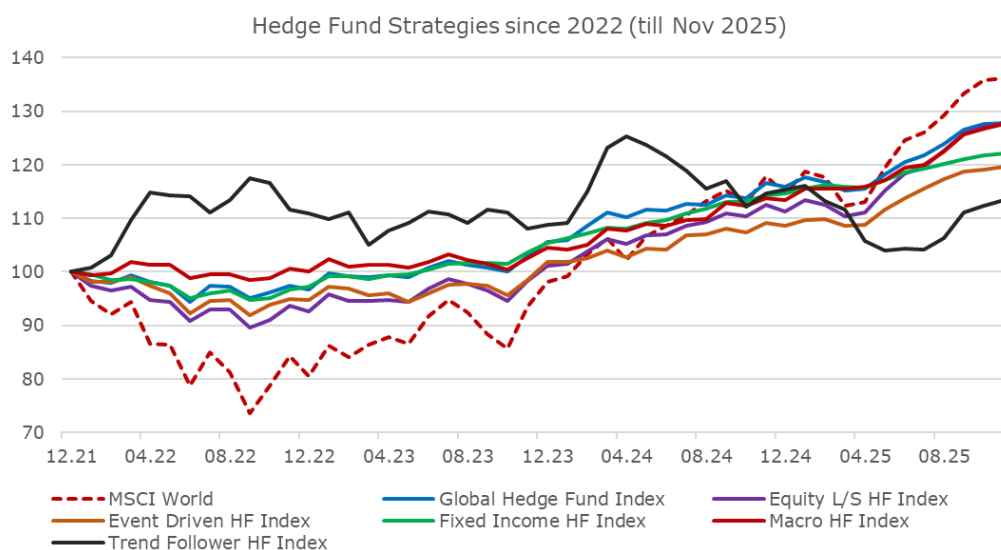


Hedge Funds Outlook H1 2026

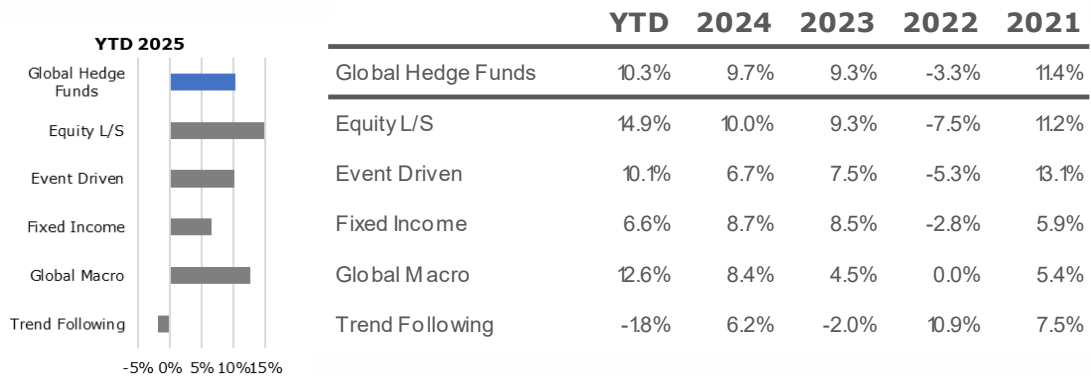
1 Hedge Funds Review 2025 & charts

By November 2025, the broad Hedge Fund Index had risen by +10.3% YTD, while traditional asset classes also ended the period clearly in positive territory: equities gained +20.6% (MSCI World), global bonds achieved +5.1% (Bloomberg Global-Aggregate TR Index Value hedged), and global high yield increased by +9.8% (ICE BofA Global High Yield). Although it was a strong year for equities overall, hedge funds demonstrated their resilience particularly at the beginning of the year: they managed the volatility triggered by “Liberation Day” well. The general calming of markets in late summer also supported all major strategies, with equity long/short and macro-oriented managers contributing above average to performance. Overall, the results confirm the role of hedge funds as a stabilising portfolio component, which on the one hand participates in positive market phases and, on the other hand, provides efficient diversification in the event of setbacks.

Chart I – Hedge funds strategies (until November 2025)



Source: Alpinum IM, With Intelligence

Chart II - Performance Main Strategies (until October 2025)

Source: Alpinum IM, With Intelligence

From a strategic perspective, 2025 presented a markedly differentiated landscape with clear winners and a few laggards. Equity Long/Short managers (+14.9%) once again emerged as the strongest main strategy. They benefited from a dynamic equity market, pronounced market breadth, and improved alpha opportunities in the mid- and large-cap segments. Furthermore, increased dispersion between sectors and individual stocks led to more attractive trading setups and more stable long/short books. The combination of constructive market sentiment, high dispersion, and a moderate net exposure enabled above-average participation in the upward trend.

