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Welcome to the podcast series on the water sector. Thanks for listening. I am Evan Lang, one of the portfolio managers of Ecofin's water platform. Today, we will discuss the new futures contract tied to water, the emergence of water as an asset class, and upcoming catalysts for the sector. With that, let's jump right in.

Last month, the water sector sent ripples through Wall Street as water joined the likes of oil, gold, and other commodities with the launch of a new futures contract tied to the Nasdaq Veles California Water Index (ticker NQH2O), which tracks the spot price of water in the state.

The new water futures contract is garnering praise for increasing transparency in a previously opaque market and providing buyers of water, such as farmers, utilities, and municipalities, a new tool to manage their price risk.

Others, such as institutional investors, expressed interest in the security as a gauge of water scarcity, which continues to intensify. In fact, a new study from Columbia University suggested the western US is now entering possibly the worst megadrought in modern history as a result of climate change. The devastating wildfires in Colorado and California this past year are early evidence of this alarming trend.

While we applaud the transparency and benefits of this new tool, we believe that the solution to water scarcity and the challenges from climate change is increased investment in water infrastructure and technology. In our view, the water sector is on the cusp of a technological transformation that will expand the use of alternative sources of water, such as water reuse and desalination, and enhance water conservation efforts through the adoption of digital offerings across water users. We believe adoption of these technologies will lead to a more sustainable future with a clean, affordable, and resilient water supply for communities across the world.

Ultimately, our main takeaway on the futures contract is that it is the latest step in the evolution of water as an asset class. Five years ago less than \$10B was invested in the water sector through publically traded vehicles; now, nearly \$30B is managed, with record inflows last quarter. New innovative investment vehicles are also emerging, ranging from micro-lending strategies to higher-risk water venture capital funds.

Looking forward, we believe the water sector will continue to attract investors due to the sector's secular growth, low correlation to broad markets, and positive impact to society. Near-term, we see a number of catalysts for the sector, including:

1. Enactment of favorable policies promoted by President Joe Biden, such as a potential infrastructure package and more stringent water quality standards
2. Increased industrial spend on water as corporations focus on ensuring water availability, quality, and efficiency in a water scarce environment, meeting increasingly strict regulations, and extending corporate sustainability programs beyond de-carbonization to reducing water footprints
3. Technology adoption hitting an inflection point due to the impact of COVID-19, resulting in higher revenue growth, margin expansion, and potential multiple re-rating.

With these tailwinds, we believe water is well positioned to capture fund flows going forward and become a more accepted sleeve in a conventional portfolio. Over the past 12 months, we have witnessed the power of an asset class becoming a mainstream investment in the rise clean energy. Comparably, water shares a number of the same trends, from the rate of change in technology to favorable regulation, but now water trades at discount versus the historical premium. Will water share a similar path as its ESG brethren?

That's it for today, thanks for joining us. We look forward to speaking with you again soon.

**Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at [info@ecofininvest.com](mailto:info@ecofininvest.com).**

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