



July 21, 2017

**Water Opportunities Separately Managed Account Program (FS SMAP)
June 2017 Update**

The Water Opportunities Separately Managed Account Program continued to perform positively in the second quarter ended June 30, 2017.

We believe increased domestic regulatory scrutiny stemming from the tragic failing water infrastructure in Flint Michigan along with numerous other water reliability disruptions has created a significant opportunity for increased capital spending and consolidation among municipal water utilities. Globally, water utilities are benefitting from population growth, urbanization, and industrialization. An estimated \$900 billion in capital spending is needed in the next decade driven by deteriorating water infrastructure, increasingly stringent water quality regulations, demand from growing urbanization and the need for efficiency. In our opinion, these factors coupled with growing awareness of the significant long term scarcity trends in water make for a compelling rationale to invest now. Municipalities and utilities are now on the radar screen of homeowners and politicians. Unlike other sectors, subject to disruption, we see our “space” outperforming due to long term positive visibility.

For this quarter, we would like to highlight Xylem, Inc. as it is one of our largest positions:

Xylem (XYL) is a leading global water technology company committed to developing innovative technology solutions to the world’s water challenges. The Company’s products and services move, treat, analyze, monitor and return water to the environment in public utility, industrial, residential and commercial building services, and agricultural settings. We believe Xylem can achieve above average growth through its diverse product offering and broad geographic markets. The company’s product penetration in the public utility will be most interesting to watch as the recent acquisition of Sensus, a global leader in metering, provides additional exposure to this market.

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

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