



Index Highlight: Diving Into the Global Water Industry

October 27, 2020

Author: Michael Laitkep

Summary

- The S-Network Global Water Index (JGI) is a composite of the 60 largest global water companies, providing exposure to both water utilities and companies focused on the development of water supplies and related activities.
- As an essential part of both life and the economy, global water demand is expected to increase over the coming decades in conjunction with population growth.
- Estimates for global investment in water infrastructure range from \$6.7 trillion by 2030 to \$22.6 trillion by 2050. For developed countries, maintenance and upgrades of existing infrastructure will remain necessary to ensure continued clean water access and efficient movement for economic purposes.

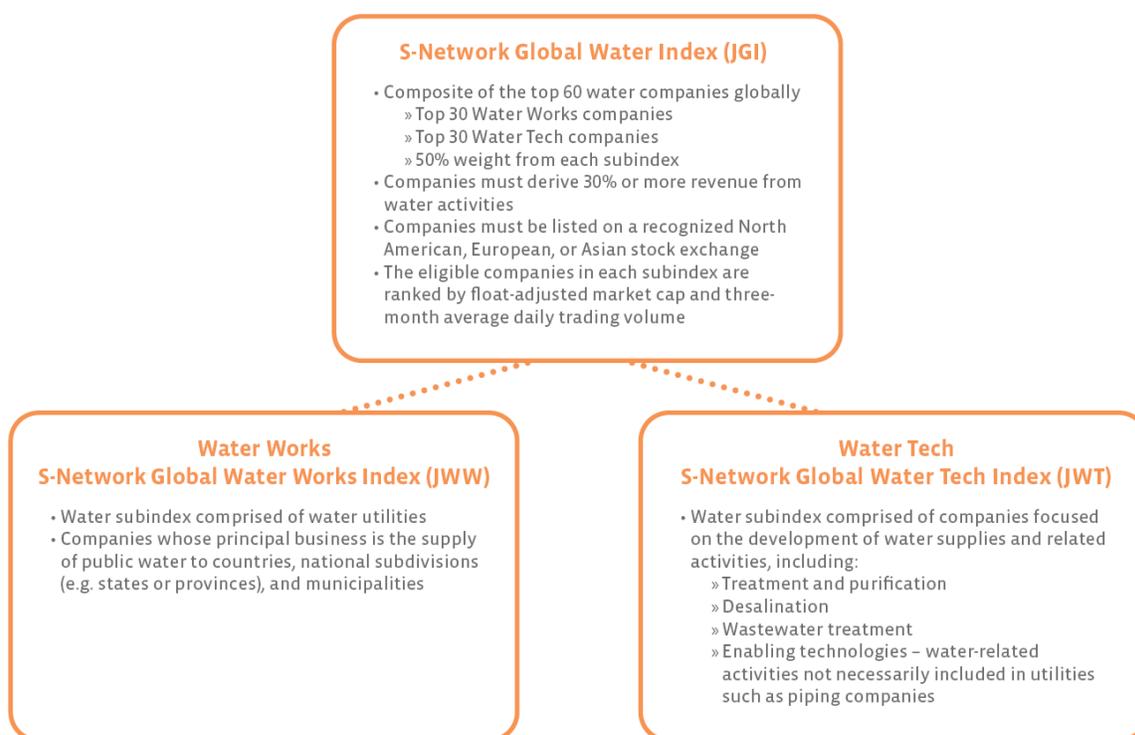
In addition to being an essential part of life and a key component of crucial activities underpinning the economy, water may also represent an intriguing thematic investment opportunity. As the global population continues to grow over the coming decades, clean water access will undoubtedly remain a fundamental need for all. Water companies help provide water access to people around the world and facilitate its many uses in the economy through the distribution, development, and provision of related services. Given its importance, water is easy to understand, but what are the potential reasons to invest in the space? Today's note takes a first look at the unique construction of the [S-Network Global Water Index \(JGI\)](#) and examines some key trends in the water industry.

Breaking down the water industry with the S-Network Global Water Index (JGI).

Water presents an interesting challenge from an investment perspective because of its pervasive nature in the economy. Water has wide-ranging uses from drinking and bathing to serving as an input in more complex manufacturing and industrial processes such as for semiconductors, pharmaceuticals, and electrical power generation. The commodity also serves as a crucial resource for agricultural production and food security. While no one argues water's importance, the question of how to invest in it remains. Notably, there is not currently a futures contract for water that would allow investors to speculate on water prices directly, though this may be changing. [CME Group](#) (CME) and [Nasdaq](#) (NDAQ) [are expected](#) to launch the first water futures contract in late 4Q20, which is likely to provide a more transparent price point for water going forward and a risk management tool for companies with exposure. For the average investor, however, taking part in the water theme can be done in an easier way. Investment products allow investors to access the space by tracking an index designed to provide exposure to companies leveraged to water activities.

