ZANACORP

Special Client Update

February 2020

COVID-19 The Media And Your Money

As a result of world-wide blanket media coverage, few people will be unaware of the January 2020 outbreak of the novel coronavirus (known as COVID-19). This virus is from the same family as the more deadly Severe Acute Respiratory Syndrome (SARS) of 2003.

Until the final week of February, the impact of this virus was largely a human story. Then it became a financial one, sweeping through investment markets as headlines switched from the risks and loss of human life to the risks and loss of capital. A near and present danger to us all.

As we write to you, this 29th February 2020, most stock markets in the world have suffered falls of around 10% - 14% (from previous record highs) over the last trading week. The media have feasted on this news dramatically (mis)reporting "facts" as well as their impact on retirees and longer term investors. Punters should not be confused by the current turbulence in markets, blue chip shares are **NOT CHEAP,** they are simply less expensive than they were.

We wish to take this opportunity to write directly to our clients about their Zanacorp managed portfolios. We are specifically writing to people whose financial circumstances we know, not an unnamed, unknown potential reader, whose eyes are being captured with "click-bait" or a link to a sponsored video.

Our Current View

Extensive factory closures, travel bans and quarantine measures in many parts of the world WILL most certainly adversely impact global trade, the real economy and company profits. **Australia's tourism, education and mining industries** are on the front line having already been severely impaired. So too have most global product supply chains from TVs to toys to antibiotics, now demonstrably over reliant on Chinese manufacturing and distribution and vulnerable to Chinese issues.

The series of equity price falls over the last week represent the attempts of the market to assess the impact of the current economic disruption of COVID-19 on future company profits as well as the heightened risks of a global recession. As the virus has spread outside China, so too has its real and perceived impact on the wider global economy.

Although not widely reported, it is noteworthy that an estimated **80% of securities** traded on falling global markets were the result of **algorithm based (computer) trading** and ETF selling. We take no joy that we alerted clients in our November 2019 Investment Insight to the risks of cheap index and rule-based funds vis a vis Zanacorp's active based managed funds.

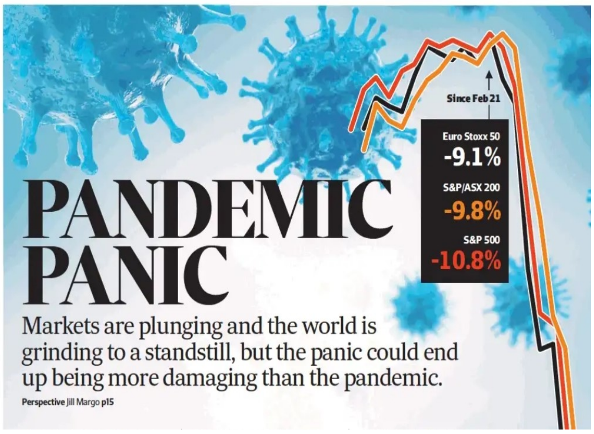
Nevertheless, all investments have been seriously caught up in this contagion. Realistically, the direction of markets over the next 6 months will be determined by the duration and intensity of the spread of COVID-19. The longer the outbreak remains seemingly uncontrolled, the deeper it will impact each economy and the more insidious will be its effect. On the other hand, quick or effective virus containment may see prices snap back. Which result we get, really is a flip of a coin.

One of the main challenges of this financial crisis is that its economic disruption is both a **supply side** shock (halted manufacturing and shipping) and a **demand side** seizure (suspended international trade, travel and spending). Under these rare economic conditions the usual response of bankers to flood their economy with cash may prove ineffective. Economies are not frozen as a result of a shortage of money, they are frozen by the everyday threat to peoples' health and safety.

It is a near certainty that all governments will engage their fiscal economic bazookas to limit the fallout on their domestic economies. We expect economic subsidies, tax cuts and industry specific packages to be the order of business. Although inflationary, these measures may reverse the unravelling of markets and trigger computer buy signals. Similarly, early development of an effective COVID-19 vaccine or treatment would diffuse fears of a pandemic and restore confidence.

Given the above uncertainties, we are reluctant to name the coronavirus as the spark to ignite the fuse of a market meltdown. We are also reluctant to assume markets will regain recent highs. Our preferred position is to attentively monitor the broad economic response of the outbreak. There is little to gain and much to lose by buying or selling at this moment.

Now For Some Facts



Australian Share Market

Despite the hysterical headlines circulating the media, if we take time back just 8 months to 30th June 2019, the ASX 200 Accumulation Index (which includes dividends) was 70,602. Today, it is 70,210. Put simply, the Australian share market, after a so called "blood bath" is almost unchanged since June last year. **As at 28th February 2020 the index is UP 8.6% from a year ago**.

Consider both the emotive wording and the graphic plunge in the chart lines from the attached illustration recently reported in the financial press. This appears to convey a quite different message, does it not?

Currency Gains

All Zanacorp portfolios include a more than usual weighting to **overseas assets** managed by one of the most **risk-averse** fund managers in the country. We are extremely comforted that not only were **over 25% of the funds held in cash/short positions**, its assets are predominantly owned in US dollars.

As the A$ has fallen steeply over recent weeks to around US65c, asset portfolio falls have been cushioned by the falling currency thereby limiting the overall impact of market declines and the short positions PROFITED from the market fall.

Infrastructure

A key plank of all Zanacorp portfolios constructed over the last 6-8 years has been the inclusion of an overweight position to infrastructure funds, a defensive, multi-country asset class, that profits from interest rate falls.

In recent months, all client infrastructure funds have generated high double digit returns as long term interest rates have continued to fall. Those recent gains have offset the February 2020 price declines to deliver **annualised GAINS** of between 6% - 9%.

Dollar Cost Averaging (DCA)

Many clients will know their particular portfolios incorporate our often quoted dollar cost averaging strategy. Newer investors and ex BT investors should rest easy that their exposure to falling markets is limited and that their portfolio will enjoy enhanced future returns by slowly buying at today's prices: capping large upfront risks in favour of smaller but more consistent gains.

Zanacorp's Defensive Investment Style

All clients will be aware that for some years Zanacorp has resisted the temptation to chase markets higher. Although you have participated in market gains, we have periodically "locked in profits" over recent years to ensure portfolios remain prudently invested. This has been our investment style for decades. You may have friends or DIY investors who have failed to take this approach at their peril, so do not be alarmed by them as their investments may be more impacted than yours.

That said, please be aware that the current value of every portfolio will have been adversely affected by the events of February 2020. Expect to see a short term decline in your investments, but do not be unsettled. Our goal of recent times has been to reduce downside risk in the event of unexpected market falls. Although like other investors, we could not have foreseen the arrival of COVID-19, as your advisers, we have been prepared for it.

Our Current Action

Zanacorp staff are currently in the process of reviewing every portfolio to ensure that should any specific action be appropriate to your situation, it is taken. **We will contact you** directly either by phone or in writing over coming weeks in this instance.

Until then, we believe that your capital is already well positioned to withstand any further short term uncertainty. It is invested with active managers and reviewed by us to provide you with the most favourable financial outcome in volatile times.

We suggest all clients be discerning in their approach to media reporting of current events. It may be hazardous to your health.