

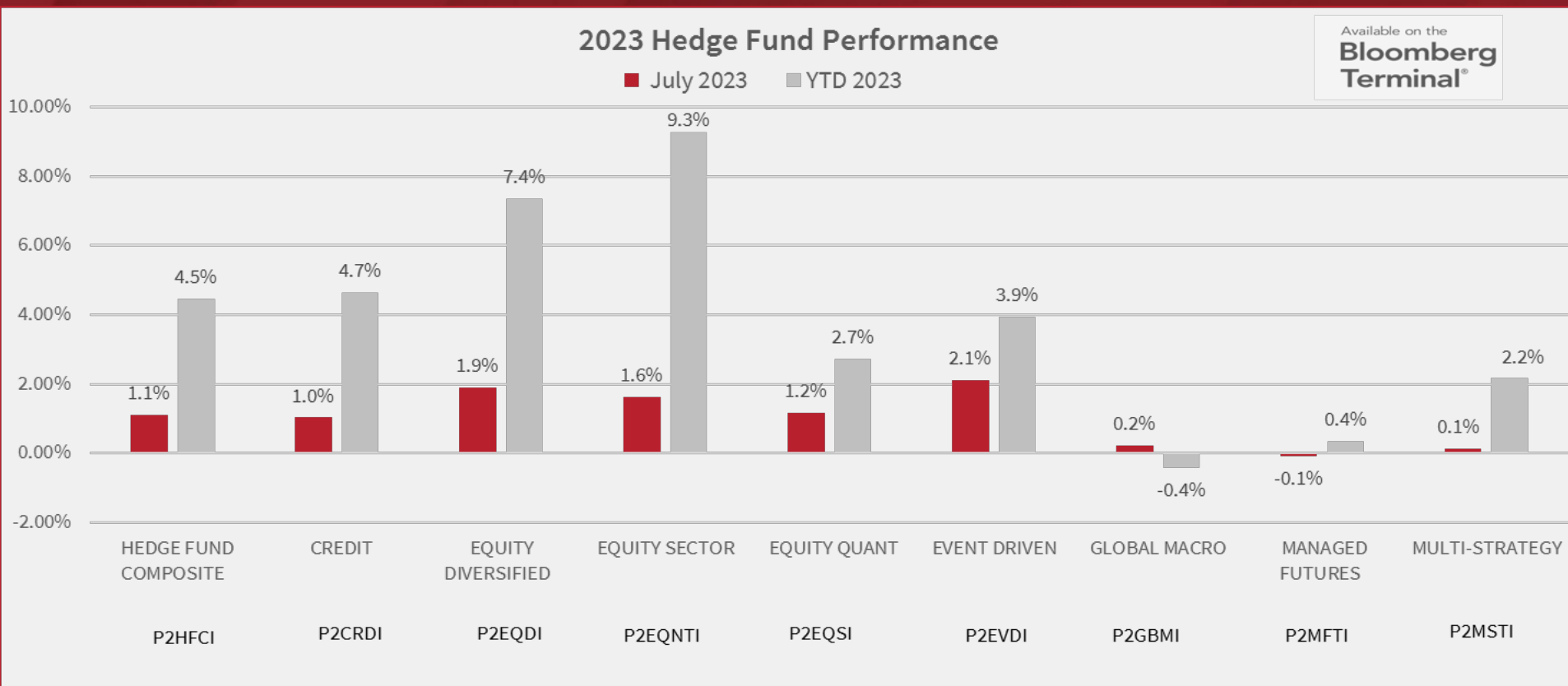
PIVOTAL POINT OF VIEW

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 returned 1.1% in July as optimism around inflation, a soft landing and indication that the Fed was nearing the end of its interest rate hiking cycle propelled risk markets higher. The S&P 500 Index (S&P) and Nasdaq Index (Nasdaq) rose in July 3.2% and 4.1% respectively. Year-to-date (YTD), the **PivotalPath Composite Index** is up 4.5%, while the S&P is up 20.7% and the Nasdaq has climbed 37.1%.

Strategy Highlights: All major hedge fund strategy Indices were positive in July other than Managed Futures which declined 8bps. They are now all positive in 2023 with the exception of Global Macro which rose for the second month in a row but remains -0.4% for the year. The Equity Sector Index continues to lead the pack up 9.3% YTD. In July, the Event Driven Index gained the most, appreciating 2.1%.

