SARASIN
& PARTNERS

HOUSE REPORT

Q2 2020

INVESTMENT STRATEGIES FOR REOPENING THE ECONOMY

EDITOR'S NOTE

MELANIE ROBERTS
EDITOR

Welcome to the Q2 edition of the House Report.

We would like to open this quarter's report by wishing our readers good health at this difficult time. One thing coronavirus has certainly reminded us of is just how much wealth is linked to health. While wealth creation and preservation remain at the forefront of our business activities, more than ever before, the ongoing crisis demonstrates the extent to which they are interconnected.

It is always disappointing to report falls in portfolio values; while we seem to have mitigated some of the worst losses, we have certainly given back much of the strong gain we enjoyed the previous year. That is not to underplay the volatility and the drawdowns we have experienced. As Guy Monson highlights in his Market Focus, the sharp sell-off in markets is the fastest in history and while we might still revisit the lows recorded just before the UK's enforced lockdown, emergency government support has, for now, helped to restore order to investment markets.

In this edition we feature an economic update which analyses the impact of the virus on global economic growth and considers the different scenarios that might change these estimates. This analysis in turn shapes our assumptions as we continue to stress-test each of the companies we invest in, as explained by Giles Money (that really is his name) in his Fund Manager's diary. It is at times such as this that our global thematic investment process is tested to its limits and whilst we adopt a long-term investment horizon, we remain agile within our stock selection, striving to benefit from new themes as they emerge.

With news of COP26 being postponed because of the virus, it is interesting to note the vast reduction in air pollution on account of the restrictions to movement. When we consider the Environmental, Social and Governance (ESG) factors as part of our analysis, it is perhaps the 'S' and the 'G' that take immediate prominence in the current climate. Sarasin is one of around 250 institutional investors who have signed the Interfaith Center for Corporate Responsibility's recent statement. This sets out to ensure the welfare of customers, suppliers, employees and the communities in which they operate and forms a key component of our company analysis. With this in mind, we include an article on the issues challenging the fast fashion industry.

Our new edition of the Compendium of Investment was published in March and contains market data going back as far as 1900. Please let us know if you would like to receive an electronic copy. Whilst we acknowledge that every 'shock' is different, historic figures and trends provide much-needed reassurance that previous crises can feel equally painful but that markets do ultimately recover. In our Charity Focus Richard Maitland provides strategic guidance on how to plan, navigate and limit the damage that bear markets can have on portfolios.

As with all publications, we started compiling ideas well in advance of this quarter's deadline and like everyone else, we have had to prioritise the safety of our staff and adapt our working practices. We are delighted to bring you this edition in both digital and hard copy format, with all of our colleagues operating effectively from home. We hope you are receiving everything you expect of us and that you enjoy this selection of articles. As ever, please do tell us if there are ways we can improve any aspect of our communication and service to housereport@sarasin.co.uk. If you would like us to facilitate meetings via zoom, please do get in touch.

It is at times such as this that our global thematic investment process is tested to its limits

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MARKET VIEW

A TIMETABLE FOR REOPENING THE WORLD ECONOMY?

GUY MONSON
CIO & SENIOR PARTNER

In the face of a simultaneous shutdown of much of the world's business, it is little surprise that global markets have corrected so aggressively. At the end of the quarter, US and European equities had fallen by more than 25%, after only six weeks ago touching what in the US were lifetime highs. The extraordinary speed of the decline makes this the fastest bear market in history. Falls in other assets have come about with similar ferocity: the price of crude oil (WTI) has fallen from $60 to $20, a level last seen 20 years ago; US Treasury yields touched their life-time low of 0.54% in the middle of March and are trading at just 0.62% today. Even during World War II US yields stayed at or above 2%.

CENTRAL BANK ACTION HAS KEPT MARKETS OPEN AND FUNCTIONING

Financial conditions would be even worse were it not for central bank interventions that were notable in both scope and decisiveness. Scarred, no doubt, by their experiences in 2008-2009, central banks have in just three weeks restarted massive bond purchases and cut rates where possible, while – crucially – backstopping huge swathes of the financial markets. The Federal Reserve has now intervened in the commercial paper, corporate bond and money markets and, through swap lines with a host of central banks, has worked to make US dollar liquidity available globally. Meanwhile the ECB has torn up its own rule book for national bond purchases, alleviating Italian and Spanish borrowing costs. Together, these measures have largely averted the disorderly conditions that looked like they might engulf markets just a few days ago – paving the way for extreme market volatility to subside gradually.

HAVE MARKETS BEEN MORE FAR SIGHTED THAN ECONOMISTS?

The violent reaction of asset markets may have been more prescient than the action of economists. Around a month ago we modelled the impact of the shutdown on the global service sector, especially retail, leisure and travel. As Niloofar Rafiei demonstrates in the following article, we concluded that world growth might see a fall of 2.7-3.7% of GDP in 2020 – almost twice the decline seen in 2000. This was far greater than other forecasters. Sadly, we are no longer outliers and most are now realising that the corona shock is fundamentally different to any other we have encountered in recent history. By comparison, the financial crisis of 2008-2009 originated in a single sector – the housing market – and the banking sector amplified its losses. The recession in 2000 was due to the deflation of a valuation bubble, and this had little lasting impact on the real economy. The 1990 recession hit the US hard, but the asynchronous world carried on.

This particular slowdown has more in common with the Great Depression of 1929-1933. Unemployment rose dramatically across multiple sectors of the economy, just as it has today. In 1930, President Hoover exacerbated the downturn when he implemented the Smoot Hawley tariffs. Today, border closures and travel restrictions, introduced to stem the transmission of the virus, will also serve to amplify the magnitude of the recession.

World growth might see a fall of

2.7-3.7%

of GDP in 2020 – almost twice the decline seen in 2000

A ROADMAP TO REOPENING THE USA: THE 4 PHASED RETURN TO 'NORMALITY'

Source: American Enterprise Institute

PHASE 1

SLOW THE SPEED (REDUCE R0)

- Maintain physical distancing
- Increase diagnostic testing capacity and build infrastructure for rapid sharing of results
- Massively scale contact tracing, isolation and quarantine
- Increase critical care capacity
- Encourage use of masks
- Implement COVID-19 Surveillance Systems

TRIGGERS TO EXIT PHASE 1

- A sustained reduction in cases (for 14 days)
- Hospitals operating within capacity
- Testing available to all
- Active monitoring of cases

PHASE 2

REOPEN STATE BY STATE

- Gradually remove physical distancing measures (while maintaining precautionary measures). Encourage teleworking, wearing masks, regular disinfection of public surfaces, limit social gatherings to less than 50
- Reopen most schools and businesses: provide guidance to implement physical distancing measures
- Special care for vulnerable populations, those older than 60, compromised immune systems
- Serological testing to determine population immunity
- Accelerate development of Therapeutics

TRIGGERS TO EXIT PHASE 2

- Robust surveillance sentinel systems, widespread-point-of-care testing and a robust ability to implement tracing, isolation, and quarantines and availability of therapeutics to mitigate spread of virus
- Development of vaccine that has been tested and receives FDA emergency use authorization

PHASE 3

ESTABLISH PROTECTIONS AND REMOVE RESTRICTIONS

PHASE 4

PREPARE FOR THE NEXT PANDEMIC

OUR RESPONSE

Once we saw the potential scale of the economic shock early in March we moved quickly to reduce our equity allocations to neutral while guiding our managers not to 'buy the dips' as markets fell. We also reduced corporate debt exposure (especially any high yield and emerging market exposure) and added proceeds to cash and physical gold. Within equities, we were helped by near zero fossil fuel exposure. A very low exposure to banks helped in our responsible mandates. Today, our balanced accounts are underweight equity, our bond portfolios ratings are A+ to AA-, and cash levels are at the very upper end of our ranges. All of the above, coupled with a weak sterling and diversification away from a fragile UK market, have helped to mitigate drawdowns.

