



CornerStone
M A R K E T S

Risk Overlay for Investment Funds

Protect gains. Reduce drawdown. Stabilize NAV. A proprietary methodology that turns volatility into consistency.

The World of Investment Funds

Understanding the structural challenges of the industry is the first step to solving them.

The global investment fund industry manages trillions in assets. Fund managers of all sizes — from family offices to large multi-strategy funds — face an environment where generating consistent returns is increasingly challenging. Volatile interest rates, geopolitical conflicts, unexpected credit crises, and market movements amplified by algorithms create a landscape where even talented managers lose control of the NAV curve.

Metrics such as Sharpe ratio, maximum drawdown, volatility, and beta have become the pillars of any fund evaluation. However, these metrics are often the result of extreme events — not intentional manager decisions. It is in this gap between intention and outcome that CornerStone Markets operates.

Drawdown

The maximum percentage decline from peak to trough. A -15% drawdown can take months to recover and drives investors away.

Sharpe Ratio

Measures risk-adjusted return. Funds with Sharpe below 0.5 struggle to raise capital on institutional platforms.

Volatility

Uncontrolled swings erode trust. Modern investors demand predictability — smooth curves, not roller coasters.

Residual Beta

Even market-neutral funds carry residual market exposures that surface during systemic stress events.

A manager's greatest challenge isn't generating alpha — it's keeping it. 73% of funds that outperform over 12 months give back part of their gains in the following 6 months.

When Protection Fails

Most fund managers lack an operational protection layer — and pay dearly for it.

In 2022, the correlation between equities and bonds reached levels not seen in decades. Funds relying on traditional diversification saw both legs of the portfolio fall simultaneously. Lean teams couldn't react in time — manual hedging decisions take hours or days, while the market moves in seconds.

The result? Severe drawdowns, panicking investors, massive redemptions, and the destruction of track records built over years. The best-performing funds of the prior year suffered most, having accumulated unrecognized risk.

The question isn't whether a stress event will occur — it's when. And when it does, the difference between a fund that survives and one that loses half its investors is the presence of a systematic, active, and independent protection layer.



Illustrative chart. Actual results depend on fund type, mandate, and market conditions.

The CornerStone Markets Methodology

A proprietary approach, tested across 60+ funds in Brazil and abroad.

CornerStone Markets has developed a proprietary and effective Risk Overlay methodology for implementation in investment funds. The system does not replace the manager's thesis — it works as an additional protection layer that activates automatically during stress, preserving accumulated gains without interfering with the strategy.

- 1 Risk Diagnostic**
Complete mapping of the fund's risk profile: exposures, correlations, sensitivities, and stress scenarios. Identification of vulnerable points.
- 2 Overlay Calibration**
Definition of protection parameters: acceptable drawdown limits, maximum hedge coverage, permitted instruments, and aggressiveness level.
- 3 Operational Implementation**
Integration with the fund's existing infrastructure. Compatible with most prime brokers. No migration required.
- 4 Continuous Monitoring**
The system operates 24/5, dynamically adjusting hedges based on market signals, implied volatility, and real-time correlations.
- 5 Reporting & Transparency**
Detailed overlay performance reports, drawdown impact analysis, and scenario analysis. Full audit trail.

The good news is that our system always adds value and performance. Always. After implementation and optimization across 60+ funds, none showed performance deterioration attributable to the overlay.

Impact Metrics

Numbers that demonstrate the value of the Risk Overlay.

60+

Funds analyzed and implemented

~25%

Average drawdown reduction

0.3–1.2×

Sharpe ratio improvement

2–4 wks

Average integration time

Average metrics based on real situations and backtest averages. Each project has its own performance improvement. Past results do not guarantee future performance.

What We Protect

- 1 P&L Protection**
Shields accumulated gains so a single tail event doesn't erase the year's results.
- 2 Drawdown Reduction**
Smooths the NAV curve during high-uncertainty moments. Less drawdown = more investor confidence.
- 3 Dynamic Hedging**
Follows the market and adjusts coverage automatically, without liquidating manager positions.
- 4 NAV Stabilization**
Stable results generate attractive track records. Facilitates fundraising on brokerages and institutional platforms.

Tailored for Each Fund Type

Any fund with hedgeable exposure and sensitivity to drawdown is a candidate.

FUND TYPE	MAIN CHALLENGE	OUR SOLUTION	FIT
Multi-Strategy / Macro	Losing accumulated P&L in a tail event	Protect your drawdown without sacrificing alpha	Very High
Long Biased Equity	Stuck in long position during market meltdown	Dynamically reduce beta when the scenario shifts	Very High
Pension / Institutional	Reputational risk from nominal losses	Institutional-grade security with full audit trail	High
Family Offices	Emotional drawdown from asset owner	Customized protection for each family profile	Very High
Long & Short / Neutral	Sudden decorrelation and residual beta	Zero out market residual to focus on pair selection	High
FX & Commodities	Violent trend reversals	Protect trend gains without losing momentum	Medium-High

What Managers Say About Us

Feedback from managers who know our approach.

“ *The concept of an operational overlay without interfering with our thesis was exactly what was missing. We were spending too much time on manual hedging decisions.*

— Portfolio Manager, Long Biased Fund, AUM €120M

“ *Our biggest challenge was explaining drawdowns to investors. With a more stable NAV curve, the fundraising conversation became much easier.*

— Managing Director, Multi-Strategy Fund, AUM €85M

“ *As a family office, our priority is capital preservation. The overlay gave us the protection layer we were looking for.*

— CIO, Family Office, AUM €60M

Frequently Asked Questions

What is the cost?

Performance-based and fixed-fee models, adapted to the fund's size and complexity.

How does it integrate with my prime broker?

The system operates as an execution layer compatible with most prime brokers, no migration needed.

What instruments does it use?

Index futures, options, FX futures, commodity futures, and ETFs — selected for liquidity and cost efficiency.

Does it replace my risk team?

No. It's an additional layer that automates tactical decisions, freeing the team for strategy.

How long does implementation take?

2–4 weeks including diagnostic, calibration, and optimization period.



Schedule Your Free Demo

See in 30 minutes how the Risk Overlay can protect your fund's operations.

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