

# Second engine™ Liquid Alternative Indices

Quarterly Industry Report

Q4 2024

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# Index Snapshot

Universe AUM

\$54.4<sub>B</sub>

12M AUM Growth Rate

45.0%

Total # of Funds in Universe

200

Fund Co in Universe

61

3M Net Flow

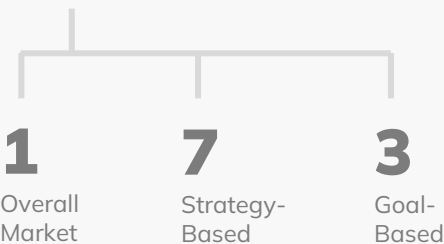
+\$2,001<sub>M</sub>

12M Net Flow

+\$7,635<sub>M</sub>

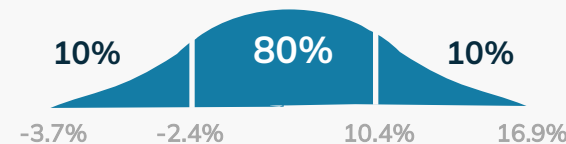
Total # of indices

11



12M return - Second engine Liquid Alternative 35 Index

+8.2%



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%.

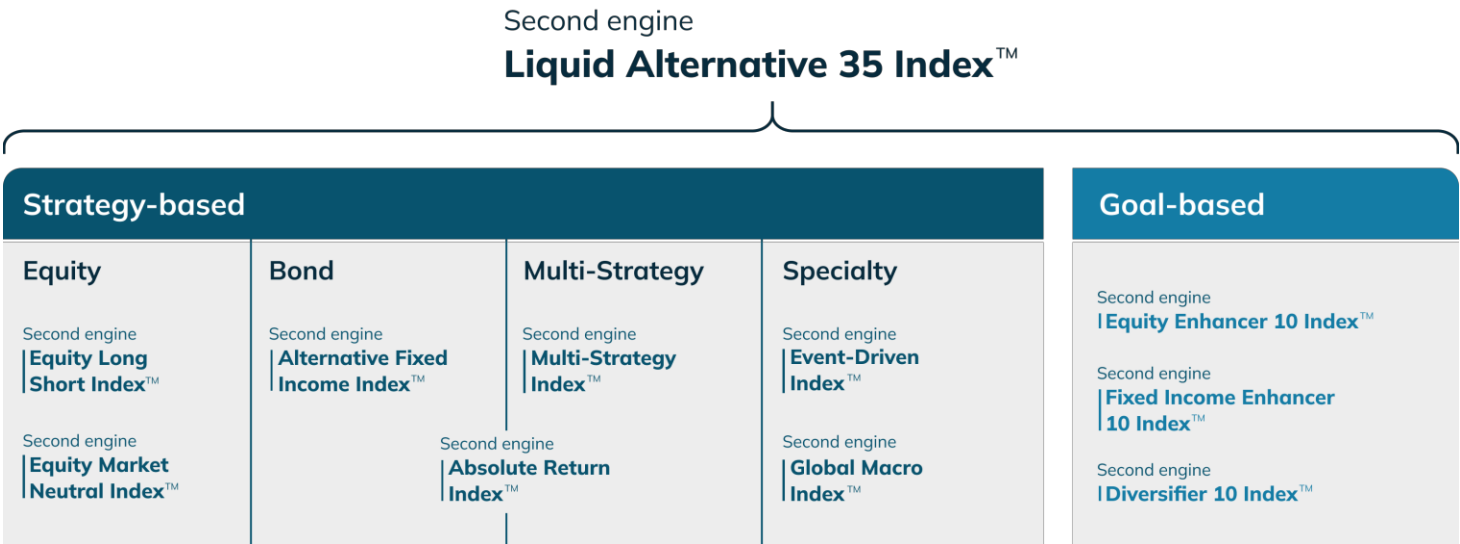
## Alternative Universe Flows

- 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.




Source: As of December 31, 2024, based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management. All currencies are in CAD terms. The calculation of the Second engine Liquid Alternative Indices began in June 2023 ("Index Creation Date"). All performance information of the indices are based on actual returns of the constituents and in accordance with the methodology stated in the Second engine Liquid Alternative Indices Methodology Guide ([https://prd2e.wpenginepowered.com/wp-content/uploads/2024/03/2e\\_LiqAltIndex\\_MethodologyGuide\\_vF.pdf](https://prd2e.wpenginepowered.com/wp-content/uploads/2024/03/2e_LiqAltIndex_MethodologyGuide_vF.pdf)). The index calculation methodology have been retroactively applied to produce performance data for periods before the Index Creation Date where the index constituent criteria is achieved.

