Multi-Strategy Fund Performance and Risk Review

Quarterly investor letter analytics pack

Prepared for: Portfolio Management Team

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Executive Summary

• The fund has delivered strong long-term results, compounding at approximately 14.53% per year with volatility of about 13.54%, corresponding to a Sharpe Ratio of 1.07.
• Recent performance is even stronger: one-year and three-year annualised returns of roughly 17.35% and 19.94% respectively, with mid-teens volatility and higher risk-adjusted outcomes than since-inception.
• Versus the benchmark, the strategy has generated an annualised excess return of about 4.06%, with cumulative outperformance around 57.06% and an information ratio close to 0.93, indicating efficient use of active risk.
• Risk is material but controlled: the all-time maximum drawdown is approximately -39.88%, largely driven by the COVID 2020 shock and its extended recovery, while one-year and three-year drawdowns are far smaller.
• The portfolio has fully recovered from every historical drawdown, including the COVID period, though the longest recovery took roughly 637 trading days, which must be managed carefully from a capital and client-relations perspective.
• Short-horizon volatility metrics indicate daily swings are consistent with a mid-teens risk budget, but historical stress tests show that clustered losses during crises can still reach roughly -30%.
• Tail-risk and scenario analysis (COVID 2020, 2022 rate shock) confirm that the fund can withstand major macro dislocations without permanent capital impairment, but requires explicit drawdown governance.
• Overall verdict: based on the available data, the fund is outperforming its benchmark on a risk-adjusted basis relative to a typical diversified multi-asset mandate.

QTD	YTD	1Y	3Y	5Y
54.06%	16.81%	17.35%	19.94%	17.27%

Quarterly Summary

The most recent quarter was very strong in both absolute and risk-adjusted terms. The portfolio delivered an annualised quarterly return of approximately 54.06% with volatility of about 15.11%, implying a Sharpe Ratio near 2.94. Year-to-date performance of roughly 16.81% annualised is slightly below the one-year figure of 17.35%, indicating that the last twelve months have been consistently positive rather than driven solely by the latest quarter.
The quarter's drawdown profile was benign: the worst peak-to-trough move was about -3.66%, which is modest relative to the fund's historical and one-year maximum drawdowns. The share of positive trading days in the quarter was slightly above 50%, so results were driven by the magnitude of winning days rather than an unusually high hit rate. Relative to the benchmark, the fund's long-run annualised excess return of about 4.06% and information ratio of roughly 0.93 suggest that the current run-rate of performance is consistent with the long-term edge rather than anomalous.
For the portfolio management team, this confirms that current positioning is delivering strong upside capture without a step-change in downside risk. The key near-term question

is how much of the recent strength reflects favourable market conditions versus idiosyncratic alpha that is repeatable across regimes.

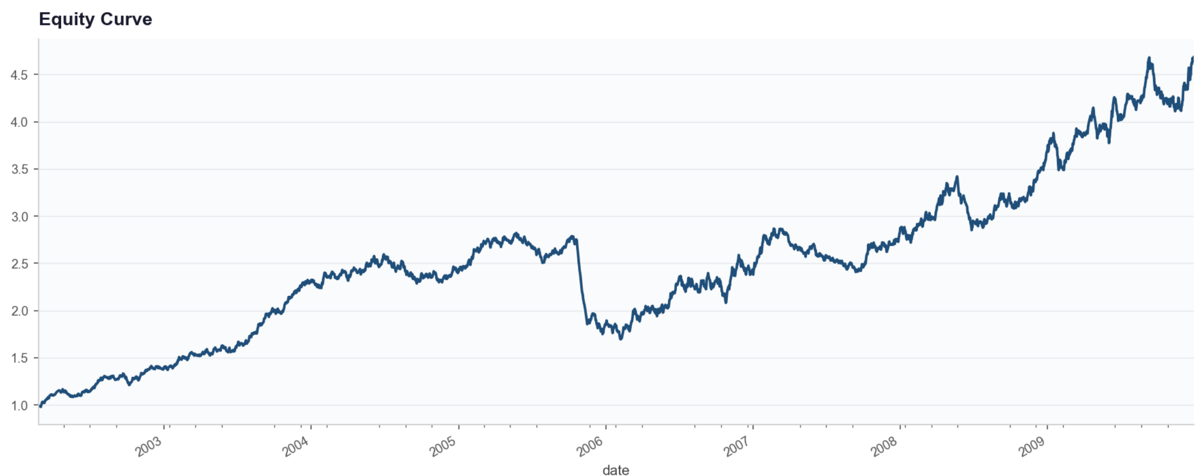

Figure 1.