At the individual equity level our analyst team is performing detailed stress tests on all our holdings. -Their first goal is to see where a permanent loss of capital is at risk, particularly in the relatively few cases where balance sheets are strained or loan covenants may be breached. Our analysts are then modelling for dividend risk and the profile of any cuts – a key priority for our charity and income clients.

Finally, we are particularly alert to risks to the asset markets of the more fragile emerging economies. Without the fiscal strength to shield their domestic workforce, the adjustment will be worryingly tough and a rolling balance of payments means crisis is very possible. Credit lines to fragile economies must now be a priority for richer countries. Kristalina Georgieva, the IMF director, said that $2.5 trillion in assistance would be a 'low-end estimate'.

CAUSES FOR HOPE

Looking ahead, a deep, global recession looks certain, we fear, but a longer economic depression should be avoided. First, governments are injecting massive fiscal stimulus into their economies, that will likely mean running budget deficits of 10 percent or more (a necessary evil in these conditions). Their goals are clear; avoid widespread and permanent layoffs and stop otherwise solvent businesses going to the wall. But the task is daunting – in the US alone the retail, leisure and hospitality sectors employ almost 33 million people – one in five of all Americans. If we assume that say a third to a half of those jobs are at risk, then the estimated 10 million jobless claims we have seen over the past two weeks may climb markedly. So, expect even more spending – there is talk of a Phase 4 Trump-Pelosi stimulus plan that will likely be as big as the first three ($2 trillion) and yes, at last,

Our world may emerge from the crisis reshaped in other, more positive ways

the Eurozone could issue a form of mutually funded debt to support its most vulnerable members.

Our second cause for optimism is the gradually falling infection rates that we are seeing in Europe, as aggressive lockdowns and physical distancing start to have an impact. Looking ahead, such measures start to paint a picture of how, over time, we might begin to re-open economies in strictly phased steps. The American Enterprise Institute, a Washington think tank close to the White House, published a state-by-state approach that seemed to influence the President's recent guidelines. They propose that if we see a reduction in cases for 14 days, hospitals operating within capacity and virus or immunity testing widely available then we can consider moving to Phase II, where physical distancing measures can start to be removed. Schools would re-open alongside much of business, but with strict guidelines and controls. Special care for older and vulnerable patients would remain, alongside serological testing to determine immunity. If people who were immune were allowed to resume normal activity, this would be a huge kick-start for the economy. Phase III would see the advent of robust surveillance, tracing and ultimately a vaccine, all of which would allow a normal environment to return.

All of this is of course aspirational today – as Chancellor Merkel cautiously stated last week, "We're seeing some effect from today's measures, but we're far away from being able to say that we can change the contact restrictions". But at least timeframes are now being discussed – this will allow investors to start to model the impact on earnings, dividends and ultimately set a floor for market prices.

POLICY GOING FORWARD...

At Sarasin we have just taken our first incremental step to add risk back to portfolios – not in equities yet but by switching some of our government bonds to high quality corporate issuers. The triggers for the move were the successful actions of central banks in restoring liquidity and the indication that European infections might now be peaking. Our next step will be to consider neutralising our equity underweight. For this we would need a clearer timetable to Phase II and ideally a sharp increase in testing as a prelude to a wider return to work. Of course, each of these phases will be blurred – a sudden medical innovation or a resurgence in infection rates could dramatically alter timetables. We are therefore open to move in more aggressive steps going forward.

Finally, our world may also emerge from the crisis reshaped in other, more positive ways. The need for companies to facilitate home working on a grand scale may lead to greater flexibility in the future, benefiting workers in the long term. As our social and work lives move online, digital opportunities abound. And costly fiscal measures could finally inject some much needed long-term thinking into how to spend the public purse, transforming public services. This is fertile ground for our thematic research teams who are just starting to imagine the contours of a new, post-virus world.

MODELLING THE ECONOMIC IMPACT OF CORONAVIRUS

NILOOFAR RAFIEI
ECONOMIST

The outbreak of the coronavirus pandemic has had a devastating human impact, respecting no borders, nationalities, professions, sex or age. At Sarasin & Partners we have warned for some time about the impact on the Chinese economy from both the enormity of the health crisis unfolding and the government's lockdown measures. The Chinese response, based on suppression of the spread of the virus, has now been replicated across much of the world. In quick succession, countries have implemented nationwide lockdowns to slow transmission of the virus, and travel restrictions to prevent imported cases.

Meanwhile, financial markets have crashed into bear territory, at a pace never seen before. Central banks and governments have stepped in to provide monetary and fiscal backstop to the economic devastation that the crisis will inevitably bring forth. Yet, with economic data released with a lag, and lockdown policies dependent on health outcomes, how does one begin to estimate the economic loss and provide a reasonable guide for the global economic outlook?

Clearly, the art of economic forecasting is difficult at the best of times. Uncertainty is sky-high, and making predictions may appear to be a fool's game. Yet understanding the methodology, underlying assumptions, and the various moving parts can prove to be a useful guide. And is a spoonful of monetary and fiscal sugar, best enjoyed whilst under house-arrest, the right medicine?

Adopting a back-to-first-principles approach we try to estimate the global economic cost using the GDP framework. GDP is measured in three ways, by expenditure, income or sectoral production, all of which produce an equivalent estimate. We adopt the production approach as the economic effects of the pandemic are more easily calculated on the service sector owing to government restrictions on mobility, travel, accommodation and retail. The service sector accounts for around 65% of our $86 trillion global economy, but the percentage ranges from 52% in China to 75% in the US. Second, we look at the timeline of government lockdown measures implemented, starting with China in the last week of January, followed by (parts of the) euro area and Japan in February, and the US and UK in March. Accordingly, the output of the service sector is haircut by the number of weeks that countries are subject to lockdown policies in each quarter – in China this equates to a reduction of 35% in Q1, 10% in Q2 and 5% in Q3. Other countries and regions experience a similar magnitude of shock, around 30% but starting later in Q2. We also assume that the health crisis does not resurface later in the year, such that all restrictions will be gradually removed and all countries return to full capacity by Q4.

