

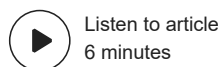
How to Invest in Companies Targeting the Water Crisis

By [Lauren Foster](#) Follow June 3, 2022 4:01 pm ET



Investors who are interested in the water crisis have a number of options, from buying water-focused ETFs and mutual funds to picking individual stocks.

Illustration by Ana Yael for Studio Pi



Water is a vital resource for life—and a significant risk facing investors in thirsty industries such as food production, mining, apparel manufacturing, and semiconductors. It can also be an attractive investment opportunity.

“Scarce clean water is the resource that’s defining the 21st century, much like oil and gas were important resources that defined the 20th century.” says Matthew Diserio, president of Water Asset Management, which manages public and private equity funds. “The industry that existed around oil and gas created a lot of investment opportunities.”

What makes water so valuable is its uniqueness. “When you need water, there’s nothing else that will do,” says Diserio.

It is also a scant resource: Just 3% of the earth's water is fresh, according to the U.S. Bureau of Reclamation. About 2.5%, however, is locked up in polar ice caps, glaciers, the atmosphere, and soil, or is highly polluted or lies too far below the earth's surface to be extracted at an affordable cost. That leaves just 0.5% of the earth's water available as freshwater.

Severe drought has emerged as a concern in many places. For example, water scarcity is ravaging the American West, where demand is outpacing supply. A recent study says the current "megadrought" is the region's driest in at least 1,200 years, and California recently introduced new, tougher water restrictions.

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Another problem is the poor state of water infrastructure around the world. According to the American Society of Civil Engineers' 2021 Report Card, America's water infrastructure is graded C-.

"Our nation's drinking-water infrastructure system is made up of 2.2 million miles of underground pipes that

deliver safe, reliable water to millions of people," the report states. "Unfortunately, the system is aging and underfunded."

Investors who are interested in the water crisis have a number of options, from buying water-focused thematic exchange-traded funds and mutual funds that invest in a range of companies in the water sector, to picking individual stocks.

Patti Baum, a financial advisor at RBC Wealth Management, says a number of clients who care about environmental, social, and governance, or ESG, investing, have asked her about investing in water. "The least risky way would be to invest in a portfolio of companies that are attacking water scarcity in several different ways," she says. There are ETFs and mutual funds that invest in water infrastructure companies, technology providers, and water innovators—companies using technology to address threats to clean-water resources. "By investing across those sorts of categories, you can reduce the risk," Baum says.

Six water-focused thematic ETFs are listed in the U.S., according to CFRA. The largest is the [Invesco Water Resources ETF](#) (ticker: PHO), which tracks the Nasdaq OMX US Water Index and invests in a range of companies in the water industry. Its top three holdings are utility [American Water Works](#) (AWK) at 8.4%; industrial conglomerate [Roper Technologies](#) (ROP), which makes smart water meters for utilities, at 8.2%; and water technology provider Xylem [XYL -1.19%](#) (XYL) at 8.1%.

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Some water companies have been hit hard by rising interest rates and supply-chain problems. Result: The Invesco fund has lost 19.3% this year, worse than the S&P 500's 13.3% drop. That could be an opportunity for long-term investors.

On the mutual fund side, Calvert Research and Management, a leader in responsible investing, offers investors the Calvert Global Water fund (CFWAX), which tracks the Calvert Global Water Research Index.

Jade Huang, a portfolio manager at Calvert, says the fund focuses on four areas: infrastructure, technology, utilities, and solution providers. Among the holdings: [Lindsay Corp.](#) (LNN), which makes irrigation systems, [Badger Meter](#) (BMI) in technology, and American Water Works in utilities.

Water Works

Here are six water-focused thematic ETFs listed in the U.S.

ETF / Ticker	Net Expense Ratio	Net Assets (mil)	1-Yr. Re
Invesco Water Resources / PHO	0.60%	\$1,626	-6.5%
First Trust Water / FIW	0.53	1,221	-5.9
Invesco S&P Global Water Index / CGW	0.57	970	-8.2
Invesco Global Water / PIO	0.75	277	-12.6
Ecofin Global Water ESG / EBLU	0.40	54	-13.2
Global X Clean Water / AQWA	0.50	6	-10.9

Note: Data through May 27. Three- and five-year returns are annualized. N/A=not applicable

Source: CFRA Research

When it comes to solution providers, Huang says Calvert looks at leaders and innovators. In the leaders category, these are companies that “have a big water footprint, but are doing an incredible job in reusing water or increasing their water-efficiency practices.” [Taiwan Semiconductor Manufacturing \(TSM\)](#), the chip-making giant, is an example. On the innovator side, Huang points to [Lixil \(5938.Japan\)](#), which has developed the Green Toilet System, a waterless and sustainable sanitation solution.

Another option is investing in a separately managed account, such as the Schafer Cullen Water Asset Management Impact strategy. Investors get direct exposure to companies committed to solving the water-scarcity crisis by increasing supply, improving water quality, or using water more efficiently. The strategy is available through financial advisors on platforms such as Fidelity, Schwab, and [Envestnet](#).

Among individual companies, Diserio sees upside potential in [Select Energy Services \(WTTR\)](#), which provides water sourcing, handling, and treatment for oil-and-gas producers; Lindsay Corp.; and [Great Lakes Dredge & Dock \(GLDD\)](#), the largest provider of dredging services in the United States.

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