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CastleKnight, and the Case for Event-Driven Hedge Funds

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The Role of Hedge Funds in Multi-Asset Portfolios

Constructing resilient multi-asset portfolios requires exposure to diverse sources of return. While equities and traditional fixed income dominate most allocations, hedge funds offer an essential complement – providing differentiated alpha, diversification, and downside protection. Yet within the hedge fund universe, strategies vary widely.

We believe that event-driven hedge funds are among the most compelling, specialising in identifying catalysts – such as mergers, restructurings, or liability management exercises – that can unlock value independent of broad market direction. These funds seek to capture idiosyncratic returns, exploiting inefficiencies across both equity and credit markets, and often act as an important “speedboat” within a broader asset allocation framework.

Why Event-Driven Hedge Fund Strategies

Event-driven investing focuses on situations where corporate actions, capital structure events, and thematic dislocations create temporary mispricing. In today’s environment of high dispersion, increased M&A activity, and heightened credit stress, the opportunity set is broad and diverse.

Such strategies benefit from structural flexibility – the ability to move between **equities and credit** depending on where the most attractive risk-adjusted opportunities lie. This flexibility not only diversifies return drivers but also enhances portfolio resilience, as these managers are not constrained by benchmarks or asset-class silos.

Crucially, these types of hedge funds often combine deep fundamental research with macro awareness, allowing them to identify **de-risked, mispriced securities** with asymmetric payoff profiles. In contrast to directional equity strategies, the outcome depends less on market beta and more on catalysts playing out successfully.

CastleKnight: A Proven Specialist

CastleKnight Management LP is an event-driven hedge fund manager founded in 2019 by **Aaron Weitman**, a former Senior Partner at **Appaloosa Management**. The firm’s DNA is rooted in Appaloosa’s hallmark style – deep fundamental research, cross-capital-structure investing, and disciplined risk-taking – refined through a macro-aware lens.

CastleKnight's senior team averages over 20 years of experience, having navigated multiple market cycles and restructurings. The firm invests globally across both **equities and credit**, targeting situations with multiple catalysts such as sharp operational changes, M&A, capital structure reorganisations, or regulatory shifts.

The fund's flexible mandate allows it to pursue strong returns across asset classes and geographies. Its process combines **top-down macro views** to identify fertile sectors with **bottom-up analysis** of company-specific catalysts. The "5Ms" – *Movement, Margins, Multiples, Market Share, and Management* – guide idea generation and valuation discipline.

CastleKnight's nimble and highly active approach across asset classes and sectors enables the team to set a higher bar for investment, avoid strategy fatigue, and **identify inflection points** in industries and companies. By aggregating bottom-up data across sectors and capital markets, the firm builds a broader, more integrated view of opportunities that often precede major market shifts.

Performance and Portfolio Characteristics

Since inception in **October 2020**, CastleKnight Master Fund has generated **net annualised returns of 26.4%¹** (for the B-2 share class), materially outperforming equity and hedge fund benchmarks over the same period². In addition, the fund has demonstrated strong downside resilience, producing positive returns in 2022 – a time when global equity indices fell sharply.

CastleKnight has typically run with a **gross exposure of around 160%** and maintains a **long bias**, flexing net exposure based on opportunity. The portfolio is diversified across equities and credit, with active use of hedges and overlays to manage volatility. The firm's approach to **risk management** is continuous and dynamic – positions are re-underwritten daily, and leverage is used prudently to amplify only high-conviction opportunities.

Current themes in the portfolio include strong conviction in **information technology and artificial intelligence ("AI") beneficiaries, potential M&A targets, and telecommunications**, as well as recovering credit positions linked to **liability management exercises (LMEs)** – a key differentiator of the strategy. LMEs are bespoke restructurings that allow companies to extend maturities or improve liquidity while providing creditors enhanced seniority or collateral protection, creating asymmetric outcomes for investors.

Case Studies: Talen Energy and Altice France

CastleKnight's portfolio includes multiple examples of event-driven value creation:

Talen Energy: A complex restructuring in the US power sector, where CastleKnight's active involvement and credit expertise helped capture significant upside as the business emerged from distress.

- Initially one of the Fund's largest detractors in early 2022, the position became its biggest winner by year-end following a successful restructuring. CastleKnight's team **co-led the unsecured creditor group**, hired legal and financial advisors, and helped design the restructuring plan – effectively creating its own catalyst when the original investment thesis was slow to materialise.
- The team's active involvement resulted in a new money opportunity through the backstop of a rights offering that generated additional profit and improved recoveries for bondholders. Subsequent developments, including the approval of Talen's restructuring plan, the inclusion of nuclear production tax credits in the Inflation Reduction Act, and strategic interest from a potential bidder, further accelerated gains. Talen's **unsecured bonds rallied from the low 20s to the 90s during 2022**, transforming a distressed credit into one of the fund's strongest contributors.

