



ESG Thematic: The Water Investment Opportunity

Through Funds Selection

Preview Version

White Stag Investing

Take Responsibility for your investments

Why Invest in Water

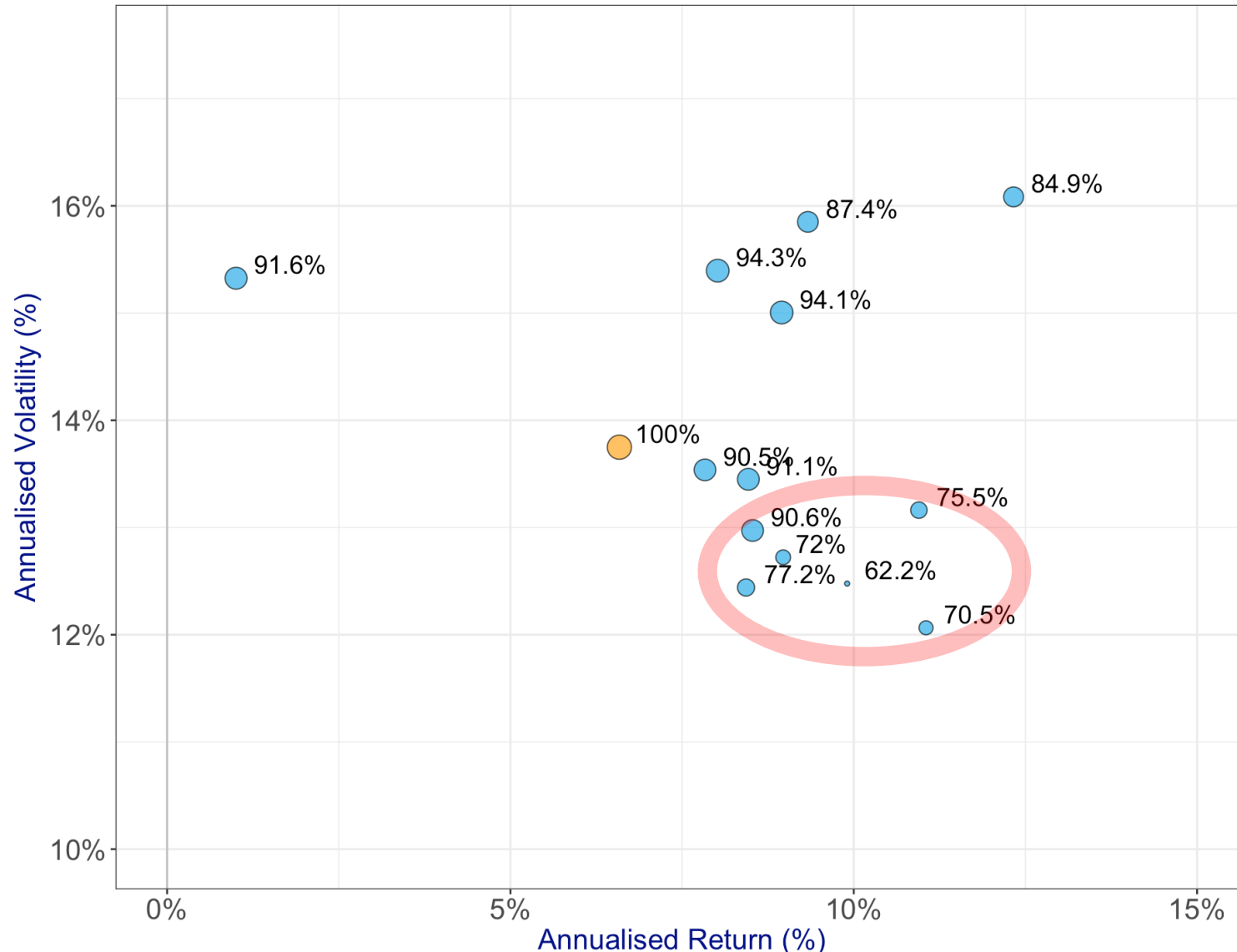
- **Underserviced** basic need: fixed supply for increasing demand.
- **Not a commodity allocation:** investments done through water supply chain: efficiency, treatment, delivery or recycling vectors.
- Growing issue given **climate and demographics change**. The increase need for solutions are **strong fundamental investment drivers** in the long-run.
- **Segmented sector:** stand-alone performance drivers in Utilities, Industrials, Technologies and Infrastructure.
- Wide array of funds with **different strategies and ESG overlays**.
- These funds invests through **global listed equities**. This allocation can fit in a **traditional equity portfolio**.
- Potential for **added-performance, reduced volatility and diversification**.
- **ESG Investment** at its core. Investment bring solutions to **water scarcity, efficiency and quality challenges**.



6 CLEAN WATER AND SANITATION



Source of Return and Diversification



- Water funds have interesting risk-return profile
- A set of funds stands out with higher performance, lower volatility and lower correlations to global markets.
- This shows differentiation in the space:
Value-Added Zone
- This is a source of performance and diversification in the portfolio.

