

Why Investors Seeking Returns and Impact Should Consider Water

The growing popularity of sustainable investing and alarming scarcity of potable water worldwide underscore the case for innovative, commercial responses to this global crisis.



Investors often ask us what they can do to position their portfolios to make a positive social and environmental impact without sacrificing potential returns. Our consistent answer: Consider making a dedicated allocation to water as an investable theme.

The societal benefits of investing in water are clear. A third of the world's population lacks access to safe drinking water—a shortfall contributing to the avoidable deaths of nearly 1,000 children daily. Along with this human toll is a costly economic drag: The millions of lost hours spent seeking potable water could instead be used for education and other productive activities that could lift countless people out of poverty. Our water crisis is so severe that the United Nations lists “Ensuring access to water and sanitation for all” as one of its 17 Sustainable Development Goals. However, achieving that goal requires a massive buildout of infrastructure driven by adroit marshaling of investment capital.

Water Investment Opportunities Fall into Three Key Areas

The need for water-related investment is not limited to the developing world. Over the next decade, billions of dollars will be spent on water infrastructure in Europe and the United States, where demand for water outpaces supply, driven by population growth, the expansion of agriculture, and more water-intensive consumption as living standards continue to rise. Factors such as industrial growth, the increasing number of data centers, or the electrification of transport will inevitably result in more water needed for power generation needs. Already in the United States, power generation makes up 40% of total freshwater withdrawals, on par with water used for irrigation in farming.

Colossal Supply/Demand Imbalances

As the world industrializes, electrifies, and grows in population, water consumption has increased by more than 150% in the past five decades while supply—mainly from rainwater—remains static, and unevenly distributed, leaving locals with few choices to address water shortages.

The most obvious two choices are to proactively address this imbalance by protecting existing freshwater resources from misuse and wastage, or by making water use more efficient. Various technology and product solutions are available, but both approaches require initial capital outlays in addition to the billions of dollars that will be required simply to maintain existing water infrastructure in countries like the United States, where much of the existing infrastructure is more than 100 years old. The environmental benefit to investing in water resource preservation is also obvious, given its essential nature and the fact that no substitute exists.

Climate Change Compounds the Problem

Water challenges are exacerbated by climate change, which is creating more severe weather patterns including prolonged droughts, flooding, and unseasonal temperatures. As a result, places that once had adequate water might now require significant infrastructure upgrades to weather storms and meet individual and industrial needs. The good news is that we can fix these problems if we apportion enough public and private capital to build out and improve water infrastructure globally. As such, investors can help meet this need for capital by investing in the long-term structural growth of the water sector.

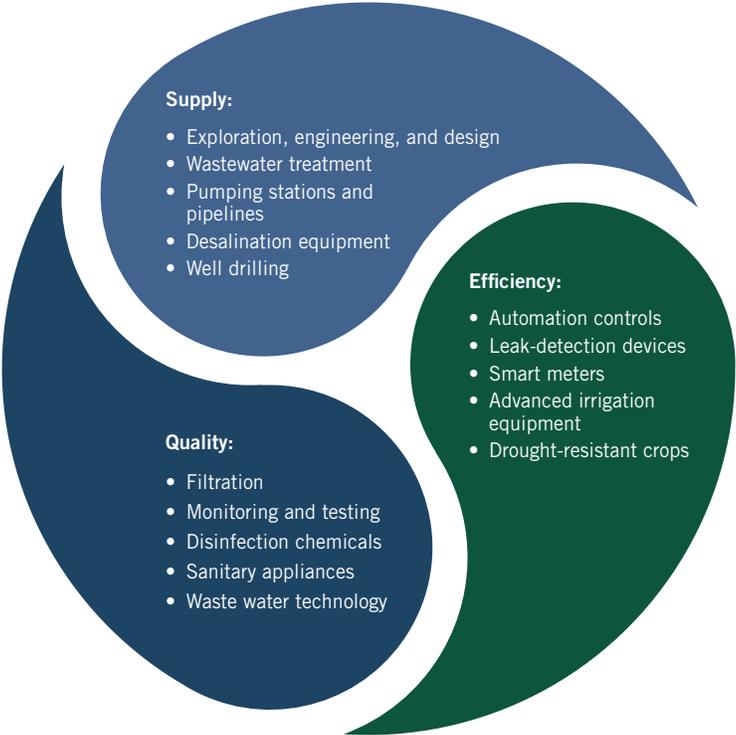
Water Your Assets for Growth

So, how can investors deploy capital? We see three areas where investors can become part of the solution while also benefitting from the upcoming investments to address water shortages:

1 Increasing water supply
Companies that distribute water to growing populations, improve water storage capacity, or help to convert salt or wastewater into useable water. U.S. Infrastructure alone is estimated to need \$3 trillion in improvements—much of that water-related. Enter a pure play company that specializes in water infrastructure, including clean water distribution, wastewater collection and treatment.

2 Improving water efficiency
Companies with products that allow customers to reduce their water consumption without loss in productivity, i.e., by reducing wastage or fixing leakages. Centre pivot and drip irrigation can result in significant water improvements—with centre pivot irrigation technology enhancing water efficiency by up to 95%.

3 Enhancing water quality
Companies that help to manage wastewater, often by recovering some of the huge amount of water flushed down drains or toilets, or companies that help to ensure our drinking water is and stays safe for consumption. Case in point: a company that can help manufacturers re-use significant amounts of wastewater in arid regions and help build industrial resilience before hurricane disasters strike.



By targeting these areas, investors can access a potential source of long-term growth at risk levels that have historically been lower than other types of growth stocks. Unlike many other growth areas such as tech innovators, companies in the water segment have tended to offer already well-established and cash-generating business models with strong client relationships that are not easily disrupted, given that the reliance on sufficient and safe drinking water creates high barriers to entry.

Actively Tapping into Innovative Water Opportunities

The Virtus Duff & Phelps Water Fund* aims to invest in companies that actively address water scarcity and quality issues, and helps to improve the sustainability of global water resources. Of course, like all investments, water-related companies carry their own asset-specific, idiosyncratic risks. For that reason, investors should stick to fundamentals and diversify their holdings across companies, regions, and sectors. There are over one hundred companies globally across these categories, offering enough options to construct a diversified portfolio of pure play water holdings.

These characteristics make water-related companies an ideal target for investors looking to incorporate sustainability into their portfolios. However, investors looking to capitalize on this opportunity should move quickly. Infrastructure is at the center of the political agenda in the United States, where the Senate has advanced a sizable infrastructure bill. Europe, China, and other locations are increasing investment, too. This spending has the potential to trigger a flood of projects aimed at replacing old, hazardous lead pipes and upgrading water infrastructure from its current old economy brick-and-mortar state to a more automated, smart, digital, 21st-century iteration.

There is an even more compelling reason for investors to act now. As a society, we are long overdue to address the problem of water access. We know how to solve it; all we need is the will and the capital. Investors can help with both. By stepping up now, investors can reap the potential financial rewards while also driving positive impact in an area where it is needed most.



Learn more about tapping into the value of water by visiting [virtus.com](https://www.virtus.com).

*Effective July 25, 2022, this Fund's name and subadviser has changed.

IMPORTANT RISK CONSIDERATIONS

Market Volatility: The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Water-Related Risk:** Because the portfolio focuses its investments in water-related companies, it is particularly affected by events or factors relating to this sector, which may increase risk and volatility. **Focused Investments:** To the extent the portfolio focuses its investments on a limited number of issuers, sectors, industries or geographic regions, it may be subject to increased risk and volatility. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Sustainable Investing:** Because the portfolio focuses on investments in companies that the Manager believes exhibit strong environmental, social, and corporate governance records, the portfolio's universe of investments may be smaller than that of other portfolios and broad equity benchmark indices.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial representative, call 800-243-4361, or visit [virtus.com](https://www.virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus investment Partners, Inc.

5989 7-22 © Virtus Mutual Funds