Global Macro managers (+12.6%) also delivered a strong annual performance. The normalisation of monetary policy in the United States, a volatile US dollar, and pronounced movements in interest rates and commodities provided a fertile environment for discretionary macro strategies. Particularly profitable themes included global interest rate differentials, carry trades in the foreign exchange sector, as well as selective positions in energy and metals markets.

Event Driven strategies (+10.1%) delivered a robust performance. Merger and acquisition activity approached record levels, and the increased certainty of transactions in the second half of the year resulted in more stable arbitrage spreads. In addition, managers focused on distressed assets and special situations benefited from enhanced transparency in corporate balance sheets.

Fixed Income Credit (+6.6%) proved to be a reliable anchor of stability. This strategy generated robust, predominantly market-independent returns in an

environment of declining interest rate volatility, supported by the normalisation of liquidity in the Treasury and swap markets.

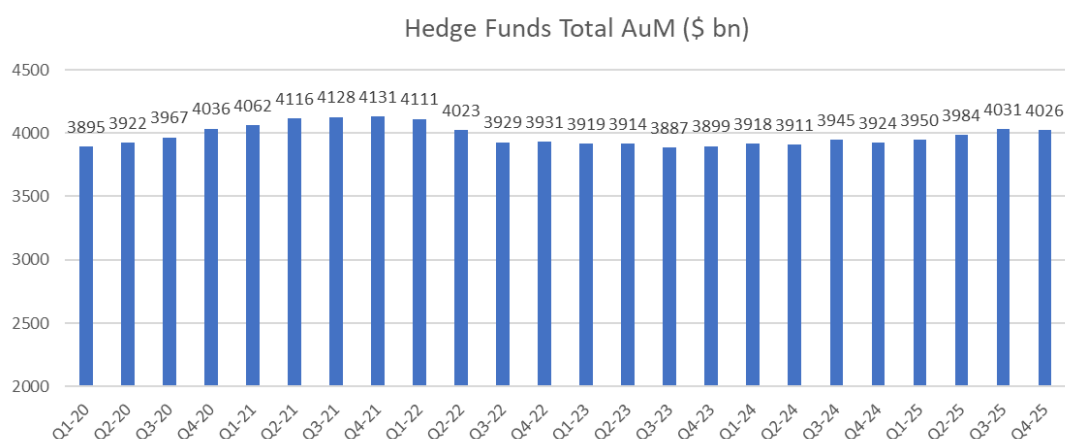
The year was significantly weaker for trend-following models (-1.8%). The beginning of the year was particularly challenging, mainly due to uncertainties surrounding trade tariffs. Sudden reversals in trends across currencies, interest rates, and commodities led to substantial losses in the first half of the year (Trend Follower Index -9.9% by June 2025). Although more stable trends emerged in the second half, these were insufficient to compensate for the earlier losses.

Overall, 2025 once again highlighted the pronounced heterogeneity within the hedge fund landscape: while Equity Long/Short and Macro strategies delivered clearly above-average performances, the year remained a challenging testing ground for trend-following strategies. This underscores the importance of broadly diversified allocations.

2 Hedge Funds Industry 2025

According to the available data, the hedge fund industry grew by 2.6% in 2025 (data up to October 2025), managing approximately USD 4 trillion in assets.

