Second engine™ Liquid Alternative Indices

Quarterly Industry Report

Q4 2024

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2e Second engine

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Index Snapshot

Universe AUM

$54.4B

12M AUM Growth Rate

45.0%

Total # of Funds in Universe

200

Fund Co in Universe
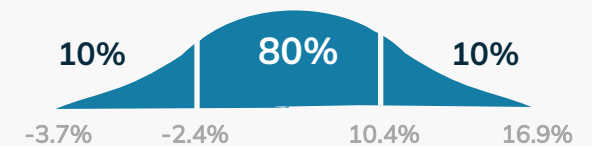
61

3M Net Flow

+$2,001M

12M Net Flow

+$7,635M

Total # of indices

11

1	7	3
Overall Market	Strategy-Based	Goal-Based

12M return - Second engine Liquid Alternative 35 Index

+8.2%

10%   80%   10%

-3.7%   -2.4%   10.4%   16.9%

Source: As of December 31, 2024. All currencies are in CAD terms. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.

Executive Summary – Q4 2024

Performance Highlights

- Following a strong Q3, the liquid alternative indices posted modest returns in the fourth quarter. The Second engine Liquid Alternative 35 Index™ gained 0.5%, bringing its full year performance to 8.2%.

- Among the strategy-based indices, the Second engine Equity Long Short Index™ continues to lead with a 2.9% gain in Q4, followed by the Second engine Absolute Return Index™ with a 1.5% gain. The Second engine Global Macro Index™ declined by 3.2%.

- All three goal-based indices posted positive returns, with the Second engine Equity Enhancer 10 Index™ leading at 1.6% in Q4, followed by the Second engine Fixed Income Enhancer 10 Index™ at 1.1% and the Second engine Diversifier 10 Index™ at 0.3%.

Alternative Universe Flows

- Flows in Q4 continued to demonstrate strong investor interest in alternative strategies, with a total net inflow of $2.0 billion for the quarter and $7.6 billion over the past 12 months, bringing total universe AUM to $54.4 billion at the end of Q4, up 45.0% YoY.

- All categories experienced positive net flows, with Alternative Fixed Income once again leading the charge, adding $529 million during the quarter and $1.5 billion over the full year. The Equity Long Short category also saw robust inflows, with $343 million in Q4 and nearby $1 billion over the past year.

- The Alternative Fixed Income category continues to hold the highest AUM, reaching $10.4 billion in assets across 25 funds, while the Equity Long Short category remains the largest by fund count, with 39 constituents.

Overview

The Second Engine Liquid Alternative Indices were created to provide accessible and timely insights into Canada's liquid alternatives market, bridge information gaps, and improve understanding of the segment. The index series include an aggregate index representing the overall market, along with seven strategy-based indices and three goal-based indices.

Second engine
Liquid Alternative 35 Index™

Strategy-based

Equity	Bond	Multi-Strategy	Specialty
Second engine **Equity Long Short Index**™	Second engine **Alternative Fixed Income Index**™	Second engine **Multi-Strategy Index**™	Second engine **Event-Driven Index**™
Second engine **Equity Market Neutral Index**™		Second engine **Absolute Return Index**™	Second engine **Global Macro Index**™

Goal-based

Second engine
Equity Enhancer 10 Index™

Second engine
Fixed Income Enhancer 10 Index™

Second engine
Diversifier 10 Index™

Objectives and Key Features

Provide better understanding of the alternative universe and available investment options

Provide timely information for investors to stay up-to-date on the liquid alternative landscape

Provide relevant peer groups to assess manager performance

Key Features

- Adhere to the CFA best practices for benchmarking[1]
- Equal-weighting to minimize overconcentration risk
- Quarterly rebalancing and semi-annual reconstitution

[1] The index construction methodologies closely follow the principles outlined in the CFA Institute's 2021 "Guidance Statement on Benchmarks for Firms" publication.

