



Kevin Thomas and Hugues Létourneau of the Shareholder Association for Research and Education work with investors to identify and mitigate water risks.



Kevin Ranney works with asset managers, mutual funds, and pension funds on responsible investment.



Jamie Bonham of NEI Investments screens companies against performance criteria including the company's water impacts.



David Henderson is the managing director of XPV Capital Corporation, a private equity fund that invests exclusively in water.



Deltares and Utrecht University in the Netherlands are working together on a new water data information service that will feed into the World Resources Institute Aqueduct tool.

Risky Business

How financial actors are responding to and driving water sustainability.

BY GRACE SAUNDERS-HOGBERG

IN RECENT YEARS, investors have become more aware of the impact catalysts like climate change, population growth, and declines in freshwater availability have on the global economy. A dramatic example of this occurred in March 2011 when the price of cotton surged 167 per cent after years of floods and drought in the world's key cotton-growing regions, coupled with an increased demand for cotton in Asia. This price surge prompted U.S. retail chain The Gap to cut its full-year profit forecast by 22 per cent.

Among the range of factors investors are encouraged to include in their evaluation of a company's financial prospects, water risks have emerged as an area requiring attention. This fact was underscored this past year when the World Economic Forum placed water insecurity as the biggest threat facing the global economy over the next decade. Even in water-rich Canada, these risks have become increasingly important.

Kevin Thomas, the director of shareholder engagement at the Shareholder Association for Research and Education, said water is a key area of interest for investors. "Companies can potentially be exposed to real financial risks in terms of pollution or availability."

According to David Henderson, managing director with XPV Water Partners—an investment firm focused on high-growth water and environmental businesses

globally, “the main economic activities in Canada according to GDP are based on water-intensive industries [...] food and beverage processing, manufacturing, oil and gas.” This past year, institutional

The key for investors is seeing how well a company understands and manages their water risk.

investors requested further disclosure on water management from 11 Canadian companies through the Carbon Disclosure Program’s water program. Of these, four (or 36 per cent) reported a detrimental water-related business impact in 2014.

The key for investors when assessing a company is seeing how well a company understands and manages their water risk. For Jamie Bonham, manager of

extractives research and engagement at NEI Investments, water risk management is an important consideration when deciding whether or not to invest in a company. NEI Investments is a national

investment firm with more than 25 years’ expertise in socially responsible investing. NEI uses a rigorous screening process to assess companies against a baseline of performance criteria,

and Bonham said companies that fail to meet these measures are dropped. This includes the company’s water impacts relative to other local users. “We are looking at water within the greater watershed; the societal use of shared resources.” Bonham said assessing and managing impacts for downstream users ensures the social licence for a company to operate.

If a company fails to acknowledge

growing risks, it could become a material matter for the investor. This is often the case when it comes to relations with First Nations. “Relationships with indigenous peoples are often not expressed as a water problem,” Thomas said. “But threats to drinking water, ecosystems, or hunting and trapping rights are all intertwined.”

In a truly holistic approach to assessing water risks, it goes beyond the direct operations. Kevin Ranney, the director of advisory services at Sustainalytics, said “supply chain issues are very important to any risk assessment of a company.” The food and beverage industry is a good example of this, given its dependence on agricultural inputs—that are highly susceptible to a range of water risks. “It is important for companies to engage with their suppliers regarding their management of such risks.” he said. Mapping tools, such as the World Resources Institute’s Aqeduct, have been developed to help investors identify vulnerable water basins across the globe.

TANK CONNECTION

SIMPLY THE BEST IN WATER STORAGE!

- A **DESIGN** Our bolted RTP (rolled, tapered panel) tank design is unmatched worldwide. It is the strongest, precision tank design that does not utilize cheap web stiffeners.
- U **COATINGS** Our LIQ Fusion 7000 FBE™ coating system and application technology is unmatched in water storage applications. It is a **STRONGER SYSTEM THAN GLASS COATINGS** and other epoxy powder systems. It is provided exclusively by one company, Tank Connection.
- P **PRODUCT QUALITY** Simply unmatched worldwide. Our facilities are ISO 9001 quality system certified. Tank Connection operates multiple storage tank manufacturing facilities in the U.S. Our storage products and services are requested globally because our quality is recognized as “the BEST” in the industry!
- E **INDUSTRY EXPERTS IN STORAGE** We are the leading experts in storage applications with more years of combined industry experience than any other tank company.
- F **FIELD CONSTRUCTION PROCESSES** Unmatched in quality and field safety. EMR 59











A GLOBAL LEADER IN LIQUID STORAGE APPLICATIONS!



Request A Quote And “Get Connected” With Real Performance From The Market Leader, Tank Connection!







TANK CONNECTION AFFILIATE GROUP
 3609 North 16th Street • Parsons, KS 67357 • PH: +1 620.423.3010
www.tankconnection.com • Inquiry: sales@tankconnection.com

According to Thomas, financial investors can also be drivers of change to achieve outcomes that protect water and ecosystems by requiring disclosure of practices. Investors can ask companies about how they manage water risks and

It's not just a matter of being socially and environmentally conscious—it's a matter of doing sound analysis for long-term investments.

their strategies to minimize impacts, which provides an incentive to perform well. They can also engage companies in adopting better water management practices.

By focusing on the catalysts that affect global water supplies, Toronto-based XPV Capital has become the largest company in the world of its kind dedicated to

water. XPV is a private equity investment firm that specializes in sub-scale emerging companies solving various water issues. It currently manages \$400 million in assets on behalf of institutional investors, including pension funds, endowments, and banks. "Institutional investors are attracted to us because we are highly specialized," Henderson said. Investing in technologies to improve water efficiency and water treatment drives the solutions to many water challenges.

Bonham also agrees with the notion of an investors' role in bringing environmental, social, and governance issues to the forefront: "It's not just a matter of being socially and environmentally conscious, but it is also a matter of doing sound analysis for long-term investments."

At the end of the day, water is just one aspect that may affect a company's growth. Yet as water challenges globally increase, so do the fiduciary responsibilities that come with caring for investments of their asset owners. wc

Grace Saunders-Hogberg is a graduate from the University of Waterloo Masters in Environmental Studies program with a focus on sustainable water management in the food and beverage industry.



Join the Canadian Water Summit on June 23 to be part of the dialogue on corporate water risks and sustainability at watersummit.ca


Three quarters of Canadians use toilet as garbage can
March 2011

Urban dwellers ill-prepared for Mother Nature's impact on water
March 2013

Canadians confident in their tap water but do they care? March 2015

What will we discover this year?

You're invited to find out.



Join us for a one hour webinar to hear findings from the 9th annual RBC Canadian Water Attitudes Study, with insights from Canadian water experts Bob Sandford and Robert Haller, and Chris Coulter of GlobeScan.

Tuesday, June 14 at 11 a.m. EST.
Register now at bit.ly/CWAS2016

