finexis
ASSET MANAGEMENT
汇信资产管理有限公司

INVESTOR LETTER
April 2020

Dear Investors,

When I first mentioned VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) in our January 2019 investor letter, it was to explain what 2018 looked like to investors. What happened one year later brought VUCA to a whole new level. Covid-19 spread across the world in two months. On 1st March, there were less than 9,000 confirmed cases in the world excluding China, and about 2.25 million when I am writing this letter on 18th April. The extreme turn of events triggered contingency plans globally as nations implemented measures to contain covid-19. With regions in lockdown, it was a surreal, post-apocalyptic sight[1] mirrored world-wide.

Unexpected, swift, and unprecedented

What happened to markets can be summed up as unexpected, swift, and unprecedented. US markets experienced four circuit breakers in ten days from 9th to 18th March. The S&P 500 index dropped 34% from 19th Feb to 23rd March, and then rebounded 15.5% in the last week of March after the Fed announced its "whatever it takes" rescue program. Since then, the S&P 500 has rebounded 28% from 23rd March to 17th April. But as we mentioned in our first investor letter in January 2018, negative compounding demonstrated its power this time. After a 34% drop, the S&P 500 needs a 50% rebound to get back to its previous high; which means after a 28% rebound, the S&P 500 only managed to gain back half of what it lost.

Financial markets across asset classes literally fell off a cliff in March. There were headlines abound of veteran investors across equity, fixed income, and risk premia having unprecedented losses. Indeed, there were few places to hide. Even Warren Buffett said that it took him 89 years to experience something like this[2]. Our Asia fund behaved as the strategy was designed; it tends to be more volatile in both up and down markets. It declined 18% in March but note that its strongest month in Jan 2019 surpassed that of the Asian markets. Our multi-asset portfolios had some bright spots that bucked the trend of widespread declines but were not spared either; with FGOP -14.43% and FGO -14.00% year to date as at 15th April, in line with what we expected.

Two most-asked questions

The two most-asked questions in March were:

1. Is the economy going into a recession?
2. Is this a bear market?

The answers to both questions are the same: YES.

The National Bureau of Economic Research (NBER) defines a **recession** as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Even without an official announcement from NBER, recession is a base case scenario. How can economic data be positive when we in Singapore are cooped up at home due to the one-month circuit breaker, and one third of the world is in lockdown[3]?

---

[1] https://www.marketwatch.com/story/post-apocalyptic-drones-capture-eerie-footage-of-america-on-lockdown-2020-03-31
[2] https://finance.yahoo.com/news/warren-buffett-coronavirus-outbreak-stock-market-volatility-oil-crash-125047574.html?
[3] https://www.statista.com/chart/21240/enforced-covid-19-lockdowns-by-people-affected-per-country/

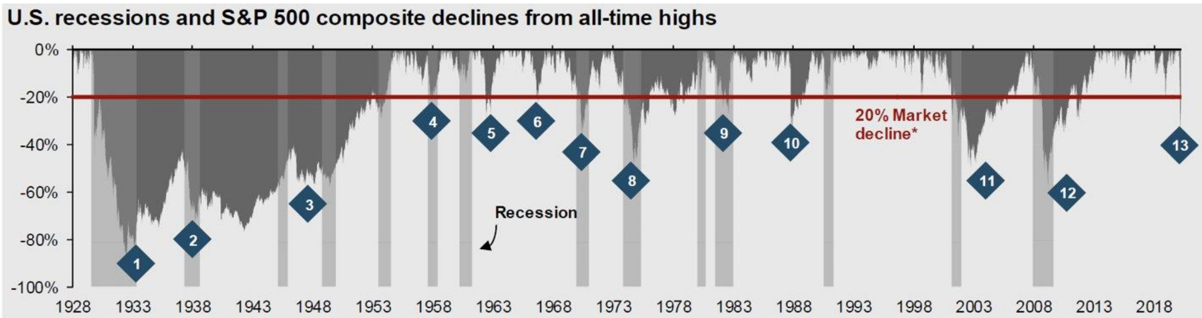
One interesting fact is recessions and bear markets don't always come together. Table 1 shows that out of seven recessions in the past 50 years, there are four when the market was flat or up, and only one bear market which happened in 2008.

Table 1 Market performance during recessions

Recession	Market performance
1969	0.10%
1973	-15%
1980	23%
1981	21%
1990	21%
2001	-1%
2008	-37%

Source: Bloomberg, S&P performance during US recessions

Bear markets occur when market prices decline by more than 20% from the previous high. While we say that the seven previous recessions only saw one bear market, it does not mean bear markets do not happen while there is no recession. Figure 1 shows that over the past 100 years or so, there have been 13 bear markets. The table shows that each bear market was preceded by a much stronger (average 166%) and longer (average lasting 54 months) bull market, while bear market returns tend to be weaker (average -42%) and shorter (average 22 months).



