Absolute Return and Alternative Funds in Germany

2024 Liquid Alternatives strategies give a 9.26% annual return. Best result since the study was launched.

Robust risk management. Positive turnaround in cash flows initiated.

About the Study

Since 2008, Lupus alpha has been evaluating the universe of Absolute Return and Liquid Alternatives funds on the basis of data from LSEG Lipper. The Study covers UCITS-compliant funds with an active management approach that are authorised for distribution in Germany. The Study focuses on market size, development and composition, performance in the investment segment and individual strategies, as well as key risk figures. It evaluates the three levels of aggregation – the overall universe, strategies within the universe, and funds within the strategies – and distinguishes between 14 strategies. The Alt. Long/Short Equity strategy, for example, includes 93 funds.

SUMMARY

2024 marks an extraordinary success for Liquid Alternatives in Germany. With a performance of 9.26%, the asset class saw the best return since the study was launched in 2008, positioning itself close to European equities (+11.01%) and well ahead of EUR bonds (corporates: 4.56%). The UCITS hedge fund strategies also outperformed unregulated hedge funds (8.09%). The broad basis of success is remarkable: 88.5% of all funds posted a positive performance. The asset class was particularly strong in terms of risk control – the maximum drawdowns remained in single digits for almost all strategies, with Absolute Return Bond and Alternative Credit Focus particularly convincing with very moderate drawdowns of -2.9% and -2.7%, respectively, combined with strong performance. The quality of risk management is also reflected in the Sharpe ratio: 62.4% of all funds achieved a positive metric, with one fifth achieving a ratio of 1 or more.

A significant turnaround was evident in cash flows in the second half of 2024. After record outflows of EUR 35.1 billion in 2023, net outflows fell to only EUR 4.29 billion in 2024. While EUR 6.37 billion was lost in the half-year, the second half was positive for the first time. Seven out of 14 strategies recorded positive net cash flows led by Absolute Return Bond with inflows of EUR 4.7 billion, resulting in a 5 percentage point increase in market share to 21%. Alternative fixed income strategies remain the largest group in the market at 30%.

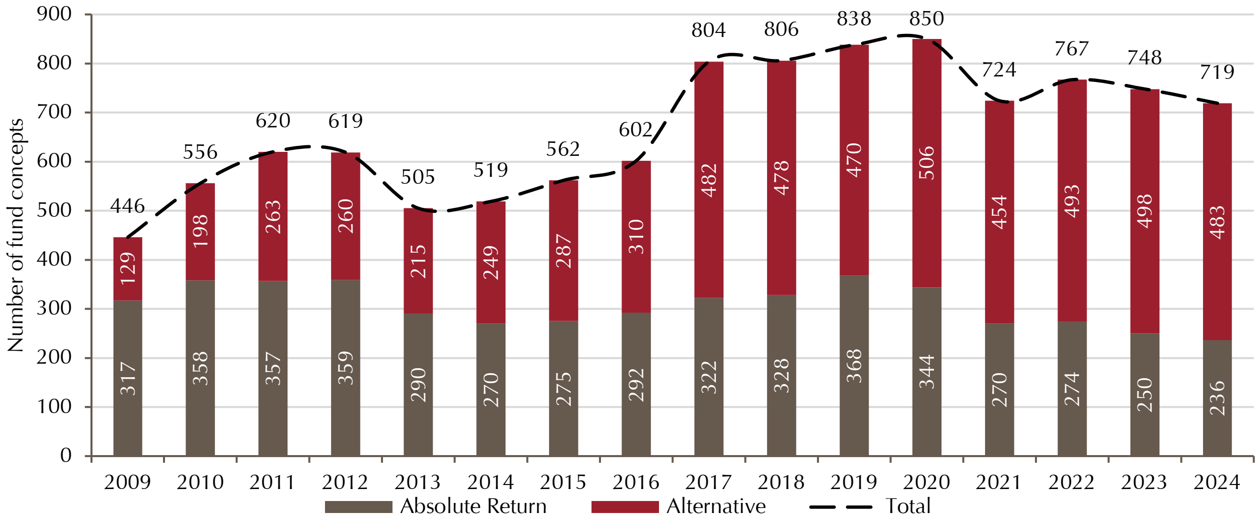
The investment behaviour of institutional and retail investors showed striking differences in 2024. Institutional investors, who accounted for more than 50% of market volume for the first time, prefer crisis-resistant investment strategies with lower drawdowns, in particular alternative fixed income strategies and equity market neutral. For them, the focus is on the diversifying contribution to the portfolio. Retail investors, on the other hand, are more risk-prone and rely more strongly on strategies with higher equity risk, particularly equity leveraged.

MARKET DEVELOPMENT

Number of funds declines slightly

2024 shows a moderate consolidation in the Liquid Alternatives market. The number of funds decreased from 748 to 719 funds (-3.9%) compared to the previous year. This development affected both absolute return (-5.6%) and alternative (-3.0%) concepts. **However, the positive momentum within the year is noteworthy:** The number of funds initially fell to 708 by mid-year. Eleven funds were added in the second half of the year. The absolute level thus corresponds approximately to the post-coronavirus year 2021, with the ratio of two-thirds alternatives to one-third absolute return remaining nearly unchanged.

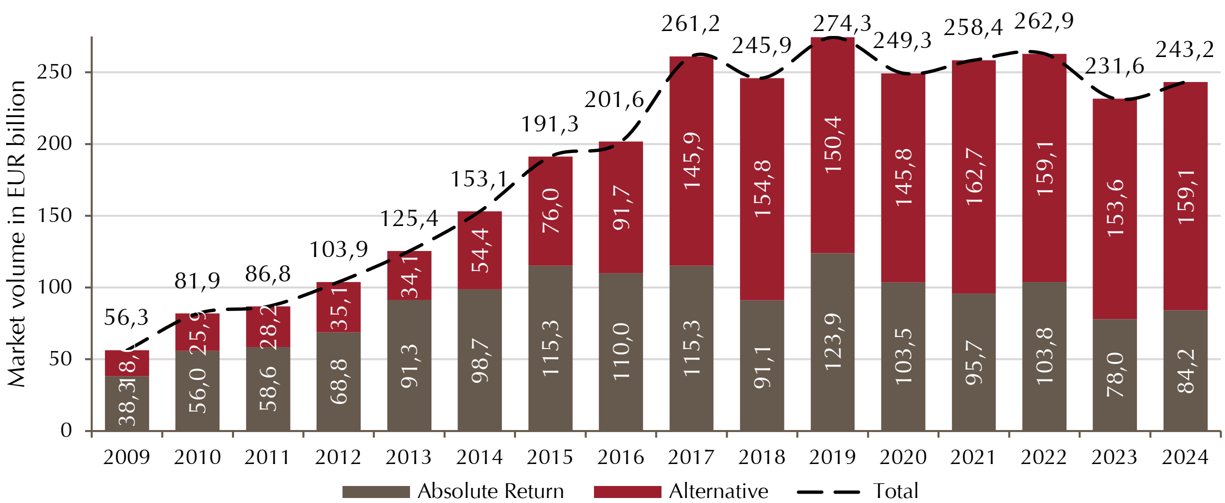
Number of funds declines



Market volume recovery

The market volume was positive despite slightly negative net cash flows (EUR -4.29 billion). Compared with the previous year, it rose by EUR 11.6 billion (+5.0%) to EUR 243.2 billion. **Volume growth is therefore mainly driven by the strong fund performance** (page 7). Absolute Return funds in particular increased their volume significantly (+7.8% / EUR +6.1 billion), while Alternatives posted a 3.6% (EUR +5.5 billion) increase.

