

July 2020

Water – our approach for investments

The issue

Water is one of the most valuable resources we have. It is also the most vulnerable to the effects of climate change. Water is required to sustain life, communities and economies. Only a small percentage of the global water supply exists as freshwater (2.5%).¹ This water is unevenly distributed across the globe, and its availability varies geographically and fluctuates over time. Water-related challenges include the continued supply of safe water and sanitation, increasing pressure on water resources and ecosystems, and an exacerbated risk of droughts and floods.² These challenges pose a threat to sustainable development.

Demand for water is rising, predominantly driven by population growth across the globe. As a result, water resources are under growing threat from pollution, increased urbanisation, and power-generation and food-production needs. Water can be an operational and strategic risk for our investments, with the source of the risk ranging from the need for water in electricity production to commodities and products dependent on water required by business.

Increasing scarcity, paired with a growing global population, has increased the urgency to accelerate progress on this issue.

Our approach to water risks and opportunities

At Aberdeen Standard Investments, we recognise that water also presents investment opportunities. The United Nation's sixth sustainable development goal (SDG) is to "ensure availability and sustainable management of water & sanitation for all by 2030".

At the current rate of consumption, there will be a 40% gap between global water supply and demand by 2030.³ Closing the projected gap between water demand and supply requires new infrastructure and upgrades. As investors, we have the potential to allocate capital to provide solutions to the global water crisis and support climate-resilient strategies, where this makes financial sense for our customers, thereby helping to finance a sustainable future.

Opportunities

Agricultural supply chains: Agriculture is arguably one of the most water-intensive industries. The World Bank estimates that agriculture accounts for 70 percent of all freshwater withdrawals globally.⁴ As investors, we have the opportunity to integrate water dependence and management responses into risk analysis and valuation. Sustainable agriculture has the potential to conserve the environment and prevent pollution; reduce costs and focus on profits; and improve food production without being wasteful.

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Given the importance of sustainable agriculture, we outline our approach to biodiversity and palm oil in separate position statements. These are available on our Responsible Investment webpage.

Risks

Human life is wholly dependent on access to water. Given the reliance of business on water, disrupting access to water or its supply poses a variety of risks for investments. These risks can include interrupted operations due to water shortages; fines and increased regulation if business pollutes water sources; floods affecting physical operations; and disruption to supply chains. Such events can prevent a business's ability to grow, adapt and provide a product or service.

At Aberdeen Standard Investments, we integrate water risks systematically into the investment process and consider the materiality and timing of those risks.

To help assess water risks, we focus on three key areas:

Physical risks: This includes potential disasters such as droughts or flooding. In addition, lack of infrastructure to facilitate demand and a declining supply of water present as physical risks.

Regulatory risk: Policy changes by governments and increases in tariffs pose a threat.

Reputational risk: This includes exposure to violations relating to water pollution, sanitation and consumer trust

These risks have the ability to affect a company's licence to operate. In addition, water has often been treated as a "free" commodity. Businesses may face financial costs once a real price of water is accounted for as part of business operations.

¹ World Bank (2019): [Blogs.worldbank.org/opendata/7-things-you-may-not-know-about-water](https://blogs.worldbank.org/opendata/7-things-you-may-not-know-about-water).

² United Nations Secretary-General's Plan: Water Action Decade 2018-2028.

³ United Nations – Sustainable Development Goals – Water Action Decade.

⁴ www.worldbank.org/en/topic/water-in-agriculture.

How do we ensure we consider water in our investment approach?

1. Investment analysis

We consider water risk in our investment process through understanding each of our investments' operations and how water-reliant these are. We consider where a business operates, the ease of access to water, how a business treats its natural environment and whether the reliance on this water may affect the local community's ability to access clean water. This is an essential element to build a deeper understanding of material investment risks. Through our thematic research, we also aim to translate high-level trends and risks to the security level and assess an entity's overall risk exposure.

In addition, we seek to make investments that are providing solutions to the global shortage of water and consider a number of environmental issues. We consider the following key drivers:⁵

1. **Water-resource dependency** – understanding where water risks lie in an investment's value chain and understanding their financial implications.
2. **Water-resource security** – understanding the contextual and geographic issues that create water risks.
3. **Management's response** – assessing an investment's resilience to risks and its mitigation strategies.

2. Engagements to encourage responsible practices

In our actively managed investments, engagement is essential part of our process. Given the shared nature of water and the complex mix of social and environmental values involved, Aberdeen Standard Investments aims to capture the risks through engagement and target discussions within each exposed sector. We pursue a strategy to drive stronger disclosure of material water risks to enable better adaptation and mitigation responses.

3. Voting and shareholder resolutions

Where engagement has limited success, we use our influence through escalation via voting and support of shareholder resolutions. Aberdeen Standard Investment's Environmental, Social and Governance (ESG) Investment team has a well-resourced stewardship function with dedicated proxy voting capability that can provide thoughtful escalation on water-related matters.

Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

⁵ Ceres: Investor Water Toolkit: <https://www.ceres.org/>

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*(entities as at 25 May 2020)

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