

Pictet - Water - P EUR

Risk Considerations

All forms of investment involve risk. The value of investments and the income derived from them is not guaranteed and it can fall as well as rise and you may not get back the original amount invested. Please refer to the prospectus for further information.

MARKET REVIEW

Equities outperformed bonds in the first quarter as markets focused more on the improving macroeconomic data – and the associated support for corporate earnings – than the implications for the higher short-term cost of capital. This drove the MSCI ACWI Index up 11 per cent in EUR terms, its third-strongest first-quarter performance since 2000. Once again, the returns for the market were dominated by IT and Communication Services companies, many of which are benefitting from the broadening out of the AI investment theme. Energy stocks ended the quarter strong as oil prices gained further against the background of persistent geopolitical tensions and a resilient global economy. The delay in expectations for interest rate cuts had a mixed effect on the market, with Financials benefiting while Real Estate and Utilities both suffered. By region, Japanese stocks remain the biggest winner so far this year with gains of 14 per cent since January (net of a significant currency devaluation). A virtuous cycle of increasing wages, rising consumer spending and moderately higher inflation is likely to underpin future growth in the world's third largest economy.

PERFORMANCE ANALYSIS

The strategy outperformed a strong global equity market in the first quarter of 2024. Performance was driven by the Water Technology and Environmental Services segments, which broadly seemed to benefit from improving sentiment around the US economic outlook. Within this, the Municipal Infrastructure subsegment was the real standout, led in particular by Core & Main. These companies are prime beneficiaries of the US infrastructure programmes, which should begin to materialise as revenues this year. The Consulting sub-segment within Environmental Services also had a strong quarter as they have been on the front end of these fiscal programs and are already seeing the earnings benefit. Meanwhile, the Water Supply segment was a bit weaker as our Regulated US and Regulated UK names offset the strong performance of our Concession Emerging and Concession Europe names. The delay in expected interest rate cuts has weighed on utilities globally, while uncertainty regarding the future of Thames Water in the UK has raised some uncertainties on the outlook for the three listed UK water utilities.

PORTFOLIO ACTIVITY - OVERWEIGHTINGS & UNDERWEIGHTINGS

We initiated a position in Kurita Water Industries, a Japanese industrial company with a strong leadership position in the attractive niche of ultrapure water (UPW), a critical input to semiconductor and pharmaceuticals production. We also initiated a position in Bentley Systems, a leading infrastructure software provider across multiple end markets. Its tools are at the forefront of designing, building, operating and maintaining smart and resilient water and wastewater systems globally. We also added to our positions in Ingersoll Rand, Core and Main, and Veralto early in the quarter, three high-quality compounders. Meanwhile, we sold out of Middlesex Water and California Water Service Group on relative valuation concerns and lack of process support. The proceeds were reinvested into American Water Works, a higher-conviction, long-term bet. We sold out of our position in Guangdong Investment, the drinking water concession holder for Hong Kong, Shenzhen and Dongguan. We had engaged the company over several years about its non-core holdings, most concerning of which was two small coal power plants in Guangdong province. After letters to the Board and multiple conversations with management about a divestment plan for these assets, we could not get comfort in any time-bound commitment to refocus on their core water business, prolonging the conglomerate discount.

MARKET OUTLOOK

The water market is a diversified opportunity set of products and services that enable access to the quality and the quantity of clean water necessary to sustain human activities globally. We estimate that the addressable market encompassing capital and operating expenditures in the Utility and Industrial end markets as well as Waste Management to be about USD 1.4 trillion and will grow above global GDP levels. The market is underpinned by megatrends that are driving structural demand for water, namely demographics, focus on health, sustainability, commercialisation and economic growth. For example, demographic changes and urbanisation will increase water demand by 80% in cities by 2050. 2.3 billion people have no access to basic sanitation with 4.5 billion people still needing safely managed sanitation, supporting the OECD's estimate that USD 1 trillion will need to be spent annually by 2030, up from USD 600 billion currently, to ensure universal access to basic water and sanitation. With the UN estimating that every USD 1 invested in water and sewage infrastructure provides long-term private GDP of USD 6.35 and USD 2.62 to other industries, these investments are very attractive to both public and private stakeholders. Global infrastructure stimulus, supply chain reshoring and the increasing need for environmental advisory services are trends that will also benefit the water sector.

