

Absolute Return and Alternatives Funds in Germany | 2025

## Liquid Alternatives turnaround: Net inflows rose to €26.4 billion in 2025

Average return of 1.99% with the US dollar falling sharply.  
Significantly lower drawdowns than equities stabilise portfolios.

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### About the Lupus alpha “Liquid Alternatives” study

Since 2008, Lupus alpha has been evaluating Absolute Return and Liquid Alternatives Funds based on data from LSEG Lipper. The present 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 risk indicators. The three aggregation levels examined are the overall universe, strategies within the universe and funds within the strategies. A distinction is made between 15 strategies with a total of 713 funds.

### SUMMARY

**Liquid Alternatives confirm their return to investor interest in 2025. After three years of continuous outflows, the segment recorded significant net inflows of €26.4 billion. This development was driven primarily by the two fixed-income strategies, Absolute Return Bond and Alternative Credit Focus – which together attracted €16.4 billion in new capital. Absolute Return Bond also significantly increased its market share from 21.4 % to 24.2%. Overall, 10 of the 15 strategies generated net inflows. This underscores the breadth of demand and renewed confidence in the asset class.**

**Despite a challenging market environment – marked in particular by the sharp decline of the US dollar, which had a noticeable negative impact on returns for euro investors – Liquid Alternatives achieved a performance of 1.99% in 2025, remaining well ahead of euro government bonds (0.64%). Global equities (EUR-hedged) gained 16.73% but the risk picture tells a different story: Most strategies kept their maximum losses well below an equity investment. The MSCI World recorded a setback of –17.06% in the first half of the year in the wake of Liberation Day. With few exceptions, all strategies managed to keep their average maximum losses well above this level.**

**Liquid Alternatives also confirm their role as an anchor of stability during turbulent market phases in the long term. In 11 out of 14 strategies, average maximum losses over five years were well below equities and euro bonds. They proved to be an effective risk-reducing portfolio component, particularly in stressful years such as 2020, 2022 and 2025. Consequently, the decisive factor for an investment is not only the absolute return, but also the diversifying effect in the portfolio, which reduces cluster risks and smooths out fluctuations.**

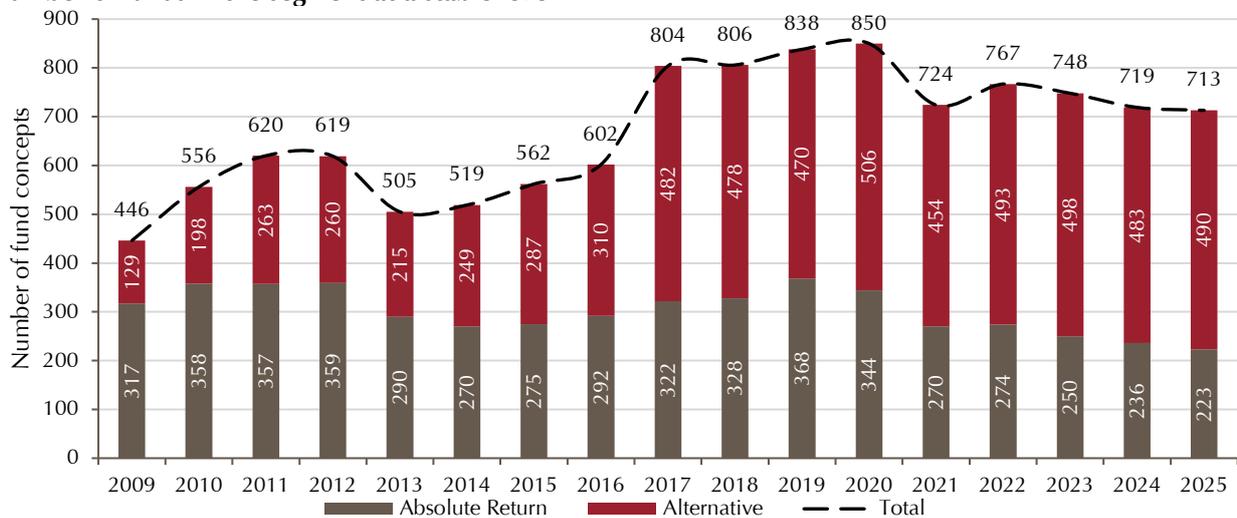
**On the investor side, a clear pattern emerged in 2025: Institutional investors increasingly pursued low-risk, stabilising strategies, including in particular Absolute Return Bond with an MDD of –5.5% and Alternative Credit Focus (MDD –5.7%). Private investors often opted for long/short equity strategies, which offer a risk profile with higher return potential but also higher average drawdowns (–11.8%).**

## MARKET DEVELOPMENT

### New fund launches largely offset fund closures

The total number of funds in the segment remained almost constant year-on-year: With 713 funds, the universe is only slightly below the previous year's figure of 719 funds. Nevertheless, there were noticeable movements within the universe during the year: **A total of 66 new funds were launched**, while various funds have left the data set, e.g. due to a lack of German sales approval or strategic adjustments. **The largest shares of new launches were attributable to the Alternative Long/Short Equity and Alternative Multi Strategies**, each contributing ten new funds. On balance, the number of Alternatives funds rose slightly from 483 to 490. The number of Absolute Return concepts fell by 5.5% to 223 funds. The relationship between the two strategy groups remained broadly unchanged: Around two-thirds of the funds are allocated to Alternatives, and around one-third to Absolute Return.

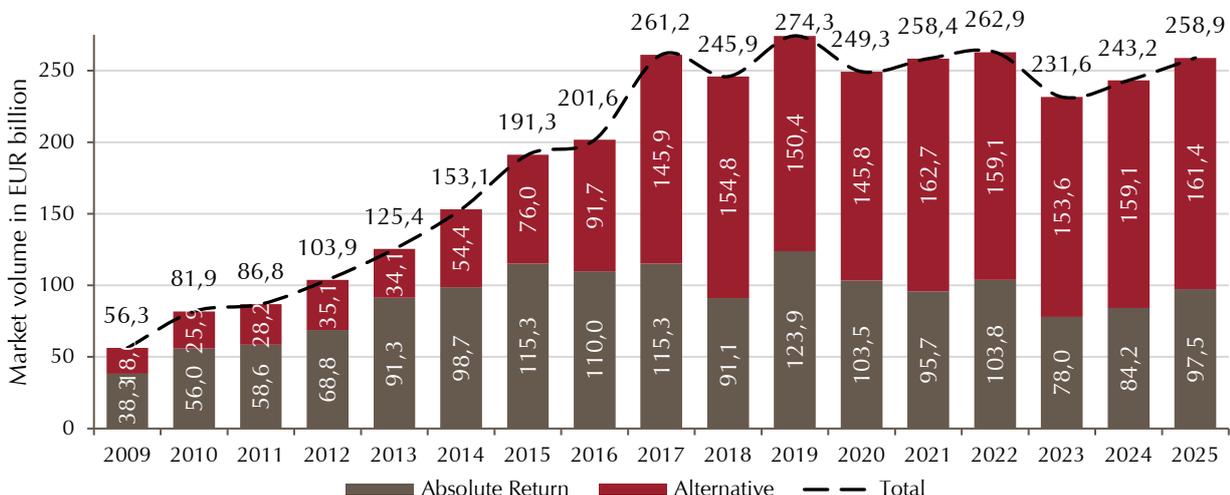
### Number of funds in the segment at a stable level



### Absolute Return Strategies gain significant market volume

The market volume increased by 6.5% compared to the previous year to €258.9 billion. This increase was driven primarily by Absolute Return Strategies, whose fund volume grew by €13.3 billion. Alternatives Strategies recorded an increase of €2.4 billion.

