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Welcome to the podcast series on the water sector. Thanks for joining us this week ahead of World Environment Day. I am Evan Lang, one of the portfolio managers of Ecofin's water strategy.

As we near the half-way mark of the year, let's start with a quick performance update. The water sector's strong performance continues through the end of May, returning 14.3% YTD as measured by the S&P Global Water Index, outpacing the MSCI World and S&P Global Infrastructure Indices, as the sector benefits from secular growth from increased investment in water infrastructure and technology. This trend holds over a longer time horizon as well, with water outperforming those indices on a 3, 5, and 10 year basis.

Our main agenda item for this discussion is a continuation of our series on the role technology is playing in the future of the water sector. Today, we will focus on the digitalization of the industry.

As Nick highlighted in part 1 of our series, when we launched the water strategy in 2015, we believed technological advancements were the key to solving the global water crisis. Since that time, our conviction has grown as a result of the continued innovation in the industry, despite the ongoing water challenges, including water scarcity, quality, and impacts from climate change. In the past month alone, California expanded its draught emergency to 41 counties; Taiwan announced further water cutbacks due to its worst drought in decades; and harvest estimates in Brazil were cut significantly as the country faces yet another severe drought. All the while, the world continues to battle the global pandemic. Yet in the face of this, we have never been more optimistic about the future of the water sector due to the technologies available today, including digital solutions. We believe we are at an inflection point in adoption, as the pandemic highlighted the need for more resilient infrastructure and the benefits of digital capabilities. We expect growing adoption will drive compelling equity returns for the sector.

Before we move ahead, I'll provide an overview of digital water. The basic building blocks involve sensors, remote sensing and imaging (i.e. satellites and drones), geographic information systems, and visualization tools. These capabilities enable mapping water resources, real-time measurement of water transmission and quality, and remote infrastructure management. Think Google Maps for water. The benefits include detecting, diagnosing, and proactively preventing detrimental events, such as water main breaks, sewage overflows, and water contamination. They also provide useful information for infrastructure repairs and replacements. More recently, machine learning and artificial intelligence are being implemented, as well as augmented and virtual reality, which provides holographic representation of pipes, cables, and other assets. The most advanced technology merges these applications to generate digital twins that offer real-time data that provide the ability to visualize and monitor current asset conditions, predict real-world events, and allow for scenario-based training.

Bottom line, these technologies drive improved operations, increased resiliency, and capital efficiency as these projects can increase revenue by reducing water loss for utilities and maximize uptime for the industrial sector, as well as decrease costs by predicting and prioritizing repairs and reducing expensive large-scale replacements.

These solutions are also presenting new business cases and models. Within utilities, smart water networks are displacing manual readings of water meters with integrated digital solutions, and the industrial sector is increasingly moving away from a capital oriented model to digitally enabled outsourced water. In this new model, corporations employ a water company to build, own, and operate water infrastructure on their site and pay them on a per gallon basis, often times with volume commitments, versus the historic model that featured upfront capital investment with equipment servicing and replacement when needed, which often times can be unexpected and disruptive. The result is a win for both parties. The water company utilizes their expertise and benefits from recurring, long-term contracted cash flows, while the client can focus on their expertise and benefit from surety of clean water supply and/or wastewater treatment.

For more color, let's look at a couple of examples.

We will start in the utility sector with Evansville Water and Sewer Utility. Their sewer system, parts of which are 100 years old, serves a population of 163,000. Years ago the utility was experiencing operational problems during heavy rainfall, which resulted in 1.8 billion gallons of untreated sewage annually. To address the problem, Evansville turned to Xylem to implement their BLU-XWastewater Network Optimization system. This system uses sensors to engage in real-time monitoring of the networks to gather and integrate all critical water data, as well as artificial intelligence and machine learning to develop a digital twin. By using this system, the city reduced sewer overflow by 100 million gallons at \$0.01 per gallon, which was more than 95% less expensive than other potential solutions.

Next, we will shift our focus to the industrial sector. This time highlighting St. Luke's Hospital in southeastern Massachusetts. With one of the busiest emergency departments in the state, reliable high purity water is critical for efficient preparation of surgical instrumentation. Any delay in or concern about the sterilization process, which uses highly purified water for instrument rinse, has serious ramifications. To ensure safety and efficiency, St. Luke's turned to Evoqua Water Technologies who recommended their Water One SD (Simple Deionization) service, which provides 24/7/365 remote monitoring for water quality and leak detection that mitigates risk, automates treatment equipment, and minimizes system downtime. The results were positive for all. Now, surgical instrument staining is virtually non-existent, and St. Luke's utilizes the water usage data and system status provided to them by the remote monitoring feature to improve system reliability, ensure water quality, and lower costs.

In summary, our conviction remains high that technological advancements are the key to solving the global water crisis, and digital solutions will play an increasing role due to the many benefits, including but not limited to increasing operational efficiency, enhancing resiliency, and improving capital allocation. The water companies developing and deploying these solutions are accelerating revenue growth, increasing margins, and driving project level returns of up to 30% or more, which we believe will drive compelling equity returns. We are in the early innings of this story, with most utilizing basic technologies, if it all. The water team is excited to watch the digital transformation in the years ahead.

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.

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The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

The MSCI World is a market cap weighted stock market index of 1,583 companies throughout the world. It is maintained by MSCI, formerly Morgan Stanley Capital International, and is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets.

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