One such index is the S-Network Global Water Index (JGI), a composite water index providing exposure to the largest global participants in the water industry. The JGI Index is the basis for the Invesco Global Water Portfolio Unit Trust (IGAAXX), which invests in 25 global water companies selected from the index. Since water plays a role in many different economic pursuits, the index methodology [requires](#) eligible companies to generate at least 30% of revenue from water-related activities. This distinction results in more pure-play water exposure, with well over 50% of overall index revenue coming from water-related activities. The JGI Index also separates itself from other indexes by including equal exposure to the “Water Works” and “Water Tech” subindexes. Water Works is a subindex comprised of water utilities, which supply water for residential and commercial purposes, while Water Tech includes companies developing water supplies and performing related activities, such as water treatment and desalination (see graphic below). In sum, the broad JGI Index is a composite of 60 water companies, with an equal proportion and weighting of Water Works and Water Tech companies to provide varied exposure to the global water industry. Additionally, the index has substantial geographic diversity, with representation from companies in 18 countries in North America, Europe, and Asia-Pacific. As of October 21, the index was comprised of 55.5% US companies and 44.5% non-US companies by weighting.

Constructing the S-Network Global Water Index (JGI)



S-Network Global Water Index (JGI) Top Ten Constituents

Company Name	Ticker	Sector	Subindex	Country	Index Weight
Ecolab Inc	ECL	Materials	Water Tech	United States	9.7%
American Water Works Company Inc	AWK	Utilities	Water Works	United States	7.5%
Geberit AG	GEBN SW	Industrials	Water Tech	Switzerland	4.7%
Xylem Inc	XYL	Industrials	Water Tech	United States	3.5%
IDEX Corp	IEX	Industrials	Water Tech	United States	3.1%
Veolia Environnement SA	VIE FP	Utilities	Water Works	France	2.9%
Pentair PLC	PNR	Industrials	Water Tech	United States	2.7%
Tetra Tech Inc	TTEK	Industrials	Water Tech	United States	2.7%
Essential Utilities Inc	WTRG	Utilities	Water Works	United States	2.6%
HD Supply Holdings Inc	HDS	Industrials	Water Tech	United States	2.4%

Index weightings as of October 21, 2020
Source: Alerian

Demographics drive demand for water and related infrastructure.

As an essential part of both life and the economy, global water demand is expected to increase over the coming decades in conjunction with population growth. The increasing demand for water broadly was highlighted in the [United Nations Water Development Report 2020](#) released in March. UNESCO noted that global water use is growing consistently at a pace of about 1% per year as a result of multiple factors, including population growth, economic development, and evolving consumption patterns. According to the World Bank, the global population is [expected](#) to grow to over 10 billion by 2050, and agricultural production is projected to rise by 70% over that period. Since 70% of freshwater currently goes to agriculture for irrigation and other applications, agricultural water is likely to be a key growth area. UNESCO also highlighted projections from other agencies. The OECD [said](#) in 2012 it expects water demand to increase 55% globally between 2000 and 2050, while a 2009 report by the 2030 Water Resources Group [forecast](#) a 40% water undersupply by 2030 in a business-as-usual scenario. These studies emphasize the continued need for water in many parts of the world, which will require infrastructure investment to facilitate the varied uses of water in society. As discussed in the UN Water Development Report, estimates for global investment in water infrastructure [range](#) from \$6.7 trillion by 2030 to \$22.6 trillion by 2050. For developed countries, maintenance and upgrades of existing infrastructure will remain necessary to ensure continued clean water access and efficient movement for economic purposes.

How does climate change impact the outlook for water?