Overview of the Performance and its Dispersion: Yearly



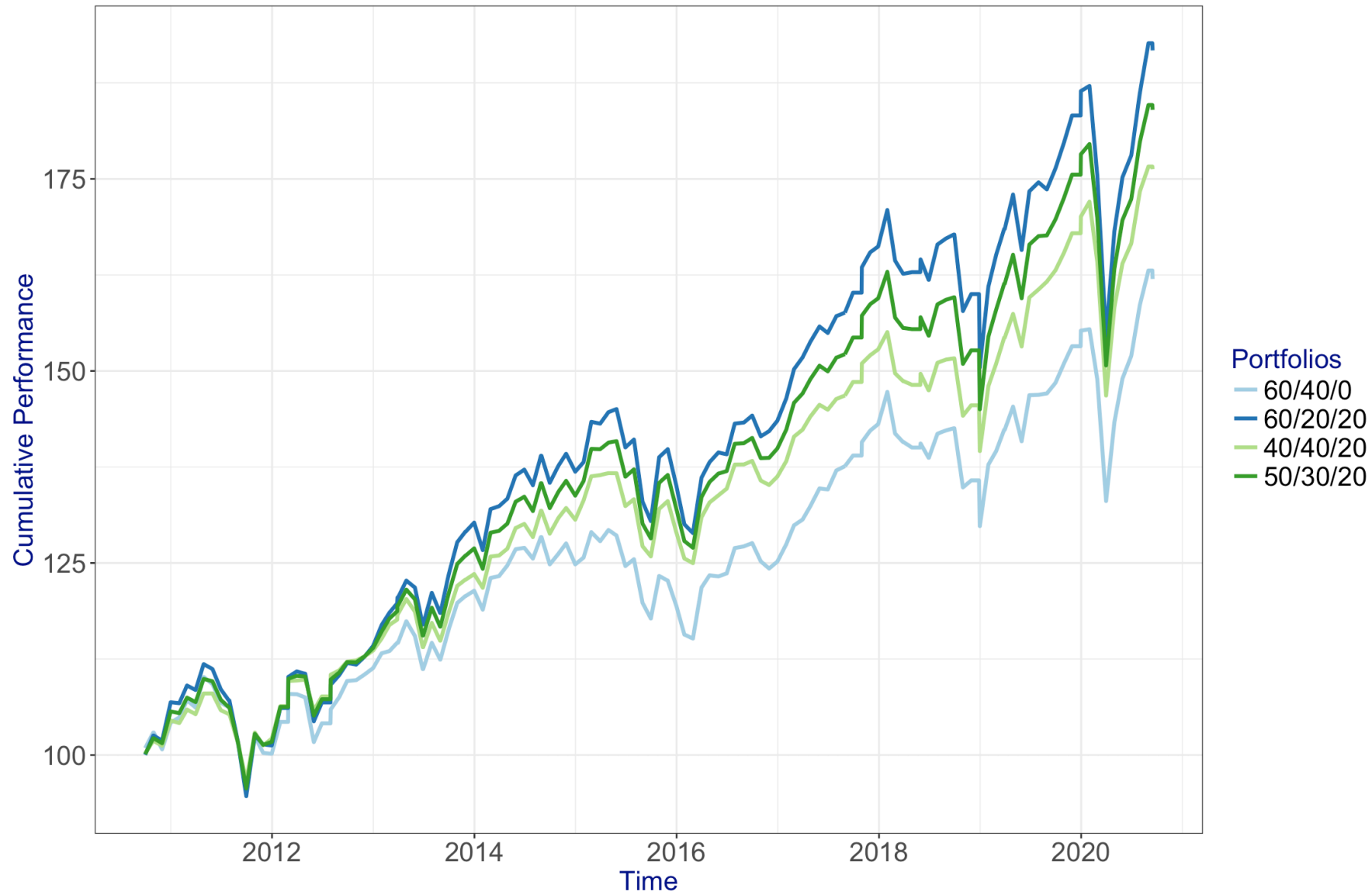
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
MSCI ACWI	8.9%	-9.9%	14.0%	19.8%	1.5%	-4.6%	6.0%	21.8%	-11.0%	23.5%	2.6%
Water Fund 1	16.5%	-11.3%	23.1%	26.4%	-1.8%	-15.8%	13.5%	23.1%	-6.8%	36.9%	3.0%
Water Fund 2	12.0%	-12.2%	17.3%	29.6%	-4.3%	-2.3%	10.1%	22.5%	-17.6%	27.0%	9.7%
Water Fund 3	16.3%	-8.5%	19.8%	23.1%	-1.4%	-0.2%	3.6%	18.6%	-15.8%	28.8%	3.2%
Water Fund 4	NA	NA	NA	NA	NA	-13.2%	14.4%	17.7%	-14.7%	27.0%	-0.8%
Water Fund 5	13.1%	-9.8%	18.7%	24.3%	1.5%	-3.3%	4.8%	24.9%	-12.4%	32.1%	0.7%
Water Fund 6	10.2%	-2.2%	14.6%	18.1%	16.6%	11.3%	10.0%	10.7%	-7.9%	35.6%	-0.9%
Water Fund 7	NA	NA	17.9%	24.6%	6.2%	11.6%	8.4%	7.8%	-16.3%	26.3%	2.6%
Water Fund 8	NA	NA	NA	NA	NA	NA	NA	NA	-13.1%	32.8%	-1.1%
Water Fund 9	10.7%	-12.2%	25.2%	22.6%	17.5%	3.6%	4.3%	6.9%	-8.3%	30.3%	-2.3%
Water Fund 10	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1.2%
Water Fund 11	11.8%	-8.5%	20.9%	21.4%	14.5%	12.5%	12.0%	11.5%	-9.2%	35.5%	-5.0%
Water Fund 12	14.2%	-8.9%	17.7%	23.8%	2.0%	-3.4%	4.7%	24.7%	-11.6%	31.3%	0.2%
Water Fund 13	9.9%	-5.8%	14.8%	19.9%	21.0%	15.4%	6.9%	8.5%	-14.4%	36.0%	-4.4%
Water Fund 14	11.7%	-18.2%	20.2%	30.5%	1.0%	0.0%	5.6%	27.1%	-13.2%	30.7%	7.0%
Water Fund 15	NA	NA	NA	NA	NA	NA	NA	8.3%	-9.6%	34.9%	-7.6%
Water Fund 16	17.6%	-6.3%	25.3%	30.1%	-0.4%	-10.7%	31.4%	23.1%	-9.8%	36.5%	0.6%