# 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.



## 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

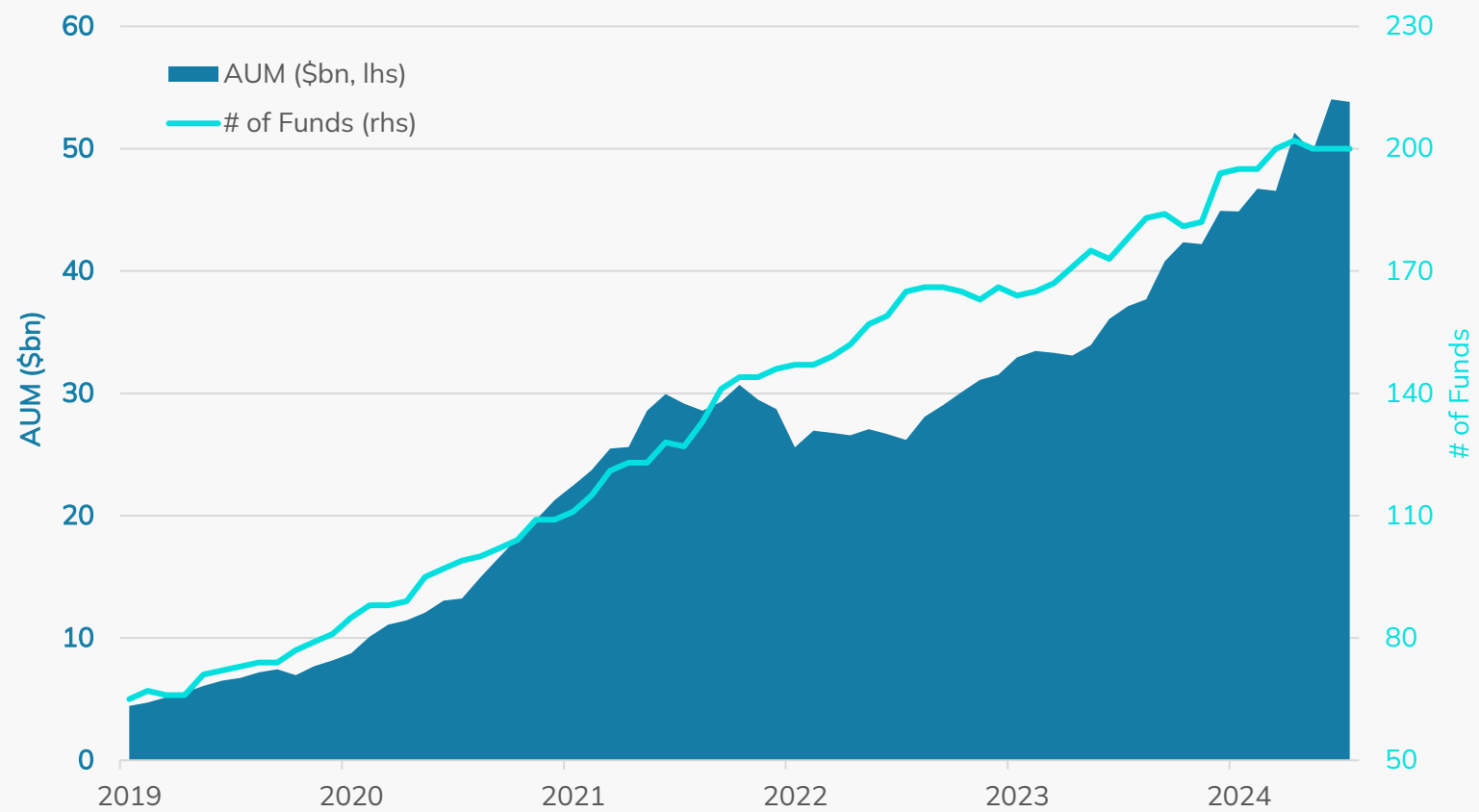
## Key Features

- Adhere to the CFA best practices for benchmarking<sup>1</sup>
- Equal-weighting to minimize overconcentration risk
- Quarterly rebalancing and semi-annual reconstitution

