Absolute Return and Alternative Funds in Germany | 1st Half of 2025

Liquid alternatives: A turnaround in cash flows – interest has returned

Strong US dollar depreciation weighs on returns in investment segment

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 key risk figures. It evaluates the three levels of aggregation – the overall universe, strategies within the universe, and funds within the strategies – a distinction is made between 14 strategies with a total of 715 funds.

SUMMARY

Liquid alternatives strategies recorded net inflows of €6.9 billion in all six months of the first half of 2025. This is a clear signal of renewed interest in this asset class and confirms the turnaround that began in the second half of 2024. The fact that eight out of 14 strategies posted positive inflows also underscores the breadth of the recovery.

The market turbulences in April 2025, triggered by the announcement of new US tariffs, led to a noticeable shift towards lower risk strategies. The threatened tariffs acted as a catalyst for many investors to reassess their risk tolerance. The largest inflows came from the two fixed income strategies: Absolute Return Bond (+€3.91 billion) and Alternative Credit Focus (+€0.97 billion). Defensive equity strategies such as Alternative Equity Market Neutral and Alternative Long/Short Equity also benefited from increased demand.

Institutional share classes accounted for just under half of the market volume in the first half of 2025 (49.5%) – only slightly below the record level at the end of 2024 (51.7%). Particularly, lower-risk Absolute Return Funds gained (+€0.8 billion) among institutional investors, while the alternatives segment declined. The high proportion of institutional investors underlines their confidence in the robust structures of Liquid Alternatives.

The average performance across all Liquid Alternatives funds studied was -1.87% from a Euro investor perspective. The main cause of the negative return was the exceptionally strong depreciation of the US dollar (around -14% against the Euro), which had a negative impact on global strategies. Strategies with currency hedging or a focus on Europe thus showed clear benefits for European investors.

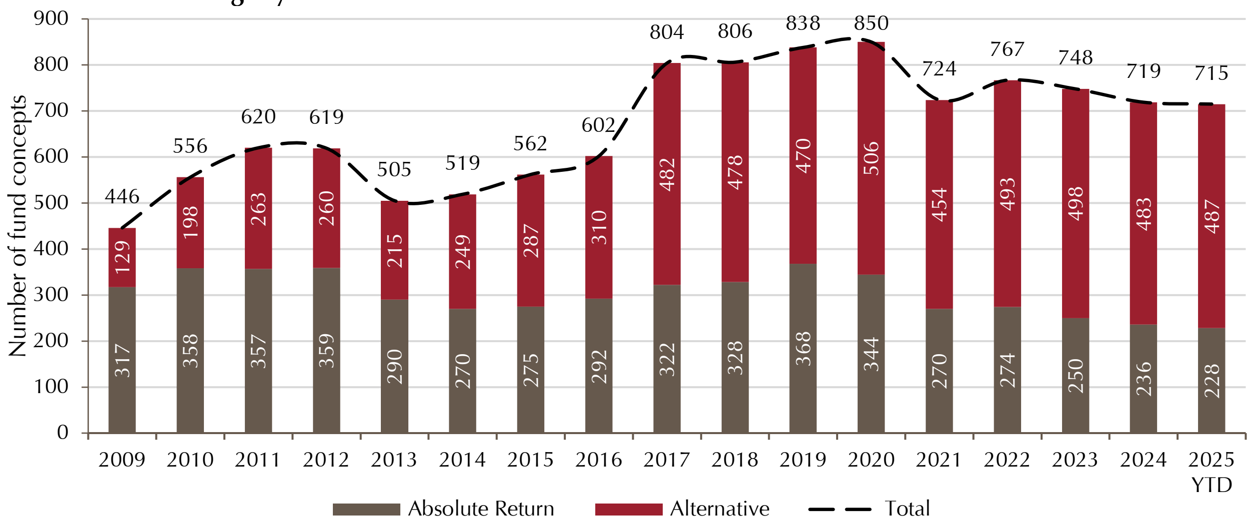
Despite the market upheaval in April, the maximum losses of many strategies remained moderate. The median for most strategies was below the MSCI World (EUR hedged: -17.1%). In particular, the fixed income strategies Absolute Return Bond (-5.3%) and Alternative Credit Focus (-5.8%) impressed with defensive risk profiles. Strategies are also stable over a period of five years: eleven out of 14 categories recorded smaller drawdowns than global equities or euro bonds.

MARKET DEVELOPMENT

Number of funds in the segment at level of previous year

Compared to the turn of the year, the number of funds in the segment decreased by four to 715 by 30 June 2025. Hedge fund strategy providers have launched 29 UCITS funds – i.e. more funds have left the market than new ones. The Absolute Return and Alternatives sub-segments performed in opposite directions: The **number of absolute return concepts decreased** by 3.4% to 228 funds, while the **number of alternatives increased marginally** – from 483 to 487 funds. Overall, however, the ratio remains almost constant: Alternatives account for around two thirds of the funds and Absolute Return accounts for one third.

Number of funds slightly down



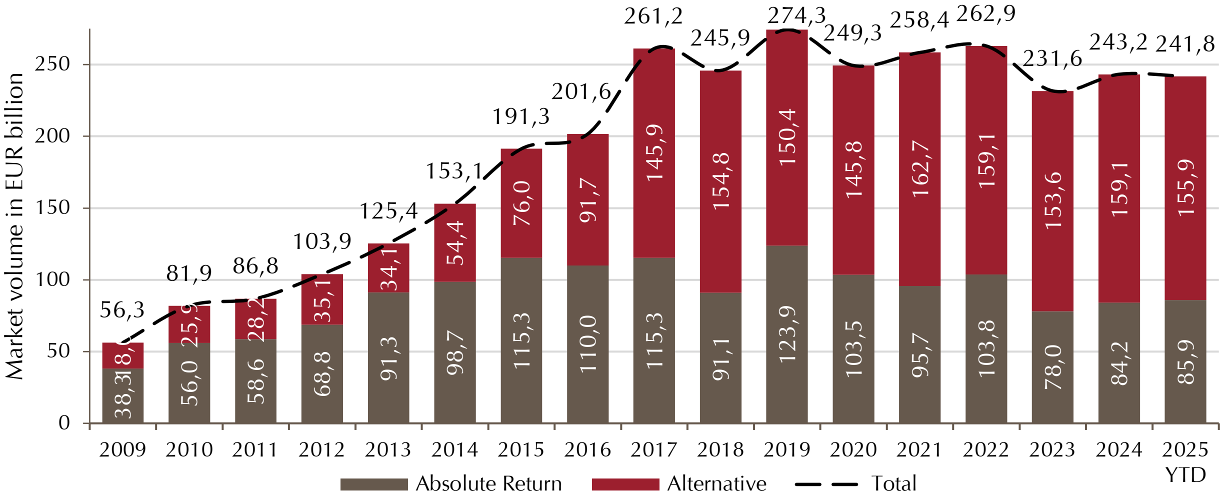
Net inflows confirm a shift in sentiment. Market volume, however, remains almost unchanged.

