



Dear Investors,

We are very pleased to share with you our 2022 Q1 Peak Total Investment Fund SPC newsletter. The end of Q1 2022 also marked two full years for the Peak Total Investment SPC.

As of April 21st, 2022, Peak was up 18% gross YTD while the S&P was down 8.5% — a result we're very happy with. During Q1, the fund returned 7% while the S&P 500 Total Return Index ("S&P 500") returned -5%; a 50/50 portfolio of S&P 500 and 10-Year U.S. Treasury futures portfolio levered up 1.5x ("75/75") returned -7.60%. We're beating traditional portfolio compositions, and we're beating the market.

These out-of-sample results continue to validate the non-correlation and relative agnostic positioning of our trade strategies to the broader market in live trading. Peak returned 45% gross in 2021 — a year in which the market generally trended up with relatively low volatility. And then, when the S&P 500 was down 8.5% in a volatile, bearish market during the first 100 trading days of 2022, Peak returned 18%. Up in low volatility, and up in high volatility: we view this as a testament to the testing, composition, and diversification of the trading portfolio. Peak returns are trending up regardless of market movement and are agnostic to broader market moves, remaining uncorrelated and diversified.

The Broader Market

Inflation fears and the subsequent binary Fed meeting of February provided a market environment where participants were proactively hedged and set up for what was expected to be a bearish market event. Market participants, on average, were not as exposed to the downside as they usually would have been, which caused a relatively orderly decline when the potential black-swan-like news of the Ukraine invasion was released. This was coincidental and unusual. The market structure at the time provided a floor for what could have been a tumultuous event as well as fuel for vicious relief rallies, or bear market rallies. As dealers bought the broader market, volatility lessened and the market rose - a positive feedback mechanism - to offset the delta positioning of the large long put (insurance) open interest that was purchased prior to the Fed meeting by market participants. In the end, the market did not have a major capitulation event, nor was there sharp fear at the bottom. The inflationary event and the anticipated Fed event of February helped provide a stop to that, and this internal structure helped to mute the invasion effects, ultimately creating a large whipsaw environment. Due to the lack of capitulation and forced liquidations, we did not see our tail hedges activate, nor did they have to.

The Q1 2022 market environment was one of the tougher ones to navigate due to these large rallies and whipsaws. We saw a peak-to-trough decline of 16% in the SPX, only to then experience large bullish moves of more than 10%. It was a difficult market to trade and a difficult environment to manage risk. One truly had to be agnostic to market movements to survive this market, just as Peak was designed to be.

Chief Investment Officer Commentary

As we enter the second month of Q2, we expect our portfolio to outperform the previous quarter since we're entering trades in a high volatility regime. We prefer volatility, but our risk lies within the transition period from low to higher volatility, as represented by Q1. I'll explain that further below.

The fund has two overarching themes: Global Convexity and Local Concavity. This describes the overall risk profile of the fund. We have positive exposure to left tail events, and we produce income in a locally defined risk environment. The statement "local concavity" describes how we're limited in risk for our income production, and the statement "global convexity" describes our exponential (positive) exposure to left side tail events (a black swan or very large bearish market event).

In our local income producing structures, which comprise the engine of the Peak fund, we are composed of non-directional complex options strategies that are diversified by type of trade, time of entry, days to expiration, strike (location within the market), and the type of embedded tail hedging. This gives us 40 separate trade entries within a campaign. It is as diversified through time and market location as it possibly could be. Diversification provides us with a lower volatility tax and better geometric returns. I'll expand on that later as well. For now, let's continue discussing how these trades behave in a basic framework.

The income trades have a defined and localized risk, which can be thought of analogous to a rubber band. This rubber band can only be stretched so much until it snaps, releasing the convexity built into the tail hedging. The stretch in the band represents potential risk and drawdown, usually around 3-7%. This is most prevalent when we move from low to high volatility environments. The transition from low to high volatility is where our risk lies, but only for a relatively short period of time. The extent of the stretch is determined by time and volatility (fear present in the market). These options contracts expire, and as time goes on the maximum stretch reduces. This is the benefit of being diversified in entries through time.

Without taking compounding into consideration, this package of trades has historically produced income in the 35-45% range, which provides us with a low volatility tax and ultimately

allows for better compounding and higher geometric returns. Geometric returns aren't as complicated as they sound: the less time and number of times spent in a drawdown, the more time and capital is exposed to the inherent edges built into the strategies. This is our focus.

To expand on this concept, I'll get into ergodicity and the importance of reduced volatility and drawdown by illustrating a few examples that I've borrowed (stolen) from Mark Sptiznagel.

The first example is one of a merchant company. The merchant company's ships were prone to pirate attacks and total loss of cargo. The company determined that one of every 20 ships would be pirated, resulting in a \$10,000 loss. To mitigate his losses, the owner of the company contacted an insurance company and was quoted a price of \$600 per ship — a total cost of \$12,000 for 20 ships. Seems like a bad bet, right? \$12,000 is more than the \$10,000 they'd on average lose on 20 voyages. But this isn't the case when the owner looks at it geometrically. The stable cost of \$600 per sailing and not having that \$10,000 drawdown actually generates more return on investment over time. It's a win-win for both the merchant and the insurance company. A paradox! There was one key assumption: the merchant must continue actioning his money for maximum profit. He must continue expanding his business. When considering this, the cost of \$600 was less than the cost of having an occasional \$10,000 drawdown and having to recover from it. Paradox solved. Go figure. On paper (arithmetically - just summing up the costs), it costs \$2,000 more to buy the insurance than it would cost losing one \$10,000 ship, but geometrically (compounding), it's far better to have a stable return with a cost of \$600 per sailing provided we continue to invest and compound by buying more ships. This example illuminates the importance of drawdown mitigation and capital growth. A seemingly costly insurance can actually make you more money than the sum of the parts. Avoiding the large drawdowns is what matters most to compounding returns.

Here's another example: you flip a coin. If the result is heads, you gain 50% of your total worth; if tails, you lose 40% of your total worth. Most gamblers would agree that you have a positive expectancy and this is a great bet — better than any casino game! But geometrically, it's a terrible bet. Given enough trials, all participants will go bust. It's the pathway we follow on our bets/investments that is most important, not the individual expected value of one trial. As seen above and in our next example, some positive expectancy bets will have total and assured ruin if bet enough times. It's similar to Russian Roulette (where one of every six times, the game will end for the individual forever). Sure, if you had 1,000 of you spinning that revolver (picture a multiverse), you'll obtain the arithmetic average, but as an independent single path (non-ergodicity), it's an assured total loss...eventually. We don't care that we "on average" beat the game; we care what happens if we KEEP playing the game! It's the pathway in investing/trading that we care about most and not the expected return of a specific trade. Large

drawdowns along the way are inhibitive to growth more so than the expected value itself (within reason of course). It's often said (I stole this, too), "Man, I wish I invested in Amazon in 1999, I'd be rich!" But that's pretty silly, because during that time Amazon had 90% drawdowns. Imagine following the trajectory of that individual's investment portfolio at that time. He or she would probably have had other high fliers in their portfolio, and recovering from a 90% drawdown requires a subsequent 900% return just to break even.

Volatility tax is an irrefutably important concept in finance and one that many ignore. But volatility is our focus, and it's why we have such interest in positive exposure to tail events and why we work to reduce large drawdowns in our trade compositions.

As always, please feel free to contact either of us anytime about anything.

Sincerely,



Patrick and Chris

