
ACTIAM Water Policy

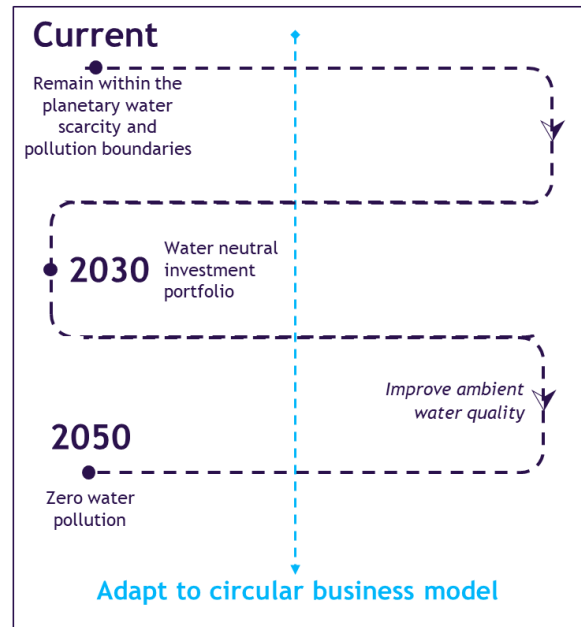
Baseline assessment

1 Introduction

The overall aim of ACTIAM’s water policy is to encourage companies to consume no more water than nature can replenish and cause no more pollution than is acceptable for the health of humans and natural ecosystems.

For freshwater use, ACTIAM aims to achieve a water neutral investment portfolio by 2030. So far, no international pathway has been designed to remain within the planetary water pollution boundaries. Additionally, it is still difficult to track companies’ progress on the theme. Until data-related problems are resolved and (science-based) pathways are determined, ACTIAM aims to move towards an economy with zero water pollution by 2050, with an intermediate aim to improve ambient water quality by eliminating, minimizing and significantly reducing emission of pollutants into water bodies by 2030. To move towards this point, ACTIAM expects companies to adequately treat their wastewater and follow ‘best practice’ in their wastewater discharges. Additionally, companies are expected to adapt their processes towards a circular business model thereby reducing, recycling and reusing wastewater where possible, as well as preventing the use of (hazardous) chemicals and other damaging substances as much as technically feasible.

An economy with zero water pollution by 2050



Water neutrality

The concept of water neutrality shows similarities with the concept of carbon neutrality. Being water neutral does not mean that water use is fully brought down to zero. Hoekstra (2008) formulated two requirements that entities must fulfill in order to become water neutral. First, water consumption and pollution must be reduced as far as reasonably possible. Second, reasonable investments must be done to offset the negative impacts of the remaining water consumption and pollution. Such investments should promote the sustainable and equitable use of water within the environment and communities affected. That is, investments should take place in the same hydrological unit as the one affected by negative impacts. Key is to align the size of the investment with the vulnerability of the region where the negative impacts occur, in order to fully offset these impacts. Impacts in water-stressed regions or periods require a larger offset effort than in water abundant areas or periods. Investments can be done by own efforts or by supporting projects run by others.

Investors can play a key role in stimulating the transition towards a water neutral society. The interaction between investment activities and natural resources is one of two ways. On the one hand, the direct and indirect impacts of water stress and pollution are a risk, not only for individual companies but also for the economy and global financial system as a whole. On the other hand, investors are in a good position to redirect finances away from those companies and activities that have an unsustainable impact on water resources and guide financial flows towards those companies and activities that help protect and restore water and natural resources. Consequently, the number of investors that incorporate water considerations into their investment policies is growing steadily. Already in 2017, ACTIAM had formulated a water policy and related water-neutrality target. In the period 2020-2021, the footprint has reduced for each investment fund and is below the benchmark footprint. The most recent water footprint per fund is available in the annual report of the ACTIAM investment funds.

Water footprint

To monitor progress against the water neutrality target, ACTIAM measures the water footprint of its portfolio. The water footprint is the water consumption that companies active in high-risk sectors generate from regions with water scarcity. The footprint is a weighted average of all portfolio investments and is corrected for growth in enterprise value. The developments in the portfolio water footprint are communicated annually in the annual report of the different ACTIAM funds.

