



MATCO MARKET INSIGHTS PODCAST SERIES: EPISODE 1

Navigating the COVID-19 Investment Landscape (17min)

April 21, 2020

Q&A with Trevor Galon, Chief Investment Officer -answers the top questions that clients are asking now

Host: Anil Tahiliani, Vice President & Portfolio Manager

HIGHLIGHTS:

How is the current economic downturn different from past downturns?

How is Matco doing during this health crisis?

For investors sitting on cash what should they do now?

How have the Matco funds done during the last month?

What have Fund Portfolio Managers been doing regarding portfolio holdings?

If you have any questions, comments, or suggestions about the podcast, please email:

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TRANSCRIPT:

Introduction

Welcome to the 1st episode of the Matco Market Insights Podcast.

Anil: Hello everyone, welcome to our first ever podcast. I'm Anil Tahiliani and joining me today is Trevor Galon, our Chief Investment Officer.

Trevor: Hi Anil, how are you doing today Anil?

Anil: Good thank you Trevor.

Trevor: Good, well thanks to everyone who is joining us to listen in, we certainly appreciate the continued support. First and foremost, we hope everyone is staying healthy at this time, and doing what they can to adjust to the new normal, so to speak, we currently find ourselves in. We recognize that COVID-19 is a humanitarian and health crisis first, with the economic fall out being a by-product of the overall global pandemic. That said, we at Matco are tasked with the stewardship of your financial well being and as such that remains our top priority, hopefully allowing you to focus on the other aspects of your life as the world works through these current challenges.

Anil: Trevor, as you mentioned we are in a very unusual time today given COVID-19 and its global human and economic impact. How does our current economic and stock market situation compare to past economic or investment downturns?

Trevor: Excellent question Anil. I think there's a few separate parts to the question. Starting with the social and humanitarian aspect. This particular scenario is unique from past economic downturns in that the daily lives of people around the world have been drastically impacted. Working from home, to school closures and a significant reduction in the ability to socialize to the same extent society has grown accustomed to. So, I don't think we can ignore that this uniqueness is potentially having a greater stress and psychological strain on households around the world. So that's the first aspect.

Now certainly there's the economic landscape and we're acutely focused on that. From this perspective, the economy was in a very similar position at the beginning of this economic downturn as we have observed in past economic downturns. More specifically, leading up to the breakout of the COVID-19 pandemic, the following economic fundamentals were notable:

- 1) The global labor market was very healthy and operating well beyond full capacity, with unemployment rates very low across the global economy. This also led to healthy wage inflation of around 4% or so.
- 2) Secondly, as a result of the tight labor market, global financial conditions had gradually been tightening over the last five years as well.
- 3) Lastly, global manufacturing activity had reached its third cyclical peak and was beginning to lose steam around the world.

There would be several other notable factors I could mention, but just leaving it at those brief three, although the COVID-19 pandemic was not a major economic risk on the majority of peoples radar late last year, generally speaking the economic landscape was showing signs that we have observed in the past, indicating the economy was potentially susceptible to a downturn.

Anil: Interesting, now how about from the market's perspective?

Trevor: As one might imagine, economic cycles and investment cycles together run parallel to one another, however the metrics are slightly different. From the market's perspective, the stock market had been on a healthy decade long run, where corporate earnings growth and multiple expansion, how much investors are willing to pay for each dollar of earnings of those underlying companies, both of those things in combination helped deliver strong returns for investors. Equally as notable, on the other side of the investment coin, within the bond market over the last decade, the credit metrics of businesses have been improving; allowing credit spreads to tighten and the bond market to perform very well. All of this occurring even while the overall stock of corporate debt was rising in North America. This is often referred to as the credit cycle and progressing deeply into the credit cycle was perhaps another signpost that we were potentially approaching the end of an investment cycle.

So, to summarize and try to pull those perspectives together, the health of both the stock market and bond market over the last decade have been the positive response function to those underlying healthy economic fundamentals that I spoke to earlier.

Anil: Trevor that makes sense, the economy lays the groundwork and the investment markets drive ahead. So now that global investors are relatively in agreement that we're entering an economic downturn, how might this downturn be different from other recessionary periods?

