

# Dispersion Alternatives Allocation Update

Q1 2026

## In a Nutshell

Dispersion added 2% in Q1 driven by volatility in technology and healthcare sectors

### Summary

It was a solid quarter for the Fulcrum Equity Dispersion fund, up 2%. This was ahead of a cash return of 1% and a fall of 4% for the S&P 500 index. Equity markets were buffeted by the twin shocks of the war in Iran whilst software stocks were hit particularly hard after Citrini Research published a detailed report outlining the threats to businesses from Artificial Intelligence (AI).

The fund benefits from the volatility of stocks, rather than the direction of the price move. US semiconductor stocks rose sharply as they are seen as the 'picks and shovels' of the AI revolution. Software stocks moved in the other direction, down significantly. Within both areas there was a wide degree of dispersion; in the semiconductor index, Micron rose 44% over the period, whilst Qualcomm was down 17%. Blue chip stocks like Intel were also volatile, adding to returns. After quarter end, Intel stock surged over 50% in early April driven by the announcement it would form AI partnerships with Tesla and SpaceX's Terafab project.

### Performance

The Fulcrum Equity Dispersion fund return gained 2% in the first quarter, versus 1% for the Bloomberg USD cash index, and a fall of -4% for the S&P 500 index. The fund performed strongly in January and February, before giving back a little performance during March volatility.



The fund held up well in Q1

Over the past six months, the fund has produced a 4% return. This compares to 2% on cash and a loss of 2% in the S&P 500 index.



The fund has led cash and equities over 6m

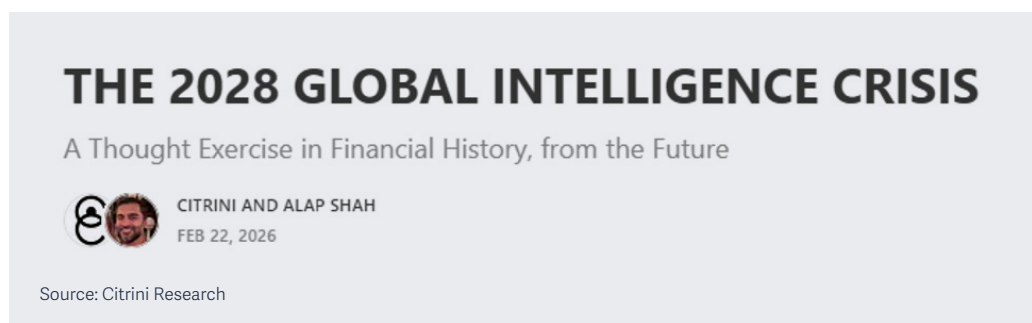
Source: Bloomberg

### Market Update

The S&P 500 index lost 4% this quarter. Equity markets started the year with positive momentum, but there was a sharp reversal in March after the outbreak of hostilities in the Middle East. A more uncertain global macro and inflationary outlook called into question the future path of monetary policy.

The War in Iran was the major talking point this quarter. The US and Israel carried out a series of military strikes, which prompted retaliation by Iran in the form of missile and drone strikes around the region. The important shipping lane through the Strait of Hormuz was effectively closed, leading to a spike in the price of oil and other commodities. The International Energy Agency (IEA) described the war as creating the "largest supply disruption in the history of the global oil market". North Sea Brent crude oil prices spiked to over \$100 from just \$60 at the start of the year.

Software stocks were hit particularly hard this quarter after Citrini Research published a detailed report outlining the threats to businesses from Artificial Intelligence (AI).



A look into tail risks from the advent of AI

Source: Citrini Research

This was dubbed the 'SaaS-pocalypse'. The S&P 500 software index was down -24%, with mega-cap Microsoft falling by a similar amount. The manager commented:

*"Highlighting the strength of sector rotation to the end of February, was the huge outperformance of the US semiconductor versus the software sector; the iShares US Semiconductor index rose 17% on the year, whilst the iShares US Software index was down 23%. Within both indices, there was a wide degree of performance dispersion; in the semiconductor index, Micron rose 44% over the period, whilst Qualcomm was down 17%..."*



