LETTER WRITTEN TUESDAY 10th MARCH AND SENT OUT THURSDAY 12th MARCH

Dear Investor,

It has been a tumultuous few weeks on financial markets. After largely ignoring the January outbreak of COVID-19 in China, investors have panicked as this latest coronavirus spread to the rest of the world.

On Monday global stock markets fell by 6-8%. The MSCI All World Index is now off some 18% from its highs in Australian dollars. Few stocks were spared and both Forager funds have seen their net asset values tumble accordingly.

Most importantly I hope you, your family and friends stay healthy. While we are all slightly obsessed with the colour of our screens, people are dying. There are more important things in life than the daily gyration of our share portfolios.

That said, the next most important things in our Forager lives are the long-term returns of the Forager portfolios. And it is now that we earn our keep.

“Be greedy when others are fearful” is the sage advice from Warren Buffett that is much easier to say than it is to do. Every time I mention it to someone in times like these, they respond “yeah, but this time it is serious”.

It is, of course. This coronavirus is going to have a significant impact on human health and the economy. Central banks around the world have few bullets left to fire. And share prices were at historically high levels to begin with.

Whether the economy is going to deteriorate, though, is not the question you need to answer. The correct question is how much deterioration is factored in to today’s share prices?

Is online travel agent **Webjet** going to suffer a lot as travel plans are cancelled? Obviously, yes. Is it worth half as much today as it was six weeks ago? That’s a much more nuanced question.

Our aim in these environments is to deploy as much capital as possible into situations where the answer to that question is a resounding no. We want portfolios that are operationally and financially resilient, full of cheaper and better quality businesses.

We have taken some money off the table on some of our best performers, including **Blancco** and **Alphabet** in the International Shares Fund and **Macmahon** in the Australian Shares Fund (all three are still significant investments). We’ve cut exposure to some businesses that have not been performing, like **Babcock International**. And we’ve deployed those funds and spare cash into new and existing ideas where investors are panic selling.

You’ll hear more about them in our upcoming quarterly but all of the new investments are companies with attractive long-term growth prospects, now trading at very reasonable prices.

I know the short-term performance is painful. Especially for investors in our Australian Shares Fund where the performance has been woeful and the units are trading at a significant discount to net asset value. But to thrive in an environment like this is exactly why we closed the Fund to begin with. It’s why we seek long-term investors. And why we run portfolios without undue exposure to any one sector or risk. When markets melt down, strong hands take from weak, those with cash from those with debt and those with a long-term focus from those who measure returns by the day.

While the sell-off has been violent, equity prices were up a lot in the six months prior. The MSCI All World Index is back where it was in June last year. And no one knows whether it will get worse. But it is worth keeping Jeremy Grantham's financial crisis advice (Reinvesting when terrified) close to hand:

"[B]e aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before."

Whether that shade changes today, tomorrow, or in six months' time, we will have done everything possible to leave both portfolios best placed to capitalise.

Steve