CAPITAL

Investment Insights

Liquid Alternatives

January 2026

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Best Year in Over a Decade

Global financial markets posted positive but uneven performance in the second half of 2025. Equities were supported by resilient earnings, easing inflation, and expectations of policy easing, though volatility emerged around AI valuations, shifting Fed rate expectations, and geopolitical and trade risks. U.S. equities outperformed, driven by technology and AI themes, while Europe and Asia were more mixed. Bond markets reflected a move toward easing policy, with yields declining later in the period, and the U.S. dollar weakening despite volatility. Commodities were mixed, with strength in precious metals and select energy offset by weakness in oil and agriculture. Credit markets benefited from improved risk appetite, with emerging market local currency debt among the stronger performers late in the year.

In 2025, hedge funds delivered the best year since 2009. The second half of the year saw a string of solid and consistently positive performances, supported by improving risk sentiment, policy easing expectations, and moderate volatility across asset classes. Returns were led by Macro and CTA strategies, which benefited from sustained equity momentum, continued U.S. dollar weakness, Federal Reserve action, and dispersion across commodities and rates. Equity Hedge strategies also performed well overall, driven by strength in large-cap U.S. and European equities, continued AI and technology leadership, and improving contributions from market neutral and value-oriented approaches despite a couple valuation-driven drawdowns. Relative Value funds generated steady, lower-volatility gains, supported by convertible and fixed-income arbitrage opportunities as yield curves shifted and short-term rates declined. Event Driven strategies posted consistent positive returns, underpinned by merger arbitrage and special situations amid improving corporate activity. While performance was modest in November, amid higher volatility, the year finished strong, reflecting diversified sources of return and improving macro conditions into year-end.

Our own uncorrelated hedge fund portfolios tracked this behaviour and ended the year posting the best 12 months return of the past decade. In a year marked by extreme volatility, including the October 2025 liquidation cascade, our crypto funds materially outperformed on a relative basis and finished the year flat.

At the end of this piece, we will focus on DeFi strategies to illustrate the maturing nature of this area and how managers may capture returns.

Highlights

- Interest rates remain elevated, creating dispersion and volatility that support hedge fund performance
- Market neutral and variable net strategies are well positioned to profit from equity dispersion and company-specific fundamentals
- Merger Arbitrage managers are capitalising on increased deal flow and volume, capturing wide spreads
- Macro strategies are benefiting from clearer trends and rising global divergence, creating a highly favourable opportunity set
- Relative Value drivers point to a very healthy environment across convertible arbitrage, volatility and multi-strategy funds
- Digital asset markets are normalising post reset, with improving liquidity and healthier derivatives supporting systematic, market-neutral, and DeFi yield strategies
- DeFi is transitioning from experimental use cases toward a more mature, activity driven financial layer

Equity Hedge

The overall Equity Hedge complex was one of the strongest performing hedge fund strategies in 2025. The second half of the year saw continued dispersion across sub-strategies and sector specialists, delivering uneven returns and emphasizing the importance of manager selection.

Managers focusing on healthcare made a significant recovery from their hit in early 2025. Innovation in biotechnology and especially the increase of M&A deals in the sector gave material tailwind to the strategy pushing annual returns in the high thirties. Precious metals rallied in the latter half of the year, led mainly by gold and silver, allowing equity managers operating in the space to capture the upside of related stocks. Financial and Energy sector specialists posted an annual performance in the twenties, and Technology in the mid-teens.

Improved macroeconomic stability helped non-US equity markets to shift back towards fundamentals. European, Asia Pacific, and Emerging Markets L/S strategies continued to capture meaningful alpha through the second half of 2025, posting returns around the twenties. Performance was driven by high equity dispersion, strong stock picking, and high investor appetite. US L/S strategies lagged due to elevated valuations and crowded trades, constraining alpha generation. While dispersion remained supportive of stock selection, returns were more muted and manager outcomes diverged widely, with better results among funds focused on idiosyncratic fundamentals.

2025 underscored the importance of regional allocation within Equity Hedge strategies, with non-US strategies delivering the bulk of returns and reinforcing the advantage of alpha-driven positioning in a highly differentiated market environment.

