Riding the Waves of Dispersion

Global markets saw mixed but ultimately positive performance in H1. January opened strong, driven by policy shifts and gains in energy, healthcare, and European equities. February and March were volatile as trade tariff concerns weighed on sentiment, with US tech leading losses and growth stocks sharply underperforming value. Interest rates fell globally early in the period, except for the US where the Dollar fluctuated, and commodities were mixed. April brought heightened volatility but improved sentiment by month-end, with renewed optimism around trade negotiations and potential rate cuts. May saw a strong rebound, led by technology and improving global growth prospects, with Germany and Japan topping regional equity gains. Overall, risk appetite recovered heading into summer.

Hedge funds were decidedly resilient in a fast-moving geopolitical environment during the first half of the year, with performance led by Equity Long/Short strategies particularly in January, May and June driven by strong returns in fundamental growth, value, and market neutral exposures across US and European equities. Relative Value strategies posted steady gains, supported by convertible arbitrage and US stable rate conditions. Event Driven managers performed consistently, with merger arbitrage and special situations benefitting from ongoing M&A activity and supportive equity markets. Multi-strategy funds were mixed, facing early struggles in February and March before stabilizing. Macro/CTA strategies underperformed, with losses concentrated in systematic trend-following amid volatile currency and commodity markets. Despite some dispersion and mid-quarter volatility, hedge funds overall navigated a shifting macro environment with positive but uneven results.

Our own uncorrelated hedge fund portfolios followed a similar pattern however substantially outperforming the industry indices. In crypto space, an increase in institutional participation relative to retail curtailed opportunities stumping performance somewhat.

At the end of this letter, we will focus on an emerging opportunity in South Korea following the election of a new president focused on corporate governance and new economic policies.

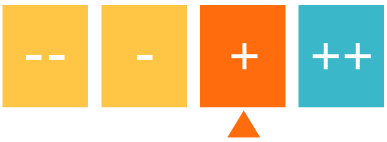
Highlights

- → Equity Long/Short and market neutral managers delivered in H1 amid a volatile market
- → European Equity Hedge strategies saw capital flow into the continent and can capitalize on undervalued opportunities
- → M&A activity has picked up and is expected to carry into H2 driving opportunities
- → Discretionary macro strategies benefited from asset dispersion, policy divergence, and geopolitics
- → Relative Value was a top performer, led by credit and quant market neutral managers seizing inefficiencies
- → Digital assets rose with institutional flows. DeFi migration is opening new trading opportunities
- → South Korea's recent presidential election unlocks new dynamics in favor of capital markets

Equity Hedge

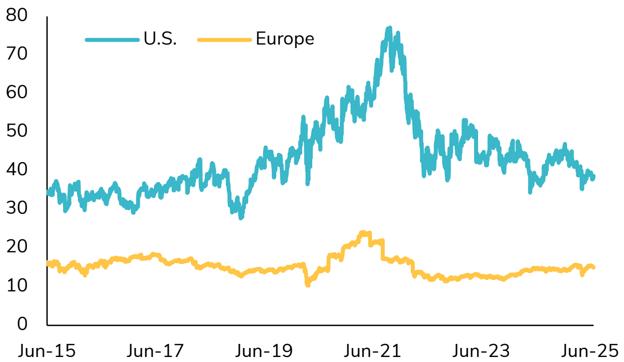
Equity Hedge performance was mixed across regions and sectors, with notable dispersion in the first half of 2025.
European L/S led gains, returning high single digit, carried by renewed investor appetite for cyclical exposure and strength in financials. Emerging Markets managers also posted robust single digit results, with China stabilization and improving capital flows into Brazil and India. APAC and Japan delivered steady mid single digit returns, driven by strong alpha in industrials and selective tech. In contrast, US L/S struggled to generate meaningful gains, finishing slightly up despite elevated volatility and political turmoil. Global mandates performed modestly, reflecting neutral net exposure and cautious risk positioning amid macro uncertainty.
Healthcare managers posted the steepest losses at low teens, as regulatory overhangs and weak earnings revisions dragged down sentiment. Technology posted marginal gains, underwhelming relative to recent years, with managers rotating away from high-valuation names. Energy and Commodities provided more fertile ground, encouraged by resilient demand and tight supply dynamics. Financial sector specialists posted solid mid single digit returns.
H1 2025 reinforced the importance of regional and thematic allocation, as managers leaned on alpha to navigate a market with fewer broad-based tailwinds. While dispersion created opportunity, success remained highly manager-specific.