After the massive outflows in 2023, the tide turned in the second half of 2024. Although the full year was still down, net new investor capital came into the segment from mid-year onwards. This positive trend continued: **In the first half of 2025, net €6.9 billion flowed into Liquid Alternatives –** a clear sign of the renewed interest in this asset class.

Cash inflows did not fully offset the slightly negative performance of -1.87% (see page 7), resulting in a slight decrease in total asset class volume from €243.2 billion to €241.8 billion.

This decline is mainly at the expense of Alternative Funds, whose volume fell by €3.2 billion (-2.0%). Absolute Return funds increased their volume by €1.7 billion (2.1%). This is mainly due to the strong net inflows into the fixed income strategy "Absolute Return Bond" (€3.9 billion; see page 4).

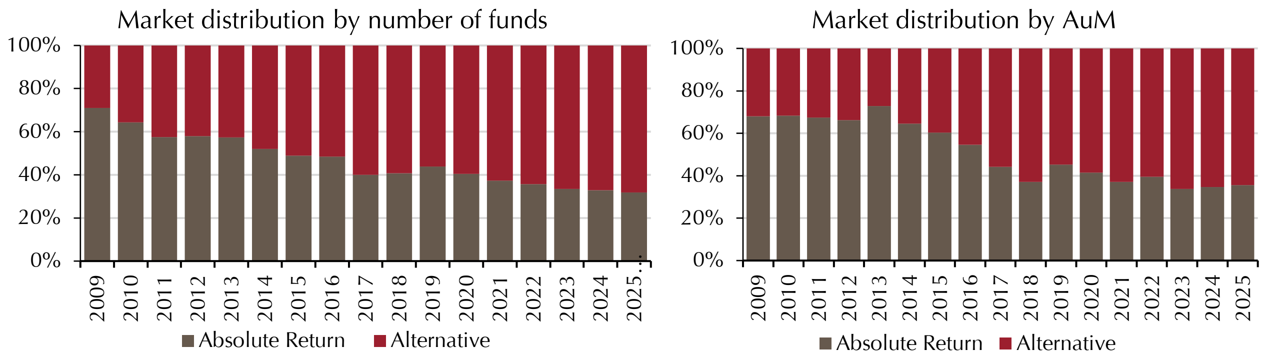
Market volume stabilizes slightly below the previous year's level



Market split between Absolute Return and Alternatives is stable

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 (right chart), with the share of Absolute Return funds amounting to 35.5%.

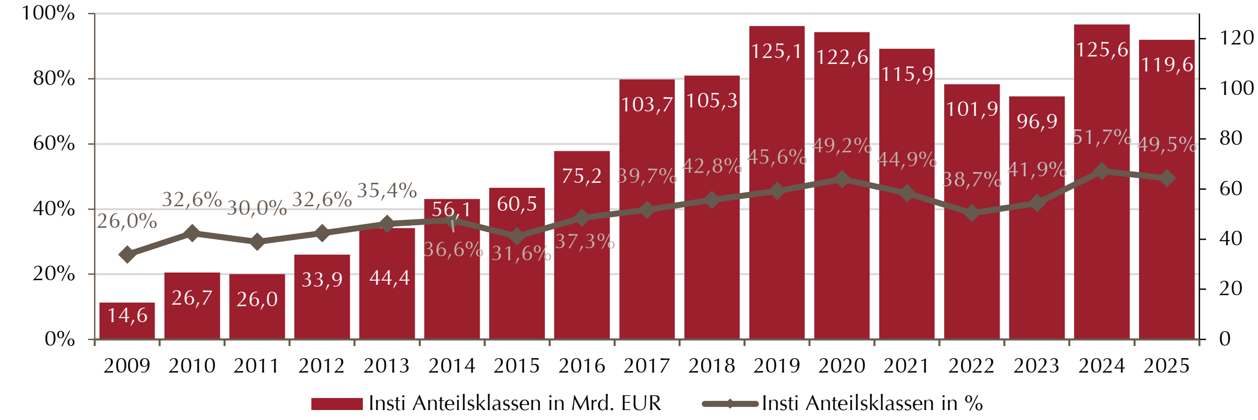
Ratio of Absolute Return to Alternatives concepts virtually unchanged



Share of institutional investors remains high

By the end of 2024, the institutional volume of Liquid Alternatives reached a new high of 51.7% in the overall market. **This proportion fell slightly to 49.5% in the first half of the year, but remains at a high level.** In absolute terms, the volume of institutional share classes decreased from €125.6 billion to €119.6 billion (-4.8%). This was due to the sub-segment of Alternatives, which fell by €6.8 billion (-8.4%). By contrast, lower-risk strategies such as Absolute Return funds increased slightly by €0.8 billion (1.7%) among institutional investors. This is also reflected in the high inflows into the Absolute Return Bond strategy.

Institutional volume remains at a high level



Absolute Return Bond strategies with the highest net inflows

After several years in which all strategies were impacted by outflows in phases, eight of the 14 strategies benefited from net inflows in the first half of 2025. The biggest winners were the Absolute Return Bond at €3.91 billion (+7.8%), Alternative Equity Market Neutral at €2.01 billion (+17.6%) and Alternative Long/Short Equity at €1.21 billion (+5.2%). **These inflows show that investors prefer to increase their allocation to Liquid Alternatives defensively.** In contrast, Alternative Global Macro posted outflows of €1.00 billion and Alternative Managed Futures of €0.74 billion.