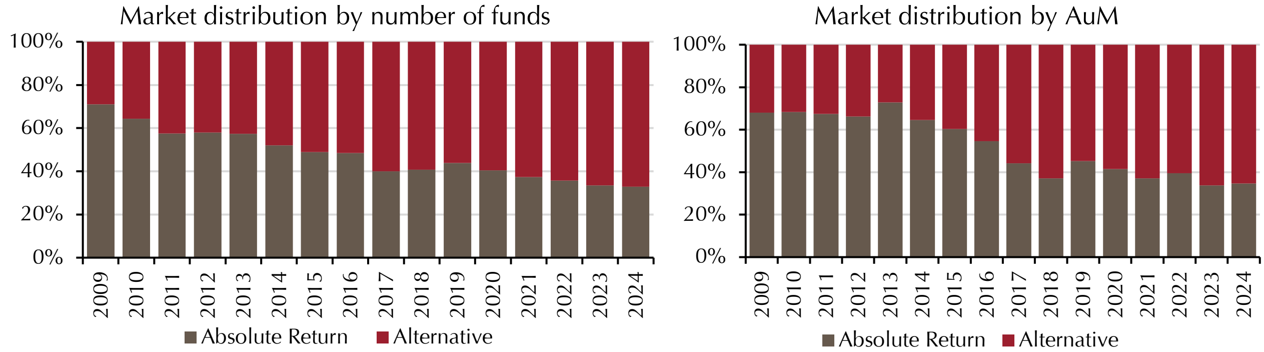
Market volume picking up again



Market allocation largely stabilised

The ratio between absolute return and alternatives has largely balanced out. As in previous years, **absolute return concepts** make up **one third** and **alternatives concepts two thirds** of all funds (left chart). The ratio also remained stable in terms of volume distribution, with the share of absolute return funds amounting to 34.6%.

Ratio of absolute return to alternatives concepts virtually unchanged



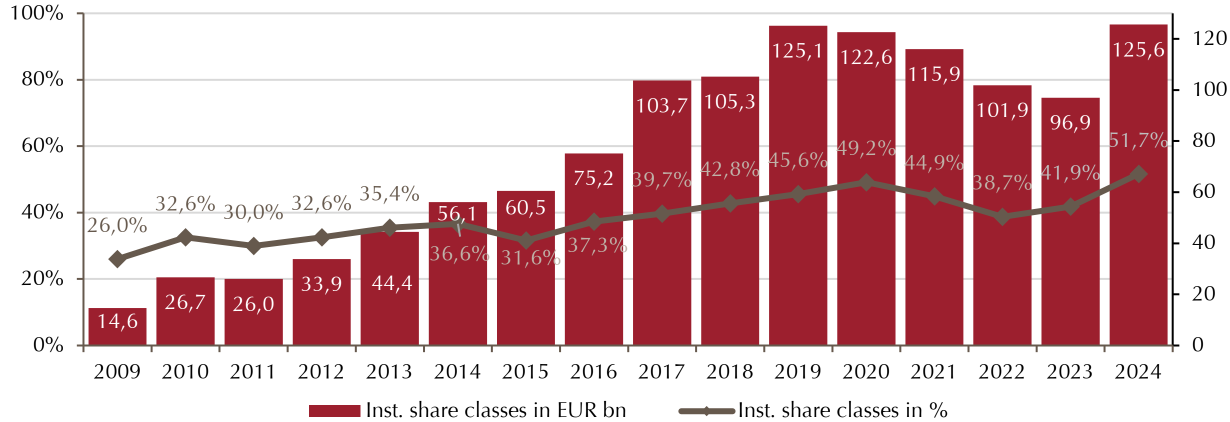
Institutional share classes dominate segment for the first time

Institutional volumes in the asset class have reached a new post-2019 high. Compared with 2023, their volume increased by EUR 28.7 billion to EUR 125.6 billion (+29.6%).* Both sub-segments benefited from this development: The absolute return volume rose sharply by EUR 30.8 billion to EUR 44.6 billion (44.9%), while alternative concepts also rose significantly from EUR 66.2 billion to EUR 81.1 billion (22.5%). **With 51.7% of the asset class, the institutional share classes for the first time account for more than half of the market volume.**

This trend suggests that institutional investors are once again gaining confidence in the asset class. They take the opportunity to expand and diversify their strategic asset allocation through alternative investment approaches alongside traditional long-only investments in equities and bonds. Given the sometimes very high valuations of global equities and the increased likelihood of crises expected by many experts, **investors have shifted more towards alternative investment segments with higher downside protection.**

**The net outflows of institutional share classes were just over EUR 2 billion. The increase in volume is due to good market performance and reclassifications in the universe by data supplier LSEG Lipper.*

Institutional volume rises to record levels



Net flows: Turnaround in second half of the year

A trend reversal is apparent in cash flows. After the record outflows in 2023 (EUR -35.1 billion), outflows from Liquid Alternatives strategies have slowed noticeably. While EUR 6.37 billion net still flowed out from the asset class during the half year, **the second half of 2024 performed significantly more positively.** This reduced the outflows for the full year to just EUR 4.29 billion.

The distribution of cash flows across the various strategies was also encouraging. After a temporary lack of positive net cash flows in previous years, **7 of the 14 strategies recorded net inflows.** By far the biggest beneficiary was the Absolute Return Bond category with inflows of around EUR 4.7 billion, which represents a growth of 10.53%. Among the biggest losers were Alternative Event Driven (EUR -3.23 billion) and Absolute Return (EUR -2.58 billion).

Fund flows by strategy (EUR billion)

Top 5

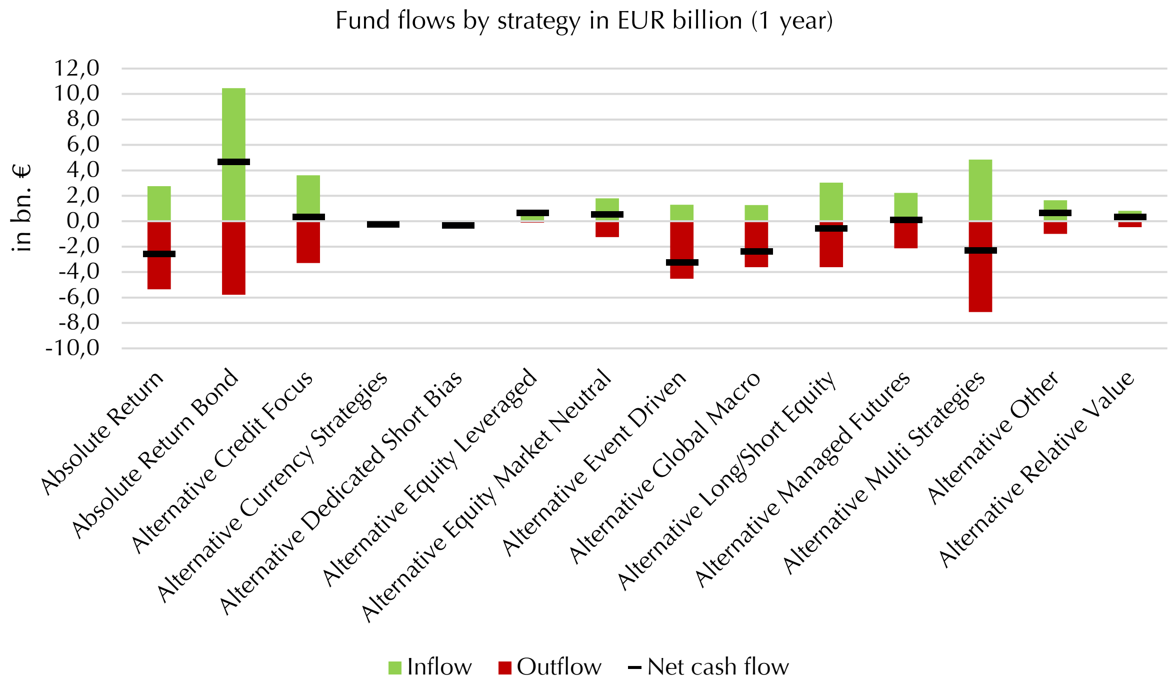
Absolute Return Bond	4.67
Alternative Equity Leveraged	0.66
Alternative Other	0.64
Alternative Equity Market Neutral	0.55
Alternative Relative Value	0.36