	Market correction	Bear Market: Market peak	Bear Market: Bear return*	Bear Market: Duration (months)*	Bull markets: Bull begin date	Bull markets: Bull return	Bull markets: Duration (months)
1	Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	Jul 1926	152%	37
2	1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	Mar 1935	129%	23
3	Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	Apr 1942	158%	49
4	Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14	Jun 1949	267%	85
5	Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6	Oct 1960	39%	13
6	1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7	Oct 1962	76%	39
7	Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	Oct 1966	48%	25
8	Stagflation - OPEC oil embargo	Jan 1973	-48%	20	May 1970	74%	31
9	Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	Mar 1978	62%	32
10	1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3	Aug 1982	229%	60
11	Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	Oct 1990	417%	113
12	Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	Oct 2002	101%	60
13	Global Slowdown - COVID-19, oil price war	Feb 2020	-24%	1	Mar 2009	401%	132
	Averages	-	-42%	22	-	166%	54

Figure 1 US recessions and S&P 500 declines; Source: JP Morgan Asset Management

In order not to be affected by the newspaper headlines and stick to the original investment plan in this VUCA world, one thing investors can do is to go back to history and look for reference points. As Mark Twain said "History doesn't repeat itself but it often rhymes". Humans have short memories, and history will provide guidance and the ability to keep calm and stick to the strategy which is one of the most important factors to achieve long term success in investing.

What should investors do?

We advocate the teachings of legendary investor Howard Marks: You can't predict, but you can prepare. There are three things investors can do to be better prepared:

1. Do a stock-take: Is your portfolio diversified? Is it subject to leverage or liquidity risk?
2. Determine how much capital you have in hand for dry powder.
3. Go into battle field with clearly defined sword (offensive position) and shield (defensive position).

Our portfolios are **well-diversified** across equities, bonds, and alternatives. We **do not use leverage** so that we can avoid margin calls to force-sell our holdings when markets are stressed, and we can protect our sword positions properly. We have been focusing on **resilient** areas such as quality growth, health care equity and government bonds which served as our shield when market fell off the cliff in March. Our funds are enjoying **100% daily liquidity**. That allows us to move our positions easily when opportunities spring up e.g. good bargains when there are fire sales. And that is just on the investment front. In terms of our operations, we actually eased quite seamlessly into the covid-19 contingency measures as we have been **early adopters of workplace collaboration information systems** even in normal times. More importantly, we continue to be able to invest in an environment where more opportunities spring up.

"Is the worst over?". Honestly, we do not know.

Alas, preparedness, resilience, and liquidity are not enough for successful investing. Amid the ongoing onslaught of bad news and second guessing that messes with the mind, does one have the temerity to press the button to invest more after the recent carnage? Howard Marks said in his memo[4] "It's not easy to buy when the news is terrible, prices are collapsing". The inherent human psychology of wanting sure outcomes means that "waiting for the bottom can keep investors from making good purchases".

That is why we always go into battle with shield and sword. The shield retains resilience amid uncertainty, and in the event future unknown stresses occur. We also know that it is practically impossible to win a battle with just a shield. The sword focuses on opportunities that have priced in more bad news than the broader market, so even if markets drop again, these opportunities have provisioned for bad outcomes. Howard Marks also said **"The investor's goal should be to make a large number of good buys, not just a few perfect ones"**. With the Sword and Shield package, it equips us with the confidence to get into the good buys. For more details on how we invest in such times, please refer to our latest commentary[5].

My previous letter in January spoke about staying sane in the face of seemingly irrational markets which were at a high. Today, markets have gone through a bear market, and also seem irrational. Again, for matters beyond our control, we seek the serenity to accept the things we cannot change, courage to change the things we can, and wisdom to know the difference.

Best regards,

Alvin Goh

Alvin Goh
Chief Investment Officer

[4] https://www.oaktreecapital.com/docs/default-source/memos/calibrating.pdf?
[5] https://webcms.finexisam.com/assets/publication/monthly/FAM_Commentary_202004.pdf

Disclaimer

To the best of its knowledge and belief, Finexis Asset Management Pte. Ltd. (Finexis Asset Management) considers the information contained in this material as accurate only as at the date of publication. All information and opinions in this material are subject to change without notice. No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided in the material or by third parties. The materials on this material could include technical inaccuracies or typographical errors, and could become inaccurate as a result of subsequent developments. Finexis Asset Management undertakes no obligation to maintain updates of this material.

Neither Finexis Asset Management nor its affiliates and their respective shareholders, directors, officers and employees assume any liabilities in respect of any errors or omissions in this material, or any and all responsibility for any direct or consequential loss or damage of any kind resulting directly or indirectly from the use of this material. Unless otherwise agreed with Finexis Asset Management, any use, disclosure, reproduction, modification or distribution of the contents of this material, or any part thereof, is strictly prohibited. Finexis Asset Management expressly disclaims any liability, whether in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential, punitive or special damages arising out of, or in any way connected with, your access to or use of this material.

This material is not an advertisement and is not intended for public use or distribution. This material has been prepared for the purpose of providing general information only without taking account of any particular investor's objectives, financial situation or needs and does not amount to an investment recommendation.

The information contained in this material does not constitute financial, investment, legal, accounting, tax or other professional advice or a solicitation for investment in funds managed by Finexis Asset Management, nor does it constitute an offer for sale of interests issued by funds that are managed or advised by Finexis Asset Management. Any offer can only be made by the relevant offering documents, together with the relevant subscription agreement, all of which must be read and understood in their entirety, and only in jurisdictions where such an offer is in compliance with relevant laws and regulatory requirements.

Simulations, past and projected performance may not necessarily be indicative of future results. While there is an opportunity for gain, any investor is at risk of loss of 100% of its investment when investing in funds managed or advised by Finexis Asset Management.

The information on this material is not intended for persons located or resident in jurisdictions where the distribution of such information is restricted or unauthorized. No action has been taken to authorize, register or qualify any of the Finexis Asset Management funds or otherwise permit a public offering of any Finexis Asset Management fund in any jurisdiction, or to permit the distribution of information in relation to any of the Finexis Asset Management fund in any jurisdiction.