Fund flows by strategy (€bn)

Top 5

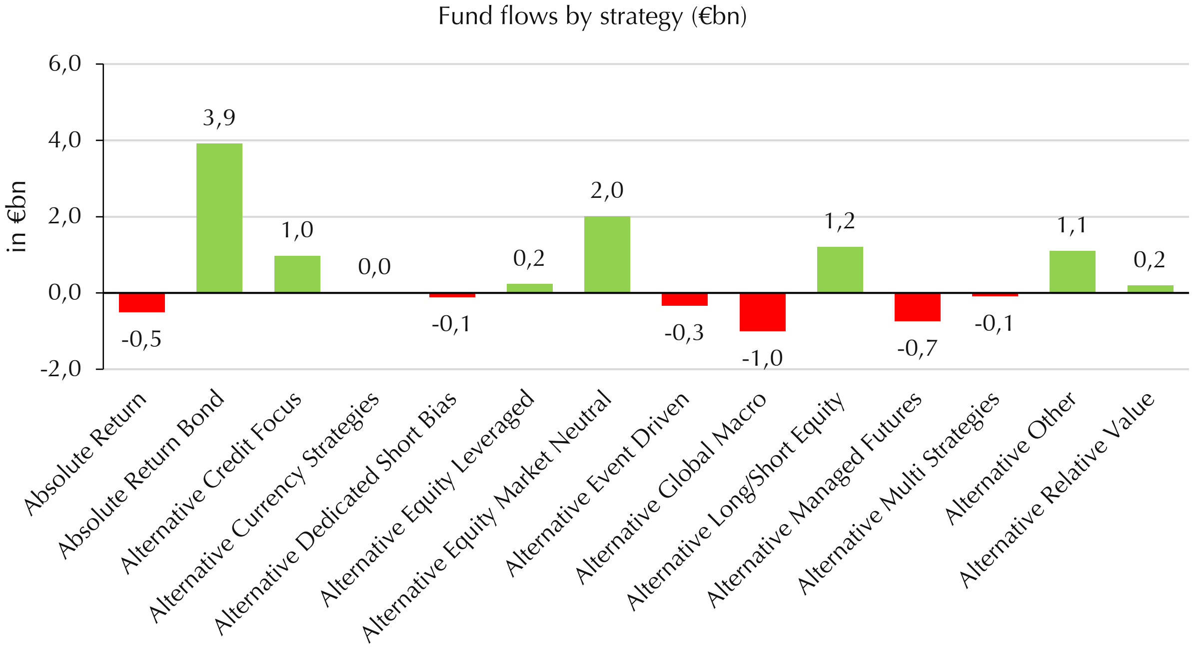
Absolute Return Bond	3.91
Alternative Equity Market Neutral	2.01
Alternative Long/Short Equity	1.21
Alternative Other	1.11
Alternative Credit Focus	0.97

Flop 5

Alternative Global Macro	-1.00
Alternative Managed Futures	-0.74
Absolute Return	-0.51
Alternative Event Driven	-0.33
Alternative Dedicated Short Bias	-0.11

With net inflows of almost €5 billion added, the two fixed income strategies in the Absolute Return Bond and Alternative Credit Focus segment were once again among the main beneficiaries. **This, too, confirms investors' turn towards more defensive strategies.**

Fixed income and defensive equity strategies continue with strong net inflows

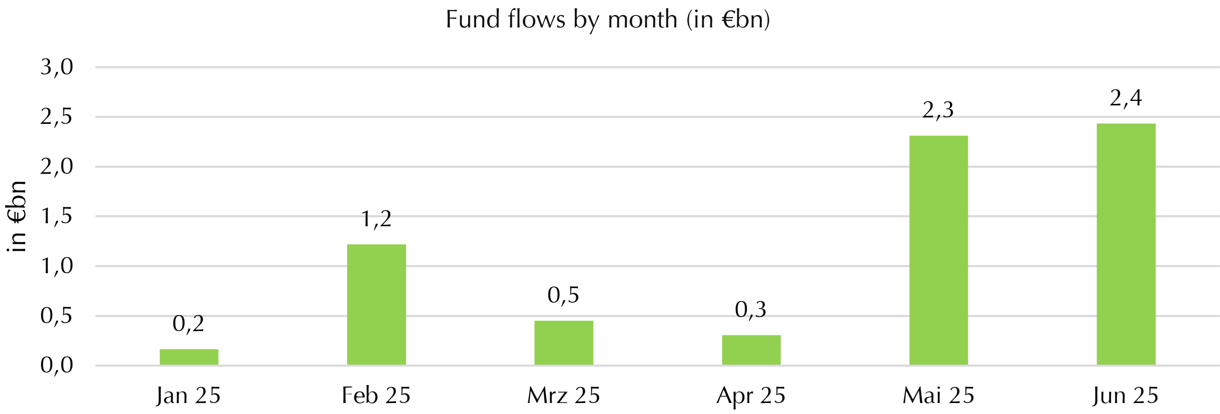


US tariffs as a turning point – investors bolster portfolios with lower-risk strategies

Liquid Alternatives posted net inflows in all six months of the first half. Particularly noteworthy are May and June, which together accounted for almost 70% of total inflows. This strong demand was triggered by President Trump's announcement of new tariffs in April. These led to some sharp market distortions on the global financial markets. **Apparently, this shock has prompted many investors to reassess their risk tolerance and build portfolios more robustly.** Particularly with regard to drawdown reduction, Liquid Alternatives Funds have repeatedly proven that they can significantly limit strong price declines, unlike pure equity or bond investments (see page 11). The increased allocation to Liquid Alternatives can thus be interpreted as a deliberate measure for risk management.

A closer look at inflows in May and June underscores this trend: Among the most sought-after strategies were Absolute Return Bond, Alternative Credit Focus, Alternative Long/Short Equity and Alternative Equity Market Neutral. **Investors were therefore looking specifically for defensive equity and credit strategies.** However, more broad-based concepts such as macro, currency or multi-strategy funds were avoided.