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

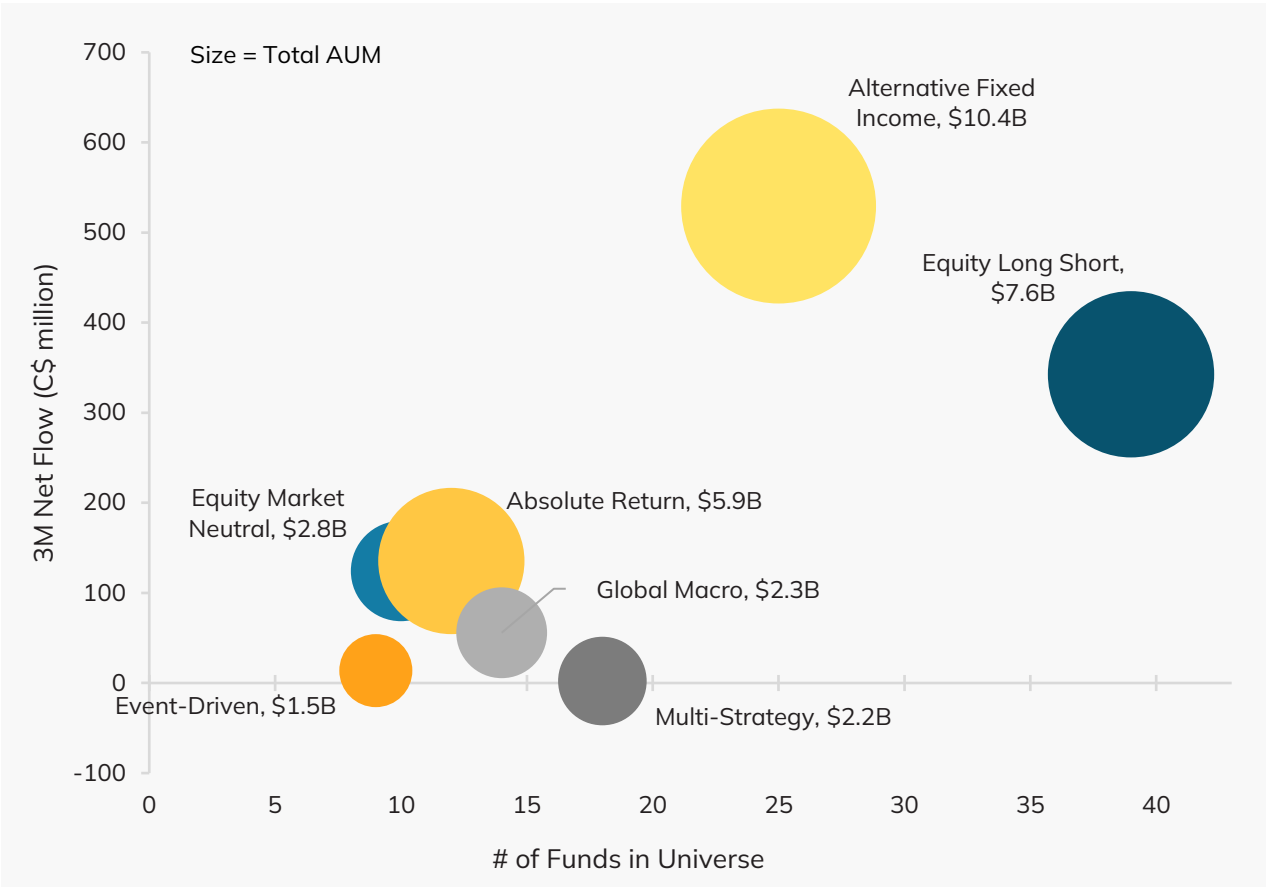
# Industry Growth Over Time

Total AUM and # of Funds in Universe  
(6/30/2019 - 12/31/2024)



Source: Morningstar Inc.

# Assets and Flows by Strategy



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
<b>Overall Market Index</b>								
Second engine Liquid Alternative 35 Index	-0.2	0.5	8.2	8.2	3.0	4.5	4.4	06/30/2019
<b>Strategy-Based Indices</b>								
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
<b>Goal-Based Indices</b>								
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
<b>Broad Market Indices</b>								
S&P/TSX Composite Index	-3.3	3.8	21.7	21.7	8.6	11.1	11.1	06/30/2019 <sup>1</sup>
ICE BofA Canada Broad Market Index	-0.5	-0.1	4.1	4.1	-0.7	0.7	0.7	06/30/2019 <sup>1</sup>

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

<sup>1</sup> inception date of the broad market indices were chosen to match the liquid alternative indices.



