Lupus alpha

Press Release

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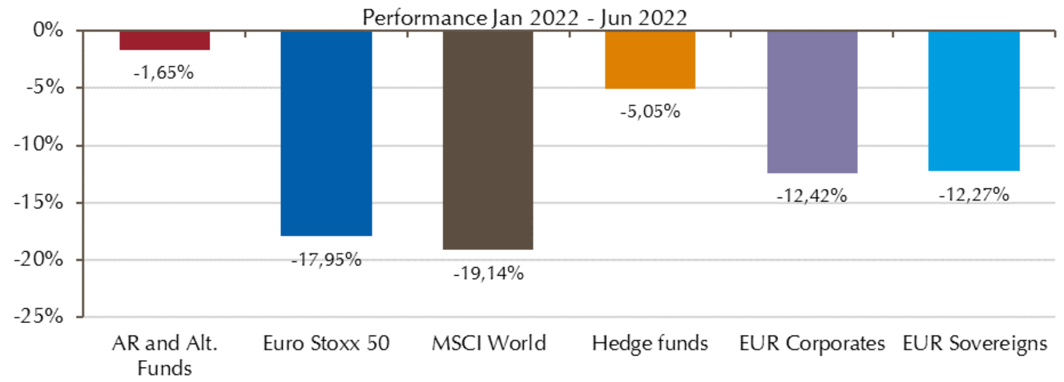
Liquid alternatives in the first half of 2022: outperforming equities, bonds and hedge funds at the midpoint of the year

Effective loss limitation is the key to positive returns

Amid one of the biggest market crises since 2000, Liquid Alternatives (UCITS-compliant hedge fund strategies) delivered on their promise and demonstrated their diversification benefits compared to other asset classes in the first six months of the year. While these strategies were unable to avoid losses entirely, most were only slightly below zero as the year reached its halfway mark. Strategies with asymmetric risk-return profiles and effective ways of limiting risk generated positive returns.

With an average performance of -1.6%, liquid alternatives left the global equity markets, European bonds and unregulated hedge funds trailing in their wake in the first half of 2022.

Liquid alternatives better in a crisis



The average performance of the individual strategies in this segment ranged from -20.0% (Alt. Equity Leveraged) to +19.1% (Alt. Dedicated Short). Although the latter delivered the biggest returns, it still lags behind all of the other strategies over a three-year period, posting a negative performance during this time. While the majority of long-only strategies suffered losses for the first time in a long time, asymmetric strategies such as Alternative Managed Futures or relative value approaches generated positive returns on average.

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Funds that generated positive returns in the first half of the year were primarily characterised by their ability to effectively limit losses, with four out of five funds in this group restricting their losses to a maximum of -7.5% (“maximum drawdown”) in the first six months of 2022.

“In an environment where equity and bond markets are falling, strategies with asymmetric risk-return profiles that effectively limit losses are at an advantage,” said **Ralf Lochmüller, Managing Partner and CEO of Lupus alpha**. “It is vital, however, that these strategies are designed to ensure that investors can also participate in any recovery in the market after losses have occurred”, **Lochmüller added**.

The total volume of absolute return and liquid alternatives funds approved for distribution in Germany is EUR 256 billion. A net EUR 7.5 billion of capital flowed out of the investment universe by the middle of the year. Investor preferences were heavily influenced by the macro picture, as demonstrated by significant outflows from alternative credit strategies. While these strategies were still recording inflows in the fourth quarter of 2021, considerable uncertainty and mounting fears of a recession mean they lost almost EUR 2.7 billion in capital (-6.9%) in the first six months of the year. As a result, their share of the overall universe has dropped from 15% to just 10%. By contrast, the continual growth in the Multi Strategies category, which allows investors to position themselves more broadly on the capital markets, has been remarkable. As of 30 June, this strategy was managing almost ten percent more investor capital than it was 12 months earlier, making it the second-largest individual strategy in this segment behind Absolute Return.

This development confirms the trend away from absolute return towards liquid alternative strategies on the investor side. The share of liquid alternative strategies has grown in both absolute and relative terms every year since 2019 and has now reached around 65%, having comprised just one-third of the market ten years ago. This shift in investor preferences can be explained by the fact that alternative strategies are more diverse, allowing investors to take a differentiated approach to their portfolio to create a risk-return profile based on investor-specific requirements.

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 Refinitiv. The Study covers funds with an active management approach that are authorised for distribution in Germany and are also UCITS-compliant. 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 16 strategies. For example, the long-short equity strategy includes 99 funds.

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About Lupus alpha

As an independent, owner-operated asset management company, Lupus alpha has been synonymous with innovative, specialised investment solutions for over 20 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). Global convertible bond strategies complete its specialised product range. The Company manages a volume of almost EUR 14 billion for institutional and wholesale investors. For further information, visit www.lupusalpha.de.