Tariff threats and market turmoil in April drove capital into Liquid Alternatives

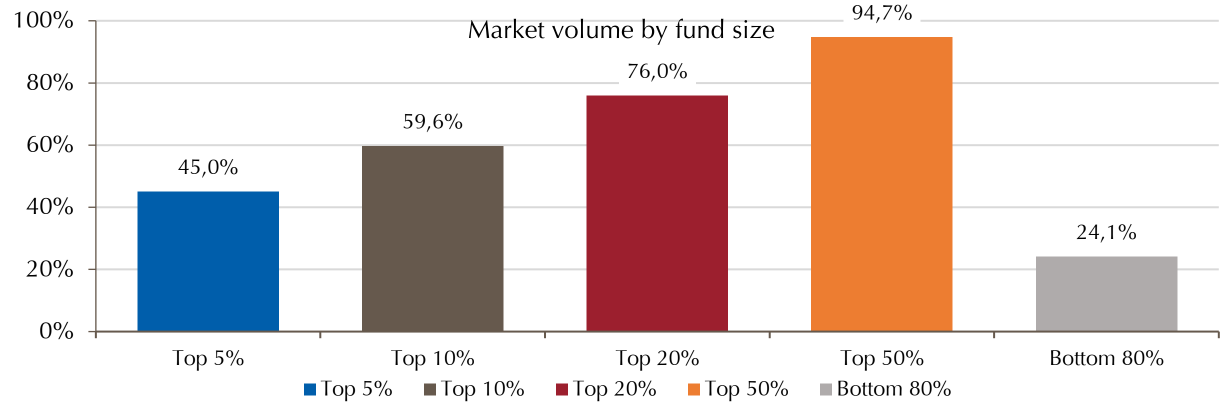


MARKET STRUCTURE

Half of funds manage almost 95% of market volume

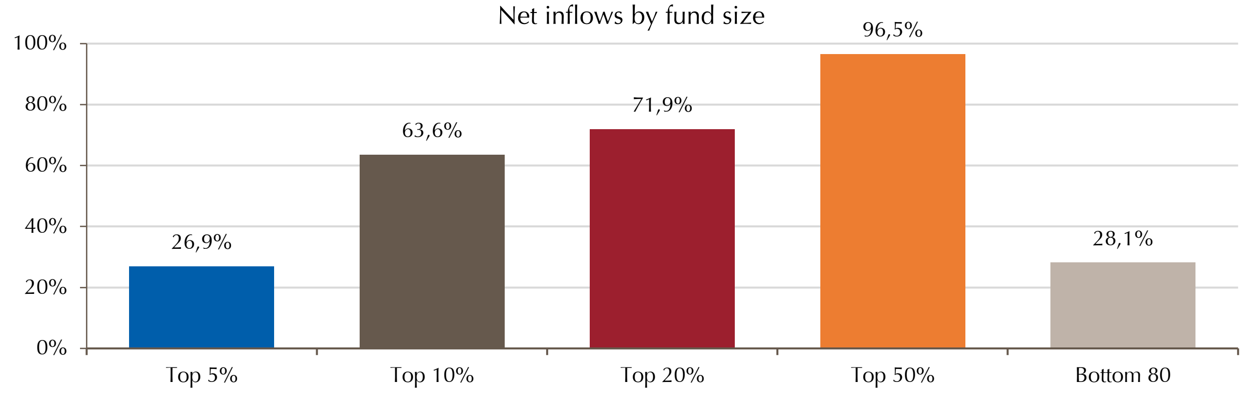
The Liquid Alternatives segment is still dominated by a few large funds. The largest five per cent of funds attract almost twice as much capital as the smallest eighty per cent – a clear sign of the continued concentration in the market. This is particularly clear when comparing the upper and lower half of the fund universe: The better capitalised half manages 94.7% of the total market volume, while the lower half, with only around 5%, has barely any impact. **The gap between large and small suppliers thus remains a key structural feature of the segment.** A look at fund sizes underscores the picture of a high market concentration: 91.8% of all funds manage less than €1 billion and 83.3% manage less than €500 million. By contrast, the top 5% funds all have a volume of more than €1 billion. The top 10% of the funds each manage at least €700 million.

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



A similar pattern emerges in net inflows: In the first half of 2025, the five per cent of the largest funds accounted for a quarter of all inflows. **The top 20% of the highest volume funds accounted for 71.9% of total inflows.** By contrast, the smallest 50% of the funds accounted for only 3.5% of total inflows, representing a very small share of the inflow volume. These data show that both assets under management and cash inflow are largely driven by a few large funds.

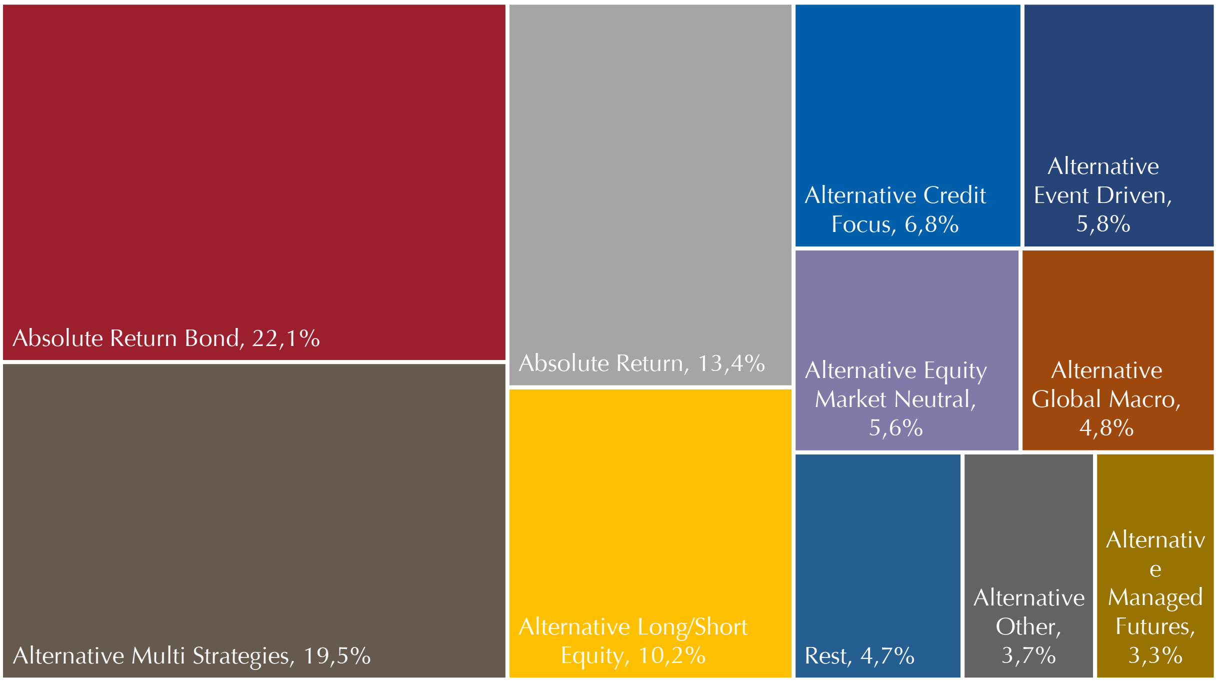
Large funds captured the majority of net inflows