### Growing market volume confirms return of investor confidence

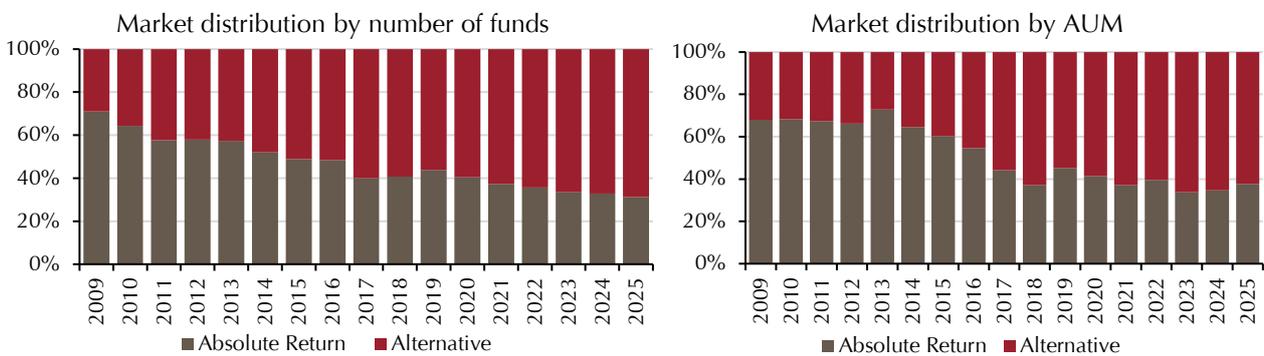


This trend suggests that investors are again increasingly turning to Liquid Alternatives, as these offer high diversification potential for asset allocation in the face of ongoing market uncertainty

## Absolute Return: Fund numbers fall, importance rises

The number of fund concepts continues the trend that has been observed for several years: Alternatives Strategies are gaining relative importance, while the number of Absolute Return funds continues to decline slightly. Currently, around 69% of all concepts are Alternatives; the proportion of Absolute Return Strategies is declining accordingly. The picture is different when it comes to assets under management: **Despite declining numbers, Absolute Return funds were able to expand their market share of the total volume again after 2024:** Their share increased from 34.6% to 37.6%.

## Diverging developments in Absolute Return and Alternatives



## Share of institutional investors remains high

The share of institutional investors in the overall market remains high and has largely stabilised at its elevated level: With a share of 49.3%, institutional investors represent almost half of the total market volume in the segment. In absolute terms, assets under management in institutional share classes increased by €2.1 billion to a total of €127.7 billion. Within the institutional segment, there were significant differences in the development of both sub-segments: **Absolute Return funds significantly increased their institutional assets**, up €5.4 billion, up 12.2%. **Alternatives Strategies, on the other hand, suffered slight declines.** Their assets under management fell by €3.3 billion (-4.2%). As in the overall market, approximately 40% of institutional volume is attributable to Absolute Return and approximately 60% to Alternatives.

## Institutional volume stabilises at a high level



## Inflows and outflows

### Trend confirmation for fund flows: Liquid Alternatives are back

Following significant outflows in 2023, investor interest in the Liquid Alternatives segment gradually returned. Already in the second half of 2024, significantly positive net inflows were recorded for the first time in several years – a sign of growing confidence in the asset class. This trend not only continued in 2025, but also gained considerable momentum. Already in the first half of the year, €6.9 billion flowed into Liquid Alternatives. **During the rest of the year, the development accelerated with inflows of EUR 19.5 billion, allowing hedge fund strategies in the UCITS mantle to raise around EUR 26.4 billion for the full year.** Continuous inflows throughout the six months of the second half of the year underscore that investors have returned to this asset class on a sustained basis.

**At the strategy level, ten of the 15 categories considered recorded net inflows – another indication of the breadth of demand.** Investors favoured strategies with a defensive or hedging character and more predictable risk profiles – a role traditionally played by many Liquid Alternative approaches. The biggest winners were Absolute Return Bond funds with net flows of €13.49 billion (+27.9%), Alternative Equity Market Neutral with €4.73 billion (+42.1%) and Alternative Long/Short Equity with €3.81 billion (+18.0%). Few strategies experienced sustained outflows. Alternative Managed Futures (–€0.85 billion) were particularly affected, followed by Alternative Event-Driven (–€0.55 billion).

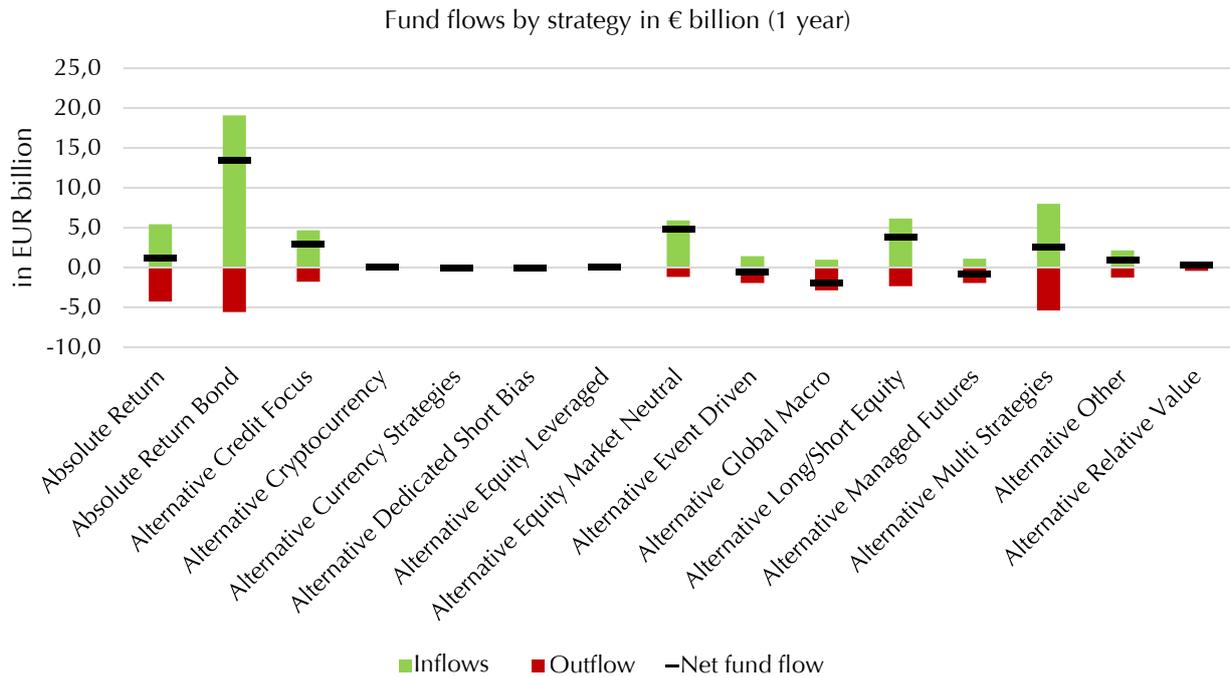
### Fund flows by strategy (in billion €)

Top 5		Flop 5	
Absolute Return Bond	13.49	Alternative Managed Futures	-0.85
Alternative Equity Market Neutral	4.73	Alternative Event Driven	-0.55
Alternative Long/Short Equity	3.81	Alternative Currency Strategies	-0.12
Alternative Credit Focus	2.86	Alternative Dedicated Short Bias	-0.04
Alternative Multi Strategies	2.58	Alternative Cryptocurrency	0.02

**With cumulative net inflows totalling €16.4 billion, the two Fixed-Income Strategies Absolute Return Bond and Alternative Credit Focus remained among the largest beneficiaries within the segment.**

The chart on the following page shows the net effects of each strategy. **In total, the Liquid Alternatives segment received gross inflows of €55.99 billion (green bars), while €29.57 billion flowed out (red bars).** This results in net inflows of €26.4 billion.

