

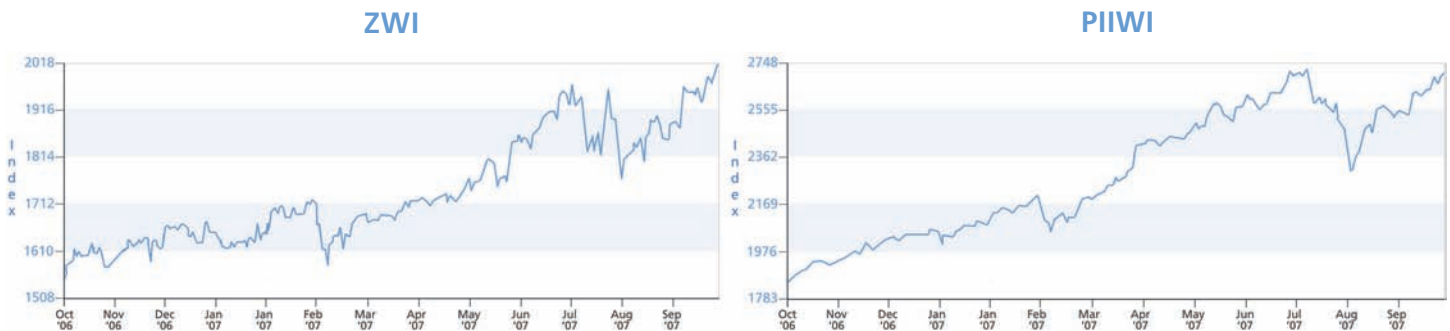
Palisades Water Index Palisades Global Water Index

Q3 2007

Ticker symbol
AMEX: ZWI
AMEX: PIIWI

12 Months Index Value

source: American Stock Exchange



Summary

The Palisades Water Index (ZWI) gained 3.19% in the period July 1 to September 30, 2007 while the Palisades Global Water Index (PIIWI) rose 1.73%. This compares to a 1.56% gain in the S&P 500 and a 3.77% increase in the Nasdaq. For the year-to-date ending September 30, ZWI has advanced 17.66% while the global water index PIIWI is up 28.49%.

This compares favorably to an increase in the S&P of 7.65%, the DJIA at 11.49% and the Nasdaq at 11.85% for the same period. In particular, the comparison to the DJIA is significant in that the water category continues to outperform the broader averages regardless of shifting asset allocations. One of the drivers of the DJIA, outside the confidence generated by the Fed rate cut, is the emphasis on foreign earnings. This global macroeconomic reality is likely to continue to favor the international emphasis of PIIWI, over and above the compelling fundamentals of the water industry domestically.

Trailing Returns

	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
ZWI	17.66%	2.40%	3.19%	15.30%	29.12%	82.62%	171.16%
PIIWI	28.49%	-0.07%	1.73%	19.03%	47.51%	137.87%	320.57%
S&P 500	7.65%	3.58%	1.56%	7.45%	14.29%	36.98%	87.27%
Nasdaq	11.85%	4.05%	3.77%	9.74%	19.62%	42.42%	130.49%

Comments

With respect to the Palisades Water Index (ZWI), positive performance was related to broad-based component gains as opposed to a clear sector-specific trend. The five top performers (see Table on next page) include Layne Christensen (treatment and water supply), Calgon Carbon (treatment), Valmont (irrigation),

Q3 2007 Best and Worst Component Performance

ZWI

Top 5 Companies			Bottom 5 Companies		
Symbol	% Change		Symbol	% Change	
Layne Christensen	LAYN	+35.48%	Insituform	INSU	-30.17%
Calgon Carbon	CCC	+20.09%	Mueller Water	MWA	-27.49%
Itron	ITRI	+19.41%	Watts Water	WTS	-18.28%
Valmont Industries	VMI	+16.75%	Pall Corp	PLL	-15.50%
Ameron Intl	AMN	+16.47%	Pentair	PNR	-13.74%

PIIWI

Top 5 Companies			Bottom 5 Companies		
Symbol	% Change		Symbol	% Change	
Puncak Niago Holding BHD	PNHB.KL	+23.68%	Geberit AG	FCC.MC	-23.80%
Shanghai Municipal	/600649.SH	+20.65%	Watts Water	WTS	-18.28%
KSB Group AG	KSBG.DE	+19.88%	ARCADIS NV	ARDS.AS	-16.15%
Itron	ITRI	+19.41%	Pentair	PNR	-13.74%
Guangdong Investment	/0270.HK	+18.97%	Impregilo Group SpA	eIIPG	-13.31%

Ameron (pipes), and Itron (water resource management). While the top performers fluctuate on a quarterly basis, Layne appears to remain at a favorable valuation with a PEG ratio 0.88, Valmont is expected to continue to benefit from the growth in global irrigation activity and it is believed that Ameron possesses significant inherent leverage in its water pipe business, particularly with respect to its recent Brazilian acquisition. Beyond the top performers in ZWI, the gains were well distributed among all sectors. Weakness in ZWI continues to remain focused

on the negatives associated with the U.S. housing environment (Watts Water and Pentair), and special situations such as the restructuring of Insituform and the transition of Mueller Water to an independent company with lagging operational cost efficiencies.

