

Water Investing – Always Good, Getting Better

Large Industry Undergoing Dynamic Change: The Water Industry is one of the three largest industries in the world (along with Oil & Gas and Electricity) in terms of assets deployed; however, it continues to not be well understood by investors.

- The Summit Water Universe is currently about 200 companies with mostly water-related revenues. This global group represents total market cap of ~\$400 Billion.
- The number of people served globally by investor owned water companies is expected to rise 500% over the next 10 years. – *Lehman*
- U.S. water utilities currently have the lowest percentage of investor ownership of all domestic utilities, but municipal ownership is steadily declining as privatization and consolidation advances.

Fixed Supply, Exploding Demand: The supply of fresh water on our planet is no larger today than it was when humans first walked the Earth: There are now more than six billion people globally competing for this finite resource, which is becoming increasingly scarce by means of pollution of sources.

- Available fresh water is well less than 1% of all water on earth: Amazingly, actual the usable/accessible water supply is less than 1/100th of this already minute amount.
- Running water is available to only 20% of the world's population. Major health problems persist in part due to the fact that 50% utilize unclean water and have no basic sanitary facilities.
- A third of all nations are suffering from water stress. Since 1950 world population doubled but water use tripled: Technological advancements have yet to reduce human dependence on water.

Special Features Of Water Stocks: When compared to any other industry, water has a more obvious and compelling business model with the most persistent demand and probably the most predictable future.

- There is no substitute for water and users cannot postpone purchases; price-inelastic demand.
- Conveyance system creates a natural monopoly with huge barriers to entry.
- Demand is unaffected by inflation, recession, interest rates, changing preferences, or inventory loss.
- A history of strong and consistent growth under all market or economic conditions (see graph).
- Price does not yet reflect real economic value: Huge room/need exists for asset price expansion.

Privatization And Consolidation Gains Momentum: Dilapidated water infrastructure is a key driver forcing a shift toward privatization and consolidation in many facets of the water industry in the U.S.

- Municipal operators often do not have the resources to maintain their water systems up to regulatory standards. Politicians and regulators want to “get rid” of the problem that nobody wants to pay for.
- Need to reduce municipal burden encourages water systems to privatize at values favoring the buyer.
- Companies involved see good revenue growth within a slower-growing market, and pricing allows attractive returns on capital to the buyer; all while significant cash flow streams are created.
- Water “roll-up” offers growing economies of scale and enhanced prospects of return for investors.

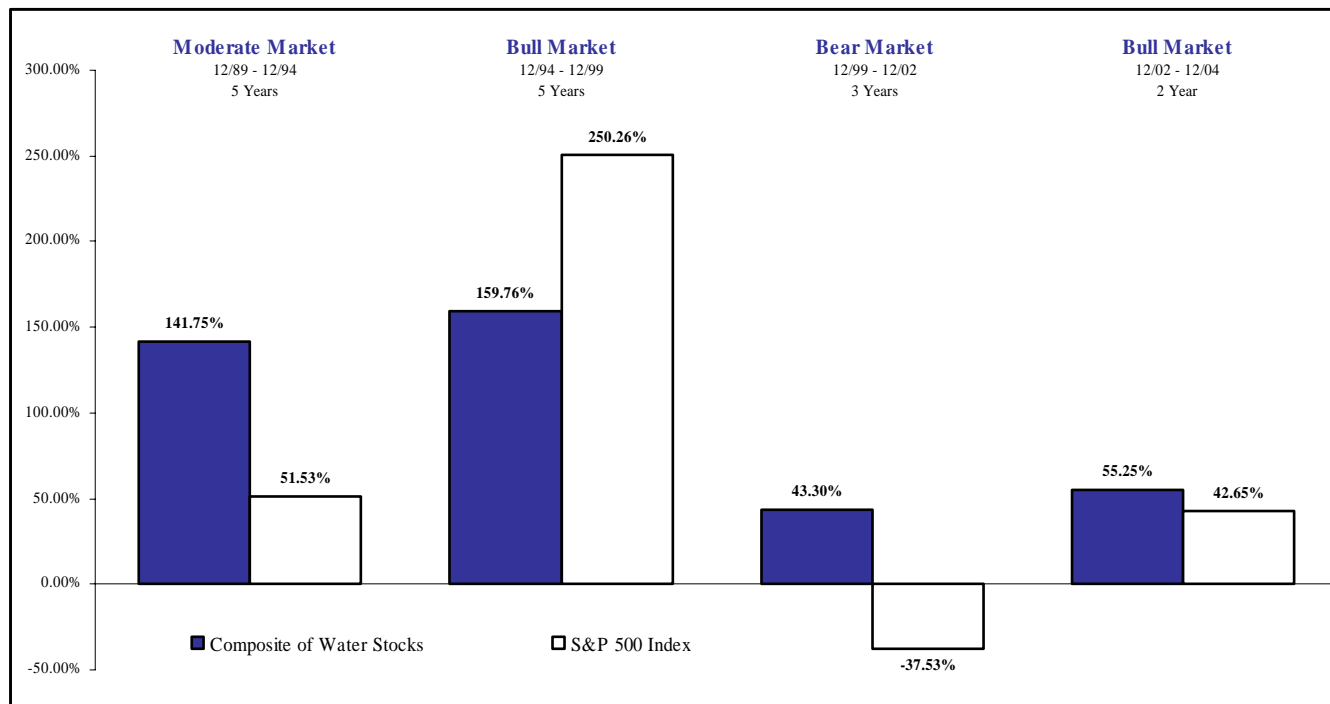
Water Problems in China are Creating a New Opportunity: While markets have avidly bid most "China plays" to premiums, little attention has been paid to the most basic and compelling requirement for the sustained growth of the Chinese economy: Adequate water and sanitation facilities.

- China's per capita water reserves are only about 1/4 the global average, and are only slightly above the water assets of India. Of the 669 cities in the country, 440 suffer water shortages, and 110 of these cities are considered to have reached the critical level
- Companies that can help solve the massive water problems in China are looking at strong demand for years to come.

Key Investment Drivers:

- Consolidation and privatization in the U.S.
- Dilapidated infrastructure in much of the industrial world.
- Lack of basic water services in much of the developing world.
- Water-related world health crisis creates strong demand for companies that can provide solutions.

Water Stocks vs. S&P 500: Year-End Periods 1989 - 2004



Composite of Water Stocks Consists of:

- 18 Water-Related Equities: 6 Utilities & 12 Industrials
- Unmanaged, Equally-Weighted at Inception, 12/31/89
- All Returns are Total Returns(reinvested dividends)

Contact:

John I. Dickerson
 Summit Global Management, Inc.
 Tel: (858)546-1777 x 13
 Email: jdickerson@summitglobal.com

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

This document is a sample representation only and Summit Global Management is in no way guaranteeing that these results can be achieved in the future. This randomly selected group of stocks was picked from a universe of about 200 companies comprising the water space. The main criteria was that all companies used in this representation had to publicly traded from 12/31/89 through 12/31/04. Many of the 200 stocks in the universe went public after 1989, furthermore there has been a significant amount of merger and acquisition activity that has occurred in this space in the last 14 years. None of those particular companies were used. All performance information was compiled using Bloomberg Analytics.

Total Period Return 12/89 - 12/04