Fixed income strategies remain dominant

The market shares of the individual strategies in the segment barely changed compared to 2024. Absolute Return Bond remains the largest strategy with a market share of 22.1% and has increased its share by a further 0.7 percentage points compared to the previous year. The second place is Alternative Multi Strategies with a market share of 19.5%. The continued strong position of alternative fixed income strategies overall is also noteworthy: Combined, Absolute Return Bond and Alternative Credit Focus achieve a market share of almost 30%, underscoring their central role within the segment.

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



PERFORMANCE

Weak US dollar pushes performance into negative territory for Euro investors

After the record year in 2024, with a performance of 9.26%, Liquid Alternatives funds achieved their best annual result since the start of this study; however, the first half of 2025 was significantly weaker. **UCITS hedge funds averaged -1.87%** underperforming both equity and bond markets.

Despite the massive market corrections in April, triggered by tariff threats and geopolitical tensions, equity markets rebounded significantly in May and June: European equities (Euro Stoxx 50) gained 10.4% in the first half of the year, while global equities (MSCI World, EUR-hedged) gained 5.88%. On the bond side, European corporate bonds posted a performance of 1.82% while European government bonds were slightly positive at 0.60%. Unregulated hedge funds moved between bonds and equities with a performance of 4.33%, significantly outperforming their regulated counterparts.

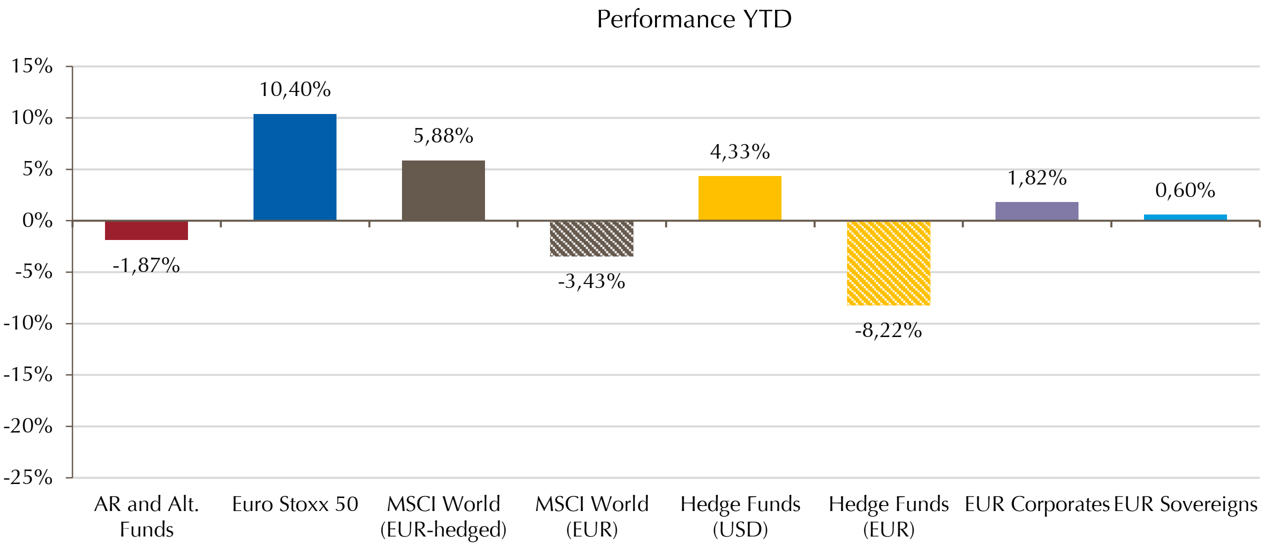
The performance of Liquid Alternatives has mainly suffered from the rapidly falling price of the US dollar. In the wake of the escalating trade conflict and falling confidence in the US dollar, it lost about 14% against the euro in the first half of the year. Such a sharp decline in the US dollar last occurred in 1973.

As a large part of the global investment universe is made up of US assets, such a sharp fall in the US dollar has a major negative impact on Euro investors investing in global funds. **Thus, a positive return calculated in US dollars can quickly be reduced or even negative due to the euro currency conversion.** For comparison, the MSCI World gained 9.47% from a US investor perspective (in USD) versus -3.43%

for a Euro investor (in EUR) (see chart below). The EUR hedged variant used in this analysis is in between at 5.88% – the difference is due, among other things, to the difference in interest rates between the US and Europe, which influence the hedging costs.

The performance of unregulated hedge funds should also be assessed in this context: From a US investor perspective, it is +4.33%. From a European investor's perspective, the same performance would be significantly worse due to the currency effect alone at -8.22%. Overall, only 43.3% of funds in the Liquid Alternatives segment achieved a positive return in the first half of 2025 – much weaker than in the previous year.