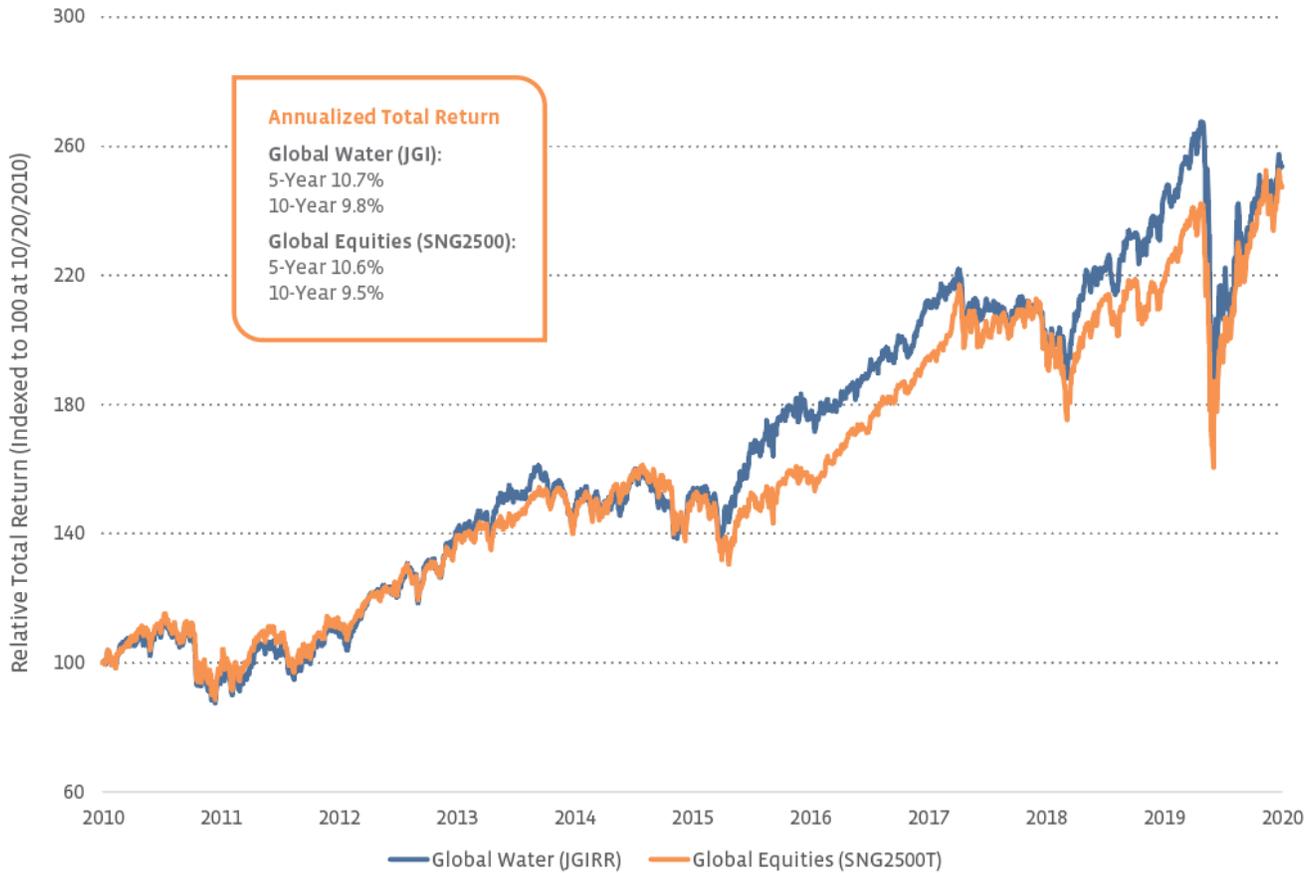
Water also plays an important role from an environmental perspective and has drawn [interest](#) from investors concerned about ESG and sustainability issues. In its Global Risks Report 2020 released in January, the World Economic Forum [listed](#) water crises as one of its top five global risks by severity and has included water as a top risk in each of the last nine years. Water scarcity [impacts](#) one-fourth of the world's population currently and is expected to worsen in the future, potentially having a negative impact on economic growth. Climate change is expected to be a significant factor in the supply-demand balance for water since water demand tends to [rise](#) with temperature. Water supply can also be impacted as ecosystems are affected by desertification and potentially lower rainfall amounts. Water companies can benefit from this trend as they develop [adaptive technologies](#) to combat climate change such as desalination, improved methods for water reclamation and reuse, and conservation.

Why consider an investment in water?

In addition to capturing thematic trends, the water industry has a compelling investment case. Given the essential nature of water to society and generally high exposure to water utilities, an investment in a water product is likely to have a measure of defensiveness during downturns. As an example, consider the second-largest constituent in the JGI Index, [American Water Works](#) (AWK), which [reported](#) 86% of operating revenue in 2019 came from its regulated business segment. This segment includes drinking water, wastewater, and related services that fall under the purview of public utilities commissions, which set rates that allow the utility to recover costs plus make a reasonable return. This type of regulated exposure is common¹ within the JGI Index and has contributed to relatively steady performance over the last ten years. The chart on the following page compares the relative total returns for the JGI Index with the S-Network Global 2500 Index (SNG2500), a global equity benchmark. As shown, the JGI Index has modestly outperformed global equities over the last decade. Water also screens attractively for investors considering industries that align with ESG principles and sustainability. As an example, AWK [garnered](#) the best ESG evaluation score in the US from S&P Global earlier this year and ranked second globally. As the world's most critical natural resource, water possesses an interesting investment story for those thinking about long-term economic trends or sustainable investing.