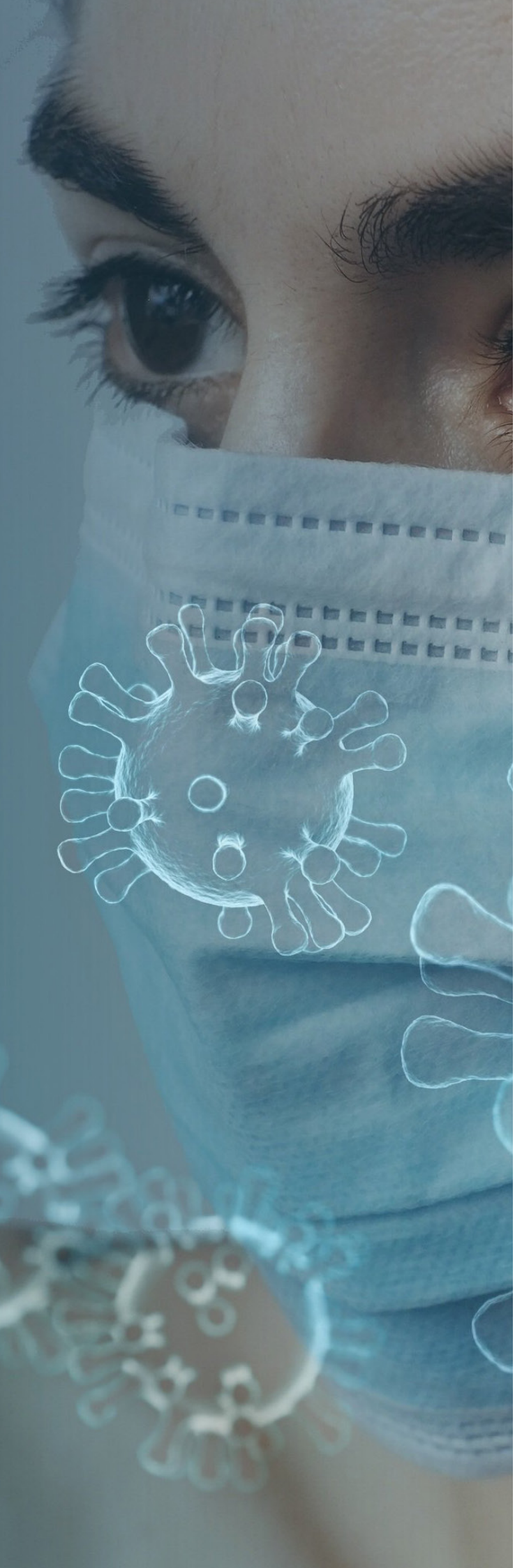
This exercise generates a range of estimates for the impending global shock. If we consider that activity in the agricultural and manufacturing sectors continues unharmed at pre-crisis rates, we arrive at the optimistic range of our base-case estimate (-2.7%). Alternatively, if activity in those sectors comes to a standstill, global economic growth could be at the lower end of our base-case estimates (-3.7%). Inevitably, the key message that emerges is that a large global recession is inevitable, and the shock will be almost twice as large as the 2008-09 global financial crisis (figure 1).

By country, the estimates vary depending on the importance of the service sector, as well as the government's fiscal response, which helps offset some of the impact. During times of recession governments have historically responded with a stimulus of 2% of GDP on average. This forms our assumption for most regions, other than the US

The service sector accounts for around

65%

of our $86 trillion global economy



which at the time of modelling was proposing a $1 trillion fiscal package (or 5% GDP).

The other key underlying assumption is the question of when economic activity can be fully resumed. Given uncertainty over the duration of the health crisis and the prospect for vaccine availability and therapeutics, we consider alternative scenarios for when lockdown measures will be removed. In the base-case scenario, we assume that activity fully resumes to pre-crisis levels in Q4, while the bear and bull case assume a slower and faster return to activity respectively.

WHAT CAN CHANGE THESE ESTIMATES?

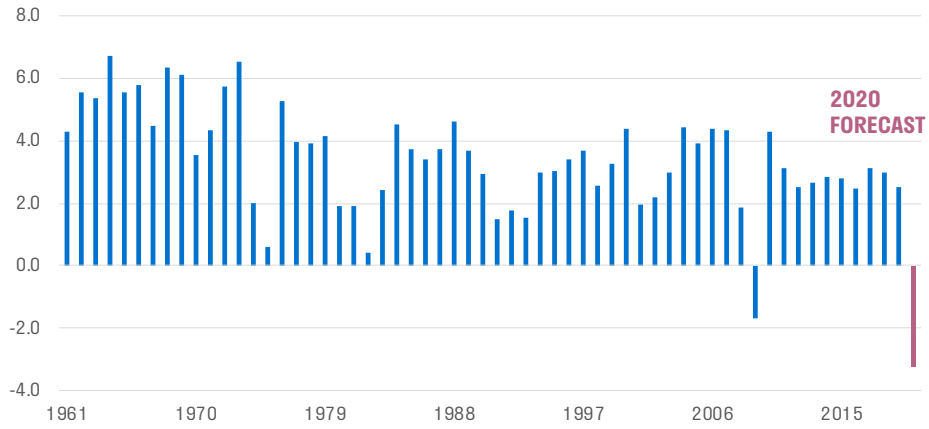
Firstly, we have not accounted for feedback loops, which are both important, but exceedingly complex to model. These dynamic second-order effects include supply-chain disruptions across and within countries, financial market effects, and currency volatility. For instance, the closure of factories in China in January quickly led to the shortage of car parts across the world. Temporary car plant closures were announced by Hyundai in South Korea, and Nissan in Japan, while Jaguar Land resorted to flying car parts in suitcases out of China to prevent plant closures in the UK.

Second, policy measures can help arrest some of the projected decline in activity. Central banks have acted early and decisively to boost sentiment by injecting unprecedented amounts of liquidity into the financial system to prevent an economic crisis turning into a financial one. Government fiscal measures have also exceeded expectations, with the US now implementing a 10% fiscal package focusing on small and medium-sized industries, airlines and the healthcare industry, as well as direct cash handouts to households. Even in Germany where fiscal deficits are outlawed by the constitution in normal times, the government has unleashed historical stimulus measures. Job retention schemes have formed a key part of stimulus measures to prevent mass unemployment across countries. In the UK, Germany and Australia, governments have committed to paying firms up to 80% of their employee wage bills for 3-6 months. Undoubtedly, government budget deficits will rise sharply, and reach beyond 10% in some countries. With capitalism not to blame for the health crisis, it appears that fiscal prudence has given way to fiscal decadence – at least in developed economies.

Third, the duration of government lockdown measures is impossible to predict. While we assume that activity will return gradually in Q3, and normalise by Q4, this is contingent on health outcomes. Slowing infection rates, in turn, are driven by and large by compliance with social distancing measures. This

FIGURE 1 GLOBAL GDP GROWTH 2020 (REAL, USD)

Source: Macrobond & Sarasin & Partners



is in the absence of long-term solutions such as a vaccine development – which is deemed to be 12-18 months away – or best a cure. In China, where compliance with social distancing measures was enforced through strict government surveillance, the economy has now resumed to around 70-90% capacity after measures were first imposed in mid-January. This suggests that social distancing measures need to be in place for a minimum of eight weeks.

All things considered, and forecasting errors aside, the economic costs from the pandemic are estimated to be astonishingly severe. This will represent a large, permanent cost to the global economy, which cannot be resolved by accelerated catch-up growth in the subsequent quarters.

Yet, as countries look ahead and assess the path back to normal, we ask can the return to normal be managed in less costly terms once the peak in infection rates has passed? Social distancing, while proven effective in the absence of other solutions, is a blunt, indiscriminate option, with the objective of flattening the epidemiological curve to reduce pressure on overburdened healthcare systems. However, as shown, it is also very costly for the economy, and the long-term effects of extraordinary stimulus are yet to be seen.

South Korea and Germany have shown that diagnostic testing is important – particularly given high asymptomatic cases. Both countries have tested more than half a percent of the population – greater than other countries – and reported significantly lower mortality rates. Greater testing of the population for current infection, as well as blood tests to check for the presence of antibodies and thereby immunity, can be an important development to correctly identify those who need to be quarantined and those that can safely return to normal economic activity.

