

How are global companies responding to water scarcity?



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An issue for companies and investors

Risks include..

- Financial
- Operational
- Licenses to Operate
- Community Opposition
- Increasing Regulation
- Water Pricing



Image Source: World Economic Forum,

Methodology - Overview

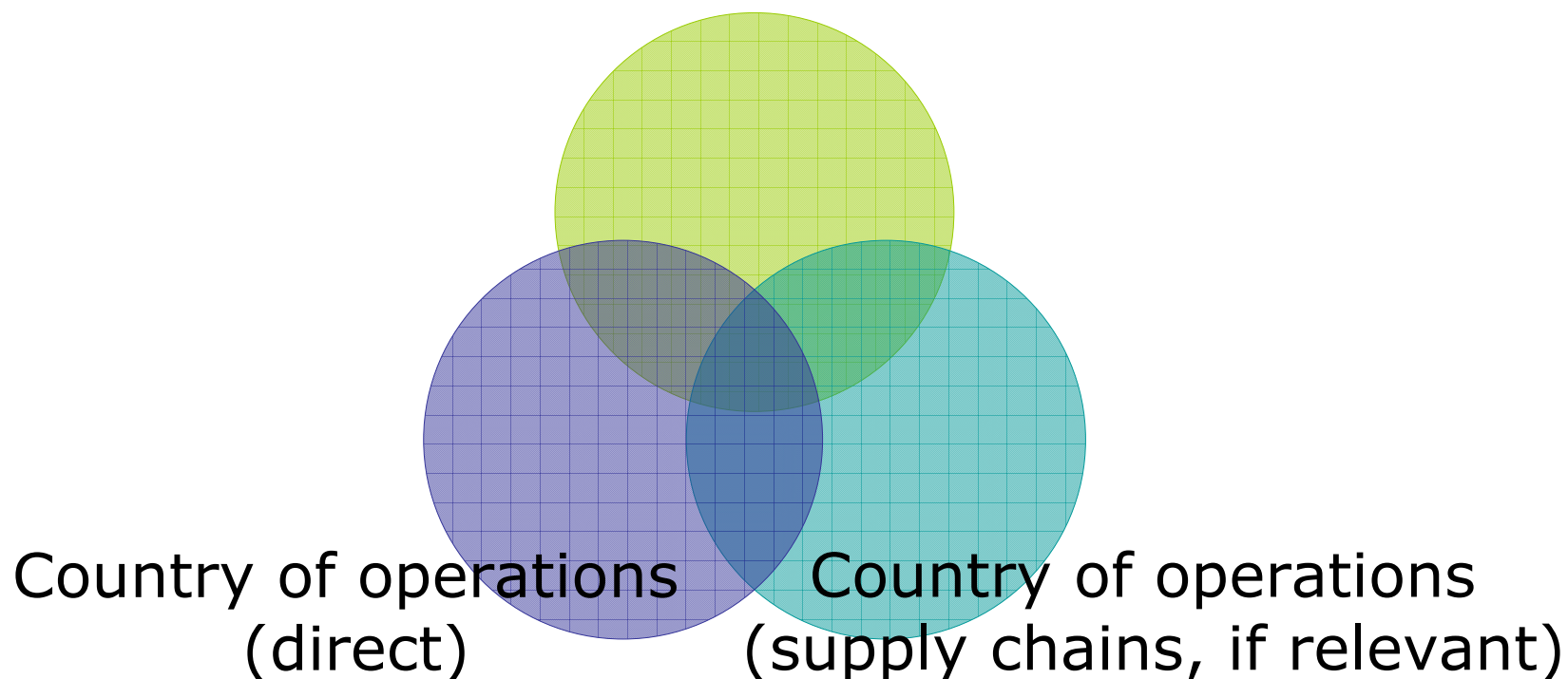
1. **RISK EXPOSURE:** What is the Company's potential exposure to water risks?
2. **MANAGEMENT RESPONSE:** How is the Company managing water risks?
3. **DISCLOSURE ASSESSMENT:** How is the Company addressing disclosure?

