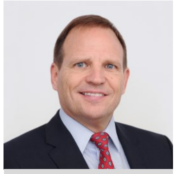
Crossbow Partners
Experience & Discipline

Newsletter January 2022

Outlook 2022

We stated in the last newsletter that we expect inflation to be persistent in 2022, which will force central banks to end their support programs and raise interest rates. The US central bank, the Federal Reserve, has already announced exactly these steps and will probably start raising interest rates in March 2022.

What does the end of ultra-loose monetary policy and higher interest rates mean for the markets? Overpriced assets will correct and previously lagging areas will catch up. We see potential in commodities, which have been in a difficult market environment for more than 10 years, and only recently turned into a positive cycle that is expected to continue for several years. The modest investments of the past years will lead to shortages in the future. Higher commodity prices are also good for emerging markets, where stocks are valued significantly lower than in developed countries. China is interesting because the Chinese stock market fell more than -20% in 2021 after the Chinese government took strong regulatory action. A higher interest rate environment is positive for financial stocks and especially banks, which are still trading at relatively low levels since the 2008 financial crisis. The liquidity-driven market of recent years is over and market volatility will increase, as January 2022 already clearly demonstrated.


Stefan Steiner

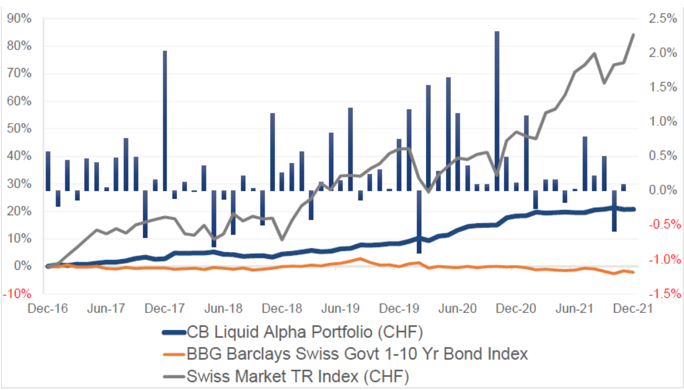
In this environment, a long/short approach that can benefit from opportunities on both the long and short sides will pay off, be it in commodities, in China/EM or in interesting market sectors. We bundle these themes in our certificates, which are diversified across 5-10 fund managers and provide very good risk management to reduce the volatility of returns. We can also adapt investment solutions to your specific needs and look forward to speaking with you.

For more information please contact Stefan Steiner at ss@cb-partners.com.

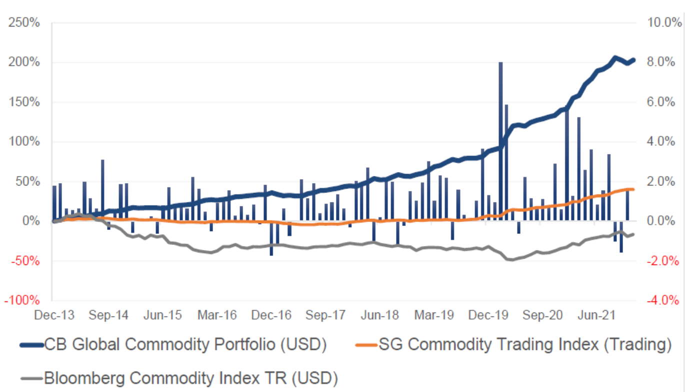
Crossbow Solutions

Strategy	Solution	Currency	NAV	Mid Jan	2022	2021	Factsheet December
Alpha Strategies - Fixed Income Complement	Liquid Alpha	CHF	1025.53	0.01%	0.01%	2.12%	
	Liquid Alpha	EUR	999.14	0.28%	0.28%	1.88%	
	Global Trading	USD	1022.13	1.26%	1.26%	0.75%	
	Equity Arbitrage	EUR	983.56	-1.31%	-1.31%	4.45%	
Portfolio Diversifier	Global Commodity 0.5/5	USD	1002.40	1.22%	1.22%	26.36%	
	Global Commodity 1.5/0	USD	1021.95	1.19%	1.19%	28.24%	

CB Liquid Alpha Portfolio (CHF)



CB Global Commodity Portfolio (USD)