Strategy Outlook

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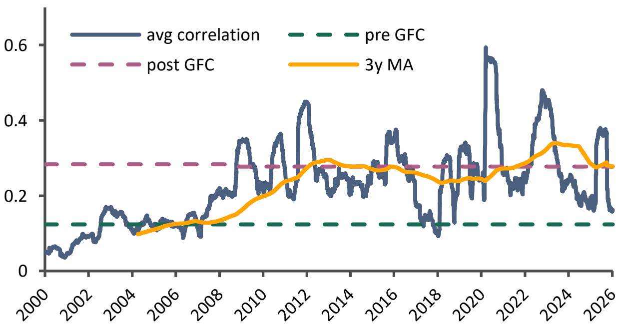
The outlook for Equity Market Neutral and Variable Net strategies in 2026 remains propitious for alpha generation, with favourable rates, expectations of sustained equity dispersion and a continued emphasis on fundamentals. Elevated valuation spreads across regions and sectors creates opportunities on both the long and short side, allowing managers with strong stock-selection skills to capture meaningful alpha, reinforcing the importance of active positioning over directional beta.

The Equity Hedge opportunity set favours managers able to adapt exposure dynamically, as dispersion across sectors, market capitalisations and regional dynamics are expected to remain the primary drivers of returns.

Decrease in S&P500 Correlation Increases Dispersion



Source: Bloomberg (SPX Index)
Data as of 09.01.2026

Event Driven

Event Driven strategies delivered positive but differentiated performance across sub-strategies over the second half of 2025, with outcomes increasingly shaped by deal activity, corporate actions, and the availability of stressed opportunities. The tariff deadline in mid-Q3 set more stable conditions and reestablished confidence for players to operate in this environment.

Activist strategies generated solid gains in H2, finishing the year up in the twenties and keeping pace with equity markets, despite periods of heightened volatility. Performance was supported by increasing corporate engagement, though returns varied meaningfully by manager and region.

Merger Arbitrage also delivered double digits returns, benefiting from a sharp pick-up in US M&A volumes in the fourth quarter of 2025. The investable universe expanded and more notably the total transaction value, emphasizing the attractive deals and wider spreads in the large and mega cap space. Faster deal timelines and a more accommodating regulatory backdrop supported returns into year-end, marking a clear improvement from the more subdued conditions seen earlier in the year. Japan and South Korea's corporate governance reforms have improved the environment for M&A activity and has been a considerable tailwind for the strategy.

In contrast, Distressed and Restructuring strategies faced a more constrained opportunity set, as default rates remained low and stressed debt volumes limited, capping return potential despite high absolute yields and improving small-cap equity performance.

Strategy Outlook

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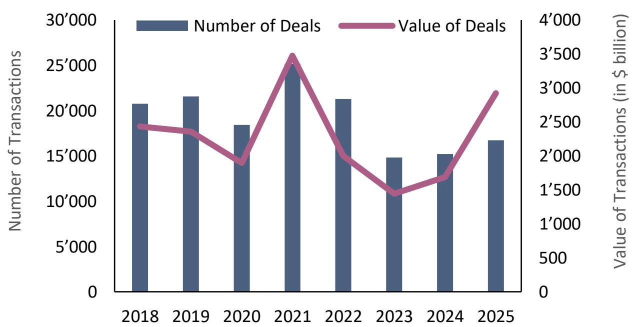
Event Driven strategies are expected to see a constructive environment in 2026, supported by improving corporate activity. The strengthening M&A space remains the primary tailwind, underpinned by easing policy uncertainty, elevated deal volume and wider spreads, enhancing alpha potential across transactions. Special Situations and Activist managers are well positioned to benefit from equity dispersion, value differentiation, and balance-sheet optimization that continue to create catalysts for corporate change. Distressed opportunities stay limited in the near term due to contained default rates, higher interest rates and tighter refinancing conditions are expected to gradually expand the restructuring pipeline over the medium term.

Pick-Up in Mergers & Acquisition Activity in the US



Source: imaa-institute.org
Data as of 23.01.2026

Macro

Macro strategies delivered solid performance over the second half of 2025, with average returns just shy of double digits, supported by elevated volatility, recurring policy shocks, and persistent cross-asset dispersion. Performance dynamics differed across discretionary macro, quantitative macro, and systematic trend-following approaches.

Discretionary macro managers benefited from a policy-driven environment shaped by tariff announcements, shifting central bank communication, and geopolitical developments, creating frequent inflection points across rates, FX, and commodities. Managers focused on tactical positioning, relative-value expressions, and cross-market dislocations rather than sustained directional exposure. Rates and curve trades contributed at several points, while FX positioning benefited from changing interest-rate differentials and regional growth divergence. Commodity exposure, particularly in precious metals and selected energy and agricultural markets, provided diversification, though returns were uneven and required active risk management.