Chart III – Hedge Funds AuM

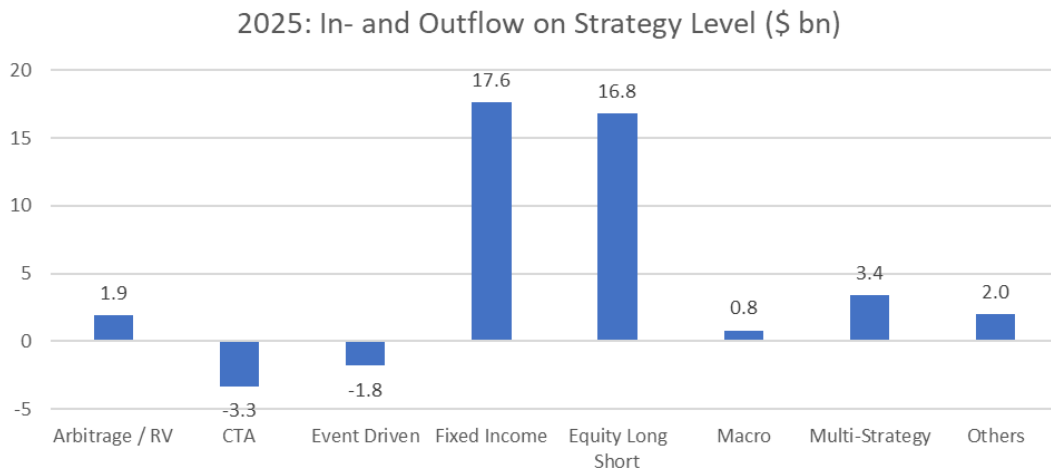


Source: October 2025, Alpinum IM, With Intelligence

At the strategy level (see Chart IV), a diverse picture emerges once again. While Fixed Income Credit managers were the primary recipients of inflows in 2024, this year Equity Long/Short managers have also joined the ranks of winners—despite having experienced outflows last year—with net inflows of USD +16.8 billion. Fixed

Income Credit managers recorded slightly higher inflows (+17.6 billion USD) than their Equity Long/Short counterparts. On the other hand, Trend Follower strategies have so far been among the losers, struggling particularly with performance issues at the beginning of the year. Multi-Strategy managers saw comparatively modest inflows (+3.4 billion USD), with several well-known firms unable to match the performance of single-strategy managers this year.

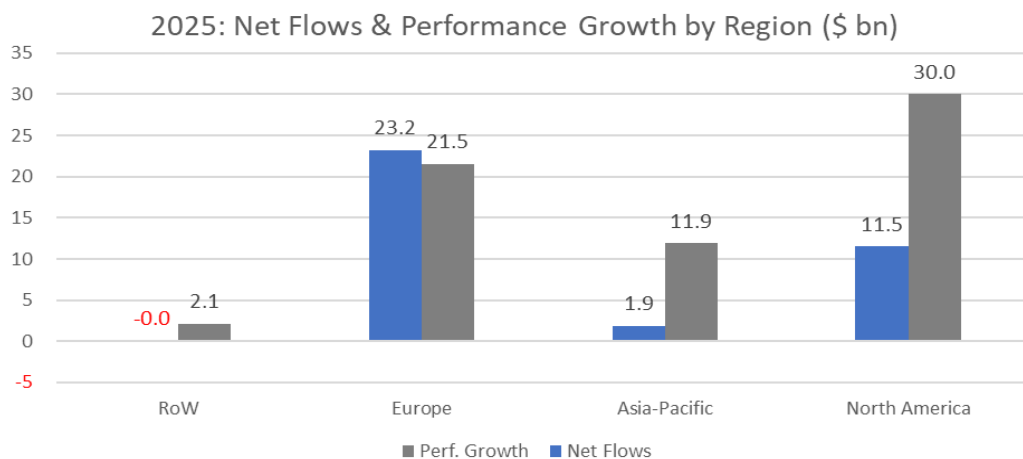
Chart IV – In- and Outflow on Strategy Level



Source: October 2025, Alpinum IM, With Intelligence

At the regional level, European hedge funds recorded the highest inflows—a new development that confirms investors’ desire to diversify their portfolios towards the “rest of the world,” meaning outside the United States. Surprisingly, allocations to Asia have so far remained relatively modest.

Chart V – Net Flows & Performance Growth by Region



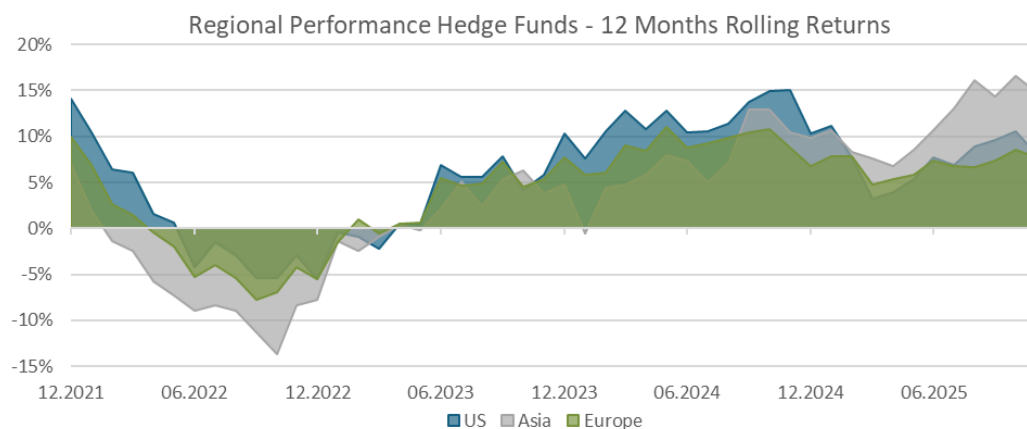
Source: October 2025, Alpinum IM, With Intelligence

