

## MANAGING A SHARE PORTFOLIO DURING COVID-19 AND BEYOND KEY TAKEAWAYS FROM THE WEBINAR



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Jarrod Cahn, Global Fund Portfolio Manager at Credo Wealth, provides tips, insights and advice on navigating the issues which have arisen as a result of COVID-19.

### 1. Where do you look to find value in the equity markets?

A "cheap" valuation is not an absolute number. Valuation should be considered relative to:

- The company's future potential
- Peers
- Own history
- Market

We believe valuation dislocations can be caused by short term events such as:

- Regulatory change
- Political worries
- Spin-offs
- Changes in business cycles
- Sector consolidation

We look for companies where such events have not affected the long term prospects and earning potential

### 2. Covid-19 has led to a significant dislocation in the market. How have you dealt with this, and have you changed your investment philosophy at all?

Our philosophy has not changed, because we believe in the long-term.

- We believe that wealth is best created and preserved through patient and disciplined investing, with a focus on the long term
- We follow a value-based approach to investing
- We seek to invest in high-quality companies that are attractively priced relative to their future business prospects
- We believe that the market's short-term focus creates opportunities for those willing to concentrate on underlying business performance
- We view risk as permanent losses of capital and not in terms of short-term volatility

### 3. So how is your portfolio positioned at present?

We believe the attributes of successful businesses in the 'New Normal' of Covid-19 include:

#### *Ability to operate the business in the new normal*

- Keeping vs firing employees (e.g. IAG/British Airways)
- Closing facilities vs keeping them open at reduced capacity (e.g. Disney)
- Managing supply chain (e.g. Apple iPhone delays)

#### *Proactiveness in the face of severely reduced demand*

- Operating leverage vs Flexibility to cut certain costs completely
- Skilful management team
- Adapting business model

#### *Resilience throughout the downturn (however long it lasts)*

- Availability of resources – cash is king; credit facilities
- Probability of destruction of shareholder value (equity issues, convertible debt, bankruptcy)



**David Prais**  
Partner  
Asserson

David Prais, Partner and Head of Real Estate at Asserson Law Offices, provides tips and advice on navigating the issues which have arisen as a result of COVID-19.

### What are the key issues facing investor landlords right now?

- The crux of the problems largely boils down to **the speed at which landlords had to react**. Many were left with no contingency plan as the laws and regulations have developed, and continue to evolve, at blinding speed.
- The short term implications of this have included **tenants not being able to pay rents or simply walking away** from agreements. This has in turn led to increased **pressure with lenders**.
- Commercial renters have been particular hard-hit, with shops and restaurants having to close their doors whilst still having to pay their rent. **It is rare to find a Force Majeure provision in these commercial rental contracts**.
- Buyers have considered **walking away from deals** – either before or after exchanging.
- The value of property has become dramatically less certain and does not reflect the original value it was signed at - this affects people's ability to finance the payment of the property effectively.
- The long-term impacts are gently simmering, with issues of office space being left redundant as home-working remains post-COVID and remote workers looking to move out of city centers.

### What can investor landlords do to mitigate such difficulties?

- They will have to consider both their commercial and legal position.
- From a legal perspective, **new legislation** released as a result of the viral outbreak has been put in place to **protect tenants**. However, landlords can still take the following actions:
  1. **Know your tenants** – in the commercial sector, is this client a high-street shop which is dependent on footfall in order to generate profits? Or is it a warehouse and distributor which can continue operations, albeit at potentially reduced capacity.
  2. **Tenants should demonstrate their financial situation** to prove their inability to pay their rent
  3. A **security deposit** can be used by the landlord at their discretion and, as it is used by the landlord, it is a legal obligation for the tenant to top it up.
  4. Can a guarantor, be it a parent company or previous tenant, be called upon to pay the rent that is owed.

However, it is generally advised that landlords remember the "bigger picture". Some landlords may choose to prioritise long-term security over immediate rent collection by not pushing tenants too hard in a market where they are not easily replaceable.

### Is there any solution to protecting long-term asset value more broadly?

Landlords can look to leverage their arrangements and agree on longer term commitments with tenants in return for a **"rent holiday"** for now.