



## Insights January 2026: Scratching Beneath the Surface

**Performance MTD: +2.87%**

Much is already being made of strong long/short equity hedge fund performance year-to-date, particularly as it follows what has been widely described as a record year for hedge funds in 2025. Headline numbers look healthy. But it is worth stepping back and asking a more important question:

### **What has really driven this performance, and what form does this “alpha” actually take?**

When a trade continues to work, it is often consciously ignored. Yet once one scratches beneath the surface, it becomes less clear that diversified hedge fund portfolios are delivering the orthogonal, uncorrelated risk many investors assume.

Drawing on three independent lenses: (1) Prime Broker performance data, (2) recent investor conversations, and (3) return decomposition itself; a consistent picture emerges.

Much of the “winning” performance year-to-date appears meaningfully linked to:

- Momentum factor exposure
- Residual market beta
- Sector factor tilts, most notably net length to Industrials and Basic Materials

These two sectors alone account for roughly 80% of our tradable universe, making such exposures particularly easy to mask within ostensibly diversified long/short portfolios.

At a peer group level, performance optics are strong. However, once factor exposures are stripped out, the residual stock selection or asset allocation alpha looks considerably less compelling than headline returns would suggest.

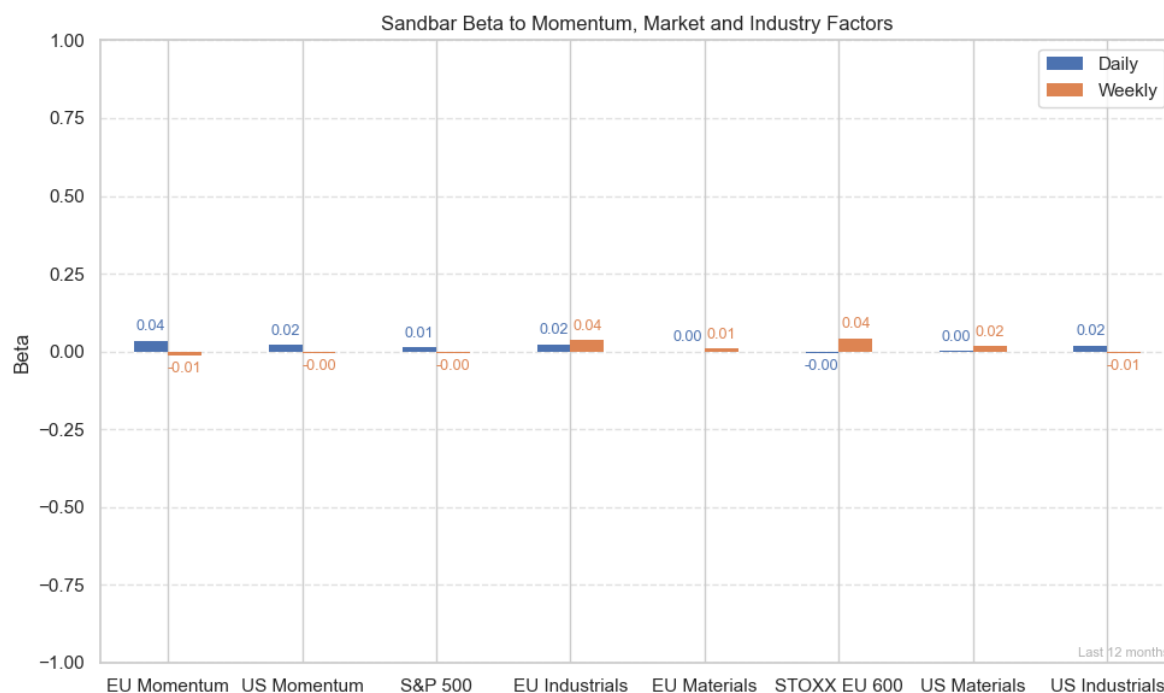
We addressed this dynamic in our December newsletter, where we highlighted **a rising opportunity set driven not by thematic or sector positioning, but by pure idiosyncratic long/short, intra-sector dispersion**. Crucially, this opportunity set does not rely on beta, momentum, or macro alignment to generate returns.

We have begun to see this play out in January and believe there is materially more to come. This is the primary reason we have been comfortable increasing overall portfolio risk and gross exposure; not by leaning further into factors, but by allocating more capital to genuinely factor neutral opportunities.

From today’s starting point, we see the asymmetry skewed decisively in favour of higher intra-sector dispersion going forward. At the same time, risks associated with crowding, concentration, and correlated positioning in more traditional expressions of risk taking continue to rise.

Taken together, this makes the case for reallocating risk away from factor dependent returns and toward true idiosyncratic, factor-neutral alpha increasingly difficult to ignore.

As highlighted in the data below we have near zero beta to the thematic factors highlighted above that have been significant equity long/short hedge fund performance drivers of late.



Source: Sandbar Risk Team, Bloomberg

For Sandbar, this environment reinforces the importance of how risk is taken, not how much.

We are deliberately increasing gross exposure only where returns are driven by idiosyncratic, intra-sector dispersion and remain neutral to momentum, beta, and sector effects. This is the part of the opportunity set that scales cleanly, is least vulnerable to crowding, and retains its efficacy as capital rotates away from factor dependent strategies. In a period where headline hedge fund performance is increasingly explained by correlated exposures, our focus remains on delivering repeatable, orthogonal alpha through a disciplined, factor neutral process.

If you would like to discuss any of the above, please contact the team.

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