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True Partner Capital's Growing Range of Volatility Strategies

Trading Volatility in China, Asia and Globally – Long, Short and RV

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True Partner Capital's True Partner Fund has received *The Hedge Fund Journal's* CTA and Discretionary Trader Award for Best Performing Fund in 2024 and over 2 Years in the Global Relative Value Volatility (Discretionary) strategy category.

This is the firm's flagship relative value volatility trading strategy, which has perhaps unsurprisingly had a strong first half of 2025, but also generated respectable returns in the raging bull markets of 2023 and 2024.

Over a 14-year track record, it has achieved a rare combination: positive performance combined with a negative correlation to global equities. It tends to show a strong negative correlation to falling equity markets and a low to zero correlation to rising equity markets.

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>
> **Tobias Hekster**, co-CIO, True Partner Capital

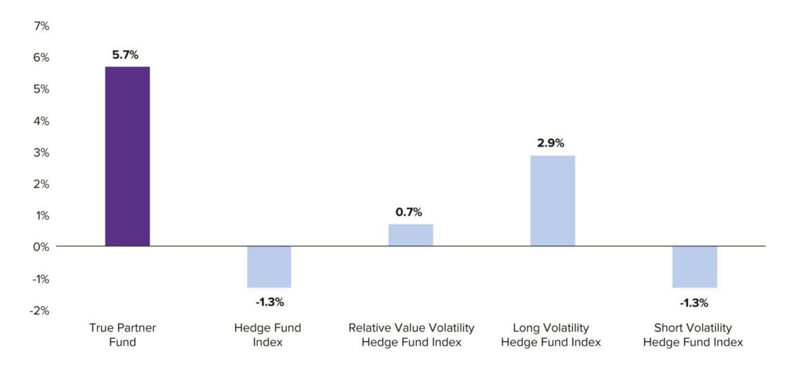
This is possible because equity market dislocations often throw relative value relationships within and between various equity volatility markets out of kilter. "The more volatile the market becomes the harder it is to determine both fair value and relative fair value since both of these are changing much faster than normal," points out co-CIO Tobias Hekster, who draws analogies with some sorts of equity market neutral strategies. "We play relative volatilities while equity market neutral managers play relative stock values. In both cases, investor anxiety and market turmoil unsettle relationships, generally coincident with periods of market declines."

True Partner's relative value strategy delta-hedges to neutralize its net exposure to directional equity movement and its net long exposure to vega (implied volatility) is generally neutral or only slightly positive. Monthly letters show a snapshot of month-end net vega does fluctuate but this is not in fact the main profit driver – it is the changes in relative relationships within and between markets that drive opportunities. A much more granular breakdown would be needed to identify profit centres across volatility surfaces and curves driven by other "Greeks" and other variables.

Whereas some structurally long volatility strategies may need big events to cover their costs of carry, True Partner are hunting for smaller upsets as well. Major tail risk events logically catalyze relative value disruptions but in fact more minor micro events – sometimes specific to an individual equity market in Asia – can also provide good opportunities. A recent example was the imposition of martial law in South Korea in December 2024.

Fig.1 Annualized Alpha to MSCI World

Source: True Partner Capital. Data from July 2011-June 2025. Alpha based on monthly returns and is relative to the MSCI World Total Return Hedged to USD.