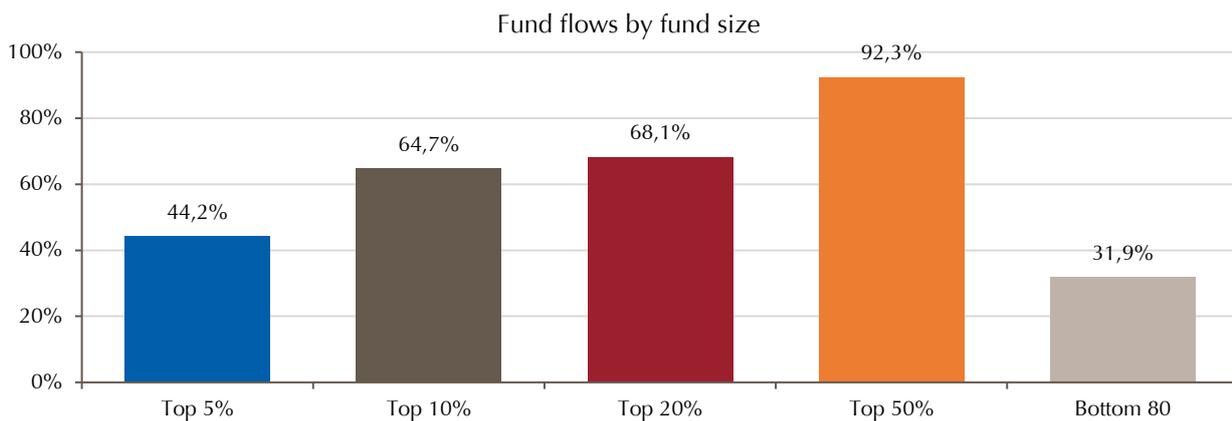
## Fixed-Income Strategies continue to see strong net inflows



## Inflows remain concentrated on a few strategies

Net inflows again benefited mainly the large funds. Just under half (44.2%) accounted for the top 5% of the highest volume funds. This underscores the continued dominance of market leaders. **The smaller 50% of all funds received just 7.7% of total net inflows** – a minimal proportion highlighting the limited market penetration of smaller providers.

## Dominant market leaders attract new investor funds

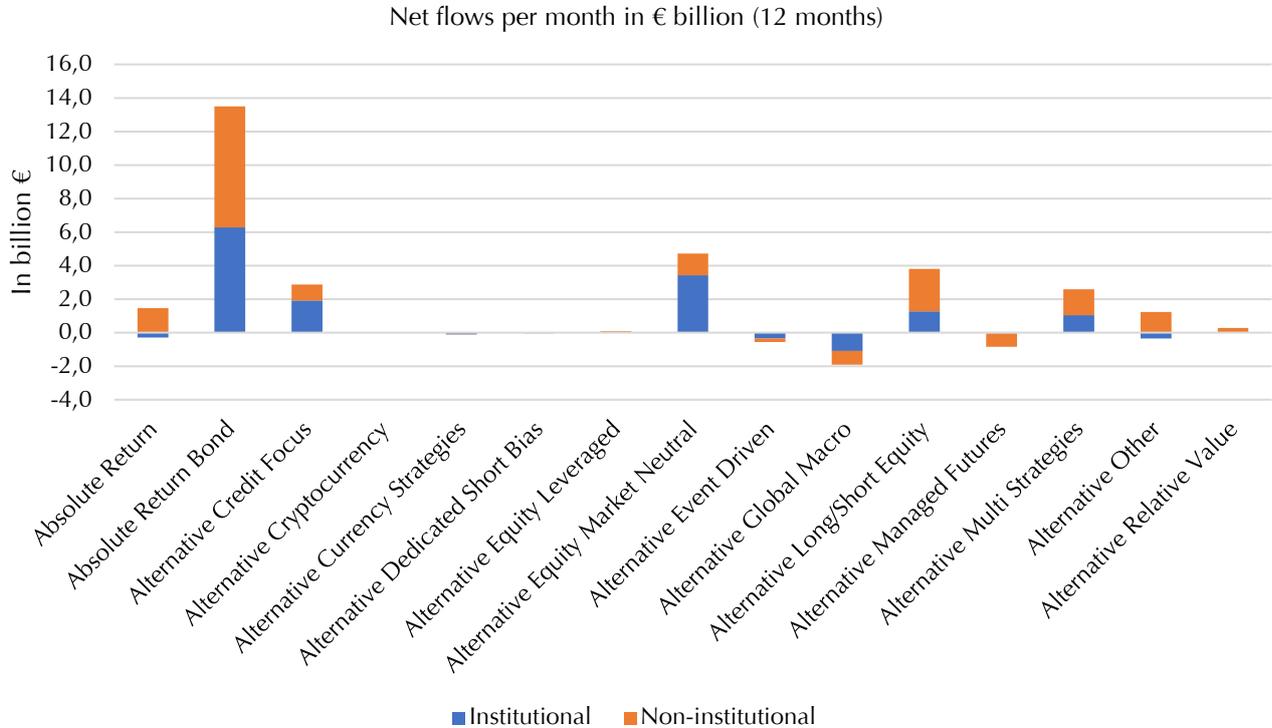


## Slight differences in flows across investor classes

Fund flows within individual strategies show occasional larger differences between institutional and non-institutional share classes. **Thus, Alternative Equity Market Neutral recorded noticeably higher inflows from institutional investors, who seem to be using this strategy as a low-risk, market-neutral addition to their portfolios. Alternative Credit Focus also attracted more than average institutional funds.** This underscores the ongoing trend towards defensive credit strategies. On the other hand, Alternative Long/Short Equity benefited a much larger portion of non-institutional share classes. The broader penetration among retail and wholesale investors reflects increased demand for flexible equity-like strategies with controlled net exposure. **In both investor groups, Absolute Return Bond was able to**

**attract comparably high inflows.** This strategy benefited equally from institutional demand for low-risk stability building blocks as well as from non-institutional investors seeking a defensive solution.

