December 2022 Edition

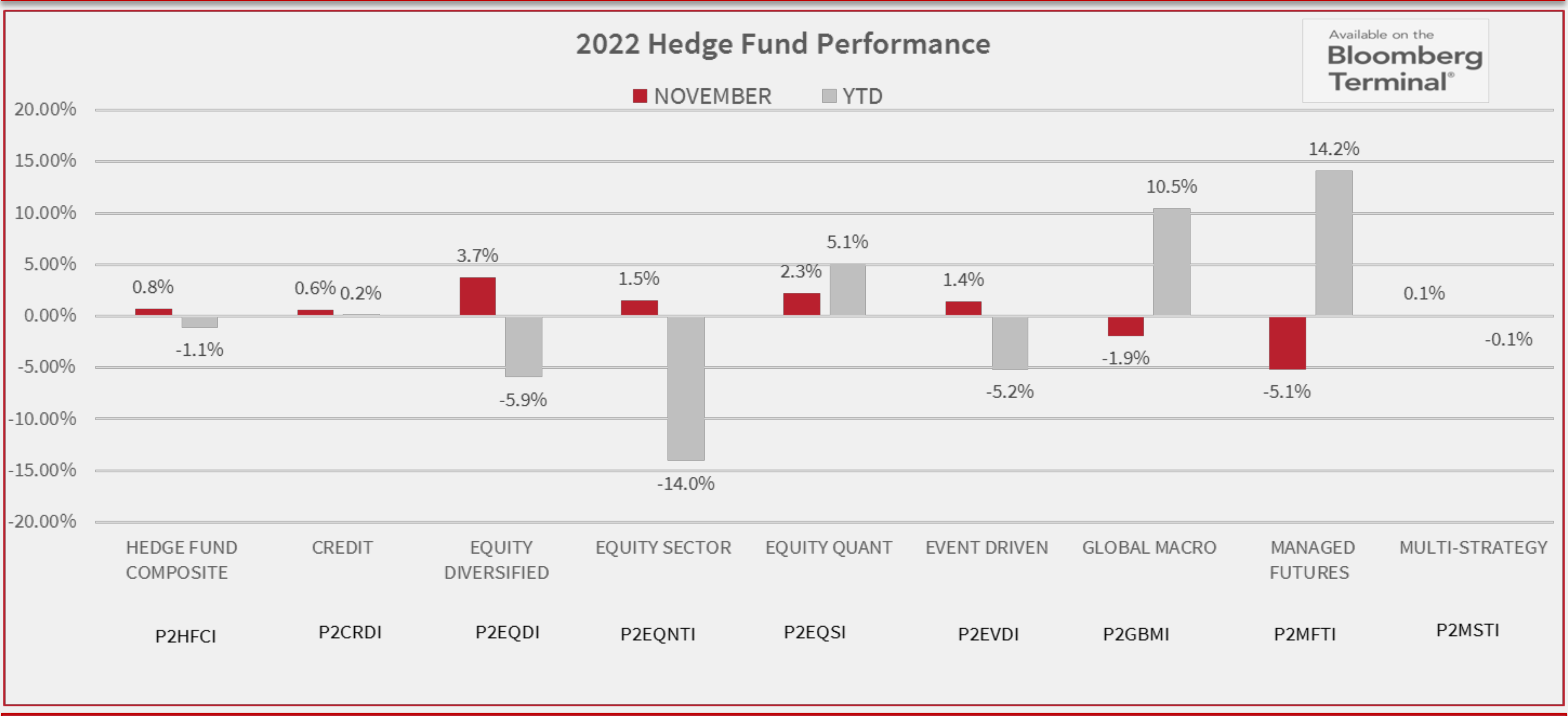
PIVOTAL POINT OF VIEW

For allocators evaluating hedge fund performance, context matters.

Every month, on behalf of over $250B in client hedge fund capital, PivotalPath tracks over 2,500 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 continued to perform against a backdrop of volatile yet appreciating equity markets in November. November marks the first time the S&P 500 was positive two months in a row in 2022 (this is also the case for the Nasdaq and Dow Jones Industrial Average). The PivotalPath Hedge Fund Composite Index gained 0.8% in November and is down 1.1% YTD compared to the S&P 500 which, after gaining 8% in October and 5.6% in November, remains down 13% YTD. The Nasdaq gained 4% in November and is down 26.7% YTD.

Strategy Highlights: All hedge fund strategies were positive in November apart from Managed Futures (-5.1%), which had its worst month since February 2018, and Global Macro (-1.9%), its worst month since March 2020. Both strategies continue to lead YTD, however, up 14.2% and 10.5%, respectively. Equity-oriented funds posted gains in November given the positive equity markets but continue to lag YTD.



