



Timely thematic topic:

Catalysts driving secular growth in the water sector

Key facts

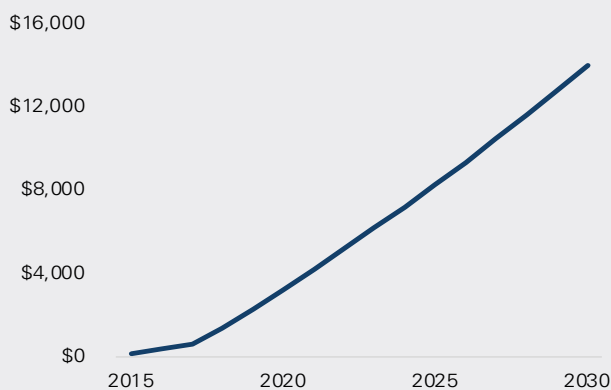
- Secular growth in water sector features near-term catalysts, including a potential U.S. infrastructure package and expansion of corporate sustainability initiatives
- Technology adoption is at an inflection point following the impact of COVID-19
- Water sector expected to benefit from growing flows into sustainable investments

Catalyst #1: U.S. infrastructure and corporate sustainability programs

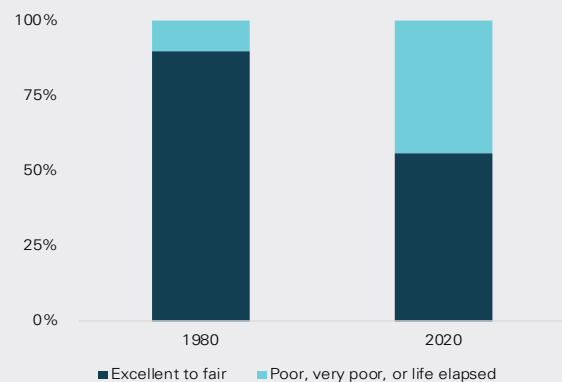
We believe we are at the outset of a long-term secular growth cycle propelled by increased investment in solving the intensifying global water crisis. In our view, the solutions to water scarcity, poor water quality, and the challenges from climate change are upgrading water infrastructure and adopting innovative technologies. In the near term, water is positioned to benefit from two prominent catalysts – a potential U.S. infrastructure package and growth in corporate sustainability initiatives.

- The Biden administration’s potential \$2 – 3T infrastructure package is projected to include dedications to improving water and wastewater infrastructure and integrating water efficiency and quality monitoring technologies. Increased water quality standards, a high priority of the administration, is set to drive increased investment in filtration, treatment, and testing systems.
- We expect to see an increased focus on and expansion of corporate sustainability programs. In recent years, the focal point of corporate ESG and sustainability initiatives has been carbon, but water is gaining more attention, as evidenced by Microsoft’s recent announcement of targeting net zero water operations by 2030. To meet sustainability goals, we believe corporates will increasingly turn to water technologies to lower their water footprint.

Cumulative water investment needed (\$B)



Condition of U.S. Water Infrastructure



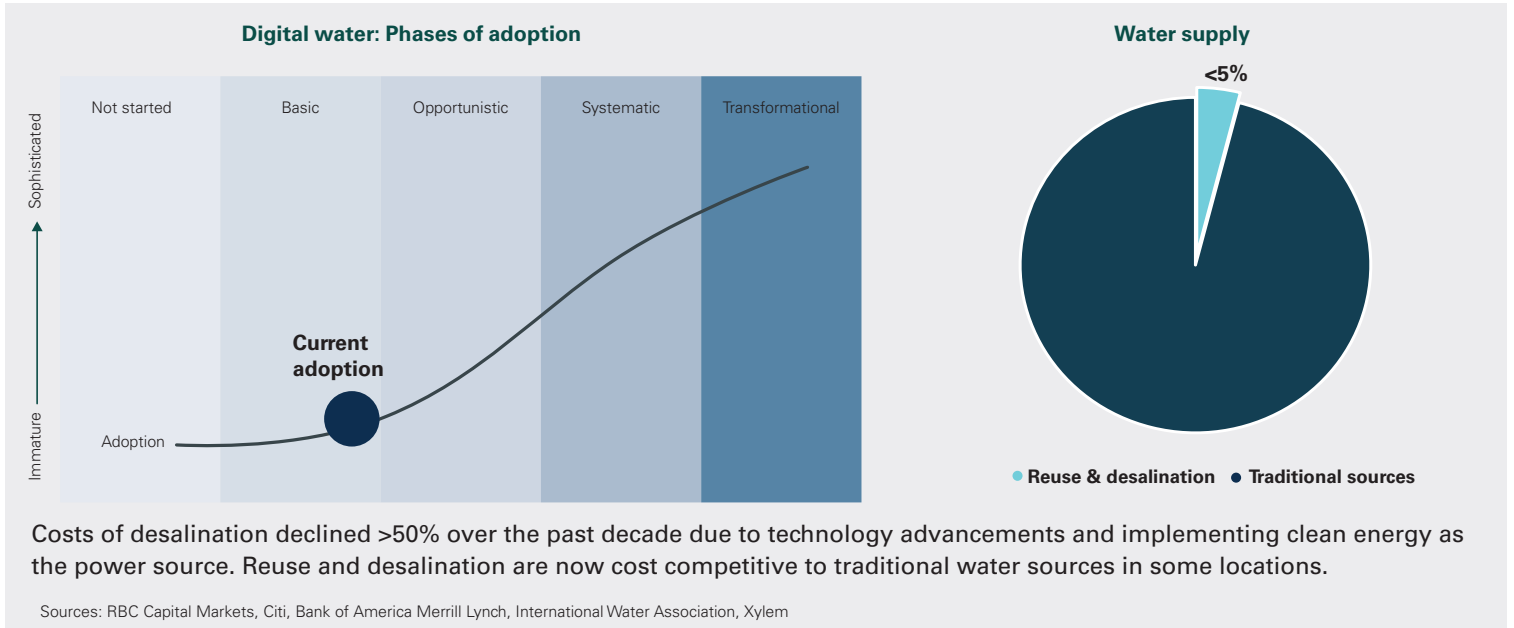
Last period of significant water investment followed World War II. Some cities still use pipelines from the late 1800s. As result of the overaged infrastructure, the American Society of Engineers grades U.S. water infrastructure with a letter-grade of “D”