Data quality in the field of water is lower than in the field of carbon. This means that estimations or sector averages are used to calculate the water footprint. This automatically leads to a lower accuracy for the water footprint than for the carbon footprint. ACTIAM is actively engaging companies to increase transparency on their water consumption and works with sector initiatives, such as the Ceres Investor Water Hub, the Valuing Water Investor Working Group and the CDP Non-Disclosure Campaign, that promote standardized measurement and reporting.

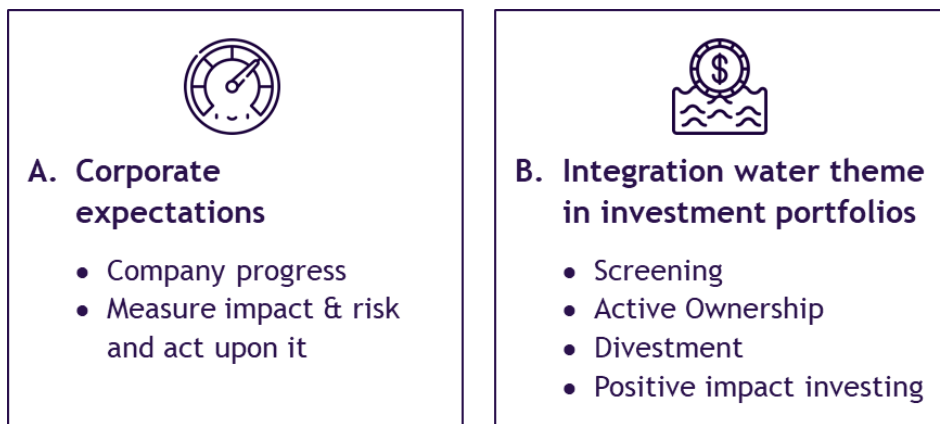


2 Key Performance Indicators

ACTIAM has drafted a roadmap to align the investment portfolio with the expected transition and reach the target of water neutrality. To guide and measure progress ACTIAM has formulated a set of Key Performance Indicators (KPIs).¹ The roadmap includes two areas:

- First, there is a set of corporate expectations that looks into portfolio company progress in the field of water management. ACTIAM expects from companies in its portfolio to measure their water-related risks and impacts and act upon these. Focus will initially be on those companies that are active in sectors and regions with high water risks. Which sectors and geographies are prioritized is explained in [ACTIAM's Water Policy](#).
- Second, ACTIAM has developed a set of more process oriented KPIs that focus on the integration of the water theme in the management of its investment portfolio. Through screening, active ownership and divestment, ACTIAM aims to mitigate water-related risks and impacts in its portfolio. The intention is to help portfolio companies move upwards in the mitigation hierarchy of water-related impacts and divestment is only used as a measure of last resort when companies are not expected to be able or willing to make the transition. Additionally, ACTIAM aims to increase investments in positive water impacts.

Roadmap to align the investment portfolio



2.1 COMPANY PROGRESS IN IMPLEMENTING WATER MANAGEMENT

To be aligned with the transition towards a sustainable society and have a future-proof business model, ACTIAM expects from all companies to improve their management of natural resources, decouple business growth from the destruction of resources and eventually achieve a net positive impact on natural resources. The sustainable management of water consumption and pollution is an important element of this vision. In doing so, watersheds of high water stress ought to be prioritized just as business facilities with high water impacts.

2.1.1 Expectations for companies in high-risk sectors

Specifically, this means that ACTIAM expects all companies active in high-risk sectors² with more than 50% of revenues coming from water scarce regions to fully manage their water-related risks and impacts by 2030, including but not limited to the setting of science-based targets and the implementation of adequate mitigation plans. For relevant sectors, companies are also expected to have implemented water reduction programs in their supply chain.

To achieve this, ACTIAM has developed the following mid-term expectations to be reached by 2025:

¹ It should be noted that given the uncertainty of future developments, the KPIs are more specific for the coming years than for the years after 2025. Also, given complicating factors in quantifying water pollution, the KPIs on water pollution are more process oriented.

