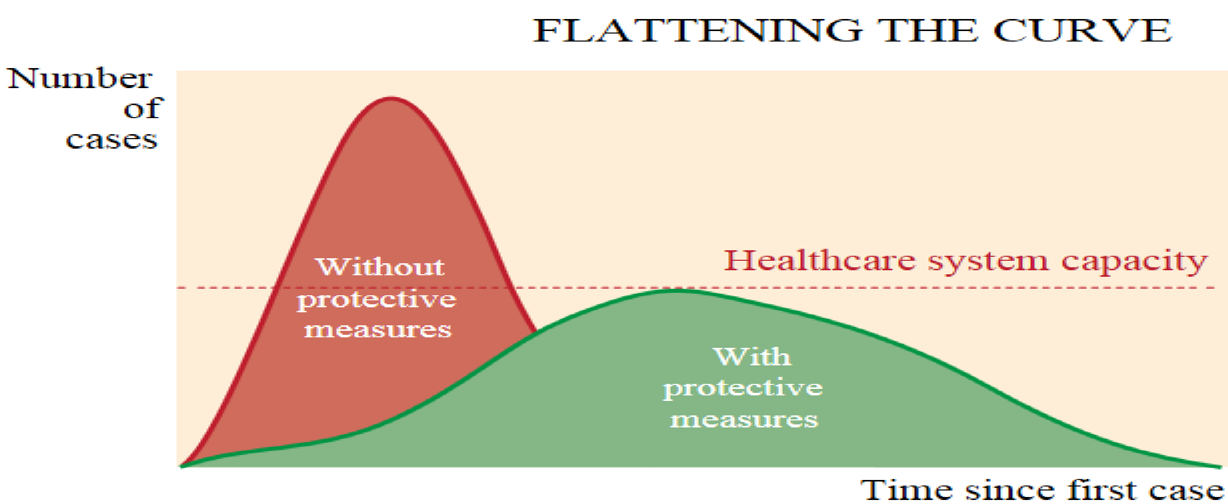
Diversification and Portfolio Rebalancing: There are inherent risks involved in the world of investing as markets operates in cycles. Therefore, investor portfolios will be susceptible to intermittent volatility and periods of underperformance. Nevertheless, even in periods of economic downturn, well diversified portfolios can provide protection from downside risks as exposure to certain asset classes that outperform in these time periods will help to offset some of the losses in an investor's portfolio. Diversification also allows investors to keep focused on their long term goals whilst allowing their portfolio to remain nimble to exploit opportunities as they arise. Additionally, periodic rebalancing during periods of high volatility will not only help to reduce downside risks but could also improve portfolio performances in the short term. We recommend that investors undertake a comprehensive portfolio review to ensure they are still on track to achieve their portfolio objectives and that their portfolios are sufficiently diversified.

Whilst the duration and overall economic impact of this crisis remains highly uncertain, we believe there are some key indicators that investors should observe keenly. In a previous communication we spoke about the possible recovery trajectories of this cycle and we believe that the pace and strength of the recovery will largely rely on the following factors:

- **Flattening of the Confirmed Cases and Confirmed Death Covid-19 Curves**: Containment initiatives have led to partial and full scale lock downs across the globe due to the growing consensus that social distancing and quarantine measures are the most effective measures to slow the spread of the virus. In other words, slowing or completely stopping economic activity is currently our most effective tool in stemming the spread of the virus. The most pertinent question on most investors' minds is – "When will the economy restart?." We think the answer lies in the flattening of the confirmed cases and confirmed death curves at least in the short term. From a local perspective we are not only reliant on our curves flattening but also that of the United States, United Kingdom, Canada and China, as these countries are our key external partners both from tourism and supply chain perspectives.



This image was adapted from the CDC.

Source: The Johns Hopkins University, The John Hopkins Hospital, and The John Hopkins Health System

- **Possible Treatment or Vaccine:** This will more than likely be a long term solution as it will take at least 12 months or more for a vaccine to undergo the necessary procedures before it can be approved by regulatory agencies. A possible nearer term solution might be the back-testing and recalibration of drugs designed for other viral infections to fight the current novel coronavirus. However, so far these attempts have been unsuccessful.

