Peak's Flagship Three-Strategy Vehicle

Stockholm (HedgeNordic) – No single investment strategy performs well in all market environments all the time, but combining multiple uncorrelated strategies into one vehicle may well increase the odds of delivering solid returns in a variety of market environments. A Stockholm-based multi-strategy hedge fund is trying to achieve just that.

Peak Core Strategies has employed three distinct investment strategies – systematic arbitrage, systematic macro and event-driven – to generate equity-like returns with close to zero beta exposure since launching in January 2014. HedgeNordic sat down with CIO Per Djerf *(pictured)* to discuss the strategy behind Peak Core Strategies, review its track record since inception, and ask his thoughts on the outlook for the fund.

All-Weather-Strategy Based on Three Pillars

Peak Core Strategies adopts a pure multi-strategy approach, combining three uncorrelated strategies to achieve a long-term return target of eight percent plus the risk-free rate. The fund consists of three blocks: arbitrage; macro; and, event-driven. Whereas the event-driven strategy is only implemented as part of Peak Core Strategies, the remaining two strategies are also run separately through single-strategy vehicles Peak Equity Alpha and Peak Global Macro.

"Peak Core Strategies is our flagship fund in the sense that the vehicle represents a combination of all our in-house approaches to investing," Per Djerf tells HedgeNordic. "Although the underlying strategies are decorrelated from each other, all of them exhibit an attractive long-term risk-adjusted return profile," he adds. "We aim to generate a relatively stable return by combining all these three strategies. After all, no single strategy is going to work all the time," says Djerf.

Pillar one – statistical arbitrage. Around one-third of the capital managed by Peak Core Strategies is allocated to the statistical arbitrage strategy. Under this strategy, the fund mainly uses a "systematic approach to find highly correlated stock pairs that diverge from their historical correlations due to capital flows or other related reasons" as Per Djerf explains. This strategy is all about mean reversion and attempts to profit from the mean-reverting behaviour of specific stock pairs in relatively short time frames. The statistical arbitrage strategy, however, does not solely focus on correlations.

"We also employ volatility arbitrage," says Djerf. "Investors typically overpay for downside protection, and we try to exploit that," he adds. Talking about the systematic arbitrage strategy as a whole, the chief investment officer says "the main characteristics of this strategy include no market risk, a systematic approach, and a short-term investment horizon." The strategy attempts to build a beta-neutral portfolio by holding between 300 and 400 positions on average.

Pillar two – systematic macro. The systematic macro strategy employed by Peak Core Strategies and by Peak Global Macro as a stand-alone strategy is momentum-based and trend-following in nature. "Our systematic macro strategy is not a tradition trend-following CTA strategy, as the allocation is based on the fundamental valuation of asset classes in addition to price-based algorithms," explains Djerf. The strategy combines price-based information with fundamental data to capture broader market trends in global equities, fixed income, currencies, and commodities.

"Most of the biggest historical drawdowns are multi-month events, and our systematic macro strategy provides tail-risk protection in longer-lasting market declines and generates returns in upward moving markets," he adds. "In a flash crash characterized by swift reversals in trends, however, neither traditional CTAs nor our systematic macro strategy can always fully protect the downside. The systematic macro strategy delivers when there is a sustained movement on the upside or the downside," explains Djerf.

Pillar three – discretionary event-driven. The event-driven strategy is currently the largest allocation of Peak Core Strategies, with this strategy having contributed the most to fund's returns since inception. "Whereas in the systematic arbitrage strategy we try to diversify company-specific risk, in the event-driven strategy we take on the company-specific risk that is worth taking," explains Per Djerf. The primary focus of the strategy is finding mispriced securities that have clear catalysts expected to trigger a meaningful repricing. The fund also participates in primary transactions when favourable terms can be negotiated to create attractive risk-reward opportunities. Other strategy examples include capital structure arbitrage, which involves going long one security in a firm's capital structure while shoring another security in that same firm's capital structure. "These inefficiencies we see are most prevalent in credit markets, as covenants and security packages increase complexity and make credit markets less efficient," says Djerf.

Nearly Five-Year Track Record Attracts More Institutional Investors

With two of its three investment strategies having operated in environments that challenged them (trendless markets for the systematic macro strategy and limited volatility for the systematic arbitrage strategy), the multi-strategy vehicle achieved an admirable performance since incepting in January of 2014. The fund generated an average return of 7.3 percent per year and achieved a solid Sharpe ratio of 2.0 since inception. More importantly, however, Peak Core Strategies achieved this performance by exhibiting a beta exposure to equities of only 0.14 and a beta exposure to credit markets of minus 0.02.

Speaking about investor demand for uncorrelated strategies, Per Djerf reckons that "the fundamentals call for increased interest in uncorrelated strategies." After reaching a track record of almost five years, combined with solid performance, Peak Core Strategies is attracting more attention from institutional investors. Djerf foresees a bright future for their flagship fund as the underlying strategies seem well designed to handle any type of market environment. "It is by design that not all our underlying strategies work all the time, otherwise they would not be decorrelated from each other," concludes Djerf.