talk notes · october 29, 2026 · fgcu

Exposure is not risk.

Why a hedge fund levers up without betting the farm, what a portfolio finance desk actually does, how a CFO picks which money to raise, and what to do with your best years next to AI.

> the idea
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> Exposure is how big a position looks. Risk is how much it can hurt you. Keep the two apart and a lot of finance falls into place: why a hedge fund can hold far more than its capital, why hundreds of managers do not sink one fund, and why a company with cheap debt still sells expensive stock. The same habit of looking past the surface is what a young person brings to a career next to AI.

A career roundtable with graduating finance seniors in FIN 4443, Financial Policy, at Florida Gulf Coast University. Three student teams each took one area (trading and derivatives, hedge funds and asset managers, corporate finance and treasury) and I gave the practitioner's view. I spent seven years on the sell side at BNP Paribas and three on the buy side at Citadel, and was head of treasury at Ava Labs at the time. The handout from the session, with the worked tables and the sources, is at **akram.education/talks**; these notes keep what it had no room for. The views are my own, not those of any current or former employer, and nothing here is investment advice. Market facts are as of October 2026; numbers marked illustrative are simplified for teaching.

Play defense first

Paolo Maldini, arguably one of the best defenders ever, is famously quoted as saying that if he has to make a tackle, he has already made a mistake. A defender is not reading where the ball is right now. He is working out what the play will be in five or ten seconds, and standing where it will not even start.

A lot of finance is that. Ryanair went into its 2027 fiscal year with about 80% of its jet fuel hedged at about $668 a tonne, and then a war sent European jet fuel to a record of about $1,840. The hedge was the positioning, not the tackle: the price was locked in before anything happened, and without paying for a year of fuel up front.

Why a hedge fund needs leverage at all

Ask a class why a hedge fund wants leverage and you hear: to get as much exposure as it can. That is not how it is supposed to work. You are not at a poker table going all in.

A relative-value fund does not say "I think there is a war coming, so I am going long oil." It says a war means more demand for gasoline against diesel, or for jet fuel against heating oil, and takes the long-short bet. (Macro funds do take outright views. "Hedge fund" covers both.) A hedged bet like that earns

perhaps 1 or 2% on its size, and nobody pays a hedge fund to make 2%. That is where leverage comes in. The goal is a steady return that does not move with the market.

worked example

A lot of exposure, little risk (stylized, illustrative numbers). Go long a credit index and short its individual components. On paper the two legs cancel, so the trade has almost no market risk, and it earns perhaps 10 basis points. That is not good enough. Lever it 100 times and it is 10%, before financing costs. You now hold a huge position, and it barely moves.

Real trades are not that clean. They carry basis, funding and margin risk, and at 100 times leverage a small move or a margin call can force you out before the trade converges. Low risk does not mean safe to lever without limit.

The usual source of leverage, besides derivatives, is **prime brokerage**. You hold your securities at Fidelity or Schwab; hedge funds hold theirs at investment banks. Take a pair with $150 long and $100 short. The prime broker sees $250 of exposure, but because the legs offset it does not ask for $250. Capital of $100 is enough, and in practice often a lot less. The broker's comfort is a daily check: the positions are marked to market, the margin is recalculated and the fund tops up.

My old job: getting the fund more exposure than its capital

At Citadel I worked in credit portfolio finance, and my role was to create that leverage. We had portfolio managers, each on a different strategy, and a set amount of the fund's capital allocated to credit. They wanted positions far bigger than that capital. So how do you start every morning with what you have and let them take the exposure they want?

You do it through derivatives, through prime brokerage and through other structured trades. The best thing I could do was take positions from different managers and package them so that I could go to a lender and say: look at this as one thing. It is close to risk neutral. Exposure and risk are very different, so give me a lot of leverage, because I should not have to put up the full size for a position that does not move much.

Why hundreds of managers do not sink the fund

Macro is hard because you are always working with incomplete information. You do not control elections, policymakers or natural disasters. Brazil's market fell about 14% in one day on October 26, 2026, after the runoff; how would you have predicted that? Ray Dalio's *Principles*, on the ideas behind Bridgewater, is worth reading; he is a very clear thinker.

Multi-manager funds are the opposite design. Hire hundreds of portfolio managers, and if everyone can push a button and take risk, you have a jumbled mess. So each gets a sandbox: one trades only precious metals, another tech stocks, another just the front end of the Treasury curve. Each has limits written in Greeks and factors, and a drawdown limit on top (the handout has the commonly reported numbers). No one manager can blow up the fund. What you hope for is that a few of them are stars, and that each year it is different ones.

A company has two jobs

Financial management comes down to two things: raise money as efficiently as you can, and spend it as efficiently as you can. Your cost of debt and cost of equity give you a weighted average cost of capital, and then you look for projects that clear it. If IRR and NPV disagree, you usually go with NPV, because you can't eat IRR.