The Palisades Global Water Index (PIIWI) continues to benefit from the diversified exposure to international water companies. The top performers were concentrated in Asian water utilities while the weakness was confined to U.S. companies experiencing the impact of reduced housing construction and a pullback in several European water components that posted strong gains earlier in the year. The relative outlook for PIIWI going forward

remains extremely attractive.

We indicated in the 2Q Newsletter that the underlying conditions of the U.S. economy pointed to an increase in the probability of recession. And that was before the full extent of the housing crisis was unfolding. Our early belief in a U.S. slowdown was based on a decline in foreign buying of U.S. financial assets. The long expected adjustment of currencies is likely to further weaken foreign buying of U.S. securities. At this juncture it is important to remember all of the Asian buying of U.S. treasuries that kept long term interest rates artificially low and pumped liquidity into the system. Needless to say, it is our opinion that a spoonful of rate cuts is not enough to avert a train wreck in the U.S. housing market and certainly increases the probability of a dollar-decline-driven recession.

In somewhat perverse fashion, a decline in the dollar combined

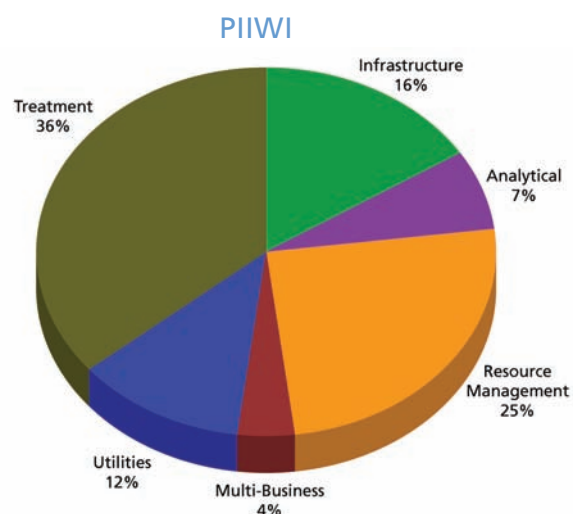
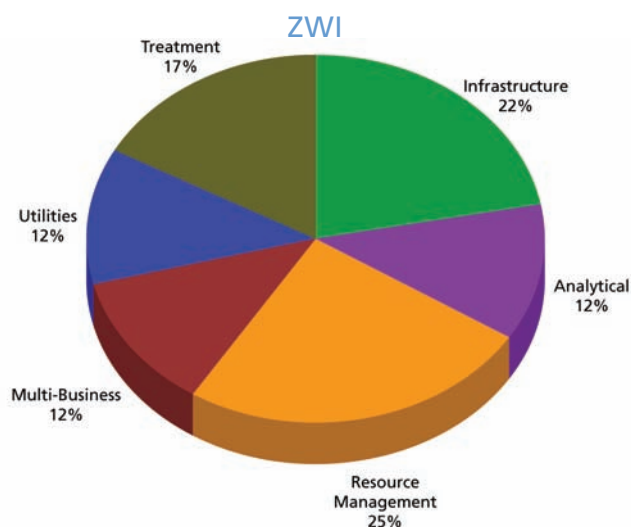
Top Ten Components as of Sept. 28, 2007

ZWI Components

Company Name	Symbol	% Weighting
Aecom Technology	ACM	4.01%
Veolia Environment	VE	3.63%
Lindsay Manufacturing	LNN	3.57%
Nalco Holding	NLC	3.57%
Itron	ITRI	3.52%
URS Corp	URS	3.50%
Pentair	PNR	3.48%
Tetra Tech	TTEK	3.48%
Pall Corp	PLL	3.47%
Calgon Carbon	CCC	3.41%

Sector Weights

as of Oct. 1, 2007



with the decline in foreign investment is inherently inflationary. While one reason, the ability of U.S. manufacturers to raise prices, may be beneficial to earnings in the short term such an outcome would be inflationary. If inflation creeps back into the picture, the Fed is obliged to raise rates and push the U.S. economy into recession; recall a similar situation in 1999 when the Fed had to raise rates after cutting them during the 1998 financial crisis (the U.S. economy subsequently entered a recession in 2001). In short, we see a similar 'lose-lose' scenario unfolding.

Consumer spending has never

declined in absolute terms, even in a recession; spending is simply reallocated. From an investment perspective, the result is a reallocation among asset classes; a factor which we believe will significantly favor water stocks; foreign water stocks in particular. The exportation of weakness in domestic demand is not likely to be highly correlated with expenditures related to the globalization of the water industry.

The BRIC countries are reaping the benefits of development through a rising standard of living (note that China is shifting to an inflationary force). This is driving the rapid expansion of

infrastructure spending, notably in water; higher caloric intake, greater food production, more water-intensive manufacturing, all portend enormous expenditures on the water infrastructure from irrigation, to drinking water to wastewater treatment to water resource management.

Fortunately for investors in water, it is believed that the non-correlation of water as an asset class will become even more evident. The globalization of water favors a more aggressive international posture, suggesting an allocation within the class on the order of roughly 30% to ZWI and 70% to PIIWI.

Contacts

Licensing Opportunities

Elias Azrak
Tel: 310.922.1481
Email: elias@palisadesx.com

Analyst

Steve Hoffmann
Tel: 469.585.4875
Email: steve@palisadesx.com