Strategy Outlook



Equity Hedge strategies are well positioned for H2 2025, supported by elevated dispersion, volatility and a high-rate environment, offering strong alpha potential. US managers are expected to benefit from short interests due to loss of confidence in the Dollar. Europe has seen net capital inflows but is still undervalued and less crowded than the US, offering attractive opportunities across the continent. A shift back to fundamentals should enable managers to capitalize on both long and short ideas. In Asia, governance reforms are fueling optimism and presenting compelling alpha. Overall, managers are favoring market-neutral and low-net exposures to manage risk while capturing idiosyncratic opportunities.

12 Month Forward P/E Ratio, Europe Undervaluation

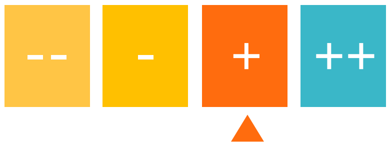


Source: Bloomberg (MSCI US Equity Index, MXEU Index)
Data as of 26.06.2025

Event Driven

Event Driven strategies posted positive returns in early 2025, though performance varied significantly by month and sub-strategy.
Activist managers were notably volatile. After a strong rebound in January and further gains in February, the strategy saw a sharp drawdown in March amid rising volatility and recession fears. May delivered a recovery, bringing year-to-date returns back into positive territory. Managers remained conviction-driven, keeping net exposures high despite elevated market risks.
Merger Arbitrage returned consistently positive, though modest, gains across all months. A DOJ challenge in January to a high-profile tech merger widened spreads temporarily, but most deals progressed steadily. The flow of new deals remained lighter than expected, though optimism persists that policy clarity will spur activity in H2.
Distressed managers delivered mixed results, with gains in January and May offset by a decline in March amid weakness in CCC-rated credit and small caps. A lack of defaults continues to limit broad opportunity, though reorg equities and select exchanges contributed positively.
Event Driven Multi-strategy funds posted steady returns each month, with lower dispersion than in prior periods. Funds exposed to South Korea in particular saw very strong returns in May as the economic policies announced by the new leadership stoked stock returns.

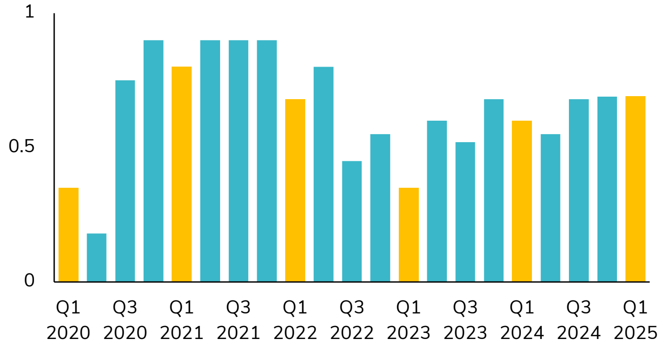
Strategy Outlook



The outlook for Event Driven strategies is increasingly constructive. Improved equity dispersion offers fertile ground for alpha generation, particularly for Special Situations. The up-tick in SPAC new issuance provides fresh opportunities for arbitrage and catalyst-driven trades. Meanwhile, signs of an improving M&A environment supported by easing volatility, pent-up corporate demand, and a more stable policy backdrop are expected to drive deal activity and enhance spread dynamics. These tailwinds position Event Driven managers well to capitalize on idiosyncratic opportunities across capital structures in the second half of 2025.

M&A Deal Volume in Q1 2025, Highest since 2021

Volume od M&A Deals (USD Trillion)



Source: Bloomberg
Data as of 31.03.2025

Macro

Discretionary Macro strategies delivered solid gains in H1 2025, supported by cross-asset dislocations and diverging monetary policies. Discretionary managers found opportunities across rates and FX, as the Fed's cautious pivot clashed with dovish stances from the ECB and BOE. Long US duration and USD/GBP shorts were standout contributors. The Bank of Japan's shift toward normalization revived yen trades, while rising odds of a Trump re-election and renewed tariff rhetoric led to positioning in EM FX and equity shorts, particularly in export-sensitive markets.

Geopolitical tensions pushed oil higher in Q1 before softening in Q2 on weak growth data. Managers with tactical commodity exposure, especially in refined products and gold, benefitted from volatility and safe-haven flows. Precious metals also attracted renewed interest as hedges against macro and geopolitical risk.

