



Water as an Asset Class

The single largest environmental investment opportunity

Water - A compelling investment story

Fresh water has no substitute - and only a fraction of today's supply is safe for consumption. Given a fast-growing world population, the massive urbanization of developing nations and deteriorating infrastructure in developed countries, the need for water is set to grow exponentially. Due to the vast number of investments needed to solve this global supply/demand imbalance, water is increasingly being viewed as a core commodity that may be as profitable as oil.

A flood of opportunity

Water is currently a \$600 billion market poised to grow to \$1 trillion by 2020

Investments are needed along the entire water-value chain; global water-infrastructure projects alone are expected to see annual growth of 5% - 8%. Companies that focus on addressing the increasing demand for and limited supply of water could represent some of the world's key growth opportunities today - and in the coming years.

Water as an Asset Class

"I expect to see a globally integrated market for fresh water within 25 to 30 years. Once the spot markets for water are integrated, futures markets and other derivative water-based financial instruments - puts, calls, swaps - both exchange-traded and OTC will follow. There will be different grades and types of fresh water, just the way we have light sweet and heavy sour crude oil today. **Water as an asset class will, in my view, become eventually the single most important physical-commodity based asset class, dwarfing oil, copper, agricultural commodities and precious metals.**"

Willem Buiter, Global Chief Economist, Citigroup (2011)

Water - #1 Global Impact & Responsible Investment

FACTS

\$
19

Economic return of \$1
invested in water and
sanitation (World Health
Organization)


50

Percentage of world's
hospital beds filled with
people suffering from a
water-related disease


60

Second interval a child dies
of water-related disease


780000000

People without access to
safe drinking water

Water - Investing in water-related companies

In a world that's more than 70% covered by water, where many people enjoy a never-ending stream of clean water that's a mere twist of the tap away, it can be hard to imagine any kind of water scarcity.

Yet for a growing part of the world's population-from wealthy residents in dry regions of developed nations to the urban poor in emerging economies-limits on supply and increasing demand are creating an ever-greater global water challenge. Solving this problem demands a long-term effort from institutions around the world, which Thomas Schumann Capital believes will require significant investment from the private sector.

Limited Supply

There is no substitute for fresh, clean water. Other commodities have their surrogates - wheat for oats, coal for natural gas - but water does not.

Yet this vital natural resource is not quite as abundant as some might think. Approximately 97% of the world's water is non-potable seawater, and most of the freshwater is contained in the polar ice caps. The rest - found in rivers, lakes and aquifers-can be hard to access, is being increasingly placed at risk by climate change and can easily be made unusable by contamination. All told, less than 0.007% of all the water in the world is potable, or safe for consumption, according to the World Health Organization.

Rising Demand

At the same time, demand for fresh water is steadily increasing. The world's population is growing rapidly and climate change is causing shifts in rainfall levels and overall water availability - exacerbating what is already an enormous economic and social challenge: getting a secure supply of usable water to the billions of people and countless businesses that depend on it every day.

A Worsening Situation

So where does all the water go? While energy production, manufacturing and basic hygiene needs account for a large part of the demand, the vast majority - approximately 70% of all the world's freshwater resources - is used for agriculture. The enormous amount of water needed to grow the crops and livestock that feed and clothe the world's population has helped create a dire situation. According to the U.N., more than 1.6 billion people are currently living in places where sustainable water use has already reached its limits. These areas include both emerging economies and developed regions. **The U.N. believes that by 2025, two-thirds of the world's population will live in these water-stressed areas.**