Industry Growth Over Time

Total AUM and # of Funds in Universe
(6/30/2019 - 12/31/2024)
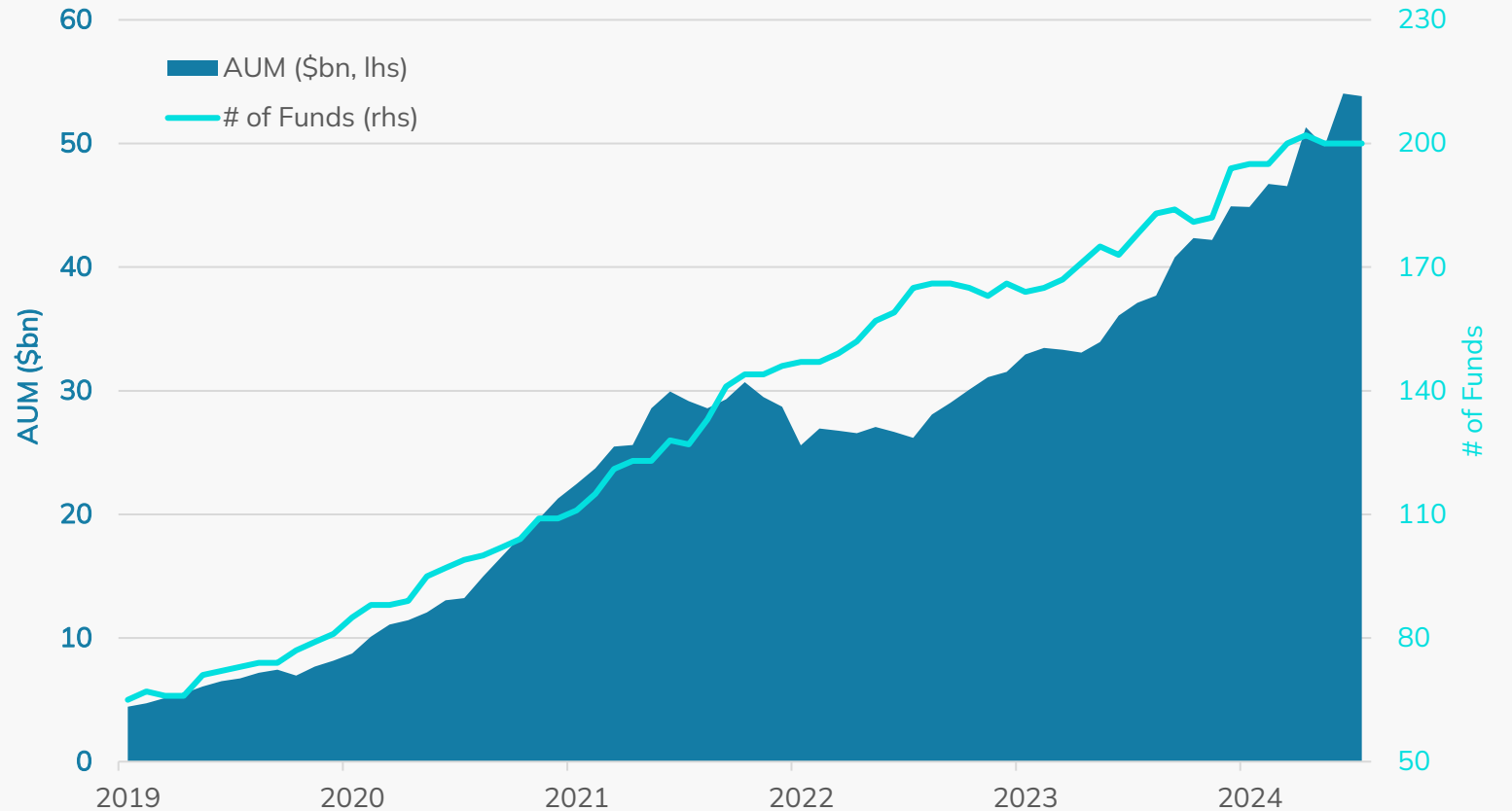
Source: Morningstar Inc.

