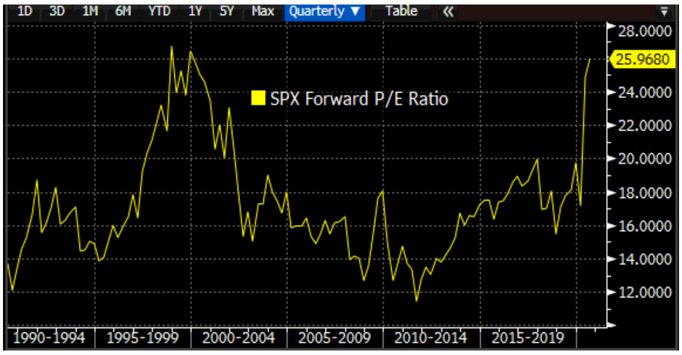
The new equity market bubble

The main beneficiary of the corona crisis is the equity market. Central banks and governments are bumping liquidity of historic dimensions into the markets. The idea is that this cash is going to support businesses, keep people employed, and bridge-finance a difficult period that will hopefully translate into growth and prosperity soon again. A good portion of this extra liquidity needs to be invested



before it will find its final purpose. Since interest rates are close to zero or even negative and the bond markets are in general less liquid than equity markets, the vast majority of the excess liquidity is funneled into equity markets globally. This has led to valuations that have never been observed before, except in the dot.com bubble of 1999. Every bubble will burst at some point in time and there is absolutely no reason why it will be different this time around. A higher equity market valuation is justified given the zero interest rates, but it makes the equity markets also more vulnerable should the environment change. We recommend selling equities and bonds at record valuations and investing the proceeds in long/short equity opportunities and macro. Therefore investors continue to benefit from a good market environment, but they are largely protected from a correction. It is difficult to estimate whether a vaccine will bring the corona virus in 2021 under control. However, it can be assumed that corporate profits will recover less quickly than the market hopes.


Stefan Steiner

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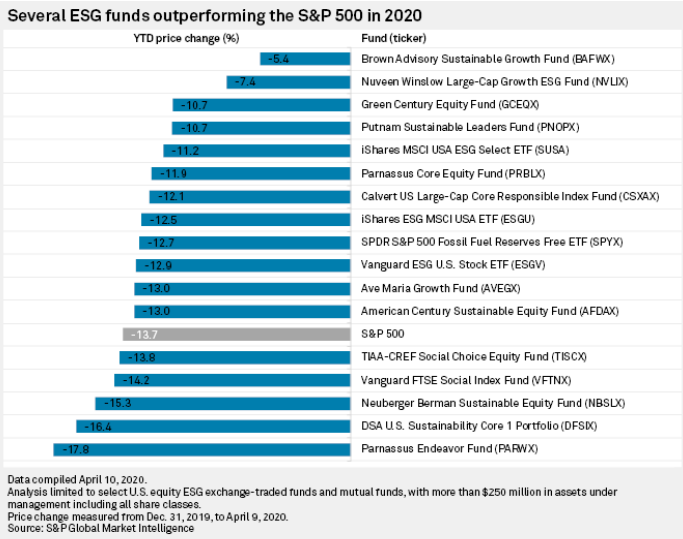
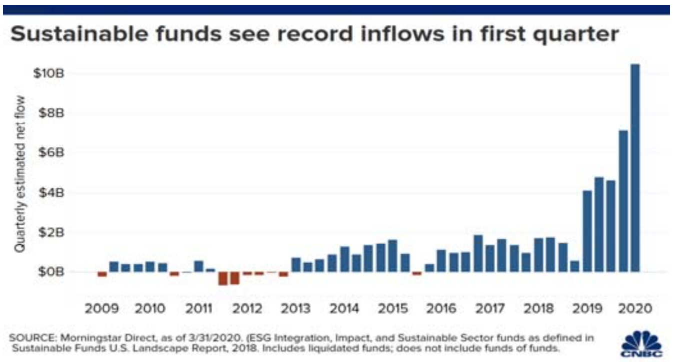
Anleihen (USD)	Juni YTD	2019	2018	3Y CAGR	5Y CAGR	5Y Std Dev
Switzerland Gov Bonds 1-10Y TR	0.48%	3.05%	3.52%	2.77%	2.08%	2.20%
FTSE WGBI (ex-Citi WGBI All Maturities)	4.08%	5.90%	-0.84%	3.98%	3.70%	5.21%
Barclays Global HY TR	-4.66%	12.56%	-4.06%	2.22%	4.40%	8.80%
HFRI Event-Driven Index	-6.68%	7.49%	-2.13%	0.52%	1.92%	7.59%
HFRI Relative Value Index	-4.19%	7.42%	-0.43%	1.61%	2.42%	5.40%
Crossbow Credit Distressed Portfolio	-4.74%	5.92%	-0.75%	1.04%	0.42%	6.56%
Crossbow Alpha Portfolio	3.23%	7.35%	1.77%	4.74%	3.73%	2.36%
Aktien (USD)	**Juni YTD**	**2019**	**2018**	**3Y CAGR**	**5Y CAGR**	**5Y Std Dev**
SMI TR Index	-1.48%	34.05%	-4.17%	10.49%	8.59%	11.67%
MSCI AC World TR	-6.25%	26.60%	-9.41%	6.14%	2.85%	14.51%
MSCI EM TR	-9.78%	18.42%	-14.57%	1.90%	2.86%	17.85%
HFRI Equity Hedge Index	-3.19%	13.71%	-7.14%	3.03%	3.10%	8.97%
HFRI Macro Systematic Diversified Index	-2.95%	7.08%	-6.62%	0.53%	-0.60%	7.04%
Crossbow Equity Hedged Portfolio	3.46%	9.68%	-3.83%	4.37%	1.47%	4.66%
Crossbow Trading Portfolio	-2.67%	4.04%	1.70%	2.57%	2.83%	3.73%
Crossbow Trendfollowing Portfolio	-0.18%	12.39%	-0.64%	5.15%	3.63%	5.83%
Andere (in USD)	**Juni YTD**	**2019**	**2018**	**3Y CAGR**	**5Y CAGR**	**5Y Std Dev**
BVG-25 Plus	-1.15%	14.04%	-0.13%	5.36%	5.22%	4.82%
BVG-40 Plus	-2.98%	17.23%	-1.49%	5.71%	5.79%	6.58%
BVG-60 Plus	-5.14%	21.75%	-3.31%	6.26%	6.61%	9.03%
SXI Real Estate Funds TR Index	-0.83%	24.30%	-2.40%	6.54%	7.64%	7.19%