Shifting opportunity set

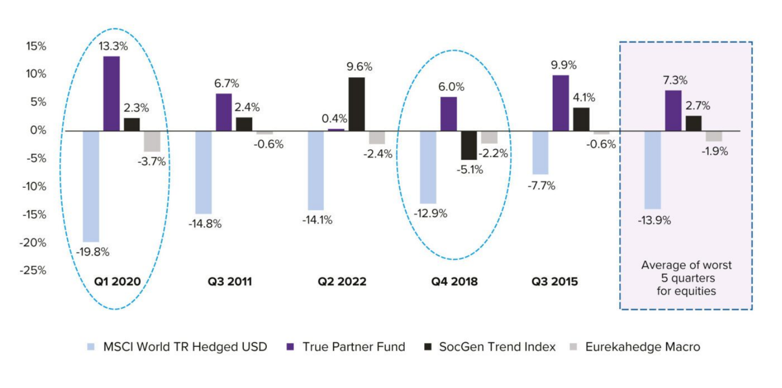
The opportunity set for this style of trading has fluctuated since True Partner launched in 2010. The first four years between 2011 and 2015 were generally constructive. Though there were no cataclysmic panics there were several events causing volatility: the European sovereign debt crisis including August 2011, the Taper tantrum induced by Ben Bernanke's comments in June 2013 and the devaluation of the Chinese Yuan in August 2015 all stand out as strong periods in the fund's track record.

The height of financial repression and QE between 2016 and 2019 was generally less conducive to the strategy as it created a more binary risk on/risk off market climate, punctuated by the lucrative "Volmageddon" in February 2018. The first quarter of 2020 also provided a boon after the VIX crush of 2019. This illustrates another feature of the return pattern, "Volatility spikes have been most profitable when preceded by a period of suppressed volatility," says Hekster.

The post-Covid period of volatility compression in 2021 was a headwind for the strategy and this spurred some modest adjustments to the models. "We tweaked the models to be more resilient when we saw fewer opportunities and added some additional signals. This has made the strategy less negatively correlated to equity upside and relentlessly falling volatility but kept the same behavior during periods of bigger opportunities and thus we still tend to make our biggest profits during periods of equity downside," explains Head of Investment Solutions, Robert Kavanagh. While the changes were beneficial, he also stresses that they were incremental: "If you looked at a snapshot of our positions, you wouldn't necessarily see a change". The strategy continues to use essentially the same inputs; to trade the same markets (though it has also added additional markets over time) and the pattern of daily returns continues to show the same characteristics as historically. The proof of the pudding has been positive performance during relatively adverse environments in 2023 and 2024, while also capturing the bigger opportunities amidst the tariff turmoil in April 2025.

Fig.2 The True Partner Fund, Trend-Following and Macro strategies in the worst five quarters for equities (ITD)

Source: True Partner Capital. Data from July 2011-June 2025.



July 2024 was a turning point

For 400 trading days before July 2024, the S&P 500 did not have one 2% down day. The end of this period was something True Partner saw as a marker for change. Hekster explains: "We think this run can partly be explained by bank QIS strategies selling volatility in one day options based on flawed historical data. We always had 0DTE options for expiry Fridays and markets later added Mondays and Wednesdays. The more recent, much-reported advent of 0DTE options really just plugged the gaps on Tuesdays and Thursdays. That meant that actual market data for back testing such strategies covered an unusually quiet period, which thus understated risks. The extremely suppressed volatility meant that either a clever or simplistic volatility selling strategy still looked smart – until it did not in July 2024," recalls Hekster. In the twelve months from July 2024 to June 2025, the True Partner Fund has seen particularly strong performance, gaining +12.0%.

Smart short volatility with tail hedges

True Partner also uses back tests in its strategy development, but it is careful to be aware of their potential pitfalls. The firm constructs proprietary infrastructure taking advantage of the team's decades of experience in both market making and running hedge fund strategies. One recent new strategy is a "smart volatility risk premium capture" strategy. This seeks to deliver steady returns while limiting the potential tail risks that typically accompany short volatility strategies. April 2025 tested this. Kavanagh noted that: "We track various peers and were pleased to see that our strategy outperformed during the period of market stress that culminated in the 8th April trough". Hekster adds: "The strategy will not be the top performer in a rising equity market, but we didn't want this to behave like an outright long equity position. Rather, it is designed to be more diversifying: to earn premium and to avoid giving it all back in a major correction". The breadth of expertise within the firm feeds into all sorts of mandates: short volatility strategies also draw upon True Partner's expertise in customised tail risk hedging mandates, as well as more hands-on trading savvy.

