



WATER ASSET MANAGEMENT, LLC.

509 MADISON AVENUE, SUITE 804
NEW YORK, N.Y. 10022

1-212-754-5132 TEL

1-212-754-5101 FAX

WAM's Corona Chronicles

Volume II

March 30, 2020

First and foremost, we hope that you and your family are, and remain safe.

We write to update you with our current thoughts and to highlight how the current crises reinforces our core belief that investing in water related equities and assets delivers outstanding risk adjusted investment opportunities.

The Corona pandemic response by U.S. and Global policy makers is a struggle between balancing the scientific data vs. the plunging economic data. Designating which industries are essential and which are not, is a key determinant to access government money, immediate individual corporate health, survivability, and ultimately stock price recovery.

The water industry does not need to be "designated" essential. It has been essential since before the Romans. For more than a century, the water industry has delivered reliable, clean water while preventing water borne pandemics. As an industry it has survived pandemics, wars, civil unrest, and financial collapses. Consequently, the vast majority of water industry leaders and regulators understand that the tradeoff for having rock solid, long term demand fundamentals is a requirement to maintain conservative balance sheets which have never, and do not now require government intervention or bailouts.

This past week, new virus cases reported in the U.S. grew by 100,000. In the same week, U.S. job losses increased by ~ 3 million. This three million job loss compares with peak 2008, weekly job loss of 800,000. New Corona cases and the number of unemployed will both spike much higher in coming weeks.

The Administration's plan, and hope, is that unlimited monetary policy and stimulus, and a patch work of physical distancing, will in the coming weeks engineer a V shaped bottom in unemployment, economic activity, and the markets. It's hard to imagine six more months with the economy shut down like this.

Investors are on edge to see if the highly complex, deeply interconnected, and unprecedentedly leveraged global economy can be abruptly stopped, and then quickly restarted, like a lawn mower, without a hitch.

Sniffing out the potential unintended consequences of both the unprecedented global economic shut down, and all that monetary policy and fiscal intervention, keeps us all glued to our screens.



The second quarter of 2020 will be a disaster for global profitability. The third quarter will also likely see significant profit drag, even in a best-case scenario of an all clear within coming weeks. Companies will cut earnings estimates drastically in weeks ahead, until figures match reality. Credit Suisse expects that after a ~ 25%-30% decline in S&P 500 earnings this year, it will take until 2023 to match 2019's earnings.

Consensus is building that markets may have already hit lows, and a sustained recovery may follow when new cases peak. While it may be easier to guess when new cases may peak, what's more difficult is gauging where, when, and how deep the economic bottom may be. After the peak in new cases, many companies contemplate returning to work in staggered shifts, which would impact future productivity and profitability.

Despite all that uncertainty, the need for water remains certain.

The localized water utilities around the world we invest in earn and grow their EPS and cash flows, by committing capital to essential water infrastructure; much of which is renew and replacement type work, often required by regulation. These water companies are better able than those in most other industries to absorb exogenous economic shocks such as the COVID-19, and come out health on the other side, whenever that is.

For instance, in general, most water utilities have regulatory mechanisms established long ago that allow for recovery of revenue reductions from lower water usage and delayed payment, which in this case may come specifically from small business & commercial customers, i.e., restaurants, hotels, etc. impacted by 'shelter in place' orders in many states. Not many other industries that one can invest in today are able to make that claim.

WAM is in regular contact not only with the Funds' water utilities, but with various international regulators and state Public Utility Commissions to better understand and quantify the impact of COVID-19.

As for the Funds' non-utility water investments, our water infrastructure companies continue to manufacture crucial products for the delivery and treatment of water. While not fully immune to a downturn, these companies have strong balance sheets with ample liquidity, to manage through this economic slowdown.

In summary, the companies in any industry, to own in this current environment, have modest leverage, good earnings visibility and high operating efficiency – i.e., solid RoEs, RoAs, and the ability to control pricing, costs and capital expenditures. The water companies, in our portfolio, embody these fundamental strengths. We remain confident that the water companies we own, will not only make it through this current uncertainty, but will come out stronger.

Looking ahead, the seasonality of the virus is unknown. A second wave in the fall or winter, could further rewrite history. We shall hope for the best, but our portfolio is built to handle the worst and



we have ample liquidity to make significant prudent investments. Again, in a world of uncertainty, the need for water is certain.

Sincerely,

Matthew J. Diserio
President

Disque D. Deane, Jr.
CIO