

Pictet - Water - P EUR

Risk and reward profile

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Market review

Equities ended the month sharply lower for a second time in a row after Russia's invasion of Ukraine triggered severe Western sanctions, which include blocking Russian banks from the SWIFT global payments system. Emerging European stocks were hit the hardest while European equity markets also suffered a decline of over 5 per cent in local currency terms. Stocks in the UK, Latin America, Pacific Asia defied selling pressure and ended the month slightly higher. IT and communication stocks were the worst performing sectors after US tech giants reported mixed earnings results. Facebook parent Meta recorded the worst single-day fall in its history after reporting slower user growth in its Facebook app, with the sell-off erasing gains over the past two years. Energy and material stocks ended the month higher by over 2 per cent after oil prices jumped 11 per cent following the Russian crisis. Defensive sectors, such as healthcare, staples and utilities, were flat. Global bonds failed to capitalise on heightened investor risk aversion as concerns persisted over the possibility of aggressive interest rate hikes in the US and higher global inflation. Emerging local and dollar currency debt saw sharp declines. Currencies of commodity-exporting Brazil and Australia were among the best-performers, the safe-haven Swiss franc rose slightly while the dollar ended the month with little change.

Performance analysis

The strategy underperformed a weak equity market in February. All three segments contributed negatively to the fund performance, with Water Technology providing the largest absolute negative contribution, reflecting its larger weighting in the strategy. Municipal Infrastructure names sold off significantly during the month as expectations are inflecting downward on the recent deterioration in macro. Xylem was the largest negative contributor after it mentioned supply shortages would last longer and add more downward pressure to operating margin. Monitoring companies were positive outliers with PerkinElmer and Roper contributing positively, supported by solid demand for their environmental analytical technologies for the former and water meters for the latter. Water Supply outperformed the strategy thanks to Sabesp. The Brazilian utility was the best performer given its defensive characteristics and the value proposition it holds if privatized. Over 50% of national households do not have proper sewage in Brazil and Sabesp will play an important role in reducing this gap. Despite contributing negatively, Environmental Services saw the best performers thanks to the Consulting sub-segment, with Tetra Tech and Aecom both delivering positive contribution. Both companies are well positioned to benefit from strong environmental spending that keep pushing earnings expectations higher.

Portfolio activity - overweightings & underweightings

In February, we took advantage of market weakness to initiate on two new high conviction companies. We first bought a position in Evoqua Technologies, a high water purity company benefitting from the sustainability angle, focus on health, population growth and industrial development. It will play a significant role in cleaning pollutive chemicals, such as PFAS, and is positioned to benefit from the infrastructure plan and the circular economy related sustainable development goals. There is potential for margin improvement driven by operating leverage, self-measures and M&A given the strong CF generation, which also allows for value accretive capex projects. We then bought a position in Brenntag. We like the shift of the company towards the specialty segment and see some acceleration in M&A deals. We trimmed our position in Masco as we see increasing competitive pressure on its plumbing business. On ESG, we held a governance call with the Chairman of GFL Environmental, where we had a chance to express our views on governance matters such as executives' compensation and board composition. We also engaged with Tetra Tech on the ethnic diversity of their board, which, with the appointment of a new board member, are making encouraging initial strides in addressing the matter.

Market outlook

The water market is a diversified opportunity set of products and services that enable access, quality and quantity of clean water necessary to sustain human activities globally. We estimate that the addressable market, encompassing capital and operating expenditures in the Utility and Industrial end markets as well as Waste Management to be in the region of USD 1.1 trillion. The market is underpinned by megatrends that drive the structural demand for water, namely demographics, focus on health, sustainability, commercialization and economic growth. Growing above global GDP levels, they remain very supportive for the Water investment case, even more so in a post COVID-19 world. For example, demographic changes and urbanization will increase Water demand in cities by 80% to 2050 despite 2.3 billion people already having no access to basic sanitation and 4.5 billion people with no access to safely managed sanitation. The OECD estimates that USD 1 trillion needs to be spent annually by 2030, up from currently USD 600 billion, to ensure universal access to basic water and sanitation. The economics of such investments are very attractive to both public and private stakeholders.

Portfolio strategy

The UN estimates that every USD 1 invested in water and sewage infrastructure provides long-term private GDP of USD 6.35 and USD 2.62 to other industries. The simple advice to wash hands to stop the pandemic highlights the need for investments in basic sanitation and clean water. Water Technology represent close to 60% of the strategy's holdings. The virus outbreak highlights the importance of the monitoring companies that provide water quality analysis and also analytical instruments for laboratories, hospitals, disease control centres and pharmaceutical companies. Danaher and Thermo Fisher both provide analytical and diagnostic equipment with water, environmental monitoring applications as well as life science applications. Water Supply, representing close to 30% of the strategy's holdings include the provision of water, waste-water treatment and sanitation services, essential to human development. Environmental services representing more than 10% of the strategy's holdings, include municipal and hazardous waste, which needs to be treated in a safe and rapid way to prevent the spread of viruses and hazards and protect underground aquifers. The portfolio strategy remains committed to invest in companies that benefit most from their exposure to these long-term structural trends and will continue to approach the opportunity set with a barbell strategy.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	19.01.2000
Launch date	15.11.2006
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0104884860
Reference index	MSCI AC World (EUR)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	2.00%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.60%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Cédric Lecamp
Louis Veilleux
Beatriz Gonzalez Bodas
Ola Obanubi

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information,
please visit our website
assetmanagement.pictet

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