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CastleKnight: A High-Conviction "Speedboat" for Institutional Portfolios

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March 2026

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Executive Summary

In a hedge fund universe increasingly dominated by large, diversified multi-strategy platforms such as Citadel, Millennium Management, and DE Shaw, CastleKnight offers something structurally different.

CastleKnight is a ~USD$2.9 billion, event-driven hedge fund led by founder Aaron Weitman. The strategy invests across equity and credit, targeting discrete catalysts such as liability management exercises (LMEs), restructurings, credit re-ratings and M&A events. It is fundamentally driven, opportunistic and high conviction.

The result is a differentiated alpha engine that can play a distinct role in both multi-asset portfolios and hedge fund portfolios.

1) Role in a Multi-Asset Portfolio

A. A "Speedboat" Within the Alternatives Bucket

Most institutional multi-asset portfolios are constructed around large, diversified exposures – global equities, fixed income, private markets and multi-strategy hedge funds. These allocations provide breadth and risk management, but often lack concentrated, catalyst-driven upside.

CastleKnight fills that gap.

- **High volatility, high opportunity set:** The strategy runs at higher volatility than diversified multi-strategy platforms. This is deliberate. It allows the fund to pursue asymmetric event-driven situations where returns are driven by company-specific change rather than broad market beta.
- **Equity and credit flexibility:** By investing across the capital structure, CastleKnight can dynamically rotate between debt and equity within the same issuer, optimising risk-reward as the catalyst evolves.
- **Asymmetric payoffs:** Credit re-ratings, restructurings and LMEs can create convex return profiles not typically available in traditional equity or bond allocations.

In this sense, CastleKnight behaves like a "speedboat" alongside the larger "cruise ships" in a portfolio. It can move quickly into idiosyncratic opportunities that are too small or too operationally inefficient for mega-platforms to pursue.

B. Diversification Beyond Traditional Risk Factors

Large asset allocators often find that many alternatives ultimately share exposure to common macro factors – rates, equity beta, carry or liquidity.

CastleKnight's return drivers are different, considering macro themes alongside:

- Discrete corporate catalysts
- Capital structure inefficiencies
- Event-specific repricing
- Idiosyncratic balance sheet change

These drivers combine macro themes with company-level change, enhancing diversification within a broader alternatives allocation.

C. Scale Advantage

At ~USD$2.9 billion AUM, CastleKnight can participate in:

- Smaller restructurings
- Small- and mid-cap capital structure dislocations
- Complex LMEs
- Special situations requiring concentrated capital

These are often immaterial to USD$70–80 billion platforms. Scale, in this context, becomes a structural advantage.

2) Role Within a Hedge Fund Portfolio

For investors already allocated to large multi-strategy platforms such as Citadel Wellington, Millennium, or DE Shaw Composite, CastleKnight can be a complementary addition.

A. Structural Concentration vs Structural Diversification

Mega-platforms are designed for consistency:

- Hundreds of pods
- Centralised risk management
- Tight drawdown controls
- Low volatility, steady compounding

Risk is diversified by construction, with single-idea risk being intentionally diluted. CastleKnight is the opposite by design:

- Unified team
- High-conviction positions
- Concentrated capital allocation
- Returns driven by thesis realisation

This difference matters. A hedge fund portfolio composed entirely of pod-based platforms can become overly reliant on the same structural alpha streams: factor-neutral equity, relative value credit, systematic signals, dispersion trading and macro overlays.

CastleKnight adds a distinct alpha source – event-specific, catalyst-driven outcomes.

B. Complementarity with Pod Shops

Pod-based platforms such as Citadel, Millennium, and DE Shaw are extraordinarily strong at:

- Risk control
- Portfolio construction
- Capital stability
- Infrastructure and technology

However, the scale and guardrails that underpin their success can also limit exposure to concentrated, capital-structure-driven opportunities.

CastleKnight complements these platforms in several ways:

- **Different risk budget:** Willingness to run higher volatility to capture outsized idiosyncratic payoffs.
- **Capital structure flexibility:** Ability to invest in either debt or equity. This flexibility allows the team to express the most attractive risk-reward view at each stage of a corporate event rather than being confined to a single part of the capital structure.
- **Smaller opportunity focus:** Ability to pursue trades that are operationally inefficient for mega-funds.
- **Alpha from change, not dispersion:** Focus on corporate transformation rather than cross-sectional factor spreads.

In portfolio terms, a blend of large multi-strategy platforms with a high-conviction event specialist like CastleKnight can improve overall return dispersion without materially increasing structural overlap.

C. Historical Return Profile

Since its inception in October 2020, CastleKnight has delivered competitive annualised returns relative to leading multi-strategy peers, including periods of outsized performance in event-rich environments.

Importantly, the return path differs. Performance has been driven by realised catalysts and thesis outcomes, rather than systematic risk premia capture or pod-level diversification.

For hedge fund allocators, that difference in return driver can be more valuable than simply adding another diversified multi-strategy exposure.

Portfolio Construction Framing

In a Multi-Asset Portfolio:

CastleKnight can sit within Alternatives as a high-octane, idiosyncratic return generator – increasing dispersion and potential upside.

In a Hedge Fund Portfolio:

CastleKnight provides structural complementarity to pod-based platforms, adding concentrated event alpha to a core of diversified, risk-controlled multi-strategy exposures.

The Bottom Line

CastleKnight is not attempting to replicate the scale, infrastructure or risk model of USD$70–80 billion hedge fund platforms. Its edge lies in:

- Nimbleness
- Capital structure flexibility
- High-conviction event investing
- The ability to pursue smaller, complex opportunities

In a world increasingly dominated by mega-platform hedge funds, CastleKnight offers something scarce: focused, catalyst-driven alpha delivered by a unified team willing to run higher volatility in pursuit of asymmetric returns.

For allocators seeking both upside and differentiation, CastleKnight can serve as the speedboat that enhances the fleet.

Key Risks and Considerations

While CastleKnight offers a differentiated source of catalyst-driven alpha, investors should consider several risks associated with the strategy.

Equity and Credit Risk

The strategy invests across both equity and credit markets. As a result, portfolio returns may be affected by broad market movements, changes in credit spreads, interest rates, and company-specific developments that impact the value of underlying securities.

Higher Volatility and Concentration

The strategy runs a more concentrated portfolio than diversified multi-strategy platforms. While this supports high-conviction investing, it can result in higher volatility and more pronounced drawdowns if individual investment theses do not develop as expected.

Derivatives and Leverage

The strategy may use derivatives and leverage as part of its investment process. While these tools can enhance returns, manage downside risk, and provide efficient exposure to specific opportunities, they can also magnify losses and increase portfolio volatility.

Liquidity Considerations

Event-driven opportunities can involve complex or smaller capital structure situations where liquidity may deteriorate during periods of market stress, potentially making positions more difficult to exit or adjust.

Event Timing Risk

Corporate catalysts such as restructurings, liability management exercises, or M&A events may take longer than expected to materialise, which can delay the realisation of investment theses.

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