Risk Exposure – Business Activity



Risk Exposure – Business Activity + Countries of Concern

Business Activity



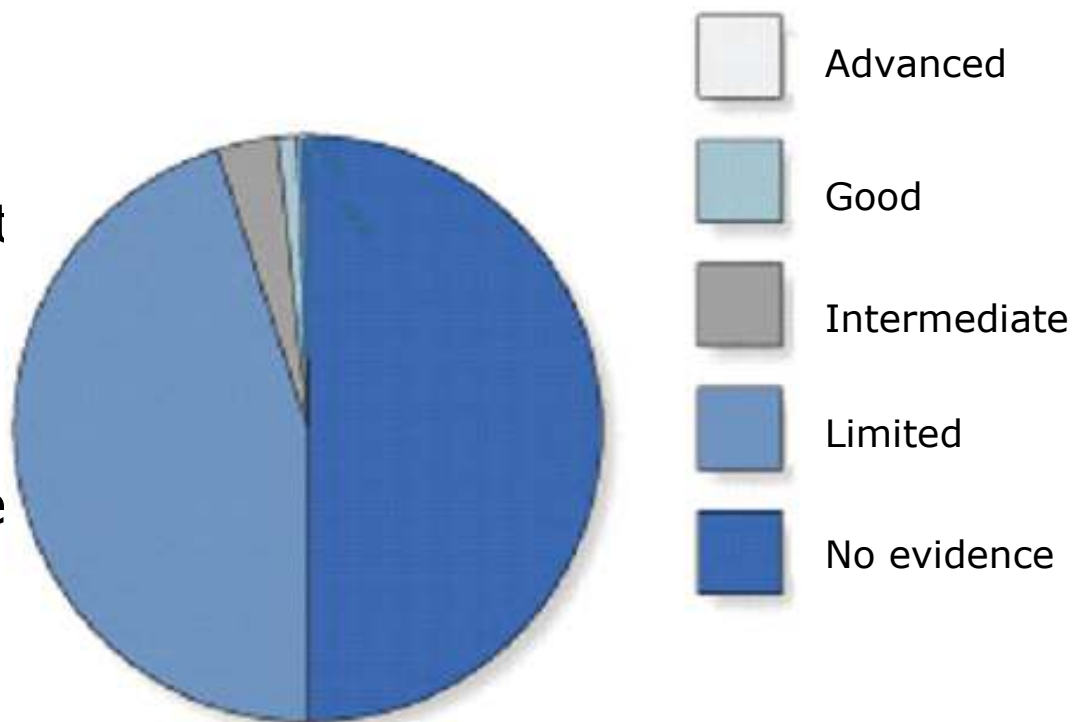
Methodology – Management Response

- Framework includes 30 different indicators across 4 areas...

Policy & Governance	Management & Strategy
Performance & Innovation	Disclosure

Research Findings

- 54% of companies are exposed to water risks
- Only 0.22% demonstrate adequate management of risk
- Only 9.7% have set some form of water use or water quality targets



Sector	Leaders	Sector Overview
Chemicals & Pharmaceuticals	Abbot Laboratories, Orica, Novartis, Merck & Company	1.9% of sector demonstrates a good response, with a further 8.2% with an intermediate response
Forestry & Paper	Svenska Cellulosa, Kimberley Clark	16.6% of the sector demonstrates an intermediate response
Mining & Metals	Xstrata, Rio Tinto, Anglo American,	13% of the sector demonstrates an intermediate response
Food & Beverages	Unilever, Coca Cola HBC, SAB Miller, Nestle, PepsiCo,	12.5% of the sector demonstrates an intermediate response

Conclusion

- Why water is not yet a mainstream sustainability issue?
- Investors should be demanding increased levels of reporting on water
- Investors should be encouraging companies to become aware of the risks and opportunities
- Investors should be encouraging companies to make the management of water a core part of their environmental strategies

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The place of water in sustainable investment