Quantitative macro strategies faced a more challenging backdrop, as elevated volatility coincided with frequent regime shifts and policy-driven reversals that tested slower-moving signals. More adaptive models and diversified factor exposures were better positioned, particularly beyond traditional trend-following, with contributions improving later in the period as directional persistence increased.

Trend-following experienced a mixed environment, with trends forming abruptly and reversing quickly, particularly in rates and energy markets. While this constrained medium-term signals, periods of sustained moves, notably in currencies and selected commodity contracts, supported contributions toward the latter part of the half-year.

Strategy Outlook

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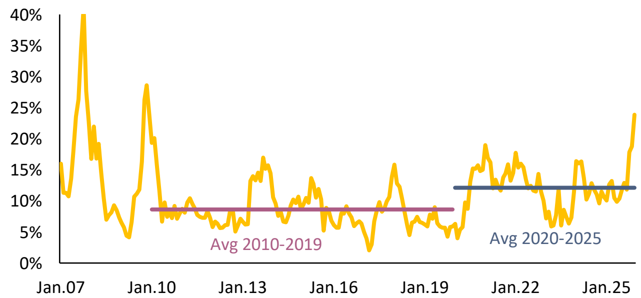
We hold a strong view on macro strategies, with one of the most favourable environments recently for discretionary macro. Market conditions are defined by clearer trends, greater cross-country divergence, and a normalised monetary policy backdrop. Trend-following strategies are positioned long equities and commodities while short the dollar, reflecting diverging policy paths and improving trend persistence across asset classes. At the same time, discretionary macro managers are seeing a richer opportunity set, as divergence in growth, inflation, and fiscal dynamics is driving wider rate differentials, increased dispersion in country-level equity returns, and attractive carry, improving the risk-reward profile of macro positioning, while quantitative macro strategies also benefit from rising dispersion and regime differentiation.

Elevated Country-Level Equity Dispersion Marks a Shift Toward a More Supportive Macro Regime



Source: Bloomberg (MXUS Index, MXGB, MXJP, MXDE, MXFR, MXCN, MXAU, MXCA, MXKR, MXIN)
Data as of 22.01.2026

Relative Value

Relative Value strategies delivered steady and resilient performance in H2 2025. Managers adapted well to a complex macro backdrop defined by rate cuts, policy uncertainty, and uneven growth expectations. Returns were incremental but persistent, reaffirming the strategy's ability to provide diversified, low-beta performance. The index advanced in the mid-single digits over the second half, with returns driven primarily by fixed income oriented strategies and sustained strength in Convertible Arbitrage. Performance proved durable across changing rate regimes, as managers generated alpha from relative mispricings rather than directional exposure.

Fixed Income Relative Value strategies were the main contributors, benefiting from evolving expectations around US Federal Reserve easing, front-end yield moves, and increased dispersion across yield curves and sovereign markets. As the Fed pushed ahead with further rate cuts, managers capitalised on curve trades, cross-market opportunities, and heightened uncertainty around the pace of future policy moves. Volatility focused strategies also performed well during periods of policy uncertainty.

Convertible Arbitrage continued to prove its value as a consistent outperformer in H2, supported by issuer-level dispersion, single-stock equity volatility, and improving capital structure dynamics, finishing as a top-performing RV sub-strategy for 2025. Issuance increased across several sectors beyond the traditional Tech and Crypto strongholds, expanding opportunity sets. Credit-oriented strategies posted steady gains by exploiting spread differentials across corporate and structured credit, while multi-strategy approaches gained traction in the second half, recovering modest Q1 losses to finish in line with historical ranges.

Strategy Outlook

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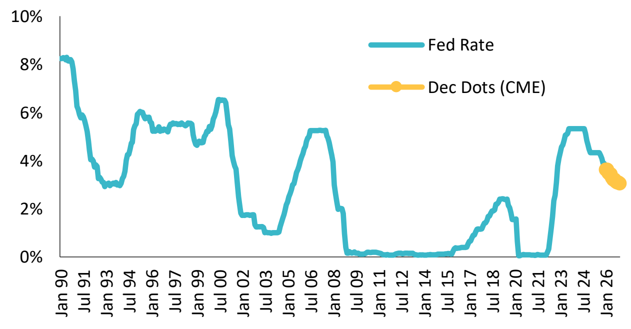
Forward looking drivers for the strategy remain in place with dispersion, credit issuance, global divergence and rates sitting in a healthy range to provide relative value managers the playing field to sustain the momentum of 2025. Default rates are yet to materially increase but performing credit has exhibited dispersion with weak covenants reemerging and thus setting up pockets of attractive idiosyncratic trades.