3 Hedge Funds Focus Topic: Asian Opportunities

As highlighted in last year's Hedge Fund Outlook, our primary focus for 2026 once again centres on Asia. The breadth of opportunities in the region, particularly for hedge funds, is currently too compelling to overlook. In our view, the renewed investor interest in Asia is a logical consequence of the ongoing geopolitical and economic shift from West to East, a trend that has accelerated further under the current US administration. The transition to a multipolar global order presents significant potential—especially in areas such as digitalization and automation, where Asia is increasingly assuming a leading role.

From a hedge fund perspective, we are witnessing remarkable local expertise and attractive investment opportunities across Asia. Nevertheless, risks persist, notably in China's real estate sector and due to continued weakness in private consumption. Therefore, a high degree of selectivity remains essential to distinguish potential winners from losers.

Chart VI – Different Market Dynamics of Global Regions



Source: November 2025, Alpinum IM, Bloomberg

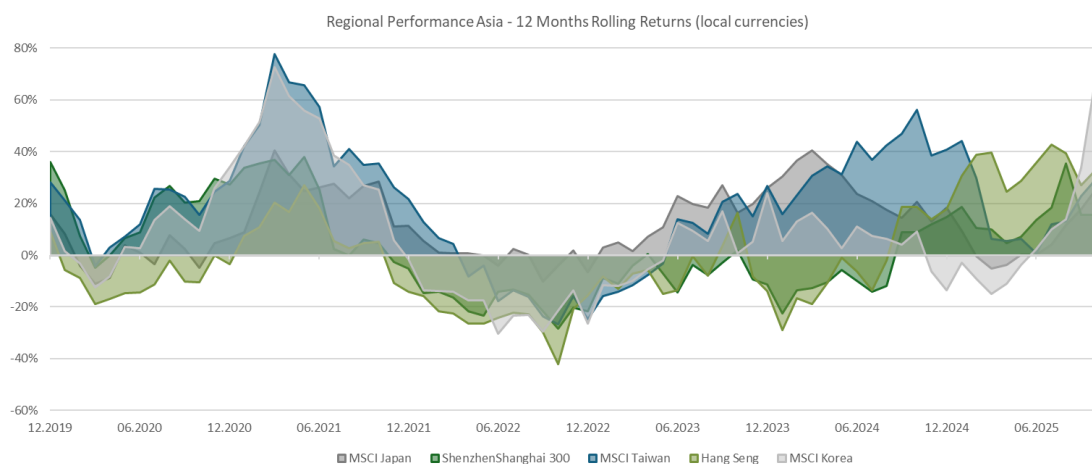
Chart VI illustrates the pronounced differences currently prevailing in regional market dynamics. Following widespread weakness at the end of 2022, US hedge funds were the strongest to recover, achieving the highest rolling 12-month returns from 2023 onwards. Europe experienced a steadier but less pronounced rebound. Of particular note is the turnaround in Asia: after a prolonged period of underperformance, the region embarked on a marked upward trajectory from mid-2024, placing it clearly ahead of the others in 2025. This development highlights

how varying macroeconomic conditions, market structures, and fund flows shape regional performance.

Country-Specific Developments – High Dispersion

Asia as a region should not be viewed as a monolith. There are significant regional disparities, with each country exhibiting its own unique characteristics, operating within distinct economic cycles, and displaying varying degrees of dependence on China or exports to Western markets. Accordingly, both the risks and opportunities from an investment perspective are highly nuanced.

Chart VII – Different Market Dynamics in Asia



Source: November 2025, Alpinum IM, Bloomberg

Chart VII illustrates pronounced inter-regional dynamics and significant dispersion across Asian equity markets. For instance, Taiwan led the region in 2024 before being overtaken by Hong Kong, with Korea now clearly ahead. Mainland China indices have proven to be considerably more volatile and have at times lagged notably behind. In contrast, Japan has demonstrated greater stability and lower volatility. Overall, it is evident that performance within Asia can diverge substantially, highlighting how critical regional differences are in determining returns.