Semi-conductor stocks led software in Jan & Feb

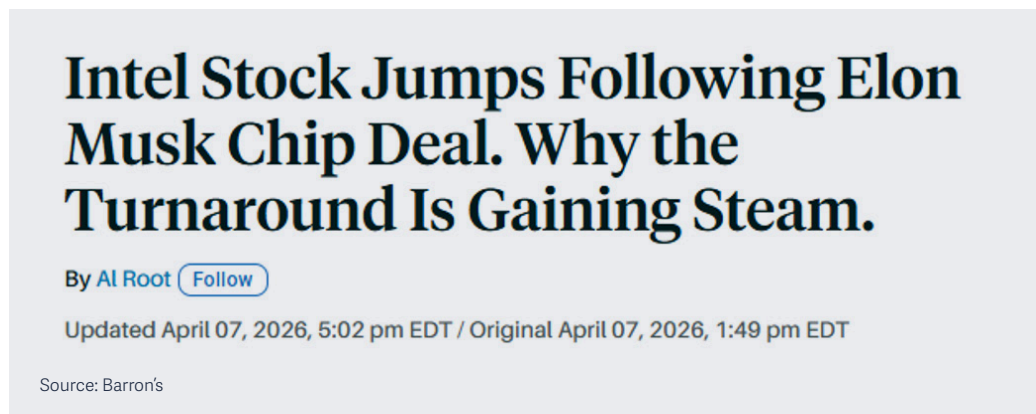
...The AI theme has become increasingly disruptive within the technology sector itself and this has led to some very significant idiosyncratic stock and sub sector moves.”

“In the technology sector, returns were once again driven by the overweight position in high volatility names such as Intel, Appling and LAM research. The biggest contributor of returns was an underweight exposure to Nvidia volatility, where both implied and realised volatility drifted lower.”



Divergent performance for US large cap Tech stocks in Q1 was beneficial

Intel stock surged over 50% in early April driven by AI partnerships with Tesla and SpaceX's Terafab project. Analysts were quick to raise forecasts and price targets following the announcement.

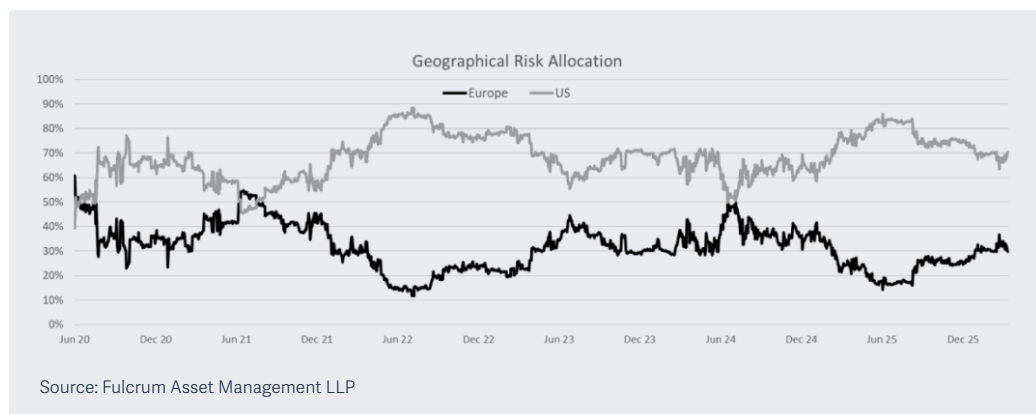


Stocks remain sensitive to AI related news

The fund benefits from the volatility of these stocks, rather than the direction of the price move, although the two are intrinsically linked. If technology stocks continue to act in a volatile manner (up or down), that should be helpful for equity dispersion strategies

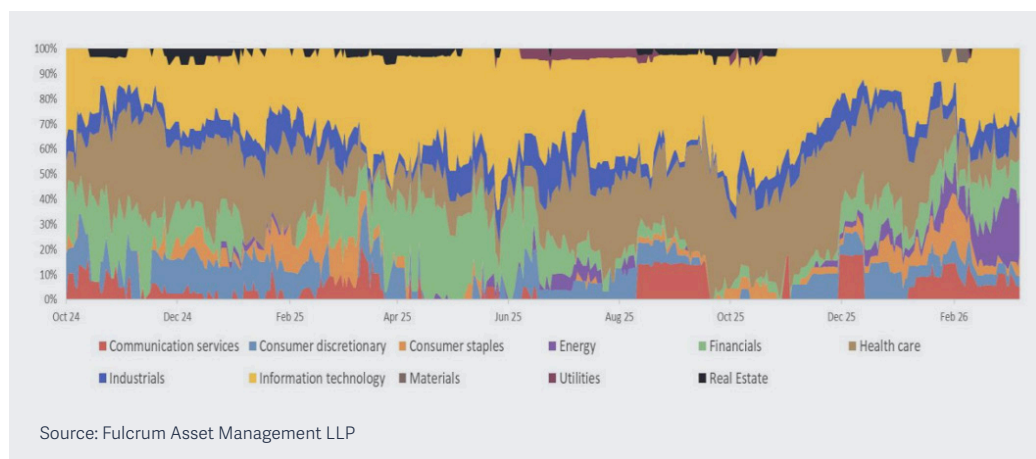
**Asset Allocation**

The fund's geographical risk allocation remains tilted towards the US. The fund has around 70% in US positions, with the 30% remainder in Europe. This broadly reflects the liquidity differential between the regions, rather than a strong bias to one region over the other.



