

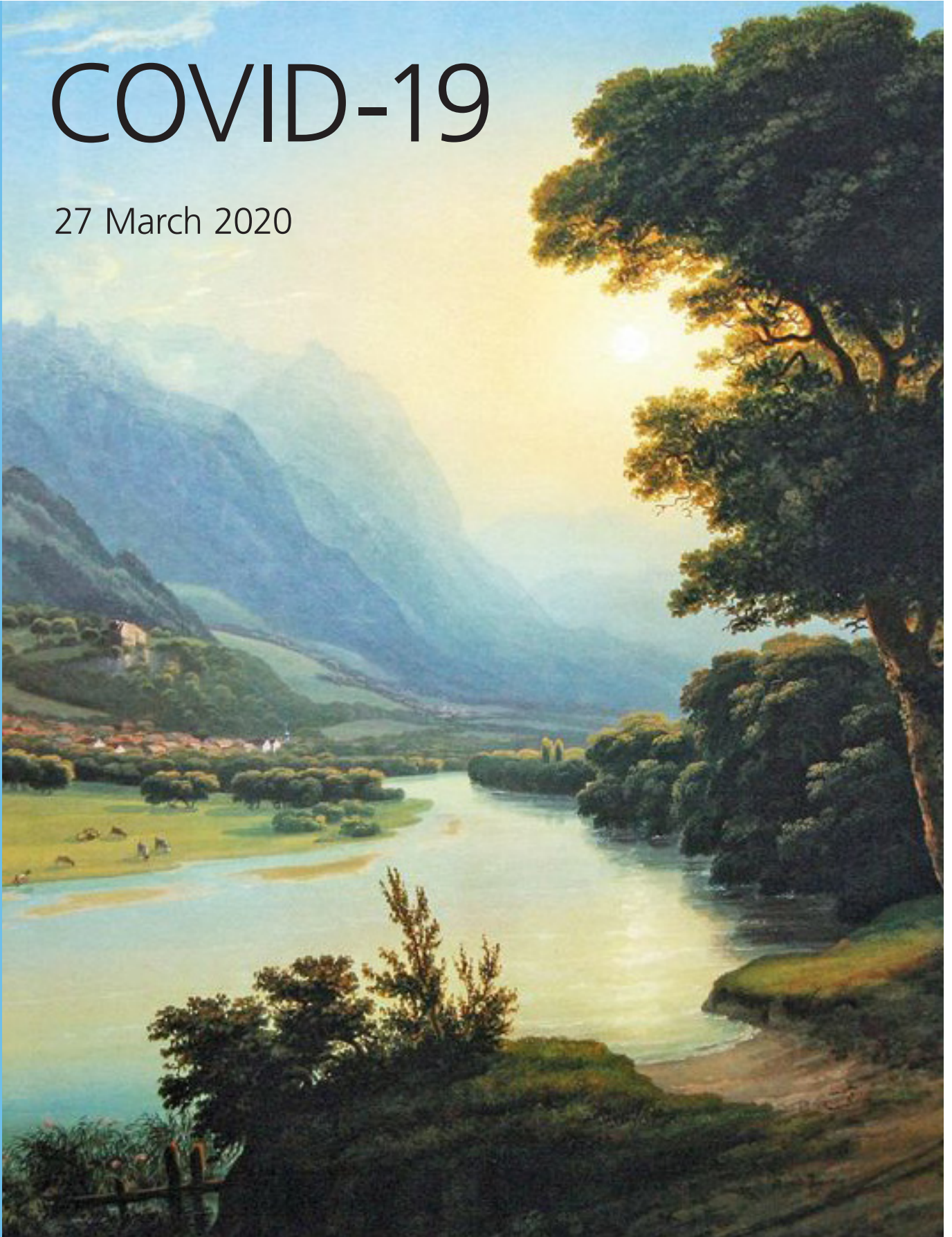


vestra

VALUES WORTH SHARING

COVID-19

27 March 2020





Johann Jakob Schmidt, Detail from “View of Vaduz from the Swiss bank of the river Rhine”, 1833

© LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna

A look inside the Princely Collections

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world’s major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We

make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

www.liechtensteincollections.at

Introduction

The COVID-19 situation continues to develop and is now affecting private and professional life across the world. In order to deal with the effects of this extraordinary situation, we activated our internal crisis management team some time ago to implement various preventive measures. Our primary aim is to protect the health and well-being of our people and our clients, whilst endeavouring to continue to deliver an uninterrupted service to our clients.