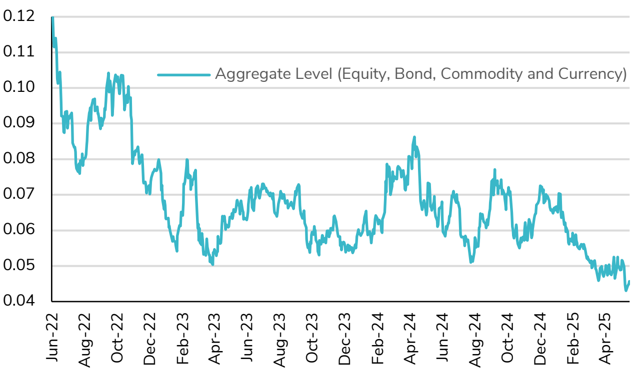
Trend-following CTAs struggled in the absence of persistent trends. Gains early in the year were offset by sharp reversals across equities and commodities, with Macro CTA index down from single to double digit YTD. Models failed to capture lasting directional moves, highlighting the difficulty of navigating a choppy regime. Commodity specialists outperformed through targeted relative value and supply-driven trades. Sugar, copper, and natural gas calendar spreads stood out amid weather disruptions and shifting Chinese demand. Overall, macro strategies rewarded active risk-taking and flexible positioning in an uncertain but opportunity-rich environment.

Strategy Outlook

-- | - | **+** | ++

Discretionary Macro strategies remain well positioned for H2 2025, with elevated volatility and persistent dispersion offering fertile ground for discretionary trading. Central bank divergence, geopolitical overhangs, and sector-level fragmentation continue to create opportunities across rates, FX, and equities. Discretionary managers should benefit from this environment, where timing and flexibility are rewarded. In contrast, trend-following CTAs are likely to lag, with muted directional trends and sharp reversals limiting model efficacy. Commodities remain attractive, supported by supply constraints and ongoing geopolitical risks, particularly in energy and softs. Selectivity and active risk management will be key to capturing alpha into year-end.

Cross-Asset Trend Strength Hits Three-Year Low



Source: Graham Capital Management
Data as of 29.05.2025

Relative Value

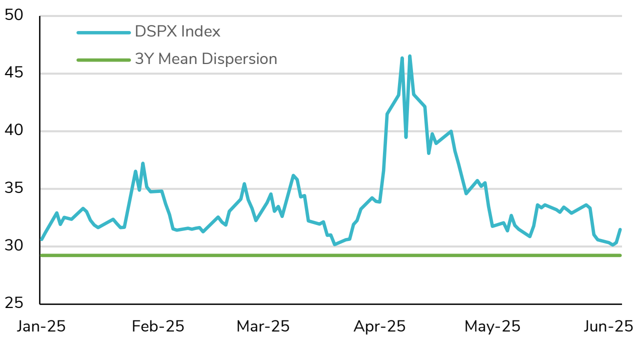
Relative Value strategies continued to deliver solid performance in H1, reaffirming their role as a core performance driver across portfolios. The index rose in the low single digit, with broad-based contributions from Credit, Quant, and Convertible Arbitrage. Quant Market Neutral strategies led early in the year, navigating shifting market regimes with precision. January's spike in volatility, driven by AI-driven positioning stress, offered alpha opportunities on both sides of the book, while February extended the rally with strong short alpha in crowded software and media names. Convertible Arbitrage strategies also posted strong results, supported by elevated realized volatility in tech and crypto-linked issuers and a steady pipeline of new issuance. SPACs reemerged in H1 2025, matching 2024's IPO count and reviving capital structure arbitrage opportunities. Credit-focused RV managers performed consistently, using long and short positions to capture dispersion in high yield and structured credit during macro stress. Fixed Income Arbitrage remained stable, with performance concentrated in US cash futures basis trades around futures rolls, though wider rate swings in March and April muted upside. Multi-strategy platforms experienced a more uneven ride, challenged by crowded positioning in tech and increased cross-asset volatility, yet still closed the period in positive territory. Overall, RV strategies adapted well to shifting macro and market regimes, offering differentiated return streams with limited directional risk. Dispersion across managers remains elevated, highlighting the value of selective exposure.