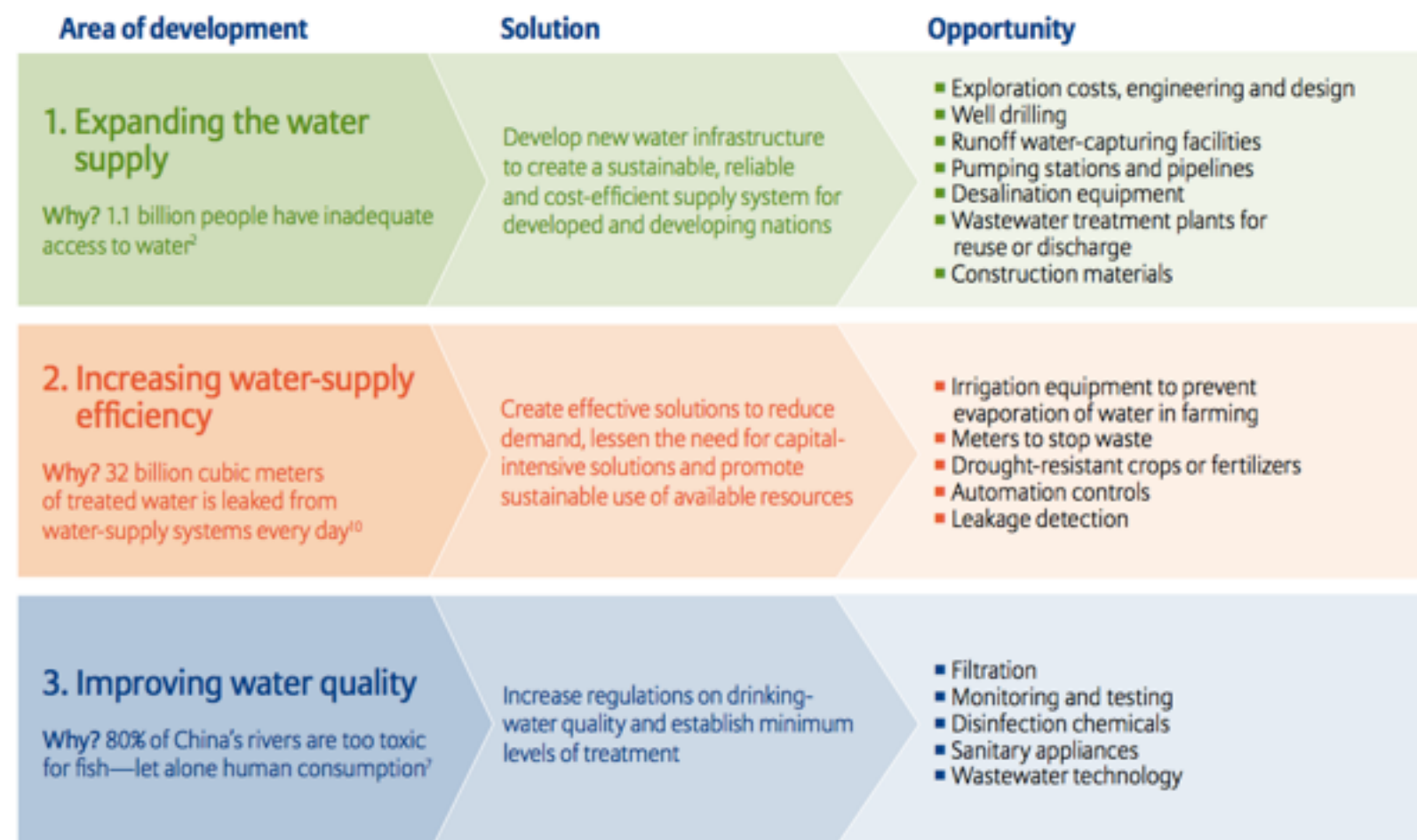
Investment opportunities along the water chain

With a growing need for clean water, and with polluted water becoming a serious economic issue, Thomas Schumann Capital believes governments and corporations are likely to invest billions or even trillions of dollars to solve these problems in the coming decades, which is why investors may want to consider adding an actively managed water fund to their portfolios.

Three investment opportunities in water-related companies

We identified three main areas to which governments and private corporations will devote substantial resources to help solve the growing water challenge. Each one provides a range of attractive water-related investment opportunities.

Billions or even trillions of dollars will be needed to develop technologies that improve the supply, efficiency and quality of water.



S&P Global Water Index

As economies across the world expand, the demand for water and ancillary services continues to rise. The S&P Global Water Index measures the performance of global companies that are in two water-related businesses: water utilities & infrastructure, and water equipment & materials.

