

Investing in water: tapping into a source of resilient growth

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1. INTRODUCTION

Impax has been researching and investing in listed water and water-related companies since 1999, and running a dedicated water strategy since 2008. Over this period, the number of companies in the water value chain has increased significantly and, in the main, these companies have grown rapidly.

The water opportunity is surprisingly diverse and resilient with risk characteristics comparable to equity markets. It runs through the global economy; across many end markets, sectors and regions. Water also provides attractive opportunities through the full economic cycle encompassing both defensive and cyclical businesses.

This paper highlights some of the interesting new developments and technologies in the rapidly growing water industry. It discusses the drivers of this market, catalysts for further change and the impact of tightening global water and water-related regulations.

2. REINFORCING THE INVESTMENT HYPOTHESIS

Globally, clean water supply and demand imbalances persist and the long-term drivers discussed below support the superior growth of water companies. An ever-increasing gap between supply and demand, exacerbated by climate disruptions and extreme weather events, is set to require substantial capital investments in water treatment technologies and distribution infrastructure. This opens the door to investment opportunities in many new technologies and services to conserve, treat and distribute water.

The growth drivers

i. Population and urbanisation

The global demand for water will continue to grow rapidly. While improving technologies are leading to more efficient water management, rising populations are putting the world's freshwater resources under considerable strain. According to the UN, the global population is expected to increase from around 7 billion to an estimated 9 billion by 2050. Over 6 billion of this is expected to be concentrated in urban areas¹. Meanwhile, the global volume of fresh water remains static. Just 2.5% of the total 336 million cubic miles of water on earth is considered 'fresh' and only 0.025% is accessible surface water².

ii. Living standards

Increased urbanisation, coupled with greater affluence in developing countries are changing consumption patterns. Higher standards of living are associated with a rapidly rising demand for clothing and personal products, and a higher protein diet, which all increase the pressures on water supply.

Many items taken for granted by modern urban dwellers require significant amounts of water to produce. For example, a hamburger takes 460 gallons (2090 litres) of water to make; a cotton t-shirt requires 650 gallons (2950 litres); one egg takes 50 gallons (227 litres) and a cup of coffee 35 gallons (160 litres)³. Major water infrastructure development is needed to service this rapid growth.