

Equity Dispersion Alternatives Allocation

Q4 2025

In a Nutshell

Dispersion added 2% in Q4 as US Tech stocks remain volatile.

Summary

It was a good quarter for the Fulcrum Equity Dispersion fund, up 2%. The fund finished the year up 3%, despite a brief drawdown in April. The fund recovered nicely during the second half of the year with both US and European allocations generating returns.

As we discussed in last quarter's update, US tech stocks remain volatile. The market has started to question the capital outlay involved in the rollout of AI. This has led to sharp moves up (e.g. AMD) and down (e.g. Oracle) on recent results announcements. The fund benefits from the volatility of these stocks rather than the direction of the price move. Meanwhile the volatility of the broader market remains largely subdued which is also beneficial.

The fund's geographical risk allocation remains tilted towards the US. The fund has around 75% in US positions, with the 25% remainder in Europe. This broadly reflects the liquidity differential between the regions, rather than a strong bias to one region over the other. At a sector level, the fund increased its exposure to the US Financials and trimmed its allocation to US Technology stocks. By contrast, the fund's European sector exposure remained fairly stable. The Consumer Discretionary sector has been an overweight position due to exposure to auto and luxury stocks.

Performance

The Fulcrum Equity Dispersion fund return gained 2% in the third quarter, versus 1% for the Bloomberg overnight USD cash index, and 3% for the S&P 500 index.



The fund performed well in Q4

Source: Bloomberg

Despite tariff-induced volatility in April, the fund has produced a positive return this year. The fund is up 3%, despite a brief drawdown in April (as markets rallied hard from the April 7th low, which limited stock-level dispersion). The fund recovered nicely during the second half of the year with both US and European allocations generating returns.