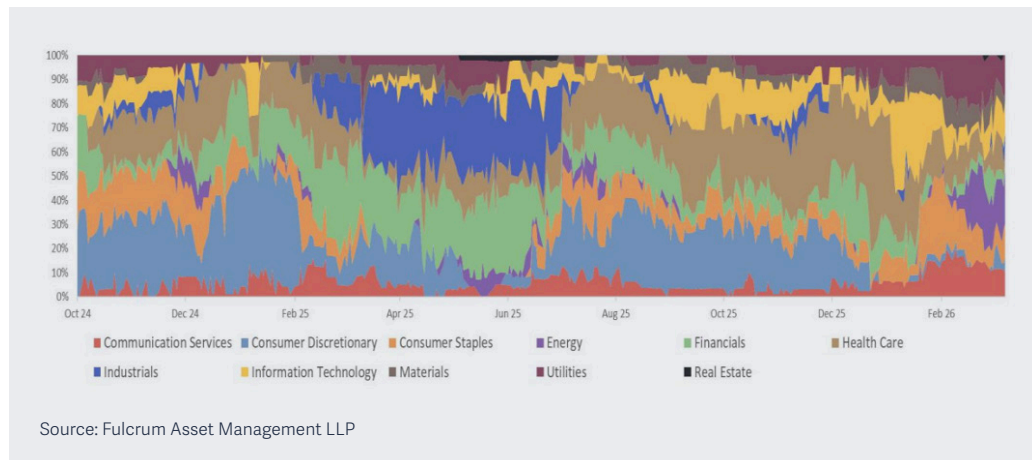
The fund has a US bias due to greater liquidity

At a sector level, the fund increased its exposure to the US Energy sector (purple shaded area in chart below) and decreased its allocation to the Healthcare sector.



Energy exposure increased in Q1

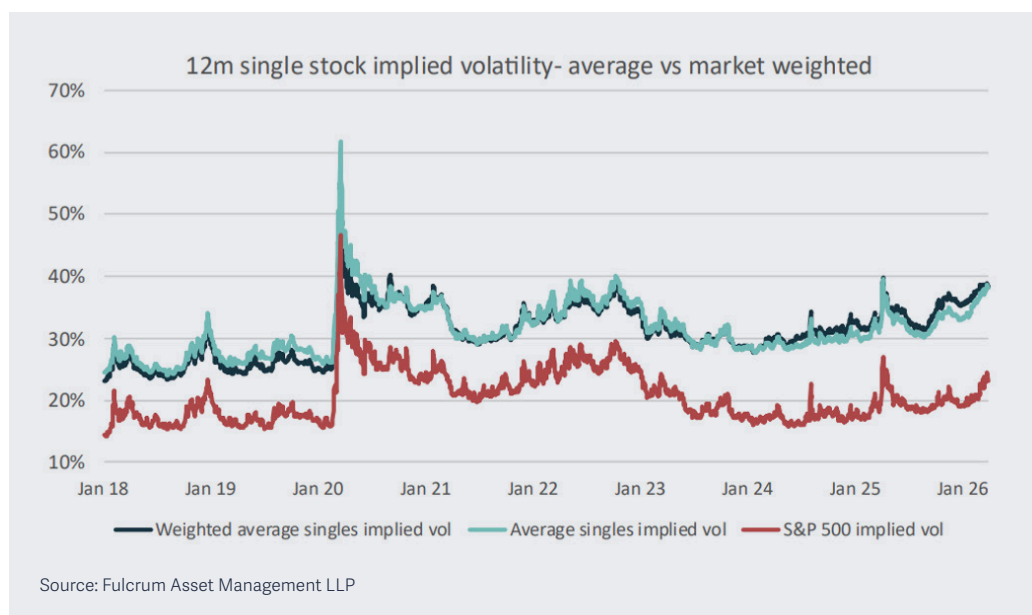
In a similar vein, the fund’s European sector exposure also reduced Healthcare with the allocation being spread across a range of other sectors.



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 rose during Q1

Volatility rose during Q1. This was true for both the index (S&P 500 in chart above) and the average single stock implied volatility. Whilst the market cap weighted single implied volatility has risen, the implied volatility of the smaller components in the universe has risen more quickly – hence the light blue line above has risen more than the dark blue line.

The manager explains:

*“In simple terms, the increase in implied volatility of the smaller components of our US stock universe has outpaced the increase from the large names. One simple explanation for this pricing shift is that market focus has shifted from the AI story to the real economy, with the volatility of energy, banks and stocks like Fedex soaring higher.”*

If markets remain range-bound or in a trend, with single stocks moving by a larger amount than expected, that should produce an 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 last year, which should help 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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