



## Climate Change : Climate Solutions

### Water Fund: "The True Value of Water"

**Water consumption is increasing twice as fast as the number of people consuming it. Fund Manager Andreas Fruschki of Allianz Global Investors in Frankfurt explains how to profit from this growth while improving water supply, quality, and infrastructure on a global scale.**



**Andreas Fruschki, Co-Manager of Allianz RCM Water Fund of Allianz Global Investors, Frankfurt**

"A key issue of water is that the true value of water is not recognized."

#### **Will the price of water go up once funds start investing in the sector?**

Water pricing is strongly regulated by local government authorities, and utilities cannot charge more for the water they deliver without good reason. But that doesn't mean that investors cannot profit from an increasing demand for water.

A key issue is that the true value of water is not recognized. Most people take it for granted, and it doesn't add up to much on your consumption bill. Germany has one of the highest average costs for water, but we still never hear anyone complain about water prices; it is electricity or gas prices that we are concerned with.

Water tends to be undervalued around the world. Therefore you'll not see large returns coming from the pure natural resource. Perhaps that is one of the reasons why there are so many places with a lack of supply due to a lack of investment. With that in mind, it makes sense to invest in companies that are engaged in improving water quality and infrastructure.

#### **What are the trends in the water market?**

There are two or three key drivers in the water market. One is in the developed world: we have good water infrastructure, but it needs to be repaired. Most developed nations built their water infrastructure in the 1930s, and the lifespan of a pipe is about 100 years, which is now coming to an end. That means you need a certain minimum investment each year to upgrade and repair systems in Europe and the U.S.

In some cities like London or regions in the U.S., we have already about

30 percent water leakage. Ten percent is considered normal, but if it goes beyond 20 or 25 percent, you can say the system is in desperate need of repair.

In the developing world, the major themes are urbanization and industrialization. You have people moving into big cities, and that puts greater pressure on the local water resources, especially where infrastructure is not developed. As countries like India and China become more industrialized, their water demand will rise exponentially. All the big industries, ranging from steel and metal plants to chemical industry and paper mills, require lots of water.

This is why water demand is growing twice as fast as the overall population. As we become more affluent, our need for water grows exponentially. This is not limited to one country, one industrial sector, or to emerging markets only. Water demand is linked to all kinds of aspects like product consumption, evolving technology, leisure activities and even changing diets. Developing countries tend to be more vegetarian. Once the income level starts to rise, people tend to switch to more meat, and to raise cattle, you need an exponential amount of water compared to vegetables.

One overarching issue that will put more pressure on global water resources is climate change, because we expect more extreme weather patterns in the form of severe droughts and floods to lead to greater water shortages and water sanitation problems.

### **But is such growth sustainable?**

Well, there are already real shortages, even in developed nations like Australia and the United States. In the U.S., some farmers are actually selling their water rights rather than the crops in their fields, because the water rights have become more valuable.

In other areas, the big issue is pollution. Around 75 percent of lakes and rivers in China are too polluted to fish, and obviously that leads to a major decline in the availability of clean water. Water, however, has no substitute, and shortages can only be addressed with sensible investment in infrastructure, water quality, and efficiency.

### **This year's World Water Day will focus exactly on this issue – wastewater treatment and sanitation. What is the challenge here?**

Most countries that suffer from a lack of sanitation, suffer first of all from a lack of access to clean water. They don't have sanitation or a pipeline system. Seventy percent of Chinese wastewater is not treated; it's just discharged into lakes and rivers, where people downstream bathe, unaware of what happens upstream or simply without a choice.

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So, wastewater treatment is probably the key aspect in reaching decent sanitary levels. That is also an important factor in disease prevention.

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