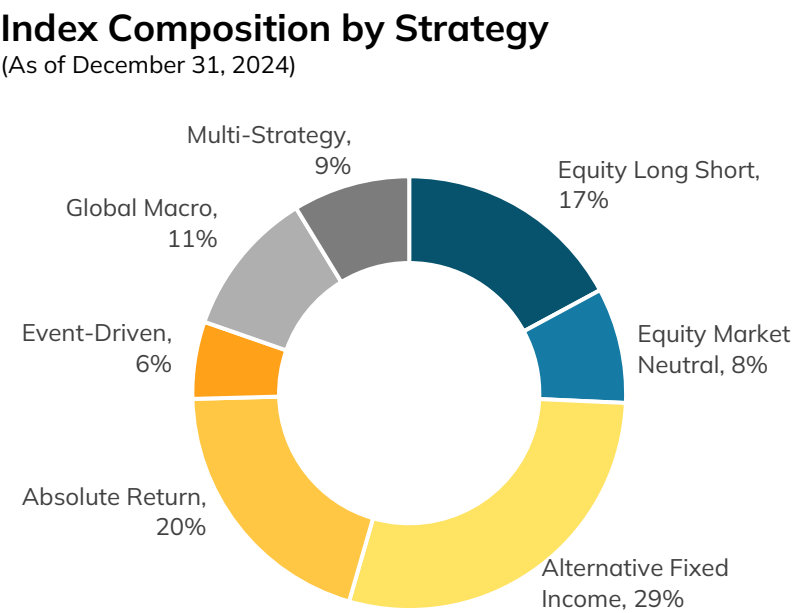
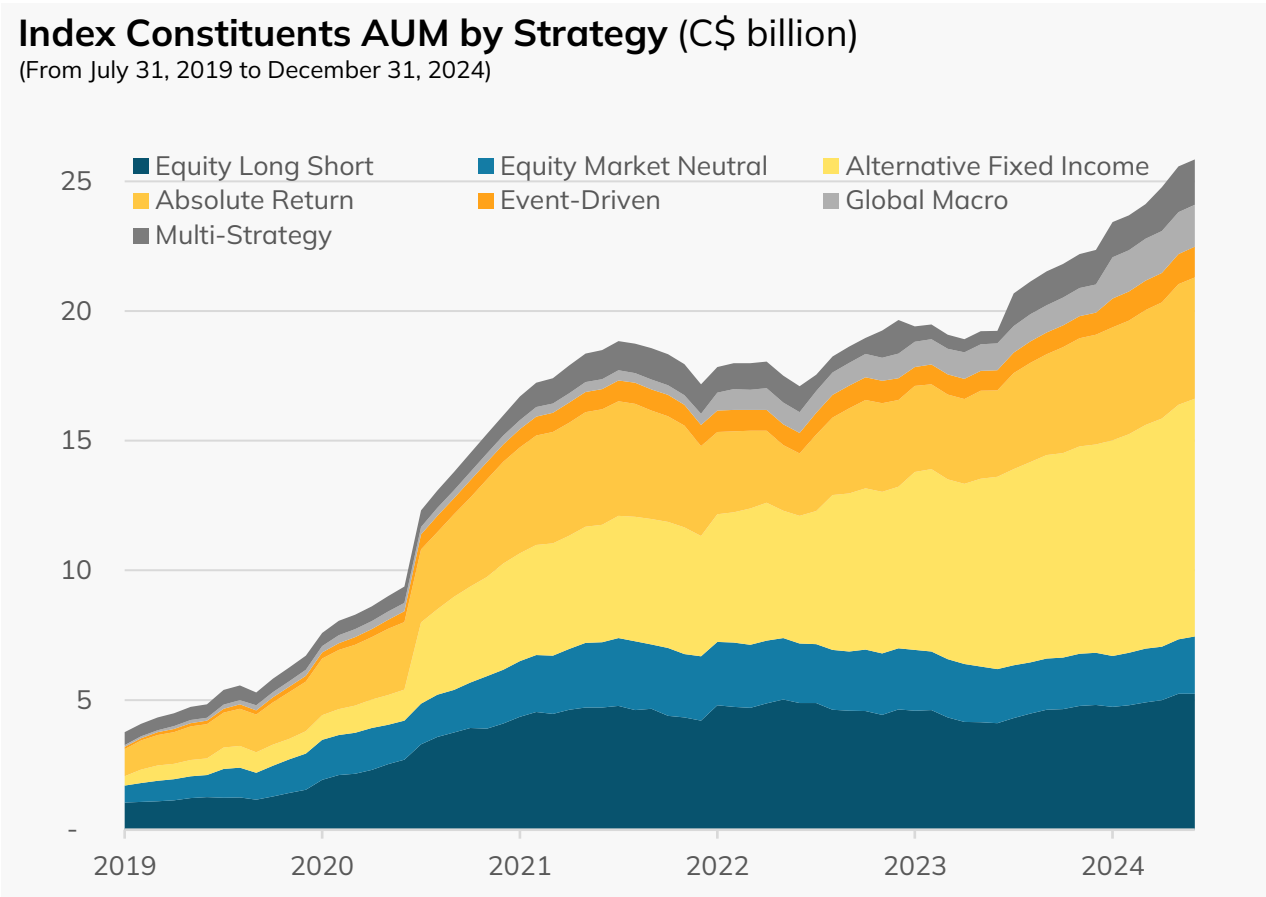
# Risk Statistics Summary

	Volatility	Sharpe Ratio	Max Drawdown	Equity		Fixed Income		Inception Date
				Correlation	Beta	Correlation	Beta	
<b>Overall Market Index</b>								
Second engine Liquid Alternative 35 Index	4.4	0.46	-7.5	0.87	0.54	0.25	0.38	06/30/2019
<b>Strategy-Based Indices</b>								
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
<b>Goal-Based Indices</b>								
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
<b>Broad Market Indices</b>								
S&P/TSX Composite Index	15.3	0.57	-22.3	-	-	-	-	06/30/2019 <sup>1</sup>
ICE BofA Canada Broad Market Index	6.2	-0.28	-15.6	-	-	-	-	06/30/2019 <sup>1</sup>

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

<sup>1</sup> inception date of the broad market indices were chosen to match the liquid alternative indices.