Asia is a region of remarkable diversity, encompassing far more than China alone. Its varied nations and cultures present significant opportunities, both within

individual countries and throughout the continent as a whole. The pronounced regional dispersion and traditionally higher volatility reflect this diversity. With geopolitical tensions rising and US policy remaining unpredictable, the region faces a challenging period ahead. In this environment, especially active and agile managers are presented with particularly attractive opportunities.

Reasons for Continued Opportunities in Asia

- **Robust Market Performance and Re-Rating Underway:** Asian equity markets are currently demonstrating exceptional strength and are beginning from notably attractive valuation levels, suggesting that a structural re-rating is imminent.
- **Shift from West to East and Rising Geopolitical Influence:** The global order is rapidly shifting towards a multipolar structure, with Asia - alongside the United States - assuming a leading role. This transformation is fostering the emergence of new industries, trade flows, and investment opportunities.
- **Above-Average Growth and Favourable Demographics:** Asia is the world's principal growth engine, home to 60% of the global population and generating 45% of global GDP. The now stable price environment across the region further supports a positive climate for investment and consumer demand.
- **Technological Leadership and Industrial Transformation:** Asia dominates key sectors of the future—from semiconductors in Taiwan and South Korea to electric vehicles and solar technology in China, as well as digital services in India and the Philippines. The region is also undergoing a rapid evolution from basic manufacturing to high-tech and knowledge-based services.
- **Reform Momentum and Structural Improvements:** Significant reforms, such as Korea's Corporate Value-Up Program, Japan's corporate governance enhancements, and China's innovation-focused five-year plan, are improving capital discipline, productivity, and the quality of long-term earnings.
- **Substantial Inefficiencies Create High Alpha Potential for Active Management:** Asia remains under-analysed, diverse, and volatile - an environment ideally suited to active management. Experienced local managers are well positioned to exploit inefficiencies and mitigate risks, making the region particularly attractive for active and long/short investment strategies.

Active vs Passive in Asia

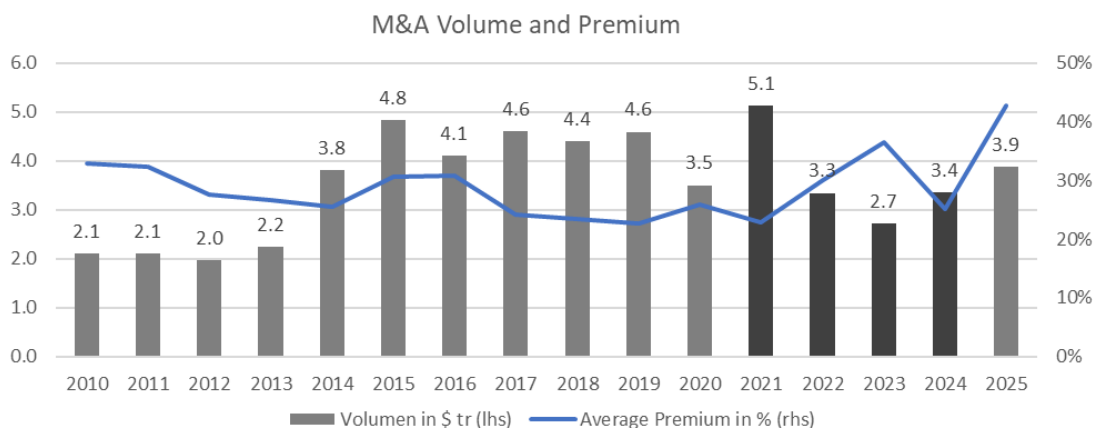
The pronounced heterogeneity within Asia strongly supports the case for active management. While passive strategies provide basic exposure, they fail to capitalise on local inefficiencies. Many Asian markets remain under-analysed and are, in part, driven by retail investors, thereby creating opportunities for alpha generation. Successful active managers - particularly those employing flexible and agile long/short approaches - adapt their allocations dynamically in response to valuations, reforms, and political developments. Over longer cycles, they frequently achieve superior risk-adjusted outcomes compared to passive benchmarks.

Given these dynamics, a highly cautious selection of hedge fund managers becomes all the more critical. The risks should not be underestimated, and on-the-ground expertise is essential in order to optimally exploit dispersion within the region.

