Mattioli Woods plc

Question	Answer
What is the Custodian REIT current share price?	98.9 pence as at 2 April 2020.
How do you see the fund performing over the next 12 months?	I think it would be rash to make predictions. Our focus is on maintaining cash flow through rent collection to support dividends. Custodian REIT is built on a strong financial footing with low levels of gearing, over £40m of contractual rent and a diverse spread of income from different tenants, sectors and locations.
Do you expect the share price to recover in the short term?	I would be surprised to see a strong recovery in the short term, but once we are beyond the COVID-19 hiatus there is the potential for the same commercial and financial pressures that supported the share price to reassert themselves.
Will Custodian REIT be able to maintain the payments of its quarterly dividends at the current annual rate of 6.65%?	The length and depth of the COVID-19 pandemic holds the answer to this, but our focus is on maintaining cash flow through rent collection to support dividends. Custodian REIT is built on a strong financial footing with low levels of gearing, over £40m of contractual rent and a diverse spread of income from different tenants, sectors and locations.
Is the current price of CREIT anything to worry about or should it be taken as a good opportunity to buy some more?	I cannot comment on this anymore than a racehorse trainer should offer racing tips.

In light of the current pandemic, are we looking at divesting any of the properties or buying new ones at a bargain?	We have not chosen to sell any properties as a result of the pandemic. We have put two acquisitions on hold in order to preserve cash, which will put us in a strong position post COVID-19 if opportunities for bargains exist.
What is the current NAV and how can it be maintained at 25% due to lower asset valuations?	The loan to value is currently 22.5%. There is very little evidence to suggest a significant shift in values at this stage, but if values do fall, the loan to value will increase but not beyond affordable limits.
Will investments recover from this and, if so, what is the predicted recovery time once this all ends?	In a similar fashion to one of Richard Shepherd-Cross's answers about property performance, we cannot know. However, every bear market in history has been followed by a bull market, and indeed vice versa, so while we feel it is early to call the worst of days as behind us, yes, we believe risk assets will recover. The timescale is very tricky, per Richard Smith's comments in the webinar.
What safeguards has Mattioli Woods put in place to safeguard investors?	If by that you mean security of assets, then by using trusted partners like Pershing as custodian of client assets, we do all we can to protect and safeguard the integrity of the assets. If you mean safeguard against falls, there is really no way of doing this entirely as the only asset that can really be said to never fall in value (but see next comment) is cash. Even then, inflation is the risk. If it is the latter that worries this investor, a conversation with your consultant about the risk inherent within your investments would be sensible.
What advice is Mattioli Woods giving investors?	Sorry, this one feels a little like 'how long is a piece of string'. We have some continuing concerns, but it really does differ investor to investor – are you about to draw income for the first time, what is your timescale, what is your capacity for risk, do you have capital needs short term, etc. Again, a good place to start is getting an update in the diary with your Mattioli Woods consultant.

Mattioli Woods plc

Are Mattioli Woods finances in a good position to 'weather this storm'?	The Group enjoys a strong balance sheet, with significant cash balances (30 Nov 2019: £20.1m) and significant headroom on our regulatory capital requirements. Our profit outlook for the year ending 31 May 2020 remains in line with expectations, but in light of the uncertain trading conditions we are implementing mitigating actions to contain costs and protect our financial position.
Is the level of withdrawals from the funds causing any concern?	In terms of withdrawals from the funds, we have seen net outflows of circa £7m during the month of March, representing 0.578% of AUM. This is the first month of net outflows since the launch of the fund range on 31 July 2017. We are not significantly concerned by the withdrawals during the month of March as the majority of investors within these broad Multi-Asset funds are also wealth management clients of Mattioli Woods.
The property market has become frozen due to lack of finance for transactions and the risk of rent defaults. Equity prices are unreliable because of the unknowns. Dividends are being cancelled, which means pension funds and finance related companies will be selling to raise cash for their commitments. These pressures will continue for between 6 and 18 months. As in 1975/6, cash is king in these circumstances. Funds are beginning to suspend trading. The medics seem realistic. The politicians, hoping, but behind the game. Should the strategy be to forget past values, a selective cashing in of investments during the upturns of this up and down market and conservation of cash to reinvest when what survives of the world of business and commerce begins to see daylight?	We do recognise the term cash is king. For the most defensive clients and those who have short timescales or short-term capital needs, the current environment might be too risky. However, remaining broadly (and cautiously) invested feels right at this stage. As Discretionary Portfolio managers, we are able to make changes to underlying asset allocations as we see fit within agreed risk parameters, and one of the biggest risks for long-term investors is missing opportunities. Having said that, we do see opportunities in even 'normal' markets to both take profits and buy on weakness, and we feel sure that will continue even in these unusual times.