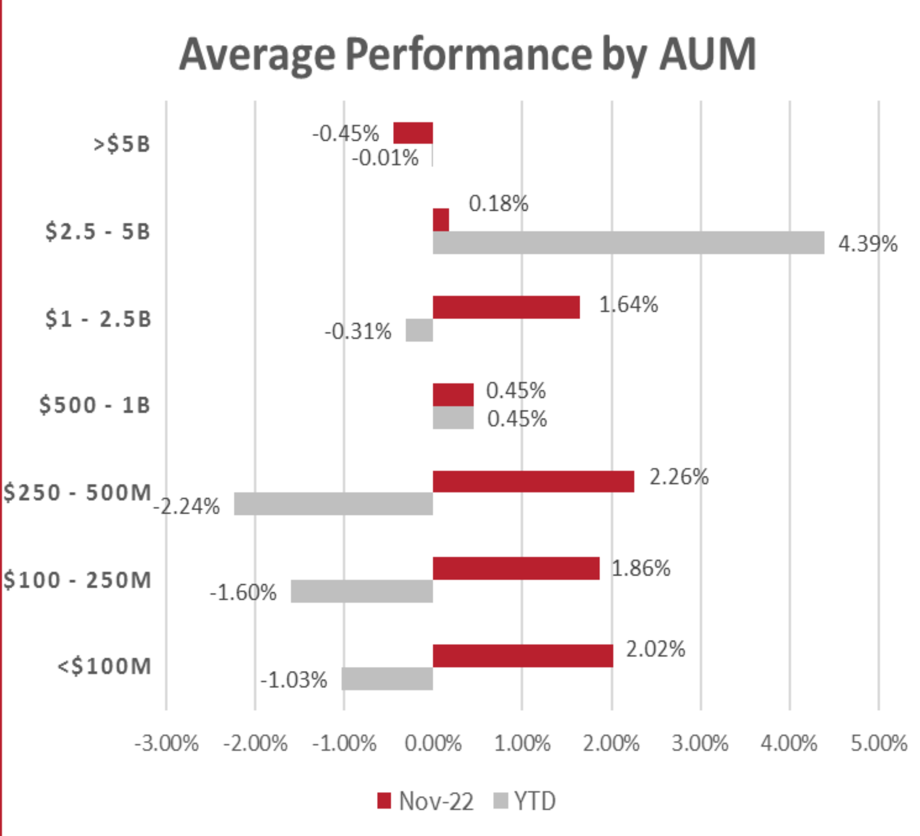
The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in November, Managed Futures and Global Macro continued to produce the highest alpha while Equity Sector remained at the bottom. Alpha generation for Equity Diversified improved and moved above Event Driven. The PivotalPath Composite returned to generating positive alpha as did Multi-Strategy.

