

WATER

Why We Engage

Understanding water-related risks is important for investors both today and over the long term. Effective management of water supply, use and quality is fundamental to the long-term sustainability of many companies. These factors can have direct operational impacts that potentially affect companies' performance.

What We Seek

- > Increased reporting on water-related strategies and performance
- > Improved and more comparable disclosure of water-related data
- > Better management of water risks

Engagement

DIRECT ENGAGEMENT

We continue to work with companies, industry bodies and investors on ways to improve disclosure of water-related risks and build consensus around what metrics and information are most relevant. One such effort is the CDP Water program, of which CPPIB has been an investor signatory since its launch in 2010.

The CDP Water program asks companies to disclose via questionnaire (the CDP Water Information Request) efforts to manage water-related risks. Investor signatories can use data collected by CDP to better engage with portfolio companies, mitigate risk, capitalize on opportunities and inform investment decisions.

WHY WATER MANAGEMENT MATTERS

Water is one of the world's most critical resources – its supply is limited, while demand continues to rise. NASA notes less than 3% of the world's water supply is freshwater that can be used for agriculture, industry and household consumption. Yet, according to the 2019 United Nations Water Development Report, global water demand in 2050 is expected to be 20% to 30% higher than current levels. Effective water management is, therefore, essential to meet long-term global needs.



The most recent CDP Water Information Request was supported by 650 institutional investor signatories representing over US\$87 trillion in assets. The CDP 2018 Global Water Report, which analyzed 783 of the world's largest publicly listed companies, noted:

40%

OF RESPONDENTS HAVE INTEGRATED WATER INTO GOVERNANCE AND STRATEGY MECHANISMS

29%

OF RESPONDENTS HAVE SET TARGETS OR GOALS AT MULTIPLE LEVELS OF THEIR BUSINESS

50%

OF RESPONDENTS REGULARLY MONITOR AND MANAGE WATER ASPECTS ACROSS FACILITIES.¹

¹ Includes withdrawals, discharges, quality and consumption.

HERMES EOS ENGAGEMENTS

Water risk has been a long-standing theme for our global collaborative engagement platform Hermes EOS. Its water-related engagements focus on the consumer goods, mining and utilities sectors and include topics such as water stress (shortages of water), water management plans and water risk in supply chains. Companies are also encouraged to respond to the CDP Water Information Request.

PROXY VOTING

This year, we continued to support shareholder proposals requesting improved management and disclosure of water-related risks, including those stemming from water availability and quality. We supported proposals relating to requests for increased disclosure of water risk management practices including those at Pilgrim's Pride Corp. and Chevron Corp.

Engaging on water risks in agricultural supply chains



In early 2018, CPPIB joined the United Nations-supported Principles for Responsible Investment (PRI) collaborative engagement on water risks in agricultural supply chains. Agriculture is a significant user of water and accounts for about 70% of annual water withdrawals globally.

This collaborative engagement targets companies with operations and supply chains that are dependent on agriculture and can be subject to various water-related risks, such as water shortages and flooding. These companies include those across the agricultural products, apparel and luxury goods, food and beverage and retail sectors. CPPIB chooses to play an active role in this effort, alongside over 35 global investors, by leading an engagement with one of the more than 15 targeted companies.

In September 2018, two members of our Sustainable Investing team joined 25 other members of this PRI collaborative effort on a fact-finding trip to California. The state has experienced extended periods of drought for many years and its agricultural sector has had to adapt to changing water availability and develop innovative solutions to address ongoing challenges. Trip participants met with companies, policymakers, environmental groups and farm owners who shared their views on the drivers and strategies for water management in the agricultural supply chain. These conversations helped deepen our understanding of the water risks and opportunities for long-term investors.