

## The Importance of Convexity

## Definition

An investment strategy is considered convex if its returns compared to its benchmark show an upward curvature. The illustration below shows a strategy that demonstrates convexity on both the downside and upside. Typically, convex investment strategies are closely aligned with the benchmark in normal conditions, but tend to outperform in upwards or downwards trending markets. However, there are no guaranteed gains; convex strategies may also underperform.



## The Advantages of Convexity

Convexity offers investors both protection and enhanced performance.

- Protection: Downside convexity is an effective way to safeguard capital against significant market declines and can be implemented either strategically or tactically. This approach is designed to provide increasing support to your portfolio as market downturns intensify, ensuring coverage when it's most needed.
- **Performance:** Upside convexity is advantageous for investors who want to capitalize on substantial market movements without missing out. Like downside convexity, it can also be applied strategically or tactically. It serves as a valuable tool for those seeking to benefit from strong upward market trends while minimizing exposure to risky assets or excessive leverage.

## How Can Investors Access Convexity?

Traditionally, convexity has been primarily available to institutional investors through optionsbased structured products offered by banks or through dynamic hedge fund strategies that can take both long and short positions, such as managed futures funds (CTA). However, with the rise of financial technology, available solutions and vehicles, convexity can now be accessed more readily. Contact us to find out more.