Baptism of Fire for ESG Investing

Sustainable investing has moved from a fringe concept to mainstream over the last few years. Yet critics still doubt that ESG-driven portfolios can provide better risk-adjusted returns to investors. Sustainable investing is under special surveillance. The test case for ESG occurred in March when financial markets were gripped by a dual shock - both the COVID-19 pandemic and the collapse of the oil price. And, although it is still early days, ESG has so far passed the COVID challenge with flying colours. Many Funds with an ESG bias did not only outperform their peers, but, what is more,



they even managed to attract additional cash. According to CNBC, „global sustainable funds saw inflows of $45.7 billion, while the broader fund



universe had an outflow of $384.7 billion" in Q1.

ESG investing grows in popularity. More recent developments have only enhanced the appeal. Most ESG funds were not invested in the oil and gas industry when oil prices collapsed in spring and many also steered clear of the Wirecard fraud case - on the back of both poor transparency and corporate governance. ESG investing can indeed provide better risk-adjusted returns. For ESG investors, climate change is real and an issue that needs to be addressed. At the same time, the COVID crisis has highlighted that companies with strong ESG characteristics have often weathered the COVID crisis better than their peers.

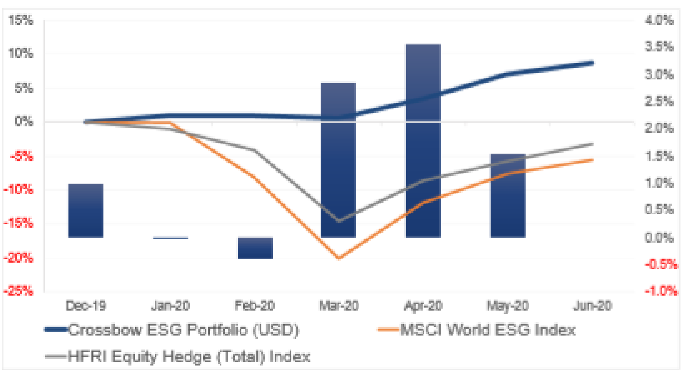
Franz Odermatt

The outlook for sustainable investing looks bright. One key reason is the recently launched „European Green Deal". It sets out the EU Commissions strategy for environmentally and socially sustainable economic growth, with the overarching goal to make Europe climate-neutral in 2050. The taxonomy that the EU Commission proposes has the potential to re-define sustainable investing.

