

Robeco Trends & Thematic Investing

Pipes, profits and progress: investing in sustainable solutions to the world's water crisis

Sustainable Investing Expertise by
ROBECOSAM

Investment opportunity

For professional investors

Dieter Küffer, Senior Portfolio Manager

RobecoSAM
Sustainable Water Equities



- Water stress and scarcity is expanding worldwide, emerging markets are most vulnerable
- Climate change is compounding water stress and risks for business and society
- From high-tech to nature-based, innovative solutions for the water crisis are available

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Executive Summary

The RobecoSAM Sustainable Water strategy provides investors the opportunity to channel their capital towards companies addressing one of the world's most serious sustainability challenges – water scarcity and quality.

Climate change, population growth, rapid industrialization and urbanization are all global megatrends intensifying water consumption and increasing water stress and scarcity across the globe.

Emerging markets are particularly vulnerable. But developed markets are also at risk, having neglected investments towards upgrading and expanding water infrastructure.

Moreover, the Covid crisis has shown how issues in distant regions can rapidly disrupt global supply chains. Companies are already identifying water-related business risks that could generate material costs on operations and revenues.

Though the challenges are formidable and extensive, but solutions are available.

From large-scale infrastructure to microscopic filtration technologies, and from nature-based measures to AI and digital devices, diverse and effective solutions from across the entire water value chain already exist.

The RobecoSAM Sustainable Water strategy helps investors connect with solution providers that are reducing water scarcity and helping make water flows clean, safe and accessible – for populations, business and ecosystems.

Figure 1 | A water treatment facility.



Investments into water infrastructure are needed to ensure water supplies keep pace with demand.

Source: Getty images

‘The RobecoSAM Sustainable Water strategy helps investors connect with solution providers that are reducing water scarcity and helping make water flows clean, safe and accessible – for populations, business and ecosystems’

Why water?

Across the globe more and more regions are maxing out reserves and threatening human health, local development, and global economic growth. Without change, by 2030, demand for water will exceed supply by 40%.

Limited liquidity – water is a finite resource

With freshwater flows so ubiquitous, many in industrialized nations are easily lulled into the idea that water, like solar or wind energy, is a limitless, renewable resource.

Renewable, yes; limitless, no.

Though water covers 70% of the Earth's surface only a small fraction of that (3%) is freshwater; the rest is seawater or semi-salty brackish water that is hospitable to some organisms but hostile to millions of others, including humans. Subtracting the freshwater frozen in ice caps, glaciers and icebergs, freshwater available for consumption totals, 0.75% – less than 1% of global water resources.

That slim fraction will be stretched even further as water withdrawals increase as a result of growing populations, urbanization, industrialization and pollution. Limited supplies coupled with rising demand are depleting regional water supplies and leading to water scarcity. Half a billion people live in a state of constant water scarcity and half the world's population (3.9 billion), experience water scarcity at some point in the year.

Emerging threats in emerging economies

What's more, populations most severely touched will be in developing regions and emerging markets, the very regions where population and economic growth is expected to accelerate. Asia is home to 60% of the world's population, yet per capita water availability in Asia and the Pacific region is the lowest in the world. India and China possess the largest number of people facing water-related challenges. In the Middle East and North Africa, water stress has triggered migrations as populations flee drought-stricken areas towards urban centers in an attempt to find food, jobs, and sanitation.

Urban infrastructure in many developing regions is weak and unable to cope with increasing demand. Rapid population influxes coupled with inadequate water utilities exacerbates water stress in cities and raises the risks of illness and disease from leaky or non-existent piped water networks and inadequate wastewater management. Moreover, industries too must compete for water supplies, adding to production costs, lengthening production times, and reducing outputs. In India, power outages driven by

lack of cooling water for thermoelectric power plants cost utilities and industries billions in lost productivity and revenues. The World Bank estimates that poor water resource management can restrain growth by 6% in some regions.

