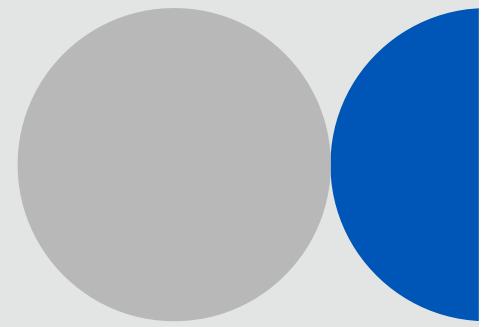


# abrdn Position Statement – Water

December 2023



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## The issue

Water is one of the most valuable resources on the planet. However, it is also the most vulnerable to the effects of climate change. Water is vital to sustain life, communities, and economies. However, only a small percentage of the world's water supply exists as freshwater (2.5%).<sup>1</sup> This freshwater is unevenly distributed across the globe, and its availability varies geographically and fluctuates over time. In addition, various challenges further impact our ability to access freshwater. These include: the available supply of safe water and sanitation; pollution; increasing demands and pressure being placed on water resources and ecosystems, and an exacerbated risk of climate-related events such as droughts and floods.<sup>2</sup> All of these challenges pose a threat to sustainable development.

As populations rise around the world, demand for water increases alongside it. This means that water resources are under growing pressure from increased urbanisation, power-generation, food-production, pollution, and climate change. Water can pose operational and strategic risks for our investments, with the sources of risk ranging from the need for water in electricity production, to commodities and products' dependency on water. Those sectors with high water consumption, and therefore greater exposure to water-related risks, include consumer staples (such as food, drink and tobacco), consumer discretionary, energy, industrials, materials and utilities.

Rising water scarcity and the world's growing population, combined with an increase in extreme climate-related events including floods and droughts,<sup>3</sup> have heightened the material risks and urgency of making progress on this issue.

## Why is this important for investors?

At abrdn, we recognise that water presents both investment risks and opportunities. The United Nation's sixth sustainable development goal (SDG) is to "ensure availability and sustainable management of water and 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.<sup>4</sup> 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

Opportunities exist in identifying companies that have traditionally experienced high water demands but are effectively managing their water resources. These opportunities are not limited to such companies alone; they also extend to those involved in producing innovative products and solutions aimed at reducing water pollution, improving treatment processes, minimizing system loss, and mitigating the risks associated with flooding.

### Risks

Human life is wholly dependent on access to water. Businesses can be both materially dependent on water and at the same time impact water quality and availability. Water availability is location-dependent and for activities that have high water use and dependency the potential risks increase when they are operating in areas of water stress.

<sup>1</sup> 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).

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

<sup>3</sup> United Nations - Sustainable Development Goals - Water Action Decade.

<sup>4</sup> [www.worldbank.org/en/topic/water-in-agriculture](https://www.worldbank.org/en/topic/water-in-agriculture).



## Our view and approach to investments

At abrdn, we consider water risks systematically within our investment process and consider the substance and timing of those risks.

To help assess the water risks of our investee companies, we focus on three key areas:

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

**Regulatory risk:** Policy changes by governments and increases in tariffs may pose a threat to investee companies' operations and value chains.

**Reputational risk:** This includes exposure to violations relating to water pollution and sanitation, both of which can impact consumer trust.

All of these risks can affect a company's licence to operate, and in turn, its operational performance. 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 take a materiality approach to integrating ESG considerations into our investments. Where water is identified as a potential financial risk, we assess that risk through understanding our investments' operations and how water-reliant these are. Factors we consider may include:

1. **Water-resource dependency** – understanding where water risks lie in an investment's value chain and what the financial implications are.
2. **Water-resource security** – understanding the contextual and geographic issues that create water risks, including ease of access to water and exposure to pollution.
3. **Management's response** – assessing an investment's resilience to risks and its mitigation strategies.<sup>5</sup>

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.

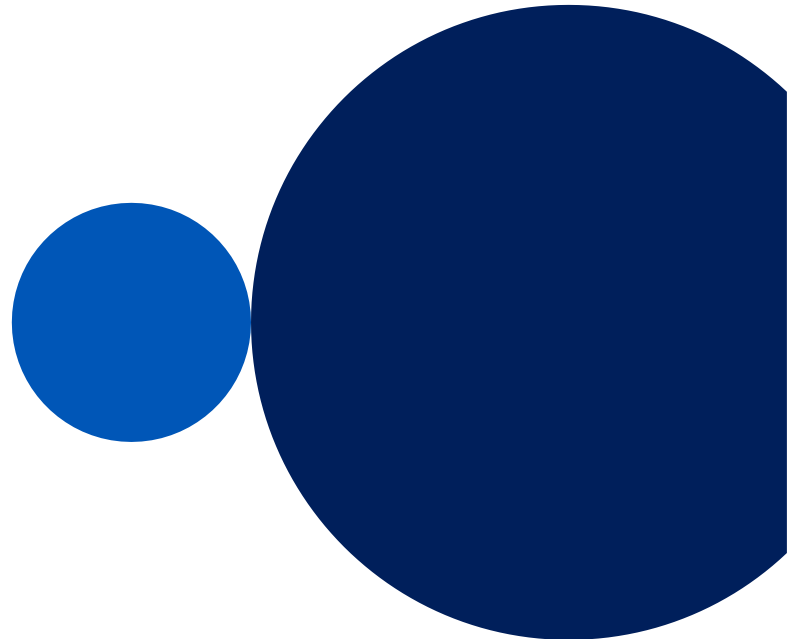
In addition to water-related risks, we seek to identify opportunities, through investing in companies that provide solutions that address the global shortage of water.

### 2. Engagements to encourage sustainable practices

For our actively managed investments, engagement is an 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 risks through engagement and targeted discussions within each exposed sector. During engagements with companies identified as having material water risks, we assess their existing water risk disclosure practices. If disclosure is deemed inadequate or can be significantly improved, 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 can use our influence through escalation via voting and support of shareholder resolutions. Our Investments Sustainability Group has a well-resourced active ownership function with dedicated proxy-voting capability that can provide thoughtful escalation on water-related matters.



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

**Investment involves risk. The value of investments and the income from them can go down as well as up and an investor may get back less than the amount invested.**

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