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INFRASTRUCTURE INVESTOR

A liquid portfolio

With a newly minted fund and a fat Rolodex, Water Asset Management co-heads Disque Deane and Matt Diserio are more than willing to evangelise about investing in the water sector. And, pretty soon, they expect to be preaching to the converted.

Chris Glynn

This fall Water Asset Management (WAM), a seven-year-old outfit with a strategy dedicated to water-related investing, will hold a first close on its second formal offering. Water Property Investors, or WPI, is basically a private equity counterpart to the TRF Master Fund, a WAM long-short vehicle globally focused on publicly listed water-focused equity.

With $250 million in expected capital, WPI marks a high-point for WAM founding duo Disque Deane and Matt Diserio. With TRF, and now a well-capitalised, additional real asset fund, WAM can invest in “water right ownership” (the right to use water from a water source) or “water-rich agriculture” (Diserio notes WPI recently netted a 19,000-acre irrigated farm in Nevada), as well as plainly traditional water-based infrastructure including wastewater management.

“We are water-specific, we invest in core infrastructure as well as the public equity market, and there is opportunity in both,” asserts Diserio. “So much of infrastructure investing is executed via private equity, but with water, there is opportunity in the public market too”.

Even more crucial, as Deane and Diserio point out, is that pension fund interest in water and water utility infrastructure is beginning to matriculate into what can still be judiciously termed a niche asset class, validating the original theme of Water Asset Management in 2005 and, in turn, continuing to support their argument: that private capital is indispensable to ensuring suitable, ongoing and safe human consumption of water.

“In the last six-month stretch, the world has found itself in a very interesting intersection, because what we have globally is underinvestment,” says Deane from his midtown Manhattan office. “In the US, we have nearly a half-century of underinvestment,” Deane continues, “a half-century of not enough water being allocated for community growth - and growth is coming back”.

AWASH IN DATA

According to the World Bank Group, a 67-year-old international organisation created to financially aid the developing world, global water consumption will increase by 50 percent through 2040. By 2016, demand for water infrastructure globally could surpass $100 billion, a figure underscoring a projected growth rate of 6 percent annually, according to market research provider Global Information Inc.

In the US “Sunbelt” region, a bastion of post-World War II growth on account of a US highway system that arose from a nation-building infrastructure boom (aside from Nevada, WAM has been active in Arizona, once winning a bid to own wastewater treatment for Prescott Valley), the Stockholm International Water Institute says a pending century-long water shortage could cost $5 trillion.

To work in water-related investing is to be awash in data. But in defining the impact of inadequate water and wastewater management, Diserio, a one-time hedge fund manager who invested in publicly traded water businesses, opted for a less-ephemeral illustration: legislation will forbid a building permit that cannot demonstrate a 100-year period of assured access to a water supply.

Both hard data and common sense have helped attract private capital and—Deane and Diserio admit—“a lot more people showing up” to vie for a significant jump in deal flow.

“We develop our own deal flow,” Deane explains. “We are not showing up to compete in an auction. Nonetheless, that aspect is going to start driving allocator awareness.”

Deane is the son of lauded Lazard czar Disque Deane Sr., the late corporate financing wizard credited with pioneering the sale-leaseback. The junior Deane similarly rode a hot financial trend - “blue” investing - in the 1990s while working for fund manager Vidler Water Company.

Deane says Water Asset Management, now a $400 million investment manager, has embraced a unique asset class with a resolutely inelastic demand, making for a significantly uncorrelated asset class.

“Now, after 2008 and 2009, when the wheel fell off the wagon, we have the same problem we had before, but it was put off because of the demand pressure,” he says. “A water infrastructure asset are a good asset liability match owned long-term, by a pension fund or sovereign wealth entity, and publicly.”

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