'Half a billion people live in a state of constant water scarcity and half the world's population experience water scarcity at some point in the year'

Water scarcity – a global challenge

The impact of water scarcity due to lack of resources and infrastructure is most visibly dramatic and economically devastating for developing regions. Water stress and scarcity, however, is a global challenge. Globally linked supply chains mean a crisis in far-flung regions can quickly stretch to economies worldwide. This is especially worrisome given the critical role of emerging markets for supplying raw materials, processing and finished goods on the world's economic stage.

But beyond supply chain effects, water stress is becoming a physical reality for many major and advanced economies on every continent. Competitive, high-income, urban economies such as Singapore and Israel have struggled with water shortages for decades. Municipalities and communities across the US face water shortages and dwindling water supplies as a result of urbanization, overconsumption and drought.

Europe too is not immune from water stress. Spain, Portugal, and its southern regions face water shortages especially in warmer seasons, but areas experiencing water stress for at least a month in the year are pushing farther north. Stressed communities can be found across northern Europe including France, Germany and the UK.

Copious consumption – more food, factories, and folk

Agriculture consumes 70% of all water withdrawals; feeding a global population of nearly 10 billion by 2050 will mean more mouths, more food and more water. Much of that growth will be in emerging markets with increased income and increased appetites for protein-rich, water-intensive diets. The World Bank estimates food production will need to expand by 70% and water for food by 50% to meet the increased demand.

Yet, many of the countries with the largest areas of agricultural land namely India, China, Australia, Brazil, the US and Russia, are also increasingly vulnerable to droughts, further increasing water withdrawals, intensifying water scarcity and jeopardizing food security.

Water is as essential for business as it is for life. Industry consumes nearly 20% of freshwater supplies globally and in many advanced economies, its share is much higher; in Europe, for example, it is 53%. As industrialization expands worldwide, pressure on water supplies will intensify. Water demand from industry is expected to increase on all continents except North and Central America by 2050. The highest increases are expected in Africa (353%), Asia (240%) and Europe (153%) relative to 2010 levels.

By 2030, 60% of the world's population will reside in cities, and by 2050 this figure will be 68%. The most urban growth will occur in Africa and Asia, most notably India, China and Nigeria. Urbanization leads to increased water consumption, water losses as well as deterioration in water quality. More people also means more consumption of everything from drinking and basic sanitation to electricity and manufactured goods. It also means more sewage, pollution and wastewater as by-products.

Topside, more roads, pavements and buildings also mean more water loss as rainwater cannot be absorbed to replenish underground water tables. On the underside, urban areas in both developed and developing nations suffer from inadequate infrastructure. Leaky pipes, broken mains and insufficient transmission and distribution networks as well as inadequate or even non-existent wastewater treatment services further exacerbate problems of water loss and water quality.

According to the World Bank, one in four cities currently experiences water insecurity. And urban water demand is projected to increase sharply by as much as 70% over the next three decades.

Figure 2 | A desalination plant on a coastline.



Desalination of ocean waters are helping increase water supplies in arid and water scarce regions.

Source: Getty images

‘According to the World Bank, one in four cities currently experiences water insecurity. And Urban water demand is projected to increase sharply by as much as 70% over the next three decades’

Why now?

Climate change and water scarcity combined with sustainable solutions across the water value chain are stoking thirst for water investments.

Climate change

Climate change is the biggest long-term threat to business, society, the environment and global water markets. From heatwaves and droughts to cold snaps and deluges, extreme weather is becoming more frequent, erratic and prolonged. Around 74% of all natural disasters from 2001-2019 were water related, with floods and droughts affecting three billion people at a cost of USD 700 billion.

It is also exacerbating conditions in regions already struggling with water-related risks. That means even less rainfall for parched, arid regions, and more devastating storms and flooding for coastal areas. On land, higher global temperatures are evaporating surface waters in lakes rivers and ponds as well as stripping agriculture soil of moisture. In cities, higher temperatures not only intensify direct water consumption from residents; they also intensify water consumption from electric utilities which need steam to turn turbines and water for cooling systems.

Aging infrastructure

In many major urban centers, pipes and mains are woefully outdated. The value of non-revenue water losses (water lost before it reaches the customer) due to main breaks and leaks total USD 39 billion per year globally. In the US alone, maintenance and repair of aging infrastructure will require more than USD 270 billion of investment. Leaky pipes not only lead to water loss; they also provide entry points for contaminants that harm water quality and endanger public health.

