

# Water Asset Management, LLC

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This Brochure provides information about the qualifications and business practices of Water Asset Management, LLC [“ADVISER”]. If you have any questions about the contents of this Brochure, please contact us at 212-754-5132. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Water Asset Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provides you with information about which you determine to hire or retain an Adviser.

Additional information about Water Asset Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. As of the date of this brochure, there have been no material changes. The date of our last annual update of our brochure was March 31, 2011.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Marc Robert, COO at 212-754-5132 or [m.robert@waterinv.com](mailto:m.robert@waterinv.com).

Additional information about Water Asset Management, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Water Asset Management, LLC who are registered, or are required to be registered, as investment adviser representatives of Water Asset Management, LLC.

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients .....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9 – Disciplinary Information.....	6
Item 10 – Other Financial Industry Activities and Affiliations .....	6
Item 11 – Code of Ethics .....	6
Item 12 – Brokerage Practices.....	7
Item 13 – Review of Accounts.....	8
Item 14 – <i>Client</i> Referrals and Other Compensation.....	8
Item 15 – Custody.....	9
Item 16 – Investment Discretion .....	9
Item 17 – Voting <i>Client</i> Securities .....	9
Item 18 – Financial Information .....	10

## **Item 4 – Advisory Business**

### **4 (A) Advisory Business Descriptions**

Water Asset Management, LLC is the investment advisor for various investment funds which were created to take advantage of global investment opportunities in the growing water, wastewater and water-related industries. Many people in industrialized countries take water and its availability for granted, and as such water companies have long been considered to be among the most conservative of investments. However, the worldwide water industry is experiencing changes driven by rising demand while supply is being constrained by overuse, changing weather patterns and pollution. These factors have led to an increasing scarcity of inexpensive water supply alternatives. The firm believes that such supply concerns will yield significant capital investment opportunities. Furthermore the firm anticipates unprecedented water quality treatment and monitoring requirements will prompt significant technological change. Hundreds of billions of dollars of capital expenditures in the United States, with similar expenditures worldwide, will be required over the next several decades in order to build new, or replace existing, water and wastewater systems and infrastructure. Water Asset Management, LLC believes that these factors and others are producing an unprecedented period of transformation in the industry in which a limited number of water companies will thrive and a select number of water assets will prosper, offering investors the ability to realize substantial capital appreciation as well as sustainable long term income, with relatively low levels of risk and volatility.

Water Asset Management, LLC has been in business since January 2006.

The principal owners are:

#### **Matthew J. Diserio**

President of the General Partner and the Managing Member and is chiefly responsible for the Fund's public investment portfolio. He has been active in the securities and hedge fund management business since 1982. In 1996, Mr. Diserio founded Diserio Capital Management, LLC, a long/short U.S. equity, value oriented investment partnership. From 1994 to 1996, Mr. Diserio was a general partner and portfolio manager with Water Street Capital. From 1990 to 1994 he was a First Vice President and special situations senior analyst in the equity research division of Paine Webber, Inc. Mr. Diserio holds a Bachelor of Arts degree from Bowdoin College.

#### **Disque D. Deane, Jr.**

Originated the investment strategy of the Fund and is the Chief Investment Officer of the General Partner and the Managing Member. He is primarily responsible for the private equity and water resources investments. Mr. Deane has approximately 15 years' experience in the water industry and more than 20 years' experience in securities

investments. He has worked for, partnered with, and invested in, a number of niche players in the water sector and has developed an extensive and diverse network of industry contacts as well as a unique understanding of the sector's character, challenges, risks and opportunities. In 2001, he co-founded Western Development and Storage, a water rights development company, which in 2002 formed Layne Water Development and Storage, a joint venture with the Layne Christensen Corporation, a Nasdaq-listed water drilling and mining concern. Mr. Deane served as President of the joint venture until December 2003, when the interest of Western Development and Storage was acquired by Layne Christensen Corporation. Mr. Deane holds a Bachelor of Science degree from Duke University and an MBA from I.N.S.E.A.D.