400

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Market making heritage from pits to HFT

The founders of True Partner have extensive global experience of making markets in options over nearly three decades as the market has transitioned from pit trading to electronic, algorithmic and higher frequency execution. "Our co-CIOs, quants and CTOs have lived through all iterations of trading. I started in the pit in 1998 for IMC. We have traded on and off the floor, on and off the screen, have done pure market making and set up global volatility arbitrage desks," says Hekster. "After my PhD I started derivative trading at Saen Options in Amsterdam in 2003 and moved into the Asian markets in 2008," says co-founder Govert Heijboer. Working together for 15 to 20 years increases the trust and confidence within the team and helps True Partner to navigate all sorts of market conditions.

The True Partner team are at the screens whenever markets offer the ability to trade: this is effectively 24/5 as the strategy trades both standard and out of hours sessions across a range of US, European and Asian products. With offices in the US (where Hekster is based, in Chicago), Europe and Asia (Hong Kong, where Heijboer is based), it continuously has senior personnel seeking to find opportunities, whether these occur within standard trading sessions or well outside of normal trading hours. This can be an advantage during shock events, particularly when these occur in Asian hours.

"We are always estimating what is priced in and what is rich or cheap in terms of relationships between implied and realized volatility. The dice are shuffling all the time and realized volatility should correlate to implied, but we are always weighing factors that can break the relationships," says Hekster. The firm's quarterly calls also provide extensive commentary on and around True Partner's markets.

The team have diverse backgrounds

Various team members have scientific backgrounds with several Masters degrees and PhDs so naturally the strategy is highly quantitative and uses proprietary models. However, it is not run on autopilot but rather implemented by highly experienced traders. "We also need our defensive discretionary overlay because we know what our model does not know, and context matters when markets experience surprises or there are major one-off events. A well-telegraphed event such as Brexit in the UK can be planned for. But we also understand flows and forced liquidations as we saw in mid-March 2020 when we were able to take on more risk. Conversely, post-Covid we reduced risk to mitigate a potential kryptonite period for our strategy. At the same time, we need our proprietary models, and a purely discretionary approach would be effectively global macro," argues Hekster.

Kavanagh, who joined in December 2019, brings a different perspective from 15 years in Goldman Sachs' External Investing Group (then known as the Alternative Investments and Manager Selection group), which was managing over USD 200 billion when he left, making it one of the world's largest allocators apart from pension funds and sovereign wealth funds. Kavanagh is not a trader but brings the insight of an experienced allocator to working with the firm's clients, on product development and research. This has helped the firm to develop new products and craft customised solutions for tail risk hedging. Within customized solutions, the firm can combine different types of models to achieve tailored payoffs for clients and offer customized risk reporting.

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Customization

"We have a range of models that have different characteristics. For example, tail risk hedging can range from more dynamic signals that offer protection and monetisation to different kinds of always on strategies that provide constant protection," says Kavanagh.

Hekster adds: "Since the tariff tantrum in early April, we have seen protection become much cheaper again. Markets are pricing in little risk of surprises, while high valuations suggest that if markets turn, they could fall substantially. Some types of signals can capitalize on smaller or medium sized events, while others are designed for more extreme drops like a 2008 or Q1 2020".

Tailored solutions need not be tail risk focused – while most of the firm's offerings having a negative correlation to markets, the firm can also use its suite of models to construct solutions with a more neutral correlation profile. With strategies typically capital efficient in implementation, they can also be run as an overlay over an equity or fixed income portfolio.

Relative value globally

Markets further east have been fruitful as well. Most equity volatility strategies focus only on the largest and most liquid markets in the US. True Partner trades globally, in the US, Europe and Asia.

Even within the US, True Partner trades a wider range of instruments than some funds, including the S&P 500, Nasdaq and VIX as well as some single stocks and ETFs.