That second job shows up in a way you may not expect. Every so often there is a reorganization: some people let go, some hired, some projects funded and others not. A reorg is capital budgeting done with people. A treasurer mostly thinks six to twelve months out; longer-term planning belongs more to strategic finance, the CFO and even the CEO.

Why not just borrow? On the handout's illustrative numbers, debt costs Meta about 6% after tax and equity about 11%, and equity dilutes you too. So why did Meta sell $37.5 billion of stock and preferred in late October 2026? To protect the rating. Even Meta pays a spread over Treasuries from the first dollar. That spread is thin at first and widens as the borrowing grows. Capex now absorbs most of the cash these businesses generate, and when they borrow on top of it, bond investors pause and say: we will lend you more, but not at this price.

Off balance sheet is the next stop. You create a box, maybe one that owns a data center, and the box borrows. If it can no longer pay, it is the box that goes bankrupt. Analysts still count it as a form of leverage, and a long lease looks a lot like debt. The appeal is that it spares your spreads and your rating, not that it is free.

Spending less counts too. In October 2026 Microsoft offered voluntary buyouts to about 60,000 people. Assume $200,000 a year each (my number, not Microsoft's) and full uptake saves about $12 billion a year. Put a multiple on that and it is worth a lot more in money you did not have to raise.

Why bonds pay fixed, and who swaps them

Corporate bonds almost always pay a fixed coupon. There is no deep reason; it is just the standard. CLOs, many other asset-backed securities and bank loans float. If you think rates could fall, why pay 7% when you could pay SOFR plus 2% (illustrative)? You call a bank and ask for a swap. As an intern at BNP Paribas I did a project on how much to swap, and we came out at something like half. That was one intern project, not a market rule, and the answer moves with where rates are.

Banks love this trade (a made-up example, not a reported deal). Say Meta hires Goldman Sachs to sell a billion of bonds. Goldman's derivatives desk offers Meta a swap: receive fixed, pay floating. A credit hedge fund buying the same bonds wants the credit spread, not the rate, so it pays fixed and receives floating. Both ultimately want floating exposure, the instrument is fixed, and the underwriter stands between them, earning on both.

You connect the dots looking backwards

Told in two minutes, my career sounds like a plan. It was not. When Citadel called, of course I went. When I wanted to work in crypto I spent nights and weekends learning it, and even then I took a calculated bet: no three-person startup in an industry that had not proved itself. Nobody can start by saying three years of this, six of that, then retire, because you do not control how the world changes. Who saw AI coming, or blockchain? Move toward what you like and what you are good at, take on more responsibility, and the arc makes sense later.

Next to AI: read the game

The seniors asked what they should practice to stay competitive. Learning AI is table stakes: use it for everything, past the chat window, until it is muscle memory, the way you get good at tennis by swinging the racket. The rest of my answer became a nine-minute video, Two Kinds of Smart (youtu.be/g5QuIcf9G5U), and an essay, span.blog/post-034-two-kinds-of-smart. The argument, in short:

- **Fluid** intelligence is thinking on your feet in a situation you have never seen; it peaks in early adulthood. **Crystallized** intelligence is connecting what you have already learned; it keeps rising into your late 60s or early 70s.
- AI is like someone who has read a billion books and can connect any one to any other: crystallized intelligence at a scale no human has had, with much thinner fluid intelligence. Give it five companies and it will analyze them well. Ask for the next step (who should seek a buyout, who should cut costs) and you get proper grammar, proper sentences and very little substance.

So young people should not be scared of AI. What they have, fluid intelligence and fresh eyes, is what it lacks. What they lack, years of accumulated knowledge, is now at their fingertips if they learn the tool. Filing taxes and closing the books by hand are tasks going to AI. It sounds scary, but learning to use it trains you for jobs you do not yet know will exist.

Think of yourself as an athlete. Few NFL players last long past their rookie contract, and not because they are bad: a body has a prime. Fluid intelligence has a prime too, and you are in it. Don't spend it learning a process. Let the machine do the dribbling and the passing, and learn what Maldini knew: read the game.

The way you learn that is to **always ask why**. When someone on your first day says "this is how we do this," ask why (maybe not more than twice). Then ask whether it is the best way. How we do things is crystallized, and AI will do the how. The why is yours.

Takeaways

- Before you judge a position, ask how big it is and how much it can move. Those are two different questions.
- Leverage on a hedged trade is a business model; it is not automatically safe. Ask what forces you out before the trade works.
- Debt is cheaper than equity until it is not, which is why companies use every channel.
- Move toward what you like and what you are good at. You will connect the dots afterward.
- Learn the tools until they are muscle memory, spend your time on judgment, and always ask why.

Go further

- The session handout, with the numbers and sources: *Risk, leverage and capital*, at akram.education/talks.
- Ray Dalio, *Principles* (2017).

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