In response to the volatile market conditions, our Investment Committee has increased their meeting frequency from monthly to daily, holding daily conference calls to exchange information and views and discuss portfolio positioning. All of our asset class sub-committees continue to exchanging information daily. From an investment perspective, it is business as usual, albeit in very unusual circumstances

Timeline of key events



The investment landscape

Market update

- Coronavirus continues to spread, particularly in the US
- UK and many other countries are in lockdown
- Federal Reserve promises unlimited Quantitative Easing
- US Senate pass \$2 trillion economic support package
- Bank of England has cut rates and is buying bonds and is ready to do more
- European Central Bank extends bond buying
- European countries act individually to support the economy
- Germany agrees to let the EU support Italy

COVID-19 continues to spread around the globe. Many countries are shutting down non-essential activity. Economic activity is falling rapidly and unemployment rising rapidly. Company earnings will fall dramatically. Equity markets have fallen steeply and liquidity in markets has dried up. Against this background, governments and central banks have taken unprecedented actions to deal with an unprecedented problem. When looking at this, we will split the actions into three broad categories: medical, monetary and fiscal. Medical action to counter the virus, monetary action by central banks to support markets and fiscal action by governments to support businesses and people. Action has certainly been substantial but when looking at these actions it is not just the size that matters. We also have to ask, to quote UK Chancellor Rishi Sunak, "if they are temporary, targeted and timely." If they are, then the economic damage, while painful in the short term, may be limited in the long term.

Medical response

The Coronavirus originated in Wuhan, China, where at first it looked possible that the virus could be contained. However, due to international travel, the Coronavirus spread globally and now the United States has had more confirmed cases than China. China reacted by going into lockdown and has had very few new cases reported in recent days. Now, it is seen to be gradually getting back to normal, providing hope that the measures taken elsewhere

may slow the spread of the disease. The UK Government appears to accept that we cannot eliminate the disease, but if we can slow the spread of the virus whilst the NHS gets better equipped to deal with the rise in patient numbers we will be in a better position. Rishi Sunak, has promised the NHS whatever it needs to get through the crisis however, protective clothing and ventilators remain in short supply.

"The financial support is timely and if we can delay the spread health services may be better prepared but the task is enormous. The public response with 750,000 volunteers to help the NHS is heartening."

Jonathan Marriott, LGT Vestra Chief Investment Officer

Monetary response

Initial falls in equity markets were accompanied by a rally in government bonds, but as investors rushed for liquidity and US dollars in particular, all financial assets sold off. The corporate credit market was hit hard. Central banks have reacted strongly to provide liquidity to businesses and the markets. The Bank of England has coordinated actions with the Government's fiscal policy cutting rates to 0.1% and buying bonds to prevent the cost of borrowing rising. They are also providing support for lending to businesses, both large and small. The Federal Reserve cut rates to zero and announced unlimited quantitative easing. They have also been enabled to buy corporate bonds for the first time. These measures are much more than what they did in the financial crisis of 2008/9. The European Central Bank has also increased its bond borrowing by removing some of the limits it had on particular issues. The Bank of Japan has also acted and has been buying in the equity market.

Fiscal response

In the UK, we are lucky enough to have a government with a substantial majority which has enabled them to act swiftly. It is possible to criticise the speed of some of the actions, but Rishi Sunak's moves to support businesses, both small and large,

and ensure continued employment have been extraordinary. In particular, paying up to 80% of salaries (capped at £2,500 per month) for those unable to work before the lockdown may have seen off a much bigger rise in unemployment. The self-employed population is more difficult to tackle and the similar package announced yesterday will be welcome, but too late for some. Despite these measures, over 100,000 people per day are applying for universal credit so unemployment numbers will rise. Similar measures have been taken across Europe, with Germany abandoning the restriction on borrowing that was built into the post-war constitution. An EU meeting yesterday which was scheduled to last two hours went on for six hours, but failed to result in any coordinated EU-wide action.

While other countries acted, politicians in the US argued. As the debate continued, California was first to lockdown non-essential activity, followed by many other states. With financial markets in turmoil and the Dow Jones Index below where it was at Donald Trump's inauguration, politicians finally acted. The \$2 trillion package is massive and provides support for employment and cash to individuals. We should caution that, as I write, the package has yet to pass Congress and if one member asks for a recorded vote then they need 214 members to vote in person for a quorum, which may delay this further. The delay has been costly. This week, jobless claims rose 3.2 million and next week an even higher number is expected. When the package eventually passes, it will bring relief to many businesses and will help them through the crisis.

Equity markets

As the virus continues to spread, global equity markets have been hit hard with many indices down 35% or more earlier this week. The prospect of an enormous support package caused a sharp reversal on Tuesday, but markets remain considerably lower year to date. As I write, the FTSE 100 Index is still down 25%. The uncertainty about the prospects for earnings this year is not going away any time soon. We may not have seen the bottom for markets but fiscal and monetary actions are substantial and should enable many businesses to come through the present crisis.

When we emerge the other side, earnings will recover and with interest rates low we expect markets to have long-term attractions. In the short term, as we get to the end of the quarter, we may see some support for equities as portfolios rebalance but we caution against chasing this move. Given our longer-term outlook, we are looking for opportunities to add equities selectively where good companies have been hit hard. It is noticeable that companies with quality earnings and funds that seek such investments have fallen less than the market as a whole. We have always favoured such investments and expect that they will come out of this better than those with weaker balance sheets will. We therefore continue to suggest a selective approach to equity investment.

