One concern, several risk profiles

René Nicolodi, Head of Equities & Themes in Asset Management at Zürcher Kantonalbank.

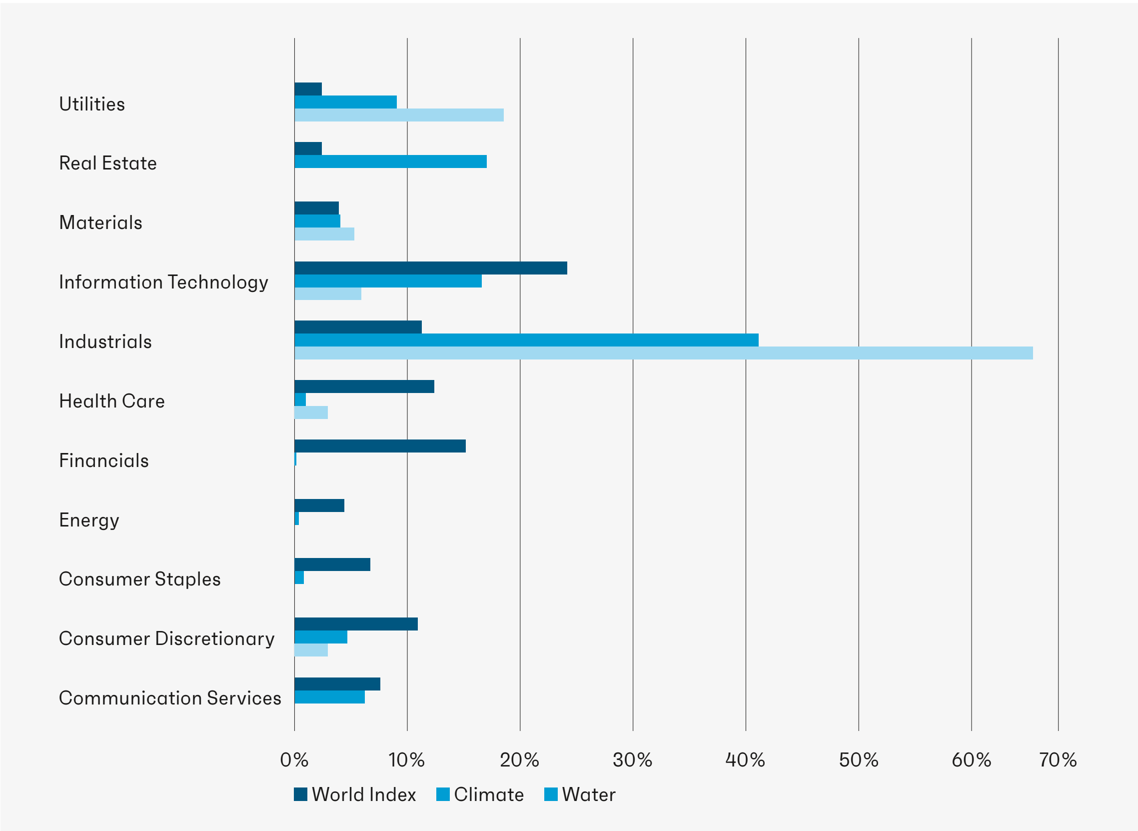
While the demand for water is increasing, the precious liquid is increasingly being lost due to global warming. In Europe, annual losses due to drought amount to EUR 9 billion. For companies and investors alike, safeguarding this resource presents opportunities through the lens of water and through the lens of climate.

A key difference between a focus on water and a focus on climate with regard to the risk-return profile is the substitutability: water is not interchangeable, whereas fossil fuels could be replaced. Furthermore, water companies are hardly threatened by technological disruption, as their technologies have been established and functioning for decades. In addition, there is often strong customer loyalty, which represents a high barrier to entry. Climate protection technologies, on the other hand, often differ only slightly and are experiencing enormous growth in demand, but also high price pressure. Due to their interchangeability, there are hardly any barriers to market entry. The expected growth rates up to 2030 also differ: the water market is forecast to grow by around 4%, while the decarbonization market is expected to grow by a good 9%.

This results in different risk profiles for investors. Water funds are less risky, but offer high barriers to entry, while climate funds can benefit from a high risk and high return profile.

Whether you are a risk-taker or a conservative investor, thematic funds around climate and water funds offer exciting alternatives in the area of sustainability.

The different sector allocation of the Climate and Water theme funds compared to a global equity index.



Scan to see more