² High-risk sectors in terms of water use are Metals & Mining, Chemicals, Semiconductors & Semiconductor Equipment, Paper, Forest Products + Containers & Packaging, Food, Beverage & Tobacco, Restaurants, Hotels & Travel, Casino's & Gaming, Electric Utilities, Multi-Utilities, and Oil, Gas & Consumable Fuels.

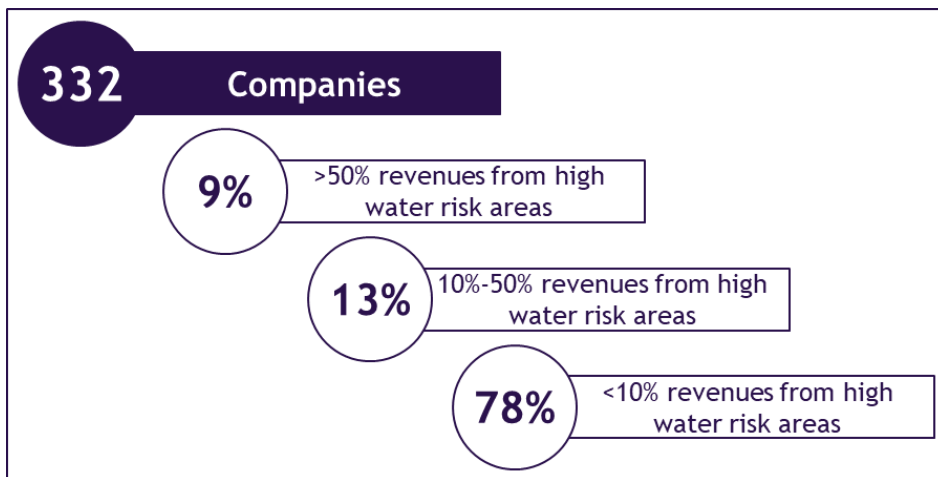
- An increase of 50% of issuers that have assessed water quantity impacts and have developed high-risk actions;
- An increase of 50% of issuers that measure and report on their water consumption;
- An increase of 50% of issuers that have set water-related targets, science-based to the extent reasonably possible;³
- An increase of 50% of issuers that have started implementing realistic plans to achieve their targets.

After 2025, the focus will be extended towards companies with lower exposure to water stressed regions. Companies from high-risk sectors that generate between 10% and 50% from water stressed areas will then be expected to comply with the above-mentioned expectations as well.

2.1.2 Baseline assessment

At the start of 2022 ACTIAM invested in 332 companies that were active in a high-risk sector on water. This is 16% of the total number of companies in the portfolio. Less than 10% of the companies in high-risk sectors (31 companies) had more than 50% of their revenues coming from areas that are projected to experience high water stress. These are mainly companies from the Semiconductor, Chemical, Food and Beverage and Metals and Mining sectors. Another 13% (43 companies) had between 10% and 50% of their revenues coming from these areas. Also, in this group the Semiconductor and Food & Beverage industries are overrepresented, together with companies from the Electric Utility industry. The remaining companies have less than 10% of their revenues from areas with high water stress risks. Most of these companies are exposed to areas projected to have medium levels of water stress. Only 18 companies have more than 90% of their revenues coming from areas with little to no water stress risks. Initially, the ACTIAM KPIs will focus on the first group of companies, with more than 50% of their revenues exposed to areas projected to experience high levels of water stress.

Company revenues from water-stressed areas for high-risk sectors



The table below shows the current progress on ACTIAM’s expectations for the companies in high-risk sectors that generate more than 50% of revenues from areas projected to experience high water stress. The majority of the companies have assessed their most material risks and implemented a water management program. The presence of such programs does not always say something about the quality, and this will be one of ACTIAM’s focus points going forward. Slightly less companies have set targets and less than half of the companies report on their actual water consumption. The latter is important to determine and reduce the real impact that companies have on their environment.

³ This may refer to targets that have been approved by SBTi or by another relevant independent third party. Current guidance is for targets to be context-based. A guidance on how to draft science-based targets for water is currently being developed by the Science Based Targets Network. ACTIAM expects companies to closely monitor the developments and align to their best knowledge and capacity possible.