S&P Dow Jones Indices

An S&P Global Division

Equity S&P GLOBAL WATER INDEX

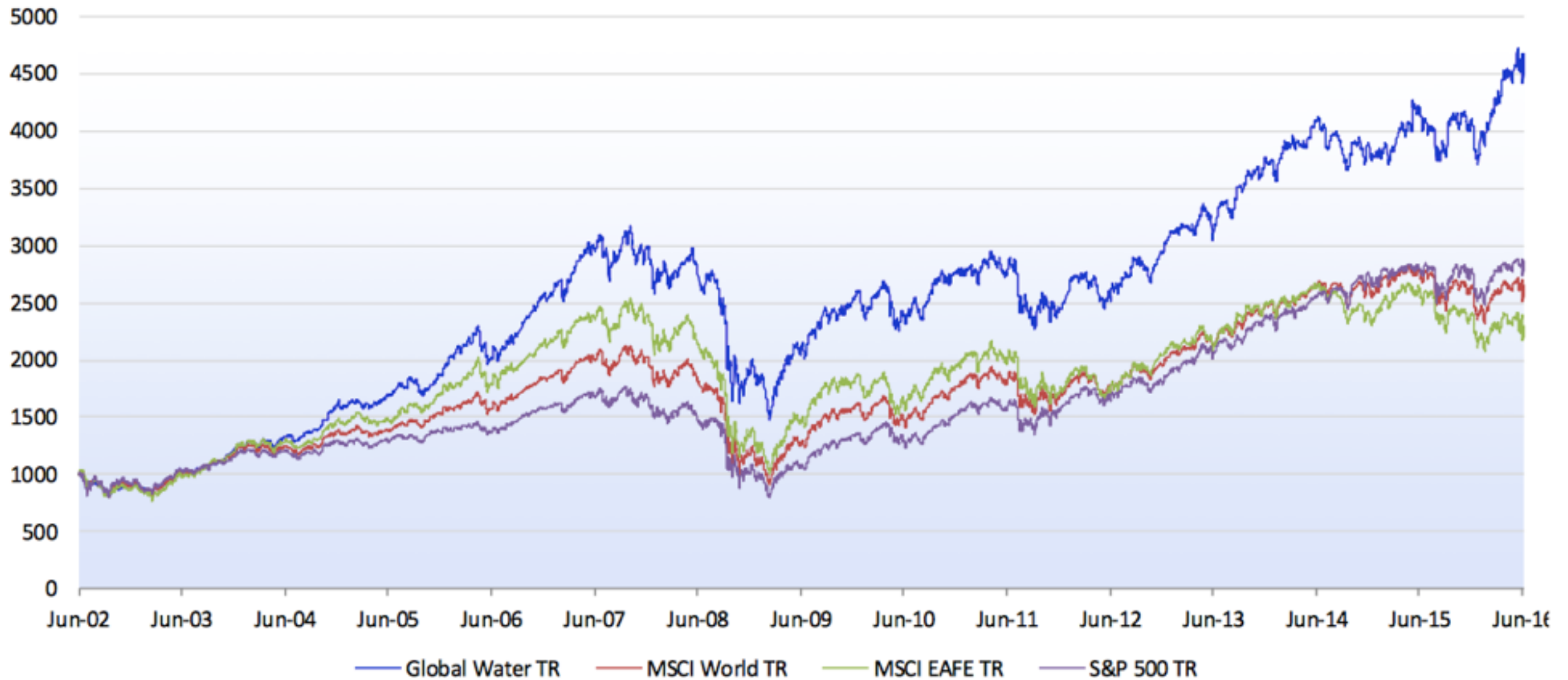
Historical Performance

* Data has been re-based at 100



S-Network Global TR Index

S-Network Global Water TR Index vs. Benchmarks
(6/25/2002–6/30/2016)



*To ensure fair comparisons, all of the starting index values are normalized to 1,000 as of June 25, 2002.

