

MARKET MOVER JENS PEERS

World's growing thirst sees water shares rise

Investor taps into the rising price of a scarce commodity

JENS PEERS was appointed head of ecological strategies at KBC Asset Management in Dublin in 2003. Before that he was a financial analyst, covering insurance and real estate stocks with KBC in Brussels.

His responsibilities include the Eco Water fund, which invests in companies at all stages of the water cycle, from pumping it out of the ground, filtering it for consumption, distributing it to homes and businesses, collecting waste water after use and returning it to nature. The fund had €847m invested in 56 stocks at the end of September.

It is open to those with at least €5,000 to invest through Bank of Ireland branches and New Ireland brokerage.

Investment philosophy

The fund aims to benefit from rising water prices as demand continues to grow. "Water is eternally renewable but we can't make any more of it — less than 1% of the world's water is available for use and reuse," said Peers. "Demand, meanwhile, is growing because of population growth, more industrial activity and rising standards of living. The richer we get, the more water we use."

The imbalance between demand and supply has yet to be reflected in the price for water. "Water is not priced properly because we're not given an incentive to use less," said Peers.

The fund has invested 40% of its money in infrastructure stocks, which Peers believes could be the winners from the supply imbalance.

Regulators in some countries, including Britain, control

the return utilities can make on their assets. To increase their bottom line, they have to invest more in infrastructure.

This expenditure is essential to keep up with population changes. In Ireland, there are plans to build a pipeline to pump water from the Shannon to the population centres on the east coast, where summers will become drier due to climate change.

The fund also invests in technology companies working on ways to improve water quality, metering and leak detection. Health scares, such as the outbreak of cryptosporidium in Galway's water supply last year, are forcing utilities to invest in technologies such as ultraviolet screening.

Performance

The Eco Water fund has averaged more than 12% annual growth over the past five years, compared with less than 4% a year for the benchmark MSCI World index. More recently, though, it has underperformed,



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dropping 9% in the third quarter of 2008 compared with a loss of less than 5% for the benchmark index.

"Utilities are a traditional safe haven because they have transparent revenue models, with concessions for 20 years or more and pricing linked to inflation," said Peers. "They tend to rely on debt financing, though, which has put them under pressure in the current environment."

Buying and selling

Peers is playing it safe. "We prefer companies with strong balance sheets, which won't need to raise external financing in the next six to 12 months. We prefer infrastructure companies with recurring income, deriving from capital expenditure for maintenance rather than expansion."

His stock picks include Manila Water Company. "It's highly efficient and will benefit from a 13% increase in water prices next year," said Peers. "Its valuation is at historic lows because of a general risk-aversion to emerging markets, providing a good entry point for investors."

Another favoured stock is Energy Recovery, in America, whose technology reduces energy costs to provide affordable seawater desalination. Peers also likes Cascal, a British company that operates water and waste water facilities, increasingly in emerging markets.

Outlook

As a pure equity investment, the fund's performance will depend on a stock market rally. Government stimulus packages are already lifting prospects, with Barack Obama, the American president-elect, promising to invest \$200 billion (€155 billion) in water.