Flop 5

Alternative Event Driven	-3.23
Absolute Return	-2.58
Alternative Global Macro	-2.35
Alternative Multi Strategies	-2.30
Alternative Long/Short Equity	-0.58

Absolute capital movements were particularly pronounced in the two largest strategies in the universe: Absolute Return Bond and Alternative Multi Strategies saw by far the **greatest trading activity.** However, the two strategies performed in opposite directions: In the case of Absolute Return Bond inflows outweighed, while with Alternative Multi Strategies, the stronger outflows led to a negative net cash balance.

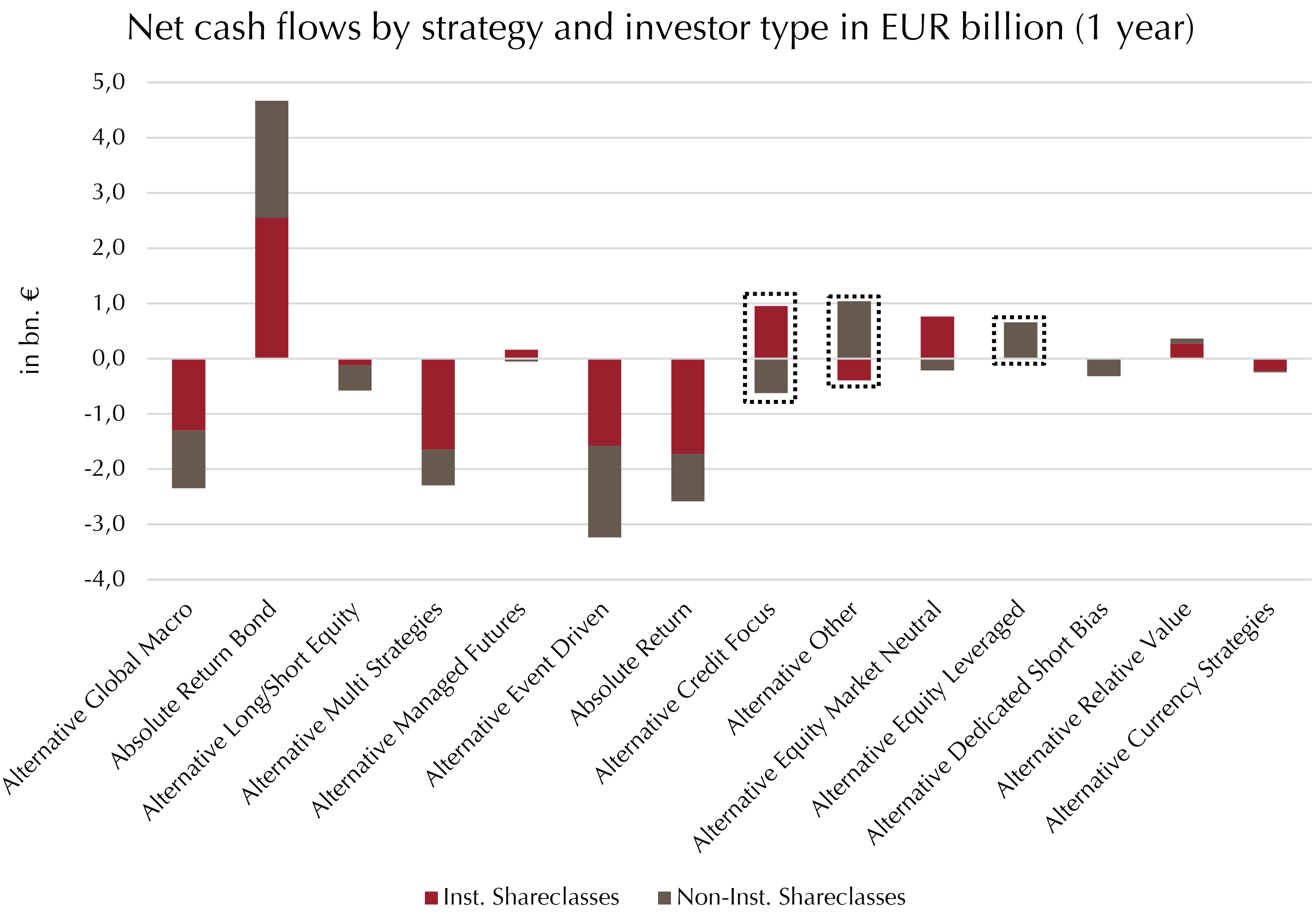
Fixed income strategies with the strongest net inflows



Institutional investors seek to limit risk. Private individuals show more appetite for risk.

The investment behaviour of institutional and retail investors displays striking differences. Institutional investors prefer crisis-resistant investment strategies with lower drawdowns. For them, the focus is on the diversifying contribution to the portfolio. Retail investors, on the other hand, are more willing to take risks and are increasingly relying on equity risk strategies. **This difference is particularly evident in the alternative fixed income strategy Alternative Credit Focus with significantly higher institutional cash flows** and in the Alternative Equity Leveraged strategy with clear retail dominance. In Absolute Return Bond, both investor groups had similar aims, and in the other categories, flows between institutional and non-institutional share classes were broadly parallel.

Different investor behaviour between institutional and retail investors

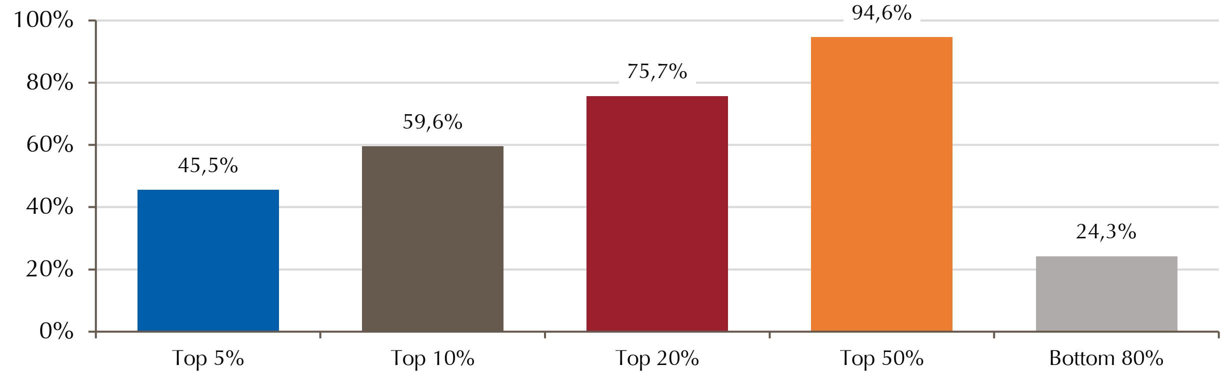


MARKET STRUCTURE

Large funds continue to dominate the market

The landscape has hardly changed compared to our previous analysis, with the top 5% of funds managing almost twice as much capital as the bottom 80%. As a result, the market continues to be dominated by a few large providers. This tendency becomes even more pronounced when dividing the market into its upper and lower halves, **with the upper half of funds accounting for 94.6% of assets in the segment,** while the lower half of funds once again manage barely 5% of all assets.