## Absolute Return Bond remains the favoured strategy

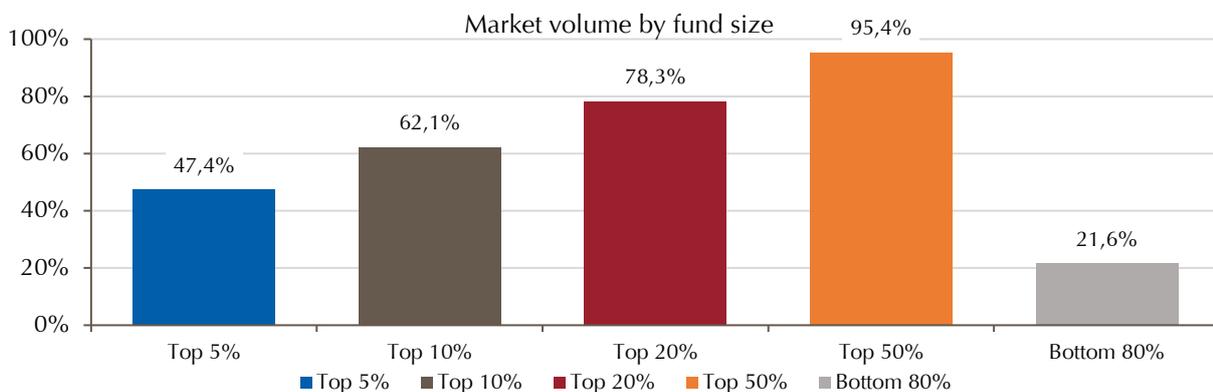


## MARKET STRUCTURE

### High market concentration remains the defining feature of the segment

The Liquid Alternatives segment is still dominated by a few large funds. The largest five percent of funds pool more than twice as much capital as the smallest 80%. The structural imbalance is even more evident when comparing the better and worse capitalised halves: **The upper one manages 95.4% of the total fund volume, while the lower one plays virtually no role with only around 5% of the market volume.** This pronounced gap between large and small suppliers has been a central structural element of the segment for years.

### Top 5% of funds account for 47% of total market volume



## Fixed Income remains the strongest strategy group

The market shares of the individual strategies in the Liquid Alternatives segment have changed only slightly compared to 2024. The largest shares are attributable to Absolute Return Bond with 24.2% (+2.8%), Alternative Multi Strategies with 20.2% and Absolute Return with 13.5%. **The two Fixed-Income Strategies – Absolute Return Bond and Alternative Credit Focus – together account for 31.6% of the total market volume.** This trend, which has been stable for years, underlines the continuing high importance of defensive bond strategies in the Liquid Alternatives universe.

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



## PERFORMANCE

### Positive trend in the second half of the year

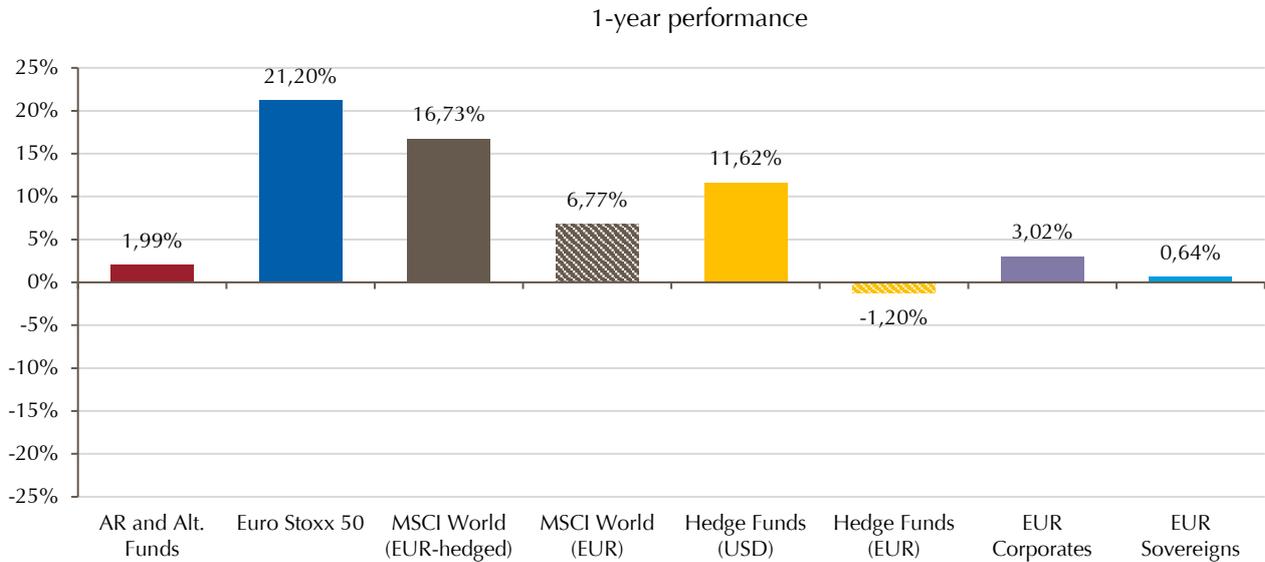
After a negative performance of -1.87% in the first half of the year and a stronger second half, hedge funds in the UCITS umbrella ended the year, on average across all funds, with a performance of 1.99%.

### The 2025 annual performance is at the lower end of past years

2019	2020	2021	2022	2023	2024	2025
6.64%	1.34%	6.71%	-1.49%	5.28%	9.26%	1.99%

**Despite the upward trend in the second half of the year, the asset class significantly underperformed the equity markets.** European equities posted a performance of 21.20% over the year, with global equities (EUR-hedged) up 16.73%. On the bond side, euro corporate bonds generated a return of 3.02%, while European government bonds were slightly positive at 0.64%. On the other hand, unregulated hedge funds in US dollars achieved a performance of 11.62%, significantly outperforming their counterparts within a UCITS umbrella and clearly outperforming European bonds.

## Unregulated hedge funds well ahead of Liquid Alternatives



## Falling dollar puts pressure on eurozone returns

In 2025, investors outside the US had to discover how strongly currency movements can affect the performance of international investments. Escalating trade conflicts, increasing government debt, discussions about the US Federal Reserve's monetary independence and geopolitical uncertainty led to a massive loss of confidence in the US dollar. Measured against the US dollar index (DXY), which tracks the strength of the US dollar against a basket of major global currencies, the USD lost 9.4% of its value over the course of the year. The euro even appreciated by 13.4% against the US dollar.

## US dollar depreciates sharply against the euro



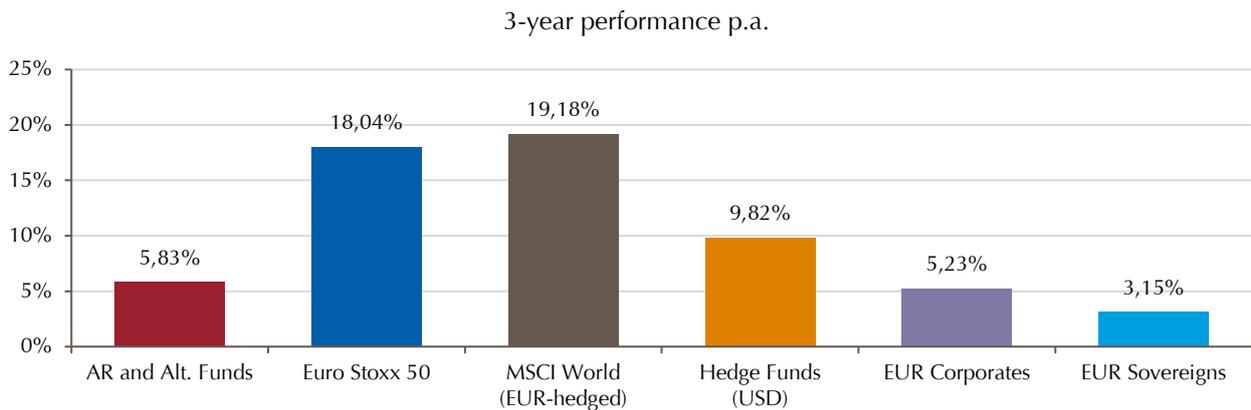
For European investors, this development meant that even solid returns achieved in USD strategies were significantly reduced or completely neutralised. So, the MSCI World gained 21.09% from a US investor's perspective (in USD), while the EUR-hedged variant used in this analysis stood at 16.73%. Unhedged performance is only 6.77%.