Status of water management at companies

	# of companies	% of total	KPI 2025	KPI 2030
Issuers that have assessed water quantity risks and impacts	21	68%	+50%	all
Issuers that measure and report on their water consumption	15	48%	+50%	all
Issuers that have set water-related targets	19	61%	+50%	all
Issuers that implement realistic and achievable plans in the field of water management	22	71%	+50%	all
Issuers that implement programs to reduce water use in their supply chain	4	N/A ⁴	N/A	all

2.2 INTEGRATION OF WATER MANAGEMENT IN ACTIAM’S INVESTMENT PORTFOLIO

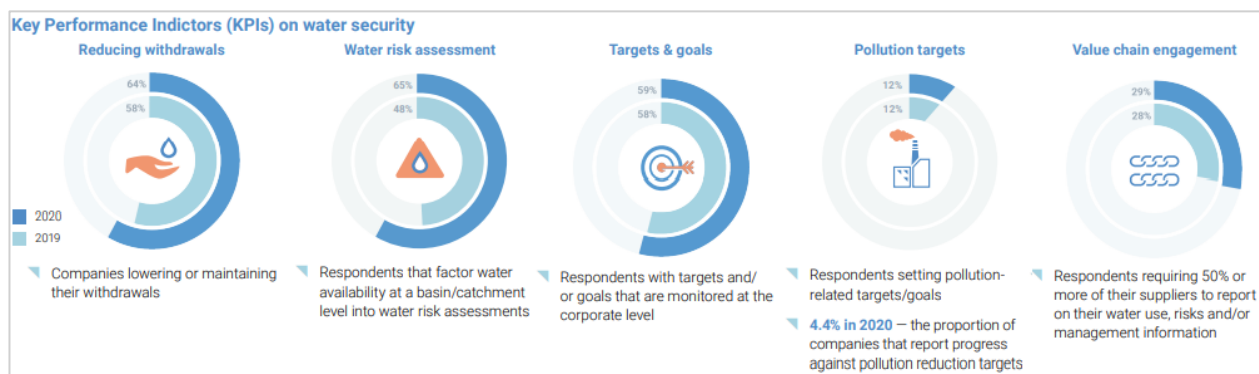
In order to further reduce its water footprint and move closer towards its target of water neutrality ACTIAM introduced Key Performance Indicators for its own (investment) behavior. ACTIAM’s strategy to achieve water neutrality can be subdivided into three categories:

- Reducing negative impact
- Increasing positive impact
- Divest from issuers that are not willing or capable to transition towards water neutrality

2.2.1 Reducing negative impact

Increasingly companies are introducing water management schemes and set targets to reduce their water-related risks and impacts. However, the figure below shows there is still a long way to go.

Company progress on water security



Source: CDP (2020). A Wave of Change. The role of companies in building a water-secure world

Frontrunners are the companies that already set credible targets to become water positive. Several companies have set the aim to replenish more water than is used for their operations at sites in water-stressed areas. To reach this aim, companies increasingly engage in collective action with other stakeholders in priority basins. Also, sector-specific solutions are increasingly being embraced, such as waterless dying technologies in textile processing, the usage of satellite-based data for efficient irrigation or examples of regenerative agriculture.

Engagement and voting activities will play a major role in motivating companies to live up to the corporate expectations that ACTIAM developed and reach the eventual goal of a water neutrality. ACTIAM is involved in different engagement initiatives that are more directly or indirectly related to water use. A full overview of water-focused engagements that ACTIAM leads or participates in is disclosed in the table below.

⁴ Supply chain water management is not relevant for all sectors. ACTIAM will focus its screening and active ownership efforts on those sectors for which this topic is most material.

Water-focused engagements

Engagement topic	# of companies	Focus	Type of impact
Collective engagements			
Localized water management	18	Water quantity	Reduction of negative impact
Water management in mining	3	Water quantity	Reduction of negative impact
Individual engagements			
Provision of water-related solutions	1	Water quantity and quality	Creation of positive impact

