

abrDN Position Statement – Water

September 2021

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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 our life, our communities and our economies. Only a small percentage of the world's 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 All of these challenges pose a threat to sustainable development.

As populations rise around the world, demand for water is rising too. This means that 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.

Increasing scarcity and the world's growing population have increased the urgency of making progress on this issue.

Our approach to water risks and opportunities

At abrDN, 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 this gap will require 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. In this way, we can help 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% of all freshwater withdrawals worldwide.⁴ As investors, we can integrate water dependence and management responses into our risk analyses and valuations. Sustainable agriculture can help to conserve the environment and prevent pollution. It can also reduce costs and enhance profits. And it can improve food production without being wasteful.

Given the importance of sustainable agriculture, we outline our approach to biodiversity and palm oil in separate position statements. These are available on our Sustainable 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 abrDN, we integrate water risks systematically into our investment process and consider the substance and timing of those risks.

"Increased scarcity and the world's growing population have increased the urgency of making progress on this issue."

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.



Position Statement – Water – Cont.

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

Physical risks: These include potential disasters such as droughts or flooding. Other physical risks include a lack of sufficient infrastructure and a declining water supply.

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

All of these risks can 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.

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

1. Investment analysis

We assess water risk 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 the business treats its natural environment and whether the business's reliance on this water may affect the local community's ability to access clean water. This analysis is essential to gaining a deeper understanding of any significant 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 in companies that are providing solutions to the global shortage of water. Here, 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 sustainable 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, abrdn aims to capture the risks through engagement and target discussions within each exposed sector. We press for stronger disclosure of water risks to enable better adaptation and mitigation responses.

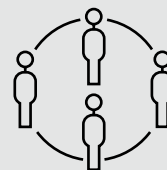
3. Voting and shareholder resolutions

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

Sustainable investing at abrdn

As a leading global asset manager, we believe that investing sustainably can help generate long-term value for our clients. How and where the world chooses to invest has critical implications for the well-being of society and our planet. Equally, investments that could have negative social and environmental impacts can pose risks for the investment performance we can deliver for our clients.

Environmental Social and Governance (ESG) considerations are an integral part of our decision-making when investing your capital. By understanding how ESG factors affect our investments, we believe that we can generate better outcomes for our clients, society and the wider world.



To help us achieve this

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Our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset.

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A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

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

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