FIGURE 2 2020 GDP GROWTH BY REGION SCENARIOS BASED ON RESUMPTION ACTIVITY

Source: Sarasin & Partners

	BASE	BEAR	BULL
CHINA	-1.8 TO -4.5%	-3.1 TO -5.8%	-0.6 TO -3.4%
US	-3.0 TO -3.3%	-4.9 TO -5.3%	-0.5 TO -2.2%
EURO AREA AND UK	-6.4 TO -7.2%	-7.6 TO -8.4%	-4.7 TO -5.5%
JAPAN	-6.3 TO -6.6%	-7.2 TO -7.5%	-4.5 TO -4.9%
ROW	-0.3 TO -1.2%	-2.7 TO -3.6%	-0.1 TO -1.0%
WORLD (REAL, USD)	**-2.7 TO -3.7%**	**-4.5 TO -5.5%**	**-1.8 TO -2.8%**

Better understanding of the health risks can result in better decision making.

Another option, albeit controversial, may be to employ digital surveillance technologies to enforce quarantine measures and ease the burden of contact tracing. While running against the liberal ideologies of the west, there is an active debate about whether the merits of greater surveillance measures are justified. These measures can be wide ranging, but have thus far ranged from the installation of CCTV cameras in China to alert authorities of quarantine infringements, to a government app in Singapore, to the wearing of digital wristbands in Hong Kong, and smartphone location data and location mapping in South Korea. Yet, as the US has shown with the introduction of the Patriot Act after the 9/11 Terrorist Act, surveillance laws are often difficult to wind back once put in place.

Lastly, there is also another option, much neglected in recent years: greater global cooperation. While developed countries may be able to help offset the health crisis response with monetary means, developing countries will struggle. Their choices will be difficult; lockdown measures will deny many of their livelihood and may cause mass famine, yet allowing the virus to spread unsuppressed could cause particularly high fatality rates given poor healthcare systems. India has chosen the route of suppression. Yet, as we have learnt from this experience, we live in a closely connected global village. The sharing of information, best practices, and indeed resources can improve outcomes. Cooperation can deliver outcomes better than the sum of the parts, both help ease the pain in the east, and also prevent subsequent waves returning to the west.

PORTFOLIO PERFORMANCE IN A WORLD OF UNCERTAINTY

A FUND MANAGER'S DIARY FROM Q1

GILES MONEY
GLOBAL EQUITY ANALYST & PORTFOLIO MANAGER

The past few months have been quite extraordinary for the investment industry. While world leaders found themselves grappling with unprecedented uncertainty brought about by a global virus, the markets similarly experienced levels of volatility last seen at the height of the 2008 financial crisis.

For investment managers, the fast pace of developments emphasised a need to preserve and grow capital prudently to ensure portfolios are resilient.

As long-term investors, we remain focused on the sustainability of your investments. We take care in balancing our long-term outlook with the consequences of immediate and unknown risks. While we are not traders focused on short-term profits, we are sufficiently agile to act swiftly where necessary.

Our well-established investment process has helped us to be vigilant about the implications of a global pandemic. Here we provide some extracts from our diary which give an insight into our risk assessment approach to the coronavirus over the last few months.

22 JANUARY

We hold our first investment team meeting on COVID-19. Alex Hunter, Healthcare Analyst, leads a presentation focused on mortality rates and the Chinese government's efforts to contain the virus.

27 JANUARY

As global markets start to digest the idea of a potentially prolonged global healthcare crisis, Jerry Thomas, Head of Global Equities, shares the typical market reactions to pandemics, which include:

1957: Asian Flu

1968: Hong Kong flu

1994: Pneumonic plague

2000: Severe Acute Respiratory Syndrome (SARS)

2009: Swine flu

2013: Avian flu

2015: Zika virus

28 JANUARY

Guy Monson, CIO, takes the investment team through his Global Strategy update, with the coronavirus flagged as the primary risk to economic growth.

6 FEBRUARY

With the virus spreading more rapidly outside of China, we focus on the consequences for travel-related companies with Alex Bibani, Global Portfolio Manager and Analyst. We looked at companies such as Samsonite, the luggage maker, and Carnival, the cruise ship operator. We also take a closer look at the lack of cashflow at energy companies with Alex Cobbold, Head of Research. He discusses his concern that the market appears to be ignoring this risk, and questions the dividends.

13 FEBRUARY

The markets react to Fed Chairman Jay Powell's comments to the US House financial services committee. Economists Subitha Subramaniam and Niloofar Rafiei emphasise the very real possibility of a recession this year. The market's growth expectations are still too high. We have already positioned your portfolios more defensively, which – in hindsight – turns out to be supportive.

20 FEBRUARY

With global infections having risen from 580 to more than 75,000, Henry Boucher, Deputy CIO, gives more insight into the spread of the virus. Incidentally, the previous day saw the S&P 500 reach its highest level yet. At the end of our Investment Policy Committee meeting, we decided to keep our neutral stance on equities, and overweight gold and cash positions. Again, this worked out well.

2 MARCH

The impact of the spread to Europe becomes clearer, with Italy announcing stimulus measures. After a tumultuous week in the markets, Jerry Thomas gives a comprehensive update, arguing the need to remain defensively positioned. It is becoming evident that global markets will not achieve consensus expectations of 9% growth this year.

3 MARCH

The Fed cuts interest rates by half a percentage point – its biggest single cut in more than a decade – as a pre-emptive move to protect the economy from the impact of the coronavirus.

6 MARCH

Jerry Thomas presents on the severity of the crisis – with emphasis on the scale of central bank action globally – and the implications for thematic trends. Henry Boucher gives an update on the infection and mortality rates of the virus.

7-9 MARCH

In the wake of the crude oil price collapse (with drops in excess of 30%) Alex Cobbold takes the team through the implications. We already have little to no oil exposure in portfolios.

12 MARCH

Niloofar Rafiei leads a presentation on our expectations for European growth given the implications of the coronavirus. We anticipate a recession for at least the first and second quarters of 2020.

13 MARCH

The S&P is up 9% – the first big upwards move since the daily dramatic drawdowns. Is this the beginning of a more even debate from the equity markets?

16 MARCH

Amidst the coronavirus fear, Joe Biden is stealing a lead in the Democratic primaries. This has implications for healthcare, which is responding positively.

18 MARCH

We present our stress test conclusions, re-modelling our financial assumptions to look for all impacts to financial statements, the risk of loss of capital and potential need for re-capitalisation, and dividend risks. We also consider the resultant valuation with a bull, base and a bear case.

19 MARCH

Rolando Rodrigues, Global Equity Thematic Analyst, shares insights from the digital Morgan Stanley Financials conference, reminding us that credit lines are being drawn and to write off any dividend increases.

23 MARCH

Alex Hunter re-models Airbus through a stress test. Air travel has been at the forefront of equity losses. He gives us a new framework for valuation and more insight into the underlying fundamentals.

25 MARCH

I go through Nike's results which are very favourable, resulting in the shares rising 25% in two days. Nike confidently talk about how people are interacting with them digitally through this crisis. A first strong sign of life beyond, with Wuhan stores starting to re-open.

27 MARCH

Josh Sambrook-Smith, Equity Analyst, leads us through a presentation on how the internet has been impacted by COVID-19. He points to considerable optimistic data on businesses that will benefit from this shock, such as Amazon, Ocado and Microsoft.

31 MARCH

Vincent Platjouw, an analyst from our fixed income team, delivers a timely reminder that $180bn of potential debt will be downgraded to non-investment grade, so-called 'junk' status.

WHAT DOES THIS MEAN FOR YOUR PORTFOLIOS?

These events do not mean any change in the way that we construct portfolios. Our philosophy, process and vigilant risk analysis – as seen from our meetings over the last few months – provide a solid base for continuing to protect and grow your portfolios.