# Second engine Liquid Alternative 35 Index™



**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.

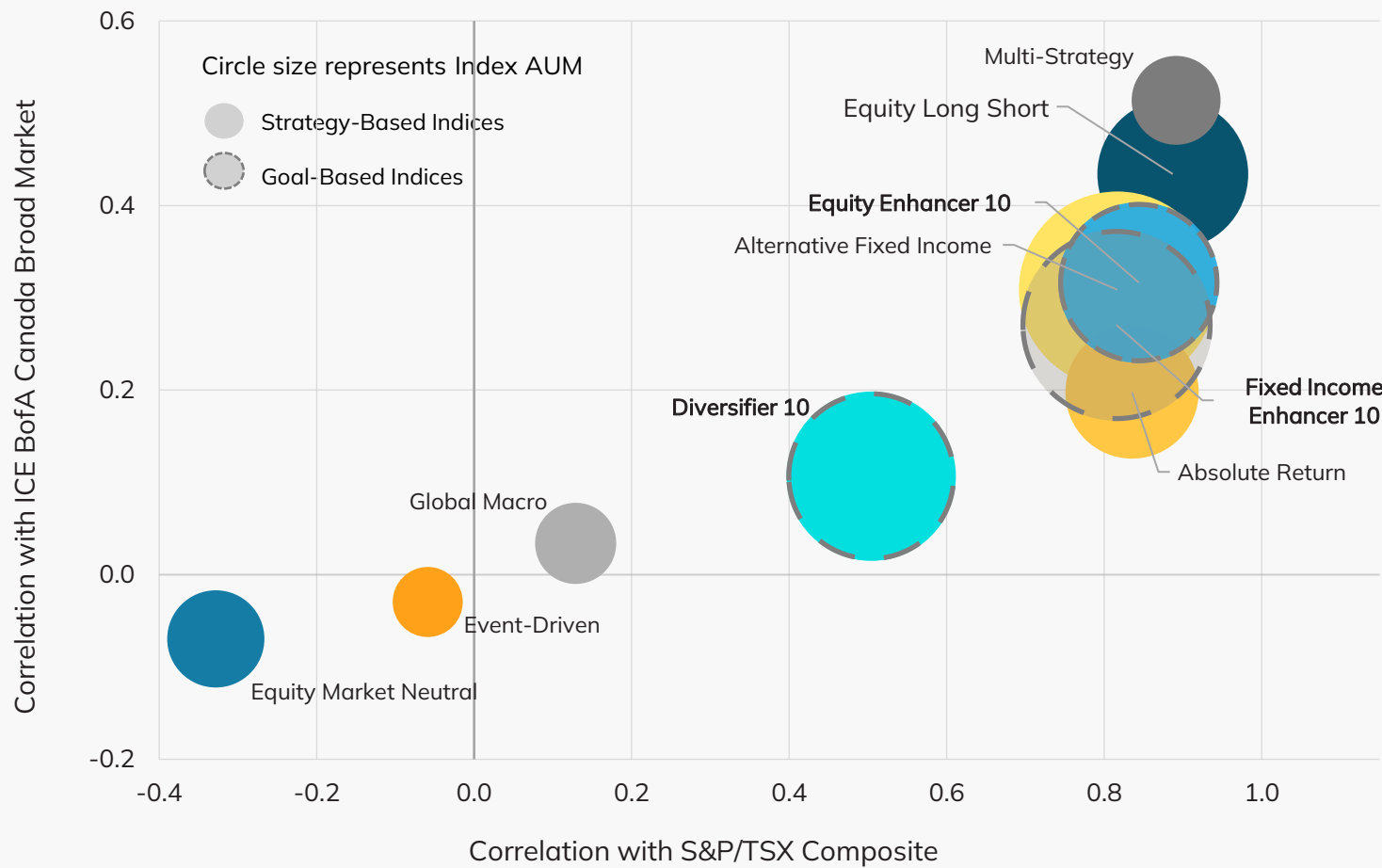
# Calendar Year Returns by Strategy

2020	2021	2022	2023	2024	Since Inception <sup>1</sup>	
					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%