Strategy Outlook

-- | - | + | **++**

We remain bullish on Relative Value into year-end. Improving dispersion supports Quant and Statistical Arbitrage, especially amid sector rotations and factor shifts. The convertible maturity wall is a key tailwind, with funds adding leverage to capture value from stressed names. Volatility Arbitrage is gaining traction as election and policy risk create dislocations beyond crypto. Credit RV continues to benefit from a dispersion increase, while Fixed Income Arbitrage is supported by US basis trades. Multi-strategy platforms are well-equipped to rotate risk and seize short-lived dislocations. In a regime defined by episodic volatility, relative value remains a reliable source of uncorrelated alpha.

Sustained Stock Dispersion Continues to Fuel Relative Value Opportunities



Source: Bloomberg (DSPX Index)
Data as of 05.06.2025

Digital Assets

Bitcoin continued its climb toward new highs, largely supported by institutional balance sheet demand rather than retail speculation. The emergence of bitcoin treasury companies introduced a structural bid that steadily drained exchange liquidity and contributed to falling volatility. Despite strength in price, search interest and on-chain activity remained subdued, pointing to a market increasingly shaped by disciplined capital rather than crowd behavior.

The year began with strong momentum and elevated volumes, creating a constructive environment for directional and arbitrage strategies. As spring progressed, participation thinned and volatility compressed, making it harder to extract alpha. Dispersion remained elevated, with Bitcoin up +14.8% year-to-date while ETH and SOL both declined over -18%, rewarding selective exposure but complicating trend capture.

Futures and derivatives markets saw increased activity, enabling more effective implementation of basis and options strategies. Implied volatility trended lower, favoring premium-selling and volatility relative value. Leverage remained moderate and markets showed greater resilience to macro shocks, though with fewer dislocations to exploit.

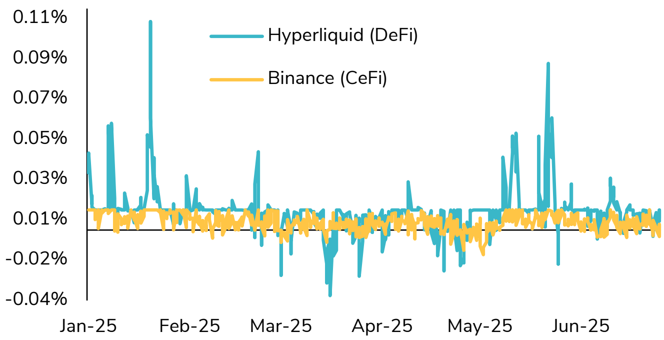
DeFi remained a steady contributor, supported by protocol incentives and the broader shift toward off-exchange settlement and real-time risk controls, reflecting rising institutional standards in infrastructure and execution.

Strategy Outlook

--	-	+	++
		▲	

The outlook for digital asset strategies remains constructive heading into year-end. With momentum increasingly driven by capital allocators rather than crowd behavior, the opportunity set is evolving but far from gone. Dislocations persist, though accessing them now requires sharper execution and greater structural awareness. The shift from CeFi to DeFi venues like Hyperliquid expands the opportunity set for nimble managers. Retail remains cautious amid macro uncertainty, but this has helped reduce noise and improve price formation. Arbitrage and volatility strategies stand to benefit from rising liquidity and deeper derivatives markets. Growing institutional participation should continue to drive issuance, two-way flows, and a more robust trading environment through year-end.

How CeFi and DeFi Differ: 8h Funding Rate Disparities in BTC



Source: Binance and Hyperliquid
Data as of 25.06.2025

Spotlight on South Korea

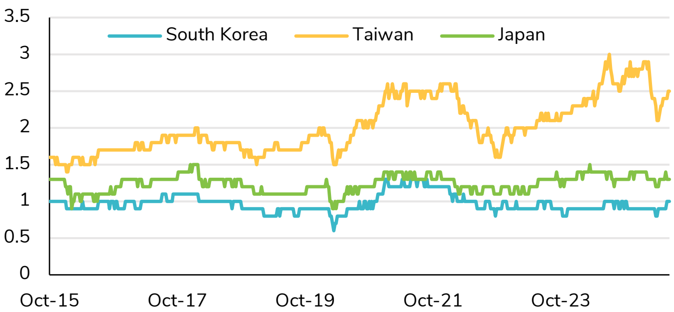
South Korea elected on June 3rd, 2025, the Democratic Party nominee and former leader of the opposition, Lee Jae-myung, after political turmoil due to unexpected martial law. Lee ran his campaign on corporate governance transparency, stock market reform pledges, and new economic policies. This election might be a turning point for South Korea's economy.