Sources: McKinsey, OECD, World Bank, Brookings, NCE, American Water Works Association, American Water Works Co, and American Society of Civil Engineers

Catalyst #2: Technology adoption

Technology advancements are transforming the sector, providing attractive investment opportunities by accelerating growth and expanding margins of companies developing and deploying water technologies. We are at an inflection point of adoption following COVID-19's impact on the sector, with a long runway of growth.

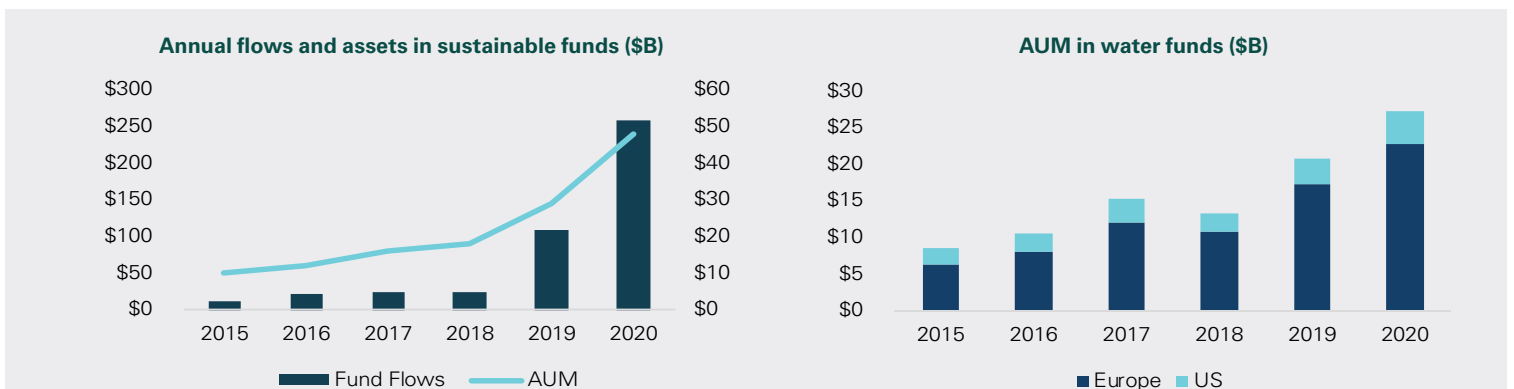
- Growth of digital technologies, including real-time leak detection, remote monitoring, and advanced analytics, is reducing water loss (~34% of water globally is lost during transmission), facilitating capital-efficient infrastructure improvements, and spurring corporations to outsource water operations to water specialists.
- Improvement in filtration and treatment technologies are enabling increased use of alternative sources of water, including water reuse and desalination, both of which represent less than 5% of water supply today. These technologies are also driving adoption of point-of-use treatment that allows for customization of water to desired specifications. Applications range from advanced treatment of water in the manufacturing of microelectronics to customizing taste of water for food and beverage.



Catalyst #3: Fund flows

Investment in sustainable products continued its growth trajectory in 2020, with net flows doubling 2019 levels and increasing 10x the amount in 2018. Water was a key contributor to this growth, with AUM in publically listed vehicles hitting a record high at year end.

Looking ahead, we believe water will continue to garner flows as the shift of mainstream portfolios to sustainable investments persists. We also expect water to benefit from investors expanding their sustainability exposures beyond current areas of focus, such as clean energy. Notably, water shares a number of the same trends as clean energy, from the rate of change in technology to favorable regulation, but now water trades at discount versus the historical premium.



Water AUM well positioned for growth as investors, particularly in the U.S., shift portfolios to sustainably oriented products. Water expected to capture flows due to it's secular growth, low correlation to traditional asset classes, and positive impact on society.

Source: Morningstar, Bloomberg

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