1// As of October 21, the JGI Index had a 48.7% weighting to utilities.

Global Water Has Slightly Outperformed Global Equities on a Total-Return Basis Over the Last Ten Years



Source: Alerian as of October 21, 2020

The JGI Index is the basis for the Invesco Global Water Portfolio Unit Trust (IGAAKX), which invests in 25 global water companies selected from the index.

// Disclaimers

This Document Is Impersonal and Not a Solicitation. In jurisdictions where Alerian, S-Network Global Indexes, or their affiliates do not have the necessary licenses, this document does not constitute an offering of any security, product, or service. Alerian and S-Network Global Indexes receive compensation in connection with licensing its indices to third parties. All information provided by Alerian and S-Network Global Indexes in this document is impersonal and not customized to the specific needs of any entity, person, or group of persons. Alerian, S-Network Global Indexes, and their affiliates do not endorse, manage, promote, sell, or sponsor any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return linked to or based on the returns of any Alerian or S-Network Global Indexes index.

No Advisory Relationship. Alerian and S-Network Global Indexes are not investment advisors, and Alerian, S-Network Global Indexes, and their affiliates make no representation regarding the advisability of investing in any investment fund or other vehicle. This document should not be construed to provide advice of any kind, including, but not limited to, tax and legal.

You Must Make Your Own Investment Decision. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future returns. You should not make a decision to invest in any investment fund or other vehicle based on the statements set forth in this document, and are advised to make an investment in any investment fund or other vehicle only after carefully evaluating the risks associated with investment in the investment fund, as detailed in the offering memorandum or similar document prepared by or on behalf of the issuer. This document does not contain, and does not purport to contain, the level of detail necessary to give sufficient basis to an investment decision. The addition, removal, or inclusion of a security in any Alerian or S-Network Global Indexes index is not a recommendation to buy, sell, or hold that security, nor is it investment advice.

No Warranties. The accuracy and/or completeness of any Alerian or S-Network Global Indexes index, any data included therein, or any data from which it is based is not guaranteed by Alerian or S-Network Global Indexes, and it shall have no liability for any errors, omissions, or interruptions therein. Alerian and S-Network Global Indexes make no warranties, express or implied, as to results to be obtained from use of information provided by Alerian and S-Network Global Indexes and used in this service, and Alerian and S-Network Global Indexes expressly disclaim all warranties of suitability with respect thereto.

Limitation of Liability. While Alerian and S-Network Global Indexes believe that the information provided in this document is reliable, Alerian and S-Network Global Indexes shall not be liable for any claims or losses of any nature in connection with the use of the information in this document, including but not limited to, lost profits or punitive or consequential damages, even if Alerian and S-Network Global Indexes have been advised of the possibility of same.

Research May Not Be Current. This document has been prepared solely for informational purposes based on information generally available to the public from sources believed to be reliable. Alerian and S-Network Global Indexes make no representation as to the accuracy or completeness of this document, the content of which may change without notice. Alerian and S-Network Global Indexes expressly disclaim any obligation to update the contents of this document to reflect developments in the energy Master Limited Partnership sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

Linked Products. Alerian and S-Network Global Indexes licenses its indices to third parties for the creation of investment funds or other vehicles. Alerian and S-Network Global Indexes are not responsible for the information on these websites or for anything that they provide.

Policies and Procedures. Analytic services and products provided by Alerian and S-Network Global Indexes are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Alerian and S-Network Global Indexes have established policies and procedures to maintain the confidentiality of material non-public information received during each analytic process. Alerian, S-Network Global Indexes, and their affiliates provide a wide range of services to, or relating to, many organizations, and may receive fees or other economic benefits from these organizations.

Copyright. No Unauthorized Redistribution. Alerian and S-Network Global Indexes © 2020. All rights reserved. This document, in whole or in part, may not be redistributed, reproduced, and/or photocopied without prior written permission.

Alerian

alerman.com
info@alerman.com // 972.957.7700
3625 N. Hall St., Suite 1200, Dallas, TX 75219

S-Network Global Indexes

snetworkglobalindexes.com
info@snetworkinc.com // 646.467.7928
267 Fifth Avenue, Suite 508, New York, NY, 10016