Top 5% of funds account for 45% of total market volume

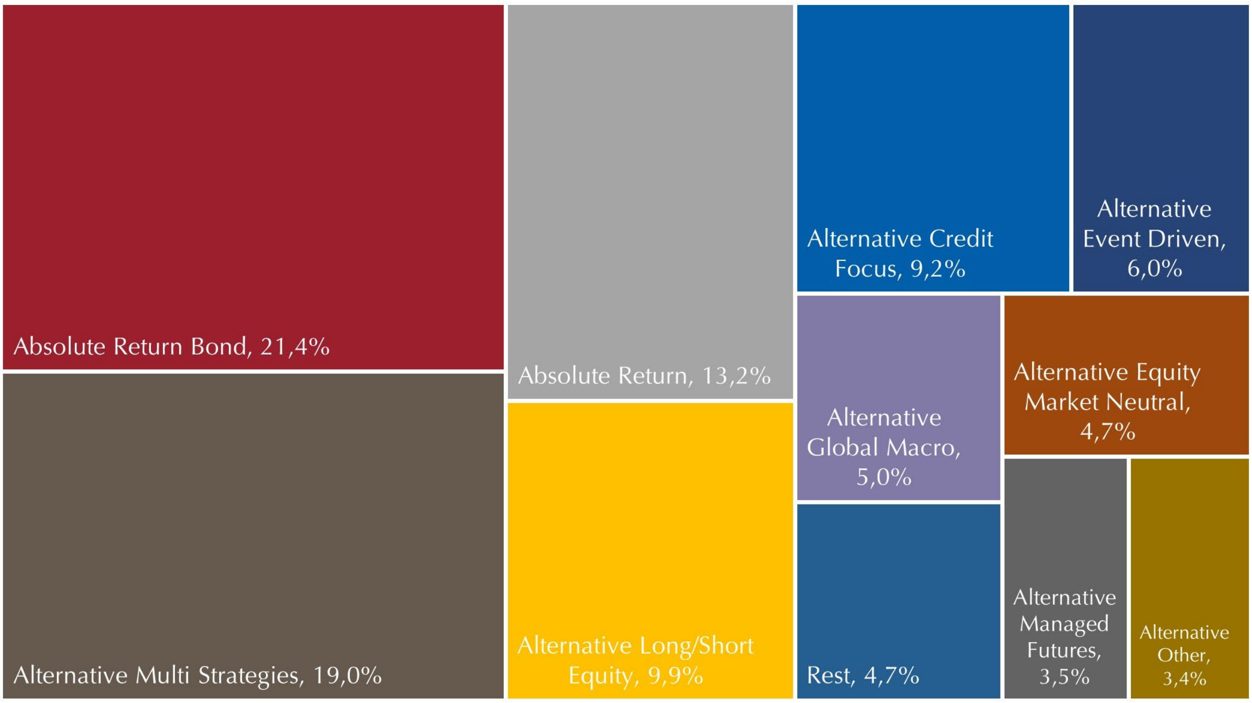


A look at the size of each fund completes the picture: **93.1% of all funds manage less than EUR 1 billion and 83.7% manage less than EUR 500 million.** At the other end of the spectrum is a small group of funds with assets under management of more than EUR 4 billion. The concentration among the largest providers is particularly noteworthy: For example, the top 5% of funds have a fund volume of more than EUR 1 billion without exception.

Market share: Absolute Return Bond takes the lead

In 2024, there was a significant shift in market distribution between strategies: With a market share of 21.4% (previous year: 16.1%), Absolute Return Bond took the lead among Alternative Multi Strategies. This came to a share of 19.0%, close to the previous year's level (18.9%). The remaining segments were broadly stable compared to the first half of the year and the previous year. **The continued strong position of alternative fixed income strategies remains noteworthy:** Together, Absolute Return Bond and Alternative Credit Focus have a market share of around 30%.

The three largest strategies represent more than half of assets in the asset class



One in three funds on the market for more than ten years

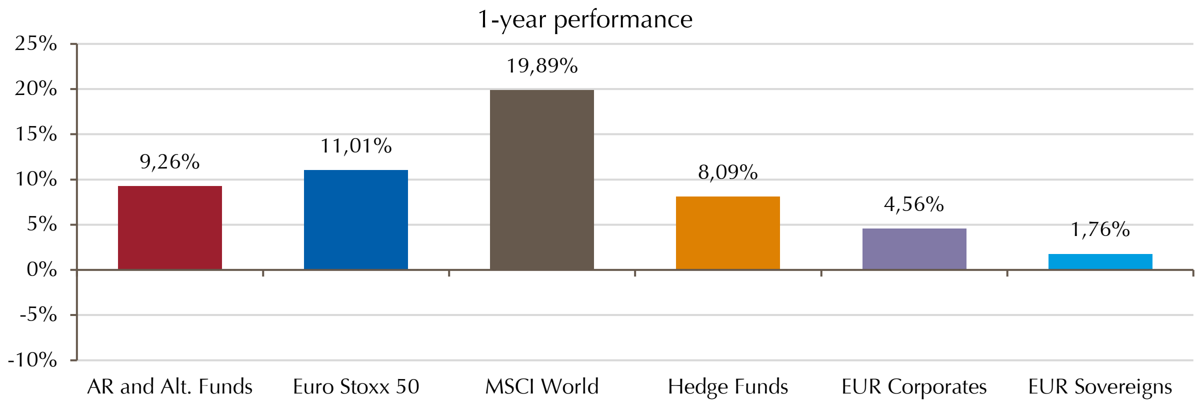
The age structure of the fund universe shows a high degree of continuity: One third of the funds are under 5 years old, between 5 and 10 years old and over 10 years old. This speaks for a fund universe with a healthy market structure that is not only based on newly launched funds.

PERFORMANCE

Liquid Alternatives scores with strong performance

Liquid Alternatives reached a historic milestone in 2024 with a **performance of 9.26%:** This was the best return since the study was launched in 2008, well above the previous peak of 6.71% in 2021. **The broad basis of success is remarkable: 88.5% of all funds posted a positive performance in 2024.** With this performance, Liquid Alternatives positioned close to European equities and well ahead of EUR bonds, which tended to be more subdued in the face of uncertain central bank policy and uncertain inflation. Unregulated hedge funds also underperformed their UCITS-regulated counterparts. Only global equities significantly outperformed, driven by the strong US performance (S&P 500 at 25.02%) and the Magnificent 7 in particular.

