Broadway Capital Convexity Fund
Whitepaper
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The Broadway Convexity strategy commenced in April 2020 with the sole purpose of using derivatives to build capital efficient holdings in securities judged extremely undervalued securities. Broadway's process involves selecting securities we determine are undervalued (or severely overvalued) and constructing options positions to capture convergence to fair value.

Valuation and construction of options positions to capture the convergence of undervaluation to fair value is the core of Convexity.

Broadway has zero "beliefs" other than in the power of probability, and that generally buying securities with a well-understood and calculated margin of safety coupled with position construction can yield superior results.

With the convexity strategy, we have generated positive returns across multiple industries, including transportation, natural resources, consumer, telecommunications and technology, with a heavy bias toward shorts in 2022 and early 2025.

The idea generation and portfolio construction process are as follows:

1) Screen for securities using proprietary valuation and growth measures. This is a quantitative approach with the metrics informed entirely by the experience of the portfolio manager.
2) The first filter is a more qualitative one: we eliminate industries and businesses where there is no experience—no "circle of competence" demonstrated and/or where there is an obvious anomaly.
3) Deep research into ideas is facilitated by multiple decades of portfolio manager experience. A caveat: sometimes ideas are served up rapidly, such as the airline sell-off in 2020.
4) Valuation is at the core of what we do. If we cannot figure out what it's worth, we don't invest. Value investing—getting a piece of a business for substantially less than what it is worth—is the main driving concept.
5) Options are also at the core. Construction of the options position is an effort to create a "five up/one down" minimum reward to risk ratio for each business. If we determine, therefore, that a stock is a "60 cent dollar" (i.e. 40% undervalued) we can often build a long options position that can behave like a 10 cent dollar (i.e. 10/1 reward to risk).
6) As a rule, we do not create open-ended risk in the portfolio—we do not therefore write naked positions that would risk the entire portfolio. Risk is compartmentalized by position.
7) The aim is convexity—a non-linear positive exposure to value convergence. In other words, we aim to win efficiently when the market recognizes the mispricing of companies we own.