Assets and Flows by Strategy

Size = Total AUM

Alternative Fixed Income, $10.4B

Equity Long Short, $7.6B

Equity Market Neutral, $2.8B

Absolute Return, $5.9B

Global Macro, $2.3B
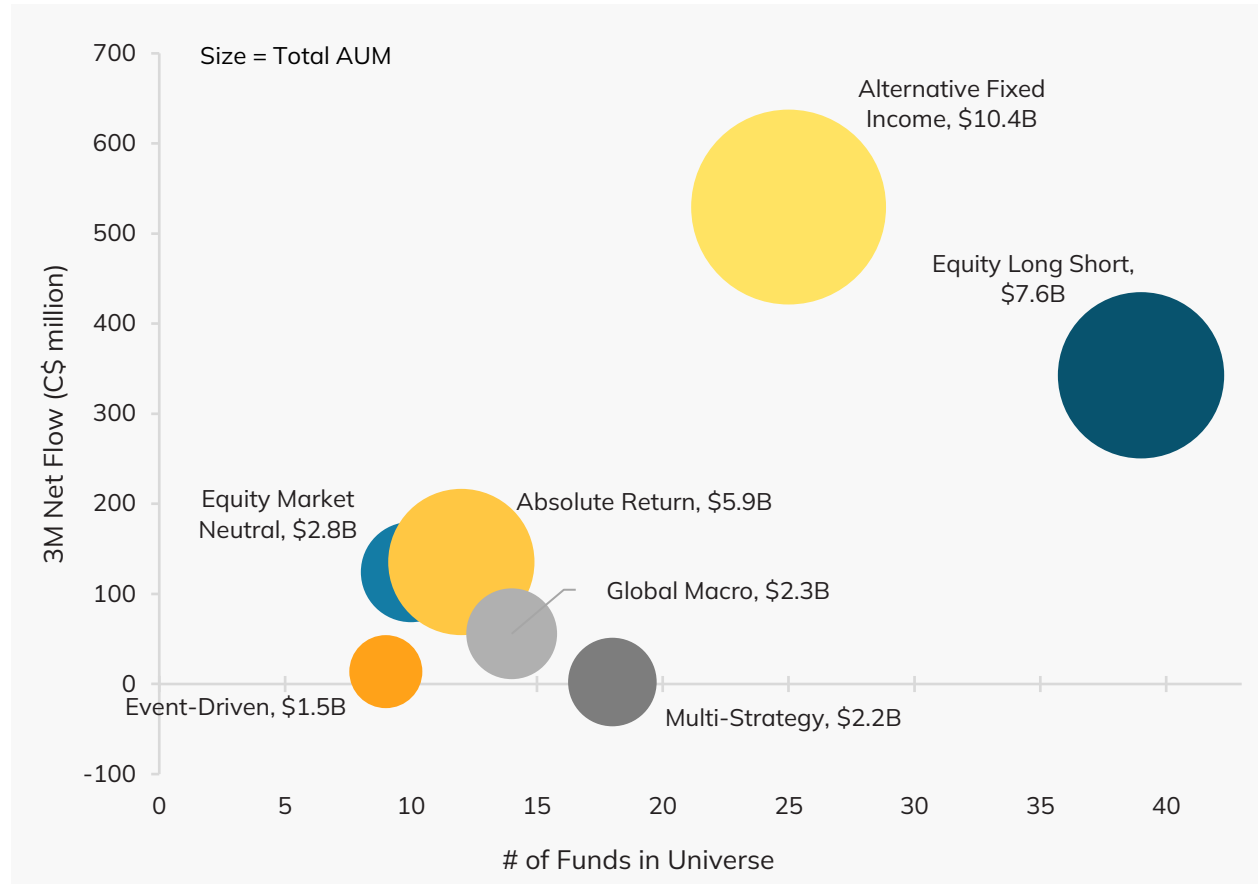
Event-Driven, $1.5B

Multi-Strategy, $2.2B

3M Net Flow (C$ million) — # of Funds in Universe

Category	AUM (C$ b)	% Total	3M Net Flow (C$ m)	12M Net Flow (C$ m)	# of Funds
Equity Long Short	7.6	13.9%	+343	+934	39
Equity Market Neutral	2.8	5.1%	+124	+117	10
Alternative Fixed Income	10.4	19.1%	+529	+1,536	25
Absolute Return	5.9	10.8%	+135	+901	12
Event-Driven	1.5	2.7%	+14	+67	9
Global Macro	2.3	4.2%	+56	+327	14
Multi-Strategy	2.2	4.0%	+2	-64	18
Others	21.9	40.2%	+797	+3,817	73
Total	**54.4**	**100.0%**	**+2,001**	**+7,635**	**200**

Source: As of December 31, 2024. Bubble size represents total AUM. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management. "Others" category consist of largely cryptocurrency assets and option-selling strategies.

Performance Summary

	1M	3M	YTD	1Y	3Y	5Y	Since Inception	Inception Date
Overall Market Index								
Second engine Liquid Alternative 35 Index	-0.2	0.5	8.2	8.2	3.0	4.5	4.4	06/30/2019
Strategy-Based Indices								
Second engine Equity Long Short Index	-1.5	2.9	15.3	15.3	4.8	9.2	9.0	06/30/2019
Second engine Equity Market Neutral Index	0.3	1.2	8.9	8.9	3.7	2.9	2.8	06/30/2019
Second engine Alternative Fixed Income Index	0.2	1.4	8.4	8.4	3.8	4.4	4.3	06/30/2019
Second engine Absolute Return Index	-0.3	1.5	7.2	7.2	2.3	2.8	2.8	06/30/2019
Second engine Event-Driven Index	0.3	1.1	3.9	3.9	0.6	-	3.8	06/30/2020
Second engine Global Macro Index	-1.1	-3.2	1.3	1.3	1.9	-	3.3	06/30/2020
Second engine Multi-Strategy Index	-1.3	0.5	9.3	9.3	1.4	5.0	4.5	06/30/2019
Goal-Based Indices								
Second engine Equity Enhancer 10 Index	-1.0	1.6	12.7	12.7	3.2	6.3	6.1	06/30/2019
Second engine Fixed Income Enhancer 10 Index	0.3	1.1	6.8	6.8	3.0	4.4	4.7	06/30/2019
Second engine Diversifier 10 Index	0.6	0.3	7.2	7.2	2.6	3.9	3.6	06/30/2019
Broad Market Indices								
S&P/TSX Composite Index	-3.3	3.8	21.7	21.7	8.6	11.1	11.1	06/30/2019[1]
ICE BofA Canada Broad Market Index	-0.5	-0.1	4.1	4.1	-0.7	0.7	0.7	06/30/2019[1]

Source: As of December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.
[1] inception date of the broad market indices were chosen to match the liquid alternative indices.