Multi-strategy managers have the balance sheet and skills to exploit the continued growth in the convertible bond market as well as the bond basis trade while also expanding in commodities, quant and equity strategies.

Fed Rates are in a "healthy" historical range



Source: Bloomberg, CME Group
Data as of 22.01.2026

Digital Assets

The second half of 2025 proved particularly challenging for digital asset strategies, as repeated regime shifts, episodic liquidity shocks, and a prolonged deterioration in market structure materially impaired several established trading frameworks. Frequent transitions between brief risk on phases and abrupt deleveraging events reduced signal persistence and increased execution risk across strategies reliant on stable liquidity and orderly price formation.

In this environment, Relative Value and Trend Following Mean Reversion strategies were most affected. Convergence based trades struggled as spreads widened rather than normalised, while trend based approaches were repeatedly disrupted by false breakouts and rapid reversals. Liquidity conditions deteriorated progressively, particularly in altcoins, limiting position scalability and weakening cross venue arbitrage efficiency.

After a relatively constructive third quarter, conditions deteriorated sharply in the fourth quarter following the October liquidation cascade, the most disruptive deleveraging event on record. Compressed funding, elevated correlations, and impaired market making conditions further reduced diversification benefits across systematic strategies, increasing drawdown risk during periods of stress.

By contrast, yield oriented and structurally insulated approaches demonstrated greater resilience. DeFi strategies remained comparatively robust, benefiting from protocol driven carry and lower sensitivity to spot price dynamics, while strategies dependent on directional exposure or short term convergence faced persistent headwinds from unstable liquidity and disorderly price action.

Strategy Outlook

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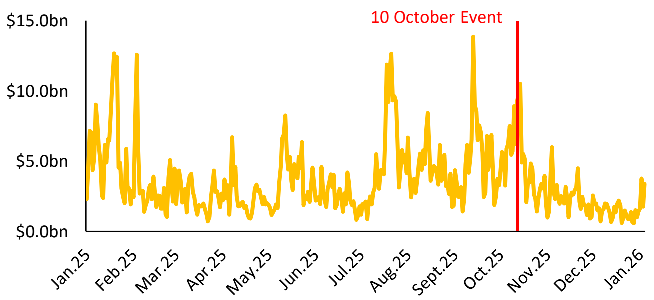
Looking ahead, we expect conditions across digital asset markets to become more constructive. Following the year-end reset, market structure is normalising, with improving liquidity, more balanced positioning, and rising dispersion across assets and trading venues, which historically supports systematic and market-neutral strategies.

Derivatives markets are showing early signs of healthier conditions, with more sustainable funding rates and reduced systemic leverage, while preserving volatility premia and cross venue inefficiencies. DeFi yield opportunities remain attractive due to protocol driven carry, while improving regulatory clarity between the SEC and the CFTC and broader institutional participation should further support market activity.

Dogecoin: Post–10 October Trading Volume Evolution



Source: Bloomberg Glassnode – DOGE Volume
Data as of 20.01.2026

Spotlight on DeFi

What Is DeFi

Decentralised Finance (DeFi) refers to a set of financial protocols built on public blockchains that replicate core financial functions such as lending, borrowing, trading, liquidity provision, and yield generation without relying on traditional intermediaries such as banks, brokers, or clearing houses.

Instead, these functions are executed through smart contracts, which are self executing code that enforces predefined rules transparently and automatically. Users interact directly with protocols while retaining custody of their assets at all times.

At a high level, DeFi can be viewed as a native financial infrastructure layer for digital assets, enabling on chain capital markets with real time settlement, transparent collateralisation, and programmable risk management.

Why DeFi Matters

DeFi addresses several structural inefficiencies present in both traditional finance and centralised crypto markets:

- **Transparency**. Positions, collateral, and liquidations are visible on chain in real time.
- **Reduced counterparty risk**. Assets remain under user control, with no reliance on opaque balance sheets.
- **Operational efficiency**. Instant settlement and automated processes reduce friction and cost.
- **Composability**. Protocols can interact with each other, enabling rapid financial innovation.

