COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

It makes a big difference whether you think that this is a spread of an important disease that is causing a lot of angst, but temporarily -- to be defined, what temporary means, six months, 12 months -- or whether it's structural. I strongly believe that it is temporary in nature. This is not structural, and therefore we're probably getting to a point where markets have been overreacting to their extrapolation of a temporary phenomenon into a permanent one.

Having said that, there are a number of real short-term risks and particularly around the liquidity of individuals and the liquidity of some corporations. Because when activity stops, when you can't go to work, when you're not selling any goods and services, your cashflow dries up, yet a lot of your expenses do not.

The situation is quite serious and we should not, of course, forget the considerable human cost. Not just those affected by the virus itself or their families, but the angst that has been shown by the broader population. And that's where it begins to affect markets, because that affects economics.

The market goes through these phases of denial, acceptance and then exaggeration. And it seems to me that we're beginning to get to that point. You see significantly more volumes. In which case that tends to mean that certain securities are getting *under*priced at the moment. The selling is there. And also investors who don't have sufficient liquidity themselves tend to sell what they *can* sell, not what they *should* sell, in which case, again, you get this mispricing of risk and opportunity in the marketplace.

That final level of panic is what creates the opportunity because share prices, bond prices, move in quite extraordinary ways. There's an opportunity for us, if we're thinking long-term, to take advantage of that.

People mix up that volatility, that movement up and down around the path with a change in direction. What investors really need to worry about when they're making a long-term plan, or if a pension fund is looking to fund its long-term liabilities is: is there a change in the direction of returns over time? It's really nothing to do with the short term volatility. What I wouldn't recommend is for people to go to cash. Rates are very low and if there is going to be a monetary response to this situation, rates are going to go even lower**.** Unfortunately you just have to sort of live through the current volatility. But I believe it will pass and it usually does when you get to these heightened levels.

The winners and losers, they'll will be determined by the amount of deep proprietary research that you're carrying out. I really think that this is absolutely the time to think about exposure to a strategy that is actively managed with thorough proprietary research.

What we'll be looking for is a lot of intensive research by ourselves on the liquidity position of the companies we invest in, in behalf of our clients, the policy response of governments and central banks to this liquidity issue, and then whether we can see a peak in the spread of the number of infections. If you get the right answers to those, I think you'll see a fairly quick correction in both economic activity and then markets.