**Compared to equities and unregulated hedge funds, this explains a significant part of the lower performance** of Liquid Alternatives Strategies. This is particularly clear when compared to unregulated hedge funds: Their return of 11.62% is completely reversed for European investors due to the currency effect and falls to -1.20% from a EUR perspective. It is clearly below the returns of the UCITS strategies.

## Liquid Alternatives with a solid medium-term return

Over three years, Liquid Alternatives delivered a solid annual return of 5.83%. Investors were thus able to achieve a positive real return on average with the partly defensive vehicles, while losses were reduced compared with riskier asset classes (see from page 10). **Liquid Alternatives thus prove to be an appropriate instrument for real wealth accumulation and at the same time spare investors' nerves.** Equities and bonds generated higher returns, but in some cases also significantly higher maximum losses. Unregulated hedge funds positioned well ahead of the UCITS hedge funds with a return of 9.82% over the same period, but measured in US dollars and excluding currency risks.

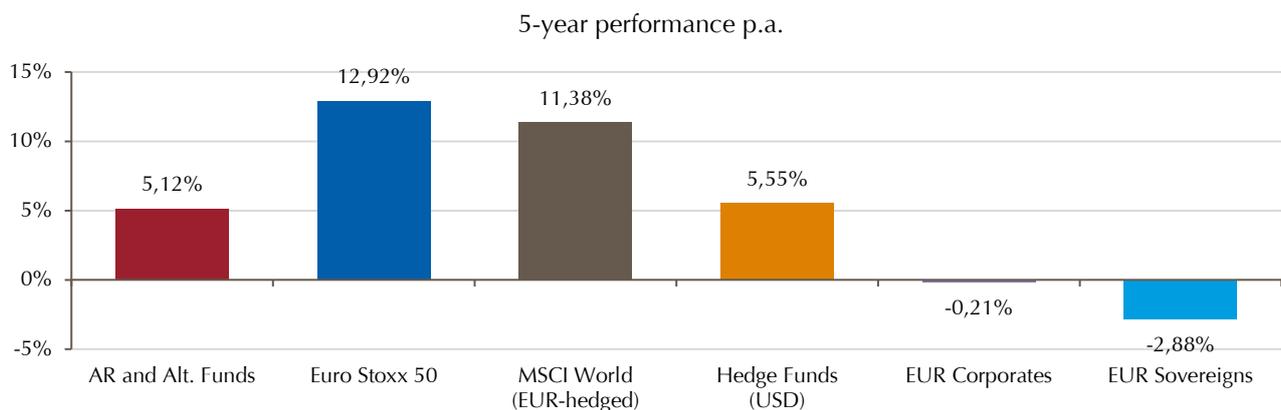
### Over 3 years of solid performance



### Over five years still ahead of euro bonds

The five-year view confirms the stabilising role of Liquid Alternatives: With a return of 5.12%, they are almost in line with their unregulated counterparts (5.55%). Nevertheless, Liquid Alternatives cannot keep pace with the above-average performance of the stock markets. **Euro bonds have not been able to offset the losses of 2022 caused by rapidly rising interest rates over a five-year period.** This confirms the stabilising positioning of Liquid Alternatives between equities and bonds.

### On par with hedge funds over the long term



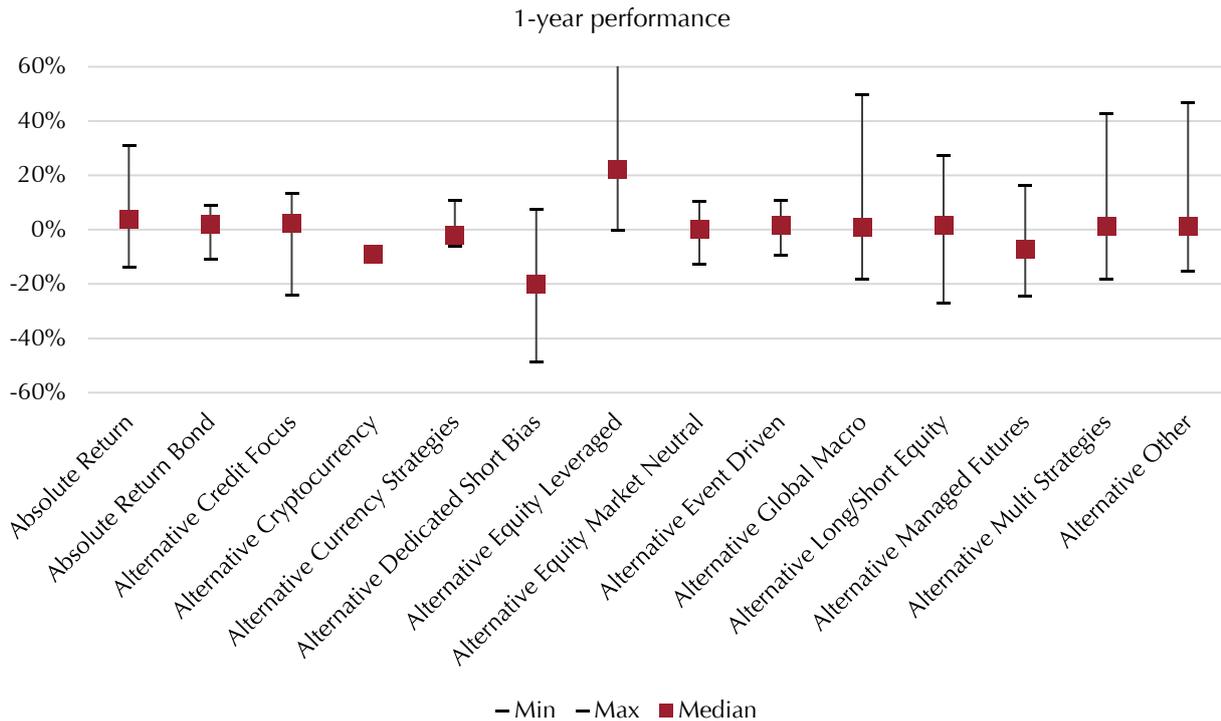
## Heterogeneous strategies – heterogeneous results

The analysis for 2025 again shows a large dispersion of performance within the Liquid Alternatives segments – an indication of the importance of careful fund selection. Of the 15 strategies analysed, eleven have a positive median return. As in previous years, leverage strategies form the extreme poles of the distribution: Alt. Equity Leveraged benefited particularly strongly from price movements in the positive equity market environment and achieved a median of 22.3%. The best fund in this group even posted a performance of 125.1%. **In 2025, unlevered strategies led by Absolute Return at 4.1%, as well as Fixed-**

**Income Strategies Alternative Credit Focus (2.4%) and Absolute Return Bond (2.1%).** By contrast, Alt. Dedicated Short Bias posted significant median losses of -19.9%, with the weakest strategy of the year closing at -48.7%. Particularly large fluctuation ranges are also found for Alternative Global Macro (-18.2 % to +49.6 %) and Alternative Multi Strategies (-18.22 % to +42.75 %).

In contrast, Alternative Currency Strategies (-6.2% to +10.9%) and Absolute Return Bond (-10.63% to +8.91%) show relatively narrow ranges. The risk of finding a particularly poorly performing fund in these strategies is significantly reduced.

