversified	3.4% Equity Diversified		3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
1.2% Composite	4.1% Equity Sector	3.7% Global Macro	2.5% Global Macro	3.4% 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	2.0% Equity Sector	3.0% Equity Sector		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	0.8% Event Driven	1.5% 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	-1.5% Managed Futures	1.2% Managed Futures		2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

## What we're seeing:

Client interest in Credit strategies continues to increase with Distressed remaining the most popular. And with good reason. Our **Credit Distressed Index** generated >300bps of annualized returns when the risk-free rate was above 3% compared to when it was below. As rates remain elevated, this could bode well for the strategy.

# Hedge Fund Performance by AUM

- As illustrated in the graph below, on average, all AUM bands appreciated in November.
- The \$2.5B-\$5B band under-performed marginally relative to the other size bands.
- YTD, all AUM bands are positive with the \$1B-\$2.5B and <\$100M bands continuing to lead the way.
- 75% of funds are positive for both the month of November and YTD.

### Average Performance by AUM