Challenge to equities: Liquid Alternatives 2024



Strongest annual performance since 2021 high

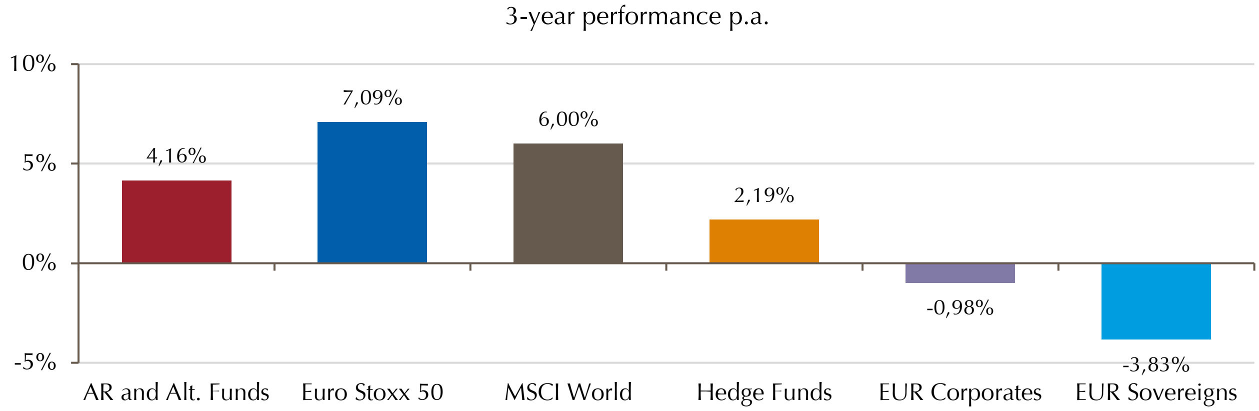
2019	2020	2021	2022	2023	2024
6.64%	1.34%	6.71%	-1.49%	5.28%	9.26%

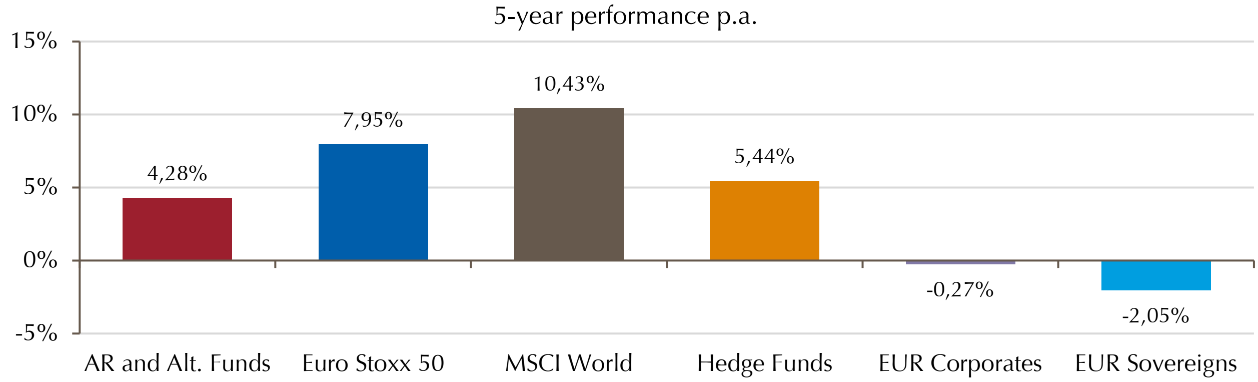
Liquid Alternative Strategies achieved their best year-to-date performance in 2021. But even in the supposedly weak capital market years, the asset class has been convincing. **In 2022, Liquid Alternatives were slightly in the losing zone with an average performance of -1.49%, but delivered far better performance than equities,** bonds and unregulated hedge funds. The year was marked by a rapid rise in interest rates and emerging recession fears, and even investors in Euro government bonds suffered losses of -18.44%. Liquid Alternatives, with their often very flexible orientation, were less dependent on the direction of the market in this extreme environment and were able to successfully evade the general strongly negative trend.

Long-term performance still ahead of bonds

Over three and five years, the asset class continues to underline its diversifying properties, while bonds continue to suffer from the price losses of previous years.

Liquid Alternatives exhibit solid long-term return





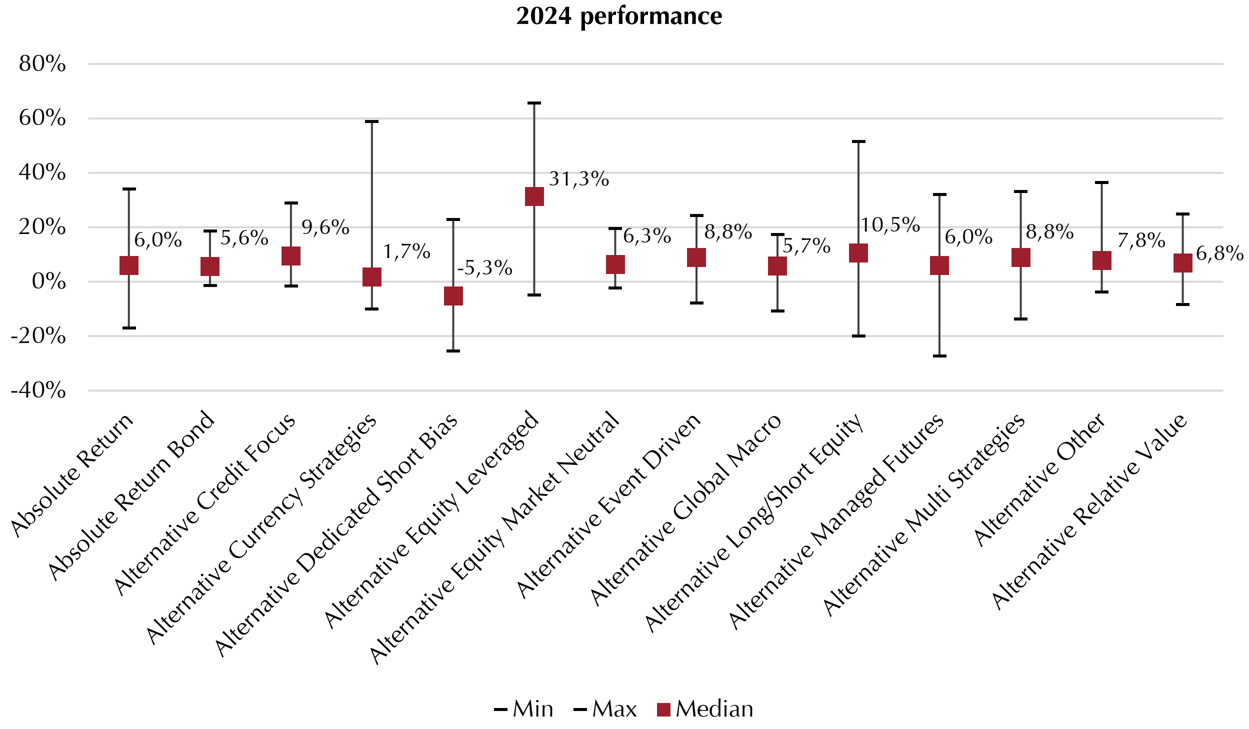
Significant differences in performance between individual funds

Looking at individual strategies, the performance in 2024 continued to differ significantly, with individual fund levels ranging from -27.23% to 65.62%. Alternative fixed income strategies were particularly compelling: **Absolute Return Bond and Alternative Credit Focus demonstrated excellent downside management, and even their weakest funds recorded minimal declines of just over one percent.** With median values of 5.6% and 9.6% respectively, both strategies significantly outperformed traditional EUR corporate and government bonds.

