



S&P Global Water Index

On the surface, investing in water should be relatively straightforward. But the choices for investors continue to grow through expansion of index-based products, including listed instruments, such as exchange-traded funds. It is becoming critical to investigate specific index methodologies to analyse which products best meet a particular thematic investment objective

Investment in water can be via individual stocks, indices or exchange-traded funds (ETFs). These last two often include water but also include exposure to infrastructure assets and utilities. Increasingly, investors can target specific products as a pure water industry play.

Conservation of water as an economic resource – fresh and salt water ecosystems – as well as drinking and bathwater is a cornerstone of environmental preservation across regions. Stakes are of consequence and issues cross national boundaries; hence, performance of listed water-related securities is in view.

The S&P Global Water Index is comprised of 50 of the largest publicly traded companies in water-related businesses that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global water industry, from both developed markets and emerging markets.

To create diversified exposure across the global water market, the 50 constituents are distributed equally between two distinct clusters of water related businesses: Water Utilities & Infrastructure and Water Equipment & Materials.

The S&P Global Water Index belongs to the S&P Global Thematic Indices. This series offers liquid exposure to

emerging investment themes. Other indices in this series are the S&P Emerging Markets Infrastructure Index, the S&P Global Alternative Energy Index, the S&P Global Clean Energy Index, the S&P Global Infrastructure Index, the S&P Global Nuclear Energy Index, and the S&P Global Timber & Forestry Index.

Index eligibility

The universe, from which the S&P Global Water Index is drawn, is all publicly listed companies in Standard & Poor's CapitalIQ (CIQ) database with the term "water" in their business description. All of these are, then, reviewed to get further detail on their business and industry, and are classified as follows:

Set name	Description	Exposure score
Primary	Primary business is water	1
Secondary	Multi-industry with significant water exposure	0.5
Eliminated	Marginal water exposure	0

Companies with an exposure score of 1.0 or 0.5 become the universe for the S&P Global Water Index.

S&P Global Water Index

Designed to provide liquid exposure to companies in the emerging investment theme of water

30 June 2007

Portfolio characteristics

Number of companies	49
Number of countries	14
Adjusted market cap (\$bn)	252.85
Company size (adjusted \$bn)	
Average	5.16
Largest	73.48
Smallest	0.18
Median	1.72
% weight largest company	10.02
Top 10 holdings (% index weight)	54.72

Index performance

	S&P Global Water Index	S&P Global 1200	S&P Global Utilities Index
Returns (%)			
1 month	-0.10	-0.41	-2.40
3 month	8.53	7.33	4.47
YTD	12.37	9.86	11.14
Returns (% pa)			
1 year	35.83	25.17	36.30
3 years	30.71	17.66	28.74
5 years	23.44	14.62	20.40
Risk (% pa)			
3 years std dev	10.44	7.82	7.88
5 years std dev	13.81	12.00	12.67
Sharpe ratio			
3 years	0.6575	0.4758	0.8052
5 years	0.4071	0.2814	0.3831



Eligibility factors

The universe is, then, narrowed down to an investable set of stocks based on the following criteria:

- ❑ **Market capitalisation.** Stocks must have a total market capitalisation above a market capitalisation threshold as of the reference date of each year. The market capitalisation threshold is currently \$250 million.
- ❑ **Liquidity.** Stocks must have three-month average daily trading volume above a liquidity threshold as of the reference date of each year. The liquidity threshold is currently 10,000 shares.

- ❑ **Listing venues.** The stock must be trading on a developed market exchange. Emerging market stocks are considered only if they have a developed market listing.

Stocks passing these criteria form the investable universe.

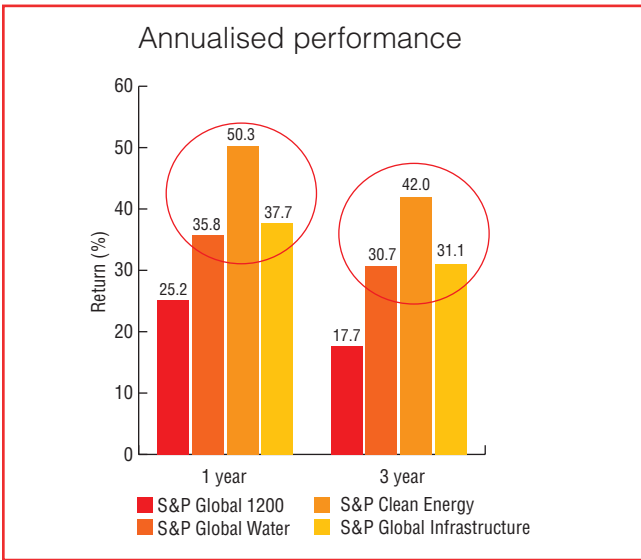
There are two steps in the creation of the index. The first is the selection of the 50 companies; the second is the weighting of the index constituents. The selection of index constituents is done as follows:

1. All stocks in the investable universe are classified as being in one of the two clusters: Water Equipment Instruments & Materials or Water Utilities & Infrastructure defined as follows:

Water Equipment & Materials	Water Utilities & Infrastructure
Water Treatment Chemicals	Water Supply
Water Treatment Appliances	Water Utilities
Pumps & Pumping Equipment	Waste Water Treatment
Plumbing Equipment	Water Purification
Plumbing Pipes	Water Well Drilling
Fluid Power Pumps & Motors	Water Testing
Totalising Fluid Meters & Counting Devices	Water, Sewer & Pipeline Construction

2. The 25 largest companies with exposure scores of 1 from each of the two clusters are, then, selected.

In the event of fewer than 25 qualifying stocks in either of the two clusters with an exposure score of 1, the largest companies from within the respective cluster with an exposure score of 0.5 are added until the count reaches 25.



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