We intentionally reduce the risks related to sector, region and style, primarily by focusing on an equity's idiosyncratic characteristics. We aim to diversify portfolios by theme, country, sector and industry. Equally, we want to ensure that the best ideas are appropriately sized within each fund.

Therefore, in a crisis of such magnitude and global reach, continuous thorough analysis is paramount to protecting portfolios. Our senior analysts are highly skilled in assessing valuations and relative risk rewards.

STOCK SELECTION IN A TIME OF CORONA

In line with our investment philosophy, we want to ensure that we can remain invested for the long term in the companies we select for your portfolios. This pandemic has brought increased scrutiny in our selection criteria.

We do this by rigorous stress-testing to see how a company would perform – and the impact it would have on the broader portfolio – in a variety of scenarios, e.g. a prolonged recession. Where we find anomalies in the modelling and companies are not performing as we would expect, we carry out further analysis or company engagement.

As could probably be expected at a time when many businesses have been asked to shut, liquidity is the main concern for investors. We aim to find strong balance sheets that show structural growth. These companies tend to be stronger investments even amid a weak economy.

SETTLING IN FOR UNCERTAINTY

All indicators point to continued uncertainty for the foreseeable future. However, while the markets may be volatile, this is less likely to affect portfolios that are well structured and diversified.

Although the market returns continue to fluctuate daily and your portfolios have fallen in value over the past three months, they have generally performed relatively well in this environment – mainly thanks to our focus on thematic growth and quality characteristics in the equities we select. These companies tend to be more defensive when cyclical growth expectations deteriorate.

The main short-term risk is that of liquidity, and we are confident that the companies in your portfolios are appropriately valued and sufficiently robust with strong balance sheets. Importantly, our embedded active stewardship principles mean that we are continuously engaging with the management of companies in which you are invested. This is a key component to our risk management process, and we remain agile to act when necessary, aiming to maximise portfolio returns.

INVESTMENT OPPORTUNITIES IN AN ON-DEMAND WORLD

HOW TELEVISION IS EVOLVING

BROOK HARRIS
GLOBAL EQUITY ANALYST

Our world is being reshaped by the coronavirus pandemic, in ways both big and small. Governments and central banks are taking unprecedented steps to support their economies, countries have closed their borders, and as social distancing becomes widely practised, people are replacing physical interactions with online ones. Digitalisation is one of the five investment themes we seek exposure to in our portfolios, and the pandemic is further digitalising our world, with many of the digital trends that are already in motion accelerating. Digital companies are finding themselves playing an increasingly significant role in society, as people rely on online shopping, working, communication and entertainment. The Spanish Flu pandemic of 1918 has become a reference point, but self-isolation without the ability to access the world digitally is a sobering thought indeed.

In a quarantined world, demand for online entertainment is soaring. Yet the world of television had already been undergoing a period of intense change. When John Logie Baird and Philo Farnsworth pioneered the television in the 1920s, they could have hardly imagined a world where the majority of people would consume television via online streaming services. But this is the state of play in 2020. Over the past decade, paid online video-on-demand (VOD) subscriptions from providers such as Netflix, Amazon Prime Video, Apple TV+ and Disney+ have grown by 37% year-on-year. Estimates suggest that by the close of 2020 there could be over 800m paid subscriptions globally[1]. And whilst these subscriptions have been increasing, the number of paid television subscriptions has been falling at a significant rate. Recent data suggests that US cable subscriptions have been falling by mid-high single digits for the last 4 years (figure 1).

AN OLD BUSINESS MODEL'S POWER WANES

Pay TV services have been a mainstay in homes across the developed world since HBO launched in the United States in 1972. Up until recent times, both providers of Pay TV and media networks benefitted from the success of the business model, fuelled by growth in both the number of households subscribing, and the amount that each household was willing to spend in order to watch television.

The original business model saw Pay TV providers such as AT&T, Charter and Comcast (now owners of Sky) charge consumers a monthly subscription fee for a bundle of channels. In turn, they pay an 'affiliate fee' to a media network, such as Disney, for the right to broadcast Disney's own premium channels, such as ESPN and The Disney Channel. These media networks also benefit from revenues paid to them for advertisement slots during broadcasts, which drives competition for the best and most-watched content between networks.

Indeed the most-watched content can be so lucrative that competition for the right to broadcast the most-watched content has driven costs to astronomical levels. In times of increasing subscriber numbers and subscription fees, this would not be an issue for a media network such as Disney's ESPN; they would simply pass on the cost of their content to the Pay TV provider, by demanding an increased affiliate fee from them to continue showing their channel. The provider would have no option but to pay up, or else risk losing subscribers. However, in the face of higher costs, consumers are beginning to cut the cord. Increasingly, they cancel their Pay TV subscriptions and sign up for online streaming services.

How can media networks remain relevant? The problem they face is a classic case of the innovator's dilemma. The innovator's dilemma is a concept first put forward by Harvard professor Clayton Christensen in 1997. Christensen suggested that even if incumbent companies carry out their business plans without error, they will still lose out to disruptive companies who embrace new technologies and gain market share. In this framework, traditional media networks are the incumbents, whilst online video streaming providers are

FIGURE 1 US CABLE SUBSCRIPTIONS AS AT 31.12.18

Source: UBS Research 19.02.20

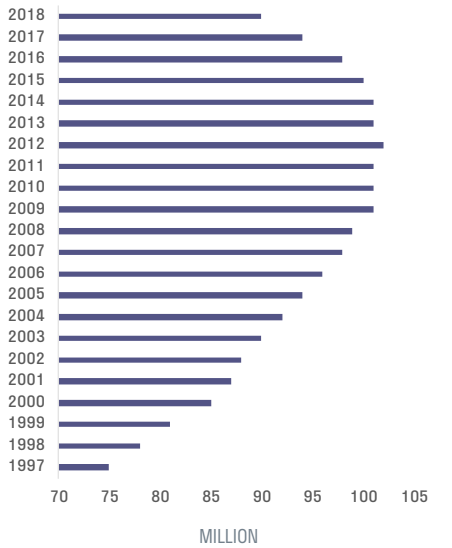
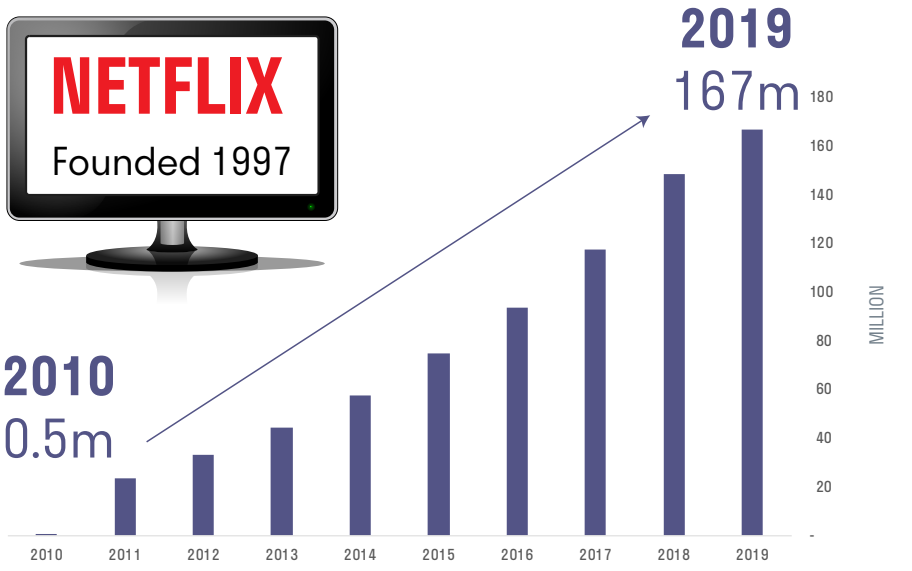


FIGURE 2 NETFLIX SUBSCRIBERS TO 31.12.19

Source: Netflix Company Financial Reports



gaining market share by embracing the new technologies. Incumbent media networks have a choice: choose to do nothing and harvest the remaining, diminishing returns of their businesses, or shift themselves back to the beginning of the life-cycle of technology in order to capture a part of the modern-day growth story that is online video-on-demand. However, doing this will result in short-term losses for the business. What makes this scenario incredibly interesting is that whilst the situation presents a dilemma to these companies, it will undoubtedly present some investment opportunities.