Alternative Long/Short Equity also delivered strong results. Despite a significant dispersion in returns, the strategy achieved a median return of 10.5%. Alternative Currency Strategies on the other hand showed a mixed picture. While there were some notable outliers in crypto-investing strategies, overall performance remained below average.

As expected, the most pronounced fluctuations in returns were the leveraged strategies. Alternative Equity Leveraged and Alternative Dedicated Short Bias again marked the extreme points of the performance spectrum in 2024, with Alternative Equity Leveraged the strongest at +31.3% and Alternative Dedicated Short Bias the weakest at -5.3%.

Nearly 90% of funds show positive performance



RISK ASSESSMENT

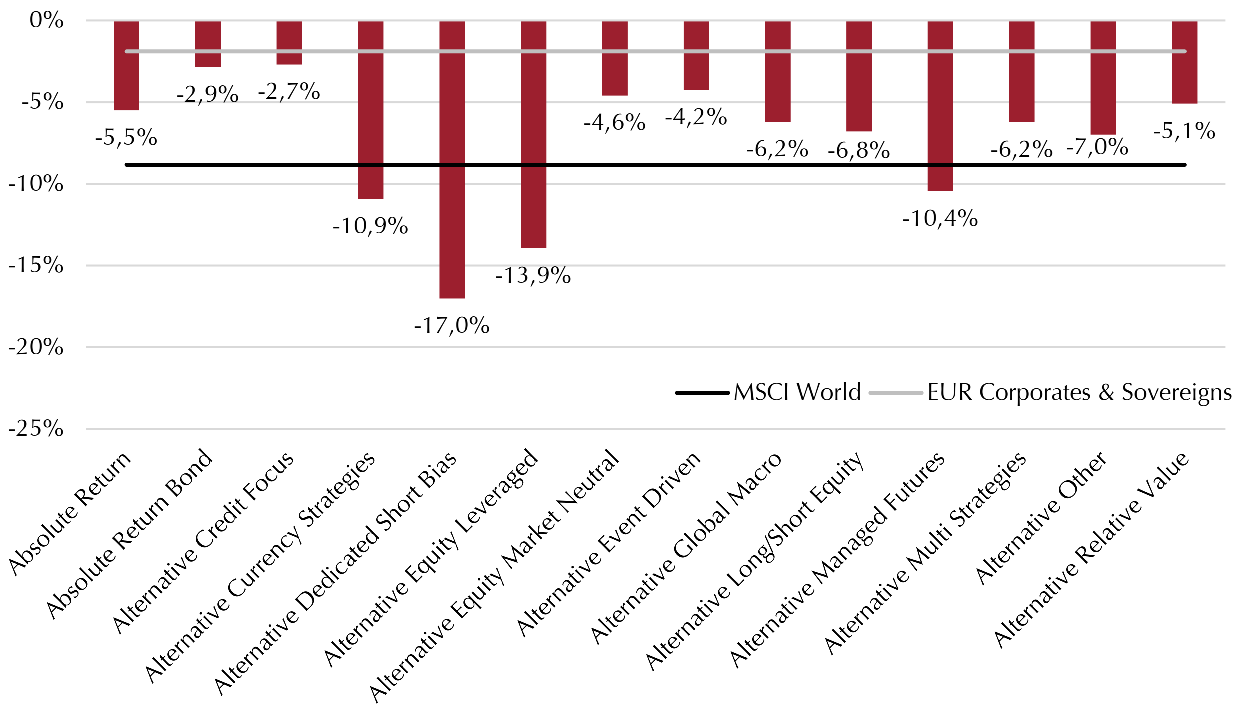
Maximum losses remain within narrow limits in 2024

In this evaluation, the analysis of maximum losses was refined methodically: For the first time, the maximum drawdowns are calculated on the basis of daily rather than monthly data. **This more precise measurement provides a more detailed insight** into the risk behaviour of the asset class, especially during turbulent market phases (the same applies to the Sharpe Ratio, p. 12).

The results for 2024 show overall robust risk management: **The maximum losses of most strategies remained in single digits.** Only four strategies experienced higher drawdowns, with the leveraged strategies Alternative Dedicated Short Bias (-17.0%) and Alternative Equity Leveraged (-13.9%) having the strongest swings due to their risk profiles, as expected.

Compared to traditional asset classes, Liquid Alternatives positioned themselves in the maximum drawdown between equities and bonds in a similar way to performance: **With 10 out of 14 categories, most strategies remained below the maximum drawdown of the MSCI World Index (-8.83%).** The two alternative fixed income strategies, Absolute Return Bond and Alternative Credit Focus, performed particularly well, with very moderate drawdowns of -2.9% and -2.7% respectively combined with strong performance. However, they were not able to fully compete with the stability of EUR bonds, which had a maximum drawdown of just -1.89% on average from Euro corporate and government bonds.

Alternative fixed income strategies with the lowest maximum drawdowns

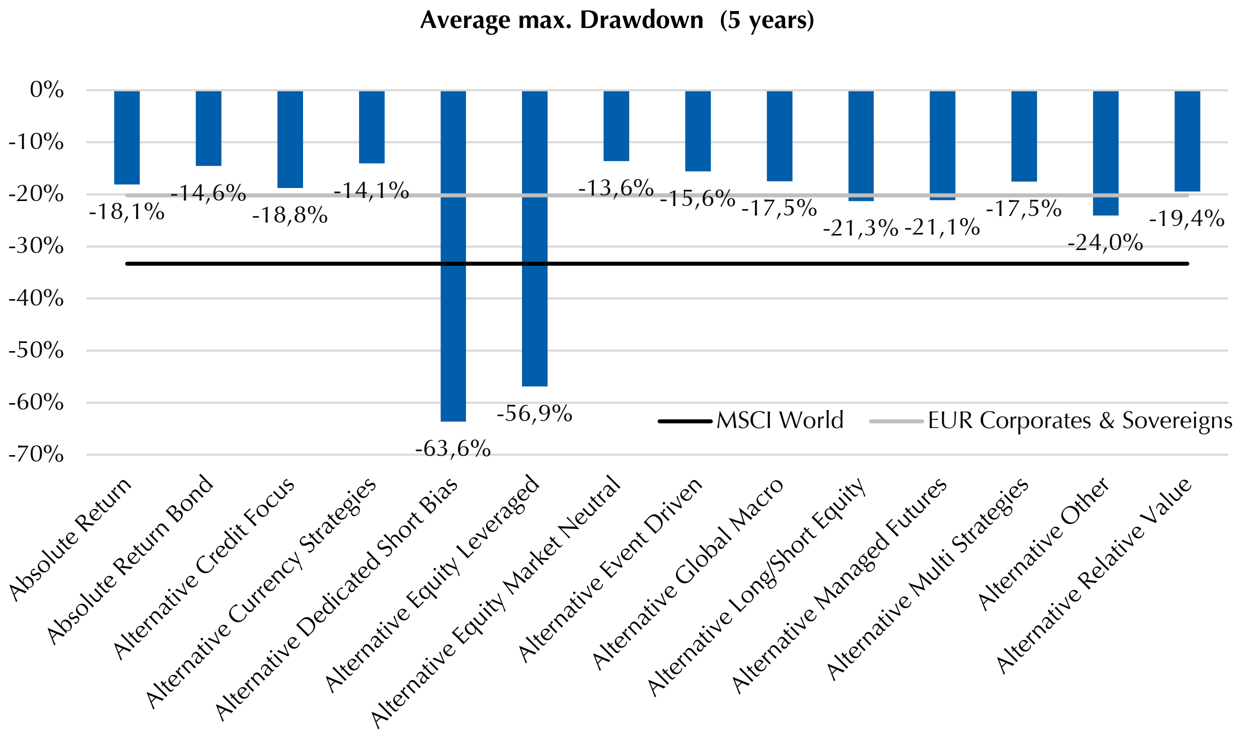


Significantly lower returns over the long term than for equities and bonds

Looking at the maximum losses over five years underscores the stability of Liquid Alternatives. With the exception of the two leveraged ones, **all strategies have significantly lower maximum losses than a broadly diversified equity universe.** This was particularly evident during the coronavirus shock on 23 March 2020, when the MSCI World suffered a maximum loss of 33.32%. Liquid Alternatives strategies have significantly limited these setbacks, with Alternative Equity Market Neutral the most resilient through the crisis with a maximum loss of only 13.6% in 2020.

