

The Future of Water Investment: Capitalizing on Infrastructure Stimulus Programs

Water is an essential resource, without substitutes, and crucial for farming, industrial production, electricity generation and human wellbeing. Few freshwater resources exit and annual replenishing via rain- and snowfall is facing an ever-increasing demand for fresh water due to population growth (especially in water-scarce regions), industrialization and higher per-capita demand as living standard rise. These trends are well known and whilst none of them may give reason for strong growth expectations, in combination these trends have in the past provided the basis for

above-average investment growth needs to address the otherwise growth water scarcity gap.

Investing in the water theme via companies that have products able to increase the supply of fresh water or allow for its more efficient use and protect its quality, is therefore increasingly recognized as an attractive opportunity with many more years ahead.

In addition to its long-term structural growth appeal, we believe the theme is also helped by tailwinds currently materializing and providing the basis for accelerated growth this a next year:

The convergence of infrastructure stimulus programs, such as the Bipartisan Infrastructure Law (also known as the Infrastructure Investment and Jobs Act), and stricter PFAS (per- and polyfluoroalkyl substances) regulations is set to provide funding which will drive substantial growth in the water industry investment in the US, one of the largest markets for water products.

This article explores how these factors will benefit water investment,

promoting the expansion and modernization of water networks, pipelines, and filtration systems.

The Impact of Infrastructure Stimulus Programs

The Bipartisan Infrastructure Law, enacted in November 2021, allocates \$1.2 trillion to various infrastructure projects across the United States, with significant portions earmarked for water infrastructure. This unprecedented investment aims to address the country's aging water systems, which have long been neglected and are in dire need of repair and modernization.

Upgrading Water Networks and Pipelines

One of the key areas of focus under the infrastructure stimulus is the upgrading and replacement of outdated water networks and pipelines. According to the Environmental Protection Agency (EPA), the U.S. faces a \$743 billion need for water infrastructure improvements over the next 20 years. The Bipartisan Infrastructure Law directs \$55 billion specifically for water and wastewater infrastructure improvements, including lead pipe replacements and the removal of dangerous chemicals.



By investing in modern, efficient water systems, municipalities can reduce water loss, lower energy consumption, and improve the overall reliability of water services. This creates a fertile ground for water companies specializing in infrastructure technologies and services to thrive. Companies that supply water pumps, filtration equipment or know-how water management are well-positioned to benefit from these developments.

Enhancing Filtration and Treatment Facilities

The infrastructure law also emphasizes the enhancement of water filtration and treatment facilities. With significant funding allocated for the development of advanced water treatment technologies, the water sector is poised for a technological revolution. Investments in new filtration systems are critical to ensuring safe drinking water and complying with stringent water quality standards.

Conclusion: Current market environment around water infrastructure is favorable

The intersection of infrastructure stimulus programs and PFAS regulations presents a unique and compelling opportunity for investors in the water sector. The substantial funding from the Bipartisan Infrastructure Law, combined with the urgent need to address PFAS contamination, is set to drive

significant growth and innovation in water infrastructure, treatment technologies, and services.

As municipalities and industries work to upgrade their water systems and comply with stringent regulatory standards, companies specializing in water technologies are poised for accelerated growth. Investors who recognize and capitalize on these trends will not only contribute to a critical public health and environmental cause but also stand to reap considerable financial rewards.

In summary, the water investment theme is gaining momentum, and the confluence of infrastructure funding and regulatory changes ensures a robust growth trajectory for the sector. This promising horizon underscores the strategic importance of water investments in the years to come.

