

## Press release

22. February 2024

### **The turnaround in interest rates hampers liquid alternatives – reallocation to classic fixed income leads to highest outflows since 2008**

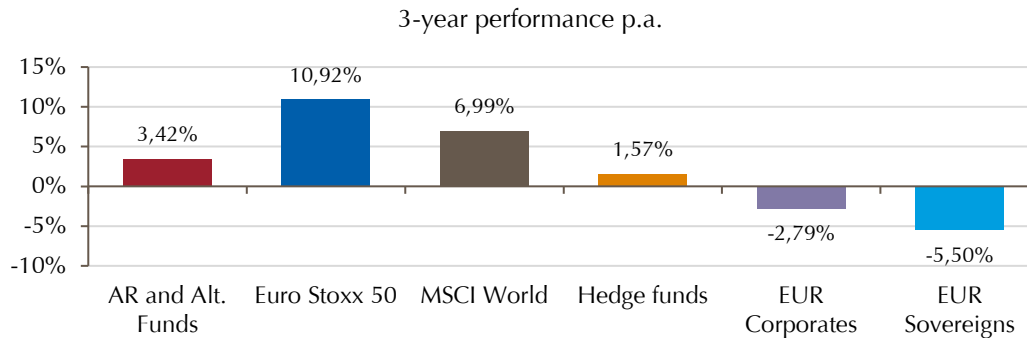
**With volatility and maximum losses, the asset class shows strength in the medium term**

**In 2023, investors withdrew €35.1 billion net from UCITS hedge funds. Although the asset class achieved an average performance of 5.28%, this was significantly behind equities and bonds over the year. At the same time, the funds in the segment underscored their stabilising contribution to the overall portfolio in the medium and long term.**

The starting point for the massive outflows is the “historically high switches” to fixed-income investments, as reported by the Deutsche Bundesbank for the first quarter of 2023, a trend that increased further during the rest of the year. In keeping with this **new interest rate environment**, almost 40% of gross inflows into liquid alternatives were attributable to the two fixed income strategies: Alternative Credit Focus and Absolute Return Bond, whose market share has increased to 28%. In net terms, 13 of the 14 strategies presented in the segment recorded outflows. Overall, the market volume fell by almost 12% to €231.6 billion.

Liquid Alternatives underperformed equities in 2023 with an average **performance** of 5.28% (Euro Stoxx 50: 22.23%). Bonds partially recovered their large losses after the interest rate hikes (Euro government bonds: 7.15 %). Over three and five years, however, regulated hedge funds clearly outperform bond markets. In the portfolio as a whole, they are positioned between equities and bonds with their diversifying properties.

**3 years: Alternatives with a solid return. Bonds still in the loss zone.**



“The key to a high return in 2023 was in the equity market. However, looking at pure performance masks the stabilising contribution of Liquid Alternative strategies in the portfolio as a whole,” says **Ralf Lochmüller, CEO and Managing Partner at Lupus alpha**. “Their diversifying effects are evident in difficult markets such as in 2022, when equity and bond markets collapsed in equal measure.”

The majority of funds managed to **effectively limit losses** in 2023, with the maximum drawdown averaging 5.71%. The stabilising role of the strategies is also evident in the long term: With a maximum loss of 17.9% on average over five years, it was well below Euro government bonds (21.3%). Over this period, volatility averaging 9.9% is close to that of European government and corporate bonds and well below that of European equities (Euro Stoxx 50: 19.2% p. a.).

Overall, the Alternative Strategies group is gaining more and more dominance over Absolute Return and now accounts for more than half of the market volume. Investors in Alternatives appear to appreciate the opportunity to better align strategies with their own preferences, thus optimizing the risk-return profile of their portfolio in a more targeted manner. **Ralf Lochmüller:** “The variety of alternative strategies makes it possible to adapt flexibly to the market, from defensive to offensive leveraged concepts. If a loss limitation is desired, this can also be replicated with corresponding derivative instruments.”

The downloadable [whitepaper](#) contains further detailed information, including a breakdown of the performance of individual strategies.

**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 (formerly Refinitiv). 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 – There are 14 different strategies in total.

**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). The specialist product range is rounded off by global convertible strategies and risk overlay solutions for institutional portfolios. The Company manages a volume of more than €14.0 billion for institutional and wholesale investors. For further information, visit [www.lupusalpha.de](http://www.lupusalpha.de).