

## Newsletter - Pandemic & Market Sell-Off

Geneva, March 10th 2020

Amidst pondered, we had so far shied away to provide a CSTF (the “Strategy”) portfolio update on direct or indirect impacts from the COVID-19 pandemic or the measures taken to mitigate them. We did not want to unnecessarily add to the widely diverging views or excessive tensions.

In light of the continued stress being experienced by the global financial markets (the “Markets”), primarily equities and over the last days energies as well, we now elect best to provide as follows:

(1) Correlation of our Portfolio to Equities: **Neutral**

Our Strategy seeks to by design provide limited correlation to equity, commodity and fixed income (else then partially base lending rates) and other traditional Markets’ asset classes. Thus, it is not expected that the current Markets bearish sentiment on Equities has any direct impact on the CSTF Portfolio. However, as this may trigger some systemic risk, we do follow evolution of:

- a. Corporates’ equities and CDS (synthetic or listed) we deem systemic in: Financial, Insurance, Logistics/Freight and Industrials & Foods,
- b. Listed (futures) Commodities in all main value chains: Soft/Agri, Energies and Metals alike.

That provides us with a market sentiment of the perceived systemic risks and ensures that we have no indirect or if any fairly limited exposure to a big player’s bankruptcy.

Obviously as we do not evolve in a vacuum, a global melt down of the equity market will be factored by the credit market as well with impact on rate (rather spreads) and so forth.

However, that would be of a tail event type situation that would become systemic in nature with resulting effects on all things financial.

(2) Impact of Crude/Energy War(s) or Metals prices correcting on the back of lower consumption demand expectation: **Neutral to Plus**

The Strategy focuses on commodities and value chains segments (non-speculative) which by design do have more resilient or (within reason) price inelastic demand (Food/Agriculture) then consumer goods’ raw materials big proponents (Metals & Energies).

Thus, lowering value/COGS of these Commodities do not impact per say the Portfolio value or its turnover size, noticeably as we today:

- a) Do not have Crude/Petroleum products or do not have Industrial or Precious metals in the CSTF Portfolio, and
- b) Do target opportunistically renewable energies, “clean” coal and recycled metals although we currently have very limited exposure in the CSTF Portfolio: respectively 0.24% for Energy and 5.58% in recycled metals.

Amidst we need to ponder the competitiveness of Renewables at prolonged low carbon fuel pricing, the post-carbon renewable energies trend is unlikely to subside or stop, in our humble view, due to barrel hovering around US\$30.0 or testing support further below.

It may however be object of delayed investments for new capacity being put online. Similarly, for Metal value chains, recycled metals on which we focus on have their own S/D complex, and while factoring global metal prices movements for obvious, are more resilient by essence.

- (3) Impact of Lower Growth and Slowing Demand due to lock-down or low leisure/service spending: **Plus**

In a slowing market environment, people will tend to keep on addressing proprietarily basic subsistence needs (food intake being one of them) rather than embarking onto purchase of non-essential or allocate resources to obsolescence.

Thus, the focus on Food and Agriculture is likely to provide the (demand and price volatility) resilience sought by design and the much-needed low volatility support.

The good “absorption” capacity demonstrated by the Agri. Complexes (considering their listed futures next delivery price evolution over the last 90 days period) indicates accordingly.

That is assessing either based on essentiality (basic foods or non-essentials) and (non or) correlation with Chinese demand of each relevant commodity:

- a. Foods (Corn, Wheat, Soy, Rough Rice): range between -1.23% to -5.44%,
- b. Softs (Cocoa, Coffee, Sugar): range between +0.87 to -16.35%,
- c. Fiber (Cotton): -1.76% to -7.7%,
- d. Meats (Live and Lean Hogs): -13.67% to -17.9%.

Whichever, these volatilities remain within historical averages.

- (4) Impact attributable to COVID-19: **Neutral**

Dealing with pandemics isn’t a first for us as we had to content with the Ebola crisis as it hit west Africa which has been a strong opportunity sourcing geography for us.

