



Case Study: Aiming for Portfolio-Level Water Neutrality

A Netherlands-Based Asset Manager's Mission to Achieve a Water-Neutral Investment Portfolio

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Investor Spotlight: **ACTIAM**

Institutional Investor Bottom Line

Through its responsible investment policy, ACTIAM - a Netherlands-based responsible fund manager, with €54.6 billion in assets under management - is the first-ever investor to make a public commitment to limit the impacts or use of water across its entire investment portfolio and set a quantitative target. On World Water Day 2017, ACTIAM announced its goal to achieve a water-neutral investment portfolio by 2030. By measuring and reporting on this target, ACTIAM aims to manage its freshwater impacts. Furthermore, the firm hopes its ground-breaking commitment will spur other investors to follow, and develop methods to assess and understand portfolio water risks and impacts.

Setting an Ambitious Goal

The goal of this work is for ACTIAM's investment portfolio to be water-neutral by 2030 in order to contribute to one of the UN Sustainable Development Goals (SDG #6 - *Ensure Availability and Sustainable Management of Water and Sanitation for All*). Initially, ACTIAM aims to achieve this by actively encouraging companies in the portfolio to practice good water stewardship (for more details see the link to ACTIAM's Water Active Ownership Criteria below). Ultimately, the firm's goal is to encourage businesses 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." This means promoting strong, regionally-appropriate water management strategies by its portfolio companies, and transparent reporting of relevant water metrics (Figure 1).



Figure 1: ACTIAM water neutral goal as a way to track its contribution to the SDGs.

Tracking Progress: ACTIAM's Water Footprint Methodology

To measure progress towards this goal, ACTIAM has calculated the water footprint of its investment funds. The portfolio water footprint currently measures total water use in high-risk areas by all of ACTIAM's portfolio companies. High-Stress Water Use refers to the aggregate amount of the water consumed by portfolio companies in High Stress Areas, using the WRI Aqueduct Water Risk Atlas.

ACTIAM calculates the Portfolio's water footprint based on the following steps (and Figure 2):

1. For each company in its portfolio, ACTIAM analyzes total water consumption of business activities in areas where high or greater levels of baseline water stress prevail. High water stress levels indicate that a large portion of renewable water supplies is being used, and is a good metric for indicating high competition for water¹ (more details to be published soon).
2. Taking the above corporate-level water-use indicator ACTIAM calculates an aggregate portfolio level water footprint, by using the percentage of company value owned by ACTIAM. Company value is determined by its enterprise value, an economic measure of the market value of a company.
3. By adding up the estimated water footprint of all the companies it holds, ACTIAM can calculate the total water footprint of its investment portfolios.
4. For companies in high impact sectors² that do not report on water usage, water consumption is estimated based on conservative assumptions for water use in the sector. Data gaps in non-high impact sectors receive a water footprint of zero.

While the footprint does not yet include reused water, or untreated wastewater discharge, ACTIAM hopes to develop a methodology that can track these metrics, and contribute to investor understanding of water quality issues also.

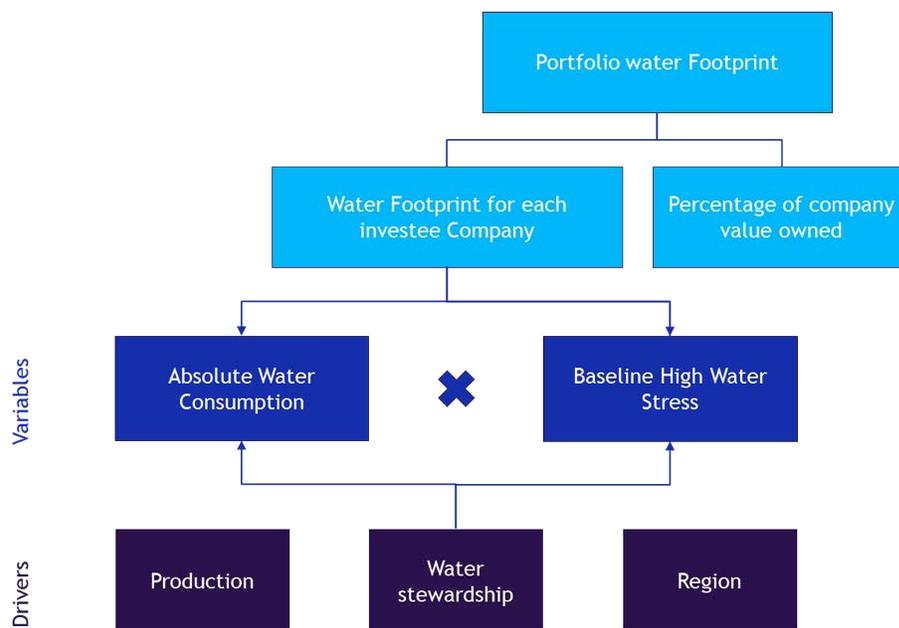


Figure 2: ACTIAM's company and portfolio water footprinting approach.

