

18 March 2020

WELLINGTON QUALITY VALUE/SELECT QUALITY VALUE: COVID-19 PERSPECTIVES

Any views expressed herein are those of the investment management team and based on available information through the date of this memo and are subject to change without notice.

COVID-19 AND MARKET PERSPECTIVES

Global markets have declined meaningfully in recent weeks, fueled by rising coronavirus infections globally and declining oil prices following news that OPEC talks collapsed without agreement on production cuts. Despite a meaningful fiscal and monetary response from multiple governments around the world, volatility levels remain high and markets remain under pressure. To date, COVID-19 containment efforts have proved largely unsuccessful, and the number of confirmed cases has accelerated world-wide, including within the United States. Investor concern has been exacerbated by a slow policy response by the US administration and a shortage of testing kits, access to which would enable health authorities to more accurately determine the true number of exposures and clinical cases, as well as mortality rates and the importance of co-morbid conditions. We are hopeful that a more aggressive emergency federal response will be forthcoming as testing capabilities improve and we become less reliant on epidemiological and clinical information coming from other countries. In the interim, we expect market volatility to persist as investors continue to assess the economic impact of increased travel restrictions and pervasive social distancing measures.

PORTFOLIO IMPLICATIONS

In Quality Value we seek to own franchises that generate solid levels of free cash flow, have higher and safe dividend yields, and less financial leverage. We believe that limiting negative returns in down markets is critical for successful long-term performance. In this context recent performance is consistent with what should be expected, providing downside protection over the last few weeks and outperforming its Index.

As a result of the fluidity of market events over the last several weeks and the ongoing uncertainty, we have not made many significant changes to our positioning. At the margin, in our diversified portfolios, we have added to select companies where valuations are becoming more attractive and trimmed some positions in companies that we believe will be vulnerable in a protracted slowdown scenario. In our concentrated portfolios, we have not yet adjusted positioning. We are currently looking at opportunities in some higher quality growth companies that have come back to risk/reward levels that are more compelling, in addition to cyclical opportunities in industries that should see a snap back as we normalize. We continue to like the large banks, as the balance sheets, credit risk, dividends are very health versus any other time in history.

As a team, we are significantly benefiting from Wellington's broad global resources to gain insights from around the world. We are gaining valuable perspectives from our colleagues outside of the United States for real-time reactions and comments on life-on-the-ground in terms of how they have been dealing with the coronavirus and its impact. Additionally, the health care team continues to offer critical perspectives on the potential and timing for treatments and vaccinations.

We recognize the situation is very fluid and our opinions can and should change as facts do. We will endeavor to update you when we have something material to share about our outlook, positioning and/or research agenda.

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