### Wide ranges of results underline the importance of careful selection

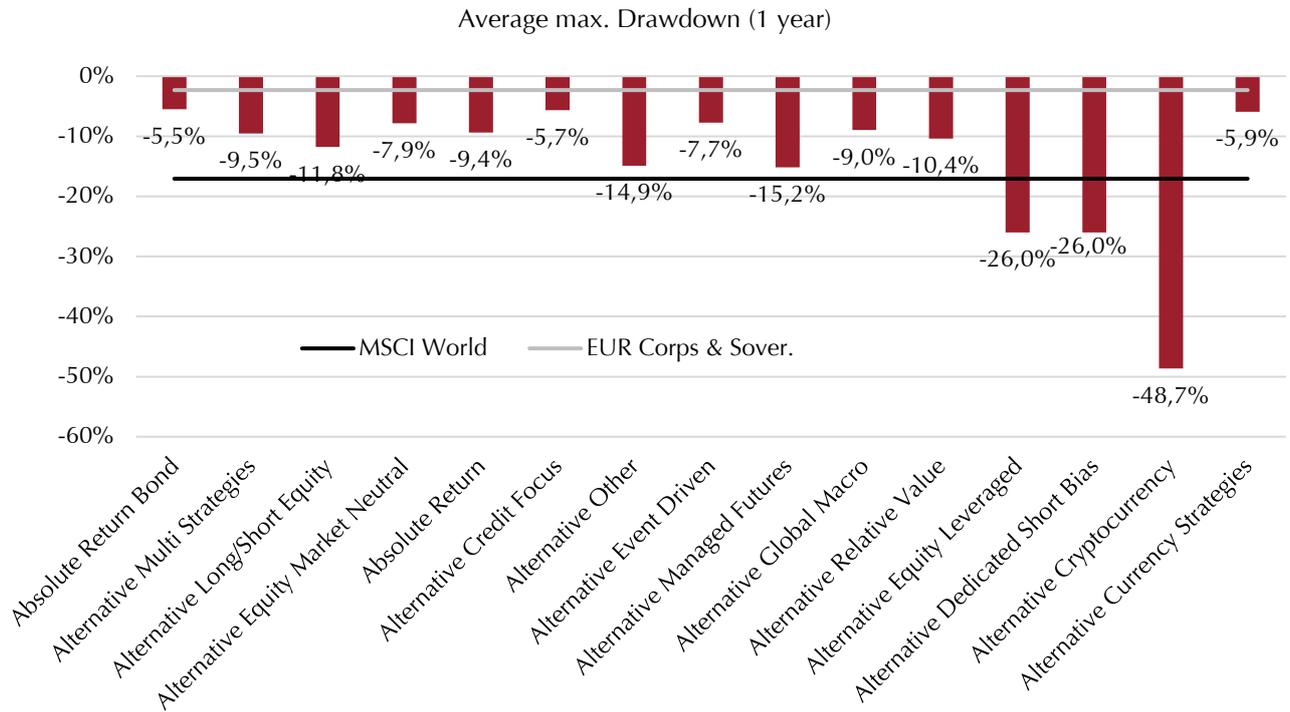


## RISK ASSESSMENT

### Drawdowns clearly below equity level

Most Liquid Alternatives Strategies kept their maximum losses well below an equity investment. The MSCI World (EUR-hedged) recorded a downturn of -17.06% in the first half of the year due to the so-called Liberation Day. **With few exceptions, all strategies managed to keep their average maximum losses well above this level.** The lowest average drawdowns are Absolute Return Bond (-5,50 %), Alternative Credit Focus (-5,68 %) and Alternative Currency Strategies (-5,94 %). However, all strategies have higher maximum losses than euro corporate and euro government bonds (-2.32%).

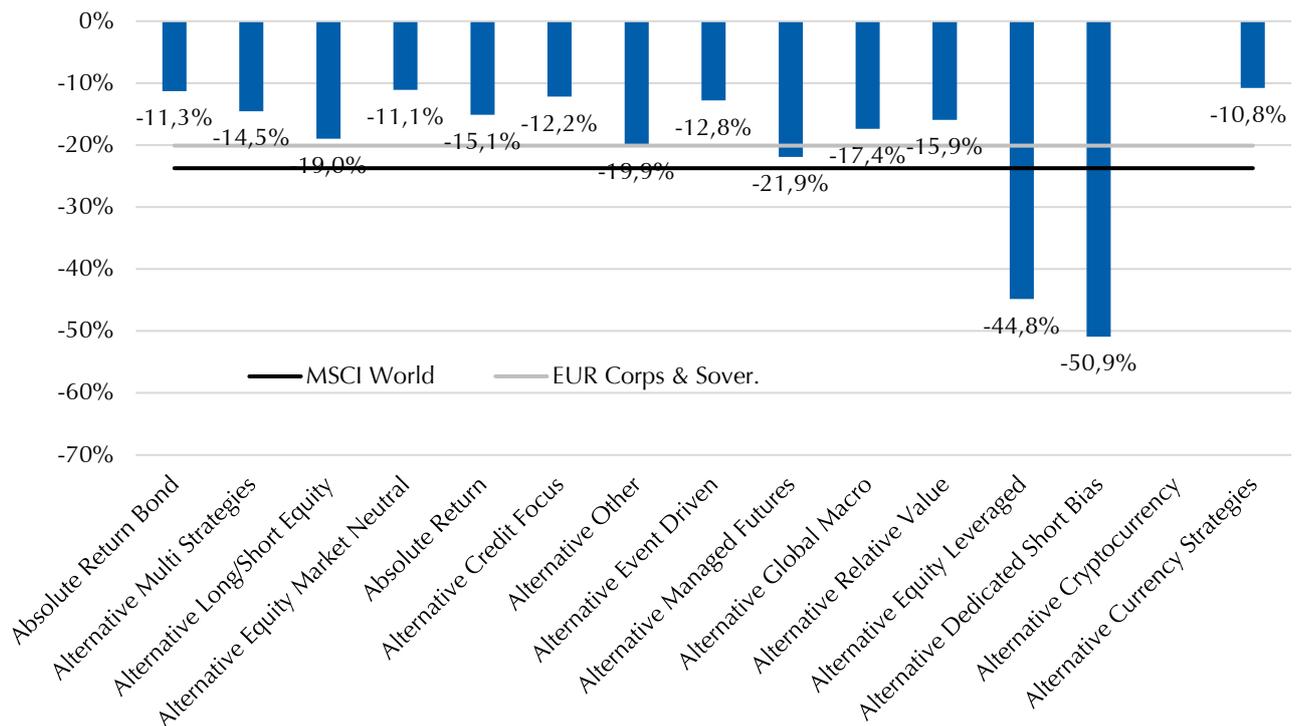
## Almost all strategies were able to effectively limit drawdowns



## Drawdowns over five years: Alternatives as a stability anchor

In 11 out of 14 strategies, average maximum losses over five years were clearly below the MSCI World (EUR-hedged) and below a euro bond investment.

