

# Coronavirus Update

*NOTE: Wasatch Global Investors continues to monitor the latest developments regarding the Covid-19 pandemic. We recognize that this is a global health event that businesses and market participants have not faced in living memory. The health scare has prompted a period of notable volatility and uncertainty across world-wide equity markets, most of which have experienced sharp declines in recent weeks. In light of the concern looming in many investors' minds, we want to take the opportunity to address how our firm is managing the situation, both from an organizational standpoint and from an investing standpoint.*

**MARCH 17, 2020**

## The Latest From Wasatch on Managing Through The Coronavirus Outbreak



### **REGARDING OUR INVESTMENT APPROACH**

Most importantly, from an investment perspective, we believe our strategies and our firm are very well-positioned to withstand this global health emergency. We have conducted analyses of how our investments are positioned. As a result, we feel confident that the overwhelming majority have strong balance sheets and leadership and are capable of weathering what could be a sustained hit to revenues and earnings.

We have been pleased that, year-to-date through March 17, 2020, most of our strategies have held up better than their respective benchmarks. This fact has been reinforced by an extended period leading up to the crisis during which our strategies enjoyed broadly strong performance, supported by portfolios of companies that we see as having durable long-term growth potential by virtue of their competitive positioning, strong balance sheets and capable management teams. We believe these factors have resulted in favorable positioning for our firm and our strategies relative to the ongoing macro uncertainty. Put simply, we believe this is a good place to be when faced with this sort of market volatility.

Although some businesses, notably those connected to the tourism and travel industries, are almost certain to feel a dramatic impact from the slowdown in consumer activity, we do not currently have significant positions in these industries and have adjusted our positions, where necessary, in those few potentially exposed companies we do hold. We are also keeping an eye on consumer companies' fundamentals in countries where tourism constitutes a meaningful percentage of their gross domestic product (GDP).

To the extent that there are disruptions in manufacturing supply chains, some of our holdings will likely feel the slowdown, but are positioned such that they should rebound as soon as economic activity picks up, potentially also benefiting from pent-up demand. Indeed, we are likely to add to several such holdings on any pricing weakness.

We continue to strive to make the strategies stronger when we see areas of potential opportunity. Currently, some of the areas that we think might see favorable tailwinds include businesses in the information-technology sector, which is overweight in many of our strategies. In general, lower oil prices bode well for most emerging countries including India, China, Korea and Taiwan, which account for nearly 70% of the MSCI Emerging Markets Index.

In addition to these markets, others such as Vietnam, Thailand and Mexico may benefit from a likely increasing shift away from China as a sole-source provider of many goods, although these nations will also contend with the unknown impact of the virus on their important tourism industries. To this point, through recent volatility, health care in China has been one bright spot and we believe the sector will be a long-term beneficiary of this crisis.

We continue to search for companies we consider high quality that appear especially

attractive after their stocks have been unfairly and indiscriminately punished by market volatility.

## **REGARDING WASATCH'S OPERATIONS**

As a firm, we believe it is important that we support public health officials in containing the virus. As such, the firm has temporarily implemented employee travel restrictions for all non-essential business travel. Many members of our team have commendably redoubled their efforts to minimize the impact on our operations. For example, our international team faced unexpected travel cancellations just prior to a recent trip to Japan, but refused to allow the inability to travel to interrupt its research. The team was successful in converting the trip into a no-less-arduous "virtual tour," pulling long hours and holding just shy of 50 meetings with company management teams remotely instead.

Out of an abundance of caution for the safety of our employees and the broader community, the firm is also encouraging our staff to work from home, where possible. Please note that all business functions remain fully operational and all lines of communication with Wasatch remain open and unchanged.

Ongoing testing of the firm's ability to work remotely is part of our Business Continuity Plan. Rest assured that employees working from home have the tools and resources they need to remain fully engaged and operational.

The firm is continually reviewing guidance from the Centers for Disease Control and Prevention (CDC), local health officials, and other governmental entities to ensure that we are adhering to best practices to help our employees, clients and community remain safe.

## **OUTLOOK**

While we don't know when the Covid-19 pandemic will peak, we are fully confident in the



stability of our firm, the commitment of our employees and our ability to continue to manage client portfolios without disruption.

Our base case scenario is that there is evidence that the virus is containable with ample testing and strict social containment measures. China, where the virus first emerged, saw a dramatic reduction in new cases and economic recovery appears to be emerging. Other countries such as Taiwan, Singapore and Hong Kong have yet to see rapid spread. And countries such as South Korea that saw rapid spread have also contained the virus thus far.

While Western countries such as Italy, Spain and France appear to be behind the curve, recent news indicates an increasingly serious posture toward containment. The United States is also moving in that direction quickly. Our working assumption is that measures to contain the virus are largely effective, but there will be variability by country. We are optimistic that eventually global resources will come together to help countries with lesser resources confront the challenges of Covid-19. We anticipate that evidence of country-by-country containment and reduction in the pace of new cases will allow investor sentiment and ultimately economic activity to improve.

We also recognize that things could get worse than our base-case scenario. We will continually evaluate the evidence, data, and the companies held in our strategies based on emerging information. Importantly, even after the Spanish Flu of 1918—the most traumatic pandemic the modern world has experienced—life returned to normal. Even in such a worst-case scenario, which may yet prove a baseless comparison, we do not believe the period of interim pain would ultimately impact the long-term fundamentals of our companies. However, there is one important caveat: given the wide dispersion of potential outcomes over the next year, companies need to be in a position to weather a significant short-term demand decline. Therefore, we have been carefully evaluating the balance-sheet strength and cash-generating capabilities of our companies in the face of such a demand decline.

For those who are interested, Wasatch will be periodically updating our website at [wasatchglobal.com](http://wasatchglobal.com) with our current views on our strategies and the investment landscape in light of the evolving Covid-19 pandemic.

We greatly appreciate your trust and confidence in Wasatch.



*The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. You cannot invest in this or any index.*

*Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI,*

*each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)*

*Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.*

*This commentary is intended to provide you with information about factors that may affect the performance of Wasatch investment strategies. It is not intended as investment advice or as advice to make or refrain from making any type of investment. Wasatch analysts closely monitor the companies held in our strategies. If a company's underlying fundamentals or valuation measures change, Wasatch will reevaluate its position and may sell part or all of its holdings. **Past performance is not indicative of future results.** Information in this commentary regarding market or economic trends or the factors influencing historical or future performance reflects the opinions of management as of the date of this commentary. This commentary should not be relied upon for any other purpose.*