

A Response to Negative Interest Rates

The negative interest rates in Switzerland will accompany us for a while and the costs will increasingly be passed on to the savers. The thresholds are still relatively high at certain banks, but this can change at any time as the margins of financial institutions remain under pressure. We have put together a portfolio of conservative alternative funds that can be used as a substitute for cash with minimal risks, high liquidity and positive expected returns. The starting point was the selection of strategies that minimize potential losses. Arbitrage or market-neutral strategies that do not use leverage are best suited for this purpose. A careful selection of managers which have proven through various crises that they can make money even in the most difficult times is of

paramount importance. The second point was a high level of liquidity of the products so that the assets could be used for other opportunities at any time. It has helped here that various very good managers have launched UCITS funds in recent years which have daily or weekly liquidity. Ultimately, the products must have a CHF share class so that any currency risk is excluded. We have found some excellent funds that in combination generate extremely stable returns and are happy to explain the approach to you in detail.



Stefan Steiner

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

Fixed Income (USD)	2019	2018	2017	3Y CAGR	5Y CAGR	5Y Std Dev
Switzerland Gov Bonds 1-10Y TR	3.05%	3.52%	1.49%	2.69%	2.44%	2.06%
FTSE WGBI (ex-Citi WGBI All Maturities)	5.90%	-0.84%	7.49%	4.12%	2.03%	5.35%
Barclays Global HY TR	12.56%	-4.06%	10.43%	6.05%	5.80%	5.59%
HFRI Event-Driven Index	7.53%	-2.13%	7.59%	4.23%	3.84%	4.50%
HFRI Relative Value Index	7.61%	-0.43%	5.14%	4.05%	3.87%	2.88%
Crossbow Credit Distressed Portfolio	5.92%	-0.75%	3.51%	2.86%	1.57%	2.95%
Crossbow Alpha Portfolio	7.35%	1.77%	3.94%	4.33%	3.84%	2.12%
Equities (USD)	2019	2018	2017	3Y CAGR	5Y CAGR	5Y Std Dev
SMI TR Index	34.05%	-4.17%	20.25%	15.60%	9.16%	11.93%
MSCI AC World TR	26.60%	-9.41%	23.97%	12.44%	8.41%	11.78%
MSCI EM TR	18.42%	-14.57%	37.28%	11.57%	5.61%	15.79%
HFRI Equity Hedge Index	13.74%	-7.14%	13.29%	6.16%	4.56%	6.53%
HFRI Macro Systematic Diversified Index	6.91%	-6.62%	2.12%	0.64%	-0.38%	7.51%
Crossbow Equity Hedged Portfolio	9.68%	-3.83%	7.86%	4.39%	2.88%	4.85%
Crossbow Trading Portfolio	4.04%	1.70%	5.94%	3.88%	4.23%	3.43%
Crossbow Trendfollowing Portfolio	12.06%	-0.64%	4.45%	5.54%	4.91%	6.23%
Others (in USD)	2019	2018	2017	3Y CAGR	5Y CAGR	5Y Std Dev
BVG-25 Plus	14.04%	-0.13%	7.31%	6.92%	5.60%	3.46%
BVG-40 Plus	17.23%	-1.49%	9.72%	8.21%	6.47%	5.00%
BVG-60 Plus	21.75%	-3.31%	13.17%	10.03%	7.65%	7.35%
SXI Real Estate Funds TR Index	24.30%	-2.40%	8.75%	9.68%	8.55%	7.45%



Liquid Alternatives as Cash Replacement

In June 2014, the ECB became the first major central bank to lower one of its policy rates to negative territory. In Switzerland, the SNB followed suit in December 2014. What was initially considered as a short-term monetary measure to stimulate the economy and counter deflationary pressures became a new normal.

With retail clients earning today 0% on their CHF deposits and larger Swiss investors facing negative interest rates on their cash accounts, the current environment forces savers and investors to find new solutions to maintain positive returns on their cash holdings.

Approach

A traditional approach would suggest to invest the available cash (or part of it) in a well-diversified portfolio across equity, bonds, credit, real estate and commodity long only funds. Unfortunately, even when seeking exposure to high yielding assets and maximizing diversification within and across those asset classes, such a portfolio remains vulnerable to high volatility and potential extended negative returns of its risk oriented constituents, while negative yielding bonds are expected to provide limited protection during a market downturn. In a nutshell, the return profile of such a portfolio could deviate dramatically from a typical cash return stream.

A much better toolkit to build a cash replacement portfolio is provided by liquid alternative investments. Firstly and most importantly, alternative investment strategies such as Relative Value and Market Neutral are not or very little influenced by the direction of traditional markets, as they seek to take advantage of the price relationship between securities rather than the direction of the individual securities. Secondly, the active trading approach of such strategies further contributes to limit their downside. Thirdly, the broad mandates of those strategies allow them to target opportunities across several dimensions (asset classes, geographies, time horizon), improving diversification and thus the potential for a steady return profile. Finally, the ongoing development of the alternative UCITS universe provides today the necessary portfolio building blocks, including funds with daily liquidity and CHF classes.