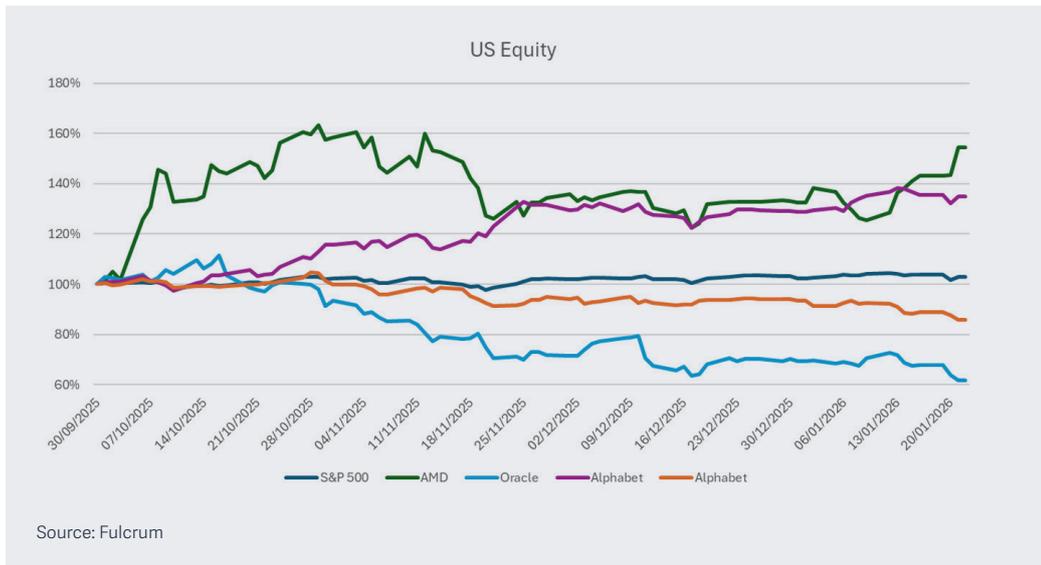


The fund finished the year up 3%

Market Update

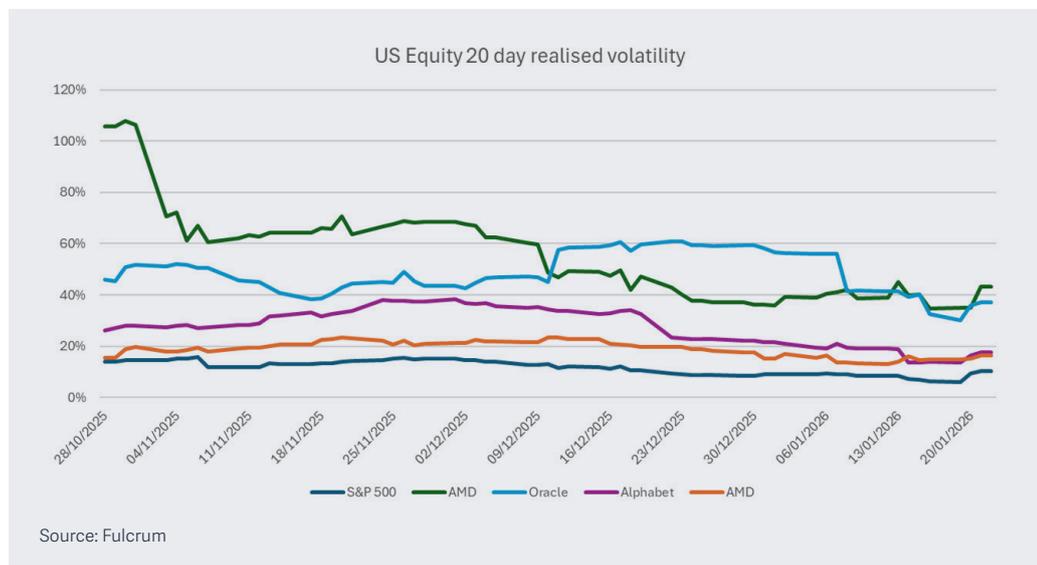
The S&P 500 index gained 3% this quarter as markets grinded higher to finish the year strongly. The upward move was punctuated by small corrections in both October and November. Market expectations of further rate cuts and optimism surrounding AI have led to a general buoyant mood and extended valuations, along with much discussion of whether we are in an AI bubble. The manager commented:

“Of particular importance to the strategy has been the impact of the market trying to decipher the long-term AI winners and losers, particularly within the Magnificent 7 group of stocks. In October, as questions surfaced about the capital outlay involved in the rollout AI, both Nvidia and AMD fell sharply with Oracle down 25% on the month. Google on the other hand, rallied 15% on the month following the successful rollout of Gemini 3, which had been trained on their own hardware. In December, Broadcom experienced a one day fall of 11%, as its earnings failed to quell investors’ concerns about its long-term profitability, whilst Micron rose 10% on standout earnings leaving the stock up 239% on the year”



Divergent performance for US large cap Tech stocks in Q4 was beneficial

The fund benefits from the volatility of these stocks, rather than the direction of the price move, although the two are intrinsically linked. The chart below shows the 1 month realised volatility of the same assets. The realised volatility of AMD exploded in early October before cooling, while Oracle volatility remained high over the whole period. Also importantly, the volatility of the S&P 500 stayed low over the whole period. Remember, the fund is long single stock volatility and short index volatility.

