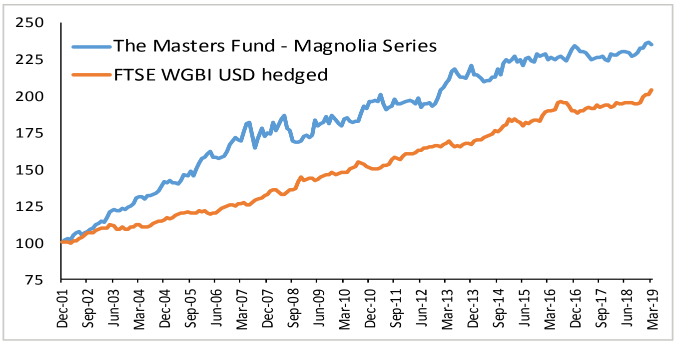
Newsletter April 2019
Overview Alternative Investments

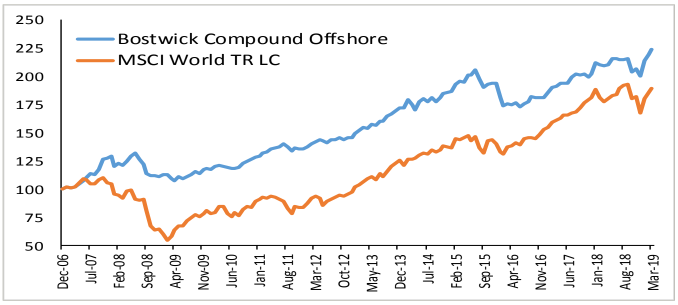
Time for Active Management

The markets have had a historic run over the past 10 years. We are trading at an upper limit and the consolidation process has begun. It is time to shift from passive instruments, such as ETFs, to active managers, who will perform significantly better in difficult times. The yield potential for bonds is very limited with zero interest rates, and we recommend investing part of the allocation in global macro funds that are less correlated to market movements. The chart below shows how an existing global macro fund of funds has developed over a long period of time (since 2002).



Although returns have declined in recent years, it protects well against potential market corrections and has much better potential returns than money market or bonds in today's environment. For equities, we recommend to partly switch from long-only to long/short. The goal is to achieve the MSCI World TR Index returns with half the volatility over a longer period of time. The following chart shows that this is possible with carefully selected L/S Equity Funds (since 2007).


Stefan Steiner



Please contact ss@cb-partners.com if you wish additional information on the mentioned fund of funds.

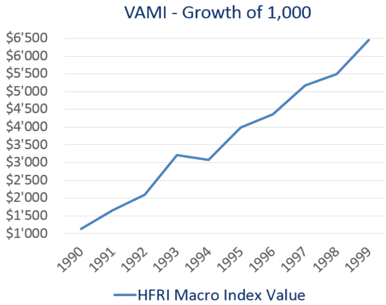
Fixed Income (USD)	March YTD	2018	2017	3Y CAGR	5Y CAGR	5Y Std Dev
Switzerland Gov Bonds 1-10Y TR	1.40%	3.52%	1.49%	2.15%	2.47%	1.78%
FTSE WGBI (ex-Citi WGBI All Maturities)	1.74%	-0.84%	7.49%	0.95%	0.59%	5.30%
Barclays Global HY TR	6.33%	-4.06%	10.43%	7.33%	3.99%	5.65%
HFRI Event-Driven Index	4.25%	-2.13%	7.59%	6.92%	3.02%	4.50%
HFRI Relative Value Index	3.80%	-0.47%	5.14%	5.48%	3.46%	2.86%
Crossbow Credit Distressed Portfolio	1.77%	-0.75%	3.51%	4.00%	1.23%	3.03%
Crossbow Alpha Portfolio	1.61%	1.77%	3.94%	3.11%	3.33%	1.96%
Equities (USD)	**March YTD**	**2018**	**2017**	**3Y CAGR**	**5Y CAGR**	**5Y Std Dev**
SMI TR Index	14.67%	-4.17%	20.25%	12.89%	7.53%	11.90%
MSCI AC World TR	12.17%	-9.41%	23.97%	10.67%	6.45%	11.06%
MSCI EM TR	9.91%	-14.57%	37.28%	10.68%	3.68%	15.25%
HFRI Equity Hedge Index	7.92%	-7.12%	13.29%	6.83%	3.61%	6.21%
HFRI Macro Systematic Diversified Index	2.83%	-6.62%	2.12%	-2.09%	1.21%	7.32%
Crossbow Equity Hedged Portfolio	4.66%	-3.83%	7.86%	1.61%	2.50%	5.07%
Crossbow Trading Portfolio	0.93%	1.70%	5.94%	4.48%	4.80%	3.42%
Crossbow Trendfollowing Portfolio	-0.80%	-1.66%	4.45%	0.51%	3.61%	5.97%
Others (in USD)	**March YTD**	**2018**	**2017**	**3Y CAGR**	**5Y CAGR**	**5Y Std Dev**
BVG-25 Plus	6.33%	-0.13%	7.31%	5.80%	5.63%	3.35%
BVG-40 Plus	8.00%	-1.49%	9.72%	7.31%	6.48%	4.86%
BVG-60 Plus	10.30%	-3.31%	13.17%	9.39%	7.60%	7.10%
SXI Real Estate Funds TR Index	9.33%	-2.40%	8.75%	6.52%	8.05%	7.26%