The short of it is that at the time, it primarily did not halt flows in essential commodities value chain (either food or export proceeds related) in the regions and hence had limited impacts.

As to present day Coronavirus, the quarantine or halt of flows (goods and people) has not yet caused any impact on the Portfolio, be in terms of collaterals value or counterparties credit/financial stability.

By this we intend that that there has been no substantial drop in business activity, offtakers defaults for instance or similar. This is mostly due to the fact that:

- We do not have direct China exposure or activities/trade flow that have a high level of correlation to Chinese consumer or production markets, and

- Energies and metals, which are directly indexed to generic consumption growth (in Emerging Economies or Mature Economies) or demand, aren't a core portfolio focus for us, and
- We focus on basic foods and agriculture value chains which people, amidst if not allowed to move, will still need to consume for subsistence.

Obviously if the situation was to escalate and disturb world flows of goods over a sustained period of time (with massive country wide or continental lockdowns), we might be impacted (like any other transnational economic activity).

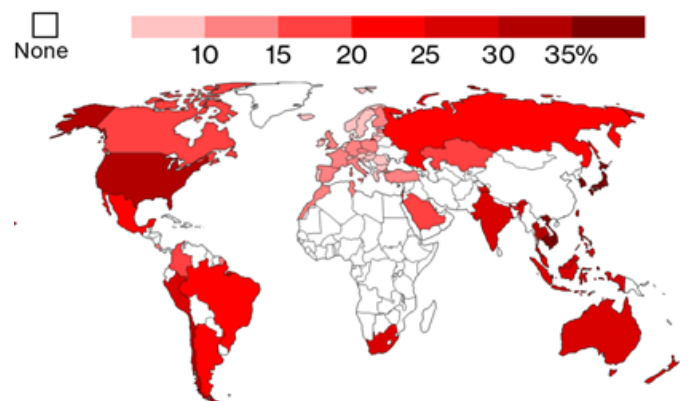
That would mean no trade flow between any country worldwide, and even in that case that would be:

- At the extreme tail of things by definition and
- Limited to Positions which are not 100% 'Local/Local' (be emerging to emerging @ 17.14% or mature to mature @ 8.57%).

**Please find below map by Bloomberg showing supply chain geography dependence on China's output:**

### How Coronavirus Can Infect Global Supply Chains

Share of all imports of intermediate products coming from China



Source: OECD TiVA, Bloomberg Economics

**Bloomberg**

(5) Global Market stresses impact on Credit: **Neutral to Plus**

The impact on credit sentiment and spread remains to be assessed as by definition bear markets will tend to create some risk aversion. This would need to be pondered in light of:

- Cost of capital and spreads evolution (globally and for specific markets/business segments), and
- As well the central banks (money supply easing) or government sanctioned (fiscal) "stimulus" packages impacts in kickstarting demand in most hit consumer markets.

We are no wizards, but it also appears the market has not yet factored:

- The actual support "low" crude provides for by lowering "energy bill" for net importers of crude/products, and
- Resultantly possibly stimulus for growth when the COVID-19 lockdowns would eventually be lifted and free movements of goods/people resumed, with massive

backlog of essentials (food/agri. products) restocking that would have been consumed/depleted during the lock-down or scares thereof.

(6) Lock-down and quarantine impact on our Firm's organisation: **Neutral**

Switzerland, and specifically Geneva where we are headquartered, has not imposed travel restrictions or quarantine regimes amidst:

- proximity to North of Italy,
- having 38 declared cases of COVID-19 infections in Geneva and +374 overall in Switzerland.

We have passed on the recommendations issued by the Swiss relevant authorities and enacted our BCP which catered for such situations by:

- a) Scaling down non-essential travels and participation to mass events (both professionally or personally),
- b) Readied fully secured "hot seat" interfaced laptops linking to our systems via VPN (where we imposed a lockdown) to ensure management and operational activities without office attendance.

The Team remains at your disposal for any further information and we shall not fail to update as and when required.

INOKS Capital S.A.