The asphalt jungle

Too much water can oftentimes be as devastating as too little. Rising sea levels and increasing frequency and severity of severe storms mean coastal cities are more vulnerable than ever to devastating floods and water-related risks.

Moreover, asphalt, concrete and other hard surfaces of the built urban environment are impervious to water, so it has no where to flow but up. Here, drainage capacity, catch basins, and sewage pipes that channel excess run-off into natural surface waters or underground aquifers are effective solutions. These not only mitigate the physical, environmental, economic and human losses from storms and floods, they replenish water supplies for later use.

Regulations

PFAS (per- and polyfluoroalkyl substances) is an umbrella classification that includes thousands of man-made chemicals with similar molecular structures. PFAS pose a threat to human and environmental health which is why rising levels of microplastics and micropollutants such as PFAS are gaining public attention and facing regulatory scrutiny.

Advances in water analytic devices are helping detect and filter PFAS and other harmful micropollutants from waterways. Moving forward, as the complexity of waste streams and wastewater increases, providers of water analytic equipment and services will become even more crucial for maintaining the quality of water supplies.

Figure 3 | A reverse osmosis treatment facility.



Reverse osmosis filtration enable wastewater to be recycled and reused.

Source: Getty images

Expanding solutions

Water saving measures can range from the conventional to the sophisticated. Innovations in nanomaterials and high-tech filtration membranes are enabling wastewater to be cleaned and treated to never-before-seen purification levels. As a result, more water can be recycled and reused by agriculture, industry, municipalities and households.

Moreover, advances in pumps, filtration membranes, and energy-recovery devices have increased the energy and cost-efficiency of desalination plants that convert seawater to increase regional water supplies.

But solutions are also available at smaller scales. For example, solar-powered pumps help farmers and communities access groundwater reserves as well as distribute water over wider areas at less cost and energy. Precision-drip systems that deliver carefully timed and dosed crop irrigation are helping farmers conserve water and reduce water waste on soils. And rainwater collection tanks, pipes and mesh filters are natural, cheap and effective means of capturing and filtering rainfall for use by in rural and urban residents alike.

High-tech and nature-based

The digital revolution is also transforming water markets. Increasingly, utilities and industrial water consumers are using smart sensors, smart valves and smart analytics to detect pressure changes, leaks and harmful contaminants as well as analyze flow and consumption patterns. As a result, breaks, leaks, losses and other disruptive events can be spotted early or avoided altogether. Moreover, smart metering is increasingly being deployed to monitor and control end-user consumption, by billing customers for excess withdrawals.

Nature-based solutions are also proving effective for urban water management. They include vegetated roofing systems that capture rainwater as well as permeable surfaces that cover roads, parking lots and pedestrian walkways. Moreover, parks, wetlands and natural spaces in and around urban centers can be engineered to act as city-size sponges to help control water flows.

Sustainable development and climate resilience

SDGs are increasingly important for investors to demonstrate their capital is aligned with positive impact and sustainable development across environmental, economic and social themes.

Investments in water infrastructure and management directly contribute to SDG 6 – ensuring clean water and sanitation for all – and undergird human health and well being (SDG 3). But water also supports agricultural productivity and food security as well as ecosystems and biodiversity on land and in water (SDG 14).

Given water's value for communities, populations and industries, water utilities are a critical infrastructural component at the municipal, regional and national level (SDG 9). Moreover, investments in securing clean water supplies and controlling water flows (and overflows) will help cities build resilience in the face of climate change (SDG 11).

Wastewater treatment for reuse as well as to recover materials makes water a critical part of circular economy strategies that increase recycling, reduce waste, and promote responsible production and consumption (SDG 12). In fact, without water supplies and water management, the great majority of the SDGs are unachievable.

Figure 4 | Solar panels at a water treatment plant



Cities and rural communities alike are increasingly employing renewable energy and nature-based solutions for water services.

Source: Getty images

Why RobecoSAM Sustainable Water?

