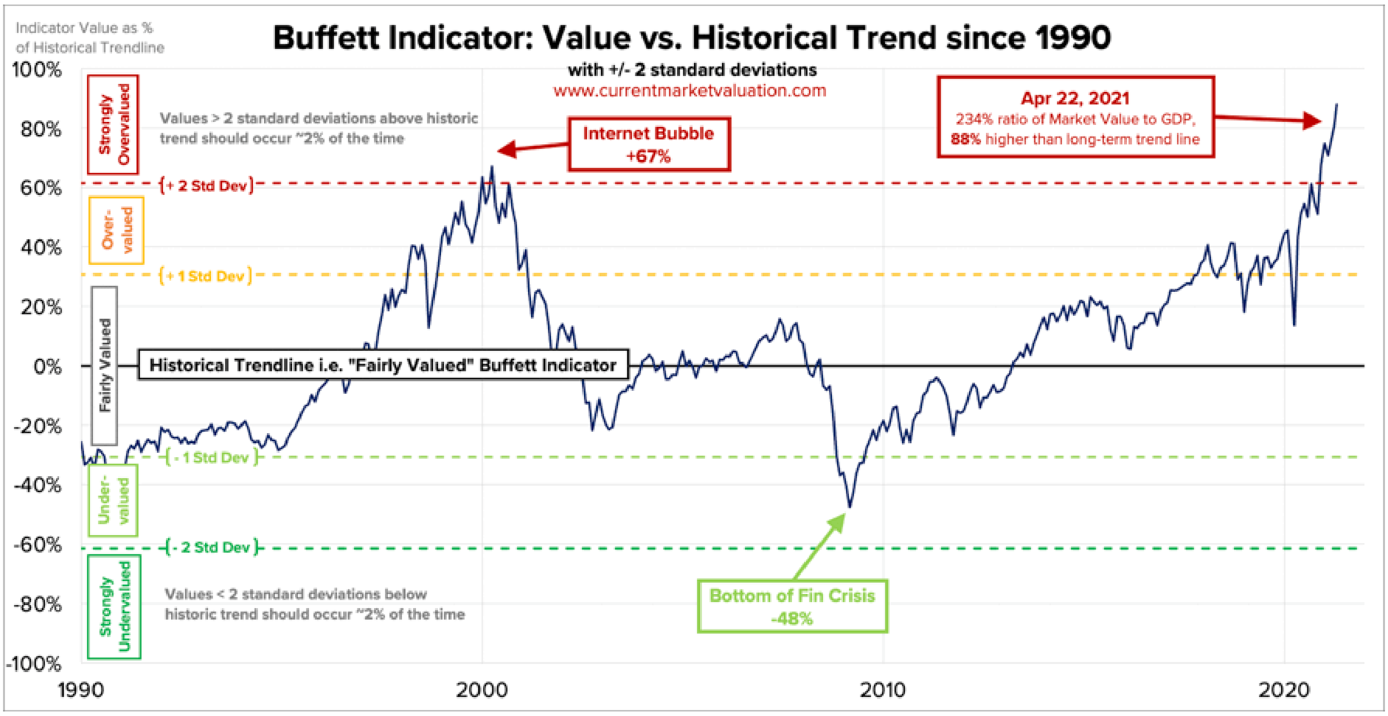
Newsletter April 2021

Market exaggeration

From our point of view, the “after Corona” euphoria has driven the markets to unhealthy heights. That does not mean that one should sell everything now, but it is worth adapting the strategy allocation. History has taught us that after exuberant phases there will always be a consolidation. This does not have to end in a correction, but a sideways market of a few years could well develop in bonds and stocks. Switching to active investment funds with little investment restrictions (e.g. with long and short positions) allows to earn money even during sideways periods and if there is a correction, long/short approaches can preserve capital and even generate positive returns. The following chart shows that the equity market capitalization is strongly overvalued at 234% of the annual economic performance (GDP), more so than during the dot.com bubble in 1999.