HOW CAN A TRADITIONAL MEDIA NETWORK COMPETE WITH NETFLIX?

Netflix is widely regarded as the market leader within online video-on-demand. It began life in the late 1990s as a subscription-based DVD rental service, before expanding into online video-on-demand throughout the 2000s. In the last decade, as figure 2 shows, the number of subscribers has risen exponentially, from 509,000 in 2010 to over 167 million at the end of 2019. However, a number of new entrants, such as traditional media networks AT&T, Disney and Comcast, and technology companies Apple and Amazon, have entered the online video-on-demand market and are now attempting to gain market share.

With such a large number of new entrants into the arena, it seems unlikely that all can be successful. Firstly, consumer survey data suggests that most consumers are likely to only sign up to a maximum of three online video-on-demand services. This is the point at which the average consumer does not experience any financial saving from cancelling their pay-tv subscription and switching to online video-on-demand subscription. Secondly, because of increased competition for subscribers, the companies behind the video-on-demand streaming services are increasing spending on new, original content to levels that could prove to be unsustainable. Nonetheless, it is certain that there will be more of these streaming services before there are less.

HOW TO SUCCEED IN THE NEW WORLD

To be successful, a streaming service will need a substantial portfolio of appealing, differentiated content. These can be companies with unique and popular intellectual property such as Walt Disney, who have an unparalleled library of content that has gained consumer affinity over generations. Access to strong distribution, or ownership of distribution, is also key to success as it ensures that subscribers are able to access the streaming service in an efficient manner. Netflix is one such company. Roku, which has popular distribution platforms that can host streaming services, is another.

How will television evolve in the future? It may be too early to speculate, but it is feasible to assume that upcoming film releases could be released straight onto video-on-demand services, given the closure of the cinemas. In the United Kingdom, broadband network providers are adding capacity to their networks and have reiterated that their networks will be able to cope with the additional demand. The times ahead may be testing, but there will be no shortage of video content to consume online.

[1] The Walt Disney Company 2019 Investor Day Presentation. Slide 10

[2] https://www.bloomberg.com/news/articles/2020-03-12/housebound-italian-kids-strain-network-with-fortnite-marathon

ADDRESSING WASTE
IN THE FASHION INDUSTRY

THERESE KIEVE
STEWARDSHIP ANALYST

With industrial and commercial activity on pause due to coronavirus, a striking set of images have emerged: Venice, with crystal clear canals; a map of Hubei showing vastly reduced air pollution levels. The world's first priority at this time must be to control the spread of the virus. However, these images help us visualise what less damaging patterns of consumption might mean for the environment.

If we are to move to a sustainable world, shifting to a circular economy where the raw materials we consume are recycled as far as possible, is crucial. Our 'linear' economy today is defined by its 'take, make, dispose' method. Raw material is turned into a product, which is then thrown away when it reaches the end of its lifecycle. This model results in waste, pollution, and depleted resources; and only works for as long as raw materials exist.

A circular economy offers a sustainable alternative: instead of 'dispose' we 'reuse', reducing waste and – critically – demand for raw materials. Moving to a circular economy also offers to cut our harmful carbon emissions – and for that reason is a key pillar in Europe's ambition to become climate neutral by 2050.

So, the logic and ambition for a circular economy is there, but today we are falling a long way short. As it stands, only 12% of the material used in the EU comes from recycled materials. In some member states the picture is even more bleak, in Spain and Ireland for example, the equivalent rates are a woeful 7% and 2% respectively.

One of the key challenges to a lower-waste world is fast fashion, an accelerated version of the fashion industry that produces huge numbers of new clothes at a price point that encourages regular purchasing. While affordable clothes have made it possible for a wider group of people to explore the latest looks and trends, it has also led to a throwaway society.

WHY FAST FASHION IS SO DAMAGING

At every stage of its lifecycle, fast fashion has a negative environmental impact. From the outset, textile production is resource-intensive. The fashion industry is the fourth most polluting industry after housing, transport and food, and uses more water and causes more greenhouse gas emissions than all international flights and ships combined. The clothing industry's carbon footprint is growing significantly – by 2030, it is estimated that CO2 emissions will reach nearly 2.8 billion tonnes a year. According to the Ellen MacArthur Foundation, if the fashion industry continues on its current path, it could use more than 26% of the global carbon budget associated with a 2°C pathway by 2050.

Caring for fast fashion items is also polluting. Clothes are a major contributor to the problem of plastic in the ocean because washing synthetic materials such as polyester, nylon, or acrylic generates plastic microfibres. It has been estimated that each year, around half a million tonnes of plastic microfibres are shed during the washing of these synthetic textiles. These eventually end up in the ocean.

And finally, one of the most significant problems generated by the fashion industry is waste. On average, people wear an item of clothing ten times before getting rid of it. More than half of all clothes produced in this manner only manage a year before being thrown away, an unsurprising statistic considering that it is often cheaper to buy a new piece of clothing than repair a damaged one. This means around 350,000 tonnes of textile waste ends up in household

350,000
tonnes of textile waste in the UK per year

The average lifespan of a clothing item is
1 YEAR

bins every year in the UK, sent to landfill or incinerators. This might be mitigated somewhat if clothing were recycled to any meaningful degree but less than 1% of material used to produce clothing is recycled into new clothing at the end of its life.

Fast fashion is not only damaging from an environmental perspective, but also raises social concerns. Cheap clothes are often produced in poorer countries, where workers receive very low pay and few rights. Additionally, right here in the UK, concerns have been raised that workers at online fast fashion retailers still do not have sufficient access to unions. In this time of crisis, workers – particularly those working behind the scenes in warehouses – may be put at unnecessary risk. While clearly, the benefits of employment need to be considered alongside these risks, the informal nature of the sector's supply chain makes external scrutiny and controls difficult.

HOW CAN FAST FASHION BE TACKLED?

Clearly, the fashion industry's business model is problematic. There are some signs that change is coming at least on the regulatory front. The EU has launched an updated Circular Economy Action Plan, which includes new legislative proposals to reduce waste and increase recycling rates. The Commission's stated aim is to make all packaging placed on the EU market reusable or recyclable by 2030. The UK Government has declared that it will introduce an extended producer responsibility system for packaging in 2023. Yet more must be done, and sooner.

In response to criticism, companies are also beginning to step up. ASOS has stated that it is currently operating a closed-loop system where returned packaging from customers is recycled by their plastic manufacturer and made into new ASOS plastic packaging. It is also transitioning to 65% recycled materials in packaging. Retailers like M&S, H&M and Primark are participating in textile recycling schemes but the impact is not yet significant compared with the growth in demand. Primark, however, is reportedly working on bringing a much larger recycling scheme to the market to help drive efficiencies.