Source: S-Network, as of 6/30/2016

Equity Ethical - Impact and financial outperformance

Investments

Performance chart : Equity - Ethical



Select time period ↕

Cumulative performance

	1m	3m	6m	1y	3y	5y
Equity - Ethical	2.3	12.8	21.6	13.7	21.7	48.8

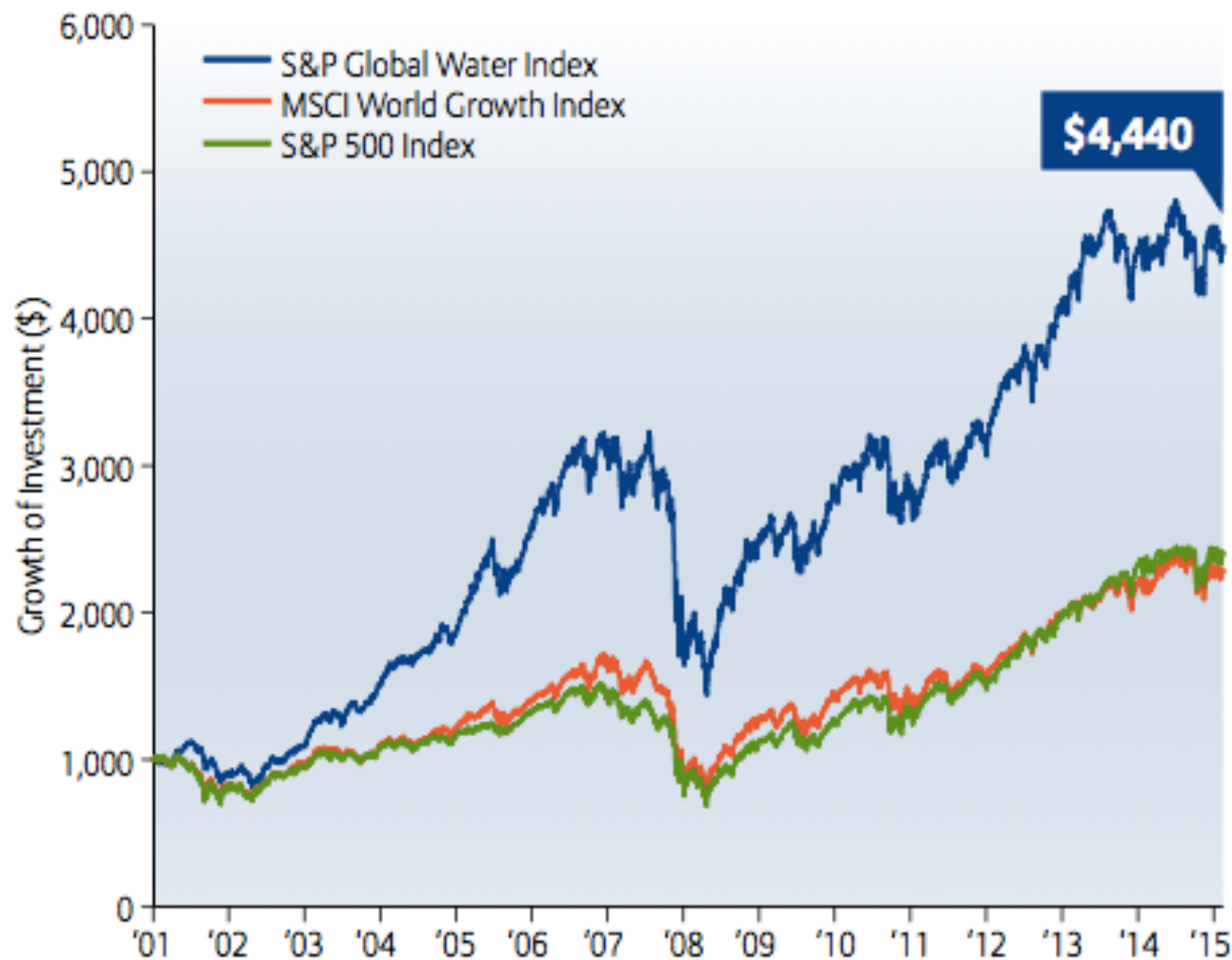
Top ranked constituents by 3y performance

Rank	Fund	Group	6m ↕	1y ↕	3y ↕	
1	BNP Paribas L1 Equity World Aqua	BNP Paribas Invest Partners Lu	26.6	28.6	44.9	+
2	Triodos Sustainable Pioneer	Triodos	20.4	12.3	43.8	+
3	Candriam Sustainable North America	Candriam	25.0	21.7	35.3	+
4	Henderson Global Care Growth	Henderson Global Investors Ltd	24.1	11.8	35.1	+
5	Allianz Global Sustainability	Allianz Global Investors GmbH	21.8	18.0	34.2	+
6	Pictet Global Environmental Opportunities	Pictet Asset Management (Europ	22.3	17.9	33.1	+
7	Parvest Environmental Opportunities	BNP Paribas Invest Partners Lu	29.8	25.5	32.4	+
8	Triodos Sustainable Equity	Triodos	16.0	6.5	31.1	+
9	JSS Sustainable Equity USA	Sarasin Investmentfonds Sicav	27.1	9.5	30.9	+
10	Nordea 1 Climate & Environment Equity BP	Nordea	30.7	21.6	30.1	+