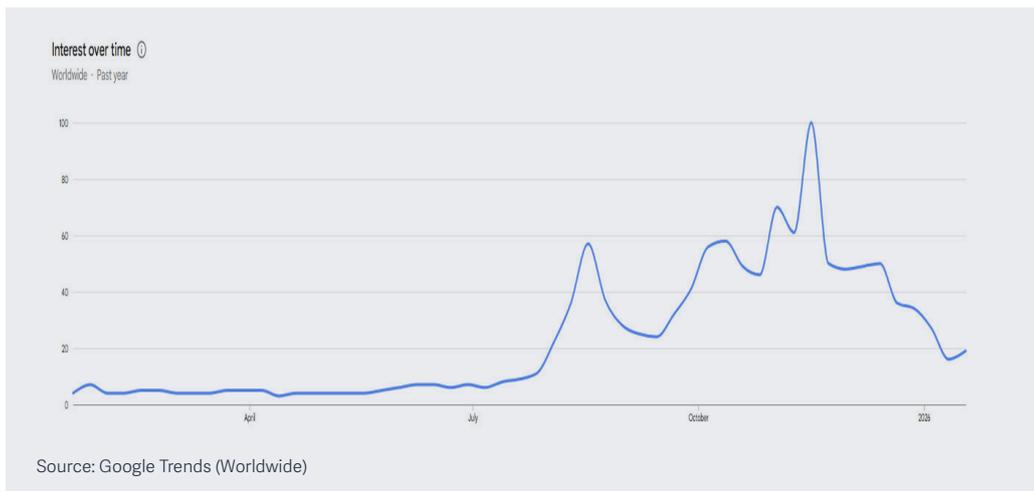


Single stock volatility for Oracle remained high throughout Q4

The table below shows the levels at which the manager bought or sold volatility during Q4. The manager sold index volatility at 19% versus realised volatility of 12%, which led to a profit. The manager bought single stock volatility, which made money on both positions in AMD and Oracle, where realised volatility came in higher. He lost money on Microsoft and Alphabet where realised volatility came in lower.

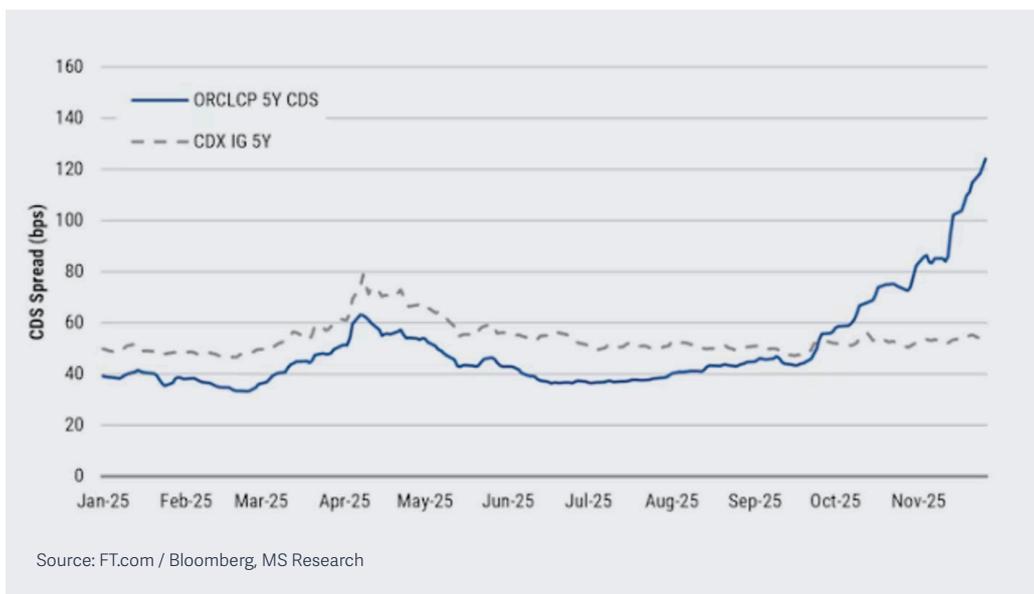
	S&P 500	MSFT	AMD	Oracle	Alphabet
Average trade level	19%	27%	52%	45%	36%
Realised volatility over Q4	12%	19%	75%	50%	29%
Difference	-7%	-8%	23%	5%	-7%

The media has been sceptical that recent outsized moves are sustainable. A Google Trends search for 'AI bubble' reached a peak in November before deflating into year end.



Google searches for 'AI bubble' peaked in November

Many market commentators cite concerns over vendor financing and increasing leverage. Some Wall Street analysts suggested shorting Oracle as a hedge on deteriorating fundamentals. The price of Oracle Credit Default Swaps (CDS) has increased notably of late, although is still far from distressed.



The cost of insuring against default is rising for Oracle

If technology stocks continue to act in a volatile manner (up or down), that should be helpful for equity dispersion strategies.