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

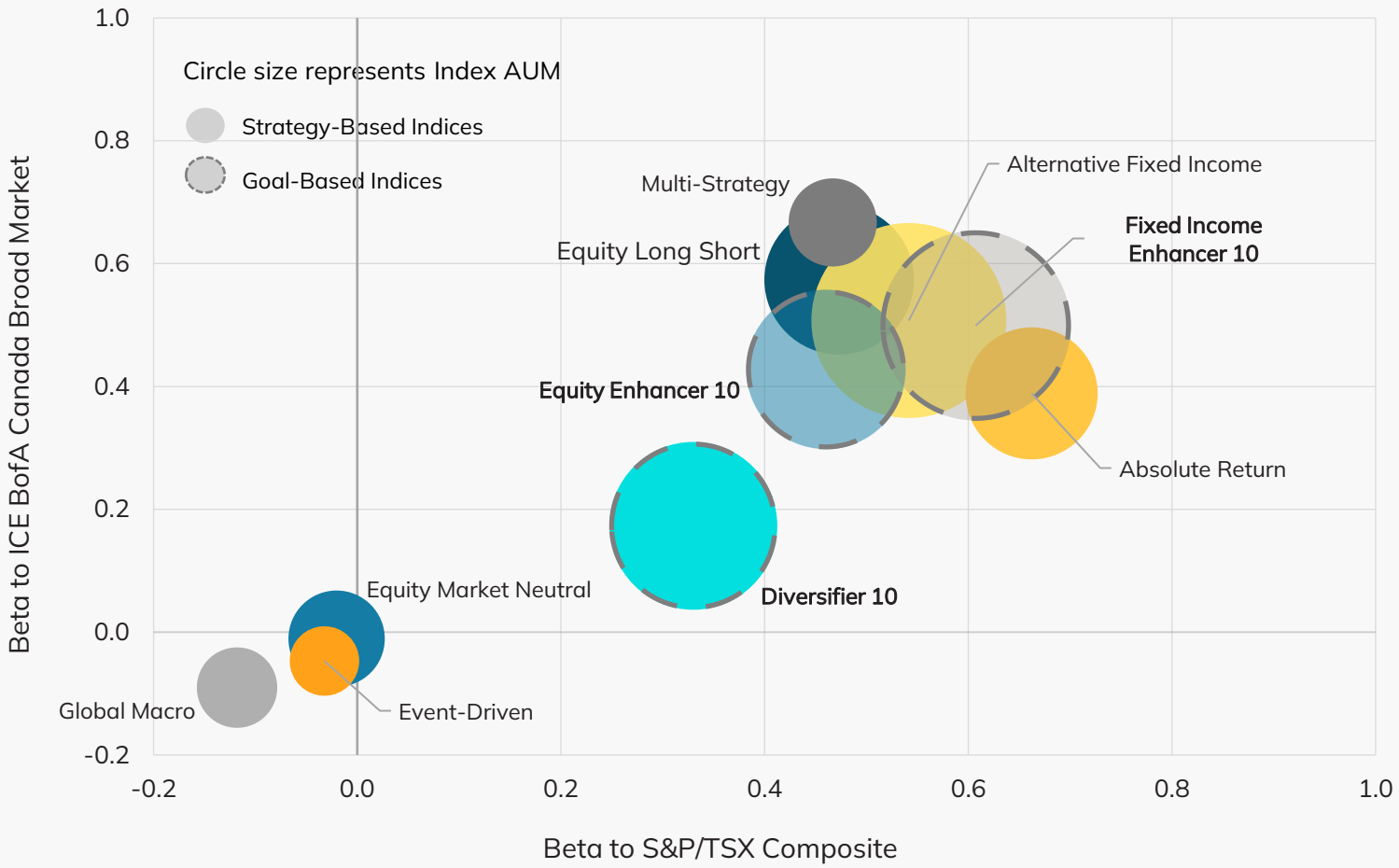
<sup>1</sup> Inception date for all indices are June 30, 2019, except for the Second engine Event-Driven Index and Second engine Global Macro Index which were incepted on June 30, 2020.

# Correlation with stocks and bonds



Source: Since inception to December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management. All strategy categories began on June 30, 2019, except for the Global Macro and Event-Driven, which started on June 30, 2020.

# Beta to stocks and bonds



Source: Since inception to December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management. All strategy categories began on June 30, 2019, except for the Global Macro and Event-Driven, which started on June 30, 2020.