Trevor: That's also an interesting question Anil, and to be frank, the reality is that no one can say for sure if the economy will react differently this time around. What we do know however is that the catalysts we have observed in the past which have also led to economic slowdowns have all themselves been different and unique, yet the economic cycles have still had a strong semblance from one to the next. Earlier, you said the market "drives ahead", so sticking with your road analogy, in past economic recessions the economy had been driving at a fast pace, approaching a sharp turn and when it realizes that the sharp turn is ahead, the economy must slow itself down to navigate the corner, get through the turn and then re-engage the accelerator on the other side. In this particular case, it has been a little different in a sense that the economy was approaching a curve which it was beginning to decelerate for, but without forewarning, the COVID-19 global pandemic darted out in front like a train on it's railroad tracks, and this forced the economy to a screeching halt. This leaves us in a situation where the length of time it takes the COVID-19 train to pass will directly relate to how long it will take the economy to re-engage.

Thus far, speaking to economic fundamentals, we have seen a strong negative response from labor markets globally, with millions in North America filing for unemployment insurance. Although these economic downturns are difficult to stomach and work through, job loss being a large part of that, they do however as a silver lining, help reset the economy for the next long-term economic expansion. If investors can find a way to focus their vision further down the road, rather than focusing on the train that has forced the current economic gridlock, this allows them to begin positioning their portfolio for the stronger investment returns that, when you look multiple years down the road, we believe lie ahead.

Anil: Thanks Trevor, now let's get into some more specific questions that our clients have asked us. How is Matco as a company doing during these times?

Trevor: As a company we are faring quite well. A lot of credit to our operations department who collectively put together a strong business continuity plan, which has been fully in effect since March 15th. This has allowed us to carry-on our operations business as usual, aside from missing the in-office interaction with our colleagues and clients, things are moving along quite smoothly. If you can believe it, we also managed to move office building locations in March as well, so when the time comes to move back into our office setting, we will officially be located in the Millennium Office Tower in the Eau Claire district. By working remotely, we hope that these operational adjustments are allowing us to do our part in flattening the COVID-19 curve locally. From our perspective as a business, these are relatively small adjustments such as client and prospect meetings, which are happening by conference call or video conference. Overall, the business was well prepared for such an unprecedented scenario and remains in healthy standing.

Anil: Thanks Trevor, let's go on to the next questions that clients have been asking. For investors sitting on the sidelines with cash what should they be doing now?

Trevor: I'm glad you brought this up Anil. That can be one of the challenging things, without a doubt times of economic distress can pull at the emotional strings of investors. However, we strongly feel it is critical to stay focused on the long-term financial objectives and continue to execute a consistent investment process. As an investment manager, we would first emphasize that trying to time the market, or "pick a bottom" if you will, is an ill-advised approach. For investors on the sidelines or with cash to invest, times of economic distress, like this one, we feel are an excellent opportunity to build a low-cost base for long-term investments in fundamentally sound companies.

A prudent approach is to invest any sidelined cash in multiple tranches, this allows investors to begin deploying the capital into a portfolio of strong companies and take advantage of the improved valuations being offered in the marketplace. It's important to remember that although economic data will continue to be weak for the next couple of quarters, the market will slowly begin looking forward to 2021 and 2022 to determine how quickly company earnings will begin growing those earnings off a very low base of earnings here in 2020.

Anil: Now let's switch over to performance and talk about how the Matco funds done over the last month?

Trevor: Although our Matco Investment Funds have not been immune to the downdrafts in the equity markets, our investment process is keenly focused on the nine key investment factors we have identified as providing strong and resilient long-term investment returns. Focusing on these factors means investing in companies that can perform in both strong economies as well as challenged economies. Using our Matco Balanced Fund as an example, it was down approximately 12% by the end of March, showing some really good downside protection in the context of a volatile market and has continued to recover alongside the market over the last few weeks.

Anil: Now digging a little more into the funds, what have the fund Portfolio Managers being doing over the last month during the market sell-off?