Global Macro Strategies

The rise of hedge funds as actively managed investment vehicles is closely related to the spectacular performance of global macro funds in the nineties when they shone with stellar and consistently positive returns for almost a decade.

HFRI Macro (Total) Index Performance
1990 – 1999

Year	Rate of Return YTD
1990	12.56%
1991	46.66%
1992	27.17%
1993	53.31%
1994	-4.30%
1995	29.32%
1996	9.32%
1997	18.82%
1998	6.19%
1999	17.62%

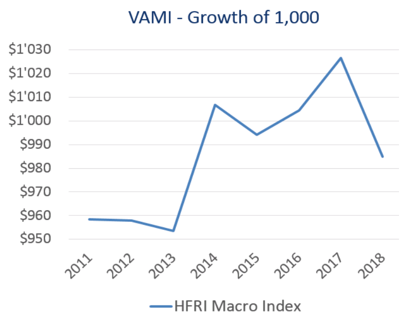


Legends such as George Soros, Paul Tudor Jones and Louis Bacon stand for this golden age of global macro funds. George Soros made a lasting impression on the investment community in 1992 when he „broke“ the Bank of England and the British pound, respectively. Soros had correctly inferred that Britain would be unable to defend the Pound within the European Exchange Rate Mechanism (ERM) over time given the fact that the rate of inflation in the UK was three times as high as Germany's. He therefore shorted the Pound Sterling and bet that Britain would be forced to leave the ERM - against the will of the government. His Quantum Fund pocketed over $1 billion on the deal and he rose to fame as the premier currency investor in the world, as the Bank of England finally caved in and the Pound devalued.

Macro Funds Underperforming Recently

HFRI Macro (Total) Index Performance
2011 – 2018

Year	Rate of Return YTD
2011	-4.16%
2012	-0.06%
2013	-0.44%
2014	5.58%
2015	-1.26%
2016	1.03%
2017	2.20%
2018	-4.10%



In recent years, notably since 2011, Global Macro funds failed to deliver the same stellar returns as in the golden nineties. Crossbow therefore organized a client event where notable speakers debated whether the backdrop for global macro funds was improving and whether they could stage a comeback. Macro funds attempt to profit from broad market swings caused by political or economic events. Employing a wide variety of assets and instruments, they make market bets around macroeconomic variables such as expected changes in interest rates, commodities, equity indices or currencies. In the past, discretionary global macro funds dominated the space, pursuing an opportunistic top down approach based on fundamental analysis. Today, more and more technology based, systematic trading strategies move into the space and compete against - and complement - discretionary macro funds.


Franz Odermatt

Reasons for the Lost Decade

The huge success of the nineties contained the seed of decline of macro funds. On the back of strong performance they experienced huge inflows, leading to less nimble funds, crowded trades, and muted performance. At the same time, after the Great Financial Crisis central banks crushed volatility and set ultra-low rates in their attempts to revive the global economy. They also sought to better control monetary policy, applying new instruments and strategies such well-telegraphed forward guidance, leading to declining volatility in rates, currencies and commodities.