Given the extent of the worldwide 'printing of money' inflation must be a major concern for the future. In your view which assets will benefit?	Generally, real assets (property, for example), gold and equities do best in an inflationary environment. Even then, it depends what is driving that inflation and the extent of inflation. An increase in inflation of 1% wouldn't move the dial much, even today. A return to c.5% inflation in the UK, Europe and the US, for example, probably would.
Are there low or zero cost options that could be taken to minimise the effects of a potential depression that may follow the pandemic?	Indeed, there is a (probably smaller) risk that we emerge from the current health crisis with excessive corporate and household debt, which inhibits demand. So-called 'debt deflation' then sets in as prices fall and discretionary spending is deferred as we wait for still cheaper prices. In this case, quality government bonds might be preferred assets. However, given the massive supply of new bonds that we expect to see being issued by governments, even central banks' enlarged asset purchase facilities may not be enough to stop yields rising and bond prices falling. Cash would, very much, be king.
What's your reaction to the banks pulling their dividends – 2019 final and 2020? We were holding onto the dividend yield as succour for the crash in prices! I assume they are a Hold for the long term?	We feel it had to happen – the banks had huge support in 2008/9, and this may be seen in some ways as payback. However, there is a real debate among us as to whether we like banks – very low interest rates are unhelpful, and interest rate spreads are challenging. But government-backed loans will benefit many of their business (and private) clients, meaning significant bad debts might be avoided.
If we assume that we have a recovery from this pandemic by the autumn, how long do you think it will take for the economy and, in particular, the property market, to recover?	Too tough to call – what does that recovery look like? If the economic damage lasts a shorter period, and we see a surge of pent-up demand in the third quarter, we expect to see a quick resumption of business as normal. If recovery is only partial and perhaps turned round again in winter, then sentiment in all sectors may face a second wave of pessimism. Over-geared players in the property market may become exposed, resulting in opportunities for acquirers with more solid balance sheets.

What is the liquidity position of Mattioli Woods to continue as going concern for the duration of the 'lockdown' (some estimate six months) in the UK?	Please see the earlier answer around our PLC reports, which can be accessed via our website. We believe through historic good management that we are in a strong position to weather such a situation.
Is there any advice about moving some funds into cash? I appreciate this crystallises losses, but it is about risk management.	This might suit certain investor situations, but at this stage we are not making any carte blanche suggestion. As Discretionary Managers, we are able to add and reduce cash within portfolios for longer-term outcomes already.
What will be the long-term impact of the massive government support that's being provided on government finances and the markets?	Possibly inflationary. The amount of government borrowing is about to balloon, and with loose monetary policy all the rage there is a chance that we emerge from this crisis with excess demand chasing too few goods. However, this will stimulate borrowing for investment – especially if central banks keep interest rates low and don't rush to tighten policy – and labour productivity may increase as capital goes into expanding, competitive companies. There is a danger that state support for companies, through government-backed bank loans or perhaps direct grants, keeps uncompetitive companies afloat in declining markets. This may have short-term political appeal but would hinder the growth of more competitive rivals, new sectors and be a misallocation of capital.
We have all changed the way we work very fast. WFH looks set to become the new norm. What impact do CC see this meaning for office space where the demand for space must surely fall with hot desking reducing the demand for office space? Professional services will surely look to cut office space costs at all turns?	The move towards flexible working has been a feature of the marketplace for a few years and the current lockdown is proving two things. Firstly, that service businesses can continue with staff working remotely, and secondly, how much we all miss the office. The style and scale of offices demanded post lockdown may change, but this was a change that was happening anyway. The need for offices will remain.