Pioneering foresight, enduring leadership, a successful track record and a commitment to sustainable investments are just a few things that make the RobecoSAM Sustainable Water Equities strategy a compelling investment.

Enduring leadership, attractive performance

Launched in 2001, the RobecoSAM Sustainable Water Equities strategy was one of the first funds to recognize water resources as an important sustainability challenge and an addressable theme in which mainstream investors could invest. Under the two-decade-long leadership of portfolio manager, Dieter Küffer, the strategy’s assets have grown to reach EUR 3.1 billion providing attractive performance since inception.

Table 1 | Water’s track record

	1 year	3 years	5 years	Since Oct 2001
RobecoSAM Sustainable Water Equities	47.50%	22.01%	16.71%	10.97%
MSCI World Index	31.47%	14.41%	13.50%	6.97%
Relative performance	16.03%	7.60%	3.21%	4.00%

Annualized performance of the RobecoSAM Sustainable Water Equities strategy. Source: Robeco. Data as of 31 Aug 2021.

Addressing sustainable challenges

The strategy is actively managed, focusing investments on companies that provide sustainable solutions to global water-challenges. These companies are well positioned to benefit from long-term trends driving demand for products and services along the water value chain globally.

Universe construction begins with a careful screening of companies providing water services based on company size, sustainability characteristics and exclusion criteria. It is not enough for companies to provide water-related services. Portfolio companies must provide credible, viable, sustainable solutions to water challenges.

Companies whose dominant revenues stem from products that are questionable, controversial or incompatible with the water strategy’s sustainable principles will be excluded. For example, the portfolio does not include bottled water, hydropower producers or companies that manage water rights as none of these are solutions to the water challenge.

Mitigating risks, optimizing returns

Further screens are based on a combination of research and analysis that combine macroeconomic input, market segment dynamics, company fundamentals, ESG data, relative valuation assessments, and a stock’s risk-return characteristics.

Water company activities and market segments are bundled into investment clusters in order to capture, concentrate and maximize value across the diverse market segments that make up the water value chain.

The investment team seeks to identify the best investment opportunities among companies along the water value chain, who benefit from high barriers to entry in their respective segments, and whose exposure to megatrends related to sustainable development are under-researched and under-appreciated by the general markets.

Figure 5 | Investment clusters

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Utilities - includes companies focused on water infrastructure and supply for commercial, residential and industrial customers; waste management facilities
- 

Quality and Analytics - includes companies focused on point-of-use treatment, water-quality testing and maintenance to reduce water use
- 

Capital Goods and Chemicals - includes companies focused on pipes, valves, pumps and other equipment for water extraction, transmission, distribution, irrigation, chemical treatment and reuse
- 

Construction and Materials - includes companies focused on equipment for engineering, construction materials, indoor plumbing fixtures as well as water-metering services

Promoting SDGs

The water strategy invests in companies seizing the opportunities to create long-term shareholder value by addressing water scarcity, quality, and equitable access and distribution. These companies are directly contributing to clean water and sanitation, SDG 6, with powerful multiplier effects across multiple SDGs that relate to healthy populations and ecosystems.

Article 9

The fund has been classified as an Article 9 investment under the EU's Sustainable Finance Disclosure Regulation (SFDR).

Figure 6 | Water-related SDGs ¹



Source: Robeco, UN Sustainable Development Goals
Data as of June 2021.

The SDGs listed are not exhaustive, have been prioritized based on strength of impact and the overarching goals of the strategy over the long term. A complete reporting of SDGs associated with the Sustainable Water Equities strategy can be obtained upon request.

In addition, Robeco has successfully developed a proprietary tool that scores companies in the thematic universe based on the strength of their contributions to theme-relevant SDGs. Companies which detract from SDG targets are excluded from the portfolio.

Finally, the strategy benefits from the voting and engagement activities of Robeco's Active Ownership Team which drives awareness, education and action from companies on the risks and opportunities of addressing sustainability issues within their operations and markets.

For more information, please contact your Robeco Sales Manager or our Client Servicing team at rs-clientservicing@robeco.com.

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