Other Topics with Water Theme

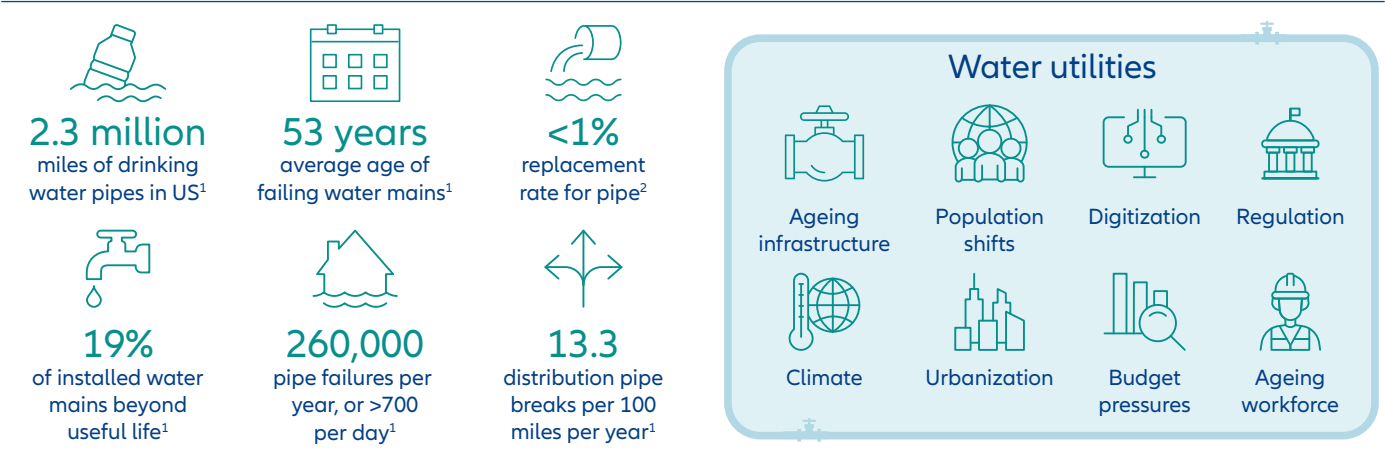
A word of caution: While investment in US water infrastructure appear to see ongoing tailwinds, other markets typically served with water equipment are showing a more mixed picture:

- New housing (typically triggering demand for water equipment products such as valves and sanitary installations) is still adjusting to higher construction costs and higher interest rates that made new housing more expensive. Europe residential market has fallen sharply recently and still

needs to find a bottom. China is also struggling with its real estate sector and US appears to show signs of weakness when looking at new building permits requested.

- Further, the agriculture farming market (water irrigation and efficient farming equipment) is also still going through a down-cycle as crop prices are reverting to lower levels globally.

How we plan to position: We remain convinced that products related to the clean water and clean land theme will continue to gain in relevance to address the growing problem of water scarcity. Historic under-investments, an aging infrastructure, more regulation around water quality is facing an increasing demand for clean water from population growth, industrialization and farming needs that requires investment in solution. The theme should on average continue to allow for growth along previous historic HSD growth rates. Within the theme, topics around US infrastructure, PFAS and waste management appear to see additional tailwinds from funding releases and regulation. We have less conviction on generation residential construction and industrial or agricultural production-driven demand for accelerated water equipment demand this year but stand ready to position here for a market recovery closer to 2025 potentially.



Implications for utilities

- Unrealistic for US water utilities and local governments to bridge the gap between their current capital spending and projected need for capital spending and projected need for capital spending, based on the age and life expectancy of their infrastructure.
- Moving forward the industry will have to use multiple approaches to extend the life of their assets including measured allocation of capital funds, product innovation, predictive maintenance planning, and rate increases.
- Climate change is reducing both water availability and quality; solutions to retain, treat, and recycle water will need to be incorporated into investment and operating plans.
- Codification of contaminants regulation could accelerate innovation around testing for and removal of pollutants.

¹ Utah State University, "Water Main Break Rates in the USA and Canada: A Comprehensive Study," December 2023, Professor Steven L. Barfuss, P.E. Distribution pipes are 12 inches or less in diameter.

² Utah State University, "Water Main Break Rates in the USA and Canada: A Comprehensive Study," March 2018, Steven Folkman.

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