Risk Statistics Summary

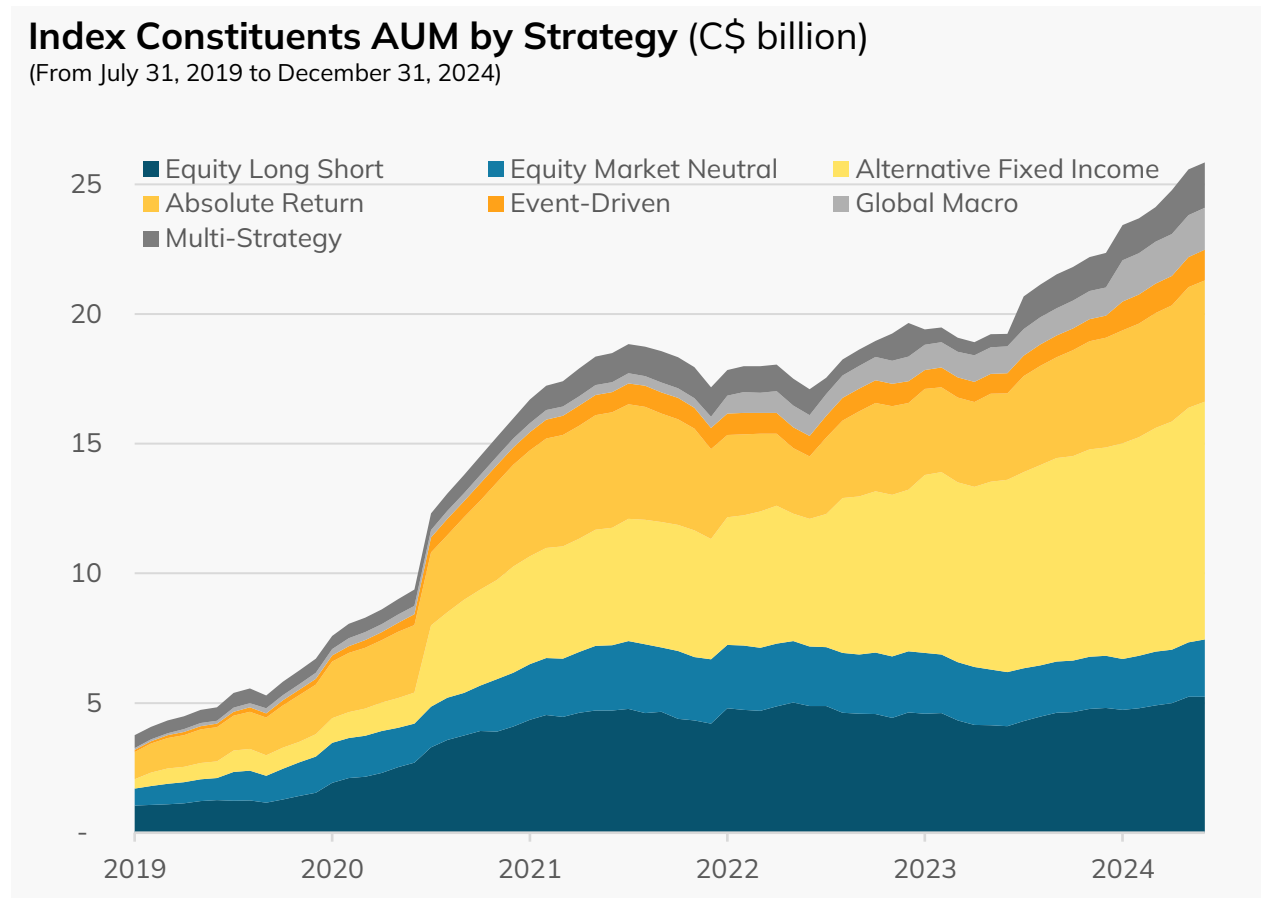|	Volatility	Sharpe Ratio	Max Drawdown	Equity		Fixed Income		Inception Date
				Correlation	Beta	Correlation	Beta	
Overall Market Index								
Second engine Liquid Alternative 35 Index	4.4	0.46	-7.5	0.87	0.54	0.25	0.38	06/30/2019
Strategy-Based Indices								
Second engine Equity Long Short Index	7.5	0.88	-10.0	0.89	0.47	0.43	0.57	06/30/2019
Second engine Equity Market Neutral Index	3.2	0.12	-5.8	-0.33	-0.02	-0.07	-0.01	06/30/2019
Second engine Alternative Fixed Income Index	5.8	0.33	-10.5	0.82	0.54	0.31	0.51	06/30/2019
Second engine Absolute Return Index	3.6	0.11	-6.5	0.84	0.66	0.20	0.39	06/30/2019
Second engine Event-Driven Index	8.9	0.16	-12.7	-0.06	-0.03	-0.03	-0.05	06/30/2020
Second engine Global Macro Index	4.7	0.19	-4.4	0.13	-0.12	0.03	-0.09	06/30/2020
Second engine Multi-Strategy Index	8.8	0.24	-14.5	0.89	0.47	0.51	0.67	06/30/2019
Goal-Based Indices								
Second engine Equity Enhancer 10 Index	5.7	0.64	-7.7	0.84	0.46	0.32	0.43	06/30/2019
Second engine Fixed Income Enhancer 10 Index	5.1	0.46	-7.8	0.82	0.61	0.27	0.50	06/30/2019
Second engine Diversifier 10 Index	3.2	0.37	-4.5	0.50	0.33	0.11	0.17	06/30/2019
Broad Market Indices								
S&P/TSX Composite Index	15.3	0.57	-22.3	-	-	-	-	06/30/2019[1]
ICE BofA Canada Broad Market Index	6.2	-0.28	-15.6	-	-	-	-	06/30/2019[1]

Source: As of December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.
[1] inception date of the broad market indices were chosen to match the liquid alternative indices.

