

April 30, 2020

**Water Opportunities Separately Managed Account Program (WO SMAP)
Market Update**

After many discussions with, Water Asset Management, sub-adviser to ELCO's Water Opportunities SMAP, and our own industry observations, we wanted to communicate our thoughts regarding your investment in the program. The portfolio has benefitted from the defensive nature of the regulated water utilities and the essential infrastructure and services these companies provide. However, there are other fundamental reasons to be positive on the space including the fragmented nature of the U.S. water municipalities, a growing number of states adopting fair market valuations for acquisitions, and the industry's thematic "ESG" characteristics.

Over 85% of the U.S. population is served by municipal water systems. For example, Palm Beach County has over 30 separate water municipalities within its county limits. Across the country, many local officials have already decided to sell their systems to publicly traded water utilities. These systems can be costly for local governments to maintain and upgrade so monetization becomes an attractive option. We could argue that this can accelerate as we anticipate many municipalities will struggle balancing budgets due to lost tax revenue associated with the Covid-19 crisis. This roll up theme was a key component to our initial investment thesis in the water space and it is even stronger today. Additionally, a growing number of states have adopted Fair Market Valuation legislation that allows investor owned water utilities to purchase these municipal systems without incurring meaningful goodwill. This seeks to address the wide gap between what municipalities have traditionally looked to sell their systems for, and what prospective buyers have been willing to pay; industry insiders agree that more transactions are expected to emerge as a result. The passage of this legislation highlights the fact that the regulatory environment in many states is becoming increasingly supportive of privatization.

Thematically, the industry's ESG (environmental, social, and governance) characteristics have never been stronger. We argue that this has positively impacted fund flows into these equities driving some positions in the portfolio to all-time highs pre Covid-19 crisis. Notably, of the top 15 ESG rated funds, American Water Works represents a large portion of each fund's exposure. As noted in the World Economic Forum's annual Global Risks Report for 2019, a water crisis has been included in the top five global risks in terms of impact for the past four consecutive years. This portfolio owns companies that are helping to address these issues.

We believe this essential service industry should be a key allocation for investors especially with its outlook for growth through acquisitions combined with fair market valuation. Importantly, we see very little technological disruption to the water utility industry for the foreseeable future. In fact, this portfolio owns the disruptors which are

focusing on enhanced infrastructure for clean water distribution and reliability, as well as waste water solutions and enhancements.

We hope all of you and your families are healthy and we remain hopeful the social distancing efforts and innovations in the medical field to treat COVID-19 continues to improve. Please feel free to contact us with any questions or concerns.

If you have any questions, please feel free to contact us directly.

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