Crossbow ESG Portfolio

Today, the ESG offering is largely predicated on the long-only ESG fund universe. Yet Crossbow seeks to offer its clients a differentiated ESG portfolio with robust risk-adjusted returns. Portfolio funds can invest in ESG „champions" and go short ESG „offenders". We have curated an equal-weighted portfolio of ten experienced fund managers with a credible ESG approach.

Cumulative returns since January 2020



Year	Jan	Feb	Mar	Apr	May	Jun	YTD	BM1	BM2
2020	0.99%	-0.03%	-0.39%	2.83%	3.54%	1.53%	8.71%	-5.56%	-3.19%

BM1: MSCI World ESG Index | BM2: HFRI Equity Hedge (Total) Index

The portfolio held up well in 1H 2020 and outperformed both the MSCI World ESG Index and the relevant hedge fund benchmarks. Thus, investors have the opportunity to diversify their long-only ESG bucket with an optimised risk-return portfolio that protects the downside and captures a significant part of the upside. We will present the findings at our next ESG event in September.

For more information please contact Franz Odermatt at fo@cb-partners.com .

Hedge Funds between the Crises

Hossein Kazemi analyzed the performance of hedge funds over different time periods and shared his conclusions in AllAboutAlpha: He concluded that over the last 30 years, the average hedge fund has provided absolute, as well as risk-adjusted returns that exceed those provided by most of the risky asset classes.

Sources: CISDM and Morningstar Direct

However, this added value of hedge funds has not been evenly distributed through time, nor cross-sectionally. While the average hedge fund provided significant alpha through the GFC, that alpha has mostly disappeared since then. However, almost all understanding of hedge funds and their performances comes from studying public databases. While practitioners and academics are aware of the potential biases that exist in public databases, in the absence of access to the entire universe of hedge funds, it is impossible to quantify these biases. Private performance figures available to the US Treasury Department have allowed researchers to gain insights into the differences between hedge funds that choose to report to public databases and those who do not. Preliminary results based on data covering only four years show that hedge funds that choose not to report perform much better than the other group. This has an important implication for the industry and asset allocators. The most important implication is that hedge funds still have a place in any well-diversified institutional portfolio.

The benefits of hedge funds have not been evenly distributed cross-sectionally. One can see that, for many strategies, the performance differential between the top and bottom 20% of managers can exceed 10% per month during periods of extreme market dislocation. The difference between the two groups is almost 1% per month during normal periods. The implication is that just allocating to average hedge funds will deliver neither the return enhancements nor the diversification benefits that allocators expect from hedge funds. The critical conclusions are that:

Armin Vogel

- Allocators should diversify among various strategies as different strategies perform differently during periods of market dislocation.
- Allocators should let the outcome of the due diligence process be the key driver of the size of the allocation to hedge funds. This means invest only in funds of the highest quality, and if the allocation falls short of the pre-determined size, so be it.

The performance of hedge funds during periods of severe market dislocation should be scrutinized. There is evidence that hedges that perform well during periods of market turmoil tend to perform better during normal times as well – risk management adds value during normal and abnormal periods.

Socially Responsible Hedge Funds

A paper by Liang, Sun and Theo concluded that hedge funds whose management companies endorse the United Nations Principles for Responsible Investment (PRI) underperform other hedge funds after adjusting for risk but attract larger flows, harvest greater fee revenues, and accumulate more capital. Consonant with an agency explanation, the underperformance is driven by PRI signatories with low ESG exposures. By exploiting quasi-natural experiments, they provide causal evidence that relate agency problems to signatory underperformance. Low-ESG signatories that do not walk the talk trigger more regulatory, investment, and severe infractions, and report more suspicious returns. The results suggest that some signatories strategically embrace responsible investment to pander to investor preferences.

Next Crossbow Event Save the Date

On Thursday, September 17, 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 theme will be ESG. A separate invitation will follow in due course.

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