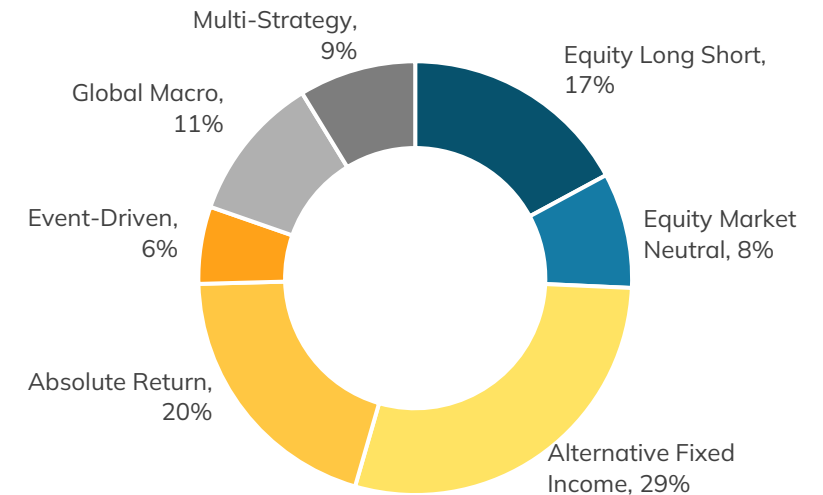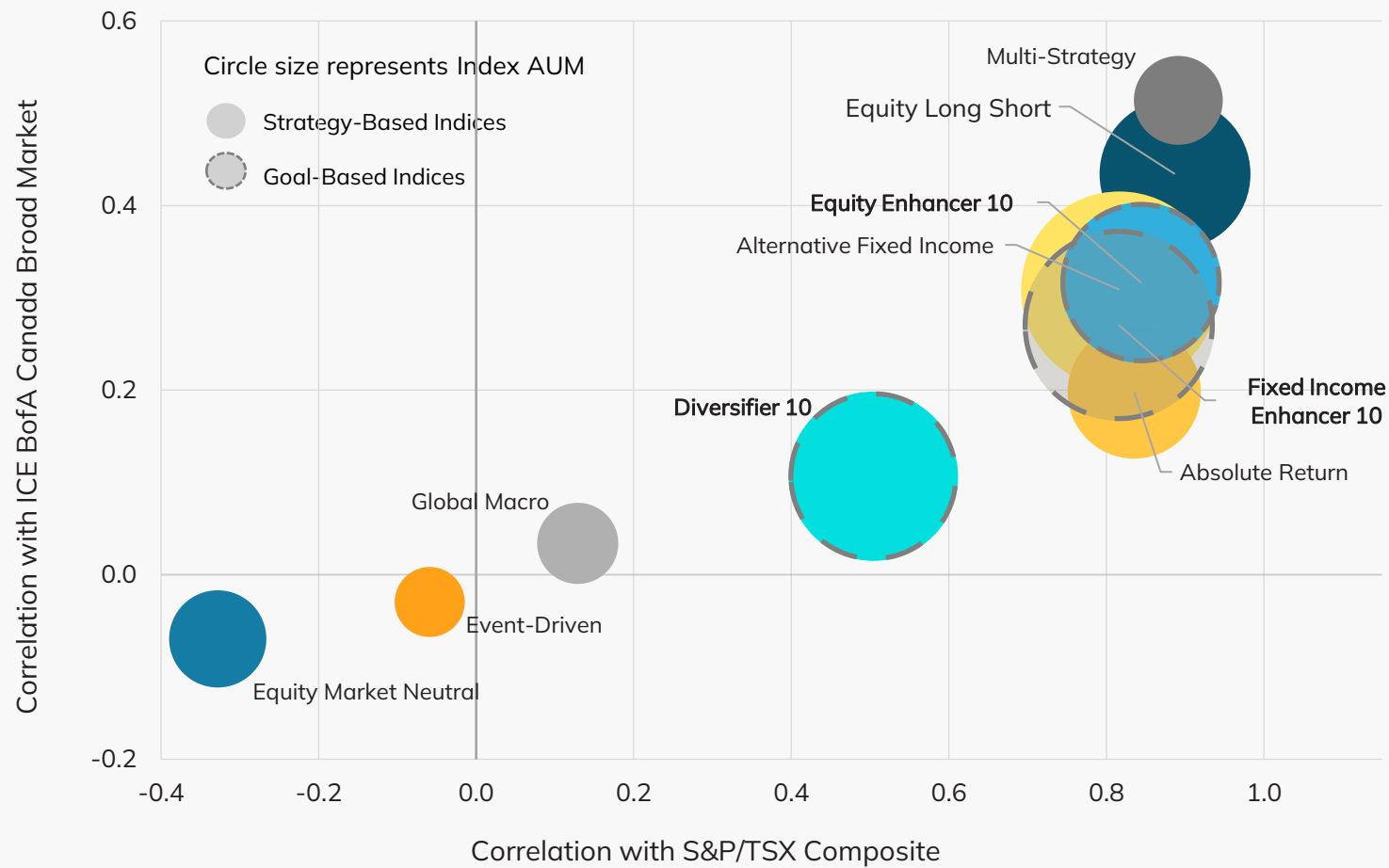# Second engine Liquid Alternative 35 Index™

Index Constituents AUM by Strategy (C$ billion)
(From July 31, 2019 to December 31, 2024)

Legend:
- Equity Long Short
- Equity Market Neutral
- Alternative Fixed Income
- Absolute Return
- Event-Driven
- Global Macro
- Multi-Strategy

Index Composition by Strategy
(As of December 31, 2024)

- Multi-Strategy, 9%
- Global Macro, 11%
- Event-Driven, 6%
- Absolute Return, 20%
- Equity Long Short, 17%
- Equity Market Neutral, 8%
- Alternative Fixed Income, 29%

Index AUM Characteristics (C$ million)

Total	Mean	Median	Largest	Smallest
25,846	738	690	2,132	81

Source: Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.

