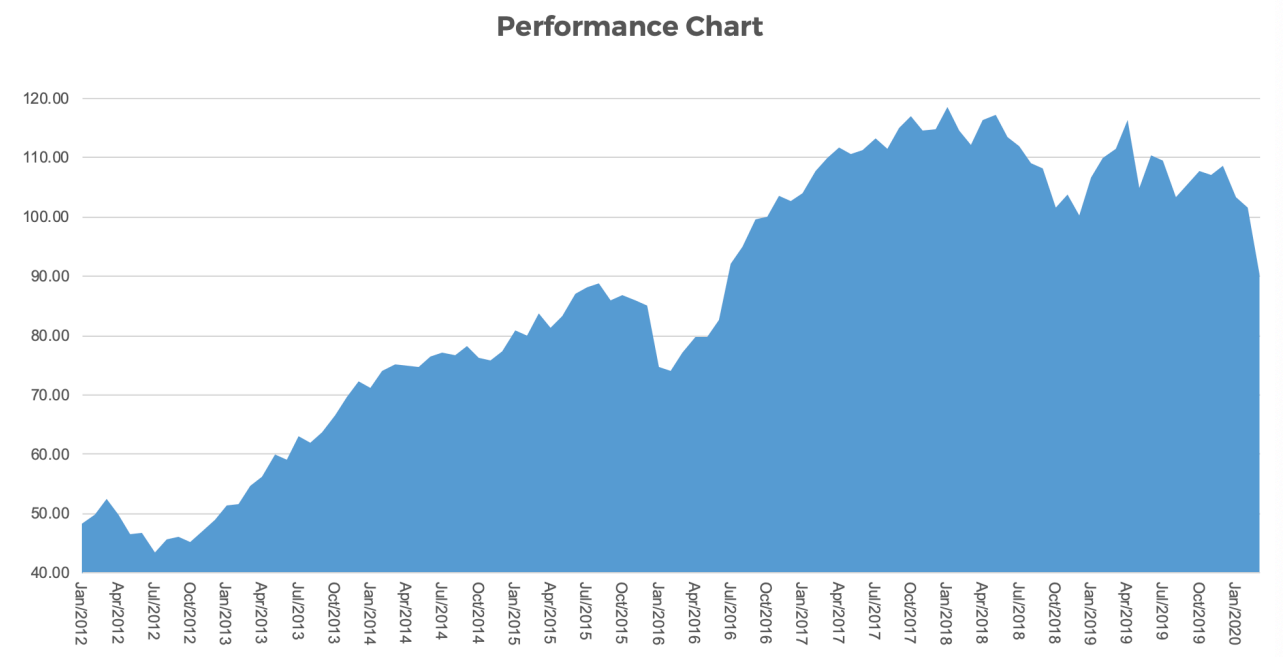
Investment Objectives in a Pandemic



Year	Heritage Global Capital Fund (Class A)	MSCI Asia ex-Japan Index (SGD, Dividends Reinvested)	MSCI World Index (SGD, Dividends Reinvested)
2012	+4.58%	+22.73%	+9.74%
2013	+47.98%	+3.39%	+31.57%
2014	+7.09%	+4.96%	+10.68%
2015	+9.91%	-8.88%	+6.63%
2016	+20.73%	+5.71%	+10.37%
2017	+11.80%	+42.12%	+13.64%
2018	-12.80%	-13.93%	-6.62%
2019	+8.33%	+16.64%	+26.64%
2020 (YTD)	**-16.70%**	**-13.57%**	**-16.29%**
Cumulative	**+93.48%**	**+65.90%**	**+112.18%**
Annualised	**+8.33%**	**+6.33%**	**+9.55%**

For the three months ending March 2020, Heritage Global Capital Fund Class A has returned -16.70% and Class B has returned -16.70% in SGD terms. Our benchmarks, the MSCI Asia ex-Japan Index and MSCI World Index (Rebased to SGD with dividends reinvested) returned -13.57% and -16.29% respectively.

Since inception, the fund's Class A investment strategy has generated a cumulative return of +93.48% and an annualised return of +8.33% net of fees, while Class B has generated a cumulative return of -15.80% net of fees. This compares with the MSCI Asia ex-Japan Index and MSCI World Index (rebased in SGD terms) which has returned a cumulative return of +65.90% and +112.18% and an annualised return of +6.33% and +9.55% respectively.

Market Overview

We are barely 4 months into 2020 and it looks certain to be one of the most unforgettable times ever in our investing journey.

2020 was off to a promising start. After almost 2 years of uncertainty, the highly-anticipated phase one trade deal between China and the US was signed on 15th January 2020. The world was eager to move ahead, while markets all over the world were raring to go, showing signs of optimism on many fronts.

While these events were shaping up, something was brewing in the background. On 31st December 2019, the Chinese government started reporting news of a newly-identified virus, which had infected dozens of people. The virus, which we now identify as COVID-19, went from dozens of cases in Wuhan and its first reported death in Wuhan on 11th January 2020, there has now been close to 2 million reported cases all over the world, with over 120,000 deaths reported. It has been officially declared as a pandemic by the World Health Organisation(WHO) on 11th March 2020.

