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## Will the World Ever Be the Same After COVID-19?

In our latest video, a post pandemic world is considered. Gareth Brown, Co-Portfolio Manager on the International Shares Fund, and Alex Shevelev, Senior Analyst on the Australian Shares Fund, discuss whether the world will return to normal after COVID-19. They examine the risks and opportunities from an investment perspective and how both Funds are positioned for this.

<https://youtu.be/44P0fOK59eY>

### Transcript:

#### Gareth

Hello and welcome everyone. I'm Gareth Brown from the Forager International Shares Fund and I'm joined by my colleague Alex Shevelev, from the Australian Fund. Today, we're going to talk about the prospects for the world getting back to normal after COVID-19, we're going to talk about the risks and opportunities from an investment perspective and how we're positioning both funds around this topic.

The focus here is stocks that have been hit the hardest by COVID and they probably stand to benefit the most from a return to normalcy. We're talking travel related names, airlines, airports, car hire companies, travel sellers, and also some of those other businesses that rely on the movement of people, auto makers, car dealers.

First, some background and this is a very broad generalization, but certainly from an international perspective, when we came into March last year, the enormity of COVID-19 all dawned on us pretty quickly and most of these exposed stocks fell something in the magnitude of about 50%. Over the following month or two, so I'm talking April/May 2020, most of them regained about half of their losses. Then it's been chop and change since, a few fits and starts around the vaccine, but we haven't recovered the full valuation for most of these businesses. As I said, that's been our experience internationally.

When we are talking about this reopening trade what we're talking about is the opportunity to capture that let's say 20% or 40% upside, if, and I repeat if, the world returns to how it looked a couple of years ago. Alex, has that been your experience here in Australia?

#### Alex

20-40% would be nice, Gareth. I think in Australia here, we've seen a lot of those stocks, we're talking Flight Centre, WebJet, Corporate Travel, Qantas, the airport stocks like that, that are largely at their pre COVID market caps. Keeping in mind, of course, that some of these businesses raised capital to keep themselves afloat during that COVID period. Now in late

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November, they were actually even higher than they are now.

So enthusiasm has faded somewhat, back at the end of November it was closer to 15% above the pre COVID market cap. So investors were getting very excited with the announcement of the vaccine news, that all of this was going to be over very quickly. But there is a reality here, so things will, as we're going to talk about shortly, get back to normal we believe, but it's not going to be this year. It's probably not going to be next year. We're really talking about the financial year 2023 for the normality that we're going to be talking about to return and of course, complications around this.

So these companies will have various exposures to leisure, travel, to corporate travel, to domestic, to international. The stock specific issues are, does the company have a capability to continue to operate and get to that FY23 promised resumption of normality?

I've been talking to here about the travel names. There are of course, the other reopening trades and we have some of those in the portfolio we'll talk about later on. But in broad terms, the casino names, for example are 10% below where they were in pre COVID times, but some segments of road ahead. A.P Eagers, the largest automotive dealer in Australia is 50% above its pre COVID market cap. So lots of variability there.

Gareth

I've seen that in the UK as well with really strong used car prices have been boiling the profitability of the dealership.

Alex

That's right. So let's talk about the reopening and let's talk about the confidence that we have in that reopening. I'll hand it over to you.

Gareth

I'm probably a bit more bullish than you. I think it's not a 2023 story anymore. Firstly, I think the path to normalcy was there even without a vaccine and maybe it was a 2023 story, but we have multiple vaccines now and they're effective. They're relatively effective in stopping people from catching and spreading COVID-19. I think more importantly they're effective in stopping people getting severely ill from it and dying from it. I think we're starting to see that in the data from the countries that have the high vaccination rates, that it's cause for optimism.

So chart one that you can see there shows some of the early leaders in vaccinating. The UK has now 15% of the population done and dusted on their two vaccine shots. Most of the high risk populous, most of the potential super spreaders like healthcare workers have been vaccinated. US is 10% of the population, Israel is nearly 60% of the population. The next slide you see there shows it tipping in the balance in terms of the daily new cases. Unfortunately, I couldn't get per capita data, but it shows all three of those countries new cases down about 40% to 60% over the last few weeks since the vaccine's been ramped up. Chart three which we're bringing up now shows the hospitalizations appear to be turning down too. Obviously there's hospitalization lags, new case data and also this data I've got here is about a week old.

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So things have improved further since some early good indications. I don't want to be accused of cherry picking here. We're also seeing really good improvements in some of the countries that have a low vaccination rates. Ireland and Germany come to mind in particular, the news from Italy is a bit more mixed, Spain also seems to be getting worse if anything.

