Appendix A - Market Review

Lazard

Following the coronavirus outbreak and the FTSE 100 falling by the most since the European debt crisis in August 2011, the new UK Chancellor Rishi Sunak used his first budget address in March to announce an initial stimulus package of £12bn to support businesses, public services and individuals affected by the outbreak. As evidence began to build that greater fiscal support may be needed, the chancellor increased this figure to nearly £60bn that included grants paying up to 80% of workers' salaries to prevent job losses, including the self-employed, as well as tax cuts for businesses and increased social security spending. The government has also offered £330bn of loan guarantees for companies financed through new debt issuance.

The Bank of England cut rates by 50 bps to 0.25% on 12 March and following this just a week later with an emergency rate cut to 0.1%, the lowest level in the central bank's 325-year history. Supplementing these rate cuts was the restarting of quantitative easing policies. UK manufacturing purchasing managers index (PMI) data also showed a likely contraction as output dropped at the sharpest pace since July 2012. Oil prices also suffered their worst quarter in history as the coronavirus pandemic weighed heavily on demand.

The global economic backdrop has undoubtedly darkened in the wake of the coronavirus outbreak and has led to significant uncertainty around corporate profitability in the short term. The manager believes that ultimately there will be a natural end to this global pandemic, in the same way that there was for SARS, MERS, and Zika outbreaks. There are hopes that warmer, sunnier weather could help slow the spread of COVID-19, which could provide respite for struggling health services as the Northern Hemisphere moves towards summertime, whilst the potential for a vaccine would likely help calm market nerves. A crucial point of note is how the situation unfolds as restrictions begin to be lifted and whether this leads to a second wave of cases. In the meantime, much looser monetary policy by central banks in the form of quantitative easing and rate cuts, combined with significant fiscal stimulus packages, should create the potential for a strong economic recovery in the second half of the year.

LCIV – Baillie Gifford

From an investment perspective, markets and managers entered the new decade with optimism, By the end of January, however, concerns were mounting over a new virus which had emerged, causing this optimism to be tempered. Oil prices had fallen by 11.9% on the associated weaker demand as China began imposing lockdown measures to contain the virus, named COVID 19. Nevertheless, better than expected US earnings figures and improving business sentiment surveys meant that markets largely saw through the virus issue, which was thought to be temporary and localised, as SARS had been.

Equities and Oil were the first to roll over, as investors started rebalancing portfolios and taking profits from the longest bull market run in history. In the third week of February, it became clear that the virus could not be contained to Asia. From 24th - 28th February, as news outlets were printing daily death tolls resulting from COVID 19, the concerns became reality. Stock markets around the world fell by the most since

the 2008 Financial crisis. On 9th March, after the weekend news emerged of an oil supply war between Saudi Arabia and Russia as demand had cratered, Brent Crude fell to $22.50 a barrel, a drop of over $40 since the beginning of the year. The Dow Jones Industrial Average suffered the worst ever fall in intraday trading and was suspended. Three days later, Europe and many of the G20 nations announced lockdown measures to curb the pandemic.

Over the next few days, the market volatility spread to other areas. Credit spreads across all areas and sectors widened to the highest levels since 2008. Credit managers also said that the widening felt faster than even those peaks in the financial crisis, such was the ferocity of the move. Global bonds and Gold also fell as investors began to sell whatever they could to avoid further market drops. Central banks and government treasury departments initiated the largest bail out in history, with the UK having already pledged over 60% of 2019 GDP on fighting the economic and financial fallout from the pandemic. The US followed suit, announcing a $2 trillion (later upgraded to $3 trillion) financial aid package, along with rate cuts of over 1%. Governments around the world announced the largest ever fiscal stimulus package to combat the virus and the economic effects that the ensuing lockdown would have. Economists and market participants agree that this has likely resulted in staving off a depression and ensured that liquidity in markets is still present.

Investment managers across the industry are working to understand the socio economic repercussions that the virus, as well as the countermeasures, will have. So far, the conclusions have been very different. For the equity managers, the focus has been on ensuring that each of their underlying companies has the balance sheet strength to withstand the extreme loss of earnings. Any company related to oil, travel and leisure or high street retail have been those most in the firing line. On the other hand, technology and cloud based companies have been able to withstand the disruption relatively well, with some IT companies actually guiding their earnings upwards as customers have been forced to shop online.

RLAM

There was high demand for sterling credit at the start of the quarter, particularly for long-dated bonds, with spreads nearing five-year lows in January. There was a general perception that economic growth was stabilising, with the composite PMI business survey indicator having improved towards the end of 2019. Positive developments around global trade and greater clarity on Brexit supported higher levels of business optimism and improving consumer confidence. Accommodative central bank policies ensured that financial conditions were looser than normal, and there had been numerous announcements in late-2019 suggesting a long-awaited pick-up in UK government spending. All of these factors helped risk assets.

Toward the end of January, news of the coronavirus outbreak in China hit markets. Investors feared an outbreak akin to the SARS epidemic in 2002-04, with severe implications for supply chains given Wuhan's importance as a global manufacturing hub. Reflecting on the market impact of SARS and similar diseases, investors concluded that the economic growth would be compromised in the short-term, but that economies would subsequently bounce back and the risks would be relatively

contained. The sterling credit market consequently recovered quickly following the initial brief period of weakness, remaining relatively calm through mid-February; albeit with a perception that the risks were rising.

When news broke in late February that coronavirus cases were surging in Italy, with greater speed and deadliness than had been suggested by the Chinese data, the outbreak was declared a pandemic and markets moved into panic mode. The US 10-year yield fell to an all-time low and central bank coordinated rapid and severe policy responses to keep liquidity in markets. In the space of just a few weeks, liquidity decreased to levels comparable to the global financial crisis. Reflecting much greater risk aversion, the average sterling investment grade spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) ended the quarter 98 basis points (bps) wider than it had started it.

Bonds in the consumer sectors of tourism and leisure widened significantly, with airport closures and passenger flight cancellations having major knock-on effects for travel companies and hotels. Financial companies are also exposed to changes in consumer behaviour, and so the high beta subordinated banking and insurance sectors underperformed. However, financials have not been the epicentre of the crisis as they had been in 2008. By the end of the quarter, some semblance of normality had returned to the sterling credit market, with activity increasing in the primary and secondary markets.

The last few days of March also saw a theme of improving liquidity, led by the long-end where demand picked up materially. Liquidity improved at the short-end as well, though remained low. The growth rate of new coronavirus cases also slowed in several countries, likely reflecting a broad trend towards social distancing rules and lockdowns. Economic data also emerged giving early signs of the cost of such measures, with drastic reductions in economic activity and big spikes in unemployment as several economic sectors are effectively shut down.