Stefan Steiner

Please contact Stefan Steiner at ss@cb-partners.com.



Crossbow Solutions

Multi-Manager Portfolio	Performance YTD	Performance 12m	Annualized Performance 3 y	Annualized Performance 5 y	Annualized Performance 10 y
CB Liquid Alpha Portfolio - Certificate (AMC)	**0.9%**	**9.2%**	**4.4%**		
Competitor 1	0.0%	14.5%	3.1%	3.8%	
Competitor 2	-0.7%	14.1%	2.7%		
Competitor 3	1.1%	13.6%	0.4%	1.5%	
Competitor 4	-0.3%	-0.9%	1.9%		
Crossbow Alpha Portfolio - Mandate	**4.7%**	**15.5%**	**7.1%**	**5.9%**	
Competitor 5	2.5%	19.1%	7.3%	6.3%	4.3%
Competitor 6	1.6%	15.2%	5.3%	5.0%	5.1%
Competitor 7	2.3%	13.2%	5.1%	4.8%	
CB Global Trading Portfolio - Certificate (AMC)	**2.5%**	**7.2%**	**4.7%**		
Crossbow Trading Portfolio - Mandate	**2.2%**	**11.9%**	**4.0%**	**4.6%**	
Competitor 8	2.4%	12.5%	5.1%	4.6%	2.5%
Competitor 9	-3.2%	11.5%	4.2%	2.1%	1.4%
Competitor 10	2.4%	7.4%	0.0%	-1.0%	-0.6%
Competitor 11	1.1%	8.4%	5.0%	4.3%	

Please contact Armin Vogel at av@cb-partners.com to receive further information.

Integrating ESG Objectives

Integrating ESG objectives into an investment approach plays to the strengths of active portfolio management and long/short equity hedge strategies in particular. Hedge fund managers specialize in in-depth company analysis and can integrate ESG criteria into their process. Crossbow Partners has assembled a portfolio of long/short equity hedge funds that buy ESG champions and sell ESG offenders short. The greater hedge fund opportunity set results in a higher risk-adjusted return relative to the MSCI ESG Leaders TR Index.

Global Interest is Growing

ESG has also gained additional tailwind from the change of administration in the United States. President Joe Biden's administration is focusing on climate policy and renewable energy. Furthermore, the administration has enacted various decrees that seek to improve racial equality and social justice.

In addition to the U.S., we see other countries strengthening environmental and climate policies, such as China. ESG is changing from a European-centric issue to a global movement.

Investors prefer to implement their ESG goals through active investment strategies. Only 22% of ESG assets are passively managed.

Active long-only equity strategies dominate the ESG field. In contrast, implementation via long/short strategies is still small, but growing fast.

Most active ESG investment strategies are based on fundamental company analysis. In addition to financial criteria, the fund manager also weights verifiable environmental, social and governance criteria.


Peter Rice

However, the newer ESG products integrate ESG criteria into the company analysis in a much more differentiated way (integral company analysis).

This approach plays to the strengths of hedge funds. In-depth company analysis based on documents and meetings with management is the core competence of fundamental long/short equity hedge funds. Hedge fund managers are increasingly sensitive to ESG criteria and integrate them into their fundamental analysis with specalist ESG teams.

Crossbow ESG L/S Equity Portfolio

Crossbow has conducted a detailed analysis of the growing universe of long/short equity hedge funds that have integrated ESG criteria into their investment process. This resulted in a portfolio of sector-specific theme funds and more general equity funds with specialist ESG teams.

Interest in renewable energy and falling demand for oil and gas confirm the benefits of a long/short approach and has resulted in attractive outperformance versus the MSCI ESG Leader TR Index.

