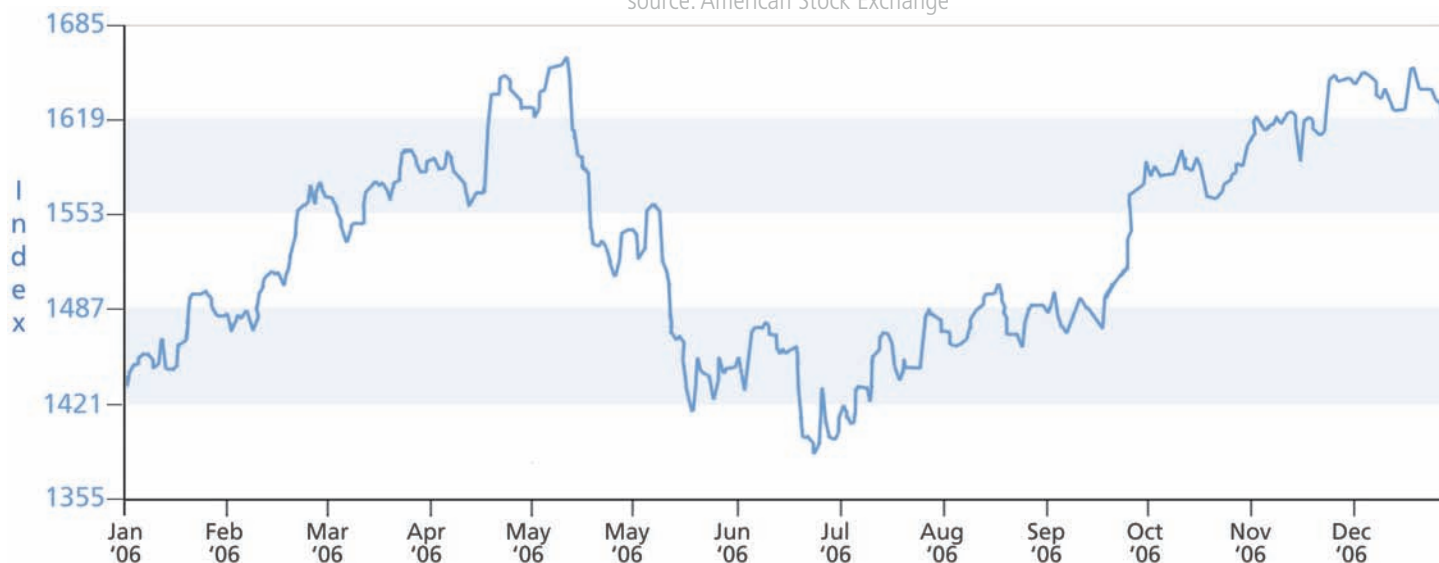


Palisades Water Index

Ticker symbol
AMEX: ZWI

12 Months Index Value

source: American Stock Exchange



Summary

For the period December 1, 2006 to December 31, 2006 the Palisades Water Index (ZWI) gained 1.39%. This compares slightly more favorable than the increase in the S&P 500 of 1.26% for the month. For the year 2006, the comparisons are substantially more positive for ZWI with the Index advancing 21.44% while the S&P gained 13.62%. This reflects the continued attractive long-term fundamentals of the water sector relative to the broader market averages. To better reflect the trends within the Index, beginning in 2007, the Newsletter will be issued on a quarterly schedule.

