

A defensive approach to hedge fund investing

Stockholm (HedgeNordic) – Started in 2011 as a partner-owned asset manager with a focus on hedge fund solutions for the institutional audience, Peak Asset Management today runs approximately 1,5 billion SEK across four different hedge fund strategies. Although little known to the wider investor community, Peak has slowly but surely built on their vision to create products offering truly uncorrelated returns with a defensive risk profile.

“Our ambition has been to create something that put great emphasis on the capital preservation characteristics aspect of asset management. Having painfully experienced what the financial crisis did to client portfolios in previous roles, we came into this venture quite disenchanted when it comes to how traditional advised portfolios are structured. We wanted to create an option for those seeking absolute returns with a low dependence on equity beta-risks and a strong focus on risk management”, Per Djerf, CIO of Peak Asset Management explains.

With a team of trusted and experienced partners from the financial advisory and fund management industry, Peak was founded in 2011, shortly thereafter launching its first hedge fund product “Peak Core Hedge”, a multi-manager fund allocating to a number of market-neutral hedge fund strategies. While the manager today also runs its own successful single strategies, Peak Core Hedge only allocates to external, single manager strategies.

“The Peak Core Hedge product is a fund of market-neutral hedge funds investing into strategies that show consistency and repeatability over time. We need to see that the strategies underlying have been able to perform in all sorts of market scenarios and put a lot of emphasis on trying to understand the alpha-generation part of each program”, Djerf says.

“Initially, we look at a universe of several thousand funds globally and have a systematic, rule-based approach filtering and breaking down that number in order to identify the funds that are subject to inclusion. The portfolio is currently composed of ten so-called primary strategies, which make out the majority of the total allocation. Typically we favor strategies that have low net exposures, low sensitivity to changes in market sentiment and a liquidity profile we feel comfortable with. The bulk of the allocation is within equity market neutral, merger arbitrage and relative value strategies”.

Peak Core Hedge has had an annualized return of 4.3% with a volatility (annualized standard deviation) of 1.4% since inception, according to the fund’s most recent factsheet. This translates into a Sharpe-ratio of 2.8, certainly a factor weighing high for the fund earning the award as “Best market-neutral fund of hedge funds” at the most recent International Hedge Fund Awards. The inherently low correlation between the different strategies in the portfolio allows for significant diversification benefits without creating dilution effects with regards to performance”, Djerf says.

Stockholm based Peak Asset Management today run a number of systematic equity and macro strategies developed in-house by a team headed by Djerf with strong quantitative finance backgrounds. Among the internal strategies developed are also more opportunistic value- oriented credit strategies looking to exploit mispricing within corporate capital structures.

Peak Equity Alpha has been trading live since July 2012 and has had an annualized return of 7.6 per cent to an annualized standard deviation of 4.7 per cent. The fact that the program shows very low correlation to the equity market makes it a good portfolio diversifier, according to Marcus Andreis, head of institutional sales at Peak Asset Management.

"The Peak Equity Alpha Fund uses a combination of equity arbitrage and volatility arbitrage strategies and has over time shown as good as market neutral characteristics with a beta of 0.1 in relation to S&P 500 since inception. The fund extracts alpha from relative mispricings in the equity space without holding a positive bias unlike many other equity hedge strategies out there."

The Peak Global Macro fund is the most recent addition to Peak's product range and allows for a somewhat higher volatility profile compared to the equity strategies. The new fund combines price-based information with fundamental data, seeking to capture broader market trends in global equities, fixed income, currencies and commodities.

We balance the exposure through the use of counter-trend models which gives the program a smoother return profile and better risk adjusted returns compared to the pure trend following models used by many trend following CTA's, Djerf explains.

Andreis already notices good interest for the fund but highlights it is still early days and that the aim is to build the track record before marketing the fund more broadly.

"We launched in January this year and already have 100 million SEK allocated to it. Given the difficult market environment we started the fund in, we are quite pleased with how it has been behaving so far".

The internal single systematic equity and macro strategies are combined and run side by side other niche strategies in a multi strategy fund called "Peak Core Strategies", making available a combination of all in-house approaches in a single product.

"The aim of Peak Core Strategies is to offer to investors a best-of-breed solution combining what we judge to be the best ideas from our own research on quantitative equity and macro strategies as well as within more opportunistic event-driven strategies, mostly related to the credit space", Marcus Andreis explains, continuing;

"The fact that the equity strategies use a statistical arbitrage approach that is very short-term in nature and close to market neutral, there is a good overlap when combining these with the macro and event driven strategies that allow for more opportunistic trade ideas aiming to capture significant price moves in underlying markets."

Peak is not actively looking at going the retail path as a distribution strategy, offering its funds to the broader public through platforms. The asset manager will rather focus on maintaining personal relationships with end-clients and build on its institutional client base, keeping the look and feel of a boutique rather than a mega store super market.

"Offering our products to the retail audience would likely make us more well-known, however, our main focus has always been on delivering uncorrelated returns with a low- risk profile which is easier communicated to the institutional investor community. By having clients that truly understand why they are invested makes them more patient and less likely to redeem for the wrong reasons, Andreis concludes.