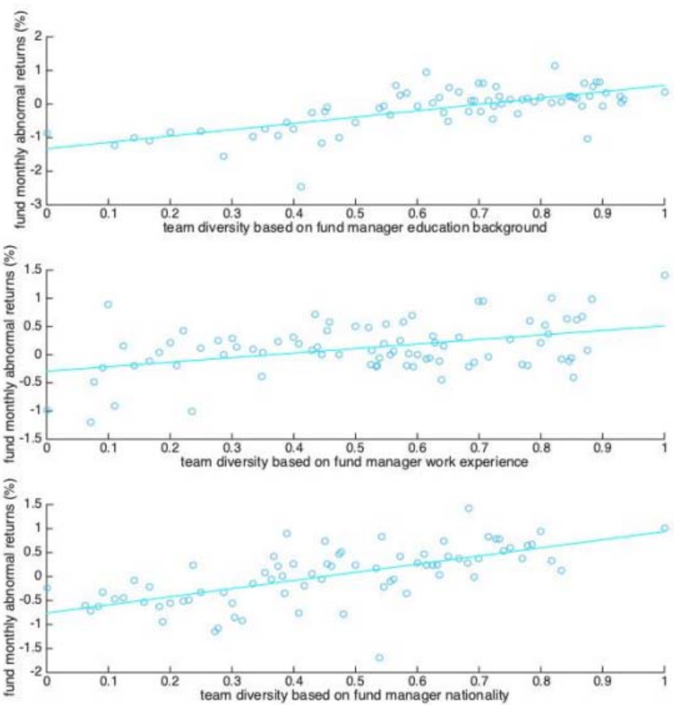
For more information please contact Peter Rice at par@cb-partners.com .

The Long-Term Effects of Short Selling and Negative Activism

Peter Molk of Levin College of Law and Frank Partnoy of the UC Berkeley School of Law investigate the long-term effects of short selling and "negative activism," where activists seek to profit from declines in the share prices of targeted firms. They show that negative activism is associated with significant and declining long-term share returns and operating performance, as well as an increase in securities litigation and regulatory actions against targeted firms. They explore the policy implications of this new evidence, including ways that policy makers and market participants might take advantage of the potential benefits of short selling negative activism. Their message is straightforward: resist impulses to curb short selling, and instead embrace attempts to harness the information generated by negative activists!

Diverse Hedge Funds

Yan Lu of the University of Central Florida, Narayan Y. Naik of the London Business School, and Melvyn Teo of the Singapore Management University explore the value of diversity for hedge funds. They show that fund management teams with heterogeneous education backgrounds, experiences, and nationalities, outperform homogeneous teams by 3.59% to 6.23% per annum after adjusting for risk. An event study of diversity-enhancing manager team transitions together with an instrumental variable analysis that exploits the demographic diversity at hedge fund founders' hometowns help address endogeneity. Diverse teams outpace homogeneous teams by exploiting a wider range of long-horizon investment opportunities and avoiding behavioral biases. Diversity also allows hedge funds to circumvent capacity constraints. Consequently, performance persists more for diverse teams.




Armin Vogel

David and Goliath Revisited: How small investors are changing the landscape of financial markets

From Alexander Pelaez, Hofstra University, Elaine R. Winston, Hofstra University and Jim Samuel, School of Business, University of Canterbury.

On January 12, 2021, a group of small investors coordinated a series of trades over the course of a few weeks in an effort to affect the positions of large hedge funds who short stocks. These large hedge funds were unaware of the tsunami that would overtake their short positions causing losses in the billions of dollars. A number of economic theories can provide insight into some of the activities of buyers; however, the retaliatory aspect of these small investors is new. The aim of this paper is to explore these actions using classical economics, behavioral economics and social coordination. Our aim is to collect and analyze stock market activity for stocks such as GameStop, AMC, KOSS, and Nokia, then retrieve the posts from Reddit to determine whether or not these activities could be predicted, as well as determine when acritical mass was obtained to successfully execute these stock trades.

If you wish additional information on any of the above, please contact av@cb-partners.com.