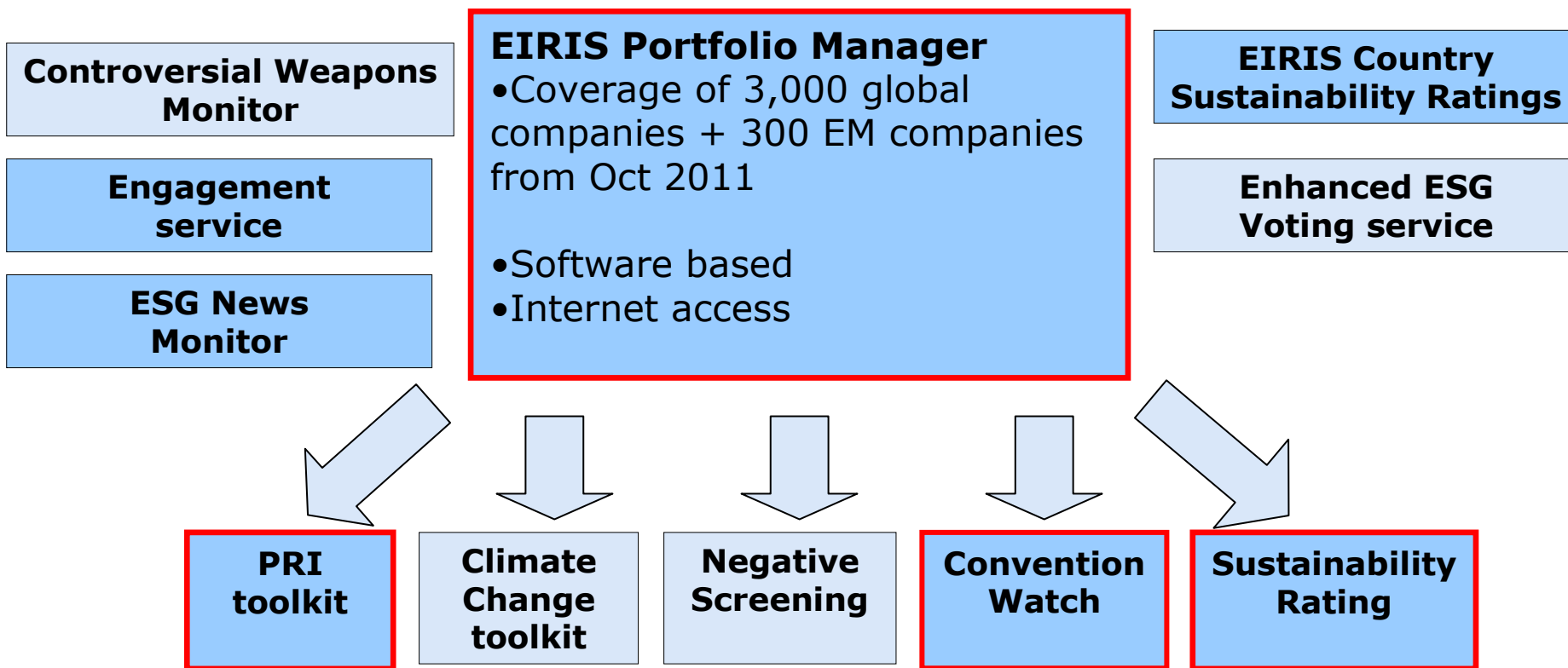


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Client Relationship Manager, EIRIS

What should investors do with water research?

- **Identify** the water risks in their portfolio
- **Factor** in the impacts of water scarcity
- **Engage** with companies and influence the wider policy debate

EIRIS Product Range



 **EIRIS products including water risks**

Using EPM software

The EPM database allows the user to select issues of interest and present data in a variety of formats:

- 1. Threshold information** – identifying involvement, or risk. Commonly used to identify acceptable or unacceptable companies.
- 2. Comparative data** – to compare companies on single or multiple issues. Usually used for a “best in class”; “tilting portfolio”; creating a “rating”; or “engagement” approaches. Also integrated into quantitative investment models.
- 3. Detailed company information** – for engagement approaches and integration into qualitative investment approaches.

Identifying and Managing Water Risk in your Portfolio:

Water Risk Factor

For Integration:

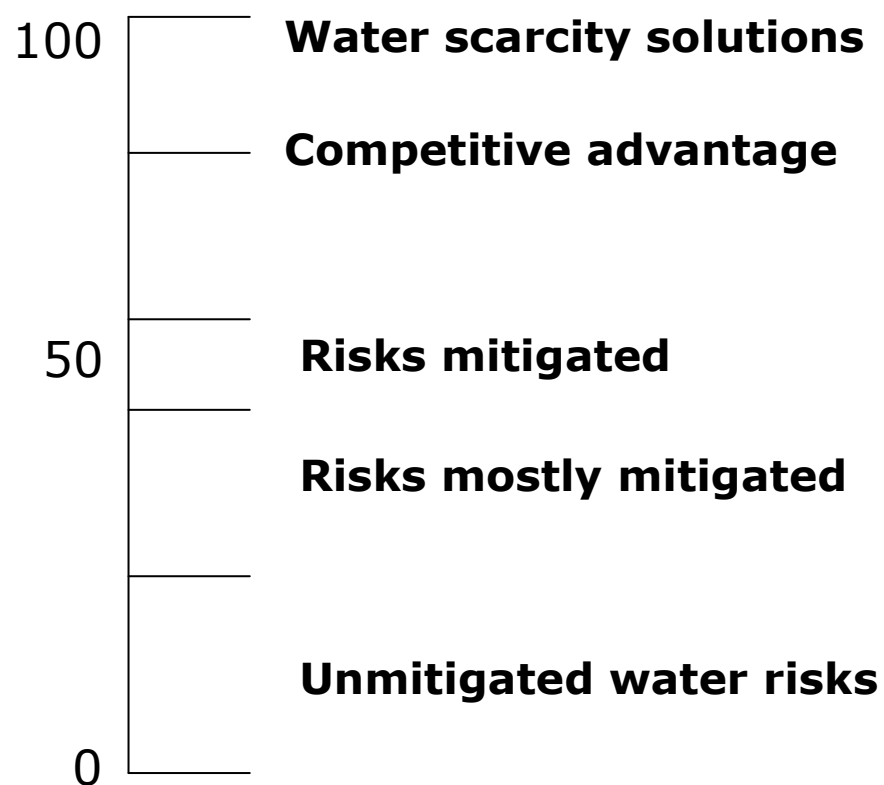
- A score based on EIRIS' assessment of the company's water impact and management response

Water Engager

For Engagement:

- Detailed reports on Individual company performance
- Plus policy which focuses on transparency and disclosure on water

Water Risk Factor



- Score for each company on a scale from zero to 100
- Below 50 considered **unmitigated risk**
- Above 50 risk is considered **mitigated**
- Above 75 considered a **water scarcity solution**

Water Risk Factor – example of a spreadsheet

Company Name	Sector	Country (head-quarter)	Water risk	Water management	Overall Water Risk Factor
Company A	Tobacco	UK	Very high	Limited	30
Company B	Chemicals	NL	High	Intermediate	40
Company C	Pharmaceuticals	CH	High	Good	55
Company D	Construction & Materials	FR	Medium	Limited	50
Company E	Industrial Engineering	Japan	Medium	Limited	75

Water Engager

- The Water Engager consists of 2 elements:
 - **Water Engager** designed to identify 6 different categories of companies for engagement on water issues.
 - **Water Disclosure Rating** to assist investors to identify best practice in reporting and transparency on water issues

Engagement Categories (for very high & high risk companies)

- **Opportunity Maximisers**
 - Best practice companies
- **Issues Managed**
 - Good Practice
- **First Steps**
 - Some engagement with the issue
- **Poor Disclosers**
- **Non-Starters**
 - No water management strategy
- **Laggards**
 - Bottom quartile performance for their sector

EIRIS Portfolio Manager (EIRIS client - Licensed Version) - [Report Preview]

File View Results Reports Tools Window Help

Water Engager profiles provide details of indicators company has/has not met

Best Positive: None, worst Negative: *	
Result: (see key)	First steps
Raw Score	-1
Final Score	-1
In Top 51% of Chemicals Sector	
In Bottom 27% of Large European companies	
In Bottom 32% of Companies from Switzerland	

Environment	***
Water use	
Water management response	
x Limited water risk management (high risk)	-1
Intermediate water management disclosure (high risk)	0
sub-total:	-1

imug: This is generated by Main Activities using PartnerStatement table

Policy and governance

The Company meets the following indicators:

- Water management commitment - the Company recognises that water is a limited natural resource with increasing demand and has taken a water management approach into reducing water consumption
- Policy context - the Company participates in public debates on water related issues with political leaders, NGO's and scientific experts
- Public policy leadership or collective action - The Company participates in events held by the World economic forum, US Department of Agriculture, and the International Chamber of commerce and the sustainable water conference, the Company also worked together with the world bank and McKinsey & Company to form the 2030 Resources Group in 2009 publishing 'Charting our water future'
- Community engagement - the Company participated in an agricultural initiative in Bangladesh with technology produced in collaboration with the International rice institute distributed free of charge saving up 30% of water. In Kenya the Company works with irrigation partners to create water ponds to store water in case of a drought or flood, this reduces the water needed for crops.