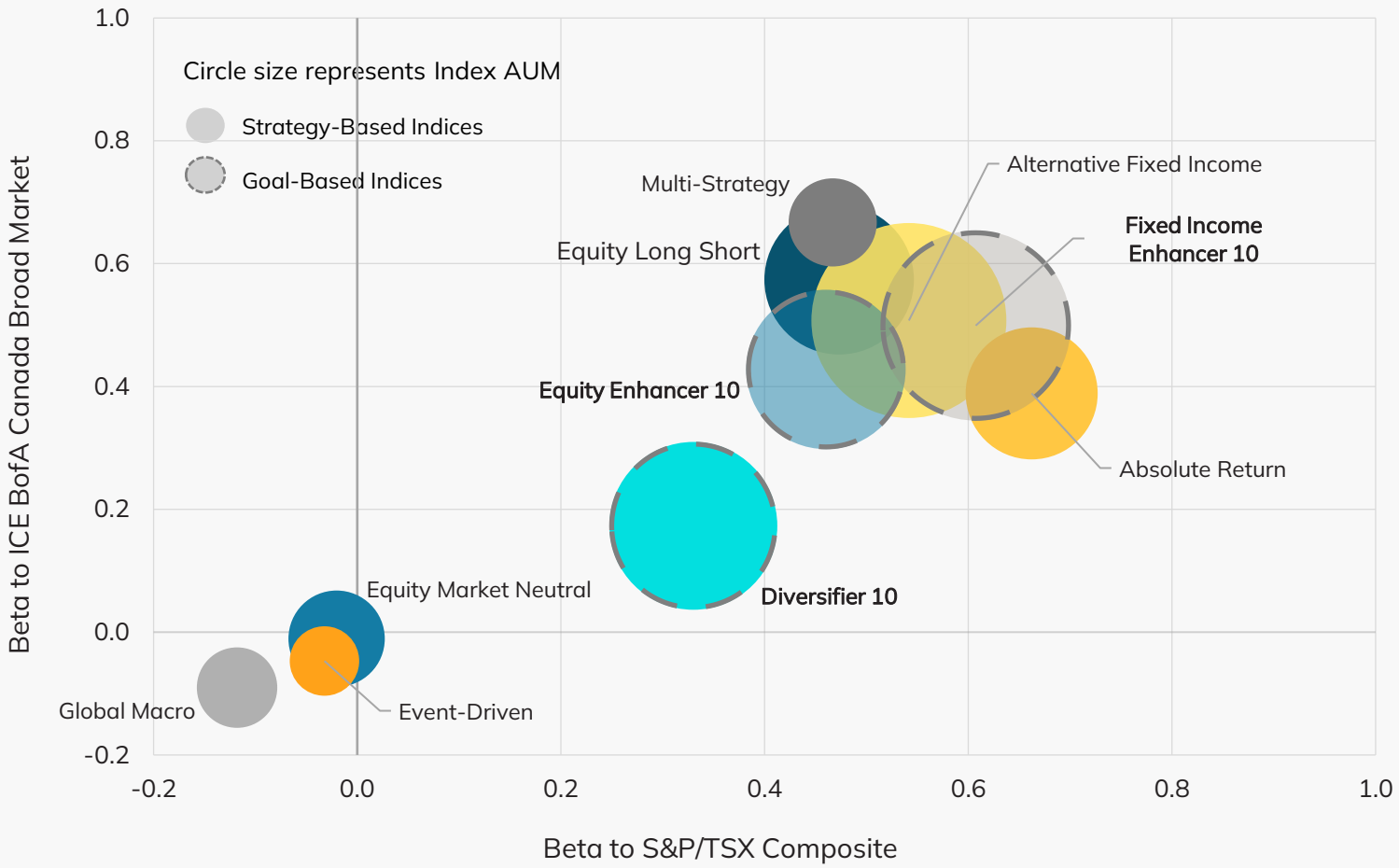# Calendar Year Returns by Strategy

2020	2021	2022	2023	2024	Since Inception[1]	
					Return	Vol.
Event-Driven 17.4%	Equity Long Short 15.8%	Global Macro 2.4%	Alternative Fixed Income 7.4%	Equity Long Short 15.3%	Equity Long Short 9.0%	Equity Market Neutral 3.2%
Equity Long Short 16.4%	Multi-Strategy 9.4%	Equity Market Neutral 1.5%	Absolute Return 5.2%	Multi-Strategy 9.3%	Multi-Strategy 4.5%	Absolute Return 3.6%
Multi-Strategy 12.1%	Absolute Return 5.2%	Equity Long Short -3.6%	Multi-Strategy 3.9%	Equity Market Neutral 8.9%	Alternative Fixed Income 4.3%	Global Macro 4.7%
Alternative Fixed Income 6.9%	Alternative Fixed Income 3.9%	Alternative Fixed Income -3.9%	Equity Long Short 3.5%	Alternative Fixed Income 8.4%	Event-Driven 3.8%	Alternative Fixed Income 5.8%
Global Macro 6.3%	Global Macro 2.9%	Event-Driven -4.8%	Event-Driven 2.8%	Absolute Return 7.2%	Global Macro 3.3%	Equity Long Short 7.5%
Equity Market Neutral 3.1%	Equity Market Neutral 0.5%	Absolute Return -5.0%	Global Macro 2.0%	Event-Driven 3.9%	Absolute Return 2.8%	Multi-Strategy 8.8%
Absolute Return 1.9%	Event-Driven -0.8%	Multi-Strategy -8.3%	Equity Market Neutral 0.8%	Global Macro 1.3%	Market Neutral 2.8%	Event-Driven 8.9%

