

SPOTLIGHT

Water Asset Management Bullish on Suez Environnement, American Water Works

Marc Robert, chief operating officer at **Water Asset Management**, spoke to Bloomberg's Hema Parmar about investment opportunities in the water sector. The \$500 million New York-based firm runs a \$100 million long-short equity fund, a \$250 million long-only equity strategy and \$150 million in private equity. Robert's comments have been edited and condensed.

Q: Why do you specialize in water investments?

A: We define the water industry as being everything from the source to the tap. We're focused on pure direct investment that ensures water availability and water quality. This industry has pricing power, it needs lots of capital and it's relatively poorly understood by investors. We have the three "I"s — it's investable, it's inevitable and it's impactful. We're activist investors, largely supportive. We've taken over one of our companies and have run a full proxy battle, so we're willing to get active.

Q: In which types of water companies do you see opportunity?

A: We are very heavily exposed to water utilities. These are companies that have limited risk. All of them have been through their regulatory reviews. They have very good pricing and outlook for the next several years. The beauty of the water utility model is that they basically know what kinds of returns they're going to earn on capital that they invest. It gives you tremendous visibility at a time where people are fairly uncertain about the outlook. Many of these names are free cash flow positive which is unique, because usually, utilities are investing all of their capital and are coming to market for incremental capital. Many of these utilities are now in positions where they don't really need external capital.

Q: What are some specific companies?

A: We have investments in Suez Environnement and American Water Works. Suez has a very strong presence in the U.S. with their United Water subsidiary. There are more than 50,000 different water systems in the U.S. Eighty percent of those are held by

municipalities and many of them are looking for ways to get capital into their systems. Suez has been very opportunistic. They've done a couple of deals with KKR to finance municipal water systems. We think the United Water subsidiary is underappreciated by investors. They're not getting full value. We think it's probably worth 20 euros a share. It's presently trading around 15.

American Water Works is the largest water utility in the U.S. and is extremely well-run, has no regulatory reviews coming up, has plenty of capital and is looking to put money to work in these municipal systems which need capital. We see that stock being worth in the high \$50 range.

Q: What are some other areas?

A: We're quite focused on water resource. Despite the fact that we have a drought in the West, a lot of the share prices of water resource companies have actually gone down this year, while the value of their portfolio has increased quite dramatically. We like Cadiz and JG Boswell.

Q: Why these two companies?

A: Cadiz and Boswell are two names that are driven by asset values. Cadiz is a company which owns the right to develop water in the Mojave Desert. We see opportunity, not only for providing water into southern California, but also an ability to store water which we think is underappreciated by markets.

Boswell is an agriculture and water company, they own water as a result of their agricultural holdings and we see that as undervalued. The stock trades at roughly \$700 a share. We can see value easily double that, based on the value of their land and water.

Q: Any other areas you'd like to mention?

A: We do see a lot of potential for improved capital spending going forward from both municipalities and industry. So we've been adding slowly to some of our capital spending names which have been becoming a lot more attractive. We like Xylem. They have really good management, it's free cash flow positive. They are good operators, they're doing a lot to lean out their business, and they're a name which has been unfairly punished in the industrial space.

Q: Where are you bearish?

A: Shorts this year are adding quite a bit to our performance. We've had good performance from names that are involved in desalinization on the short side. Desalinization, while a very politically saleable solution to water problems, is a tough business. It's very competitive, pricing is very difficult. There are big players looking to take share in big capital projects. There are some very deep-pocketed investors who are not so interested in profits and are more interested in market share. It's a very difficult business to make money in, from our vantage point.

AT A GLANCE



Age: 55

Based in: New York

Hometown: New York

Professional background: Joined Water Asset Management in 2006. Managing director with Morgan Stanley from 1992 - 2006

Education: BA in religious studies from Brown University

Favorite recent movie: The Wolfpack

Recommended book: Water to the Angels: William Mulholland, His Monumental Aqueduct, and the Rise of Los Angeles

If you could have another career it would be: Marine biologist

Best investment advice: Stay away from crowds and invest in big trends

Hobbies: Competitive sailing, renovating houses

Favorite sports team: Seattle Seahawks