

PRESENTATION: Water Asset Management, LLC

Speaker: Mr. Marc Robert

Meeting Participants:

1. Garry Gordon – Investment business
 2. Jack Fattal – Attorney, specialized in litigation
 3. Laureen Greenbaum – Philanthropist
 4. Jack Lubin – Owner of a registry company
 5. Joel Marcus – Attorney & Partner at a Manhattan law firm
 6. Reed Moscovitz
 7. Rebecca Olshan – Attorney, specialized in landlord tenant law
 8. Dennis Shasha – Professor at NYU
 9. Ed Spilka – Private investor
 10. Annie - Financial investor, with a specialization in everything that carries the water (ie. pipes/ buried assets)
 11. David Kaplan – Structured Finance/ Mortgage backed securities
 12. Joseph Gantz – Private equity investor
 13. Robert Pollack, Attorney & Partner at a Manhattan law firm
 14. Jordan Shasha – High school senior and college candidate
 15. Mike Glik – Real estate developer
 16. Robert Shasha – Real estate developer, mainly deals in shopping centers
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Notes:

1. Presentation concerns **private equity investment in water resources**.
2. We're in the **bulk water business**, not retail.
3. Water is a much bigger industry than what people realize.
4. Water industry is divided into **two (2) parts**:
 - a. **Physical water itself** (You are buying a defined asset).
 - b. **Systems that deliver water**
 - i. America has among the worst water infrastructure systems in the developed world. On the same level as certain Euro-Mediterranean countries.

5. Two doctrines divide water rules between Eastern and Western States:
 - a. **Eastern States follow English common law doctrines**, which allow for absolute ownership of water underlying a piece of ground, without regard for how a landowner's withdrawals affect neighbors. For surface waters, the English common law doctrine mandated that a landowner's withdrawals could not alter the natural flow of the stream, this limiting the economic use of that stream.
 - b. **Western States follow Spanish law**. In these States, the allocation of surface and groundwater supplies typically occurs based on the "appropriative rights" system. This system is mostly described as a "first time, first in right" system of water allocation.

This becomes relevant when analyzing opportunities from a regulatory point of view.

6. **Water is very "situational specific"**. For example, the fact that you do not have a lot of water in Israel does not affect the US. Global supply can't compete away your pricing. It's unlike any other commodity! Pricing for water is durable.

7. **We are focused on the water opportunity and lending more incentives.**

Of course, the system is perverse. Because western law provides that you need to use water, you cannot just sit on it. So there is an incentive for Western States to become more efficient. There is, however, no incentive for the Eastern States to be more efficient.

8. **There is no exploration uncertainty or risk.**

We do not purchase an area without knowing that there is water there already. Moreover, we ensure that water has been used in a conservative manner in the last 20-25 years.

9. **70-75% of assets we are buying are farm land.**

We provide capital to farm cooperatives where they have share irrigation network. We also create water delivery systems.

Example: We treated waste water in Arizona – and we have been able to remarket it as water for future development.

Question I. How are transportation issues between States solved?

The solution is to swap water. (ie. You take my water down to you because I'm north of you).

It doesn't matter what kind of water you are dealing with (ie. level of purity). All that matters is the progression.

You need a fair amount of **deal tension** between potential buyers to generate returns.

10. Water Asset Management is assisted by influential water executives who help evaluate and source deals.

Different factors considered determining best farm land to purchase. For example, a particular plot of land would be rendered more attractive if there's a large goldmine nearby. After all, you need water to exploit mines.

The focus has also been on certain energy industries. As Arizona is the largest state for geothermal production, lots of water is needed here.

11. Water Asset Management has only a handful of competitors.

Competitors include Summit & Aqua Capital among others.

12. Water industry asset management companies are in an enviable position.

Two great customer types – Municipalities & environmental users.

Municipalities know the value of water but they don't have the resources. Engineers know how to deal with water but they're not in the business of selling water resources. So the water industry asset management market is a relatively underserved market.

Environmental users are not self-sufficient either. They include fishing game companies, nature conservancies, endangered species protection foundations, etc.

Question II: Isn't there a risk of government interference or of it executing eminent domain on the land purchased?

There is always a risk. However, the good news is that the government has to pay you for the best available use of your water.

You must also consider that you're part of the solution. We're a positive force as far as the government is concerned.

Example: We provided capital to a municipality in Arizona for it to fix water leakages among other things. Without our money, the municipality would not have had the money to build the necessary recharge facility.

The other good news is that there is no federal pricing strategy.

Question III: What is the biggest risk in these deals?

Overpaying for the land and not having enough interested buyers. But the firm makes sure to make educated business decisions and avoids overpaying for land.

Owning farm land without knowing what your farm rights are is also risky. But this is also something the firm looks into prior to making a proposal.

Question IV: What is an example of a worst case scenario?

A deal was signed by a University endowment. They purchased a body of water in Colorado having ignored issues concerning local politics. They even contributed to their own demise by having laws written against the export of water. However, they still broke even by selling the resources to a water conservancy.

Working local politics is a very important part of this business.