Correlation with stocks and bonds

Chart: Correlation with S&P/TSX Composite (x-axis) vs Correlation with ICE BofA Canada Broad Market (y-axis)

Circle size represents Index AUM
- Strategy-Based Indices
- Goal-Based Indices

Data points:
- Multi-Strategy
- Equity Long Short
- Equity Enhancer 10
- Alternative Fixed Income
- Fixed Income Enhancer 10
- Absolute Return
- Diversifier 10
- Global Macro
- Event-Driven
- Equity Market Neutral

Beta to stocks and bonds

Circle size represents Index AUM
- Strategy-Based Indices
- Goal-Based Indices

Chart axes:
- Y-axis: Beta to ICE BofA Canada Broad Market (-0.2 to 1.0)
- X-axis: Beta to S&P/TSX Composite (-0.2 to 1.0)

Labels on chart: Multi-Strategy, Alternative Fixed Income, Fixed Income Enhancer 10, Equity Long Short, Equity Enhancer 10, Absolute Return, Diversifier 10, Equity Market Neutral, Event-Driven, Global Macro

Strategy-Based Indices

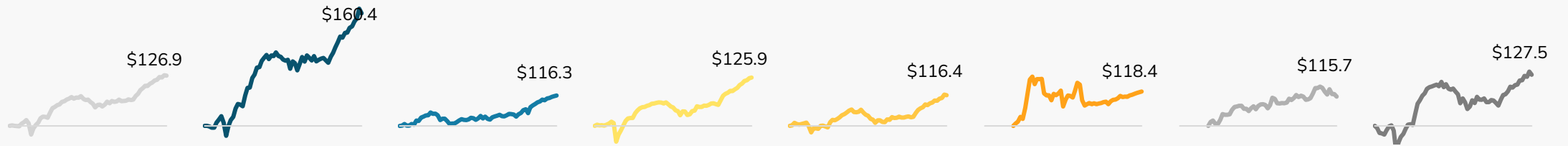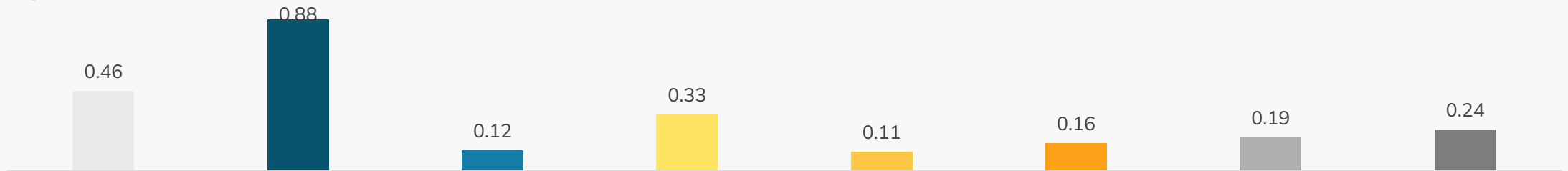| Second engine **Liquid Alternative 35** Index | Second engine **Equity Long Short** Index | Second engine **Equity Market Neutral** Index | Second engine **Alternative Fixed Income** Index | Second engine **Absolute Return** Index | Second engine **Event-Driven** Index | Second engine **Global Macro** Index | Second engine **Multi-Strategy** Index |

Cumulative Growth (Rebased to 100 on inception)

$126.9 $160.4 $116.3 $125.9 $116.4 $118.4 $115.7 $127.5

Sharpe Ratio

| 0.46 | 0.88 | 0.12 | 0.33 | 0.11 | 0.16 | 0.19 | 0.24 |

Source: From inception to December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management. The inception date for all indices is June 30, 2019, except for the Second engine Global Macro Index and Second engine Event-Driven Index, which were incepted on June 30, 2020.

Goal-Based Indices

Second engine
**Liquid
Alternative 35**
Index

Second engine
**Equity
Enhancer 10**
Index
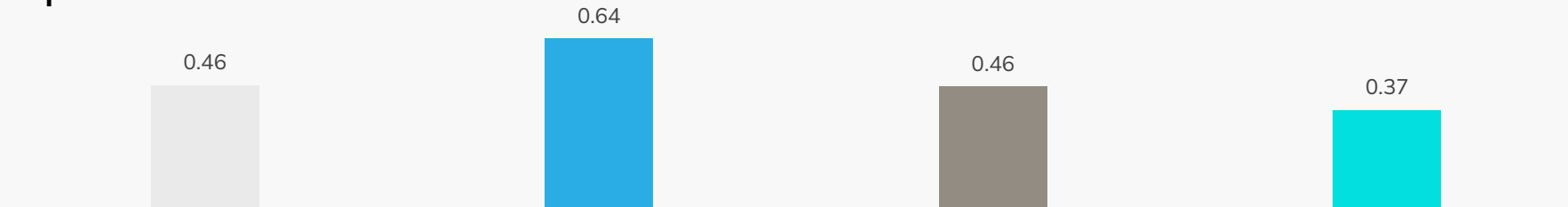
Second engine
**Fixed Income
Enhancer 10**
Index