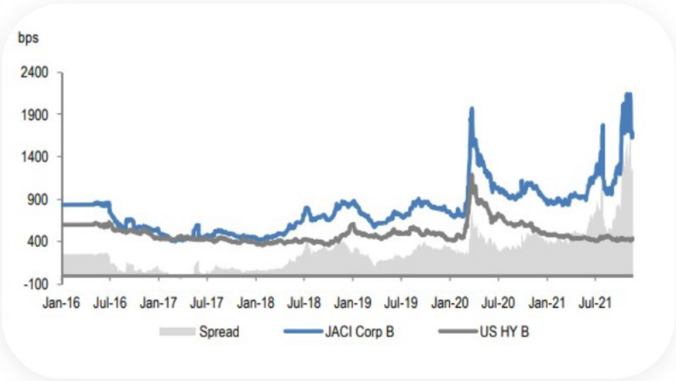
For more information please contact Armin Vogel at av@cb-partners.com.

Attractive opportunities in Asia high yield and Japanese equities

A Hong Kong based Hedge Fund with a focus on special situations investments in Asia ex-Japan credit, equities and capital markets has pointed out some market dislocations that will make for attractive investments with high return potential over the coming 18-24 months.

While US and European high-yield bonds are trading at historically tight spreads and investors hardly get compensated for the credit risks they are taking, the situation is different in Asia.

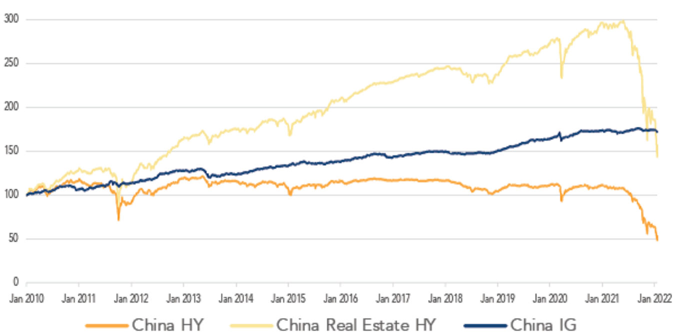
ASIA B CORPORATES (EX-FINANCIAL) VS US B CORPORATES



Source: J.P. Morgan

Excessive leverage and aggressive land bank acquisitions have led some Chinese real estate developers to default on their debt in the past 6 months. The manager sees a strong case to buy the offshore USD-denominated bonds of high quality real estate developers which have sold-off significantly.

CHINA HY VS CHINA REAL ESTATE HY VS CHINA IG TOTAL RETURN INDICES (NORMALIZED)

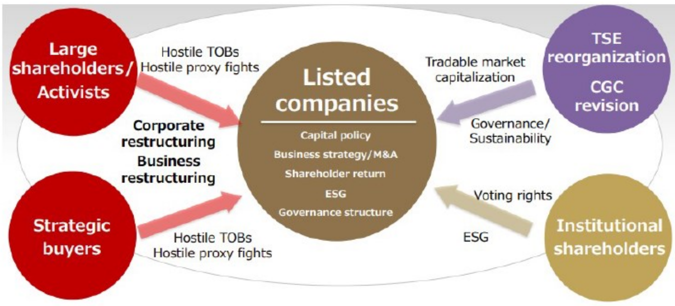


Source: Bloomberg

The experts believe that contagion from weak companies is more than proportionately penalizing companies with historically conservative capital management. The manager's approach to bond selection is bottoms-up, and the portfolio is constructed with the vast majority of credits expected to pull-to-par and extremely selective stressed/distressed credits that will carry restructuring optionality and equity-like returns. Currently, the credit portfolio has a yield-to-maturity of 15% with an weighted average life of 18 months.

Ivo Felder

Furthermore, the manager believes the Japanese equity market presents asymmetric risk-return at this moment after being ignored by domestic and international investors for decades. There is a large opportunity set for Japanese lead engagement on various levels, especially given the small market capitalizations of listed Japanese companies. The opportunity set is made more compelling given the recent large environmental changes surrounding these listed companies. Despite TSE Prime section companies being labeled as "global companies", disclosure levels are still considered to be at unsatisfactory levels by overseas investors. There is a large opportunity set for Japanese engagement with company IR and management to help them adopt global disclosure standards.



Source: "Hedge Fund"

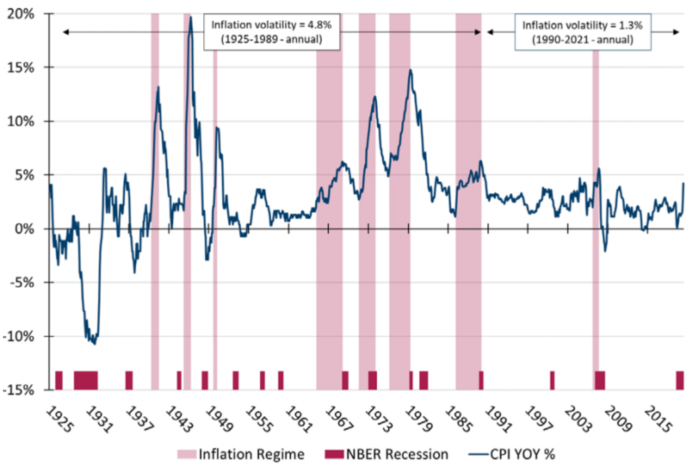
The manager sees investing opportunities in both high-growth and deep value equities in Japan, where local language skills and cultural understanding are key to successful investing. Compared with US equity markets, the Japanese stock market is offering a strong set of alpha-generating parameters, ranging from activist/engagement equity, growth equity at reasonable valuation and cross-border valuation arbitrage opportunities.

The Hedge Fund has a highly experienced team and is managed by two Co-CIOs, one of which is native Chinese with substantial experience in debt capital markets and stressed credit while the other is native Japanese with substantial experience in absolute-return equity investments and proprietary trading. Crossbow would be pleased to introduce interested clients to this Hedge Fund manager.

For more information please contact Ivo Felder at if@cb-partners.com

The Best Strategies for Inflationary Times

Over the past three decades, a sustained surge in inflation has been absent in developed markets. As a result, investors face the challenge of having limited experience and no recent data to guide the repositioning of their portfolios in the face of heighted inflation risk.



US YOY CPI overlaid with inflationary regimes

Campbell R. Harvey, Duke University, and a team affiliated to Man Group, provide some insight by analyzing both passive and active strategies across a variety of asset classes for the U.S., U.K., and Japan over the past 95 years. Unexpected inflation is bad news for traditional assets, such as bonds and equities, with local inflation having the greatest effect. Commodities have positive returns during inflation surges but there is considerable variation within the commodity complex. Among the dynamic strategies, they find that trendfollowing provides the most reliable protection during important inflation shocks. Active equity factor strategies also provide some degree of hedging ability. They also provide analysis of alternative asset classes such as fine art and discuss the economic rationale for including cryptocurrencies as part of a strategy to protect against inflation.

Top Hedge Fund Industry Trends for 2022

Arecroft Partners published their 13th annual predictions for the biggest trends in the hedge fund industry for 2022. These predictions are based on insights from more than 2'000 institutional investors globally and hundreds of hedge fund organizations.

Armin Vogel

1. The recent Covid 19 outbreak will impact managers differently this time: Managers will start again to travel, as the in-person meetings tend to be more effective.

2. Virtual work is here to stay and virtual meetings will be disproportionately embraced by investors.

3. Hedge fund flows to new managers will set a record in 2022.

4. With valuations across most asset classes well above historical averages, this is the time to put more focus on current valuations and the implications for future returns.

5. Strong demand for long/short equity especially managers who focus on small/mid-capitalization and global stocks: At times, the relative valuations of indices widen, but at some point there is a reversion to the mean. This will allow active managers to outperform with less tail risk.

6. Lower expected returns from private equity: the estimation for undeployed capital is close to 1 trillion, which will lower returns and increase expected tail risk.

7. Increased institutional demand for fixed income substitutes. With interest rates and credit spreads expected to rise, investors will look to hedge funds to enhance returns in two ways: Moving assets away from the fixed income into a diversified portfolio of uncorrelated hedge fund strategies and including hedge funds in their fixed income allocation by re-categorizing them as a "best in breed" manager

8. Cryptocurrency market is too big to ignore. The crypto market surpassed $3 trillion in market capitalization during the 4th quarter of 2021.

9. Capital Introduction Events will see increased demand.

10. Evolution in alternative investment fund structures as the line between hedge funds and private equity continues to blur. Today, many research teams have evolved, increasingly organizing their research by strategy or asset class, rather than fund structure.

If you wish the above mentioned paper, please contact Armin Vogel at av@cb-partners.com.