Importance of Manager Selection

# Manager Performance Dispersion (Trailing 3 Years, Annualize)



Second engine  
**Equity Long Short**  
Index



Second engine  
**Equity Market Neutral**  
Index



Second engine  
**Alternative Fixed Income**  
Index



Second engine  
**Absolute Return**  
Index



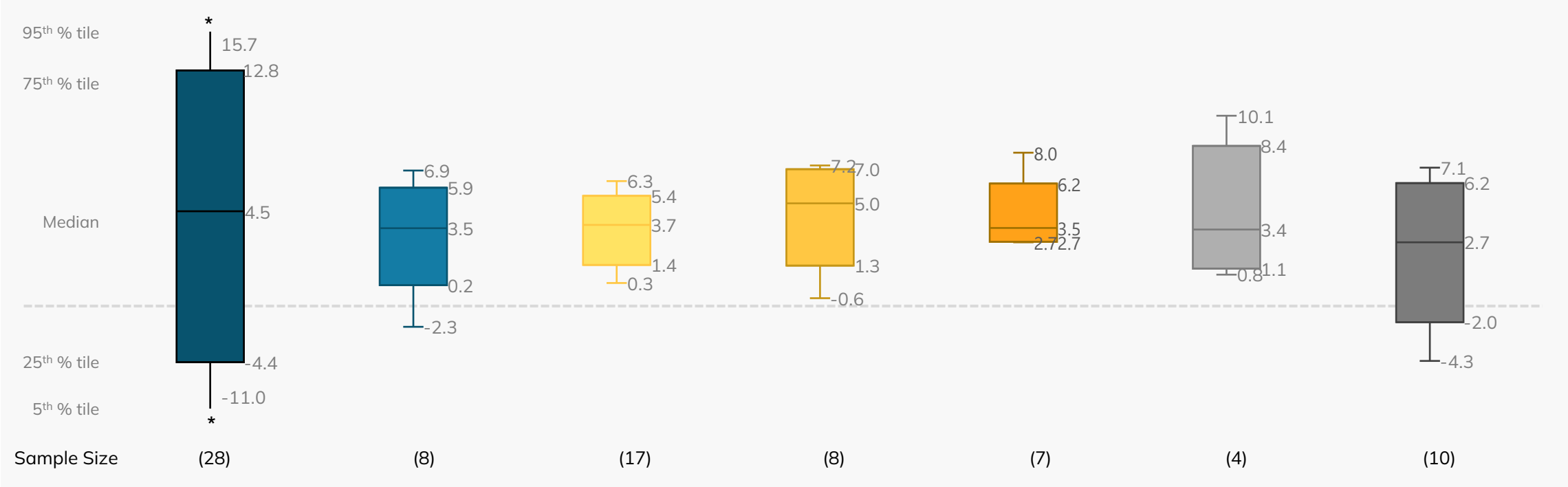
Second engine  
**Event-Driven**  
Index



Second engine  
**Global Macro**  
Index



Second engine  
**Multi-Strategy**  
Index



Source: As of December 31, 2024. Morningstar Inc.  
\* Chart scale capped for graphing purposes

# 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

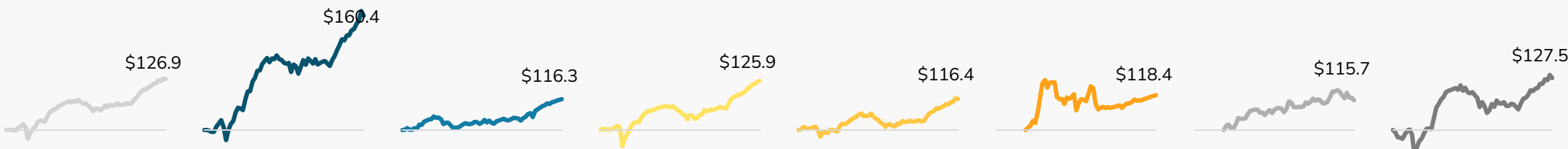


Second engine  
**Global Macro**  
Index

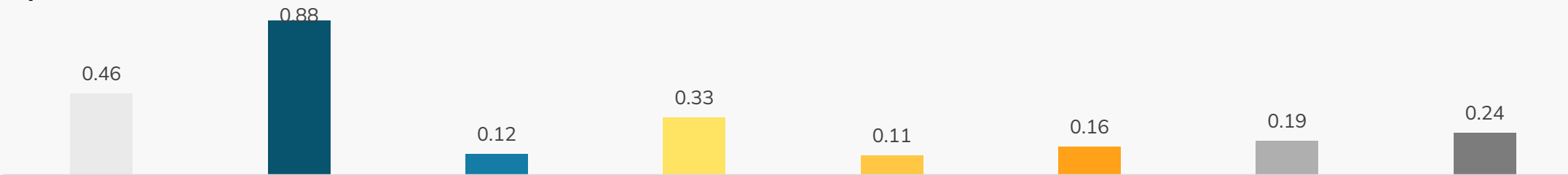


Second engine  
**Multi-Strategy**  
Index

## Cumulative Growth (Rebased to 100 on inception)



## Sharpe Ratio



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 inceptioned 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