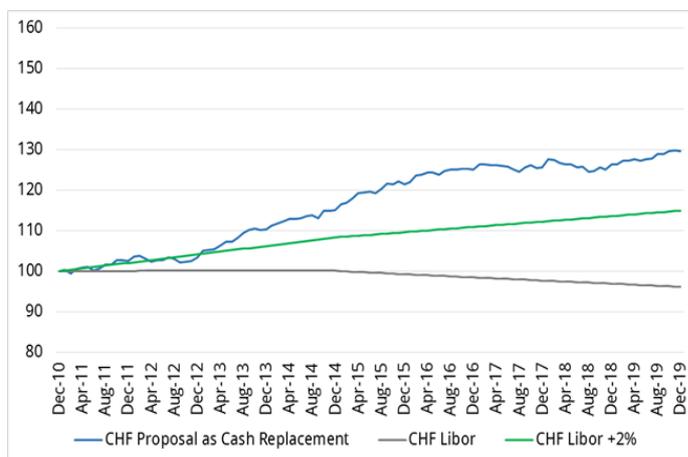
As always, the selection of alternative managers is paramount. In particular, manager selection within one strategy can allow to pick managers with different trading styles as well as maximize diversification across the above-mentioned dimensions. Other important parameters to analyze at the manager level are leverage levels (if any), risk management and of course the manager's performance during various market periods and especially during negative markets.



David Friche

Proposal

A portfolio proposal consists of 3 - 6 underlying funds depending on the total amount invested and the liquidity preference of the client. The core portfolio is based on funds with monthly liquidity and is complemented with UCITS investments that offer weekly or daily liquidity. The portfolio has shown very stable returns, also in difficult quarters like Q4 2018, and a very low annualised volatility of <2%. The returns are not correlated to the Swiss bond or Swiss equity market indices.



In this unprecedented era of ultra-accommodative central banks and lasting negative interest rates, liquid alternative investments offer investors the opportunity to invest their zero or negative yielding cash in a low risk portfolio with stable positive expected returns. In our view, this is an attractive alternative with excellent liquidity!

Please contact David Friche at df@cb-partners.com for more information..



Agecroft Partners' Hedge Fund Trends 2020

Agecroft published their annual forecast of the trends they see for the current year:

- Hedge fund industry assets to reach new all-time high in 2020: They see an improvement in sentiment toward the industry which should lead to the 11th new assets high within the last 12 years.
- Reduction of expected returns for a diversified hedge fund portfolio. Down from expected mid-teen returns 10 years ago, investors nowadays anticipate beta and carried interest to contribute less to fund performance over the next few years.
- Large rotation of assets based on changes in strategy preferences and relative performance of individual managers. Strategies that will gain assets include:
 - Commodity Trading Advisors (CTAs)
 - Specialty long/short equity
 - Relative value fixed income
 - Strategies that blur the lines between private equity and hedge funds (private lending/special financing and reinsurance)
- Pension funds will increase allocations to hedge funds due to low interest rates. Mainly as replacement for fixed income with historically low yield.
- Investors changing views on how to research investment opportunities from fund structure to asset class: this allows investor to better align the fund structure with the liquidity profile of underlying securities (e.g. between private equity and hedge funds).
- UK hedge funds, the second largest market in the world, will have greater focus on North America due to Brexit, as no need to comply anymore with AIFMD, the EU's regulation.
- Evolving organizational structures for hedge fund organizations: due to increasing costs hedge fund will outsource more function to professional service providers.
- Quality marketing is essential for asset growth.
- Continued growth of advisory business models: away from co-mingling client assets into a fund, adopting an advisory structure with bespoke portfolios of direct fund investments.

- Almost no adoption of new CFA hedge fund performance standards: As the standards have failed to address some of the most important issues regarding hedge fund performance reporting, they expect limited acceptance until the standards are redrafted.



Armin Vogel

In order to put these predictions in the correct light, we looked at those from 2019 once again: Industry reaches maturity, continued broadening of the hedge fund definition, shift away from beta strategies towards lower correlation, structural changes within long/short equity sector (away from large cap), record number of established hedge funds shutting down, growth of advisory business, more co-investment offerings, continued growth of applying hurdles for performance fee, greater focus on expenses, enhanced client experience and the future lies in Asia.

We would judge the hit ratio to be approx. 50%, the balance split between difficult to judge and not turned out to be true.

UNPRI Signatory

Crossbow Partners AG has been a signatory to the "Principles for Responsible Investment" since January 28, 2020, whereby documenting our will to integrate ESG topics into our everyday life and our investment processes.

Next Crossbow Event - Save the Date

On **Wednesday, April 1, 2020** from 4:00 p.m. we are holding an event in the Zunfthaus zur Waag in Zurich, to which we cordially invite you. The main theme will be "Cash Replacement in a Low Interest Rate Environment". A separate invitation will follow in due course.

Alpjen Fund has a 5 years live track record

Our intraday CTA fund "Alpjen" started trading in January 2015. The fund now has a five-year track record, which is very good in light of the extremely low volatility of stock markets as well as in comparison to its peer group.

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