- **Earnings and Macroeconomic Visibility**: Whilst visibility of corporate and economic fundamentals will not signal the end of the health crisis, it will definitely go a long way in reducing some of the volatility being observed in financial markets. A lot of the volatility that we are currently experiencing can be attributed to investors jostling to balance near term risks with long term objectives which is increasingly difficult due insufficient data to make accurate financial projections.

Fixed Income Investment Strategies:

The overarching strategy for fixed income at this time is, **stick close to quality**. This refers to the fact that investors who are looking to invest in this asset class during this period should be skewed towards investing within the confines of the following guidelines:

- **Higher Credit Quality**: Securities that have higher credit ratings tend to have lower probability of defaults due to their generally more robust liquidity, solvency and profitability metrics. A higher credit rating is usually an indication that this issuer is more equipped to service their debt even with changing economic and financial conditions.

- **Lower Exposure to COVID-19 affected Sectors**: Sovereigns and corporates that have lower exposures to sectors or industries that are expected to be the most impacted by the spread of the coronavirus are likely to be impacted less and will possibly rebound faster in the aftermath.

- **Lower exposure to Oil/Energy Sectors**: It is likely that oil and natural gas prices will remain subdued for the remainder of 2020 as a result of the continued conflict between OPEC (Saudi Arabia) and Russia in conjunction with the current supply and demand imbalances. Consequently, corporates and sovereigns that have high exposure to this sector are likely to underperform in the short to medium term and may be subject to credit rating downgrades.

- **Invest in Supported Sectors**: There is a growing argument/strategy that supports investing in key sectors that are likely to benefit directly or indirectly from fiscal and monetary stimulus packages. Securities that fall in these categories are more likely to have higher levels of liquidity and lower levels of volatility.

Global Coronavirus Heat Map (Corporate)

High Exposure	Moderate Exposure	Low Exposure
Apparel	Beverages	Construction/Materials
Automotive Manufacturers	Chemicals	Defense
Automotive Suppliers	Manufacturing	Equipment & Transportation
Consumer Durables	Media	Rental
Gaming	Metals & Mining	Packaging
Lodging/Leisure& Tourism	Oil & Gas/Oilfield Services	Pharmaceuticals
Passenger Airlines	Property Developers	Real Esate, REITS
Retail (Non-Food)	Protein & Agriculture	Food/Food Retail
Global Shipping	Service Companies	Telecoms
	Steel Producers	Waste Management
	Technology Hardware	

Moody's/Coronavirus

Fixed Income Investment Strategies:

- **Barbell**: This strategy focuses on having exposure to both ends of the yield curve (longer and shorter maturities) and is generally useful for environments where the yields have risen on shorter maturities and declined on longer maturities (flattening yield curve). In this instance, as the curve flattens, the portfolio benefits from the price appreciation on securities with longer maturities whilst securities with shorter maturities can be reinvested at higher rates when they mature.

  - *Risk to this approach*: Yields falling on the short term maturities and rising on longer maturities (steepening yield curve) may result in the reduction in both income and portfolio value.

- **Laddered Approach:** A laddered bond portfolio consists of bonds that have exposure across the entire yield curve. This strategy allows investors to benefit from rising rates as maturing securities can be reinvested at higher rates and in a declining rate environment, the portfolio benefits from price appreciation at the longer end. The laddered approach is generally used as risk mitigation strategy for bond portfolios.

Equity Market Outlook:

The overarching strategy for equity markets is similar to that of the bond market - **stick close to quality**. This refers to focusing on stocks that are strong enough to withstand this shock and resilient enough to bounce back. Additionally, during periods of economic downturn it is prudent to focus on defensive sectors i.e. sectors that will experience activity regardless of the downturn. Examples of defensive sectors include; Utilities; Consumer Non-discretionary; Health Care; and to a lesser extent REITS. Investors seeking opportunities in this period should consider the following:

- **Financial Statement Quality**: Stocks that have strong liquidity, solvency and profitability metrics will be more likely to withstand the current shock. These companies are also more likely to have access to lines of credit or contingent funding to support their business during this period.