Trevor: That's a good question as well Anil. First and foremost, I'd highlight that our core process is just that, it's core to what we do and doesn't change regardless of the economic landscape. The investment factors, that I just eluded to, were hand selected as they allow us to identify resilient investments that fare well in all economic environments. That said, we have run some complimentary stress tests. Those stress tests have been focused on evaluating the debt, leverage and dividend sustainability of our underlying companies. These complimentary stress tests have allowed us to further evaluate the strength of the companies we have invested in, but by design of the process, haven't highlighted any areas of concern within our current investment positions.

Anil: Well Trevor you know a lot of people today are at home during these times and they are overwhelmed with all the media. How do you see things playing out over the next few months with respect to COVID-19 and the stock market?

Trevor: That's a bit of a spicy one Anil. Certainly, if anyone turns the TV on day to day there is a lot of headlines, banter and news to digest, and it can be a little difficult for some to regain their compass. The reality is no one knows for sure how the COVID-19 pandemic will play out and how deep the economic fall out might be. From our perspective, trying to predict exactly how COVID-19 will play out isn't an exercise we are all that interested in or focused on. The assignment we remain focused on, on behalf of our clients, is executing our investment process and building resilient portfolios. This involves analyzing fundamental data and investing in strong companies that can carry on their business on both open highways and bumpier winding roads. What we do know is that these investments are currently available at more attractive prices than they were a year ago, and therein lies an opportunity. Without a doubt, the COVID-19 pandemic is a temporary roadblock and the economy itself has proven over decades and centuries that it is a resilient engine that will work through the current challenges. Again, looking further down the road we see the global economy recovering from this economic recession as it has recovered from downturns in the past,



and that means staying vigilant with respect to our investment process. That continues to be our strongest conviction today.

Anil: The next question we've heard quite a bit of is as a conservative investor, what should I be doing now?

Trevor: Again, it goes back to the information flow, it can be a little intimidating. As a conservative investor, the most important thing to do is continue to focus on the long-term financial objectives. Within that context, here's a short list of things to focus on:

- 1) Stay invested, do not allow the emotional aspect of investing to drive decisions that will potentially have a negative impact on your investment results.
- 2) Continue to save and contribute to your investment portfolios or accounts. Doing so consistently over a long period of time will go a long way in allowing you to achieve your long-term financial game plan.
- 3) For both clients and prospects listening in, we would encourage you to meet with your Matco Portfolio Manager and re-confirm your risk profile, as given the current situation your financial circumstances may have changed or evolved. Ensuring you're invested suitably; will help you navigate all market conditions smoothly.
- 4) And lastly, work with your Matco Portfolio Manager to ensure you are rebalancing your investment portfolios to your long-term strategic asset mix. At Matco, this is something we do on behalf of our clients, but if investment accounts exist at other investment firms, it is a worthwhile to revisit and have those broader discussions.

So those would be the four main things. At the end of the day, we encourage our clients to lean on our expertise and experience to help them navigate all investment landscapes, especially when the ride gets a little bumpy or turbulent.

Anil: Thanks Trevor. One last question, given we've been working from home for about four weeks now and it looks like we might still be on lockdown for another month or two, how have you been coping with working from home and if you had any recommendations for our listeners on how to deal with the situation as a lot of people may be getting stir crazy?

Trevor: Definitely. I think everybody's potentially running into some cabin fever, as it has been harder to stay active and do the things we're used to doing. The first thing I noticed is that I've replaced my rolodex of eight to twelve ties that I used to rotate through, and I've exchanged those for a couple sets of moccasins, which I haven't minded. I think a lot of people have started communicating this and have done a really good job, but developing that daily routine and trying to stay consistent in terms of how you were operating your daily life before hand and trying to maintain some of that structure while at the same time when you can, get out for a socially responsible walk to try and make one day to the next feel a little different, while maintaining that consistent daily routine from a productivity stand point.

Anil: Thank you Trevor for joining us today to our answer our client questions. To our clients and listeners out there, if you have any additional questions please reach out to your Matco Portfolio Manager by email or by phone. We appreciate all feedback so if you enjoyed this format of us delivering an investment update, we would appreciate hearing from you so we can do more podcasts for you in the future. On behalf of everyone at Matco we hope you and your family remain safe and healthy during these times and we look forward to talking to you next time.



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