Fixed Income markets

Initially, government bonds performed well as equities sold off. However, the scramble for liquidity caused a sharp correction and corporate bond spreads widened sharply. As central banks expanded their bond buying activity, bonds and spreads recovered. As we go through this crisis, companies may halt share buybacks and dividends to protect their credit rating. Credit spreads, while less than their highs, are still much wider than they have been for some time. These factors, combined with central bank buying, may mean that in the early stages of a recovery, corporate bonds give a better risk-adjusted return for those looking to add risk to their portfolios.

A long-term approach

Weathering the storm.

We were unable to predict the COVID-19 pandemic, and the depth of the disruption has surprised us all. No one knows how much further this has to go and it is hard to call a bottom to markets. However, the results of isolation appear to be encouraging for controlling the spread of the virus. Central banks and governments have now put in huge measures to offset the disruption and to make sure businesses are in a position to take advantage of the recovery when it comes. We are entering a recession but equity markets have adjusted sharply. Whilst the uncertainty can be scary, it is worth remembering that this is not the first recession we have been through and it will not be the last. Recessions are temporary.

Those tempted to sell now should keep in mind that getting back in at the bottom is difficult. The low in equity markets is usually marked by the worst news flow and panic selling which discourages investors. When we get bounces as we have seen this week they can be fierce - we saw a 15% rally in two days. For now we see markets continuing to be volatile but bear in mind central banks and governments are prepared to do even

more if necessary.

When we take a longer view and look through the present crisis and come out the other side, we expect interest rates will still be low, earnings will recover and equity markets will once again be the asset class of choice for investors.

LGT Vestra is a UK-based partnership between LGT and the executive partners of LGT Vestra. LGT is the world's largest private bank and asset manager owned by a single family, the Princely House of Liechtenstein, for over 80 years.

Private ownership means we take a long-term approach to investment management, avoiding short-term actions that may compromise the stability of our firm, and crucially the trust of our clients.

Business updates

Working remotely

In line with the Government's guidance, all of our employees are working from home and have been doing so, successfully, for the past fortnight. We have invested in the technology and training to allow us to operate remotely and therefore would like to reassure you that all the necessary steps have been taken to ensure that our service to you operates with as little impact as possible.

Electronic communications

Whilst the majority of our staff work remotely, we ask that where possible you send any necessary documentation to us electronically rather than via post. As a reminder, we continue to be contactable via the usual communication channels and our telephone numbers can be found on our website: www.lgtvestra.com/en/about-us/lgt-vestra/our-people/

Live updates

We continue to monitor the coronavirus situation closely, and will keep the our website updated as appropriate.

Should you have any questions, please do not hesitate to contact your LGT Vestra contact.

A thank you from us

We would like to take the opportunity to thank you for your continued trust in us. We wish you and your family good health and all the best in these turbulent times.

For each other

Showing our resilience, our kindness and our strength for each other.

We are all currently adapting to a major change in our daily life due to the spread of the coronavirus. With many now in isolation, it can be challenging to support friends, family members and colleagues, amongst others.

In difficult times, we want to be able to continue to support our community of LGT Vestra clients and staff. Via our campaign **For each other**, we would like to encourage a sense of togetherness, positivity, and inspiration.

Over the past few weeks, as the realisation of this pandemic has hit home, we have found ourselves thankful for a lot of things. For the NHS, for the community spirit we're seeing in towns up and down the country, thankful to our family and friends, thankful to our colleagues as we set up daily calls and video chats to keep the camaraderie alive.

We are also thankful for this time to take stock, slow down and appreciate the little things. In the weeks and months ahead, it is the little things that will get us through these troubled times together. A daily dose of sunshine. More time for home-cooking. More time with our families, when usually we might be commuting. We are thankful for all of these things and more.

We are thankful to you, our client, for placing your trust in us.

What are you thankful for?

At LGT Vestra, the feeling of 'belonging' is important to us. Let us know what you are thankful for - big and small, we want to hear from you - and by sharing each other's stories we hope to reinforce the message that we are there for each other.

This could be a book review, top recommendations for Netflix, exercise ideas for beginners, recipes from cupboard essentials, jokes, gardening / DIY tips, working from home advice, a photo of the view from your window, being thankful for the slower pace of life, time with family.

What are you thankful for?
Email your LGT Vestra contact
or thoughts@lgtvestra.com



Image taken of individuals in the street taking part in the #ClapForOurCarers #ClapForNHS applause on Thursday 26th March 2020. (Image: Channel4)

A worthwhile applause

David Scott, LGT Vestra Chairman

Whilst this crisis has caused a lot of suffering, we have been inspired by the way that so many people have rallied to help others who are less fortunate. The national clap for the NHS was a long overdue show of appreciation for those that we really need in times like this. We are encouraging all of our staff to help out in whatever way possible, whether that is volunteering for the NHS or helping older people with food deliveries.

We are setting up a fund whereby we hope to raise £100,000 to contribute to those who are in most need at this time. We have contributed an initial £25,000 to the fund and we will keep you informed in due course of the progress,

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Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.