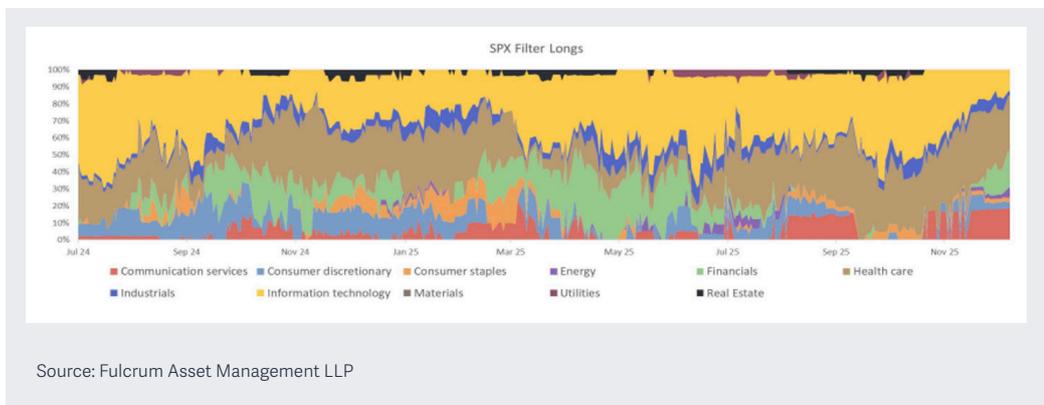
Positioning

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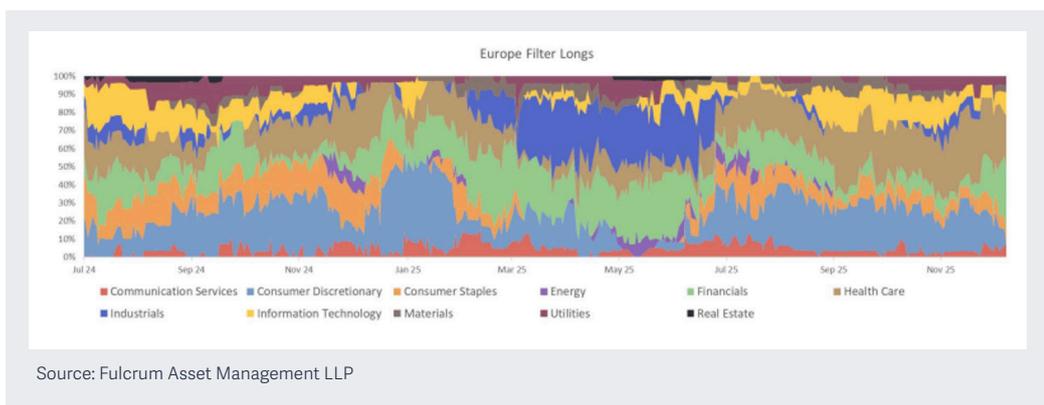
The fund has a US bias due to greater liquidity

At a sector level, the fund increased its exposure to the US Financials sector towards year end (green shaded area in chart below). Meanwhile the allocation to the Technology sector (yellow) decreased as large cap stocks like Apple and Broadcom were reduced.



Financials exposure increased in Q4

By contrast, the fund's European sector exposure remained fairly stable. The Consumer Discretionary sector has been an overweight position due to exposure to auto and luxury stocks, a key contributor to performance.



Europe exposure is more balanced at a sector level

Valuation

It is difficult to pick a single valuation metric for equity dispersion strategies. There are various measures of implied volatility and correlation, which all inform the opportunity set for this complex strategy.



Single stock implied volatility spiked in October

The manager explains:

“With the exception of the two short lived spikes, implied correlation ground lower over the period. This was primarily a function of single stock implied volatility remaining robust relative to index volatility, with 6 month ATM implied volatility in the S&P 500 and Eurostoxx 50 ending the quarter slightly lower, but single stock implied volatility higher”

If markets remain range-bound or in a trend, with single stocks moving by a larger amount than expected, that should produce a nice uncorrelated return stream for investors.

Positioning

We hold the Fulcrum Equity Dispersion at a 2.5% target weight in balanced portfolios. Given the fund’s low volatility and helpful diversification properties, we might consider increasing the allocation at some stage in future. The fund is around \$550m in size, which includes some internal capital. The fund introduced a cash hurdle rate for its performance fee in the second half of the year, which should reduce fees at the margin. The fund is also considering moving to daily dealing, rather than its current weekly cycle.

We monitor a number of other volatility related strategies, but do not plan on adding a second manager for the time being.

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