The current outbreak of COVID-19 has impacted the near entirety of the developed world and altered the lives of billions globally. Almost every facet of life has been touched by the pandemic, from our work lives, to our shopping habits, our daily routines and the very way in which we interact with each other. Worldwide, the virus has now spread to over 148 countries, with over 330,000 cases reported and 14,500 deaths, as of yesterday, per the World Health Organization.

Due to the fact that it is a novel virus, scientific and medical experts are flying blind, so to speak, and have insufficient insight into the specific epidemiology of the disease. This has allowed officials worldwide to be caught on the back foot in terms of treatment and containment, necessitating the strict societal restrictions (social distancing) under which we now find ourselves. Given that there is no known cure or yet approved vaccine, the current situation seems to be status quo for the foreseeable future.

Tracking the spread and impact of COVID-19 throughout Europe, specifically Italy and Spain and now the US, notably New York, one would be forgiven in thinking that the future looks bleak. Certainly, the road ahead will be difficult and trying, but there are glimmers of hope. China, the epicenter of the outbreak, appears to have successfully contained the spread and has recently reported no new local cases; they are slowly reopening factories, stores and cities and easing the strict social restrictions that were in place. It remains to be seen if these measures will have been effective in the long-run, but the near-term success provides some opportunity for optimism. Likewise, there seems to be incredible determination, cooperation and resolve amongst healthcare professionals sharing insights in to promising treatments, management strategies and vaccine development.

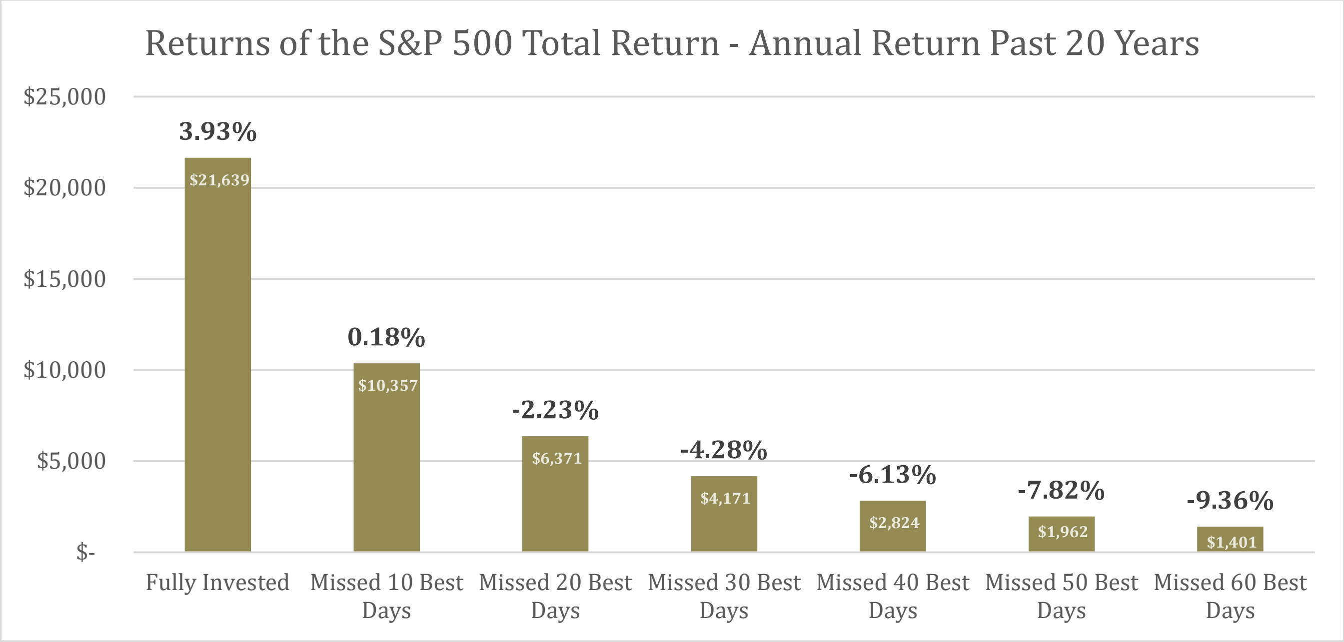
Given the unprecedented nature of this outbreak, the economic impact has been and will be severe; large swaths of the global economy are essentially shuttered indefinitely as the leisure, travel and dining industries are non-existent and millions are without work. Consumer spending on these categories will almost undoubtedly remain depressed and the lack of visibility going forward is hindering companies' abilities to plan and invest for the future. Fortunately, the policy response from governments globally has been fairly robust. Central banks have guaranteed liquidity in the credit markets and fiscal packages aimed at blunting the economic impact of the virus have been implemented internationally; an over $2.5 trillion deal seems poised to pass in the US, as well. While these measures will not fully make up for the pain, both economic and societal, inflicted by the outbreak, they should help to soften its effects and provide a boost during the recovery phase.

Our investment philosophy at Flagship is and has always been one oriented towards achieving long-term investment goals. This approach has been tested throughout multiple market cycles and five previous bear markets, most significantly the 2008-2009 Great Recession, which saw the S&P lose 57% from peak to trough. It is instructive to examine these previous downturns and subsequent recoveries, as it illustrates that the market is cyclical and the greater trend is an upward one.

| **Past Five Recessions** | | | |
|---|---|---|---|
| Beginning Date | Ending Date | Market Decline | Months to Breakeven |
| 7-17-1998 | 8-31-1998 | 19.3% | 45 |
| 3-24-2000 | 10-9-2002 | 49.1% | 48 |
| 10-9-2007 | 3-9-2009 | 56.8% | 37 |
| 4-29-2011 | 10-3-2011 | 19.4% | 4 |
| 9-20-2018 | 12-24-2018 | 19.8% | 4 |

During each of these downturns, we did selectively adjust our portfolio, to mitigate volatility and provide a cushion against market losses. We rebalanced our asset allocation in late January and early February of this year, moderately reducing our equity exposure and increasing our fixed income exposure. Similarly, we divested our position in Booking Holdings (BKNG) just prior to the acceleration in the market's decline, when the S&P was still above 3000.

That being said, we do not to subscribe to market timing, nor do we employ a trading philosophy. Rather, we invest with an expectation to hold for a time frame long enough for our portfolio companies to realize their expected returns, tracking their intrinsic, rather than market, value. To this end, the chart below illustrates the dangers of timing the market; it reflects the performance of $10,000 invested in the S&P 500 from March 24, 2000 through March 23, 2020 and the difference in returns from missing out on the best days during that 20 year period. When looking at the chart it is important to keep in mind that the best performing days are clustered around the worst performing days.



With this lesson in mind, it has been our practice over the last 30 years to generally maintain our investment positions during periods of market weakness. While we acknowledge the psychological difficulty of seeing unrealized losses in our portfolio, our investments are selected with an emphasis on quality, stability and market leadership. Leverage and debt burdens within our portfolio companies are low, management teams are strong and financial metrics, despite being impacted by the coronavirus in the near-term, are robust, when viewed through a long-term lens. We fully expect that our investments will participate in the market recovery, once visibility improves and mitigation measures begin to show results.

**Prepared by** Flagship Capital Management, Inc.
Flagship Corporate Center | 2. W. Baltimore Ave. | Suite 200 | Media, PA 19063
t 610.565.9580 | flagshipcap.com