The advent of computer-based, systematic trading strategies also reduced performance, as technological progress allowed for swift arbitrage of even minor price differences. And the global interventions by central banks since the financial crisis led not only to low rates, but also to a decoupling of financial markets from the real economy. Prices of financial assets and of real estate appreciated much more than the growth rates of the economy, while low rates prevented at the same time the collapse of „zombie companies“.

In 2019, storm clouds are on the horizon and we have strong uncertainty as to the future direction of the global economy, monetary policy at key central banks, the impact of „America First“, and the rise of the populists. But also the late cycle of stock markets, the flattish yield curve and stretched valuation levels sound a note of caution. Therefore the addition of lowly correlated global macro strategies to portfolios appears to be prudent.

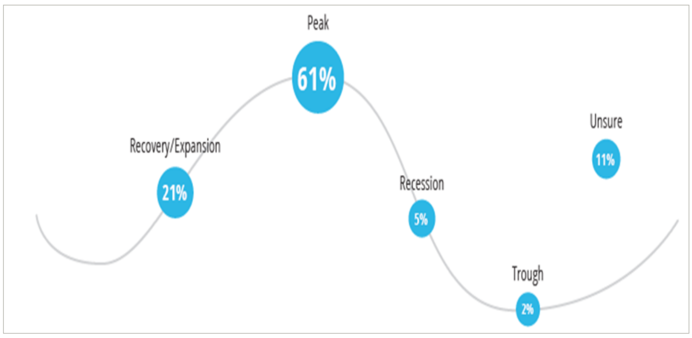
Institutional Investors are rebalancing their Hedge Fund Portfolios

2018 was a challenging year for hedge funds: a difficult Q4, coupled with a net USD 34 billion decline in investments, resulted in hedge fund assets declining to USD 3.45 trillion at the end of December 2018. It should not be forgotten, however, that the hedge fund industry today is three times larger than it was 10 years ago. Institutional investors recognize the ability of hedge funds to diversify portfolios while significantly reducing their investment risk.

The outlook, based on a study conducted by Preqin in November 2018, is therefore differentiated.

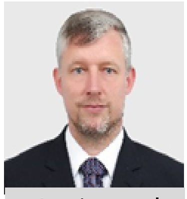
The main findings of the survey were:

- 55% of investors in alternative investments were disappointed by the performance of their portfolio in November 2018
- 42% believe stock market volatility in 2019 will be the main threat to generating returns
- 79% plan to increase or at least maintain their allocation to hedge funds over the longer term (highest since December 2013)
- 40% plan to position their portfolios more defensively in 2019
- 29% intend to increase their exposure to global macro strategies over the next 12 months
- 61% of investors in alternative investments believe we are at the peak of the stock market cycle (see chart)



"Short-term vs. Long-term Thinking" of Managers and Companies

An emerging consensus in numerous legal and business circles claims that corporate executives are being unduly pressurized to generate short-term profits at the expense of better long-term prospects. The forces that trigger this short-term management thinking are typically located at hedge funds and other Wall Street participants with an overwhelming appetite for short-term gains ("activists"). Warnings about the dangers of "short-term thinking" have become so well-established that courts and regulators are driving change in the practice to create legal and transactional restrictions that protect businesses and managers from the influence of these short-term investors. The working paper by Michael Barzuza of the University of Virginia and Eric L. Talley of the Columbia Law School relies on academic research and a series of case studies to support the thesis that the now widespread belief in "short-termness" is incomplete. An increasing amount of literature in behavioral capital market research now provides good reasons to conclude that corporate managers are often more likely to be subject to long-term bias, i.e. an exaggerated optimism about the success of long-term projects. The two researchers illustrate such distortions through case studies of three prominent companies, where managers are presumed to have some sort of "long-term behavior" in their own corporate responsibility. In the long run, investors can incur significant costs that are at least as damaging as the costs from short-term thinking. In addition, Michael Barzuza and Eric Talley argue that management's long-term focus sheds light on the paradox of why "short-termness" seems to persist among supposedly sophisticated financial market participants: shareholder activism - albeit clearly short-term oriented - can provide a counterbalance to the long-term behavior of managers. Without a clearer understanding of the interactions between short- and long-term bias, policymakers should therefore be wary of reforms that focus only on one side of the equation.


Armin Vogel

If you want one of the mentioned studies, please write to mm@cb-partners.com