Is now the time to buy oil? How low do you think oil prices will go?	The oil price is suffering from a combined supply and demand squeeze. The oil price is quite volatile at the best of times, and while we wouldn't put off speculative interest for those that really can take the risk (quite possibly to fall at least 50%, and then needing a 100% rise to get you back to par), we prefer other assets.
The government has (rightly) announced a huge amount of support to industry and commerce: presumably, even after COVID-19 has been 'resolved', we will enter a prolonged period of austerity (globally). How will you factor this into your long-term view?	We are not sure we get long-term austerity. The bond market will struggle to punish fiscal laxity through punitive gilt yields, as long as a huge buyer in the form of the BoE is in the market. Before the crisis the government made clear its determination to borrow more in order to boost investment in infrastructure and innovation. This structural increase in government spending will support growth, tax receipts and the country's ability to grow its way out of the debt it is about to incur.
Would you expect big interest base rate rises after the virus crisis is over?	If inflation does come through very strongly, possibly, but not short term.
Do you think the massive asset spending announced in the budget is now unlikely to happen?	Quite the opposite, especially around infrastructure, it feels more necessary than ever. There may be a reappraisal of some of the specific projects, but the government needs that money out in the economy whenever 'normal' returns.
What planning are you doing for the eventuality that we do exit the EU at the end of 2020?	Nothing specific – we keep a close eye on sterling and are generally underweight compared to other currencies. If we feel we should have more in UK equities, this is unlikely to be driven by this issue, more about general value.
Absolute Return Funds have not performed as they should have. Is there a reason and should we steer clear in the future?	In fact, though this was true last year, they have had a good time in the last month. We continue to review this sector.

Does Mattioli Woods ever advise to sell down stock in light of looming global crisis, i.e. trade and/or convert to cash to ride out the storm?	Generally, and as suits the vast majority of our clients, we are long-term investors, but individual circumstances have certainly led us to recommend going to cash to some extent in the past, and no doubt we will again in the future.
Why have banks not passed on the interest cut to its customers?	They are serving two masters, depositors and borrowers. I think you will see it in due course.
Why are investments in the UK not suspended like they are in US?	The S&P has three levels of suspension – level one is when the index falls 7%, when there is then a 15-minute suspension of trading; level two is if it gets to 13% down, when another 15-minute suspension applies; and then a final level three if declines reach 20%, when trading is then suspended for the day. There is a suspension on individual stocks in the UK – if a price falls 8% from opening, a circuit breaker kicks in suspending trading, and there is then a five-minute period when software calculates a new price.
Interested to hear more about vulnerable areas of the bond market. Can you give more detail on this please?	We have reduced high yield bond holdings and some investment grade bond holdings in portfolios. We are also looking at Emerging Market debt. We have moved all sales to cash. As regards vulnerability, it is still early to say, but experience tells us that even in a normal recession, defaults increase. What we are experiencing is not normal, so we have applied some caution. We remain positive on US (core) government bonds for the time being.

How are investment club opportunities affected by the current coronavirus situation?	We have decided not to proceed with our recent Earthworm offering, but we continue to have positive conversations about that and other opportunities. Given the global health emergency, expect a hiatus before we continue with new ideas.
What lessons can be learnt from this current crisis, and how will that impact the way Mattioli Woods operates in the future?	We are learning every day – our business continuity plans have worked very, very well, securing advice and operational efficiency for clients. Other than that, it is too early to say what we will learn, but we do believe in applying what we learn.
What is going to be the overhang of the massive corporate and government debt currently in situ, and how will this affect portfolios and any form of pension taking in the future? Annuity rates already on their backside?	Investors complained before the crisis that central banks' asset purchase schemes were supressing interest rates and distorting asset markets and prices. The suppression and distortion are about to get larger. Pension plans will see lower annuity rates and the need for members to accept reduced payouts, higher contributions and/or longer years of service. Retirees will see bank cash interest rates shrivel further. Fund managers are likely to resume their quest for yield wherever it can be found, either through taking on credit risk or by extending the duration of their holdings.
How will the cancelling of bank dividends affect Mattioli Woods performance and impact portfolios?	Not significantly, as we are underweight banks in most portfolios.
Most of my pension is invested in REIT. How safe is this given that the media are reporting that commercial businesses are refusing to pay rent and the high risk of businesses going bust?	Commercial businesses may opt to defer rental payments; however, there is no suggestion that they are excused contractual rental. It is our expectation that some rental may take additional time to collect. Our focus is on maintaining cash flow through rent collection to support dividends. Custodian REIT is built on a strong financial footing with low levels of gearing, over £40m of contractual rent and a diverse spread of income from different tenants, sectors and locations.