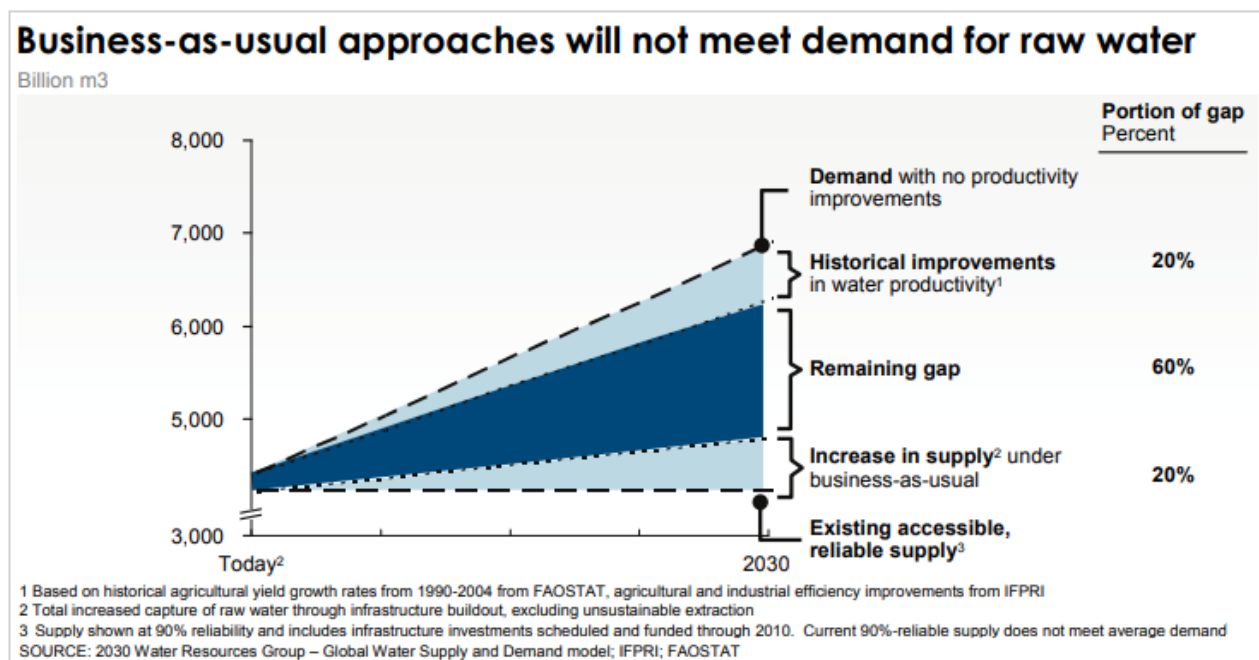
Additionally, ACTIAM conducts several other engagements where water management is a key objective, amongst other topics. Such engagements are not always counted as water-focused engagements and are therefore not visible in the table above. One example is the Sustainable Protein engagement led by FAIRR. This engagement encourages global food companies to transition their product portfolios to facilitate healthier and more sustainable diets. Supply chain water use and quality is an important factor influencing the sustainability of a product portfolio and thus is an important focus area for this engagement. Also, engagements on deforestation or climate change can have the side effect that they help preserve or restore water cycles in a specific area.

ACTIAM is currently investigating options to include the topic of water quality more explicitly in its engagements. Additionally, in the coming years ACTIAM will actively seek ways to escalate when companies do not show sufficient progress, for example by becoming involved in proxy voting and (co)issuing shareholder resolutions on water neutral models in order to increase pressure on lagging companies.

2.2.2 Increasing positive impact

Investors with water-related targets in their policies tend to mainly focus on reducing operational water-use via increased efficiency. However, this is not sufficient to reach water-neutrality. The figure below shows the projected gap between water demand and supply in 2030. Only a small part of this gap is expected to be closed through further productivity improvements. The largest part, however, needs groundbreaking technologies or other innovative solutions in the field of water management to be developed.

Water demand and supply gap in a business-as-usual scenario

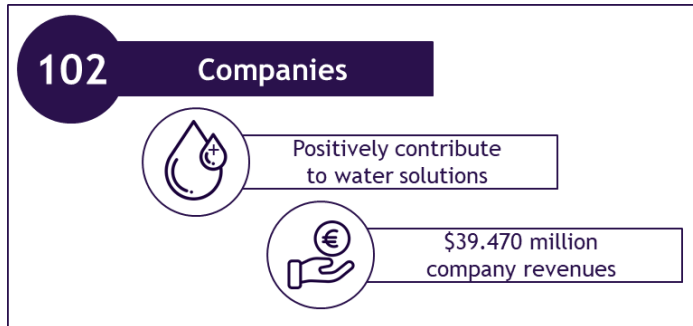


Source: 2030 Water Resources Group (2009). Charting Our Water Future. Economic frameworks to inform decision-making.

