



Water: A new investment ambition



Rob Lambert
Senior Corporate Analyst

Marketing Communication

Published August 2022

“Daily demand for water in England and Wales is approximately 14bn litres (three billion gallons) but each day, 3bn litres is lost through leakage (National Audit Office)”

With temperatures at record levels this summer, nearly half the UK and EU have declared drought conditions. With water utilities struggling to meet demand, we ask Robert Lambert, Senior Corporate Analyst, what the industry should do to help investors.

Q. The issue of water is in the spotlight at the moment, considering the shortages that are occurring in different parts of Europe. What kind of company can help make water supplies more constant and abundant?

Robert Lambert: In terms of the most impactful, it is difficult to look past the national and international water utilities. They are remunerated (or penalised) according to achieving good quality water supply, sanitation and drainage services. In terms of where the greatest impact on water supplies can be made in the short term it is most likely to be from reducing leakages. Daily demand for water in England and Wales is approximately 14bn liters (three billion gallons) but each day, 3bn litres is lost through leakage (National Audit Office). This is amongst the highest in the developed world but is primarily due to the state of the infrastructure – England has 347,000km of water pipes which date back to the 19th Century.

Improving leakages has to be a priority for water companies with a requirement for more capital investment and higher penalties for missing leakage targets. Fresh water is a scarce resource so to make it more abundant, water companies will also have to look at new reservoirs and desalination plants. However, reservoirs are expensive and planning permission takes a long time given the impact on local biodiversity. The last new reservoir in the UK was built in 1992 (at Carsington in Derbyshire). Since then, the UK population has increased by more than 10 million people! Desalination – converting salt water to drinking water – is another solution, however can be energy intensive, which is prohibitively expensive currently in most of Europe given reduced gas flows from Russia and the drought’s impact on hydro generation, power generation (inability to cool generators from the river) and fuel transport for power stations.

Q: Water shortages are closely linked with climate issues, which have become increasingly part of the political agenda. Looking to the near future, do you expect more commitments from governments and companies in this regard?

Robert Lambert: It is certainly topical as we are currently in the midst of one of the worst droughts in living memory, with 44% of the EU and UK under drought conditions, which is measured in terms of soil moisture deficit in combination with vegetation stress. This has seen crop yields fall from an already negative level and lower levels of energy production from run-of-river plants and hydro power, a cause for concern at a time when energy prices are soaring. This in turn is adding fuel to the inflationary environment which is currently weighing on Europe. Governments will face pressure to increase drought mitigation strategies and ultimately the root cause of the problem: climate change and its disruption of the planet's water cycle. While governments have been improving their targets for emissions I think there is also a need for governments and companies to commit further capital to preventively adapt to the changing weather patterns by climate-proofing energy supply and applying sustainable solutions in agriculture.

Q: As investor, how do you encourage companies to become more involved in reducing emissions? Can you mention any specific examples?

Robert Lambert: At a simple level through engagement or divestment. When companies are coming to market with primary issuance we are able to assess their ambition in reducing emissions and communicate if we think they could be more aggressive. If we are already holders, we can assess their progress against targets and peers. We in fact divested an European water utility from one of our funds after a call with management where we felt their targets for renewables lacked ambition (target was only 50% renewables by 2030) and despite pushback there was no commitment to improve on this.

“This has seen crop yields fall from an already negative level and lower levels of energy production from run-of-river plants and hydro power, a cause for concern at a time when energy prices are soaring.”



This document may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (the ManCo), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany and Italy, the ManCo is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by BlueBay Asset Management LLP (BBAM LLP), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and is a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In United States, by BlueBay Asset Management USA LLC which is registered with the SEC and the NFA. In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts of the registered office of the Swiss representative shall have jurisdiction pertaining to claims in connection with the distribution of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), where applicable, the Articles of Incorporation and any other documents required, such as the Annual or Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Australia, BlueBay is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, BBAM LLP is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits BBAM LLP to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. The BlueBay group entities noted above are collectively referred to as “BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of BlueBay by the respective licensing or registering authorities. To the best of BlueBay’s knowledge and belief this document is true and accurate at the date hereof. BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. The document is intended only for “professional clients” and “eligible counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”)) or in the US by “accredited investors” (as defined in the Securities Act of 1933) or “qualified purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer. No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of BlueBay. Copyright 2022 © BlueBay, is a wholly-owned subsidiary of RBC and BBAM LLP may be considered to be related and/or connected to RBC and its other affiliates. ® Registered trademark of RBC. RBC GAM is a trademark of RBC. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. BlueBay Asset Management LLP, registered office 77 Grosvenor Street, London W1K 3JR, partnership registered in England and Wales number OC370085. The term partner refers to a member of the LLP or a BlueBay employee with equivalent standing. Details of members of the BlueBay Group and further important terms which this message is subject to can be obtained at www.bluebay.com. All rights reserved.

Published August 2022



RBC BlueBay
Asset Management