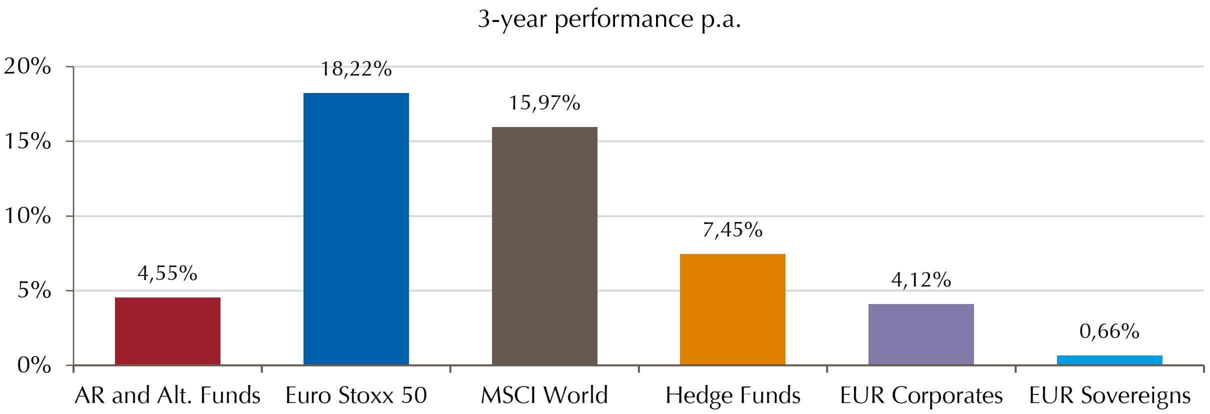
Currency effect weighs on Liquid Alternatives performance



Liquid alternatives exhibit solid long-term return

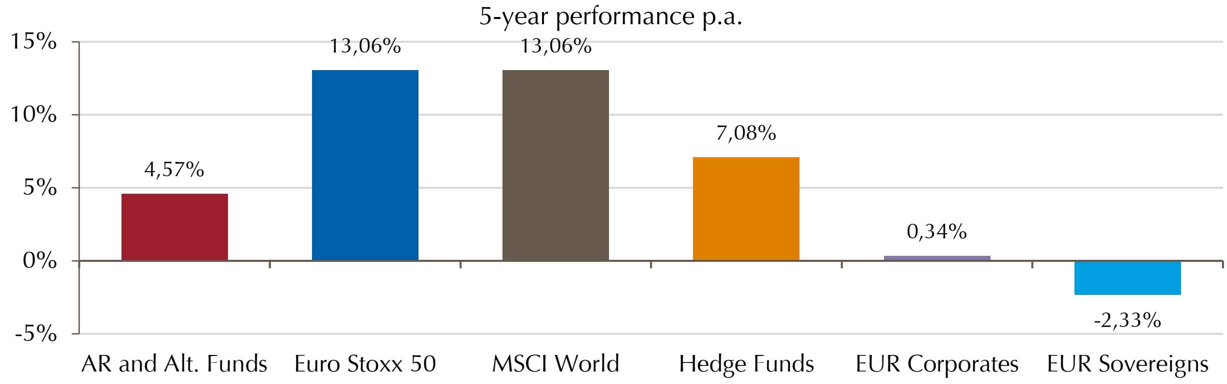
Over a three-year period, Liquid Alternative strategies generated an average p.a. yield of 4.55%, above the level of Euro bonds. European equities rose by 18.22% p.a. over the same period, demonstrating their comeback on the stock exchanges. Global equities, which are very heavily US-dominated, also achieved a strong result at 15.97% p.a. (measured against the MSCI World, EUR-hedged).

Better performance than bonds over 3 years



The five-year view confirms the stabilising role of Liquid Alternatives in the portfolio. With a yield of 4.57% p.a., they outperform European corporate bonds (0.34%) as well as European government bonds, which have a negative performance of -2.33%. It should be borne in mind that Liquid Alternatives encompass a wide range of strategies, from conservative, low-risk approaches to yield-oriented, equity-like approaches. The relevant yield profiles also spread accordingly (see page 10).

5-year performance shows stabilising role in portfolio



High performance dispersion requires careful fund selection from investors

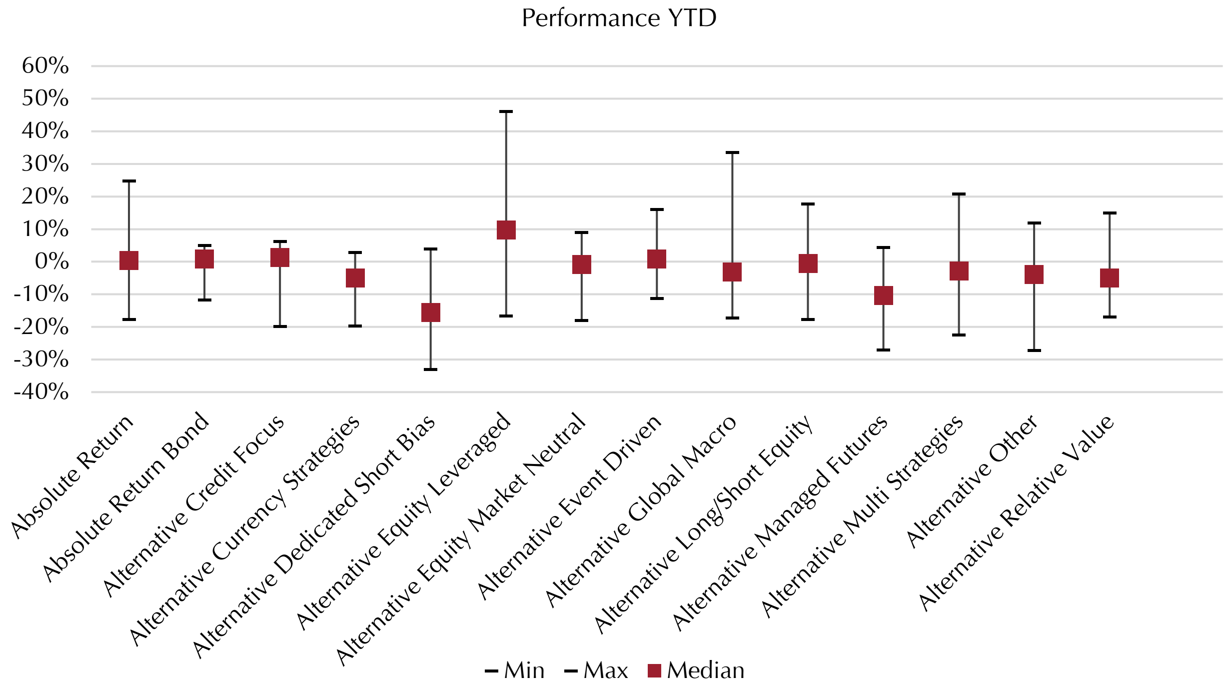
As in the past, leveraged strategies are positioned at both ends of the yield spectrum. Thus, leveraged long equity strategies (Alt. Equity Leverage) achieved a median return of 9.8%, making them the best strategy for the half-year. Short equity strategies (Alt. Dedicated Short Bias), on the other hand, rank last with a median performance of -15.6%. Given the overall positive equity environment, this performance is not surprising.