Overview of Economic Situation

Economies all over the world have been rocked like they have never been rocked before. The economic impact on businesses and the world was swift as it was chilling. Total unemployment in the US could rise from under 4% to 20% during this quarter as estimated Q2 GDP falls by 40%. News of bankruptcies and companies shuttering happened on a daily basis. As interest rates dive to zero, even the normally resilient Real Estate Investment Trusts (REITs) were not spared. REITs across the world saw double-digit declines, with some falling over 70%.

For the first time in 20 years, circuit breakers were triggered in the US stock market. Not once, not twice, but three times. In the space of 5 weeks, the S&P 500 and Nasdaq are more than 26% below their record highs set in late February. The Dow was 28% under its all-time high from last month. At one point, the Dow was down 30% from its record. In Asian markets, Singapore's Straits Times Index and Hong Kong's Hang Seng Index fell about 30% from their 52-week highs.

The once flourishing travel and tourism industry ground to a halt, causing airlines like Singapore Airlines, American Airlines, China Southern Airlines and Korean Air to tap on their governments and investors for more financial support. Another major casualty were companies in the hospitality business, where hotel occupancy rates falling by 80% to 90%. Companies in the entertainment and F&B industries are struggling to survive week by week, as Governments all over the world are elevating lockdown measures to contain the spread of COVID-19 virus.

As the situation continues to unfold, it seems highly likely that there will be more bad news. By any means, the short-term economic outlook looks highly uncertain.

Is It Time To Invest?

One of the big questions on the minds of investors is whether now is "*the time*" to invest.

We would make the assumption that this would mean trying to catch the perfect time to buy: "the bottom" of the market. "The bottom" is what we define as the day before the recovery begins. Clues from history will show that recoveries can take anywhere from 3 months to 3 years, with "the bottom" presenting itself at random and unpredictable moments in the recovery period.

At all times, investing is best done when reliable data is available so the astute investor can make not so much the "perfect" decisions, but decisions made upon outcomes with the highest probability.

Howard Marks sums it up best when he wrote that **"these days, everyone has the same data regarding the present and the same ignorance regarding the future."** As the situation continues to unfold, what we are presented with is a small set of data that is constantly developing, entangled with educated guesses and calculated opinions, each with its own built-in biases. It is imperative that we understand fact from fiction, and that sometimes, the better decision to make is to not make any at all when we are not certain enough.

We reject the idea of waiting for "the bottom" to buy, instead choosing to buy when we are presented with an opportunity to buy at a compelling valuation. Our view is that it is impossible to know when the bottom will be, and it is something that people can be fully certain about only on hindsight.

With that in mind, we adopt the view that there can never be a reason for us to go "all-in" on something. In accordance to these views, the strategy we have adopted is to make a diversified number of good and great buys as opposed to the perfect buys.

In summary, while we are unable to say whether it is "*the perfect time*" to buy, we believe it is probably *"a good time"* to buy. If one is looking for absolute certainty in the markets, then one is shopping in the wrong place. "We either get a good outlook, or a good price. Rarely do we get both at the same time".

Opportunity + Preparation = Success

We have a saying that "the best time to prepare for a recession is every day".

A beautiful thing about investing is that by simply avoiding bad investment decisions, we would be able find ourselves ahead. We submit that the number of things we do not know far outweighs the number of things we do know, especially in these unprecedented times. Which is why we have never been in the business of trying to predict the future, nor trying to "*time the market*". With that in mind, since founding the firm, we have always favoured a more cautious approach as opposed to "*betting the house*". As we always like to say, "*in order to finish first, we have to first finish".*

Our cautious approach has resulted in our portfolio being well-positioned for the initial shocks in the market. Our portfolio consists of companies with strong financial positions and sound business fundamentals. We find it worthy to note that while we do not wish for it, we are prepared to expect that things may continue to deteriorate further. With that said, our portfolio is well-positioned for further economic shocks and we have a substantial cash position that we are ready to deploy each time a compelling opportunity presents itself.

For now, what we are is "**prepared**". Specifically, for two things:

- For further economic and market declines
- To buy at new lows

Our Greatest Concerns

As stewards of capital for a regional network of families (*our own included),* our greatest concern has always been the well-being of our families. Our concerns can be summed up into 2 things:

- The risk of permanent loss of capital
- The risk of missing opportunities

On point #1, our chief mandate has always been to preserve wealth. A central tenet of our investment strategy is to avoid exposure to areas which may result in permanent loss of capital. This is why we have always invested in companies with strong balance sheets and low leverage. We maintain the same caution when choosing companies to invest in today and will continue to exercise the same caution going forward.

On point #2, if we may speak freely, prospects have never looked more attractive than now for the long-term investor. One thing is for certain: asset prices across the board are much lower than they have been in recent times, with some quality companies trading at valuations lower than during the financial crisis in 2008.

British nobleman and banker, Baron Rothschild, is credited with saying that "*the time to buy is when there's blood in the streets*." A famous quote by Warren Buffett advises that "*the time to be greedy is when others are fearful".* But what we have learned in our years of investing is that **when the time comes to buy, you would not want to**.

We have gained a reputation for investing during challenging times. While we submit that we do not know exactly how events will play out during those challenging points in the past, we found success in capitalising on opportunities in those moments of crisis have always been to maintain a strong sense of logic and making decisions based on high-probability outcomes.

As the saying goes, "never let a good crisis go to waste". We may be a little too early, or a little too late, only time will tell. But **what we will not do is miss the opportunity**.