

Walking the Talk

Empowerment through investing.

BY MILLA CRAIG AND GRACE DI MEO

DELEGATES AT MCGILL UNIVERSITY'S CANADIAN WATER: Towards a New Strategy conference (March 25-26) heard one question being repeated by water experts in attendance: "Given that we are aware of the vital issues surrounding the long-term viability of water resources in Canada and around the world, how can we begin to have an impact?"

It was after these numerous iterations of the same question that we were moved to respond. There is a powerful way for individual Canadians to have an impact, and that's through the choices we make in where and how we invest our personal wealth.

The movement of responsible or sustainable investing is making its way from the fringes into mainstream investment firms. The principle is that by integrating factors relating to environmental, social, and governance (ESG) issues, one will better manage potential risks and opportunities surrounding the organizations into which one invests. Given the potential risks and opportunities that lie ahead with respect to water, it's increasingly desirable to invest in funds that take these future risks into consideration when analyzing a corporation's business strategy and relative pricing.

Principles

In 2005, the United Nations' Secretary General invited a group of the world's largest institutional investors to help develop Principles for Responsible Investment (PRI), a framework under which asset owners could begin to integrate these ESG metrics into their investment processes. These principles are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-

making and ownership practices.

Sustainable investing is growing increasingly popular with large mutual funds, pension funds, endowment funds and foundations globally. As evidence of the growth in this area, as of June 2010, there were as many as 743 signatories globally, representing approximately \$20 trillion of assets under management, who are working towards integrating these principles.

Currently in Canada, we have 32 signatories who are asset owners, asset managers or service providers. Of particular note is Canada's federal pension plan. "We believe it is in the best interests of the Canada Pension Plan (CPP) Fund when the companies in which we invest meet high standards of disclosure and performance on ESG issues," says Brigid Barnett, responsible investing manager, CPP Investment Board (CPIB).

"The CPIB was not only on the drafting committee of the UN PRI, and one of the first signatories, but our own PRI predates the creation of that initiative."

How it relates to water

In 2008, the Chartered Financial Analysts (CFA) Institute produced a manual to assist in integrating ESG metrics into financial research. But given how quickly water-related issues are coming into the public foray, even a forward-looking institution like the CFA Institute omitted water as an issue in the aforementioned manual.

Since that time, there has been an increasing focus on water as part of financial and risk assessment. In January 2010, the U.S. Securities and

Exchange Commission included water in its interpretive guidance provided to reporting public companies by saying that changes in the quality and availability of water can have material effects on companies. This guidance highlights that publicly listed corporations need to disclose to investors any material climate-related risks including physical risks like water.

Rises in the standard of living in developing countries tends to result in higher per capita water consumption,

"Water risk has emerged as a key issue for us when investing in certain industries." —Bob Walker

especially through shifts in demand for different food crops. Emerging market economies are experiencing high economic growth and an increasingly urban population; both will result in shifts in the demand for food, energy and water. Rivers and aquifers are being depleted due to population growth, increased demand per person, improved withdrawal technologies and climate change. This will further affect water availability, quality and demand in ways that present material risks to companies and their investors.

"Water risk has emerged as a key issue for us when investing in certain industries," says Bob Walker, VP of sustainability at Northwest & Ethical Investments. "We not only look at it from a company selection perspective, but try to persuade companies to give us better performance data and ultimately improve performance for those companies held in our funds."

The oil and gas industry is receiving increased attention relative to water

management. Much has been written about the oil sands and its tailings ponds. Natural gas and shale hydraulic fracking also increasingly have high water usage and it's important to ensure that there is no contamination

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of water sources. The industry is putting effort into minimizing its water risk and it is clear that this effort will continue, especially as we witness BP's oil spill troubles and efforts to limit damage in the Gulf of Mexico (*see page 18*). Equally, the public and regulators do not and will not accept this type of risk and/or contamination of natural resources and wildlife.

"As an investor, one must always pose the difficult questions of companies. One should not wait for problems to arise but keep abreast of changes within industries and maintain an open dialogue with corporations in order to adapt to a constantly changing environment," says Benoit Brillion, partner and portfolio manager, Selexia Investment Management.

Water is used in some way in all manufacturing processes. All products may be viewed as containing some quantity of water in their production. This is referred to as embedded water. At the same time, water is crucial for human life and the survival of all ecosystems. Water resources vary from place to place; this is something risk managers in business need to understand. Current water trends translate into a set of material business risks that fall into four categories: physical, reputational, regulatory and litigation risk (*see Tony Maas' "Water Footprint," January/February 2010, for further details*). The amplitude of these risks will vary by sector and company.

Taking action

The many issues that surround water relate to how money is being invested. As an employee, have you asked your

pension fund if they follow a responsible investment policy in managing your funds? Are those who manage the assets of your pension fund signatories of the PRI / Carbon Disclosure Project / Water Disclosure Project? Do they use ESG factors in investment decisions? Do they engage with companies to try to influence behaviors with respect to ESG issues? If not, seek to determine the reason.

This same approach could be equally relevant to university endowment funds and foundations for whom you volunteer or to whom you make donations.

Another more direct avenue to have an impact is through investing your personal and retirement savings into mutual funds that do follow these principles. In an effort to provide independent guidance, the Social Investment Organization website

(socialinvestment.ca) offers a plethora of information to increase your knowledge, the financial advisors across the country who are knowledgeable in this field, and a listing of mutual funds with their quarterly performance data.

Don't underestimate the power of your actions in either of these areas. It is as individuals and beneficiaries to these large pools of assets that we can influence action towards corporate sustainability. **wc**

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