4 Hedge Funds Focus Topic II: Merger Arbitrage Strategy gains Momentum

The outlook for merger arbitrage strategies over the next twelve months is distinctly constructive. For several years, the strategy faced challenges due to less-than-ideal market conditions. Elevated financing costs negatively impacted the profitability of transactions, and leveraged finance deals—particularly those involving private equity under pressure and a closed IPO window—became less viable. Appetite for cross-border transactions diminished amid rising geopolitical uncertainties. However, merger arbitrage managers consistently cite the regulatory environment as the most significant headwind for the strategy. Under the Biden administration, stricter merger controls were implemented by the FTC and DOJ. The US antitrust authorities adopted a more rigorous approach to competition policy, initiating numerous lawsuits against proposed mergers, extending review processes, and thereby increasing transaction uncertainty and the associated "deal-break risk," as illustrated in Graphic VIII by the dark grey bars.

Chart VIII – Global Merger Activity on the Rise



Region	Deal Value in \$ bn	YoY %	Sectors, top & bottom	Deal Value in \$ bn	YoY %
North America	2207	51%	Technology	642	102%
Europe	796	7%	Industrials	510	62%
Asia Pacific	681	6%	Financials	499	20%
LatAm	108	38%	Real Estate	323	5%
MidEast	91	-14%	Energy	269	-17%
Total	3883	28%	Materials	250	-17%

Source: November 2025, Alpinum IM, Bloomberg

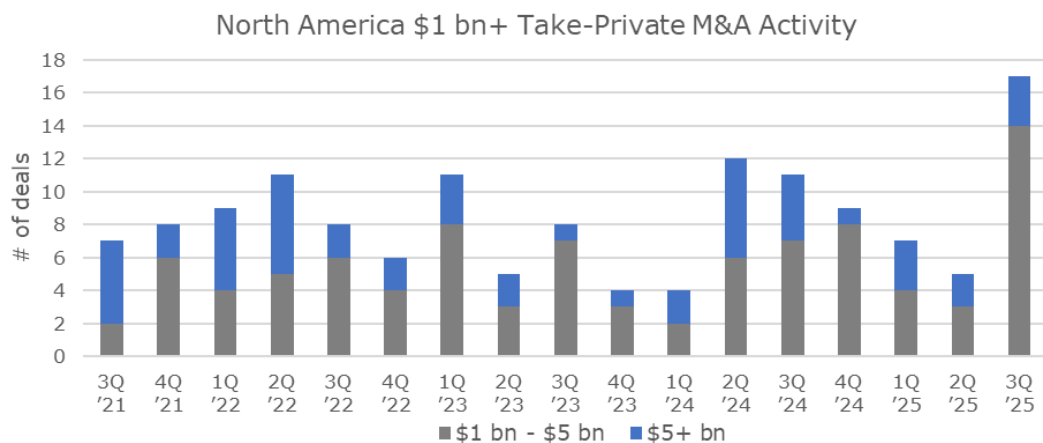
Global M&A volumes are highly cyclical. Following moderate levels at the start of the 2010s, deal activity repeatedly surpassed USD 4 trillion by the middle of the decade, peaking in 2021 due to pent-up demand after the Covid crisis. The subsequent shift in interest rate policy and tighter regulatory oversight significantly dampened activity. However, the merger arbitrage strategy is now experiencing renewed momentum. Several factors are currently acting in concert, reinforcing one another and thereby creating a supportive environment for M&A activity:

- Interest rates have stabilised and, in some cases, have begun to decline. This development allows for more predictable financing costs, fostering greater willingness among banks to finance acquisitions, supporting higher company valuations, and increasing negotiation certainty.
- The recovery in the credit markets has led to the reopening of leveraged finance, with narrowing spreads and renewed underwriting capacity for large-scale acquisitions.
- Private equity faces considerable pressure as the so-called "dry powder wall" among sponsors has reached record levels. Private equity firms are compelled to deploy their capital swiftly to meet promised internal rates of return, and there is heightened urgency to return capital to limited partners.
- Chief executives now demonstrate a greater inclination towards transformational and strategic transactions. Enhanced visibility, coupled with mounting investor pressure, encourages the creation of shareholder value through mergers and acquisitions.
- The IPO market is gradually normalising, as are take-private transactions.
- SPACs and convertible instruments remain prominent: over 85% of SPACs have extended their maturity, making the carry attractive. Convertible issuance has also reached record levels (over USD 80 billion this year), as a substantial number of corporate bonds issued prior to the rise in interest rates will require refinancing next year.
- Most importantly, following the change in leadership at the US antitrust authority under the new administration, regulatory conditions have become more predictable. The practice of merger control has noticeably eased, with only a handful of transactions—primarily in the technology sector or international deals—being subject to political intervention. A similar trend is observed in the United Kingdom; despite governance by Labour, the Competition and Markets Authority now prioritises supporting the British economy wherever possible, resulting in a marked uptick in merger activity.

