Fund Managers Report 31st December 2019 to 31st March 2020

HG Wells concludes his 1897 book “The War of the Worlds” with the surprising comment that the Martians were “Slain, after all Mans devices failed, by the humblest things” referring to simple and minute bacteria. How else can we describe the events of the last 5 weeks?

Even in our small community we know of tragic deaths, people who had the virus and recovered, people losing their jobs and people busier than ever. For us, one positive is we been able to continue operations seamlessly and all infrastructure has held up well. Without a doubt the way the world works has changed, and even after normality returns, things will not be the same again. As remote working systems have been tested and so far performed well, we see remote working and even online education becoming an integral part of the future.

For financial markets this has been a torrid period. Global equity indices have fallen sharply anywhere between 20%-30% and fixed income has been slightly negative over the period, despite severe interest rate cuts in the UK, US and other leading economies. In the midst of the crisis there was panic selling of all assets, including safe havens, as institutions liquidated assets for cash, not knowing how cash flow over the following weeks would pan out. At the start of the pandemic a second crisis erupted in the global oil markets as Russia and OPEC fell out. This has led to a sharp drop in the oil price. As we are not invested in any fossil fuel companies this was of no concern for our portfolios, however oil and gas still forms a substantial part of the global equity markets.

On a more positive note portfolios have fallen less than the markets. Some of the biggest falls were seen in the oil and gas sector, tourism, entertainment, travel, mining and commodities, commercial property, banking, finance and automobiles. These are areas we are either not invested in at all or with less exposure than the market. ESG indices have outperformed conventional over the period. In fact more ethical stocks held up well at the start of the crisis and only suffered as sentiment across the whole market fell and sellers looking for cash began reducing their good investments as well.

Ethical areas that have been hit hard in the portfolios have been public transport, rail, microfinance and construction, as well as the higher risk investments. In terms of property, we are only invested in more impact orientated property investments and these have held up better in the crisis, whilst some are still positive for 2020. Renewable energy and food based companies have held up much better than the market.

We have used the crisis to add back some of the more positive investments, so most portfolios will see additions to Beyond Meat and a return of Tesla (provided we had W8 BENS and risk allowed). We also returned the much favoured Orsted to portfolios.

The current crisis has also had a significant impact on dividend expectations. Whilst regulators have asked banks not to pay dividends a number of other companies have not only withdrawn guidance but also deferred or cancelled expected dividend payments. This will have a significant impact on income projections for 2020. Our focus has always been more towards total return unless the tax structure dictates otherwise. We will focus more on the total return as we do not see dividends returning to normal until 2021.

Outlook

This pandemic is a natural process and nature must take its course. Like everyone we have bombarded with opinions and projections, but the truth is no one knows as we have not been here before. We cannot compare this to the financial crisis as the root cause is medical and natural. We have seen a great deal of bad news already priced in and we are seeking to invest in the higher impact areas that will benefit from some of the changes that we feel will remain.

The government measures to protect household income and other economic stimulus has been unprecedented, even if it involves large amounts of debt. We expect the news to get worse over the next few weeks as the virus runs its course. At the same time economic statistics and company updates will provide actual information about the impact this is really having, replacing the speculation that has dominated the market. This is where we are in new territory, as traditionally this is when governments and central banks act, whereas this time they have already acted. How this pans out will determine the short term movements of the market, our instinct is a great deal of bad news is already priced in, and in the longer term we expect a more pronounced recovery as the stimulus takes hold. It will vary across sectors, whilst we see the need to remain nimble for the next few months, longer term we favour the new economy and more impact orientated investments.

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