#### 4 (B) Advisory Services Offered

Water Asset Management provides advisory services through limited partnership interests in various Funds investing solely in water, wastewater and water-related companies. Such companies include regulated water utility companies that collect, treat and distribute water to consumers and manage wastewater processing systems; unregulated water management companies that manage portions of utilities on a turn-key basis; industrial companies that manufacture pumps, pipes, valves, filters, meters, membranes, irrigation systems and other water-related instruments and devices; engineering and construction companies that design and construct various elements of water and wastewater systems; treatment and measurement businesses that are at the forefront of developing industry disruptive technologies to monitor conserve and purify water.

The main Fund advised by Water Asset Management is a global "long/short" fund investing in equities of approximately 260 water companies that are publicly-traded in markets throughout the world, including the United States, Canada, South America, Europe and Asia. The Fund provides limited partners an opportunity to invest up to 10% of their investment in private equity water investments.

Water Asset Management is also advisor to various private equity investment vehicles which seek opportunities in select water assets in the United States. These water assets consist of water resources, such as water rights, water rich agriculture properties and U.S. water utility assets.

#### 4 (C) Advisory Service Exceptions

Water Asset Management provides investors in the long/short equity fund the option to "opt out" of private equity illiquid side pocket investments. Other clients establishing managed accounts can impose investment restrictions on specific securities and/or security types (i.e. derivatives, precluded markets, etc.).

#### 4 (D) Wrap Fee Program

Water Asset Management does not participate in wrap fee programs.

#### 4 (E) Managed client assets

The total assets managed by Water Asset Management as of February 29, 2011 is \$316million. These assets are managed on a discretionary basis. Water Asset Management does not manage assets on a non-discretionary basis.

### **Item 5 – Fees and Compensation**

#### Basic Fee Schedule

The specific manner in which fees are charged by Water Asset Management is established in the funds offering memorandum provided to each investor prior to subscribing to the fund. Water Asset Management is paid management fees quarterly in advance, 0.5% (2% per annum) of net asset value as of the end of the preceding calendar quarter (calculated prior to any withdrawals on such date). The quarterly management fees are deducted from the clients' assets. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.

Water Asset Management's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party service providers and other fees such as custodial fees; wire transfer and electronic fund fees and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Water Asset Management's fee, and Water Asset Management's shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Water Asset Management's considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

The General Partner, Water Investment Advisors (Cayman), Ltd, an affiliate of Water Asset Management, LLC, charges an annual performance allocations from each Class A Fund Limited Partner equal in the aggregate to 20% of the net profits of the Fund allocable to such Class A Fund Limited Partner for the year in question over and above any unrecouped losses from prior years. The performance allocations will be given effect for each year that

the cumulative net profits allocated to such Class A Fund Limited Partner through the end of that year exceeds the “High Watermark”. For these purposes, “net profits” and “cumulative net profits” include both realized and unrealized net profits.

## **Item 7 – Types of Clients**

Water Asset Management LLC provides portfolio management services to high net worth individuals, charitable institutions, private investment funds, and sovereign funds, foreign funds such as UCITs and SICAVs and corporations.

The minimum investment commitment required of a limited partner, member or other investor is as follows:

- TRF Master Fund (Cayman), LP \$1.0 million
- U.S. Water and Land Investment, LP \$1.0 million
- USA Water Services, LLC \$1.0 million

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Water Asset Management investment strategy is focused on generating non correlated net positive returns by investing exclusively in companies involved in the global water industry. The Firm has focused on this investment strategy because historically water equities have generated greater positive returns than the S&P 500 over the last 15 years with roughly comparable volatility. Water Asset Management believes the current supply / demand dynamics that exist in the water industry have created an inflection point of positive fundamentals for the companies that participate in certain sub sectors in the water industry that should support comparable, if not meaningfully better, returns for water equities. A positive pricing environment for the products and services delivered by companies operating in the industry exists today, and is likely to remain for the foreseeable future. The industry can best be characterized as one of defensive growth.