Second engine
Diversifier 10
Index

Cumulative Growth (Rebased to 100 on inception)

$126.9

$138.2

$129.0

$121.5
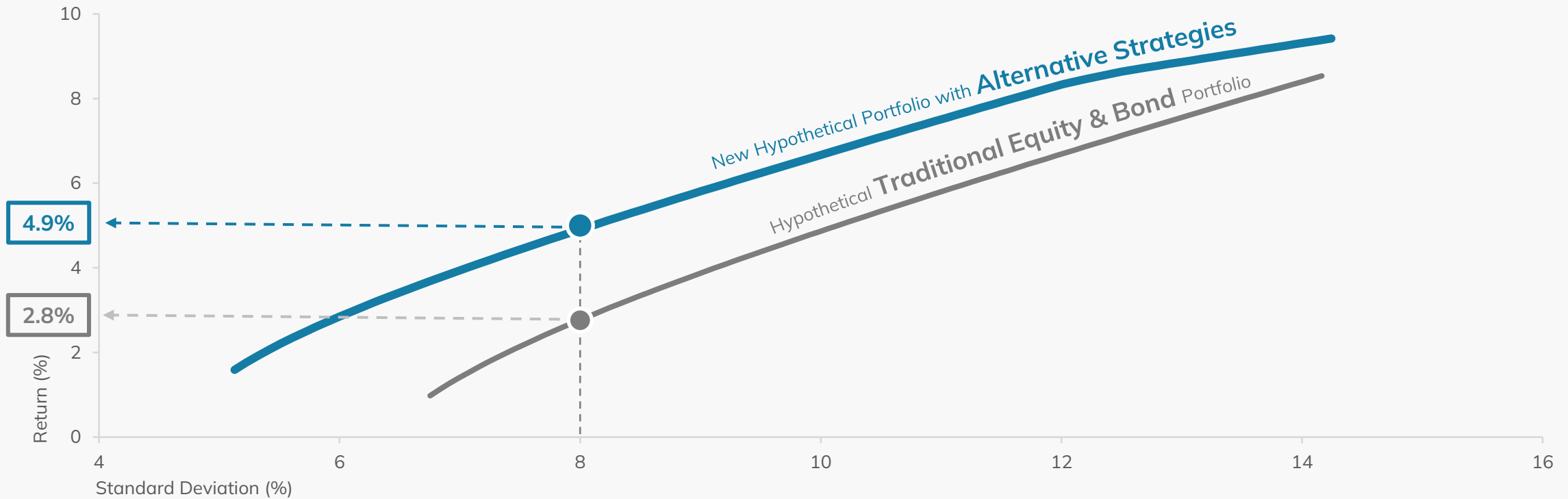
Sharpe Ratio

0.46

0.64

0.46

0.37

Source: From June 30, 2019 to December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.

Optimize Portfolio Efficiency with Alternatives

Case Study: Efficient Frontier of Traditional Portfolio **vs** New Portfolio (w. Alternatives)

Source: Morningstar Inc. From June 30, 2019 to June 30, 2024. Equity is represented by S&P/TSX Composite Index, and Fixed Income is represented by ICE BofA Canada Broad Market Index. Past performance is no guarantee of future performance. Alternative assets compose of the 3 goal-based indices from Second engine, i.e. Second engine Equity Enhancer 10 Index, Second engine Fixed Income Enhancer 10 Index, Second engine Diversifier 10 Index. Weight for each asset is capped at 80%. **Weight for Alternative Strategies are capped at 30%**. The portfolios used in this efficient frontier is hypothetical in nature, calculated using the historical returns of the underlying indices. Indices are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that a portfolio may incur. Therefore, performance of actual portfolios can differ significantly.

Why Liquid Alternatives?

Enhancing returns and diversifying risk, while preserving liquidity and maintaining strong governance

	Traditional Mutual Fund	**Liquid Alternative**	**Hedge Fund**
Eligible Investors	Retail Investors	Retail Investors	Accredited Investors only
Leverage	Not permitted	Up to 300% of Net Asset Value	No explicit maximum
Short Selling	Up to 20% of Net Asset Value (cash cover required)	Up to 50% of Net Asset Value (or 100% with exemptive relief)	No explicit maximum
Borrowing	Not permitted	Up to 50% of Net Asset Value (or 100% with exemptive relief)	No explicit maximum
Governance	Independent Review Committee required	Independent Review Committee required	No specific governance requirement
Redemption Term	Daily	Daily (most common), or weekly	Weekly, monthly (most common) or quarterly
Transparency	Quarterly portfolio disclosure Annual and interim financial disclosure	Quarterly portfolio disclosure Annual and interim financial disclosure	Annual and interim financial disclosure
Minimum Investment	Low[1]	Low to medium[1]	High[1]

[1] Minimum investment levels are relative, traditional mutual funds and liquid alternatives generally have much lower minimums than hedge funds. Exact thresholds vary by fund and provider.

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Sign Up

To learn more about Second engine,
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or contact us as support@SecondEngine.com

Disclosure

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