Water outperformed the broader equity markets

Water has outperformed the broader equity markets

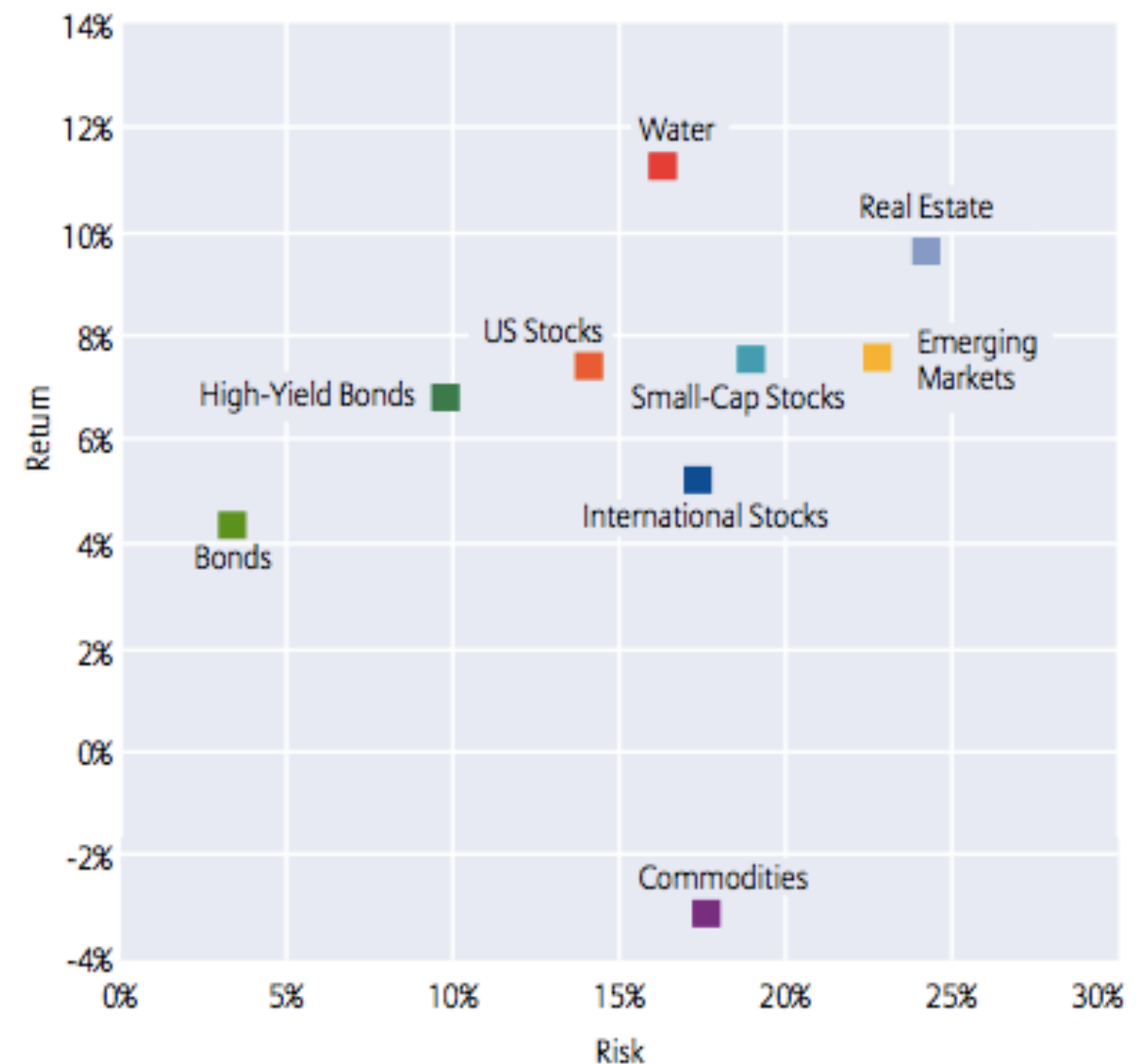
A hypothetical \$1,000 investment in the S&P Global Water Index at inception (11/16/2001) would have grown 344%—far outpacing broader stock-market indexes.



