Investment Team Update

2nd April 2020

The first quarter of 2020 was not one which many would have predicted at the end of last year. The air of optimism which usually follows the turning of the year was quickly blown away by the global outbreak of the Coronavirus. What started as a China-centric problem quickly snowballed into a global pandemic, with the number of cases in Italy and the rest of Europe surpassing that of China early last month. The US has now surpassed Italy as the worst affected nation on earth with just shy of 190,000 cases. From a human perspective the exponential rise of infections and deaths across the globe is deeply distressing, and the inability to leave the house unless for essential reasons poses a frustrating reality. The picture from a financial point of view is equally bleak.

The UK market posted its worst quarterly fall since 1987 and in the US the Dow Jones suffered the worst Q1 fall on record. Perhaps what is most unique about this market fall is the sheer speed at which investors fled the markets. Another factor which has made this sell-off particularly unpleasant is the lack of hiding places for investors, with market participants selling safe-haven assets such as gilts and US treasuries to increase cash levels. Markets have calmed somewhat in the last week, as central banks worldwide promised to inject markets with the liquidity they crave. The fiscal and monetary measures introduced in the US, UK and Europe is nothing short of staggering, and could be exactly what is needed for the global recession to be short and the recovery to be swift. There are also other positives to take as Asia appears to be coming out of the other end of the crisis, with an almost complete flattening of the curve in China. It is believed that China is ahead of Europe by approximately 4-6 weeks, and although the lockdown measures introduced in the West were perhaps not as severe, there is some room for optimism.

Although the lockdown of the UK has caused disruption, the investment team have been able to operate as effectively from home as they would from the office. They have been busy making regular tactical shifts to the makeup of the portfolios to protect capital on the downside. They have a call first thing every morning to discuss market moves and are prepared to act decisively on any material changes. We cannot predict when markets will come out of the woods, but it is important that when they do the portfolios are in the best shape possible to benefit. The companies which will likely see the strongest share price performance are those in less cyclical industries, and with little debt on their balance sheets. We have been taking risk off the portfolios in UK mid and small-cap companies which we feel are likely to be the hardest hit by the recession, and also reducing our exposure to UK 'value stocks' such as banks and retail. We are in constant dialogue with our fund managers to ensure they are managing your money as we see fit, and also to ascertain the best opportunities for when the recovery comes around.

On the following page is a chart we produce on a quarterly basis which shows the dispersion of returns on a year-by-year basis across fund sectors. We believe the key to navigating through stormy waters is to have a diversified portfolio of different asset classes, as it is impossible to rely on the top performing sector in the previous year to repeat that performance the following year. The white boxes represent the Balanced Portfolio at NLP Financial Management, which has displayed a much lower volatility of returns compared to investing in just one asset class or sector. We pride ourselves on the ability of our investment committee to protect capital as much as possible on the downside and to also participate on the upside. The Balanced Portfolio is -12.7% for Q1 2020 (before our charges), versus the UK sectors which are down between -27% and almost -30%. We will continue to manage the portfolios diligently and carefully as we head into the second quarter.

Charlie McCann
On behalf of the Investment Committee

NOTE: This material has been written for information purposes only and must not be considered as financial advice.

NLP Financial Management Ltd
2nd Floor, Charles House, 108 - 110 Finchley Road, London, NW3 5JJ

Chart of the Week

Sector	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
Asia Pacific Ex-Japan	25.89	56.06	30.79	16.04	22.46	37.45	17.78	15.8	32.63	26.56	3.82	25.23	6.97
Europe Ex-UK	15.51	51.99	22.84	5.37	19.18	30.54	14.33	14.16	31.22	24.72	0.43	24.92	0.14
Global Equities	12.29	50.12	22.77	3.43	18.42	27.26	11.25	9.09	27.3	24.43	0.08	21.8	-1.32
Global Bonds	2.27	44.4	19.23	2.74	15.74	26.19	10.06	8.6	24.87	17.69	-0.69	21.2	-1.46
Global Emerging Markets	-1.83	30.11	17.92	-0.04	14.79	25.66	9.21	6.06	23.99	17.23	-1.5	20.55	-4.28
Emerging Markets Bond	-2.57	22.72	17.15	-0.81	13.5	24.83	7.43	4.93	20.95	13.78	-2.23	19.48	-6.26
Japan	-9.24	22.59	15.32	-1.03	12.6	19.7	6.68	4.89	16.44	13.6	-2.46	16.81	-12.73
Money Market	-16.40	19.35	15.06	-1.07	12.07	12.12	4.26	3.66	12.58	11.25	-2.74	16.32	-13.76
US Equities	-18.30	18.72	14.5	-1.43	11.88	8.19	3.81	3.38	11.16	10.56	-3.48	15.71	-13.77
Sterling Corporate Bond	-18.97	18.61	12.42	-2.47	9.95	6.51	3.01	2.2	10.85	10.12	-4.01	11.6	-14.46
Sterling High Yield	-24.18	12.75	12.03	-3.11	8.11	6.22	2.83	-0.05	10.65	7.31	-5.77	11.45	-15.07
Targeted Absolute Return	-25.04	9.45	8.9	-7.11	6.86	3.37	2.51	-0.15	9.87	6.48	-8.59	10.75	-15.2
UK All Companies	-25.75	8.53	8.39	-8.99	6.12	0.96	1.85	-0.27	9.1	5.1	-10.55	9.52	-16.57
UK Direct Property	-28.24	5.17	7.34	-9.43	3.3	0.21	0.78	-0.3	9.08	3.78	-10.74	7.03	-18.74
UK Equity Income	-32.02	2.5	7.22	-11.91	3.26	-1.96	0.59	-1.32	7.69	2.97	-10.79	5.57	-21.12
UK Gilts	-32.65	0.92	6.53	-15.67	2.23	-2.61	0.21	-3.75	1.3	2.25	-11.3	3.71	-27.59
UK Smaller Companies	-36.29	-1.88	4.36	-15.89	0.85	-4.75	-0.66	-4.21	0.97	1.86	-11.83	0.56	-27.99
NLPFM Balanced Portfolio	-40.58	-3.63	1.01	-18.68	0.37	-9.56	-1.95	-10.57	0.94	0.44	-12.35	0.01	-29.76

Data from Financial Express Analytics, Correct as of 31.03.2020. Pricing Spread: Bid-Bid, Currency: Pounds Sterling, Total Return Terms

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