Portfolio Water Footprinting

Problem Statement

- **Current State:** Almost all global equity portfolios have significant water risk and no guidelines exist for investors to assess the water risk of their portfolios.
- **Desired State:** Widespread portfolio water footprinting by asset owners/managers that incentivizes companies to report on and responsibly manage water, ultimately leading to a global reduction in water risk.

Relevance and Impact

- Ceres’ mission: Transform the economy to build a sustainable future for people and the planet.
- Responsible water management is essential for a sustainable future and water footprinting is important in catalyzing asset owners & asset managers to be more engaged stakeholders on water resource issues.

Research & Sensemaking

- Interviewed stakeholders, including water experts & asset owners/managers, to identify root causes for the lack of water footprinting execution.
- Identified over 25 existing sources (i.e. WRI, SASB, MSCI, WWF, Corporate Sustainability Reports) for water data and screened publicly available data for consistency and availability to develop tool factors.

Root Cause Analysis

- No clear shared goals, incentives, or workflows for investors to perform portfolio water footprints.
- Stakeholder interests often conflict (investors versus corporations).
- Organizations (and teams within) have different perspectives on the importance of water risk management.

Recommendations

- **Build a high-level, simple, & transparent tool** for portfolio water footprinting based on publicly available data that targets asset owners in the “novice” to “aspiring” water awareness category.
- **Incorporate flexibility in factor weighting** to build trust with users & limit # of factors to minimize the time required to evaluate a company.
- **Use the tool to pressure companies to report water data** as no reporting leads to a score of 0 in each respective category.

<table>
<thead>
<tr>
<th>Portfolio Name</th>
<th>% of Portfolio AUM</th>
<th>Industry Water</th>
<th>Material Materiality</th>
<th>Corporate Sustainability Report</th>
<th>Corporate Website, COP</th>
<th>10-K</th>
<th>COP</th>
<th>WRI</th>
<th>Region Overall Water Risk</th>
<th>Factor-Weighted Company Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recmd. Weight</td>
<td>Actual Weight</td>
<td>-</td>
<td>Conditional</td>
<td>20</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Company A</td>
<td>33% Material</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Reporting</td>
<td>Overall data only</td>
<td>&lt; 5</td>
<td>No</td>
</tr>
<tr>
<td>Company B</td>
<td>33% Material</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Reduction data only</td>
<td>Reduction data only</td>
<td>&gt; 10</td>
<td>No</td>
</tr>
<tr>
<td>Company C</td>
<td>34% Immaterial</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Portfolio, AUM (should = 100%)</td>
<td>100%</td>
<td>Has corporate sustainability report</td>
<td>Discussion of water mgmt. and strategy</td>
<td>Discussion of investment in water use efficiency</td>
<td>Sets explicit water related goals</td>
<td>Reports water usage data</td>
<td>Reports water discharge data</td>
<td>Requires key suppliers to report on water use, risks and mgmt?</td>
<td>Who has the highest level of direct responsibility for water?</td>
<td>Regional Overall Water Risk</td>
</tr>
<tr>
<td>Portfolio Score by Factor</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>80%</td>
<td>90%</td>
<td>57%</td>
<td>34%</td>
<td>100%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Next Steps

- Test the tool against portfolios to evaluate performance & identify bugs.
- Adjust factor weights according to Ceres’ expert knowledge & automate factor weighting based on each company’s GICS classification.
- Disseminate the tool to potential users for testing & feedback, after which the tool can be optimized & shared with the greater target audience.

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