

VOLATILITY: IMPLICATIONS FOR THE INVESTMENT FUND MARKET, FROM AN ADMINISTRATOR'S PERSPECTIVE...

JTC Director Simon Gordon recently participated in a London Stock Exchange hosted webinar and provided an overview of how JTC is adapting to support clients during the current COVID-19 pandemic.

From mid-March the direction of our personal and working daily lives drastically changed. With the majority of all work forces working from home, and people adjusting to new social distancing measures, it is safe to say that 2020 will be a year to go down in history.

During the webinar Simon highlighted four key areas:

- > Our view as an administrator
- > Property Valuations
- > Annual General Meeting's (AGMs)
- > Business Continuity Programmes (BCP)

VIEW FROM THE ADMINISTRATOR

There are two sides to this story. Existing clients are busier than ever. Many have had to implement enhanced portfolio modelling, in which they have incorporated an exaggerated "worst case scenario" to show how they will deal with the potential downside of the pandemic. Depending on the asset class, clients are successfully raising additional equity even without face to face roadshows, an environment aided by the temporary relaxation of pre-emption rules in listed markets. Currently, attractive asset classes include, pharmaceuticals / healthcare (including biotech), technology, infrastructure and certain segments of the real estate sector (e.g. supermarkets).

In contrast to our busy existing clients, 2020 has not been a good year for IPOs as yet. Nevertheless there are ideas being discussed with potential new issuers and JTC is providing support for this early stage process. The concern in the marketing phase is the lack of human interaction. There is only so much that can be achieved via video conference. Investors like to see the whites of the issuer's eyes before they commit to an investment. The lack of face to face meetings combined with nervous investors, even if there is some positivity to market conditions, is resulting in most initial fund raisings being pushed back to the end of the year. Importantly, we envisage a considerable number of roadshows in Q3/4, to the extent that issuers may struggle to achieve the face time that they need to support their new ventures.

To overcome this, we are supporting our clients with increased pre-IPO work to prepare them for fund raising in the new environment. For example, we are moving forward with FPPP and prospectus preparation, presenting turns to the UKLA. We are also agreeing on D&O and POSI insurance terms, setting up bank accounts and implementation of corporate governance processes and controls. This will put our clients in the best position to get their new structures and strategies in place and ready to take to market when restrictions are, hopefully, lifted.

REAL ESTATE – PROPERTY VALUATION:

Covid-19 has had a disproportionate impact on the real estate sector. Clients face new challenges on a daily basis. The pandemic is causing great economic uncertainty for the UK and indeed global property market. Surveyors cannot make reliable value judgments based on valuation metrics, such as rent and footfall that no longer apply. So fund managers are doing everything that they possibly can to protect their investors. As well as problems with rent reductions and enforced "holidays", there has been a reduction in the number of investment transactions that provide support for price discovery. All this combines to make it difficult for valuation agents to be accurate with their views, resulting in material valuation uncertainty clauses within valuations.

Individuals experiencing material uncertainty are all reacting differently at the moment. The Royal Institution of Chartered Surveyors (RICS) have to determine whether material uncertainty exists and have recently released guidance for their members about the appropriate valuations. Whether material uncertainty exists still remains the decision of the RICS Regulated Member however, should they conclude that declaring material uncertainty is not appropriate, there should be a sound rationale to explain the decision making process as it is important to make a record of this for future reference.

For Q1, property valuations remained relatively stable. However in Q2 fund managers are seeing problems due to late rent and service charge collection as many businesses (especially retail) are closed and consumers are not being paid or being paid a reduced salary. Some Funds are seeing declines in rental collection from an average 90%+ to as low as 70%+. Many are also experiencing delays and are receiving requests for rental deferrals and/or rental reductions. The amount of time that is going into preparing accounts and NAVs is much more demanding than usual because more emphasis is being placed on property valuation. However, it is essential to take the time in getting this right to ensure valuations take into account all appropriate matters and, most importantly, are accurate.

ANNUAL GENERAL MEETINGS

Hosting an Annual General Meeting (AGM) is currently proving to be extremely difficult, as having a large group of people meeting in one room increases the risk of spreading coronavirus and is not even an option. At this time of year, public companies are working against the clock as they must hold an AGM within six months of the end of their financial year.

During the 'Stay at Home' measures, clients have been organising closed meetings and attendance from shareholders has been classified as 'not essential for work purposes'. To overcome this companies are encouraging "voting by proxy" and they have made arrangements to allow shareholders to submit questions electronically or in writing ahead of the meeting, with the opportunity to watch the meeting via a live-stream video. Whilst this does not allow shareholders to participate in the meeting, it is one way to make shareholders feel that they still have a valuable place at the AGM. Many companies have also organised informal shareholder days later in the year to allow everyone to meet face-to-face.

It is also worth noting that the Government has announced plans to introduce additional legislation which will amongst other things, allow companies which have postponed their AGM's since 26 March 2020 to be given until the end of September 2020 to hold those meetings. In doing so, companies can take advantage of the additional flexibilities within the legislation as to the manner in which meetings can be held. The implementation date for this change is yet to be confirmed.

BUSINESS CONTINUITY PLANS (BCP)

Business continuity planning (BCP) is the process involved in creating a system of prevention and recovery from potential threats to a company. The plan ensures that personnel and assets are protected and are able to function quickly in the event of a disaster. If organisations did not have appropriate BCP in place ahead of the crisis, they all should have one now. Providing clients with regular updates about the market and any potential threats has been key to maintaining strong relationships. Additional board meetings are taking place to keep abreast of changes in trading and the impact of Covid-19. As we move through the various stages of lock down, this has been a key consideration. Alleviating clients' concerns and keeping them fully informed that their fund management function is fully operational means that they can concentrate on their own challenging day to day business environment.

We have experienced some modified processes to audit during Covid-19, where clients/issuers are having to do more modelling around Going Concern and Viability Statements to satisfy auditors prior to sign off on annual report and accounts. Close liaison with the audit partner, particularly around the audit sign off process in relation to audit reports has been key. Special committees of the audit firms are providing specific internal reviews before sign off on any audit opinions.

The new virtual world has been a real test for managers and the directors who sit on the boards. The boards for JTC's clients have now all moved to an electronic environment to ensure safety and following guidelines. Prior to the crisis, board members were sometimes reluctant to embrace the technology, however now that they have no choice I am pleased to say it is working extremely well. Feedback from clients suggests that video conferencing is being really well received, board meetings are very productive and they tend to go through the agenda in a timely manner as there are fewer 'distractions' resulting in meetings running to schedule. It will be interesting to see what happens when the restrictions are lifted and whether boards will continue on the digital path or revert to their previous ways.

At JTC, we specialise in accounting, administration and corporate governance of listed structures including companies and funds listed on the London Stock Exchange. We provide truly tailored fund services, whether it be a full suite of services or specific stand-alone solutions, to meet all fund managers' needs. We pride ourselves on the relationship we build with our clients and we believe our business and relationship success is especially forged during these exceptional times of change that we are going through.

If you or your business are experiencing any issues with any of these topics, or would simply like to have a chat about the options available to you please contact Simon directly.