Cumulative Return

Market Environment

The fund's history spans multiple macro regimes, including the COVID 2020 crisis and the 2022 interest-rate repricing. Historical rolling-window stress analysis highlights the period from mid-2019 to mid-2020 as the single worst 252-day interval, with cumulative losses of roughly -38.79%. This coincides with the onset and early recovery phase of the COVID shock.
Named stress scenarios provide additional colour. During the COVID 2020 window, the portfolio lost about -29.84%, while the 2022 rate shock episode delivered a drawdown of around -15.61%. Both outcomes are materially more severe than suggested by typical one-day value-at-risk, underlining that clustered drawdowns over several weeks to months are the defining risk in this strategy, not isolated daily losses.
Compared with a broad diversified benchmark, these scenario losses are directionally consistent with risk-off regimes but somewhat amplified, which is reflected in the long-term maximum drawdown of around -39.88%. For portfolio management, the implication is that macro regime changes--particularly sharp tightening cycles and sudden growth shocks--are the primary external drivers of tail risk. Maintaining flexibility to adjust gross and net exposures around such inflection points is more impactful than fine-tuning day-to-day risk limits.

Portfolio Activity and Attribution

While we do not have position-level attribution in this analytics pack, the performance statistics allow us to infer key drivers. Since inception, the strategy has produced an annualised excess return of approximately 4.06% over its benchmark and cumulative outperformance of about 57.06%. With tracking error around 4.34%, this translates into an

information ratio near 0.93, indicating that active risk has been monetised efficiently. Across rolling horizons, risk-adjusted metrics improve over one-year and three-year periods, with Sharpe Ratios of roughly 1.21 and 1.40, compared with 1.07 since inception. This pattern suggests that more recent activity has added incremental alpha relative to the early years of the track record. The share of positive days is only slightly above 50% across horizons, which implies that outperformance has come from asymmetry in return distribution--larger gains in good periods and controlled losses in weak markets--consistent with a diversified, multi-strategy approach.

For the investment committee, the key message is that the underlying investment process has been additive to the benchmark over time and has improved in recent years. The focus going forward should be on preserving this edge through disciplined implementation rather than materially increasing risk in pursuit of higher headline returns.

Risk Overview

The fund operates with a mid-teens volatility budget and has delivered commensurate returns, but investors have been exposed to a meaningful, though ultimately recovered, capital drawdown. Since inception, the maximum peak-to-trough loss is approximately -39.88%. Drawdown duration analysis indicates that the longest recovery spanned about 637 trading days, though every historical drawdown has been fully recovered.

On shorter horizons, the risk profile is more benign. Over the last year, the maximum drawdown was around -12.18%; over three years, approximately -16.64%. These figures demonstrate that the extreme -39.88% drawdown was concentrated around the COVID crisis rather than being a recurring feature of the strategy. The historical lower-tail risk is further captured by a 95% one-day value-at-risk of about 1.34%, which is consistent with the observed day-to-day volatility but clearly understates multi-week crisis losses.

Rolling 20-day volatility data show that short-term risk has stayed broadly in line with the target range, without prolonged periods of destabilising swings. However, the combination of deep but infrequent drawdowns and lengthy recovery times means that capital planning, client communication, and liquidity buffers must be organised around the possibility of -30% to -40% troughs during rare crises.

Practically, this suggests that while the current risk level is appropriate for investors seeking high-teens returns, risk governance should be calibrated explicitly to drawdown and recovery metrics, not only to volatility.

Forward Outlook

Looking ahead, the combination of a long-term annualised return of about 14.53%, volatility around 13.54%, a Sharpe Ratio of roughly 1.07, and an information ratio close to 0.93 suggests that the current configuration is capable of continuing to add value versus the benchmark. The key question is not whether the process works on average, but how it behaves through future macro shocks.

