

Investors urged to take a dip in blue gold

9:00AM Monday October 22, 2007

By Diana Clement

Climate change - it's something most New Zealanders put to the back of their minds.

Somewhere, at some point in the future, sea levels will rise, our seasons will change, water will be in shorter supply than it is now and food may become limited. As with most clouds, there is a silver lining of sorts. At least for investors, there's money to be made from sectors that will benefit from shifts in the climate, namely water-related companies, alternative energy and carbon credits.

This week, we look at water.

Few Kiwis have any idea what a valuable commodity water is. We luxuriate under the shower, drink our fill out of the tap and buy our consumer goods without a worry in the world. But start reading about the world's use of water and the soundbites of information you'll find are enough to keep you up at night. Janine Starks, investment director at fund management company Liontamer, supplied these examples.

To make:

- * 1 litre of Coke you need three litres of water.
- * 1kg paper = 300 litres of water.
- * 1 glass of brandy = 4000 litres of water.
- * 1 semiconductor wafer = 11,000 litres of water.
- * 1 car = 148,000 litres of water.

It's not surprising, therefore, that rivers are running dry across the world and aquifers (underground reservoirs) are being drained and polluted.

Robert Oddy, director of International Financial Planners, says it's not surprising that the companies that supply water, reticulate it, desalinate it and provide the infrastructure to do so might have a rosy future. When it comes to getting a slice of investment action, there are local utility companies that Kiwis could invest in.

But they are, says Oddy, "pitiful" compared with some of the huge global players such as Suez and Veolia of France, and Britain's United Utilities. These worldwide players are landing lucrative contracts in some of the countries worst hit by water shortages, such as China and Australia.

Investing in individual companies isn't all that easy for Kiwi-based investors - although not impossible with the huge volume of research available online.

Other options, says Oddy, include investing in funds that invest in water and alternative energy. The main specialists worldwide include Belgium-based KBC Group, and Pictet & Cie and Sustainable Asset Management, both of Switzerland.

Investing in water is something that investors can understand and they often like the "thematic" approach to investing, says Starks. "Some people think water is a niche. But it's not. It's another commodity stock. We call it blue gold. It's like oil and metals, which cross all industries and nations."

New Zealand-based investors have access to the KBC funds through its local subsidiary, Liontamer, which already provides a capital-protected fund called WATER Series 1 (Trust 21). This fund is due to close in a couple of weeks.

However, the Liontamer: KBC Global Water Fund - a more straightforward managed fund - is due to launch in the middle of next month, giving investors access to small, medium and large-sized water stocks such as Cia Saneamen of Brazil, Danaher of the US, Suez and Wavin, a Dutch pipe manufacturer. The new fund will only include stocks that pass a socially responsible investing test.

It's not just developing nations that will face a huge increase in the need for the services of the companies the Global Water Fund will invest in.

The US, which has crumbling infrastructure, and Australia, where Veolia has just won contracts, will need to spend billions of dollars on their water systems in the future.

Just how things might pan out for these companies can be seen through some of the phenomenal challenges facing various countries - for example: * About 40 per cent of treated water in the US leaks from pipes and never reaches its destination. At the current rate of replacement, it will take that country 900 years to replace them, says Starks.

* In China, 53 per cent of rivers, 50 per cent of lakes and 35 per cent of aquifers are polluted, says Oddy.

Much of the world's food shortages are water-related, although it has to be said there are food mountains in certain parts of the world.

Financial planner and socially responsible investing expert David Yates, of Integrate Financial Services, says that while investors could benefit from environmental change, they also need to beware of where their money is already being invested.

Fund managers who are investing in companies that are not considering the environmental impact of their activities could be negligent.

"The environmental risk and the effect on the income of individual organisations needs to be considered," Yates says, adding that fund managers could ultimately lose money by investing in companies that are not environmentally sustainable.

Oddy says: "I think water is an exciting investment opportunity with the potential for strong medium-term growth. It should not be ignored."

* Diana Clement is an Auckland-based personal finance and investment writer.