

## **“A drought in your portfolio?”**

**A report from the EIRIS conference  
7 June 2011**

I was invited by EIRIS (Experts in Responsible Investment Solutions) to attend their investor conference to explore the risks and opportunities arising from water scarcity as part of a wider sustainable investment strategy. Six speakers addressed the conference and there was an extended panel discussion afterwards and a question and answer session. This latter significantly overran the time allowed. An audience of approx 130 was drawn from a wide range of interest covering Government offices and NGOs, research houses, charities and the specialist investment community

After a brief introduction and welcome from Peter Webster, executive director of EIRIS, the keynote speech was delivered by Dr James Winpenny, who has written scientific papers for the United Nations World Water Assessment Programme.

Dr Winpenny gave a brief overview of the various agencies across the world which had been brought together under the umbrella of UNWater. He divided his comments between scarcity, water stress and risk and opportunities. 70% of water in global terms is taken by the agricultural industry, 20% is used by industry and 10% is for personal consumption.

On the question of risk he covered the areas of pollution, drought and flood and talked of population growth. 47 countries would suffer severe water stress by 2030. Greater usage problems are being exacerbated by under-financing of infrastructure projects and a failure to construct new capture, storage and distribution facilities.

Physical risk, regulatory and reputational matters were also raised as well as an overview of the opportunities and threats that would arise.

The second speaker was Daniel Yeo, a senior policy analyst from Water Aid. Daniel spoke with passion of Water Aid's experience, particularly in Africa. He brought a very personal and down to earth perspective and shared some disturbing statistics on the child mortality rate caused solely by unsafe drinking water. Across the globe one person in every eight does not enjoy safe water. He referred to the millennium development goals and spoke of the likelihood of many targets being missed. His strap line was provoking: water is life.

Kirsty Jenkinson, a director of the World Resources Institute in Washington was the third speaker who addressed the meeting briefly under the heading of measuring and mapping water risk. Kirsty provided some population statistics of the growing numbers of people currently affected by scarcity and compared this to forecasts made for 2025. Whilst some investors have already made an appreciation of the future position she was in no doubt that there is a current position of denial. She too spoke of physical, regulatory and reputational risks at various points of impact in the supply chain, the production process and the product use.

She identified problems that water prices are too low to signal scarcity or encourage investment and conservation. In her view, water resources are poorly governed and better information is required to act strategically on water risk. There are a growing number of

initiatives, with more granular data being provided via online and interactive databases and more heat mapping work being conducted. She highlighted eight separate initiatives of which only two cover the three areas of water risk, water footprint and water governance. For ease of illustration she produced her detail in diagrammatical form by use of a three tiered aqueduct!

The keynote research presentation was given by Randeep Sanghera, the research analyst at EIRIS, speaking to the new report [\*A drought in your portfolio: are global companies responding to water scarcity?\*](#)

His principal research finding is that 54% of companies considered are exposed to water risks and only 0.22% demonstrate adequate management of water risk. Only 9.7% have set some form of water use or water quality targets. The report highlights sector performance and gives an overview of the six areas of concern identified.

In concluding a wide ranging presentation Randeep Sanghera asked why water is not yet a mainstream sustainability issue. He suggested that investors should be demanding increased levels of reporting on water and encouraging companies to both become aware of the risks and opportunities and make management of water a core part of the company's environmental strategy.

Marion Marcillac, a client relationship manager with EIRIS' Paris office, spoke next and posed the question what should investors do with water research. She highlighted EIRIS' new portfolio manager software which has coverage of 3,000 global companies and 300 emerging market companies; this will be available from October 2011. She explained how the scoring system will work for this software and gave examples of a spreadsheet for various different companies which covered risk and management.

The final speaker was Lara Yacob, a senior engagement specialist with Robeco's Amsterdam office. Her presentation concerned Robeco's approach to mitigating corporate water risk and, considering water risk and investment strategy, finding the missing link. Robeco's engagement involves taking the full responsibility of being a shareholder, responding to beneficiaries as well as societal expectations. Performance enhancement and fiduciary duty go hand in hand, driven by legislation and soft coded law. She also highlighted reputational risks and discussed operational disruption and screening to protect shareholder value. Significant emphasis is placed on research as the first step in engagement and this is achieved by a standard risk assessment, covering policy, management systems, disclosure and links with other ESG issues. She concluded by highlighting specific problems of water in the textile and food and beverage sectors.

The panel discussion was chaired by Stephen Hine of EIRIS and a number of key themes were synthesised:

- Water is not properly priced. Indeed unlike the majority of the world's traded commodities there is no single market reference point for water and thus no reliable benchmark exists.
- Water is not a balance sheet item and therefore is not considered by many as a risk. The extent to which companies have had water available historically has not been an issue and therefore is not considered within the risk profile of a business.

So, why is water not a mainstream issue:-

- There appears to be a complete lack of awareness at a global level. There may be different local levels of appreciation, but
- Unlike climate change, there is no one global figurehead to promote risk awareness of water. It is below the radar of too many.

Because of the broad spectrum of activity and usage, regulated water is generally underpriced to reflect consumption and in many cases there is an uneven level of cross subsidy. This issue is complicated because in areas of the world suffering poverty and scarcity water tends to be, in percentage terms, a much more expensive commodity and this can generate supply chain problems – a good example being cotton production which is particularly sensitive to prolonged drought.

Global data is not good enough at the moment because of the breadth of the market. Governments and corporates must come together to work on this issue.

Certain companies are significantly ahead of the curve; Unilever was cited as having an excellent understanding and appreciation of the risks.

The chairman concluded by suggesting that water is going up the scale of importance. The United Nations now recognises that water is a human right and above all water will always remain a local issue – water is life.

**RCC**