The Fund uses its in house industry expertise as well as its unique access to a broad range of industry contacts within the various sub sectors of the water industry including: water utilities; treatment equipment manufacturers; test and measurement equipment manufacturers; infrastructure and equipment service providers; and water resource and water storage development companies. This expertise and industry access enables the fund to prioritize its investment strategy among the industry sub sectors with unique value added insight.

The vast majority of the Fund's investing is in publicly traded equities of established companies in established markets around the world. The scale of the water opportunity set in global equity markets is substantial, with more than \$450 Billion US dollars of market capitalization spread amongst 260 companies.

The Fund spends a considerable amount of time and resources analyzing the various thematic characteristics of the above described industry sub sectors and searching for specific companies within those sub sectors that are trading at attractive valuations with unrecognized earnings potential, new products, and/or events associated. Short sales are a product of the same analytical process. The water sector is characterized by a high degree of dispersion of investment returns which provides an opportunity for both long and short stock selection. The point of departure for short investment begins with the similar thematic sub sector evaluation. Short candidates are further evaluated based on a variety of criteria including; changes in valuation, competitive threats, cyclical pressures, strategic missteps, raw material inputs, managerial changes, asset values, and operating environments.

The investment process to determine stock selection is the product of a combined effort by Water Asset Management's investment team, including its Board of Advisors, to develop strategic industry insight and financial analysis. Specific investment ideas are analyzed using not only traditional financial valuation metrics, but also water industry standard metrics for both valuation and qualitative analysis; this process highlights discrepancies with public market valuations.

The fundamental research process is both qualitative and quantitative, helping the firm develop a deep fundamental and industrial understanding of the investment opportunity.

The Fund's gross and net exposure, as well as individual position size, is determined primarily by bottom-up stock selection, with a focus on generating excess returns. Returns are the product of longer-term investment decisions rather than an opportunistic short term trading strategy.

"Investing in securities involves risk of loss that clients should be prepared to bear."



## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Water Asset Management, LLC or the integrity of Water Asset Management, LLC's management.

Water Asset Management, LLC has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Water Asset Management, LLC does not have any application pending to register as a broker-dealer, a futures commission merchant, commodity pool operator or commodity trading advisor.

John T. Ablamsky is a Partner in the General Partner. He is a CPA and provides tax consulting and accounting services to hedge funds, broker-dealers, closely held businesses, family offices and high net-worth individuals. This relationship is not a material conflict of interest. John provides tax structuring advice to Water Asset Management, LLC.

## **Item 11 – Code of Ethics**

Water Asset Management, LLC has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Water Asset Management, LLC must acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Water Asset Management, LLC will not interfere with (i) acting in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Water Asset Management, LLC prohibits all employees from investing in all water related securities in the firm's global opportunity set. Under the Code certain classes of securities have been

designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Water Asset Management, LLC's clients. In addition, the Code requires pre-clearance of all security transactions. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Water Asset Management, LLC and its clients.

Multiple client accounts may trade in the same securities on an aggregated basis when consistent with Water Asset Management, LLC's obligation of best execution. In such circumstances, the client accounts will share commission costs equally and receive securities at a total average price. Water Asset Management, LLC will retain records of the trade order (specifying each participating account) and its allocation. All trades are pre-allocated prior to the entry of the aggregated order and execution. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Water Asset Management, LLC's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Marc Robert.

It is Water Asset Management, LLC's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Water Asset Management, LLC will also not cross trades between client accounts. The firm may enter into cross transaction between client accounts but it must be affected for cash consideration at the current market price of the security, based on current sales data relating to transactions of comparable size.