Historical scenario analysis indicates that severe equity and rate shocks can drive portfolio losses in the -15.00% to -30.00% range over several weeks, with the worst rolling year near -38.79%. Our forward focus therefore needs to balance return targets in the

high-teens with robust drawdown controls. In practice, this means maintaining diversified exposure across underlying strategies, avoiding excessive concentration in pro-cyclical risk factors, and preserving sufficient dry powder to take advantage of dislocations.
If the macro environment remains characterised by elevated inflation uncertainty and intermittent growth scares, we should expect higher frequency of mini-shocks rather than a single, extreme event like COVID 2020. Under such conditions, the fund's ability to compound through mid-sized drawdowns while avoiding forced deleveraging will be the primary determinant of whether risk-adjusted performance stays above peers.

Key Risks and Recommended Actions

Key structural risks emerge clearly from the analytics:
1. **Deep crisis drawdowns and extended recoveries.** COVID 2020 drove a scenario loss of about -29.84%, embedded in an all-time maximum drawdown near -39.88% and a worst rolling year around -38.79%. The longest drawdown took roughly 637 trading days to recover. For investors, this combination can test both financial and behavioural tolerance, even if long-run returns remain attractive.
2. **Clustered losses versus daily risk limits.** The 95% daily value-at-risk of about 1.34% understates real-world experience, where 20-60 day windows have delivered cumulative losses up to the mid-30% range. This gap between short-horizon risk estimates and realised crisis behaviour is a core governance challenge.
3. **Regime-dependence of alpha.** While long-term and recent risk-adjusted returns are strong, scenario analysis (COVID 2020, 2022 rate shock) shows that certain macro environments compress relative performance and increase drawdown risk simultaneously.
Recommended actions:
• **Immediate (0-3 months):**
• Formalise explicit drawdown thresholds (for example, at -15% and -25%) that trigger predefined risk-reduction and communication protocols.
• Update the stress-testing framework to focus on COVID-style and rate-shock scenarios, ensuring current positioning is consistent with a maximum targeted loss range.
• **Near term (3-12 months):**
• Rebalance strategy weights to reduce reliance on pro-cyclical risk factors that underperformed most during COVID and the 2022 rate shock, while preserving the core alpha engines that drove long-term excess returns.
• Align liquidity buffers and financing terms with the historical 637-day worst recovery, so the fund can hold risk through extended drawdowns without forced de-risking.
• **Medium term (12-36 months):**
• Introduce or scale diversifying return streams and conditional hedging tools aimed at capping future extreme scenario losses closer to a -15.00% to -20.00% range, with minimal drag on expected returns.
• Continue to monitor realized Sharpe and information ratios versus the long-term targets, using deviations as a signal to reassess position sizing and strategy mix.

Appendix: Quantitative Exhibits

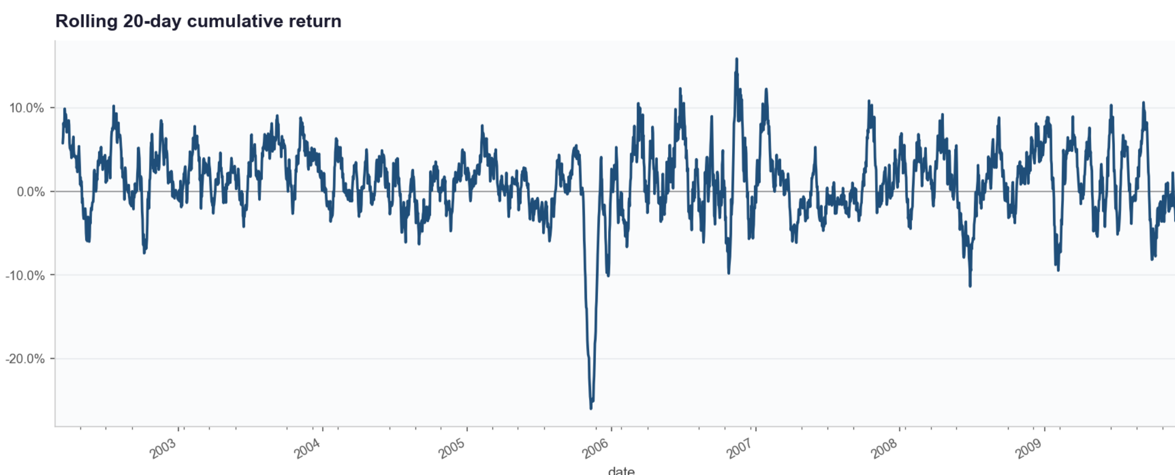

Figure 2.

Historical Stress Windows

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