It's hard to untangle what's related to vaccine and what's related to, for example new lockdown measures. But I thought there was a really interesting article in The Economist on the 3<sup>rd</sup> of February that broke up the Israeli population by age cohorts. So there was an over 65 group and then there was a group that was 40 to 60 or something like that. What it showed was the improvements in new cases, in hospitalizations and severe hospitalizations have been much sharper in that over 65 category, which are the people that obviously got the vaccine earliest and most of them have had it.

So I think that was really interesting information. The last potential fly in the ointment was the mutations that we have seen come out of UK, South Africa, Brazil. It was possible that these would be more resilient against the vaccination efforts. We've seen some really interesting numbers study to come out there from several of the vaccine providers.

The one I came across most recently was the Johnson & Johnson vaccine. Its efficacy is lower than some of the other vaccines, but it seems to reduce hospitalization significantly and deaths close enough to zero, including on the mutations or at least some of the mutations. So there's some good indications there.

Alex, do you have anything further on that matter? I guess maybe we can run through how the Aussie Funds positioned in terms of both risks and opportunities

Alex

The fund at the moment is positioned in these two categories we've spoken about. So the direct tourism exposure is about 7% of the portfolio and in that we've got predominantly two stocks. Experience Co's a provider of skydiving and reef trips. Now as you can imagine, international tourists really helped to increase the numbers in both of those categories. But especially through summer, the domestic market is something that can be quite profitable for Experience Co. The other is THL and it's a rental company and a seller of camper vans.

Now it's been a bit of an interesting dynamic in camper vans in the last little while, because it's been quite a good socially distant holiday that people can take while they're unable to do many other things. So in this case again, international tourist recovery will be helpful for the business, but in the meantime, they've reduced the leverage in the business by selling some of the used camp vans that they no longer have need for given the volumes have reduced.

On the broader reopening exposures here, we're talking about 10% of the portfolio for us. That includes the casinos, Sky City and Star group. Those are mostly domestic businesses but again, the movement of people into and out of those venues is very important. Another couple of interesting stocks that we put into the reopening trade is AMA, a panel beating business. Now AMA benefits strongly when people start driving around and when they start having bingles as they no doubt will do. A lot of the activities returned to normal there, with some company specific issues. It's taken time to follow through to the share price of AMA. Another is Life360.

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Life360 has got an app to track your teenage and older children predominantly in the US so as those children start leaving the house and driving, parents often like to keep an eye on their location. That's been much reduced in the US as the movement of people has declined. So growth rates for Life360 have slowed, and as people start moving in the US that should pick up again. So let's switch over to the International Fund now Gareth, are we seeing similar trends there in terms of exposure?

#### Gareth

It's probably roughly the same amount, maybe even a little more, depending on how you cut the pie. We owned plenty of this stuff prior to the March downturn so we fully experienced a lot of the pain. But we added towards the bottom and we've added selectively since. I wouldn't say we've pivoted particularly aggressively recently towards reopen, there remain risks. But we've held on tight to most of what we own where we thought the valuations were justified in travel.

We own Vienna Airport, an obvious beneficiary of return to normal. We own SkyWest, which is the sort of last leg provider of flights in the US's hub and spoke system. We recently took our profits from European low-cost carrier Wizz Air, just because the valuation had reached full potential or full-ish potential.

We have a smaller holding in Dolphin Capital Partners that owns a greenfield resort in Greece that is liquidating. We also added some Tourism Holdings, it's the one position we own in both funds. More broadly, we own an auto-parts company in Canada, a UK car dealership, a recreational boat maker in the US. We own a couple of bricks and mortar retailers. Some of them we've taken a bit of profit off more recently. Maybe even Uber belongs in the reopening bucket. Part of its business is a direct beneficiary on the ride side, the food delivery business will probably face it a bit of a headwind when life gets back to normal. Broadly, well positioned and we're not betting the farm on it.

#### Alex

That's right. As you can see, Gareth mentioned the exposures are there, they're not betting the farm and we do stand to benefit across both funds if activity, movement of people, reopening happens quicker than other investors at the moment believe it will. Now the other interesting thing there, and you've heard it from both funds is that the stocks we're largely positioned in have lower balance sheet risk, that is lower net debt levels, and that gives us the ability to move through and survive through to the reopening, whether that's FY22 or FY23.

So thank you everyone for tuning in. We look forward to speaking with you again next time.

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