Liquid Alternatives are also competitive compared to Euro bonds: **Nine out of the 14 categories posted lower maximum losses than the bond market over five years**, with three other categories only slightly higher. Another exception is the leveraged strategies, whose risk profile is clearly different from the other strategies: Their maximum drawdowns are almost double that of global equities. This can severely strain investors’ nerves in phases, but is offset by the prospect of higher long-term returns.

Significantly lower maximum losses than in the MSCI World

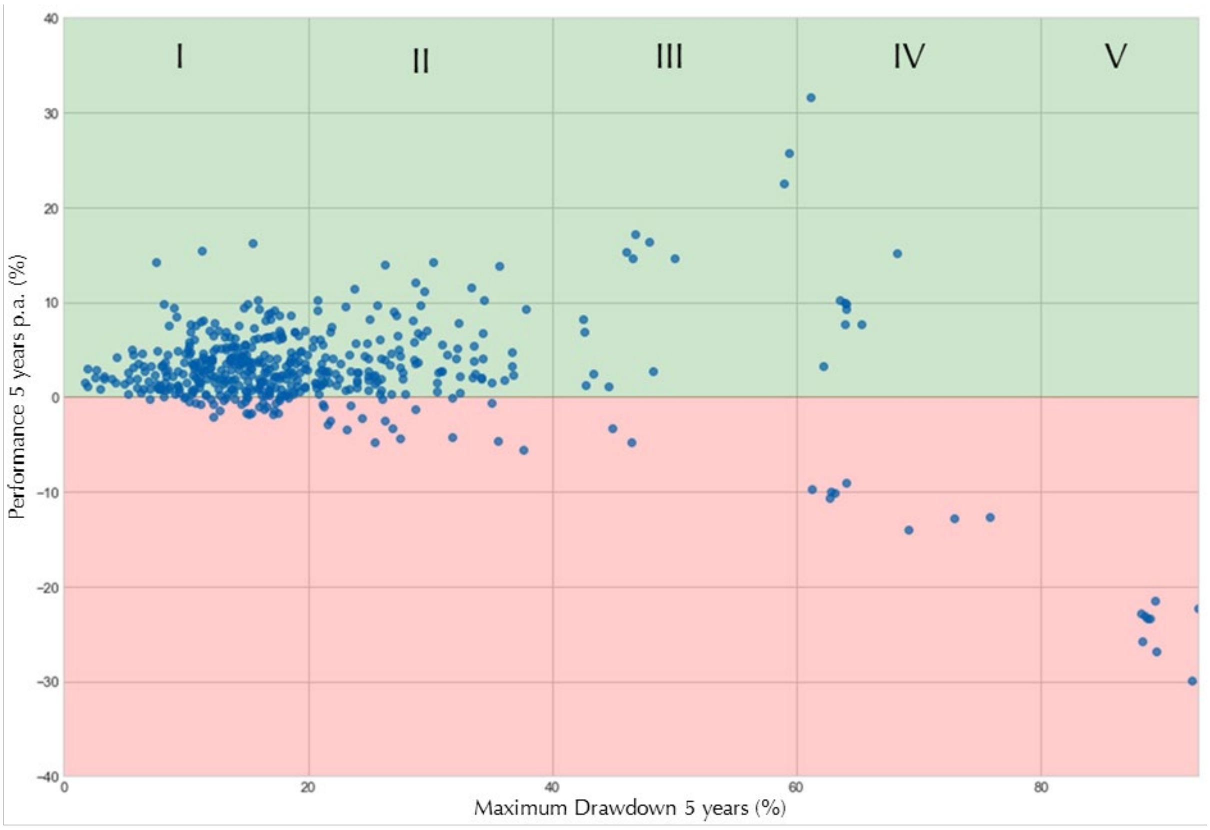


Long-term comparison: Good chance of return despite high maximum losses

The chart below shows a detailed analysis of the five-year performance relative to the maximum losses. Each data point represents a fund that is at least five years old. The successful risk control of the funds is striking: **About two-thirds (64.2%) were able to limit their maximum drawdowns to below 20% over the five-year period.** As the risk tolerance of the funds increases, as shown in columns II to V, spreads in both directions also increase. For example, around 27.3% of funds fall into the 20%-40% range – a magnitude that investors also know from the MSCI World (33.32%).

The situation is more critical for almost 10% funds in columns III, IV and V, which suffered losses of more than 40% due to poor risk management. The consequences of such high drawdowns are serious: While one half of these funds managed to achieve a positive five-year return despite the massive setbacks, the other half failed to recover, leading to significant negative returns. **Overall, the positive picture prevails: 86.3% of all funds with at least five years of history have a positive performance.**

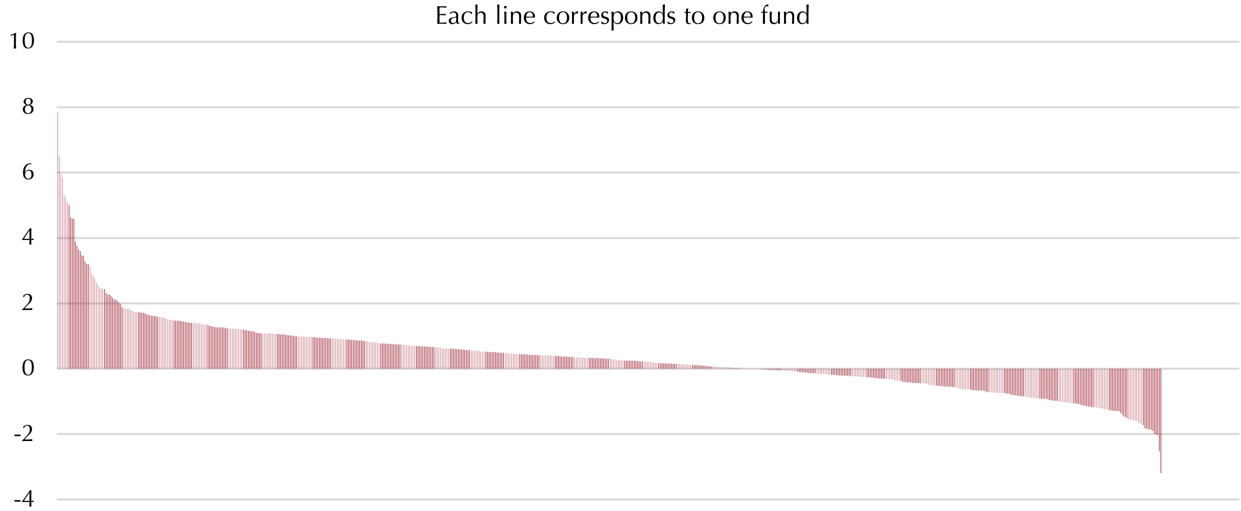
Maximum drawdown and performance of individual funds