Supporting technologies and services

The availability of solutions may speed up the transition towards a water neutral economy. ACTIAM is therefore actively investing in companies that provide solutions to the water crisis. These could be technological solutions that help others achieve increased water efficiency, provide alternative sources of water or contribute to efficient wastewater treatment and recycling. Also, such solutions might relate to the development of more water-efficient or water neutral products. ACTIAM invests in 102 companies - over 5% of AUM - that positively contribute to water solutions.

Companies that positively contribute to water solutions



The share of revenues these companies earn from these solutions varies substantially from very low (<5%) to more than half of their revenues. In total, companies in ACTIAM's investment portfolio earn \$ 39.470 million in revenues from water-related solutions. Xylem is an example of a portfolio company that specializes in solutions to increase the sustainable use of water, including the transport, treatment, testing, and efficient use of water for its customers in different industries. Amongst its goals are to reduce over 3.5 billion m³ of non-revenue water, to treat 13 billion m³ of water for reuse

and to prevent over 7 billion m³ of polluted water from flooding communities or entering local waterways. Rockwool is a different example that develops stone wool growing media solutions for water savings in greenhouse cultivation.

To motivate portfolio companies to further increase their positive water impacts, in 2021 ACTIAM started an engagement targeted at companies that aim for a positive water impact through their products and services. In the engagement ACTIAM collaborates with Ceres, a non-profit organization that works with investors and companies to solve sustainability challenges. The aim of the engagement is to stimulate companies to quantify their positive impact and report in a consistent and standardized way about this impact. A second aim is to make the realization of positive impact an integral part of a company's policies and increase the positive impact as much as possible, based on the concept lifecycle thinking. Conversations initially started to see what can be expected and where the biggest challenges lay. What ACTIAM has learned from these conversations is that positive impact is still a relatively underdeveloped topic and little standardized metrics are available for companies to report on this. To this end, ACTIAM also participates in sector initiatives and engages with knowledgeable institutions such as Ceres and CDP to stimulate further development of water-related impact metrics. This year, the scope of the engagement will be extended to multiple companies.

Natural resources and biodiversity

Another development, although still small, are investments in biodiversity and catchment restoration and enhancement. It will be impossible to reduce water consumption completely to zero. What is important is therefore that our abstractions remain within the limits of what nature can supply. Ecosystems are a critical part of the global water cycle and the quantity and quality of freshwater available ultimately depends on the health of world's ecosystems. ACTIAM is closely monitoring the developments and investment opportunities with a focus on restoration finance.

Additionally, ACTIAM is an active investor in green bonds. Green bonds can aid water neutrality either directly by directing investments towards water efficiency and water treatment projects, or indirectly among others by stimulating investments in biodiversity conservation or the restoration of natural resources. ACTIAM's aim is to have 25% of its fixed income portfolio invested in green bonds by 2030.⁵ Although it is still one of the smaller themes, the opportunities to invest in the water theme via the green bond market are increasing. While in 2014 only 26 issuers (17% of total) allocated \$2.9 billion to the topic, this has grown to 170 issuers (16% of total) allocating \$18.7 billion in 2020.⁶

⁵ All investments in green bonds, sustainable bonds, sustainability-linked bonds, KPI-linked bonds are included in this target. Bonds focussing on the ICMA category Sustainable Water and Wastewater management have a direct impact on water availability. However, also bonds contributing to biodiversity conservation, the sustainable management of natural resources and countering climate change, will positively contribute to the achievement of water targets. Therefore, all such UoP categories are being taken into account. ACTIAM uses its own Sustainable Bonds Assessment Framework to define the label and contributions of such bonds. ACTIAM will further develop methods to make the positive impacts of these bonds measurable.