It is quietly acknowledged that, following the initial shockwaves of Trump's inauguration and the market's digestion of the so-called "Liberation Day" effects, US CEOs now have a better understanding of how to secure Trump's support for complex transactions. The lobbying machinery in Washington has been revitalised and is once again functioning efficiently.

This has been reflected in deal volumes: in the United States, transaction value has surged by 51% year-on-year to USD 2.2 trillion, while worldwide deal activity increased by 28% over the same period.

Chart IX – Take-Private Transactions



Source: Alpinum IM, Citi Research, Dealogic

The take-private segment is exhibiting exceptional momentum in 2025, as illustrated in Chart IX. In the third quarter alone, 17 transactions exceeding USD 1 billion were announced, marking a record. The attractiveness of technology valuations and the abundance of liquidity in the private equity market are driving additional activity, including in larger deals. Given that take-privates are among the fastest forms of M&A, they are making a significant contribution to this year's robust deal volume.

All things considered, the combination of high deal activity, more stable financing conditions, active financial sponsors, a vibrant primary market, and the removal of regulatory barriers points to a highly attractive environment for M&A hedge fund strategies in the year ahead.

5 Outlook: Hedge Funds Strategies

	Underweight		Neutral	Overweight	
	heavily	slightly		slightly	heavily
Global Hedge Funds					
Equity Long Short					
Event Driven			→		
Credit Fixed Income					←
Global Macro					
Trend Following					

The second half of 2025 was characterized by a temporary easing of trade tensions; however, political divergence and uneven global growth persist. The IMF continues to project global economic growth at around 3%, supported by more stable financing conditions and reduced tariff pressures. Nevertheless, the Eurozone remains notably weak, with forecasts close to zero, weighed down by U.S. tariffs, sluggish industrial activity, and high energy costs. In the United States, the outlook has stabilized moderately, with robust consumer spending offset by initial strains in the labor market, thereby reinforcing expectations for further Federal Reserve easing. China is experiencing only a fragile stabilization, hampered by weak demand, deflationary pressures, and a still struggling real estate sector.

Given the fragile state of the global economy and ongoing geopolitical tensions, it currently appears inadvisable to take on outsized positions. The divergent forces within the Trump administration continue to contribute to periods of heightened market volatility. While measured volatility remains low, dispersion in equity and credit markets is at record levels—an exceptionally favourable environment for active hedge fund managers. Strategically, we believe equity long/short managers are well positioned, as they benefit from the significant dispersion in corporate performance and can capitalize on numerous attractive alpha opportunities, even if the path remains non-linear. Event-driven and merger arbitrage strategies are also set to benefit from increasing deregulation and a highly supportive market environment.

As outlined in the focus topic, we view the Asian region as particularly attractive for risk-controlled hedge fund managers and clearly favour this market. Europe should also remain a key area of attention. While this perspective may be considered somewhat bold, should the conflict in Eastern Europe move towards the anticipated resolution, it could have immediate positive effects for the continent across various dimensions, including commodities, currency, and market sentiment.

In our 2025 outlook, we noted that hedge funds may be confronted with the challenge of markets potentially overestimating volatility throughout the year. This scenario has indeed materialised; Trump has not only acted as a 'blocker', but overall volatility has declined and indices have risen sharply. Despite the low volatility, hedge funds have delivered solid performance, driven by substantial dispersion.

Within our hedge fund portfolios, we intend to further expand our positioning in Asia, and we are also reviewing, with great selectivity, our fixed-income exposure to emerging markets. Our core mandate remains unchanged: we continue to maintain flexibility and strive to achieve attractive performance for our clients in both favourable and challenging markets.

We recommend that investors in hedge funds focus on broad diversification, particularly in this demanding environment. Active management and close proximity to the manager are crucial. Thanks to access to non-traditional sources of return with low correlation to equity and bond markets, alternative investments will serve as a valuable stabilising force in portfolios during 2026.