Korea Discount

The "Korea discount" refers to the tendency of South Korean stocks and assets to trade at a lower valuations than comparable companies in the U.S., Europe, or Japan.

- Dividend tax on Korean stocks approaches near 50%, which hinders dividend payout and pushes away investors seeking income, lowering its demand and price.
- A risk discount is inherently priced in due to its location next to their northern counterpart.
- South Korea's economy is dominated by large, family-owned business conglomerates (e.g. Samsung Electronics Co. and Hyundai Motor Group) called 'chaebols', that account for over 60% of GDP. The country's approach to corporate governance poorly protects minority shareholders and lacks transparency, reducing investor confidence, especially for foreigners.
- Inheritance tax on publicly traded companies is among the highest in the world. It is calculated on a four-month average of the share price before the succession event, leading chaebols to deeply depress company valuation and thus the stock price, to minimize taxes. Some names have been valued as low as 0.2x net asset value.

P/B Ratio, South Korea Trading at a Discount



Source: Bloomberg (KOSPI Index, TWSE Index, TPX Index)
Data as of 20.06.2025

Lee Jae-myung's Reform Agenda

- Lee wants to make the appointment of independent directors of listed companies mandatory, as well as electronic voting, and minority shareholders protections.
- A new inheritance tax reform bill has been submitted that aims to reduce, or even remove, the deliberate depression of company valuation around succession events. Succession taxes for privately owned companies is determined following a simple formula – an average of earnings and net asset value. If this value is below 0.8x NAV, then the latter is used as floor value. The new bill's idea is to apply the same methodology to listed companies as well, driving up all the stocks affected.

Why This Time is Different

The 'Corporate Value-Up' initiative proposed last year aiming to increase corporation's value, but political disagreements made it difficult to advance. The misalignment of the presidency and the legislature, which are on opposing political parties, hindered any initiative coming from the other party, failing to address the fundamental conflict between majority shareholders and the others for the last few years.

The election of M. Jae-myung solves this issue. The interests of the current president elect are aligned with the legislation and progression can finally be made. Since his election, the KOSPI rose more than 10% to 3'000 KRW, and he promised it would reach 5'000 KRW during his term.

Who Will Benefit

Lee's reforms will undoubtably increase corporate activity, a fertile environment for Event-Driven strategies which can capitalize on mergers, acquisitions, and special situations. Activism will benefit as well with shareholder protection and transparency. The legislation timing windows will provide catalysts for opportunities that are not yet fully priced into the market.

The Case of Japan

Ten years ago, Japan was going through similar reforms as South Korea is having today, under Prime Minister Shinzo Abe's 'Abenomics'. This led to an increase in corporate governance transparency and accountability, a surge in shareholder return and increasing dividends, and stronger corporate activity.

Lee Jae-myung's election is a landmark in South Korea's public market, providing hedge funds operating in this environment with attractive opportunities.

Contributors

Cedric Vuignier
Head of Liquid Alternative Managed Funds
cvuignier@syzcapital.com

Reto Gehring
Head of Advisory
rgehring@syzcapital.com

Nicolas Segal, CAIA
Senior Advisor
nsegal@syzcapital.com

Tiago Fellay
Junior Portfolio Manager
tfellay@syzcapital.com

Jeremy Lander, CAIA
Analyst
jlander@syzcapital.com

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, South America 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 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.

HFM EUROPEAN HEDGE FUND PERFORMANCE AWARDS 2019 Winner — Fund of hedge funds - specialist — Oyster Alternative Uncorrelated

WealthBriefing EUROPEAN AWARDS 2021 — Alternative Investment Manager — Winner — Syz Capital

WealthBriefing EUROPEAN AWARDS 2024 — Winner — Digital Assets Solution/Fund Manager — Group Syz

HEDGEWEEK European Awards 2025 — Emerging Performance of the Year: Fund of Funds — Syz Crest — WINNER

WealthBriefing EUROPEAN AWARDS 2022 — Alternative Investment Manager (Bank/Institutional) — Winner — Syz Capital

WealthBriefing SWISS AWARDS 2025 — Winner — Digital Assets Solution — Syz Capital