- **Lower Exposure to COVID-19 affected Sectors**: Companies that have lower exposures to sectors or industries that are expected to be the most impacted by the spread of the coronavirus are likely to be impacted less and will possibly rebound faster in the aftermath. For instance, companies that rely on income from tourism and related sectors will be more impacted by the fallout from the downturn in this sector. Importantly, the reduction in energy prices might act as mitigating force that could provide some relief to energy dependent companies.

- **Main Market over Junior Market**: As at the 27th of March the YTD return on the Junior Market Index stood at -35.98% versus the -29.46% of the JSE Main Market Index. Historically, during market downturns stocks with smaller market capitalization (small cap) tend to underperform stocks with larger market capitalization (large cap). Large cap stocks tend to be more mature companies with stronger financials i.e. better positioned to weather market downturns.

- **Invest in Supported Sectors**: There is a growing argument/strategy that supports investing in key sectors that are likely to benefit directly or indirectly from fiscal and monetary initiatives. Securities that fall in these categories are more likely to be more liquid and less volatile.

Equity Market Investment Strategies

- **Contrarian Investing**: In the context of the current crisis, contrarian investing is a structured investment strategy that goes against the current market trends. This strategy focuses on avoiding two common pitfalls of investors from a behavioral bias perspective - Herding and Recency bias. Investors suffering from a herding bias are simply going with the crowd i.e. selling because everyone else is selling and not based on any fundamental reasoning. Whilst investors who suffer from recency bias tend to overweight the most recent information and ignore prior but still relevant information, a contrarian investor attempts invest in stocks that are currently undervalued with the expectation that will regain their value.

  - *Risks to this approach*: Stocks may be permanently impaired and continue to trade at these lower levels.

- **Income Investing**: This strategy focuses on investing in stocks with high dividend yields and constant dividend growth rates. The argument for this strategy is that companies that pay high dividends tend to be more mature and tend to perform better in times of financial distress.

  - *Risk to this approach*: Companies that pay high dividends often have lower or no growth prospects and are at times in dying industries.

Portfolio Execution Strategy: Investors that are seeking to executing trades in this current environment may consider the following strategies that can be used for both equity and fixed income positions:

- **Staggered approach**: in times of heightened volatility or low trading volumes, trade execution tends to have a larger price impact and this can adversely affect investors who are buying or selling at this time. A staggered approach, in which investors incrementally execute trades over a period of time, is therefore more suitable. This approach also works for investors looking to gain exposure to mutual/unit trust funds at this time and can be executed via pre-authorized contributions (PAC).
- **Circuit Breakers**: are regulatory measures put in place to halt trading on an exchange primarily to stop panic selling and curb volatility. These measures are activated if trading on an index falls below a certain percentage point in a short period. Generally investors tend to exhibit “loss aversion” which refers to the fact that the negative utility gained from losses outweigh the positive utility from gains of a similar magnitude. Loss aversion tends to be fuel panic selling in times of high volatility. If individuals create their own circuit breakers, it will afford them an opportunity to reassess their position and ascertain whether they are acting on impulses or structured thought. This is a strategy that investors can discuss with their advisors with the aim of scrutinizing impulsive decisions that could hurt their portfolio in the long term.

Strategy: The current ebb and flow in the markets is one that seems to be caught between low and lower. This is principally attributable to concerns about the spread of the virus. With Europe still reeling from the effects of the virus, as well as the emergence of North America as the epicenter as the case counts continue to rise, sentiments suggest that in the short term we will still have some turbulent currents to navigate. **However, we are adhering to our investment philosophy which remains firmly rooted in portfolio diversification as we believe that a properly diversified portfolio is the best defense.** We therefore reiterate that, inter alia, investors' investment horizons and risk appetite should guide their investment approach in these stress periods.

APPENDIX – S&P Global Rating Definitions

Issuer Credit Ratings

An S&P Global Ratings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

Long-Term Issuer Credit Ratings*	
Category	**Definition**
AAA	An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P Global Ratings.
AA	An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
A	An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.
BB, B, CCC, and CC	Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments.
B	An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
CCC	An obligor rated 'CCC' is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
CC	An obligor rated 'CC' is currently highly vulnerable. The 'CC' rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
SD and D	An obligor is rated 'SD' (selective default) or 'D' if S&P Global Ratings considers there to be a default on one or more of its financial obligations, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A rating on an obligor is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.
***Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.**	

Source: S&P Ratings Global