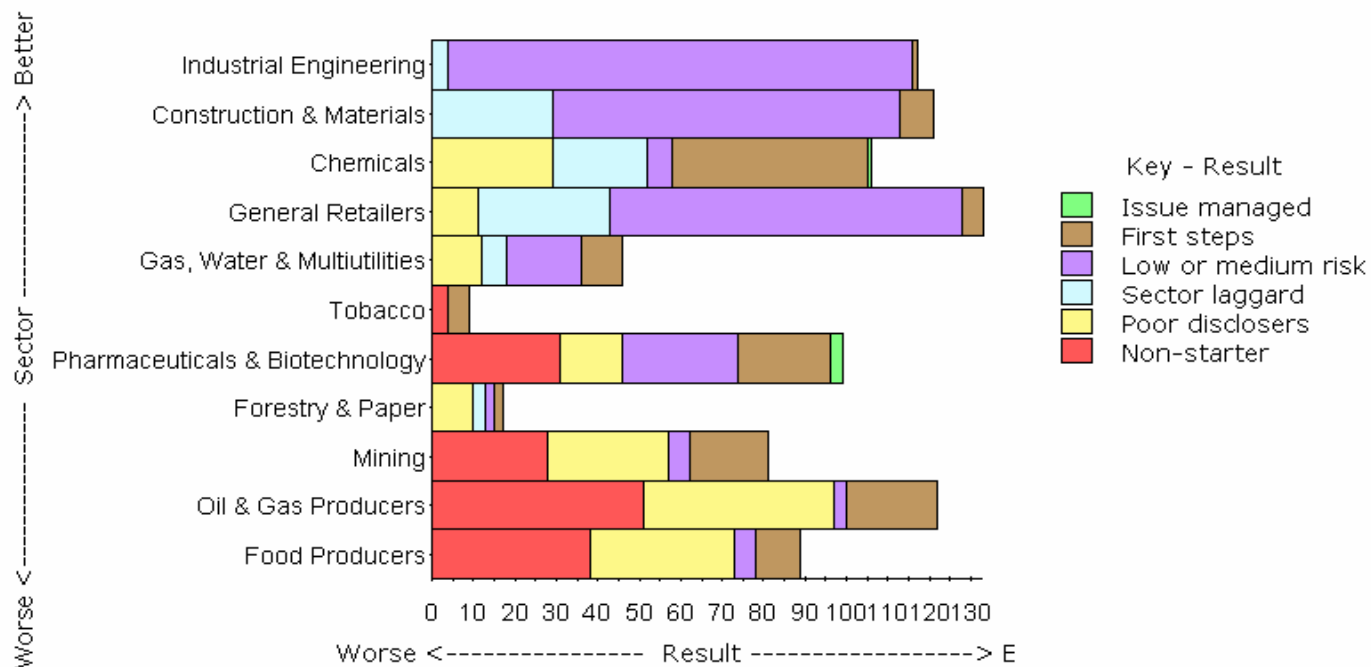
The Company does not meet:

- Senior responsibility for water management related issues
- Remuneration linked to water management performance

Methodology Open in Word Exit

Sample results – EIRIS Water Engager

Results for [Water Engager] Policy for all countries; Chemicals, Construction & Materials, Food Producers, Forestry & Paper, Gas, Water & Multiutilities, General Retailers, Industrial Engineering, Mining, Oil & Gas Producers, Pharmaceuticals & Biotechnology, Tobacco; all sizes; all indices.
Analysed according to number of Companies.



Other tools

- **Convention Watch:** environmental pollution analysis
- **Sustainability Ratings tool:** complete picture of a company's sustainability performance expressed on easy to understand A-E scale
- **PRI toolkit:** help investors put their commitments into practice. 3 tools around the UN Global Compact
 - EIRISK
 - Global Compact Engager
 - Report Monitor

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