Comments

Performance for the month of December was mixed between the sectors. The Utility sector, however, was generally positive with only Aqua America posting a decline that

Trailing Returns

	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
ZWI	21.44%	1.39%	9.74%	11.00%	21.44%	64.07%	104.69%
S&P 500	13.62%	1.26%	6.17%	11.66%	13.62%	27.55%	23.54%
Nasdaq	9.52%	-0.68%	6.95%	11.20%	9.52%	20.56%	23.84%

December 2006 Best and Worst Component Performance

Top 5 Companies	Symbol	% Change	Bottom 5 Companies	Symbol	% Change
Veolia Environment	VE	+13.22%	Valmont Industries	VMI	-6.50%
Sabesp	SBS	+12.87%	IDEXX Laboratories	IDXX	-6.32%
Pall Corp	PLL	+10.24%	Flowserve	FLS	-6.15%
Suez	SZE	+8.30%	Lindsay Manufacturing	LNN	-5.22%
Itron Inc	ITRI	+7.87%	Aqua America	WTR	-4.49%

Top Ten Components

as of December 31, 2006

Company Name	Symbol	% Weighting
Calgon Carbon	CCC	4.32%
Watts Water Technologies	WTS	4.15%
Layne Christensen Co.	LAYN	3.65%
Pentair	PNR	3.62%
Sabesp	SBS	3.60%
United Utilities	UU	3.50%
Southwest Water	SWWC	3.42%
Danaher Corp	DHR	3.42%
ITT Corp	ITT	3.41%
Pall Corp	PLL	3.40%

placed it among the bottom five performers. Sabesp, the Brazilian water utility, was again a top performer. In fact, 60% of the foreign securities in the Index were included in the top five performers for the month. Pall Corp and Itron continued to rebound from an oversold position and also ranked in the top 5 performers. The Multi-Business sector, while mixed but substantially positive, benefited from the strength in quality large caps over the period. The final observation of note is the appearance of both irrigation stocks, Valmont and Lindsay, among the biggest decliners in December. This modest retracement in a prolonged period of outperformance arose from profit-taking and the mod-

eration of the well-publicized drought conditions. To reiterate, because of the difficulty in explaining Index sector movements on a monthly basis, a quarterly approach to the newsletter will be taken going forward. This format will also coincide with the rebalance dates and thereby link any changes in the Index to the activity over the quarter.

Rebalance Discussion

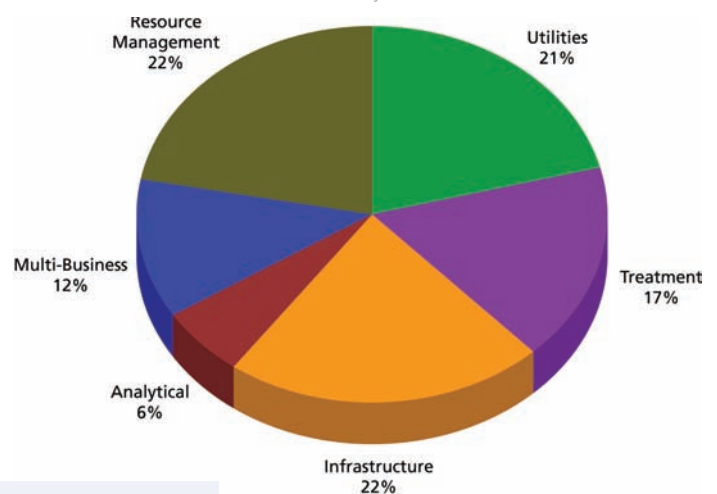
The quarterly rebalancing is based on a consideration of the additions and deletions to the Index as well as the relative sector fundamentals going forward. The rebalancing of sector, and thereby component, weights, is designed to create performance-based enhance-

ments to the Index. Additions to the Index included SJW Corp to the Utility sector, Gorman Rupp and PW Eagle to the Infrastructure sector, and Agilent to the Analytical sector. 3M was deleted from the Index (Multi-Business sector). IDEXX Laboratories was moved from the Analytical sector to the Multi-Business sector and Itron was moved from the Multi-Business sector to the Resource Management sector; both classification adjustments were designed to better reflect the changing dynamics of these two components. The net impact of these changes is to enhance overall Index diversification, improve distribution among and between sectors and optimize the water industry exposure (see pie chart). The Index now has 41 components.

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Sector Weights

as of January 1, 2007



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