A low-drawdown sleeve built for first-loss leverage

Case study against a published allocator mandate. Not a past or current client. Simulated results; past performance does not guarantee future results.

What the client needs

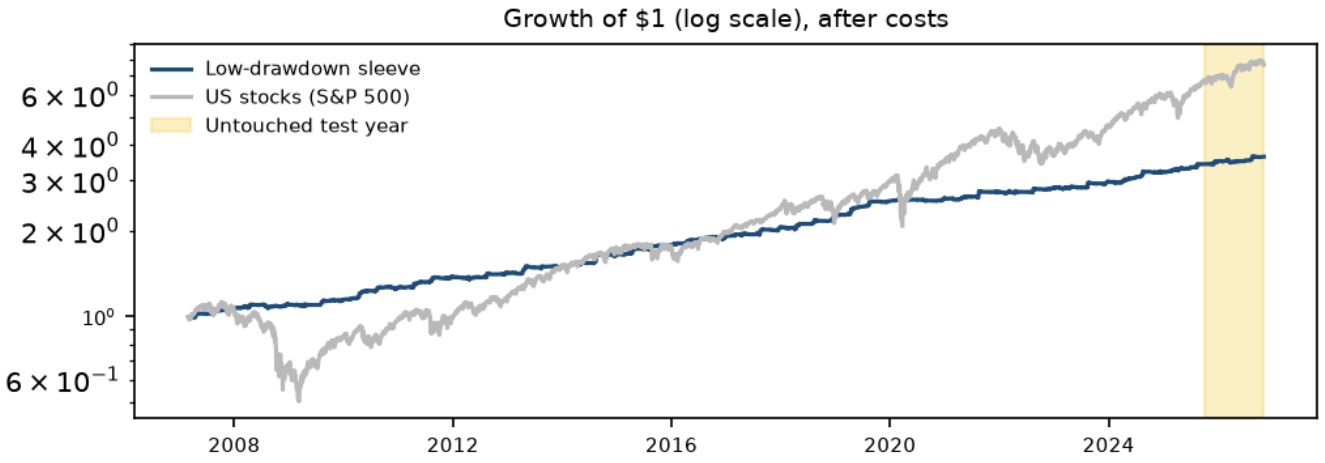
Falcon's first-loss programme matches a manager's risk capital and levers it (up to around 10x), with a hard stop at about −8.5% from starting NAV. It looks for attractive Sharpe ratios, low drawdowns (3–5% through COVID), liquid strategies and 2–3 years of record.

Our one-week trial

We ran our risk-premia sleeve at very low risk, with volatility steering and an automatic brake that cuts exposure as losses build. Every design choice was fixed using data up to September 2025 only and written down before testing. The following year (Oct 2025 – Oct 2026) was held back as an untouched test. Results include trading costs and next-day execution, and were re-checked with doubled costs and an extra day of delay.

Results

Client rule	Target	Our result
Worst fall incl. COVID	3–5%	−3.1% (2007–2025, includes 2008 and 2020)
Q1 2020	withstand	+1.2%
Every year positive vs cash	yes	19 of 19
Return per unit of risk	attractive	1.56 (1.23 above cash); test year 1.59, 1.51 with double costs and late trades
At 2x leverage vs −8.5% hard stop	never hit	Worst fall −8.1% from a peak, but never more than −4.0% below a year's starting value



Honest notes

- Returns are modest unlevered (≈6.9% a year); the programme's leverage is what scales them.
- A random-reshuffle stress test suggests a −6% fall is possible in an unlucky sequence.
- Above cash, return per unit of risk is 1.23, below a 1.5 bar some allocators use.

Next step

> A **fixed-fee one-month paid trial**: we run the strategy on paper daily against your exact policy rules and benchmark, send a monthly report in your format, and hand over full risk and attribution data. No commitment beyond the trial.