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TIP SHEET

SAM Sees Steady Growth In World Water Sector

By **MARK LONG**

NEW YORK (Dow Jones)—Forget the cliché about water being “the next oil.”

Humankind managed without crude for millennia and will eventually figure out how to do so again. There’s no substitute for fresh water, however, and it’s being wasted and polluted at a colossal rate, just as population growth, economic development and climate change strain limited resources.

Forty to fifty percent of the world’s fresh water used by people is wasted, says SAM Group Holding AG senior analyst Daniel Wild, who helps fund manager Dieter Kuffer oversee SAM’s global Sustainable Water Strategy. Aging, leaky pipes; inefficient irrigation; pollution; and other problems cut usable supplies. For example, London loses 30% of its fresh water through leaks in its antiquated pipe system, Wild said, while the Delaware Aqueduct into New York City leaks between 10 million and 36 million gallons a day, the city’s environmental regulator confirmed.

“The scale of the problem is huge,” said Wild. “It’s not like energy where you have an option between different ways of producing energy; you only have water.”

Seeing opportunities in the sector, particularly as developing nations like India and China scrambled to deal with water shortages and other challenges, Kuffer, 42 years old, started the Sustainable Water Strategy in 2001. A fund open to U.S. investors was launched in November of 2007.

As of Dec. 31, Zurich-based SAM’s global Sustainable Water Strategy funds had assets worth \$2.274 billion under management, with \$5.2 million of assets in the U.S. mutual fund. Year to date, the U.S. fund’s return of 0.5% has edged ahead of the firm’s benchmark, the MSCI World Index, which, as of Thurs-

day’s close, has slipped 0.2%, according to Morningstar. The fund outpaced the benchmark last year, posting total returns of 38.8% compared with the MSCI World’s 31.5%, while in 2008 the fund lost 43.2%, slightly less than the benchmark’s 43.5% decline.

The water sector can be attractive “for investors who look for some higher growth, but still a lower volatility,” Kuffer said, adding that, as a rule, the sector grows 2% faster than gross domestic product globally. Valuation is a key determinant for the fund’s picks, Kuffer said, with water companies in Asia and a handful in the U.S. looking attractive now.

“We like Asia, especially China, so we have exposure to Chinese water companies like Guangdong Investment (0270.HK), which supplies raw water to Hong Kong,” Kuffer said, adding that that company and others have been able to raise their prices, which is difficult in much of the world.

In the U.S., Kuffer said American Water Works Co. (AWK), a Voorhees, N.J., company formerly part of Germany’s RWE AG (RWE.XE), has won regulatory approval to raise some of its rates, adding that California’s favorable regulatory environment as well as valuation make American States Water Co. (AWR) and California Water Service Group (CWT) attractive.

Meanwhile, efforts to increase efficiency, quality and water recycling make companies that make filters and other key equipment, like Pall Corp. (PLL), ITT Corp. (ITT) and Danaher Corp. (DHR), “quite interesting,” Kuffer added.

Senior analyst Wild declined to single out any companies as potential winners or losers, but noted types of enterprises that could be positioned to profit as governments in both developed and developing countries

pour money into shoring up water infrastructure, raise health and environmental standards, and cut agricultural water waste.

Hydraulic engineering and project-management companies such as Tetra Tech Inc. (TTEK), URS Corp. (URS), Aecom Technology Corp. (ACM) and ICF International Inc. (ICFI) could be poised to take advantage of new dam-building, pipe-repair, flood-control and other major infrastructure projects made more feasible by government stimulus cash.

Among others, companies like Itron Inc. (ITRI), Badger Meter Inc. (BMI), Roper Industries Inc. (ROP) and ESCO Technologies Inc. (ESE) could be poised to grow as antiquated metering systems are replaced with more advanced models that can more closely monitor usage and help utilities curb waste.

And tougher quality standards could bode well for makers of filtration and purification systems like Danaher, Calgon Carbon Corp. (CCC) and Pentair Inc. (PNR).

In developing countries especially, finding ways to make irrigation more efficient is a priority to ensure food supplies for fast-growing populations with a rising standard of living. Wild pegged the efficiency of flood irrigation—common in much of the developing world—at 38%, compared with 75% for sprinklers and 85% for drip irrigation.

India’s Jain Irrigation Systems Ltd. (500219.BY), Greece’s Eurodrip SA (EDRIP.AT) and China’s Xinjiang Tianye Water Saving Irrigation System Co. (0840.HK), as well as several unlisted Israeli companies, all provide drip-irrigation systems to help slash water waste on farms.

(Mark Long is a news editor covering the energy industry for Dow Jones Newswires.)