Crossbow Partners
Experience & Discipline

London Trip Report

September 11 - 12, 2017

Executive Summary

Most managers are cautious about equities as the current rally is pushing valuations to dangerous levels

CTAs are very long the equity markets meaning it would not take much to see a meaningful correction

Some managers are convinced that fixed income is in a topping process and will re-price to higher yields in the not too distant future

Financials have reached a tipping point in Europe and would benefit from rising interest rates

The outlook for electricity is fast improving and we could see further tightening of power prices in 2018

The Republicans are under immense pressure to come up with a tax reform ahead of the mid-term election in 2018 and some compromise is likely to be reached by the end of this year

More interest rate hikes are expected in the US which will support the USD, but the EUR will probably hold the 1.15 level

Fund Idea

We met the Cumulus Fund that has achieved excellent investment returns by forecasting the weather in different parts of the world and analyses the impact of it on various commodity markets such as electricity, goal, and natural gas.

In the past, we have never been invested as we did not want to chase returns in strong years and for most of the time the fund was closed to investor as it had reached capacity.

In 2016 up to now, the fund experienced its worst drawdown of its history.

Class A Leveraged - USD: The Principal Share Class- Net of Fees *(italics - pro forma returns from this strategy within Cumulus Weather Fund)*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	5 Year
2017	-6.74%	-2.27%	+0.45%	-2.15%	+1.49%	-0.26%	-0.81%	-2.01%	-0.58%				**-12.39%**	*+53%*
2016	+7.09%	+6.62%	-4.76%	-4.53%	-9.22%	-7.83%	-1.74%	+1.04%	-2.57%	-3.72%	-0.97%	-12.26%*	**-29.70%**	+64%
2015	+5.49%	-11.91%	+1.45%	+1.22%	-0.80%	-4.22%	+2.92%	-1.16%	+4.24%	-3.17%	+4.70%	+8.67%	**+5.93%**	+365%
2014	+11.92%	+9.37%	-0.96%	-4.66%	+0.60%	+4.05%	+0.80%	-3.40%	-1.85%	+11.04%	-3.55%	+25.22%	**+55.07%**	+292%
2013	-2.62%	+0.02%	+15.60%	+8.39%	+8.33%	+3.41%	-13.20%	-3.90%	-4.40%*	+4.52%	+0.59%*	-0.60%	**+13.96%**	+327%
2012	+11.05%	-1.84%	+11.50%	-10.07%	-3.90%	+0.71%	-0.43%	-10.62%	-0.61%	-2.11%	-2.52%	+39.51%	**+24.55%**	+374%
2011	+4.87%	-13.03%	-4.99%	+3.61%	+7.91%	+3.80%	+19.19%	-9.08%	+5.81%	+5.01%	+16.59%	+41.41%	**+99.63%**	+260%
2010	-9.49%	+15.60%	-8.95%	+1.49%	-3.05%	-6.95%	+0.64%	-3.72%	-1.76%	+2.58%	+2.46%	+2.35%	**-10.68%**	+201%
2009	+0.62%	+18.86%	+0.03%	+2.30%	+7.71%	+4.16%	+6.36%	+0.82%	-0.48%	+0.28%	+25.85%	-8.85%	**+68.58%**	n/a
2008	+3.12%	+1.13%	-13.22%	-1.99%	+3.09%	+2.58%	+0.01%	+1.82%	+6.82%	+10.93%	+19.10%	-6.05%	**+26.64%**	n/a
2007	+15.47%	+13.53%	+4.18%	-9.96%	-0.90%	+4.78%	+9.91%	+0.32%	+1.53%	-27.17%	-7.75%	-1.46%	**-5.37%**	n/a
2006	*+13.83%*	*+4.13%*	*+4.21%*	*+12.89%*	*-0.11%*	*+0.64%*	*-5.97%*	*+6.12%*	*+7.00%*	-9.24%	+15.91%	+6.12%	**+67.08%**	n/a

The losses arose primarily because a large number of exceptional events impacted their markets and went against their positioning, amid market conditions that were the most volatile and treacherous they have ever seen. In March 2016, a series of significant events unfolded. Each of these would have been navigable individually, but when aggregated they created a substantially bullish market sentiment which lead to an elevated risk level.

First, the Chinese authorities made a series of announcements that they were going to introduce curbs on domestic coal production. While this was expected, they underestimated the impacts on a market that had already started rising. This was followed by a declaration in France of an intention to roll out a carbon price floor, along with a suggestion that this should be adopted across the European Union. May and June saw utilities increasing their hedge ratios, to lessen the impacts of currency volatility around the Brexit referendum. This gave further momentum to prices. The emergence of bullish sentiment was most pronounced in China, where strong speculative flows drove futures volumes to exceptional levels. The effect was felt most directly in the coal market, as the multi-year downtrend, that they had very effectively captured, reversed strongly. While the analysis of fundamentals suggested continued inventory builds, and therefore bearish price action, the reversal of the aggregate trend-following position in the market sustained the price rally. These dynamics and the impact of Chinese production curbs changed the market fundamentals, creating losses to the Fund in coal, but also in electricity and natural gas due to interconnectedness between these markets. In September some serious French nuclear issues became apparent, and the resultant noise coupled with unusually unpredictable weather meant trading conditions became more difficult and further losses occurred.

Specific steps were taken to address the issues experienced over the past 18 months. We are confident that the manager was able to analyze the source of the problems accurately and the corrective measures will play out over the winter months which historically have been their strongest period. The fund has shrunk from close to USD 2 bn to USD 900 mn which is also going to make trading easier. The investment approach is heavily model driven and for quant oriented strategies an investment into the drawdown usually pays off. We took some exposure for Oct 1, 2017 and will revisit the situation again in March 2018.