PANDEMIC INSURANCE FOR YOUR PORTFOLIO

Recently there have been media reports of a few companies that had purchased pandemic insurance. Two notable examples are the Wimbledon Championship Tennis Tournament and the Shaw Festival in Niagara-on-the-Lake.

Wimbledon is the most prestigious tennis tournament in the world, with a 2019 prize payout totaling approximately US$50 million. The event is organized by the All England Lawn Tennis Club (AELTC), which started purchasing pandemic insurance in 2003 at an annual cost of US$1.8 million. Although the cost of the insurance over the years totaled US$30.6 million, it finally paid off this year, with reports estimating a payout of US$142 million.

The Shaw Festival is one of North America's top five not-for-profit theatres and Canada's second largest theatre company. About three years ago, the non-profit decided to purchase pandemic insurance. As a result of the expected payout, the company has been able to keep all of its 500 people employed during this time. Note the company has not disclosed its annual cost of the insurance nor the estimated payout. In contrast, Cirque du Soleil, the largest globally known live event company, filed for bankruptcy protection on June 30. Their situation was blamed on the cancellation of shows due to the implementation of COVID-19 safety measures. All three companies are in the business of producing live events that provide an "experience" for the audience and are dependent on audience tickets sales, sponsorships, and merchandise for revenues.

What does the management of Wimbledon and the Shaw Festival have in common? First, their decision to purchase pandemic insurance was based on an in-depth risk management process, not luck. Their management teams identified that the biggest risk is if the show cannot go on due to a low probability event (such as a pandemic), and they were able to outsource that risk through insurance. Second, they executed on their risk management process. Many companies identify risks to their business but not all actually take steps to migrate those risks, either due to financial costs, the event probability being too low, or lack of conviction in their risk management process.

So how does risk management apply to portfolio management? Most investors focus 100% of their energy on a portfolio's upside and do not consider the unexpected or "black swan" events until it's too late. As active portfolio managers, we are constantly looking at the "what if" scenarios and how our investments factors will perform during negative markets. There is an old saying – "there's no such thing as a free lunch" – this especially applies to the stock market. In order to consistently beat the market, portfolio managers must take on a lot more risk, either through large individual company or sector weights or higher volatile stocks. As money managers focused on income and capital growth, we do not believe in chasing winning stocks or sectors, but rather focusing on our strict M-Factor investment process which is built around risk management through back testing. These factors are focused on Quality, Income, Growth, Value and Risk. Over the past 10 plus years, these factors have shown to outperform during calendar down markets.

For example, the Matco Canadian Equity Income Fund has outperformed in three of the last four negative calendar years. In addition, the Matco Small Cap Fund has outperformed in five of the last five negative calendar years. By focusing on risk management, our process has been able to preserve capital during negative years plus provide growth during positive years.

To learn more about the Matco Canadian Equity Income Fund, the Matco Small Cap Fund, or our proprietary M-Factor investment process, please reach out to me.

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MATCO FINANCIAL INC.

Founded in 2006 to manage and service seven family offices, today Matco offers the benefits of our extensive investment management experience to individual investors, foundations, endowments, condominium corporations, trusts, corporations and not-for-profit organizations.

Our mission is to simplify the investment world for our clients by understanding their needs and providing exceptional investment solutions that preserve and grow capital.

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