If the Wall St Crash and the dot.com crash lost over 50% of stock market value, how much % of our funds have you 'cashed out' to 'keep relatively safe'? **What rebalancing of investments have you carried out? Are cheap Asian stocks worth a look? Is now the time to buy shares in general?**	We haven't sold any equities, as we came into this crisis in a relatively cautious position. We have reduced some fixed income holdings in portfolios between Defensive and Balanced. Some rebalancing is carried out an ongoing basis in the funds as the target asset allocation will be deviated from as markets move. Periodic rebalancing takes place outwith the funds. As discussed on the call, we like Asian equities long term but have to acknowledge the short-term headwinds given how geared the region is to global growth. Also the region is very heterogeneous with some expensive countries and some cheaper – but usually for good reason! More generally, we are not adding to equity allocations at the current time, but neither have we reduced holdings.
What 'mitigation' for stocks is there if/when Mr Trump contracts the virus? If America sneezes will we catch a cold?	The mitigation might be a brief rally if investors like the idea of temporary President Pence, or vice versa. Either way, it shouldn't be an issue compared to the tens of thousands of Americans who are unfortunately going to die in the coming weeks.
How many of the companies in our REIT fund will be downgraded after the Next company results warnings?	We have two properties let to Next: one retail warehouse and one distribution unit. We do not expect the company results to suggest that the business will fold, so, at this stage, we expect to receive the rent.
How long do you think it will take for the value of pension portfolios to recover?	Please see earlier answer.
The government fiscal support has to be paid for eventually. Pension funds have typically been seen by governments as the piggy bank to be raided. Should those with pension trusts be even more worried?	We don't think so short term, but until we really understand the extent of what that fiscal support will cost, it's too early to say.

How is Mattioli Woods assessing and managing the cash flow risks of income generating assets including property?	As mentioned in the answer to an earlier question, we don't have large holdings in the biggest dividend payers, but for property and other income producing assets, it is likely to be a tough few months. Most clients hold multiple assets and a well-diversified portfolio has been providing some absorption of recent shocks.
A question for Custodian REIT plc. We have all probably seen today that 1/5 of all smaller firms will run out of cash. What % of your tenants are smaller firms?	A full list of our tenants can be found on pages 18–21 of our Annual Report and Accounts, which is available under the Resource Centre Tab at www.custodianreit.com
Any commentary on Structured Products?	Structured products per se have had a tough month (March) as they tend to be linked to indices and/or sectors and also see harsher pricing when volatility peaks, as it has done. The Structured Products Fund is not immune to these market conditions but does hold a wide spread of products with, in all cases, more than a year (at least) to go to maturity. It could be a good time to consider individual Structured Products and we are looking carefully at that for clients.
With the markets so depressed, it's got to be an ideal time to buy equities or a 'focused' ISA. If you had £12K to invest, what would be your recommendation?	It would depend on your timescale and your capacity for risk – best to chat to your consultant.
What is your view on the political risk to all company dividends given the action and pressure by the UK government on bank dividends?	We don't think that the UK government is likely to be that prescriptive and, in any event, given the rapid access to news and the huge amount of sharing via social media, it is already apparent that businesses that are deemed not to be doing the 'right thing' are under intense pressure.