⁶ Based on data from the Climate Bond Initiative, <https://www.climatebonds.net/market/data/#use-of-proceeds-charts>

Increasing opportunities to invest in the water theme through the green bond market



The sustainable bond issued by the Colgate-Palmolive Company is an example of a bond with clear water-related targets that ACTIAM has invested in in 2021. This company aims to achieve net zero water at its manufacturing sites in water stressed areas by 2025 and at all of its manufacturing sites by 2030. The company acknowledges the role of the supply chain in its water footprint and also works to increase water resilience across the value chain. To support these goals, the company included Sustainable Water and Wastewater management as one of the use of proceeds categories in its green bond framework. With this, Colgate-Palmolive intends to invest in solutions that promote the sustainable management of water resources, such as water efficient technologies, improved wastewater treatment and the digitalization of water quality monitoring. It also invests in projects that directly protect the health of watersheds, for example by using alternative water sources, the replenishment of water sources and the development and implementation of watershed health strategies. Also, countries have issued bonds with water-related targets. A ‘best-practice’ example is the Latvian green government bond that ACTIAM invested in in 2021. Among the use of proceeds categories for this bond are projects to improve the status of national water bodies at risk by:

- Implementing river basin management plans and flood risk plans
- Re-vegetate open water bodies
- Research and restock freshwater migratory fish
- Improve monitoring of groundwater quality and
- Reduce and eliminate sources of groundwater pollution

This all contributes to Latvia’s National Development Plan for 2021-2027 which has the protection of high-quality water bodies and increasing the percentage of protected areas amongst its aims.

2.2.3 Divest from issuers that are not willing or capable to transition towards water neutrality

The last component of ACTIAM’s water strategy is to exclude companies that lack the capacity or willingness to transition to a water neutral society. ACTIAM prefers an engagement approach to stimulate companies to improve their performance, but when it becomes clear that a specific company is not able or does not want to make the transition, this can constitute a financial risk to the portfolio and exclusion might be the best solution.

At the end of 2021, the water performance and policies at 88 companies did not comply with ACTIAM’s sustainable investment policy due to which they would cause sustainability risks to the ACTIAM funds.

As a result, 20 companies have been excluded for all funds and an additional 68 have been excluded for the sustainable funds because of their lagging water policies.⁷ Food and Beverage and Metals and Mining are among the sectors from which many companies are excluded. For the Food and Beverage sector this is largely driven by a lack of supply chain oversight and risk management. In this sector water management through the value chain is highly material as much water is needed to grow crops. Agriculture accounts for 70% of global freshwater use. Additionally, about half of world’s irrigated cropland is in areas of high water stress.⁸ Excessive water use by agriculture can take away water from other stakeholders and a lack of sufficient water for irrigation could impact the availability and price of agricultural raw materials. Metals and Mining companies often have adverse impacts on land and water and/or are involved in conflicts over land and water use and pollution with the local population.

⁷ Companies can be excluded (non-adaptive or at-risk) on multiple drivers. These numbers represent both the companies that have water as sole reason for exclusion as well as companies that are excluded for multiple reasons, among which water.

⁸ WRI (2021). Aqueduct Food Atlas. https://www.wri.org/applications/aqueduct/food/#/?basemap=hydro&country&crop=all&food=none&indicator=8074ac9b-9cca-4aaf-a112-26166a8e9c7d&irrigation=all&lat=34.91&lng=-46.87&opacity=1&period=year&period_value=baseline&scope=global&subscope&threshold=40&type=absolute&year=baseline&zoom=3

3 Conclusion

This document contains the baseline assessment for the KPIs formulated in ACTIAM's 2021 Water Policy. On an annual basis, ACTIAM will monitor and report the progress against these KPIs and assess whether targets continue to be sufficiently ambitious or have to be strengthened. Additionally, ACTIAM intends to further specify and increase the ambitiousness of its water targets as soon as more and more reliable data becomes available, for example by further quantifying the targets and/or by shortening the timeframe within which targets should be reached. To speed up progress, ACTIAM will actively work on and participate in industry initiatives - such as the Valuing Water Investor Working Group, led by Ceres, and the Wastewater Zero Initiative, from the WBCSD - that focus on improved understanding of the different faces of water stress and pollution, improved disclosure on the topics, and/or raised business ambitions in the field.

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