The remaining twelve strategies lie between these two poles. **Within this group, the two fixed income strategies lead the field: Alternative Credit Focus** with a median return of +1.3% and **Absolute Return Bond** at +0.8%. Apart from that, only two other strategies managed to close the first half of the year with a positive median return: Alternative Event Driven (+0.7%) and Absolute Return (+0.3%). Overall, nine out of the 14 strategies considered closed the first half of the year with negative median returns – an indication of the challenging market phase for many concepts.

The enormous dispersion within individual strategies is particularly striking: The largest yield gap is seen in leveraged equity strategies (Alt. Equity Leverage): The best fund returned +46.1%, while the weakest fund returned -16.6%, a range of over 62 per cent. The dispersion is similarly pronounced in Global Macro strategies (spread: 50.8%), for Alternative Multi Strategies (43.3%) and for Absolute Return strategies (42.7%).

On the other hand, fixed income strategies are much more homogeneous: For Absolute Return Bond funds, the range between the best fund (+5.0%) and the weakest (-11.8%) is 16.8 per cent. For Alternative Credit Focus strategies, the difference between maximum return (+6.1%) and minimum return (-20.0%) is still 26.1 per cent, but this is still well below the swings of equity-related strategies.

Fund performance is highly diversified across most strategies



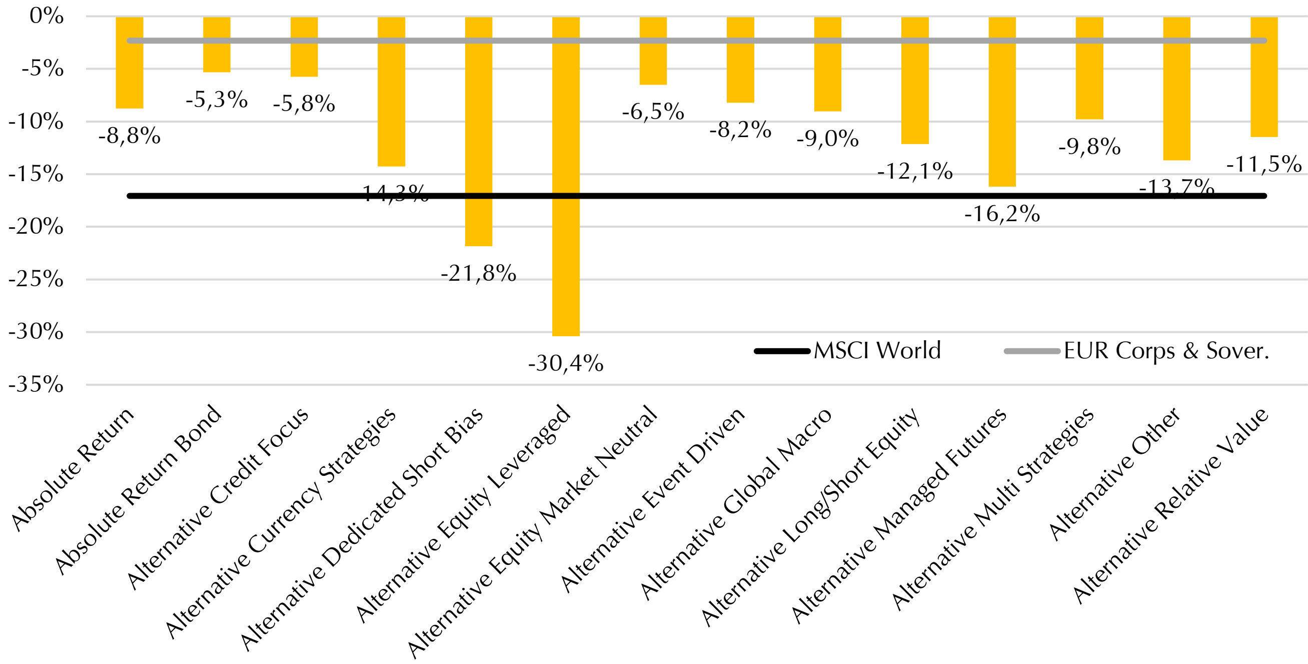
RISK ASSESSMENT

Liquid Alternative Funds with lower maximum losses than equities

With the exception of highly volatile leverage strategies, all twelve strategies have their maximum losses in the first half of 2025 below those of a global equity investment in the MSCI World (EUR hedged: -17.1%). The smallest price setbacks were recorded by Fixed Income strategies, with -5.3% for the Abs. Return Bond and -5.8% for Alt. Credit Focus. These strategies typically also have a more defensive risk/return profile.

12 of the 14 strategies posted lower maximum losses than equities despite significant market dislocations in April. This allowed them to significantly reduce the risk for investors. Five strategies experienced lower declines than a global equity investment, but suffered double-digit maximum losses. The largest losses (apart from the two leverage strategies in the segment) occurred in Alternative Managed Futures strategies. These are often trending and appear to have struggled to respond to the break in April 2025.