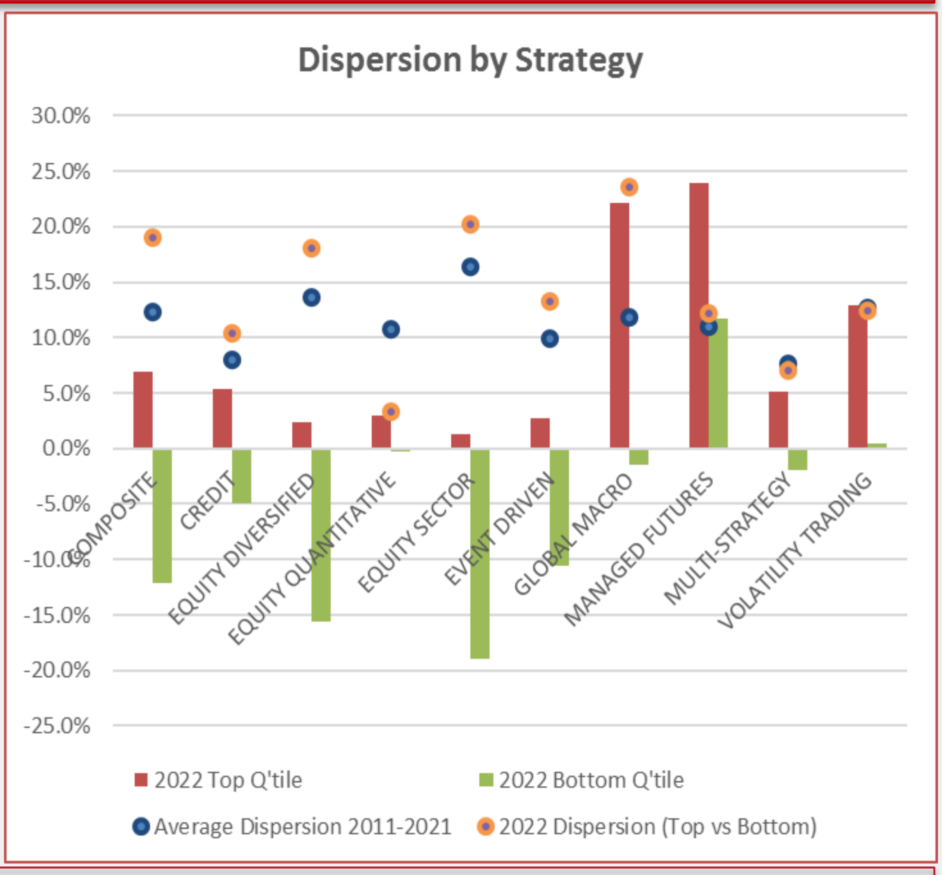
Alpha Leaderboard

12M Rolling Over S&P 500

Q1 2022	Q2 2022	Q3 2022	Oct-22	Nov-22	2018	2019	2020	2021
12.0% Managed Futures	16.1% Managed Futures	17.6% Managed Futures	14.2% Managed Futures	12.2% 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	11.2% 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	1.6% 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	0.8% Composite	-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	0.4% Multi-Strategy	-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	-1.2% Equity Diversified	-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	-2.7% Event Driven	-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	-13.4% Equity Sector	-2.6% Global Macro	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector

November was a positive month within all AUM bands except for funds greater than $5B. Trend Following strategies in that group declined in November. YTD it has been a mixed bag with Equity funds declining in all AUM bands while Managed Futures and Global Macro performed well across the AUM board.





Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite appreciated 0.8**% in November and is down 1.1% for the year.
  - The Composite's (cumulative) spread <u>above</u> the S&P 500 fell to 10.2% YTD but is still the largest YTD outperformance since the November YTD 2008.
  - **The smooth ride continues:** In addition to the YTD outperformance vs. the S&P 500, the PivotalPath Composite has maintained a volatility of *3.7%* vs. volatility of 23.2*%* 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.*
  - Buoyed by the strong November equity market performance, the **PivotalPath Equity Diversified and Equity Sector** were the leading indices.
  - The **PivotalPath Equity Quant Index** returned 2.3%.
  - **Managed Futures** and **Global Macro** gave back some of their YTD gains in November but are still leaders for the year as yields fell and the dollar weakened. Higher interest rates on the short end of the curve should provide a tailwind to these strategies going forward.
  - Within **Equity Diversified**, Asia L/S managers were the best performers for the month (+8.3%) and the best sub-strategy across all strategies for the month. Year-to-date, Europe L/S managers are faring the best (-3.5%) followed by Global L/S managers (-5.3%).
  - With respect to **Equity Sector**, the **PivotalPath Healthcare Index** (+2.6%) outperformed in November when compared to their sector focused peers. The **PivotalPath Energy/Utilities/Industrials Index** continues to be the best performing sub-strategy YTD (+4.1%).
- **The Backdrop: Inflation and the Fed continue to drive markets**
  - As mentioned above, October and November were the first two back-to-back positive months for U.S. equities in 2022. While volatility remains elevated, there is optimism that inflation has peaked, and the Fed will pivot from Hawk to Dove, despite their comments on December 14th.
  - **Global equity** markets saw strong performance in November with all global markets we track positive for the month for the first time this year.
  - From a **Sector** perspective, continuing October's trend, all sector indices we track were positive in November. Materials (XLB) were up 11.7% but are still down 8.7% for the year. Industrials (XLI) gained 7.8% for the month, while Energy (XLE) rose 1.2% and is up 64% for the year.
  - **Bonds and commodities:** The US 10-year Treasury yield fell to 3.61% at the end of November while the 2-year yield declined to 3.84% though up significantly YTD. The Dow Jones Commodity Index and Nat Gas futures rose 2% and 9% respectively, while Crude Oil Futures (WTI) fell 2%.
  - **Volatility** as measured by the VIX declined for a second month in a row, remaining just below 20% at 19.51%.
- **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 November is 19% compared to a ten-year annual average of 12%.
  - Dispersion is higher in almost all sectors with Global Macro leading at 23.6%, followed by Equity Sector at 20.2% and Equity Diversified at 18%.
- **Factors:**
  - Most conventional factors performed well in November, with Value (as measured by the Dow Jones U.S. Thematic Market Neutral Value Index) leading the way, up 3.5% and +23.5% YTD. The PivotalPath U.S. Cyclicals 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.
  - Quality and Momentum factors are +8.8% and +10% YTD respectively while the Low Beta factor is 16.2% 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 0.41 to the S&P as of November, well off the May lows of 0.35 indicating that long/short funds in general have become slightly less bearish on equities, consistent with our numerous conversations with portfolio managers.

For access to sub-indices, underlying funds and additional research, visit www.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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