Water boasts a favorable risk/reward profile

Since 2004, water has provided significantly higher returns than stocks and bonds, with less volatility than most traditional equity indexes.

Data from 1/2004–12/2015.



Water, a dynamic, diversified asset class

Contrary to the belief held by some investors and market-watchers, the water segment is not limited to water utilities, but is instead diversified across a number of industries and regions. The S&P Global Water Index is composed of 50 of the largest publicly traded companies in water-related businesses in both developed and emerging markets. Moreover, with the index's maximum company allocation of 10%, no single company dominates the space.

The case for active management

While passive exchange-traded funds (ETFs) and mutual funds are gaining acceptance as efficient ways to access many asset classes, we do not believe they are the optimal vehicle for water investing. Because water resources cannot be invested in directly, it is important to identify companies that have growing exposure to investments in water infrastructure. As such, we believe a forward-looking selection process is essential. Companies should be picked with a global perspective from all subsegments along the supply chain, and each should have a high degree of current and promising water-related revenue streams. ETFs are likely to hold the largest, most liquid and most recent issuers in an index, and thus are unlikely to react quickly to new developments and changing opportunities. ETFs are backward-looking, and are rebalanced based on the previous year's results. Of course, passive investing may involve lower fees and expenses, and it is possible for active portfolio managers to negatively affect portfolio performance with their stock selections. But active managers of water investment portfolios can provide investors with distinct benefits versus passive ETFs.

Unlike passive ETFs, active managers may:

Be proactive, taking a strategic view of the issues facing and shaping the industry. They can seek out companies where new promising trends may be emerging, instead of being limited to an index's holdings.

Exercise flexibility to invest beyond "pure-play" water companies, in which the main focus of the company's business activity is water-themed, to companies that are not directly associated with water-related activities. One example of the latter might be a company that manufactures pipelines for the conveyance of water. Such an approach can help to diversify a water portfolio and possibly reduce its risk.

Water - Strong complement to a core equity allocation

Strategically allocating to water investments within an overall equity position may offer an incrementally higher return thanks to the sector's reasonably high correlation with traditional equity segments.

Correlation Table								
1/2004–12/2015	MSCI Emerging Markets	Bloomberg Commodity	Russell 2000	MSCI EAFE	BofA ML US Broad Market Bond	S&P Global Water	FTSE NAREIT All Equity REITs	BofA ML US High Yield Master II
Investment Name	1	2	3	4	5	6	7	8
S&P 500								
MSCI Emerging Markets	0.77							
Bloomberg Commodity	0.46	0.63						
Russell 2000	0.91	0.72	0.4					
MSCI EAFE	0.89	0.88	0.58	0.79				
BofA ML US Broad Market Bond	0.03	0.16	0.05	-0.03	0.12			
S&P Global Water	0.88	0.85	0.54	0.85	0.92	0.11		
FTSE NAREIT All Equity REITs	0.74	0.59	0.29	0.76	0.67	0.26	0.69	
BofAML US HY Master II	0.73	0.74	0.49	0.69	0.76	0.26	0.74	0.7

European water mutual funds: 11%-15% Return

SELECTED SPECIALIST WATER FUNDS' PERFORMANCE IN 2015

While those water funds exposed to cyclical names underperformed the market in 2015, retail flows into selected European strategies ensured an outperformance that will stand them in good stead during the year ahead.