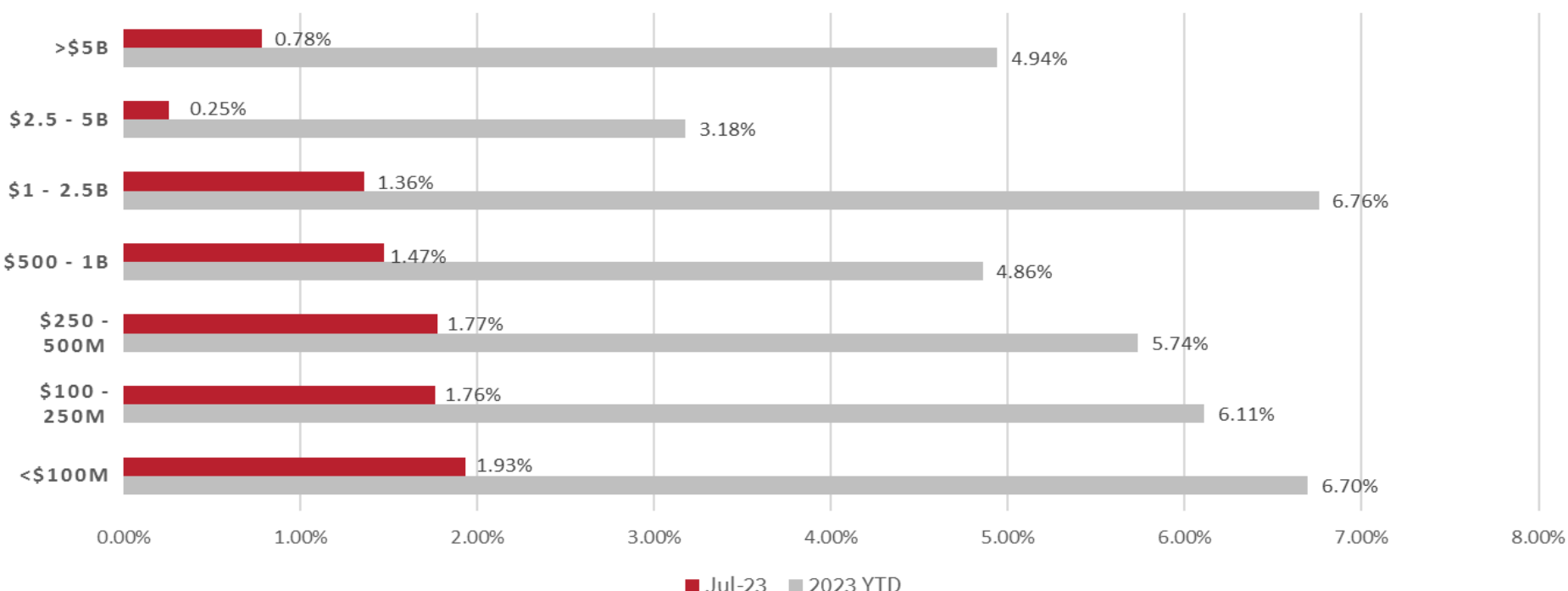


The chart below depicts alpha generation for each PivotalPath Index, ranked from high to low. Each strategy is color-coded for easy tracking. For the 12-month rolling period ending in July, all Indices increased alpha with the Managed Futures Index at the top of the group. The Equity Sector Index continued its rise from the bottom of the pack in 2021, 2022 and earlier in 2023.

Q1 2023	Q2 2023	Jul-23	2019	2020	2021	2022
3.0% Global Macro	5.9% Managed Futures	6.2% Managed Futures	7.8% Managed Futures	19.4% Equity Sector	10.5% Credit	10.2% Managed Futures
2.7% Multi-Strategy	4.4% Credit	5.0% Equity Sector	5.0% Equity Sector	10.8% Multi-Strategy	9.80% Multi-Strategy	10.0% Global Macro
1.7% Credit	4.2% Multi-Strategy	4.8% Credit	4.6% Multi-Strategy	9.3% Event Driven	5.9% Event Driven	2.2% Credit
1.5% Equity Diversified	4.1% Global Macro	4.4% Multi-Strategy	3.2% Composite	6.6% Composite	3.1% Composite	1.1% Composite
1.2% Composite	4.1% Equity Sector	4.0% Composite	2.7% Equity Diversified	5.1% Equity Diversified	3.0% Global Macro	1.1% Multi-Strategy
-0.8% Event Driven	3.5% Composite	3.6% Global Macro	2.5% Global Macro	2.5% Credit	0.7% Managed Futures	-1.2% Equity Diversified
-0.9% Managed Futures	1.8% Equity Diversified	2.8% Equity Diversified	2.3% Event Driven	0.9% Managed Futures	-0.3% Equity Diversified	-2.3% Event Driven
-1.8% Equity Sector	1.1% Event Driven	2.6% Event Driven	2.0% Credit	0.5% Global Macro	-7.8% Equity Sector	-9.5% Equity Sector