01.2010-08.2020 Source: Koyfin, SwissFundData, Yahoo.

- This potential for a stable source of performance is also show in yearly returns.
- The differentiation in the space is also further in evidence; showing the need for a right selection.



Improved Performance over Time



- A Water fund can therefore improve portfolio's characteristics.
- Three different portfolios' performance when a water fund is added to a classical 60/40 Stock/Bond Portfolio.
- It is increasing the performance compared to a traditional portfolio in each case.

01.2010-08.2020 Source: Koyfin, SwissFundData, Yahoo. The weights are respectively in three generic assets: IG Bond Index, MSCWI ACWI (Global Markets) and a Water Fund

Improved Portfolio Characteristics



Summary	No Water	Water FI	Water Equ.	Water Alt.
Weightings	60/40/0	60/20/20	40/40/20	50/30/20
Ann. Ret	4.94%	6.73%	5.83%	6.29%
Ann. Std Dev.	8.49%	9.64%	7.82%	8.70%
Ann. Sharp	0.58	0.70	0.75	0.72
Time Above Water	34.7%	39.5%	47.6%	43.5%
Correl to ACWI	97.2%	97.7%	93.3%	96.1%

Remarks:

The four portfolios represents where the water allocation is placed: nowhere, in the equity book, in the fixed income book or as an alternative.

The time above water represent the time the portfolio is not losing value. It is an alternative measure of risk that represents the time the investment is in the green; therefore amending for its losses and growing in value

- The water fund can either favor an increase of performance or reduction of risk (less Volatility or higher Time Above Water).
- When it is added to an equity allocation, it improves the annualized performance by 89 bps, reduce its volatility by 67 bps and improve its time above water by 12.9%

Conclusion



- Evidence shows an investment case for the water thematic allocation.
- The transition to a resource-efficient economy creates opportunities in various developments themes like Water.
- Water is often under-looked because common misconception of abundance. But its needs of investments and importance is comparable to the energy sector.
- The funds mainly invests in global public equities. They are liquid and hence can fit into a traditional equity allocation.
- Nonetheless, thematic investing can be a new source of alternative investments.
- This theme provide enhanced returns, lower volatility, and diversification.
- It is a thematic ESG allocation at its core.

Remarks



- This quantitative analysis is a basis for a deeper qualitative assessment.
- This is a financial performance analysis of the funds showing a sustainable mandate. A deeper analysis under sustainable criterion is also recommended.
- Assessing the sustainability of a financial product is complex. Sustainable values can be measured on several dimensions and there are often trade-offs. Moreover, the measurements of such values come from non-standardized sources and are often subjective.
- That is why I would recommend a thoughtful approach of the strategy and allocation, making sure the needs and values of the investors are truly reflected in the investments.



White Stag Investing: Nicola Lei Ravello



After 7 years as an investment analyst in the hedge funds industry, I've started covering sustainable finance on my own initiative since early 2019. I have also been heavily engaging the (sustainable) finance community on how to recognize sustainability as a long-term source of value for investments. I've researched the most promising sustainable themes investors can engage with and analysed their investment landscapes. I am now working as an independent research provider in that field. I have a B.sc. in Economics from HEC Lausanne and a M.sc. in Finance from the University of Zürich. I am an avid cook, karateka and a hopeful windsurfer.

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