Fund	Ccy	Fund manager	2015 performance	AUM (31 Dec 2015)	Change in AUM
Pictet Water Fund	EUR	Hans Peter Portner	11.17%	€3,165,000,000	+12.0%
BNP Paribas AQUA ^a	EUR	Bruce Jenkyn-Jones/Hubert Aarts/ Justin Winter	15.00%	€1,186,000,000	+35.3%
PowerShares Water Resource Portfolio	USD	Passive ETF	-15.89%	\$662,500,000	-28.8%
PowerShares Global Water Portfolio	USD	Passive ETF	-8.86%	\$219,300,000	-11.4%
RobecoSAM Sustainable Water Strategy ^b	EUR	Dieter Kueffer	13.40%	€848,000,000	+0.3%
Sarasin Sustainable Water Fund	EUR	Rainer Maennle	14.70%	€214,000,000	+8.0%
vescore Sustainable Water Fund ^c	EUR	Matthias Prieb	15.10%	€55,000,000	+53.5%
Swisscanto (LU) Equity Fund Water Invest ^d	EUR	Gerhard Wagner/Roman Boner	8.36%	€176,800,000	+1.6%
KBI Water Strategy ^e	USD	Matt Sheldon	-11.30%	\$980,000,000	-30.0%
Tareno Waterfund	EUR	Sybille Wyss/Josef Bollag	4.40%	€131,530,000	+9.0%
AllianzGI Global Water Fund ^f	USD	Andreas Fruschi	2.30%	\$373,000,000	+6.6%
Amundi Equity Global Aqua Fund ^g	EUR	-	-	-	-
KBC Eco Water Fund ^h	EUR	Jonas Desomer	7.49%	€201,721,782	+4.5%
DWS Water Sustainability Fund	EUR	Holger Frey	8.74%	€91,500,000	+52.0%

a) Strategy managed by Impax AM; GIPS numbers given for the entire strategy, including the Parvest fund; BNP Paribas AQUA Fund AUM as of 31 Dec 2015: €1,058,279,370; return 13.8%

b) AUM figure is an approximate figure

c) Formerly Notenstein

d) Bought out by Zürcher Kantonalbank in 2015

e) Excludes the Global Water Solutions Fund

f) Actively managed ETF

g) Merged into Amundi Funds Equity Global on 17 April 2015

h) Strategy includes a small CZK water fund

Source: GWI

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Opportunity summary

Increasing privatization

Although the public sector currently rules the water industry in most of the world - with water and sanitation infrastructure requiring \$11.7 trillion in global investment through 2030 - and with public funding already under substantial financial pressure, it's likely that the private sector will play a greater role in funding water investments. In the next three to five years, the private sector is expected to account for 30% of water investments. Europe has already started to make the transition into privatization of water management, and the majority of services for the UK and France are handled by private operators. We believe this trend is likely to continue globally, which will have significant implications for the investment landscape.

Water is a compelling business model

Because of global population growth, demand for clean, fresh water continues to increase - unaffected by economic conditions, political developments or ever-changing consumer preferences. We view the sector as a long-term investment opportunity that has historically offered stable, consistent returns and can serve as an alternative to low-yielding bonds and volatile equity markets.

Drivers of water investing

Given the scale of the global water problem and the fact that water infrastructure is extremely costly and capital intensive, requiring years of careful planning, it is not surprising that water is increasingly viewed as a core commodity that is potentially as profitable as oil. We have identified three main drivers of opportunities in the water space.

Consistent long-term growth potential

Water investing has the potential to offer strong, long-term, consistent growth potential in a wide range of market or economic environments. Since its inception, the S&P Global Water Index has grown by over 300% and has outperformed broader equity-market indexes - including the S&P 500 Index, which it beat by over 4.8% on an annualized basis from 11/2001 to 12/2015. The water segment has historically provided an attractive risk/reward profile when compared to more traditional asset classes, offering significant income potential and volatility that is in line with, or less than, other equity indexes.

Water Security Fund

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Indices are unmanaged, include the reinvestment of dividends and do not reflect transaction costs or any performance fees. Unlike indices, the Fund will be actively managed and may include substantially fewer and different securities than those comprising S&P Global Water Index and/or S-Network Global Water TR-Index. The investment program does not mirror indices and the volatility may be materially different than the volatility of the indices.

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Endnotes, Sources, Credentials: : 2030 Water Resources Group, World Health Organization

Footprints and Milestones: Population and Environmental Change, The State of World Population 2001, United Nations Population Fund, United Nations, Shiklomanov and Rodda, 2003, Bank of America SRI Report, Sept. 2011, World Bank, "*Solutions for a water-short world*," Hinrichsen, D., Robey, B., and Upadhyay, U.D. Population Reports, Series M, No. 14. Johns Hopkins School of Public Health, Population Information Program, Dec. 1997, UNDP Human Development Report; Beyond scarcity: Power, poverty and the global water crisis, Nov. 9, 2006, Financing Water for All: Report of the World Panel on Financing Global Water Infrastructure, World Water Council, 2001 BofA Merrill Lynch, World Bank, EPA, Allianz Global Investors Distributors LLC, 1633 Broadway, New York, NY, 10019-7585