Moderate setbacks on most strategies (H1 2025)



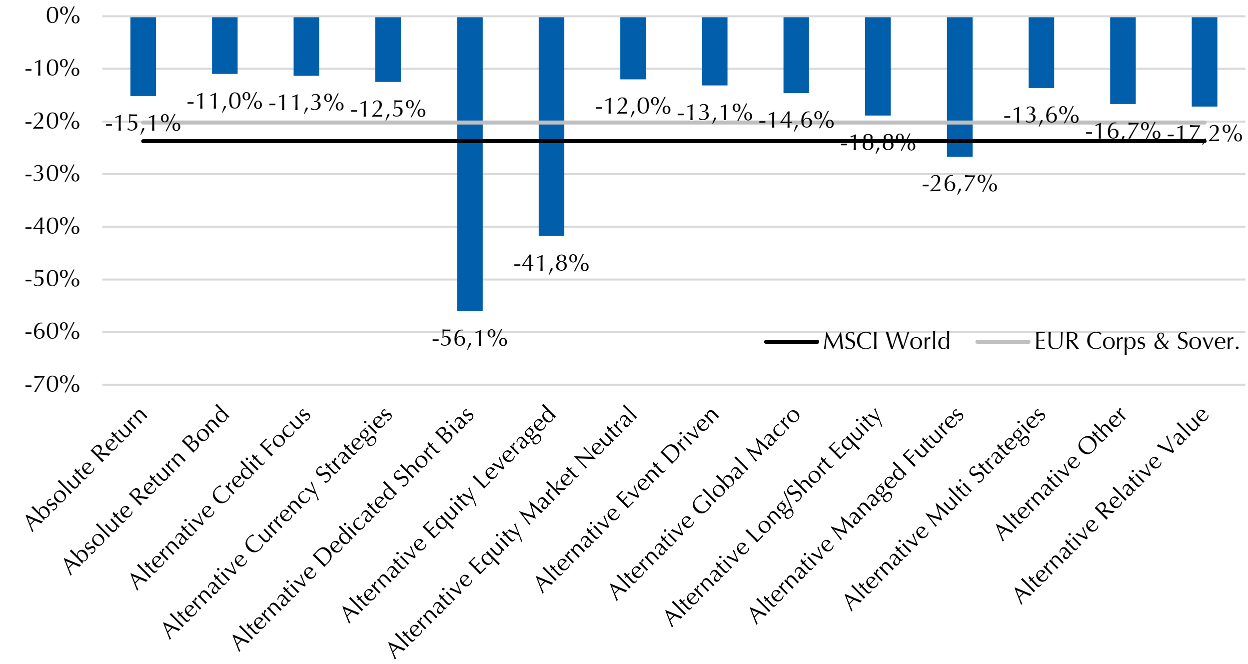
Eleven out of 14 strategies have lower long-term drawdowns than bonds and equities

In analysing the maximum losses over five years, one of the most serious market distortions of recent years, the COVID-19 pandemic, is no longer included in the period under review. Accordingly, the maximum pullback of the MSCI World as a reference value is lower than in evaluations from previous years.

Nevertheless, the maximum losses confirm the robust structure of many Liquid Alternative strategies. While global equities recorded a maximum decline of 23.7% and EUR bonds of 20.2%, eleven of the fourteen strategies analysed recorded significantly smaller drawdowns.

The lowest maximum losses were Absolute Return Bond (-11.0%), Alternative Credit Focus (-11.3%) and Alternative Equity Market Neutral (-12.0%). The highest maximum losses occurred in Alternative Managed Futures (-26.7%), Alternative Equity Leveraged (-41.8%) and Alternative Dedicated Short Bias (-56.1%).

Average maximum losses over five years

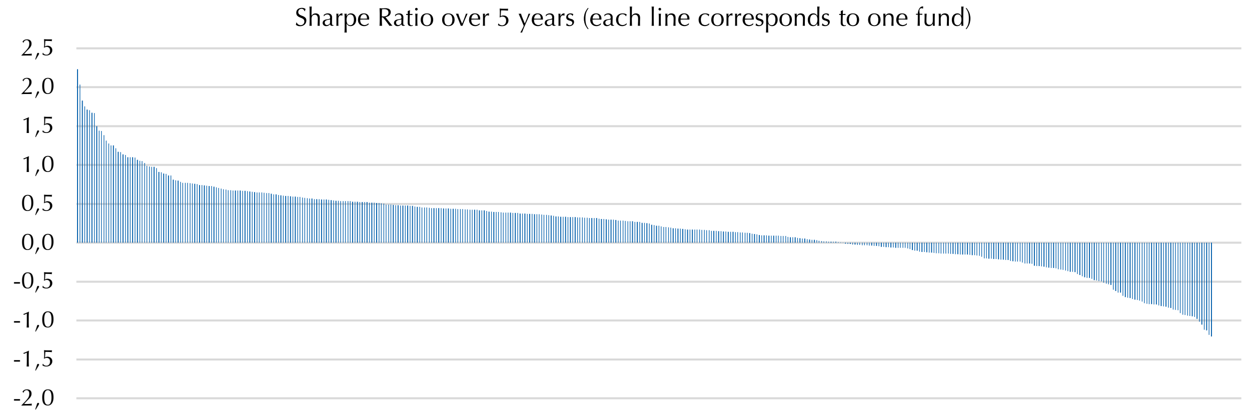


Comparison of long-term Sharpe ratio

Looking at the Sharpe ratio over the past five years, around two-thirds (67.4%) of liquid Alternative Funds have a positive risk-adjusted return. Almost one third (27.2%) of the funds achieve a Sharpe ratio of over 0.5, around 6.1% even above 1.

Strategies with the highest average Sharpe ratios over 5 years include Alternative Credit Focus (0.66), Alternative Equity Leveraged (0.56) and Alternative Event Driven (0.53).

Positive Sharpe ratio compared to bonds, but well behind equity indices



Costs largely unchanged

Costs have remained largely stable on average across all strategies since 2017 (1.62%), falling slightly. These are currently on the long-term average at around 1.48%.

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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.

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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 around €16 billion for institutional and wholesale investors. For further information, visit www.lupusalpha.de.

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