

MARCH 16TH, 2020

LETTER TO OUR CLIENTS OUR RESPONSE TO CORONAVIRUS

Both in human and financial terms, the coronavirus is a source of great concern. Until the end of February, the markets had shown extreme resistance to the coronavirus, as long as it seemed to remain confined to China. The spread of the virus at the global level has obviously changed the situation, and we have been experiencing extreme volatility over the last few weeks.

The economic consequences are obviously impossible to assess at this stage, as long as the coronavirus progresses and containment measures continue. This health crisis has also taken place on levels of valuations of risky assets up to their peak. The correction is all the more intense.

What initially looked like a supply shock (direct impacts of containment measures by means of slowdowns or closures disrupting production chains) also affects demand, on "recreational" spending and tourism of course, but also through uncertainty affecting consumption in general. These supply and demand shocks make it even more difficult to estimate the macroeconomic impact.

However, we expect pressure on demand to predominate. Adding to this health crisis the collapse of oil prices (increases in output following tensions between Saudi Arabia and Russia), the risk is mainly deflationary, which **must prompt governments and central banks to take appropriate accommodative fiscal and monetary measures quickly.**

WILL THE EXPANSION SURVIVE THIS SHOCK?

The coronavirus and drastic containment measures that are expected to generalize globally is **a shock that will be sharp and extreme, but temporary and short-term**, concentrated in the first half of the year, with some time lags depending on the stage of spread of the virus in the different parts of the world. **A sharp rebound is expected in the second half.**

The most sensitive point in this health crisis is that it does not destroy production capacity, that companies are supported, as are households. To this end, fiscal and monetary measures could be further intensified.

On the monetary side, while rate cuts do not necessarily seem the most appropriate to support the economy in this crisis, they are nevertheless the quickest way to avoid a feared tightening of financial conditions by providing sufficient liquidity on financial markets.

Many central banks have already joined in cutting their rates, starting with the Fed, asset-purchase programs and/or have started to maneuver to support bank lending directly to SMEs to support bank lending directly to SMEs (notably the Bank of England). With less room for maneuver on its key rates, the ECB, for its part, has for the time being limited

itself to a package of unconventional measures (new targeted long-term refinancing operations, an additional 120 billion in quantitative easing, easing banks' capital cushion obligations). But the markets' reaction to the Fed's latest major move (surprise cut in the Fed funds rate, in a range of 1% - 1.25% to 0% - 0.25%, and a USD 700 billion QE after the first surprise 50 bps cut) shows that these measures are still insufficient to restore some confidence in the markets.

Fiscal stimuli already underway in Asia are starting to multiply outside Asia through fiscal measures to support companies affected by the coronavirus, but there are few significant stimulus packages so far.

The strongest message came probably from Germany, whose finance and economy ministers announced an "unlimited" support program to protect its businesses and jobs. The German government is thus ready to abandon its "Golden Rule" (zero deficit), to which it stubbornly adhered before the health crisis, a clear message of its determination.

But the effectiveness of fiscal and monetary measures will be even more important if they are implemented in a coordinated manner (according to an OECD study, in the year following the recovery, almost half of the positive impact on growth comes from the actions of the other countries carrying out the same stimulus). As a result, and in the face of the measures still being taken here and there, investors are still of the opinion that the measures currently being taken are not sufficient. **The idea of concerted action is in a better position to promote an upward trigger.**

WHAT ARE WE DOING?

Episodes of extreme volatility can still be expected, as long as we do not receive more reassuring figures on the progress of the coronavirus and the first positive effects of ever more drastic containment measures. Unfortunately, many cases and deaths continue to be deplored, and these exceptional and historic measures of government containment also increase the potential for panic.

Panic never led to the right decisions.

We had intentionally maintained a significant exposure of cash in our portfolios, which remains our main line of defense. We found the stock markets a little expensive (especially in the USA) after the excellent course of 2019, and were cautious.

After drops of around 30%, some valuations became attractive again. To find the absolute bottom is, of course, illusory, because it depends on investors' emotions, which are being tested, and **this makes a stronger case for a very gradual return to the stock markets.**

Movements of this magnitude create opportunities for investors who know how to stay focused on their long-term goals. Calm and discipline are the best response to panic. This extreme volatility and our liquidity reserves put us in a better position to enter very gradually and cautiously into some good stocks from which we remained excluded, notably growth and US stocks. This approach has already been initiated in the portfolios and should continue in the coming days and weeks, as opportunities arise.

Measures at operational level

To participate in the community effort to limit the spread of the coronavirus, telework for our employees is recommended, with a restricted physical presence for some members of our team only. No service is therefore at a standstill. And in the same concern to limit social contacts and preserve your health and that of our colleagues, all forms of face-to-face meetings are now prohibited. We are counting on everyone's understanding; however, our teams remain fully available by telephone and videoconference.

We continue to monitor the market environment carefully, are available to answer your questions, and will notify you of any significant changes in our allocations.

Pure Capital team.

DISCLAIMER

The information above is provided for informational purposes only and serves to present the asset management activities of Pure Capital SA and to provide general information on its investment strategies. The information provided herein (which includes the text and photos) is protected by copyright and any partial or total reproduction or distribution of this information is prohibited without the prior consent of Pure Capital S.A. ("Pure Capital"). Pure Capital reserves the right to modify or otherwise change the information provided in this document at any time and without prior notice.

This document must not under any circumstance be considered to be an offer to buy or sell a financial product or a solicitation of an offer to buy or sell an investment or asset management product. All of the information provided herein is of a descriptive nature and does not, under any circumstance, constitute investment advice. This information has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It should therefore be considered as a marketing communication. Although this content is not subject to any prohibition on its use prior its dissemination (e.g. for trade executions), Pure Capital does not attempt to benefit from this situation for its own advantage.

Pure Capital shall not be liable for the information in this document, which is provided in good faith. There can be no guarantee that investment objectives will be met. Past performance is not a reliable indicator of future performance and performance may vary over time. The portfolio's net market value depends on market trends. All portfolios are subject to market fluctuations and investors may not recover all of their initial investment. Your custodian may charge annual custody fees. Different custodians may charge different fees for their services. For more information about these fees you must contact the custodian.

This document is provided with the understanding that it shall not constitute a primary basis for investment.