As illustrated in the graph below, all AUM bands were once again positive for the month. YTD, all AUM bands are positive with the \$1B-\$2.5B band marginally leading the way. Smaller funds have performed well in July and on a YTD basis.

Average Performance by AUM



Pivotal Context

The Hedge Fund Takeaway:

- The **PivotalPath Composite Index** rose 1.1% in July, bringing the index to +4.5% YTD vs. the S&P +20.7% and the Nasdaq +37.1%. The Russell 2000 Index also rose in July, gaining 6.1%, as gains widened to the broader equity markets. The Russell 2000 Index is now +13.7% YTD.
- Even with a 13.0% rally in the S&P over the last 12 months, the **PivotalPath Composite Index** has still generated alpha of 4.0% relative to it. Its beta of 0.1 to the S&P remains the lowest since April of 2004.
- The Composite's annualized volatility is 3.1% vs. 18.2% for the S&P over that same time.
- Through July, 74% of hedge funds are positive (average +9.6%) and 26% are negative (average -5.5%). YTD, Equity and Equity Diversified Indices continue to lead, up 9.5% and 7.4%, respectively.
- Performance in July was led by the Event Driven Index, +2.1%, where Special Situations generated 3.0% and is up 7.5% YTD. Within the Equity Sector Index (+1.6%), the Financials Index recovered, rising 6.9% and is now +1.3% YTD.

The Backdrop: Inflation, Fed's Next Move, Recession (Hard or Soft Landing)

- Economic focus shifted to inflation data, the Fed's interest rate decisions and recession fears. The market reaction was optimistic as the S&P rose 3.2%, the Nasdaq +4.1%, the DJIA +3.4%, and the Russell 2000 +6.1%. All these indices are positive YTD.
- The **US 10-year Treasury** yield increased from 3.81% to 3.97% in July, while the US 2-Year yield declined 2bps to 4.88%.
- Energy (XLE) rose 7.8% in July and is now flat for the year. Communications (XLC) and Financials (XLF) both rose in July, 5.7% and 4.8% respectively. Consumer Discretionary (XLY) rose 2.3% in July and is up 34.5% YTD. Industrials (XLI) and Materials (XLB) continued their rise, 2.9% and 3.4%, respectively. Technology (XLK) continued its recovery from 2022, rising 2.6% in July and 43.3% YTD.
- Volatility remained low and rose modestly for the month, with the VIX finishing at 14.84 in July vs 13.63% in June.

Dispersion off April lows:

- PivotalPath's **Dispersion Indicator** was back at its historical monthly average (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.

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

- Results continue to show negative alpha over a very strong 2022:
 - Value had a third positive month rising 61bps bringing it to -8.9% YTD.
 - Low Beta continued to under-perform, declining 7.7% to -22% YTD.
 - The Momentum factor fell 8.8% and is -16.5% YTD.

Inferred Leverage of US Equity Long/Short Fundamental funds continues to be at the lower end of its historical range, though slightly off decade lows.

- The Equity Diversified U.S. Long/Short Fundamental Index beta remained 0.36 to the S&P over the last 12 months through July. This continues to be the lowest exposure to the S&P 500 since May of 2022 and February of 2020 before that. Exposure is well below the levels seen in 2019-2021 when it averaged above 0.5 and is below the historical mean of 0.43 since January of 2008.

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. Historical performance available on Bloomberg. Tickers: P2HFCCI, P2CRDI, P2EQDI, P2EQNTI, P2EQSI, P2EVDI, P2GBMI, P2MFTI & P2MSTI

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Trusted Hedge Fund Industry Expert