### Average maximum losses over five years

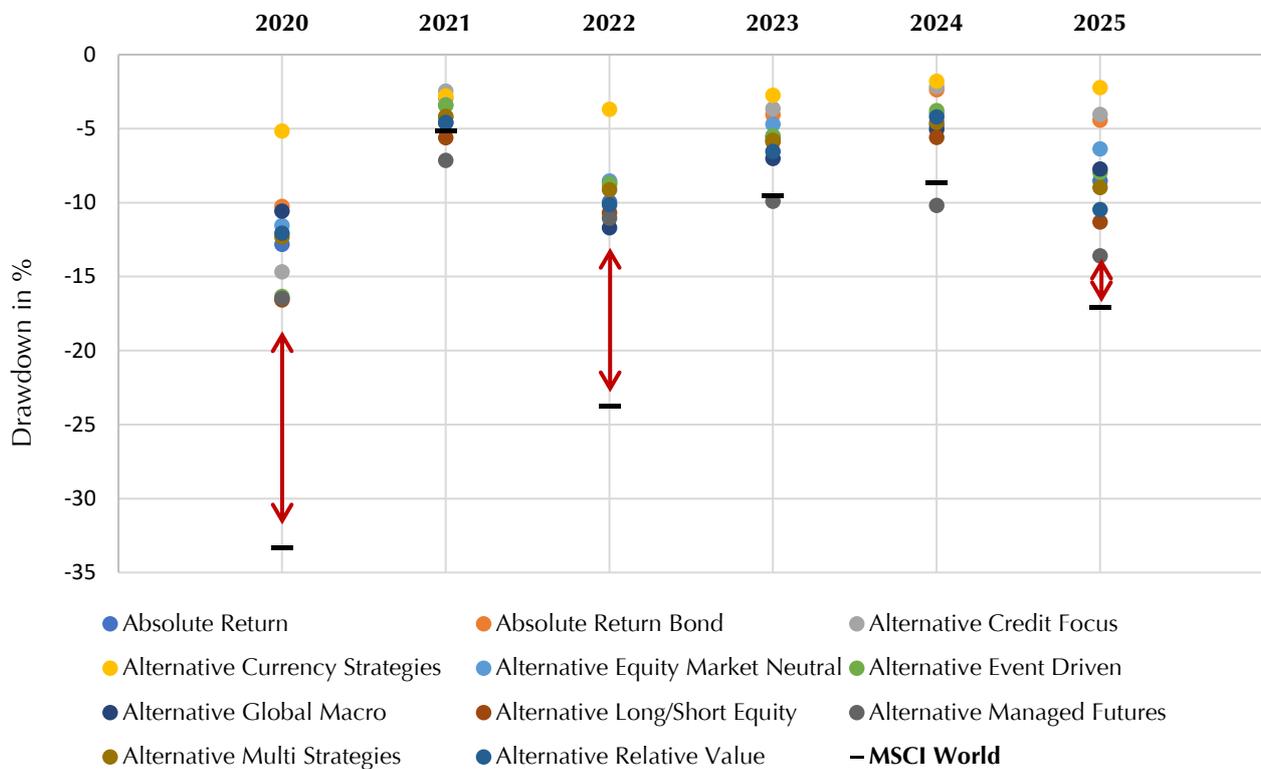


## In the face of market stress, Liquid Alternatives demonstrate their quality

The stabilising effect of Liquid Alternatives funds is particularly evident during periods of stress on the capital markets. Over a longer period covering various challenging market phases, it is clear that Liquid Alternatives have been able to contribute significantly to portfolio stabilisation. This applies in particular to market-neutral or less trend-dependent strategies.

The chart below shows the annual drawdowns (median) of selected strategies since 2020. In calm market phases such as 2021, 2023 or 2024, it may appear that the effectiveness of Liquid Alternatives funds is limited. However, looking at several market cycles paints a different picture. **In pronounced periods of stress, such as in 2020 and 2022, Liquid Alternatives were able to significantly reduce drawdowns compared to a global equity investment measured by the MSCI World.** But even in 2025, which saw noticeable market-wide declines, albeit not extreme ones, the strategies are proving effective: Liquid Alternatives act as a stabilising element and help smooth the performance of the overall portfolio by effectively dampening significant price losses and reducing overall volatility.

### Stress test over market cycles: Alternatives reduce setbacks

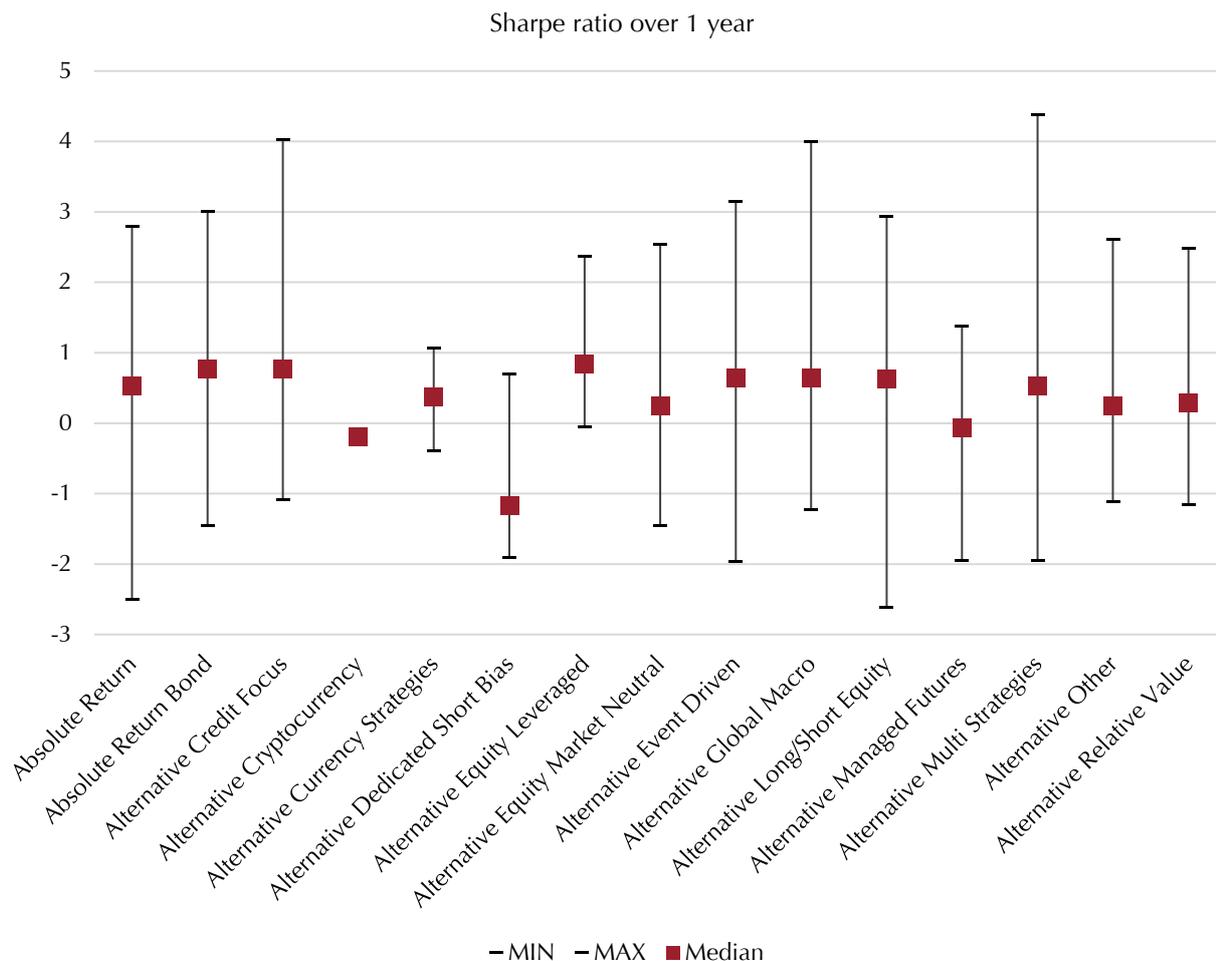


This means: For investors, it is not only the absolute return that matters, but also the diversifying effect of a fund within its overall allocation. Particularly in volatile market phases, Liquid Alternatives can play a decisive role in mitigating sharp drawdowns in the portfolio.

