October 2022 Edition

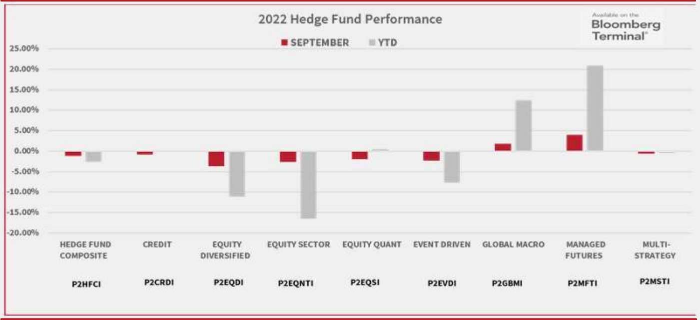
PIVOTAL POINT OF VIEW

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 performed relatively well against a backdrop of declining equity markets in September with the PivotalPath Hedge Fund Composite Index losing 1.2%. Year-to-date the PivotalPath Composite is down 2.7% compared to the S&P 500 which, after declining 9.3% in September, has lost 24% YTD. The Nasdaq index declined 10.5% in September and is down 32.4% YTD.

Strategy Highlights: Managed Futures and Global Macro continued their strong performance in 2022. The two indices were up 4.0% and 1.8% respectively in September. YTD they are up 21% and 12.5%, respectively. Equity Diversified lost 3.7% in September and is down 11% YTD. The Equity Sector index declined 2.6% in September and is down 16.5% YTD.



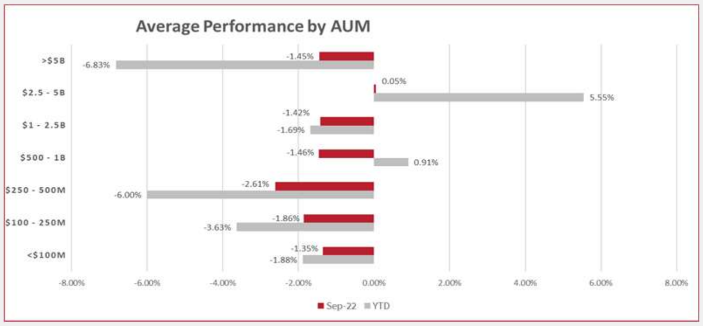
The chart below depicts alpha generation for each Pivotal Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in September, Managed Futures and Global Macro continue to produce the highest alpha while Equity Sector and Equity Diversified continue to generate significant negative alpha relative to the S&P 500. All strategies except Managed Futures saw declining alpha generation vs August's rolling 12-month period.

Alpha Leaderboard

12M Rolling Over S&P 500

Q1 2022	Q2 2022	Q3 2022	2018	2019	2020	2021
12.0% Managed Futures	16.1% Managed Futures	17.6% 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	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	1.1% Multi-Strategy	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven
4.7% Multi-Strategy	1.8% Credit	2.0% Credit	-0.4% Event Driven	3.2% Composite	6.6% Composite	3.1% Composite
1.4% Composite	-1.0% Composite	-0.6% Composite	-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	-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	-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	-2.6% Global Macro	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector

As mentioned above, September was a difficult month on an absolute basis with all AUM bands, except $2.5B-$5B, showing negative absolute performance. Further illustrating the difficult month, 42% of funds have positive YTD performance versus 60% as of last month. The $2.5B-$5B AUM band was slightly positive due to Managed Futures and Global Macro comprising a significant amount within the size range. More on that below!



Pivotal Context

- **The Hedge Fund Takeaway:**
  - The **PivotalPath Composite declined 1.2**% in September and is down 2.7% for the year.
  - The Composite's (cumulative) spread above the S&P 500 rose again, and is now ~24% YTD, the largest 9-month outperformance since the 9-month period ending in June 2009.
  - **A much smoother ride:** In addition to the YTD outperformance vs. the S&P 500, the Composite has maintained a volatility of 3.8% vs. volatility of 22% 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. A quite impressive feat.
  - The **PivotalPath Managed Futures Index continues to lead with larger funds outperforming smaller ones. Why?** Large funds typically need to deploy more capital to medium/long-term trend following, which has captured the 2022 environment extremely well. The larger funds have done well in 2022 due to these restrictions from their large capital base—while smaller funds, which often benefit from nimbleness, have been less successful.
  - The **Global Macro Index** also generated positive returns, adding 1.8% in September. YTD, Global Macro is up 12.5%. Within the Global Macro complex, Discretionary, Multi-Manager and Quantitative all added to their gains this year and are up 12.5%, 13.9% and 16.8%, respectively, YTD.
  - The **Equity Sector Index**, which has had a difficult time in 2022 mainly due to its long bias and growth bias from TMT and healthcare, was down another 2.6% in September. The Index is down 16.5% YTD with all subsectors negative for the year.
- **The Backdrop: Fed/China/Global Inflation/Ukraine…**
  - All major **equity markets** we track experienced significant losses in September following a continuation of rate hikes by the Fed and other central banks, inflation pressures, and macro risks globally. It was the worst month for the S&P 500, Dow Jones Industrial, and the MSCI World (all down around 9%) since March 2020.
  - Most major **global equity indices** were down double digits for the month – the UK (FTSE) and Japan (Nikkei, TOPIX) fared better and were down single digits. The Hang Seng was down almost 14% in September and is down 28% YTD.
  - From a **Sector** perspective, all were negative for the month. **Real Estate (**XLRE) led the way lower, losing 14%, and the MSCI REIT Index declined 13%, followed by Technology (XLK) -12.2%, and Communications (XLC) and Utilities (XLU) both down -11.9%.
  - **Energy** sectors retreated during the month (XLE) -10.5% but remain in positive territory for the year at +30%.
  - **Bonds and commodity** markets both sold off in September. Oil and natural gas futures sold off 11% and 26%, respectively, dragging down the Dow Jones Commodity Index by 5.9%. The 10-year Treasury yield rose 60bps to 3.8%**.**
  - Not surprisingly, **volatility** rose another 22% in September after an equal rise in August.
- **Dispersion:**
  - Dispersion is the highest it's been since the 2008-2009 Financial Crisis. The PivotalPath Composite Index dispersion between the 75th percentile and the 25th percentile through September is 23% compared to a ten-year annual average of 12.3%.
  - More specifically, the dispersion in Global Macro is 21.4% which is almost double the 10-year average. Managed Futures stands at 19% which is also well above the historic average. Some of that dispersion is due to size as discussed above.
- **Factors:**
  - Quality, momentum and low beta factors were all positive for the month and are positive for the year.
  - Leverage of US equity long/short funds continues to be at the lower end of its historical range
    - The Equity Diversified U.S. Long Short Fundamental Index has a beta of 0.38 over the last 12 months, the lower end of its historical range
    - If leverage was at levels consistent with 2020 and 2021 the Index would have fallen 18% rather than 12% through September

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

Source: PivotalPath data as of 1/14/2022. Historic performance available on Bloomberg.
Tickers: P2HFCI, P2CRDI, P2EQDI, P2QNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI