CRISIS PLAYBOOK – THE FEAR OF LOSS AND REGRET

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Risk happens.

Global equity markets entered 2020 in a state of Goldilocks – low interest rates and bottoming short cycle economic indicators. Markets were heavily focused on the Trump Administration's election "put" and China's focus on economic stability heading into 2021. Multiples drifted higher.

Then the butterfly flapped its wings and we found ourselves with COVID19, the novel coronavirus.

COVID19 introduced a risk poorly handled by monetary policy; the world's preferred tool for economic stability. A supply shock began to spread outward from China along with the virus.

COVID19 appears to be very contagious but relatively mild compared to viruses such as Ebola and MERS, but pandemic means suffering and death and must be urgently addressed. The immediate control of COVID19 is particularly complex in that many of its victims are either not sick, or not so seriously sick that they can be identified and isolated quickly. A more virulent virus – one that made most people extremely sick (like MERS or even SARS), might be easier to control and it therefore seems logical that a virus with these characteristics could spread far and wide. At the same time, it seems that COVID19 is not a mortal threat to most people. Obviously this is conjecture given I am no expert in virology or public health. We are tracking the evolution of this crisis and will evolve our thinking as the situation evolves.

Regardless, a virus that is novel and spreads far and wide means panic as well as volatility in asset prices as unexpected risks present themselves. We are tasked with managing a global equity portfolio given these circumstances and in moments such as this, I am incredibly grateful for our global research platform and our resources. It is a luxury to have an army of industry experts around the world, given the rich debate that comes with this support.

Our first task is to act early. We moved to raise some cash from risky parts of the portfolio as the virus began to leave China and Southeast Asia and present itself in Europe. This will allow us to redeploy cash into our best opportunities as they present themselves. We added to our financial market exchanges and utilities which should be robust, in our view, amidst rising volatility, and we have cut our stock level exposure to interest rate sensitivity. While acting swiftly amidst the panic is important, the window to panic itself is usually short-lived before prices reflect the situation and head towards extremes. We are clearly closer to extremes now versus a month ago, to state the obvious.

We are looking to understand and evaluate the risk that the global reaction to the virus could cause a credit event. Collapsing oil prices and parked airplanes will have cash flow and balance sheet implications. Credit events are what cause real damage to equity investors over the medium term and we are working with our equity and fixed income analysts and portfolio managers to assess and track these risks.

This is the time to use our imagination and think about what the world will look like in a year. Will we all be in quarantines, will air travel cease and will we be undertaking all our meetings via video conferencing? This is an extreme and unlikely possibility. In short, we do not think that the world has entered a new paradigm where we do not travel and meet others, although the market has the ability to price in this fear. Travel and meetings will be significantly down over the next six or so months, as will economic activity.

We are spending our time identifying opportunities in high quality, value creating stocks via our research platform. We have asked all the analysts to focus on those 2-3 ideas that they think can create the *most* economic value over the mid and long term for our clients. How to provide the best vehicle for our clients to turn crisis into strong returns requires a balancing act of risk and return, as well as the patience to time our decisions.

Regardless of today's uncertain environment, we believe the right thing to do is to invest in our best ideas, embracing the reality that this requires difficult choices. The fear of loss is great and can lead to bad decisions. The fear of future regret is something that is harder for people to master. What will you regret in the future? This is true in life and in investing. What I have experienced over the long term is that investors regret *not* buying great assets in times of crisis. In the short term, anything can happen, but history tells us that in the long term, if we focus on great assets on the right side of change, we will serve our clients well.

The virus has disrupted the likelihood of modest economic acceleration in the first half of 2020 that we had expected. However, we believe that given the level of global liquidity and likely policy response, there is a good chance that economic acceleration is delayed rather than canceled. On the other side of the virus outbreak could be a significant rebound in activity. We want to be cautiously optimistic about this scenario. We are using our resources and our investment framework to do our best to make good decisions for our clients, balancing risk and return, and the fear of loss versus regret.

RISKS

The following risks are materially relevant to the portfolio.

- **Country risk (China)** – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.
- **Country risk (Russia and Ukraine)** – in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.
- **Currency risk** –changes in currency exchange rates could reduce investment gains or increase investment losses.
- **Emerging markets risk** – emerging markets are less established than developed markets and therefore involve higher risks.
- **Small and mid-cap risk** – stocks of small and mid-size companies can be more volatile than stocks of larger companies.
- **Style risk** – different investment styles typically go in and out of favour depending on market conditions and investor sentiment**.**

General Portfolio Risks

- **Capital risk** – the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.
- **Equity risk** – in general, equities involve higher risks than bonds or money market instruments.
- **Geographic concentration risk** – to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.
- **Hedging risk** – a portfolio’s attempts to reduce or eliminate certain risks through hedging may not work as intended.
- **Investment portfolio risk** – investing in portfolios involves certain risks an investor would not face if investing in markets directly.
- **Management risk** – the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).
- **Operational risk** – operational failures could lead to disruptions of portfolio operations or financial losses.

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