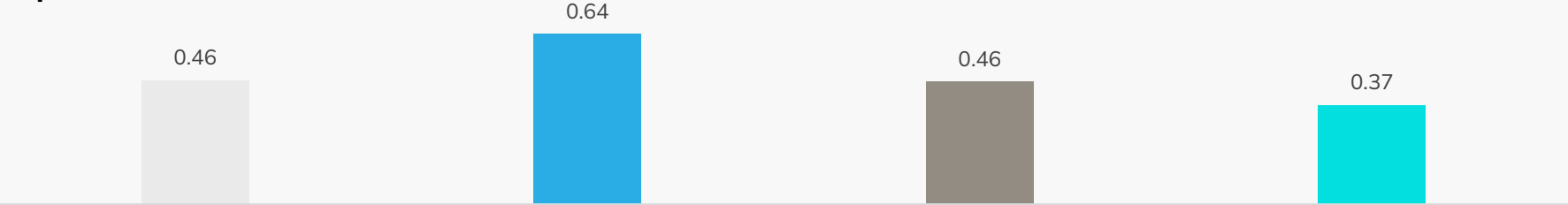


Second engine  
**Diversifier 10**  
Index

## Cumulative Growth (Rebased to 100 on inception)



## Sharpe Ratio

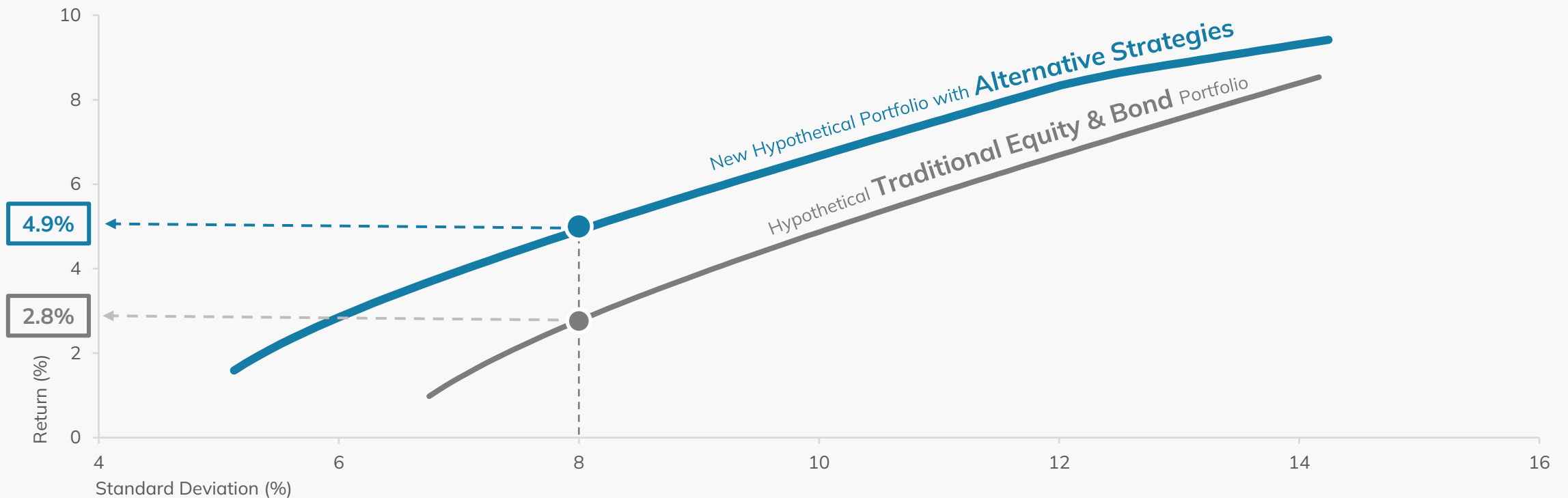


Source: From June 30, 2019 to December 31, 2024. Based on index constituent data provided by Morningstar and index performance calculated by Picton Mahoney Asset Management.



# 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 <sup>1</sup>	Low to medium <sup>1</sup>	High <sup>1</sup>

<sup>1</sup> 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.

# Power your business with Second engine



## Digital Tools

Streamline your portfolio construction process with powerful tools, starting with Portfolio Analyzer.



## Consulting

Insights from portfolio construction experts.



## Research & Data

Track the performance of liquid alternative investments with a comprehensive suite of liquid alternatives indices.



Want these performance insights delivered to your inbox?

Sign up for our monthly Second engine indices newsletter to stay informed of market performance update and elevate your clients' portfolios.

[Sign Up](#)

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or contact us as [support@SecondEngine.com](mailto:support@SecondEngine.com)

# Disclosure

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