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

Dear fellow WAM investor,

While this historic meltdown has impacted the Fund's global water stocks, WAM funds have outperformed the broader indices. Prior to February and continuing into March the Funds' had lower gross exposure and significant cash after having realized gains last year in positions that had reached price targets.

We are calm, cool, collected, and focused on when to put that dry powder to work buying more of the best water stocks in the world, at valuations that we have not seen for years. Like a lightning bolt, the global economy has quickly and unexpectedly veered into uncharted waters with economic growth at risk from the Corona Pandemic. The whole world is now taking an open ended "snow day" stopping travel, disrupting demand and supply chains. Coincidentally, oil prices collapsed 25% from the Russia/Saudi market share standoff. Meanwhile, extreme volatility of the 10 year U.S. government bond yield which fluctuated wildly between 30 bps and 80 bps compounded investor fears making it difficult for models to accurately price and value trillions of dollars of assets.

It's reassuring that in periods of great uncertainty like this, the need for clean reliable water remains certain. Water utilities that provide this essential resource are uniquely insulated from these and other chaotic macro factors. We are poised to begin putting available capital in Water Asset Management Funds' to work investing in the world's best water utilities. Market drawdowns historically are excellent times to add capital to water investing. Water supply demand dynamics are localized, and positive water pricing and strong fundamentals are isolated from the macro factors that cause market corrections.

Watching very closely for the first signs of stabilization, a couple of things worth noting occurred yesterday. First, the market was down another 10%, in one day. Some stocks were down 20%. Then, the Fed offered more than $5 trillion of liquidity to quench markets, which a senior U.S. Rate Strategist described as bringing an aircraft carrier to a knife fight. Next, was what may be the first of a series of bi partisan stimulus packages expected to be passed and signed by the weekend. Finally, after the Federal government underplayed the seriousness of the virus, and admittedly failed to provide adequate testing capabilities, cities, states, companies, private event organizers, the NHL, the NBA and the final four took matters into their own hands with a China-like efficiency. Though it is still in early days, the country is in a much better position to limit a corona pandemic, and the depth and duration of its economic impact, than we were yesterday. We will be watching daily case data trends on the Johns Hopkins website along with the CDC and millions of others. Recognition of the above will eventually stabilize the markets. Adding to water stocks, whose earnings are not affected by any of this, eliminates the uncertainty and risk from trying to guess which other industry market sectors may provide the next new leadership when the market recovers. And as the global economy slows, other central banks will continue to cut interest rates. This is bullish for PE multiple expansion on water stocks high visibility EPS, and high dividend payout ratios.

The Funds' water stocks are less volatile and less correlated (0.8 for Long only and 0.5 for long short) to the S&P 500, yet have beaten the market's returns since inception in 2006. The reason is good stock picking in an industry whose earnings fundamentals are driven by local supply and demand of the world's most essential resource. Water utilities operate with multiyear regulatory certainty to deliver high visibility EPS growth, steadily increasing 2-5% dividend yields, and growing regulated asset bases. They sell the same amount of water and waste water services in a down 2% GDP as in an up 2% GDP.

Longer term, the secular increase in global spending to replace and expand the world's dilapidated water infrastructure to ensure essential water quality and supply, under added threat as climate change intensifies, is a steady fundamental tail wind for water industry earnings growth. Unlike other big chunks of the economy facing existential risk of disintermediation, such as transportation, energy, and healthcare, there is no disintermediation risk to the rock solid regulated monopolies in the water industry. Please consider using this market opportunity to add to water investment exposure which combines market beating return potential with serving the common good.

Sincerely,

Matthew J. Diserio
President