In the end, demand for low-quality clothing must be tempered. With global clothing consumption expected to increase by 63% to 102 million tonnes by 2030, the final piece of the puzzle is changing our own patterns of consumption. A societal move towards repairing, re-wearing or renting clothes could help encourage more sustainable behaviour. We need governments and companies to do more to deliver this change.

As investors, we have an opportunity to encourage better behaviour. While our own exposure to fashion companies in our clients' portfolios is limited, we are in the process of engaging with those we do own, both with regard to increasing circularity within the industry and protecting vulnerable stakeholders in light of the pandemic.

It is right for companies and governments to devote their time and resources to tackling the immediate crisis, but we must not lose sight of the bigger picture. One thing the pandemic has shown us is the extraordinary ability of governments to mobilise for action. It has also been an abject lesson in the huge relative disadvantages suffered by lower paid workers, many of whom work within the fashion industry's supply chains.

We have an opportunity to learn from this crisis. Concerted action from companies and governments will give us the best chance of a sustainable future.

CHARITY FOCUS

PLANNING FOR - AND LIMITING THE DAMAGE OF - BEAR MARKETS

RICHARD MAITLAND
HEAD OF CHARITIES

The bear market of 2000-2003 came as a shock to most investors; over the previous 20 years, equities had produced returns of nearly 20% per annum, with just two mild down years in 1990 and 1994. While the autumn of 1987 contained a crash, so much money had been made before October, and the rebound was so rapid, that 1987 as a whole was positive. It is not surprising that so many investors were mostly unprepared for the 40% fall caused by the doubly whammy of the dotcom crash and the second lurch down following the terrorist events of 9/11.

When the 2007-2009 financial crisis took hold just five years later, most investors fared better, albeit they were equally surprised and fearful at the time. The previous bear market was a recent memory, lessons had been learned, and on this occasion, the rebound was 'V' shaped: fast and paper losses were recouped quite swiftly.

As a reminder, a proper bear market requires the vast majority of investors to be truly surprised and shocked by the cause, pace and extent of any decline just as we witnessed earlier this year. The COVID-19 collapse is thus no different and follows the pattern of a classic stockmarket collapse.

This article focusses briefly on how best to weather these storms, firstly by taking action before a crisis strikes, secondly how to act during the criris, and finally what actions to consider once markets appear to have stabilised.

ACTIONS REQUIRED PRIOR TO THE NEXT INEVITABLE BEAR MARKET

In terms of strategy, what follows is a summary of the 'Planning for Bear Markets' chapter in our Compendium of Investment. It is not written in reaction to the latest market turmoil, but in response to all the bear markets that preceded it. It forms the foundations of our strategic work and is a hallmark of our approach to successful long-term investment.

Education: everyone should be aware that bear markets occur and that they will surprise virtually every investor. They will have a significant impact on long-term portfolios biased towards equities and other return-seaking assets: the down 'leg' might well see a return of -20% to -40%. Recovery from the low point might be a matter of months, but it might also take several years. Income may well suffer, but is typically less volatile than capital. Liquidity will dry up in some asset classes.

Cash flow, asset and liability matching: on the basis that equities will produce significant volatility, they should only be used for those with appropriate timeframes: those who can sit on the sidelines and wait, with no need to access their capital for at least five years. For those with less time to spare, equities should only make up a small part of their assets. If one expects to spend capital within 12-18 months, equities and their ilk are probably not suitable at all.

Asset diversification: it is easy by the end of a bull market to allow a portfolio to become less well diversified, selling assets that might protect you in a downturn because they appear to offer scant short-term reward. It is common to see gilt and cash levels reduced to levels at which they offer little overall portfolio protection.

Security diversification: it is not just important to diversify across asset classes: are your equities geographically well-diversified? From a sector position, are you over-exposed to some of the higher yielding sectors like banks or oil companies?

ACTIVITY DURING A CRISIS

Typically, the best damage limitation is carried out prior to a crisis and the best mitigation, afterwards. However, there are some instances where even the best plans have to change and there are things

Everyone should be aware that bear markets occur and that they will surprise virtually every investor

that can and should be considered as events unfold.

Cash flows and projections: the fallout from bear markets is varied and will impact companies, people and institutions differently, as will the way in which governments and regulators react. Only as matters unfold will you be able to consider the ways you and your organisation will be impacted and the extent to which your preventative actions have worked. As you analyse the situation at hand, you might need to realign your assets and/or your resources to real world issues.

Dialogue and discussion: it is highly unlikely that your investment portfolio 'will go to zero'. In extremis, individual companies might go bust and some specific bonds might default. There will be weeks when it feels as if the whole portfolio is doomed, but bear markets and recessions do end. They can cause lasting and permanent damage to certain sectors, but the world finds a way through each crisis. This COVID-19 bear market and economic shock might result in a longer and deeper recession than we have seen for many years, but our central expectation is that economies and markets will recover. Ultimately, talking through your worst fears with a proactive, calm and experienced investment manager and reminding oneself of past collapses and recoveries in confidence should ensure that emotions are kept in check.

Active management: investment managers will need to review their portfolios; have their strategies and tactics held up as they expected? Were they positioned well, but for the wrong reasons? Do the new circumstances mean changes are required? How will each equity perform from here; could any corporate bonds default? Should one buy the dips and switch defensive stocks into those that might recover faster or should we reduce risk if a second leg down looks likely?

THE AFTERMATH

Some of the most lasting and damaging impacts from a bear market are caused by actions taken after the event.

Changing horses mid race: some managers are prone to do well in bear markets, other in bull markets. Some try to outperform a little in each. Knowing your manager's natural style bias is critical and too many investors only discover what they have bought after the event. In 2003 and in 2009, after savage bear markets, many investors moved their affairs to target return, absolute return and 'glass-half-empty' managers, only to underperform in the next bull phase. Some completed the circle by reappointing glass-half-full managers in 2007 and 2019! Better to switch out of defensive managers after a bear market and optimistic managers after a bull market than to do the reverse and lock in periods of poor performance. Or pick a more balanced manager who doesn't err towards the more heroic end of the investment spectrum!

Strategy: there will always be stories of those who bailed out of markets just before the disaster struck and managed to buy back at the bottom. Even broken clocks show the correct time twice a day. However, one of our defining philosophies is that investors should never rely entirely on skill to avoid losses. We have always felt that a robust strategy lies at the heart of long-term success. This article therefore ends where it started: the best defence against the next bear market is not to withdraw from investment markets completely, or to try and double up at the bottom, but to put in place an asset mix – quite possibly split between different portfolios with different objectives - that matches your requirements and which ensures you will never have to be a forced seller at the bottom of a bear market.

There will be weeks when it feels as if the whole portfolio is doomed, but bear markets and recessions do end.

WHAT'S DIFFERENT THIS TIME?

At the time of writing, we are staring down the barrel of a global recession. This is likely to result in almost unprecedented dividend cuts. This is a particulary harsh burden for charities, many of whom rely heavily on their investment income streams to uphold their mission. We hope our clients are relatively well-positioned, given our global and thematic approach to equity selection and the breadth of asset classes and investment techniques we use. However, we will not avoid dividend cuts. We will work tirelessly over the months ahead to produce attractive capital and income returns going forward, but everyone should brace themselves for lower income receipts.

KEY VOTES & COMPANY ENGAGEMENTS

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. We take our voting responsibilities on behalf of our clients seriously. We believe voting provides shareholders with an important lever for ensuring proper corporate accountability and responsible stewardship, which is a critical input into delivering better returns over the long term.