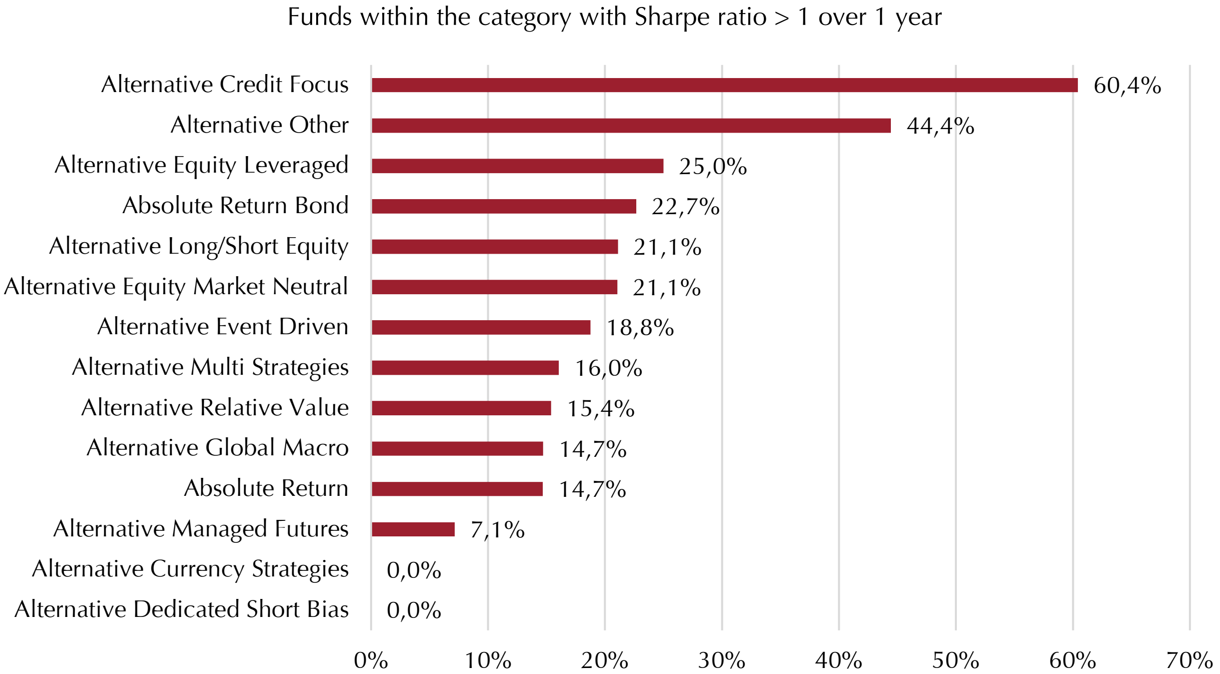
Sharpe ratio: Alternative Credit Focus far ahead

In the strong overall 2024, 62.4% of all funds achieved a positive Sharpe ratio, with one fifth of the funds achieving a Sharpe ratio of 1 or more. What is striking is the high concentration of high Sharpe ratios in certain categories: **In Alternative Credit Focus, 60.4% of all funds had a Sharpe ratio above 1 – a clear demonstration of the excellent risk/return ratio of these strategies**. This is also reflected in the top group: Among the top 20 funds with the best Sharpe ratio, the dominant funds are Alternative Credit Focus with 11 funds and Absolute Return Bond with 5 funds, which are driven by their high values due mainly to the combination of very low volatility and comparatively high returns.

Sharpe ratios of funds over one year



Alternative Credit Focus delivers the best Sharpe ratios



Costs largely unchanged

Costs have remained largely stable on average across all strategies since 2017 (1.62%), falling slightly. At around 1.49%, they are currently close to the 2023 level and also in line with the long-term average.

Glossary

Absolute Return	Funds characterised by a highly regulated market environment and an absolute return target. They aim to add value in every market environment. They are usually measured against a risk-free or cash benchmark instead of a traditional long-only benchmark.
Absolute Return Bond	Funds that pursue positive return targets in all market situations and primarily invest in debt securities. Products with the words "Absolute Return" added to their name or investment objective may be included in this category. In this case, the benchmark is usually a risk-free or cash benchmark instead of a traditional long-only market index.
Alternative Credit Focus	Funds that invest in structured credit products and whose investment process is characterised by either fundamental credit analysis, quantitative approaches or (market) opportunities.
Alternative Currency Strategies	Funds that invest in global currencies to exploit arbitrage opportunities (carry, momentum, fundamental opportunities). They use short-dated money market instruments and derivatives to achieve their objectives. Funds that invest the majority of their assets in cryptocurrencies also fall into this category.
Alternative Dedicated Short Bias	Funds that maintain a net short profile on the market on an ongoing basis. This category also includes funds that exclusively take short positions.
Alternative Equity Market Neutral	Funds seeking to generate consistent returns regardless of market phases. The portfolio is also managed with a net market exposure of zero.
Alternative Event Driven	Funds that aim to exploit price inefficiencies caused by a business transaction (e.g. insolvency, acquisition, spinoff, etc.) in accordance with their sales prospectus. Event-driven funds can invest in a variety of instruments with different risk structures (e.g. equities, credit instruments, derivatives).
Alternative Global Macro	Funds that make global investment decisions based on economic theories. These strategies typically base their decisions on interest rate expectations, expectations concerning political developments, and other macroeconomic and systemic factors. Global macro funds typically use a wide range of instruments and investment universes to implement their investment ideas.
Alternative Long/Short Equity	This strategy uses both long and short positions in equities, equity options and equity index options. The portfolio manager can decide whether the net position of their fund is positive or negative depending on their market view.
Alternative Managed Futures	Funds that primarily invest in a portfolio of futures contracts and aim to generate positive returns that are independent from the market in any situation with limited volatility. Their investment approaches consist of proprietary trading strategies that can include both long and short positions.
Alternative Multi Strategy	Funds that aim to generate an overall return by managing several different hedging strategies. These funds typically follow a quantitative approach and seek to identify opportunities where there are changes to the long-term risk-adjusted relationship between two securities.
Alternative Relative Value	They use option and arbitrage strategies on highly correlated pairs of securities to exploit price differentials. In such cases, the funds sell the more expensive security (short position) while taking a long position in the relatively cheap security.
Alternative Equity Leveraged	Funds designed to generate more than 100% of the daily performance of a benchmark index. They use a customised combination of futures contracts, derivatives and leveraged products to achieve this.

Contacts

Michael Lichter, CFA
Product Management
+49 69 365058 7452
michael.lichter@lupusalpha.de

Daniel Rieger, CESGA
Product Management
+49 69 365058 7450
daniel.rieger@lupusalpha.de

About Lupus alpha

As an independent, owner-operated asset management company, Lupus alpha has been synonymous with innovative, specialised investment solutions for 25 years. As one of Germany's European small and mid-cap pioneers, Lupus alpha is one of the leading providers of volatility strategies as well as collateralised loan obligations (CLOs). The specialist product range is rounded off by global convertible strategies and risk overlay solutions for institutional portfolios. The Company manages a volume of approximately EUR 16 billion for institutional and wholesale investors. For further information, visit www.lupusalpha.de.

For further information visit www.lupusalpha.de.

Lupus alpha Investment GmbH
Speicherstraße 49-51
D-60327 Frankfurt am Main