## Risk-adjusted returns show a heterogeneous picture

**In 2025, 72.4% of funds achieved a positive Sharpe ratio** – in other words, a return above the so-called risk-free interest rate. Overall, there is a clear dispersion of the Sharpe ratios across the different strategies. Here, too, the large spread between the funds shows that careful selection is crucial for investment success. **Over three years, 72.0% of funds have a positive Sharpe ratio.** In the five-year comparison, this share is slightly lower at 60.0%.

## Wide dispersion of Sharpe ratios within the strategies

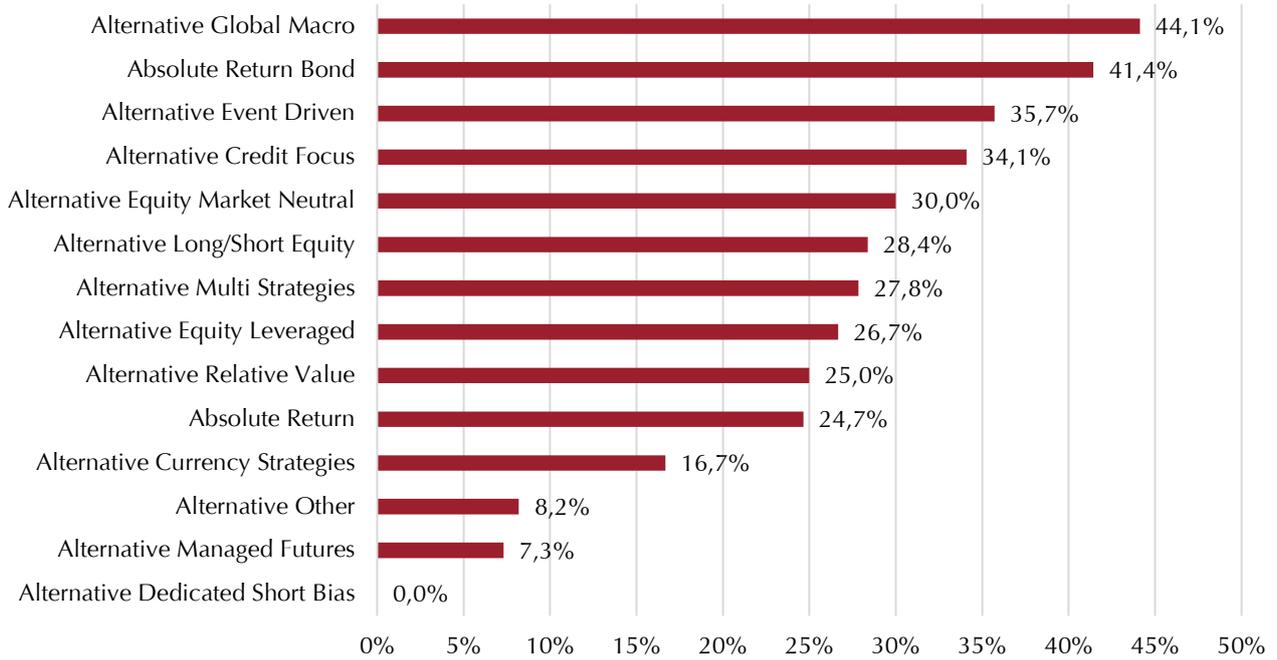


## Many funds with Sharpe ratio above 1

**Around 26% of funds achieved a Sharpe ratio greater than 1 in 2025, which is considered a good return-to-risk ratio.** Particularly high risk-adjusted returns were achieved in the Alternative Global Macro strategy group, where 44.1 % of funds have a Sharpe-Ratio above 1 and the median is 0.63. Absolute Return Bond also delivered compelling results: 41.4% of funds had a Sharpe ratio above 1 (median 0.77). Over three years, 12.6% of all funds achieve a Sharpe ratio greater than 1, while only 3.7% do so over five years

## Alternative Global Macro funds deliver strong Sharpe ratios

Number of funds within category with Sharpe ratio > 1 (1 year)



## Costs largely unchanged

On average, costs have been at a broadly stable level since 2017 (1.62%), with a slight downward trend. These are currently on the long-term average at around 1.48%.

## Glossary\*

### Absolute Return fund

Absolute Return funds are regulated UCITS investment funds that aim to generate positive returns in all market phases – independent of the performance of traditional long-only market indices. They must make use of derivatives for implementation. In addition, the fund must include the words “Absolute Return” or a similar designation in its name or investment objective.

### Alternatives funds

Alternatives funds include a variety of hedge fund-like strategies in regulated liquid UCITS structures. Their goal is not necessarily a positive absolute return, but rather to take advantage of specific market opportunities. They are characterised by a high degree of strategic freedom and can use different asset classes and manage their exposure flexibly. The use of leverage or derivatives is also possible.

<b>Absolute Return</b>	Funds that aim to achieve a positive absolute return regardless of market movements. They are usually measured against a risk-free or cash benchmark instead of a traditional long-only benchmark.
<b>Absolute Return Bond</b>	Funds that pursue positive return targets in all market situations with long or short investments and invest primarily in bonds.
<b>Alternative Credit Focus</b>	Funds investing in credit-structured vehicles based on fundamental and quantitative analyses to benefit from changes in credit quality, spreads and market liquidity.
<b>Alternative Currency Strategies</b>	Funds that invest in global currencies, use arbitrage opportunities and take into account interest rates, momentum or fundamental expectations.
<b>Alternative Cryptocurrency</b>	Funds with significant (>50%) direct or derivative exposure to cryptocurrencies.
<b>Alternative Dedicated Short Bias</b>	Funds that maintain a net short profile on the market on an ongoing basis. This category also includes funds that exclusively take short positions.
<b>Alternative Equity Leveraged</b>	Funds that seek leveraged equity exposure. They use a customised combination of futures contracts, derivatives and leveraged products to achieve this.
<b>Alternative Equity Market Neutral</b>	Strategies that deliver consistent returns through long/short positions in both upward and downward markets and seek neutral overall market risk.
<b>Alternative Event-Driven</b>	Funds that exploit price inefficiencies around corporate events such as mergers, acquisitions, restructurings or insolvencies.
<b>Alternative Global Macro</b>	Funds that make their global investment decisions based on macroeconomic analysis. Typically, strategies are based on interest rate expectations, expectations on 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.
<b>Alternative Long/Short Equity</b>	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.
<b>Alternative Managed Futures</b>	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. Investment approaches are trading strategies that may include long and short positions.
<b>Alternative Multi Strategy</b>	Funds that combine several hedge fund-like strategies to take advantage of diversified, independent sources of return.
<b>Alternative Relative Value</b>	Options and arbitrage strategies are applied to highly correlated pairs of securities to exploit price differences. In such cases, the funds sell the more expensive security (short position) while taking a long position in the relatively cheap security.
<b>Alternative Other</b>	Alternatives Strategies that are not clearly attributable to any of the defined categories or that have not yet been assigned due to a re-launch.

\*Definitions according to LSEG Lipper (abbreviated)

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## About Lupus alpha

As an independent, owner-operated asset management company, Lupus alpha has been synonymous with innovative, alternative 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 EUR 15.5 billion for institutional and wholesale investors. For further information, visit [www.lupusalpha.de](http://www.lupusalpha.de).

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