Altice France: A deep-value situation in European telecommunications, where CastleKnight capitalised on asset sales, refinancing, and management actions that re-rated both debt and equity holdings.

- Following significant volatility across the broader Altice group in mid-2023, the fund became increasingly active across multiple parts of the company's capital structure. The team **identified a sharp overreaction to negative headlines** relating to Altice International and used that dislocation to accumulate its preferred Altice France bonds in the low 40s during July, subsequently **trimming some of its positioning at higher prices** later in the year.
- After a shift in company messaging in March 2024 and a subsequent, large selloff across the structure, CastleKnight sized up its position and took a leading role in the restructuring process as a leading member of a Steering Committee.
- CastleKnight was able to “quantitatively de-bunk the bear thesis” through proper understanding and modelling the business, as well as understanding the intricacies in the credit documents and how they affected different parts of the company's capital structure.
- CastleKnight identified several potential catalysts, including but not limited to:
 - Ability to monetise assets, both within the Altice France silo as well as the broader Altice complex.
 - Stabilisation of earnings trends, including a shift in the French market towards reduced promotional activity.
 - Investment actions (restructuring proposals / debt exchanges).
 - M&A potential.
- CastleKnight was a leading member of a Steering Committee that successfully negotiated a Term Sheet and Framework Agreement, which was announced in February 2025, with unsecured holders receiving a mixture of cash, takeback debt, contingent value rights (“CVRs”), and equity as well as improved governance
- Altice France was the Fund's largest detractor in 2024, but the company has been one of its largest contributors in 2025 through October.

These cases illustrate the firm's hallmark – **finding multiple ways to win** – through superior analysis of catalysts, active engagement, and disciplined position sizing.

Positioning for Today's Market Environment

The current macro backdrop – characterised by moderating rates, elevated dispersion, and an increase in corporate activity – is fertile ground for CastleKnight's style of investing. The fund currently maintains **just under half of its exposure in credit**, focusing on securities trading at deep discounts (the current weighted average price of their performing credits is approximately 50 cents on the dollar) with the weighted average yield-to-maturity of performing credits currently north of **40%**.

CastleKnight sees particularly rich opportunities in **telecommunications, packaging, and consumer staples**, including assets tied to **AI-related infrastructure** such as fibre networks and spectrum. On the equity side, the portfolio emphasises small- and **mid-cap companies** with strong growth and M&A appeal, as well as companies of all sizes it believes will benefit from the massive upcycle in AI.

In CastleKnight's own words, **"volatility is a source of opportunity, not something to avoid."** The team actively dials risk up or down as conditions shift, maintaining a protective overlay to preserve capital during shocks. This ability to pivot between opportunity and defence underscores the strategy's value as an **agile return driver** within a multi-asset portfolio.

Why CastleKnight Fits a Multi-Asset Allocation

For diversified investors, CastleKnight offers:

- **High return potential** with moderate correlation to traditional equities;
- **Cross-capital-structure flexibility**, enhancing diversification;
- **Active risk management** and proven drawdown control;
- **A seasoned team** with pedigree from one of the world's most successful hedge funds; and
- **Demonstrated alpha** across multiple market regimes.

We believe that allocating to CastleKnight can **boost portfolio returns without materially increasing beta**, complementing both equity and credit exposures. As markets transition from a rate-hiking to an easing cycle, event-driven strategies stand to benefit from renewed M&A, credit repricing, and a resurgence of special situations.

Conclusion

CastleKnight represents the modern evolution of event-driven investing – nimble, highly active, and fundamentally grounded. In a world of rising dispersion and constant change, strategies that can dynamically allocate across capital structures are best positioned to extract alpha where others cannot. With a 5+ year track record of **26.4% net annualised returns¹**, deep restructuring expertise, and strong founder alignment, CastleKnight offers investors a **distinct source of uncorrelated, catalyst-driven returns**. We believe the strategy is ideally suited for the alternative sleeve of a

multi-asset portfolio, or as a replacement to a partial reduction in a portfolio's long-only equity allocation.

¹Annualised returns are net of Class B-2 fees from 1 October 2020 (inception) to 28 February 2026. Returns are shown in USD. Past performance is not a reliable indicator of future performance.

²Equity benchmark as measured by the MSCI World Index, and hedge fund benchmark as measured by the HFRI: Event-Driven Index.

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