PORTFOLIO STRATEGY

Water Technology represents close to 60% of the strategy's holdings. These companies develop tools and systems to improve the quality and efficiency with which we use water. Large holdings include water quality monitoring companies such as Thermo Fisher – which provides analytical and diagnostic equipment with water and environmental monitoring applications – as well as Xylem, which offers a full suite of water equipment and treatment services. Water Supply, representing close to 20% of the strategy's holdings, includes the provision of water, wastewater treatment and sanitation services, essential to human development. Environmental Services represents close to 20% of the strategy's holdings and includes waste management companies – collect, treat, and recycle municipal and hazardous waste, helping to prevent the spread of viruses and pollutants within the water system – and environmental engineering and consulting firms, which design, engineer and construct water and wastewater infrastructure and play a critical role in future-proofing the water network. The portfolio strategy remains committed to investing in companies that benefit most from their exposure to these long-term sustainable megatrends. The defensiveness of Environmental Services and Water Supply coupled with the higher growth Water Technology enables us to approach the opportunity set with a barbell strategy.



General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	19.01.2000
Launch date	15.11.2006
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0104884860
Reference index	MSCI AC World (EUR)
Min. investment horizon (year(s))	5

INVESTMENT OVERVIEW

OBJECTIVE

To increase the value of your investment while seeking to achieve a positive environmental and/or social impact.

REFERENCE INDEX

MSCI AC World (EUR), an index that does not take into account environmental, social and governance (ESG) factors. Used for risk monitoring, performance objective and performance measurement.

PORTFOLIO ASSETS

The Compartment mainly invests in equities of companies providing water supply or processing services, water technology or environmental services. The Compartment may invest worldwide, including in emerging markets and Mainland China.

DERIVATIVES AND STRUCTURED PRODUCTS

The Compartment may use derivatives to reduce various risks (hedging) and for efficient portfolio management, and may use structured products to gain exposure to portfolio assets.

COMPARTMENT CURRENCY

EUR

INVESTMENT PROCESS

In actively managing the Compartment, the Investment Manager uses a combination of market and fundamental company analysis to select securities that it believes offer favourable growth prospects at a reasonable price. The Investment Manager considers ESG factors a core element of its strategy by seeking to invest mainly in economic activities that contribute to an environmental and social objective whilst avoiding activities that adversely affect society or the environment. Voting rights are methodically exercised and there may be engagement with companies to positively influence ESG practices. For further information, please refer to our exclusion framework in the Responsible Investment policy*, SFDR product category Article 9. The portfolio composition is not constrained relative to the benchmark, so the similarity of the Compartment's performance to that of the benchmark may vary.

Fees

Ongoing charges (OCR)	1.99%
Performance fee (excluded from OCR)	0% of the outperformance against the Index since the last performance fee payment
Entry and exit Costs ¹	-

1. We do not charge an entry or exit fee, however the person selling you the product may charge you up to a maximum of 5% for entry fee, up to 1% as an exit fee and up to 2% as a conversion fee.

Management team

Pictet Asset Management

Further information can be found in the prospectus.

For Professional Investors only



Pictet Asset Management

For further information, please visit our
website
assetmanagement.pictet

Important Information for all investors excepted investors based in the United Kingdom

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They can only be used for statistical performance measurements and calculations or commission calculations and cannot under any circumstances be used as a basis for subscription or redemption orders. Performance is shown based on the share class NAV per share (in the share class currency) with dividends reinvested (for distributing share classes), including actual ongoing charges, and excluding subscription/redemption fees and taxes borne by the investor. Inflation was not taken into account. As a subscription fee calculation example, if an investor invests EUR 1000 in a fund with a subscription fee of 5%, he will pay to his financial intermediary EUR 47.62 on his investment amount, resulting with a subscribed amount of EUR 952.38 in fund shares. In addition, potential account keeping costs (by your custodian) may reduce the performance. Indices do not include fees or operating expenses and you cannot invest in them. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus, or in the information which is to be disclosed to investors. Pictet Asset Management retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis. For more information, please refer to the Pictet Asset Management Responsible Investment Policy. For passive strategies exclusions are implemented to the extent portfolio structure, weight deviations, volatility and performance are not materially affected.

Important Information for investors based in the United Kingdom

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