The table below shows how we voted on company resolutions during the period under review. It also explains why we voted the way we did, and whether the resolution was approved by shareholders or not.

Company	Date	Resolution	How we voted for you	Result
Aramark	29 Jan 2020	Ratify auditors	Abstain	Passed

Last year we initiated an engagement with Aramark as we had significant concerns over the company's strategy, communication and executive remuneration. We wrote to the Chair twice and had a conversation with him asking the Board to clarify to the market its growth driver, and to review its portfolios and reduce CEO pay. We were glad that the Chair was receptive to our feedback and the Board has since taken a number of shareholder-friendly actions – new directors with strong food experience were appointed; CEO and CFO were both replaced and CEO's remuneration was cut by about 25%; and the new CEO gave a clear indication to the market what to expect of Aramark's strategy and growth drivers.

One remaining issue we asked the Board to consider is to change its auditor who has served since 2002, a period which we consider too long and would threaten its independence. The Chair explained that given the current transition of the company, changing the auditor at this point may be too disruptive. We abstained on the re-appointment of the auditor, and encouraged the Board to look for a new auditor as soon as practicable.

Percentage of votes cast for the resolution: 99% for, 1% against.

The Walt Disney Company	11 Mar 2020	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	Passed

We have voted against Disney's executive remuneration since 2017 given the egregious size of CEO pay. In 2019, then CEO (Bob Iger) took home $21m in annual bonus and received $19m in equity. In February 2020, Iger stepped down and was replaced by Bob Chapek, a long-time executive at Disney. We hope Disney's Board can use this opportunity to review the current compensation structure, and we will write to the Board expressing our discontent should the current quantum of executive pay continue.

Percentage of votes cast for the resolution: 53.8% for, 46.2% against.

Shimano Inc.	26 Mar 2020	Elect directors	Against	Passed

We have continued to vote against all the executive directors (except the President) since 2017 given our concern over the lack of board independence. Only 3 of the 16-member Board are independent. Poor board independence is common in Japan and, despite a number of government reform proposals over the last five years, improvements in governance have been disappointingly slow. We had requested to meet the management in the past but we were rejected. We will continue to vote against the directors until there is an improvement in board composition and the company's responsiveness towards shareholders.

Percentage of votes cast for the resolutions: not disclosed.

Engagement is an important component of our stewardship activities

Our engagement efforts with companies aim to improve governance and tackle key issues for shareholders. This allows us to hold company management to account and to encourage the development of high standards. Many of these engagements are ongoing and take place in confidence, but where possible, and where clear outcomes have been reached, we discuss the results. The following are recent examples of our company engagements.

ESSILORLUXOTTICA

This quarter, EssilorLuxottica revealed a $200m fraud at an Essilor manufacturing facility in Thailand. While the size of the fraud is small compared to the market capitalisation of the company, we remain concerned over any possible internal control deficiencies at the company given the large size of the fraud relative to its Thailand operations. We are also concerned that the fraud might exacerbate the governance conflicts between the Essilor and Luxottica directors. In March, the co-CEO and the co-CFO from Essilor resigned, suggesting further disquiet at senior levels.

Although the market responded well to reassurances provided by the company following the last Annual General Meeting (as seen in the recovery of its share price at that time), the conflicts between the two sides do not appear to be fully resolved. Consequently, we coordinated a joint investor letter to the Board this quarter, reiterating our previous asks: 1) put in place a succession plan for key Board members, 2) update to the market any progress of CEO search, 3) appoint a lead independent director with whom shareholders can discuss governance concerns, 4) consult with shareholders on executive remuneration and 5) provide a written assurance that directors' fiduciary duties would not be undermined by the terms in the Combination Agreement. This was our fourth letter, and it was signed by investors representing over 5% of the freely floating issued share capital.

We expect positive steps on these matters prior to the next AGM in June. Following last year's substantial support from minority investors for shareholder proposed independent directors, it is clear we are not alone in our concerns. We plan to escalate our engagement in the meantime to press for a satisfactory response from the Board.

CIRCULAR ECONOMY

The current focus of businesses and investors must be dealing with the COVID-19 crisis. However, we are not losing sight of other long-term ESG issues, such as climate change and plastic pollution.

The public is deeply concerned about the proliferation of plastic packaging – pre-crisis surveys found that plastics was the second largest consumer concern after climate change. As we are all grappling with coronavirus, one aspect of the response that has emerged has been greater use of disposables. While this is entirely understandable, a recent US study has found that while coronavirus could be detected on cardboard for up to 24 hours, this rises to up to 3 days for plastic surfaces. This would suggest that companies need to take case that they are taking the right response to helping to contain the virus – and more plastic may not always be the best option.

Over the longer term, more plastic works against efforts to tackle far-reaching environmental and human impacts. This quarter we have developed a framework for our plastics engagement work, ensuring we put into practice our endorsement of the Ellen MacArthur Foundation's New Plastics Economy Global Commitment initiative.

The goal is to encourage more effort towards creating a circular economy, focusing on waste reduction in all stages of production from the design phase of products all the way to the post-consumer phase and the disposal of these products. We are working towards the establishment of concrete targets for stakeholders to coalesce around.

We will be working directly with exposed portfolio companies, as well as collectively with other investors through the Plastic Solutions Investor Alliance to amplify our efforts. We have identified an initial list of seven companies that are material users of plastic. This quarter, we have reached out to Unilever, Reckitt Benckiser and Colgate Palmolive to enable us to better understand what these companies are doing to address the plastics risks. We intend to build on this to set out our expectations and work towards establishing targets.

CORONAVIRUS
OPERATIONAL UPDATE

The impact of coronavirus is far reaching, and causing reverberations across society and the economy. I am taking the opportunity to give you an update on how we at Sarasin & Partners are managing our business during this difficult time and the steps we are taking to ensure that any impact on our clients and staff is limited.

Having undertaken extensive preparations, the vast majority of our staff are now working remotely and the business is fully operational. However, I want to let you know what aspects may look and feel slightly different whilst we are in this unusual period:

1. When you call into the office, you will hear a brief pause while your number is forwarded to the phone of the person you are trying to reach. Your call may end up going to voicemail but we will always call you back if you leave a message.

2. We will no longer be able to attend to mail that has been posted to our offices, nor will we be able to receive any faxes. Please ensure that you send a copy of any instructions, requests or any other important information by email to your Account Director and/or Account Administrator. Let us know if you have recently sent something by post/fax so we can ensure that the instruction was received. We aim to acknowledge email instructions promptly, so if you do not hear back from us, please phone us to make sure it has been received.

3. We are of course no longer holding face-to-face external meetings, but we have phone and video-conference capabilities that we can roll out in their place. We are also looking at our schedule of conferences and training for the rest of the year, and seeking to set up alternative arrangements such as online webinars.

If you have any immediate concerns, please contact me or your account team.

I wish you and your families well.

Hadley Simons
Chief Operating Officer, Client Affairs

EVENTS
ADAPTING TO CHANGE

Due to the circumstances surrounding coronavirus, the majority of our events between now and he end of June have been cancelled or postponed.

We are however adapting to these uncertain times and as a result we will deliver some of our events online.

Our upcoming virtual events include the CFG Trustee Training and Part Three of Lessons from History: Oxford Lectures in the City with the topical title Adapting to technology: from the industrial revolution and war to coronavirus and the digital age.

This is an opportunity for us to create new experiences and engage with an audience we may have never reached before.

With this transition into digital events we can ensure we can continue to deliver our events, adding new benefits and values to existing and new potential clients along the way.

IMPORTANT INFORMATION

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