The Asian exposure is one of the firm's greatest differentiators. The firm trades volatility markets in Hong Kong, Japan, Taiwan, South Korea and Australia, and has also been developing a strategy trading onshore China markets that has had very promising results. The firm closely watches developments in China and has had QFII access to mainland Chinese markets in its own name since 2022. Over time, Asian markets have made meaningful contributions to returns and have helped result in a low correlation to peers who are more US-centric.

In some periods, including calendar year 2024, Asia has accounted for most of the performance attribution though a nuance is that this may partly reflect the Asian leg of an Asia versus US spread trade having generated the profit. "We ideally profit on both sides of a geographic spread but do not mind which side profits," explains Heijboer. There are also spread trades within Asia.

Opportunities in Greater China markets

True Partner has noticed Chinese equities decoupling from the US over the past 5 years post-Covid, with lower monthly correlations than were seen before Covid. "This divergence has had fundamental drivers, with differing policy priorities and the theme of reshoring reducing interdependencies," notes Kavanagh. September 2024 is a good example, where stimulus measures resulted in outsized gains for markets in mainland China and Hong Kong. This kind of upward move can also be a volatility opportunity, and the True Partner Fund capitalized on this.

These markets also have different investor dynamics, which the firm sees as a source of long-term alpha opportunities. True Partner has recently launched a strategy that trades options and futures and combines alpha with a long bias to China (via Hong Kong's markets), creating an alpha centric strategy with a similar long-term beta profile to a low net equity long/short strategy. China is a contrarian choice for equity beta: "Most investors in the West have become very biased against China for various reasons and valuations have become low after Hong Kong stocks have gone sideways for more than a decade. However, China is still one of the main engines of growth and could benefit from US exceptionalism and deglobalization as markets become more China centric. The 1.4 billion Chinese can generate more growth than 300 million in the US," says Heijboer.

China's volatility markets allow True Partner to structure a better upside to downside ratio: "The options market is also more interesting because policymaker reactions and local participant behavior create different response functions. The volatility structure is different from Western markets in terms of surfaces, curves and flow dynamics," says Heijboer. This seems to be more of a hard-wired behavioural phenomenon than one caused by structured products, which are now a smaller factor than years ago.

"This strategy fits into a portfolio as low beta Asian exposure, especially for those currently underinvested in China," says Heijboer.

Outlook

True Partner now sees a compelling opportunity set that could benefit several of its strategies.

"Even if markets stay bullish there will be some hiccups along the way. Tariffs illustrate the potential for shocks. They had been on the table for a long time, but investors still panicked about the level of tariffs. Korea has also generated opportunities," says Hekster.

This could be the calm before the storm and set the stage for a big volatility spike – as seen in 2018 after 2017 and in 2020 after 2019.

"The buy the dip mentality has remained dominant but if markets have a second leg down, dip buyers may get caught out," Hekster adds.

Volatility could come from multiple sources: unsustainable fiscal deficits, inflationary surprises, the declining US dollar, Trump's unpredictable domestic and foreign policy, ongoing deglobalization, trade conflicts and tariffs, geopolitical conflicts and wars, or perhaps a Rumsfeld-style "unknown unknown". Investors need to finely balance their portfolios to be prepared.

DIVERSIFYING OTHER DIVERSIFIERS

True Partner not only diversifies long equity exposure, but can also be a diversifier to other diversifiers, including those often used as 'defensive' strategies, such as trend-following. "We trade in a different way, which helps drive low correlations," notes Kavanagh. "Several of our investors are also allocated to trend-following CTAs, and they appreciate that we can perform well at different times and during different sorts of corrections. This means the True Partner Fund can be very complimentary to a trend-following exposure." Where there are reversals like in April 2025, or in February and October 2018, this can wrong foot trend-followers but create relative value opportunities. Conversely, when markets trend up or down without significant volatility, trend-following can capture opportunities where there is little to do for volatility traders.

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