Based on its water footprint methodology, ACTIAM calculated its initial footprint in Q2 2017 for all equity and corporate bond funds. This measurement is the baseline for assessing improvement over time. ACTIAM will track its water footprint every year, and will benchmark this against previous years. Results will be published in the firm's semi-annual reports and in regular progress reports on the effort.

¹ This analysis uses WRI Aqueduct's water stress indicator. For more information see: <http://www.wri.org/our-work/project/aqueduct>

² Metal and mining, utilities, oil, gas and consumable fuels, food & beverages, consumer services and semiconductors - based on internal and external research, ACTIAM has classified these sectors as heavily dependent on water for carrying out their business activities. Lack of water can therefore be seen as a risk for companies in these sectors. In addition, (aggressive) lowering of water footprints in these sectors is expected to have a positive impact on achieving SDG #6.

Water as a Key Component in ACTIAM's Drive to Improve Overall Portfolio Sustainability

Water is an important part of ACTIAM's larger goal of leading towards more sustainable portfolios. ACTIAM steers portfolios towards sustainability by structurally integrating sustainability information into the investment process. Investment decisions for active portfolios managed by ACTIAM include environmental, social and governance elements, which are reflected in a relative company score (ESG score). This score reflects ESG risks that are financially material to the company, as well as the company's performance on ACTIAM's focus themes: climate, water and land. The portfolio's market value-weighted ESG score should (at all times) be higher than the benchmark's market value-weighted ESG score. Portfolio managers have as targets a positive difference in ESG scores, which creates incentives for investment in companies with high ESG scores.

The ESG scores consist of three elements: key issues scores, sector scores and analyst scores (Figure 3). ACTIAM's Portfolio Water Footprint is incorporated into these ESG scores through the sector score: ACTIAM uses the direct sector impact on the focus themes of climate (carbon footprint), water (water footprint) and land (by proxy) in order to weigh companies across sectors. Negative company action or impact on the focus themes results in a decrease of the key issue score. Positive company-specific impact results in an increase of the key issue score. Finally, ACTIAM includes the view of its ESG team on the sustainability performance of companies. Companies with which ACTIAM conducts responsive engagement receives a reduced ESG score to prevent an overweight position in portfolios. Companies that are seen as leading in their sectors or contributing to ACTIAM's focus themes can be given a positive analyst score ("positive selection"), to make investment in these companies more attractive. For example, a company's ESG score related to water will be raised when there is evidence of good corporate water stewardship even in high-impact sectors, opening the door for portfolio managers to invest more heavily in more water aware companies.

ACTIAM ESG score				
1. Key issues scores			2. Sector score	3. Analyst score
Environment <ul style="list-style-type: none"> • Climate change • Natural resources • Pollution & waste • Environmental opportunities 	Social <ul style="list-style-type: none"> • Human capital • Product liability • Stakeholder opposition • Social opportunities 	Governance <ul style="list-style-type: none"> • Corporate governance • Corporate behaviour 	Sector impact on: <ul style="list-style-type: none"> • Carbon footprint • Water footprint • Land footprint 	<ul style="list-style-type: none"> • Responsive engagement (subtraction from score) • Positive selection (addition to score)

Figure 3: Elements of ACTIAM's ESG Score

How ACTIAM is Hoping to Contribute to Sustainability in Capital Markets

Through all of these efforts ACTIAM hopes to not only improve its own overall impact and risk return profile, it also hopes to raise institutional investor awareness of water, promote better data transparency and the development of better sustainability research methods, including:

- Impelling other investors to create long term water targets and portfolio goals, recognizing that water is a shared resource and water risks diminish with collective action.
- Improvement in data provisioning and transparency around water and sustainability issues.
- Pioneering investor performance tracking methodologies on water and laying the groundwork for others.

For More Information:

To read more about ACTIAM's 2030 goal, see [the press release](#).

To read more about ACTIAM's water strategy and water active ownership criteria, [click here](#) or contact Kristel Verhoef at kristel.verhoef@actiam.nl