CCLA

GOOD INVESTMENT

Covid-19 Update I

16th March 2020

Investment markets fell sharply in late February and early March reflecting a significant increase in concerns over the likely impact of Covid-19 (coronavirus) on the world economy. On 9 March, markets took another plunge in reaction to the threat of an oil price war between Russia and Saudi Arabia combined with a worsening of the global spread of Covid-19.

Fear continues to spread faster than the cause of that fear, Covid-19, which looks to be more contagious than other coronaviruses that caused SARS and MERS but has relatively mild symptoms for the majority of those infected with many cases so mild that they aren't detected and aren't reported. But if the virus behaves like previous coronaviruses, which we believe is likely, and disappears before too long, we could see a rally in those affected investment markets. However, there remains additional downside risk and we will continue to monitor market data carefully and react accordingly

CCLA's funds have been adversely impacted by the fall in investment markets but notably less than the overall market decrease. This reflects the composition of our portfolios and the emphasis on companies with sustainable underlying real returns and robust growth prospects independent of the general economic trend. Prior to the fall in investment markets, we increased cash weightings in CCLA funds and we now look to take advantage of buying opportunities presented by market volatility i.e. allowing us to buy company shares at attractive valuations.

Examples of good performance include the resilience of companies in the technology sector (Microsoft, Amazon and PayPal); communication services (EA and Activison) also performed relatively well. Two sectors which performed poorly, clearing banks and energy, have only a modest representation in our portfolios. CCLA Funds have a low weighting to fixed income stocks which was unhelpful as yields fell and values rose as investors sought safety. The disadvantage, however, was substantially offset by the returns on the alternative asset portfolio and our property holdings which to date remain largely unaffected. The value of investments and dividends can go down as well as up and you may not get back your original investment.

Recent public news has been supportive of investment markets as central banks, including the Bank of England, have committed to supporting economic activity by cutting interest rates. Events have clearly revealed a threat to the level of global economic growth this year, but we need to hold in mind that even though the pace of economic growth may be lower than earlier expectations of the Bank of England we still expect economic growth during 2020.

We will maintain a dynamic approach to both asset allocation and instrument selection, and for now are comforted by the high levels and resilience of free cash flows within companies held in CCLA Fund portfolios, consistent with the bias towards high quality opportunities, exposed to secular growth trends.

Our expectation is that the cash balances held within CCLA funds will be reduced gradually in the period ahead taking advantage of the improved value available in listed securities. We have no intention at this time to alter our expected distribution payments to investors which will be increased from previous distributions, by at least, the expected rate of inflation.

If you have any questions please contact your relationship manager at CCLA or Client Services:

Email: clientservices@ccla.co.uk
Freephone: 0800 022 3505

Peter Hugh Smith
Chief Executive Officer