Assessment at the Strategy Level

Equity-Long/Short: positive environment

The outlook for equity long/short strategies in 2026 is highly favourable, supported by elevated dispersion and a wide array of alpha-generation opportunities. The initial enthusiasm observed in the US markets following the recent political realignment has subsided, with sector and style rotations now creating a dynamic environment that benefits active long/short managers. Regional divergence continues to be a principal driver: as the MSCI World Index remains heavily weighted towards the United States, Europe, Asia, and Latin America still present considerable catch-up potential—particularly Asia, which has demonstrated significant momentum throughout 2025, as outlined in the focus topic. Despite elevated valuations in the United States, fundamentally driven, bottom-up managers are presented with attractive prospects on both the long and short sides, with agility remaining a critical success factor.

'Long biased' long/short strategies are, by their nature, closely tied to the performance of equity markets. Generally, managers increased their market beta throughout the year, resulting in outstanding performance in 2025. Should market sentiment remain constructive, these directional strategies are poised to continue

benefiting; however, it must be acknowledged that they are inherently subject to substantial fluctuations.

Equity Market Neutral: positive outlook

The likelihood of a slightly elevated volatility level has increased—we would not be surprised if more market-neutral managers perform well in 2026. We are already observing a steady improvement in the performance of equity market neutral managers over recent months. In particular, these managers are benefiting from the high degree of dispersion in the market. There are increasingly distinct winners and losers within indices, creating an ideal environment for this strategy.

Event Driven (Merger Arbitrage): slight overweight

The assessment of the strategy has shifted dramatically compared to a year ago. By mid-year, we had already anticipated that many sources of uncertainty—particularly regulatory factors—could be swiftly alleviated, potentially leading to a rapid and positive increase in M&A activity. This scenario has now materialised in both Q3 and Q4. As explored in greater detail in the focus topic, merger arbitrage managers are once again operating in a highly favourable environment. In addition to more stable interest rates and sustained pressure from private equity, a key factor is that CEOs with strategic merger and acquisition objectives now find the regulatory landscape more predictable. Merger arbitrage managers are benefitting from these conditions: not only are spread levels attractive, but the pipeline of high-quality acquisitions is abundantly filled—and furthermore, the duration of announced deals has shortened noticeably, with mergers being completed at a significantly faster pace.

Credit Fixed Income: positive environment

We continue to observe a highly attractive environment for credit fixed income managers. Credit spreads narrowed further in 2025, yet opportunities persist—dispersion within the credit market remains at an elevated level. This means that whilst index spread levels are low, the dispersion within indices is relatively high, particularly among lower-quality credits. Active credit long/short managers continue to benefit from high-quality credits issued by companies in niche sectors. On the short side, there are still plenty of companies that will need to reorganise their financing in 2026, as many bonds issued during the period of low interest rates are maturing. On the credit fixed income side, it is increasingly worthwhile to

focus on managers with expertise in emerging markets and/or Asia. The structural weakness of the US dollar and the general economic tailwinds in these regions are opening up interesting opportunities.

Global Macro: neutral

The attractive environment for global macro managers is supported by significant geopolitical and monetary policy divergence, structurally distinct growth and inflation trajectories, and a clear realignment of international capital flows. The combination of high dispersion, trends in foreign exchange and interest rates, as well as renewed commodity volatility, provides active global macro managers with a solid foundation to fully leverage their expertise. In this context, we favour managers who implement their strategies with minimal directional exposure, opting instead for approaches such as options strategies to introduce a degree of convexity into their portfolios. Accordingly, we continue to prefer discretionary managers over systematic global macro models.

Trend Following: slight underweight

As anticipated, 2025 proved to be a challenging year for trend followers overall. The first half was particularly difficult, with many managers experiencing significant setbacks (With Intelligence Trend Following Index H1 2025: -9.9%). Commodity Trading Advisors (CTAs) were notably affected by market volatility driven by tariff-related events; large trend-following managers suffered substantial losses due to abrupt trend reversals in both equity and bond markets. Short-term models performed better, as they were able to process the fluctuations more effectively. In the second half of the year, however, more stable trends emerged, allowing for a partial recovery of the earlier losses. It remains uncertain whether the current momentum and trend characteristics across various asset classes will persist in a sufficiently stable manner for CTA models in the coming year. Accordingly, we maintain our underweight position in this strategy.

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