## **Item 12 – Brokerage Practices**

In selecting any broker and in determining the reasonableness of brokerage commissions charged, Water Asset Management, LLC may take into account the fact that a broker has furnished the firm or its affiliates, without charge, with statistical, research or other information or services which may enhance their services generally, whether or not such services are of any benefit to the Fund. Such services may take the form of research services, special execution capabilities, clearance, settlement, net price, on-line pricing, block trading and block positioning capabilities, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, quotation services, referral of prospective investors in the Fund and payment of news wire charges, quotation services and periodical subscription fees.

Accordingly, the client accounts may be deemed to be paying for research and such other services with “soft” or commission dollars. Such “soft dollar” arrangements may be within or outside the “safe harbor” standards contemplated under Section 28(e) of the Securities Exchange Act of 1934. Although the firm believes that the clients will benefit from many of the services obtained with “soft” dollars generated by client trades, the client may not benefit from all of these “soft” dollar services. Water Asset Management, LLC and its affiliates and other funds or accounts which they may manage may also derive substantial direct or indirect benefits from these services, particularly to the extent that any of them uses “soft” or commission dollars to pay for expenses that it would otherwise be required to pay itself.

It should be noted that the investment information received from brokers may be used by the firm or its affiliates in servicing other funds or accounts. The firm believes that such an allocation of brokerage business helps clients to obtain research and execution capabilities and provides other benefits to the clients. Further, the brokerage commissions that the clients will pay to those firms, however, are not expected to differ materially, if at all, from commissions that the client will pay other firms for comparable services. Nevertheless, the relationship with brokerage firms that provide “soft” dollar services to the firm may influence its judgment in allocating brokerage business and create a conflict of interest in using the services of those brokers to execute the client trades.

### **Item 13 – Review of Accounts**

Water Asset Management, LLC reviews client account monthly. Each investor statement is reconciled for beginning and ending capital balances, contributions and redemptions, profit and loss as well as month to date, quarter to date and year to date performance returns. The review is conducted independently by the fund’s administrator and the firm’s Chief Financial Officer.

Investor capital statements are distributed monthly to each investor by the fund’s administrator.

### **Item 14 – *Client Referrals and Other Compensation***

Water Asset Management, LLC may at times enter into a typical arrangement involving a placement agent that introduces a prospective investor to the adviser and in turn receives a

fee if the investor enters into a management agreement or subscribes to the adviser's fund. The Firm and the placement agent will enter into a written agreement describing the placement agent's activities on behalf of the Firm, the compensation paid and other material terms of the agreement. The advisor currently has one such agreement in place. Such introductory relationships are disclosed to investors that have invested as a result of such an introduction.

### **Item 15 – Custody**

Water Asset Management has several pooled investment vehicles and its assets are held in custody with a qualified custodian. The pooled investment vehicles are reconciled monthly by an independent administrator. Investors receive their monthly capital statements directly from the independent administrator. In addition, each of the investment vehicles is audited annually and a copy of this report is distributed to each investor.

### **Item 16 – Investment Discretion**

Water Asset Management usually receives discretionary authority from the client at the outset of an advisory relationship to select the individual security and amount to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Water Asset Management observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to Water Asset Management in writing.

### **Item 17 – Voting *Client* Securities**

Water Asset Management has discretionary authority over the securities held by its pooled investment vehicles and is viewed as having proxy voting authority.

The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities in a manner that serves the best interests of the Clients of the Firm, as determined by the Firm in its discretion, and taking into account relevant factors, including, but not limited to:

- the impact on the value of the securities;
- the anticipated costs and benefits associated with the proposal;
- the effect on liquidity; and
- customary industry and business practices.

Clients may obtain a copy of Water Asset Management's complete proxy voting policies and procedures upon request. Clients may also obtain information from Water Asset Management about Water Asset Management proxy votes on behalf of their account(s).

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Water Asset Management's financial condition. Water Asset Management has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.