While adoption remains early, DeFi already supports a broad range of activities, including stablecoin lending, derivatives margining, liquidity provision, and yield generation.

The DeFi Yield Opportunity

Unlike many speculative crypto use cases, DeFi yield is primarily driven by economic activity rather than price appreciation. Sources of return typically include:

- Interest paid by borrowers for access to liquidity
- Fees generated by trading and market making activity
- Rewards offered to attract initial users and capital
- Arbitrage and basis opportunities across on chain venues

These returns are often short duration, floating rate, and collateralised, making them structurally different from directional crypto exposure. In this sense, DeFi yield strategies share similarities with money market, repo, or relative value strategies in traditional finance, albeit with higher operational and technical complexity.

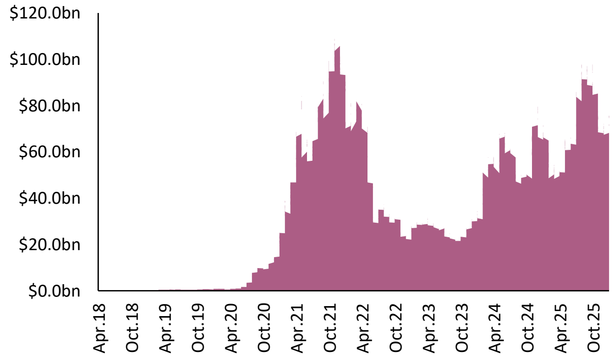
Why This Time Is Different

DeFi has existed for several years, but earlier cycles were characterised by experimental protocols, unsustainable incentive schemes, and limited institutional safeguards. The current environment is materially different:

- Protocols have matured, with simpler designs and battle tested code
- Risk management has improved, with conservative collateral frameworks
- Yields are increasingly driven by organic demand rather than token emissions
- Institutional infrastructure such as custody, reporting, and compliance has meaningfully improved

Importantly, DeFi activity has proven resilient across recent market stress events, continuing to function without discretionary intervention, highlighting the robustness of the underlying infrastructure.

Total Value Locked in DeFi: Shift Toward More Stable, Sustainable Growth Since 2021



Source: Glassnode – ETH Total Value Locked in DeFi
Data as of 20.01.2026

Who Is Best Positioned to Benefit

The opportunity set in DeFi is not well suited to passive exposure. DeFi also presents specific technology, operational, and protocol-level risks. As a result, manager selection and ongoing monitoring of underlying protocols are critical to mitigating potential failures, governance issues, or adverse market events. Returns are highly sensitive to protocol selection, risk controls, execution discipline, and operational expertise.

Well positioned managers typically:

- Focus on capital preserving yield rather than speculative leverage
- Actively manage protocol, smart contract, and liquidity risks
- Diversify across strategies, assets, and venues
- Maintain strong operational and technical due diligence capabilities

For alternative investors, DeFi represents an emerging source of uncorrelated, activity driven returns that can complement both directional digital asset exposure and traditional hedge fund strategies.

DeFi has reached an important stage of maturity, where improved protocol design, more sustainable yields, and growing institutional participation are creating attractive opportunities for hedge funds operating in this segment.

About Syz Capital

Syz Capital is an independent asset manager and centre of excellence for alternative investments. Part of the Syz Group, we offer clients the opportunity to invest alongside us in niche opportunities throughout uncorrelated strategies, hedge funds, direct private equity and special situations. Many of these are hard to access for private clients - our mission is to democratise alternative investing.

When we invest it's our goal to grow your wealth for the future by identifying investment strategies across the entire investment universe, some of which often overlooked by investors because of their size or complexity and seek the best risk-adjusted returns for our clients.

Investing in alternatives has always been part of our DNA - the Syz family has been investing in hedge funds since 1980 and in private companies for over 200 years. Through Syz Capital we offer clients complete alignment of interest with us and the opportunity to be actively involved in every transaction we undertake on your behalf.

Key Facts and Figures

Audited figures as at 31.12.24

25.6%
Syz Group's CET1 solvency ratio

+25yrs
Award-winning investment experience in alternatives investments

25.8bn
Assets under Management (CHF)

8
Locations (Europe, Asia and Africa)

Find Out More

To find out more about investing in Liquid Alternatives, partnering with Syz Capital, and the difference we can make, visit www.syzcapital.com.

To tell us about the future you're looking forward, please email us at investor@syzcapital.com and we'll be in touch.

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