



LGIM's water policy



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As a global investor, Legal & General Investment Management (LGIM) is committed to assessing and addressing the water-related risks.

Summary

Nature is foundational to our economic and social system. LGIM supports the vision of the Kunming-Montreal Global Biodiversity Agreement of halting and reverse nature loss by 2030 and living in harmony with nature by 2050. Transitioning to protect, manage, and restore nature across markets will in our view be hugely complex, requiring both public and private sector commitment and collaboration.

LGIM's Nature Framework outlines how we structure our work on nature across the full breadth of our stewardship activity. Water is a central pillar to this approach. This includes marine and freshwater ecosystems, which are two of the four realms in the natural world that differ fundamentally in their organisation and function. Protecting, managing, and restoring the global water system is a fundamental part of living in harmony with nature and central to our global economy.

LGIM believes that water-related risks are financially material and have significant implications for our clients' assets if left unaddressed. This policy document provides more granular detail on LGIM's approach and expectations concerning water.

Why it matters to investors

Water is fundamental to life on this planet and vital to our global economy. The economic value of water is vast, with direct and indirect use benefits equivalent to approximately \$58 trillion in 2021.¹ Marine and freshwater are two distinct and critical realms within our global water system. The marine environment (estuaries, coastal marine and nearshore zones, and open-ocean-deep-sea regions) is one of the main repositories of the world's biodiversity, critical to the healthy functioning of the planet, supplying half of the oxygen we breathe and absorbing around 26% annually of the anthropogenic carbon dioxide emitted into the atmosphere.² Freshwater environments include rivers, lakes, wetlands, streams and underground aquifers. While covering only 0.01% of the Earth's total surface,³ freshwater environments supply essential ecosystem services such as water for drinking, food, manufacturing, energy and transport, and help to prevent erosion, dispose of waste and provide natural protection from flooding.⁴ They are also critical for biodiversity, for example providing habitat for one third of all vertebrate species, including approximately 40% of fish species.⁵

However, the state of global water system is deteriorating and presents us with a systemic market risk. The World Bank has suggested that in some regions water-related impacts on agriculture, health,

¹ WWF. 'The High Cost of Cheap Water'. 2021. <https://wwfint.awsassets.panda.org/downloads/wwf-high-cost-of-cheap-water--final-lr-for-web-.pdf>

² <https://www.un.org/en/chronicle/article/marine-biodiversity-and-ecosystems-underpin-healthy-planet-and-social-well-being#:~:text=The%20ocean%20is%20one%20of,marine%20species%20are%20still%20unidentified.>

³ <https://www.unep-wcmc.org/en/news/the-value-of-freshwater-ecosystems-and-the-benefits-from-their-restoration>

⁴ <https://www.wwf.org.uk/what-we-do/protecting-our-rivers-lakes-and-freshwater#:~:text=They%20store%20and%20clean%20the,provide%20natural%20protection%20from%20flooding.>

⁵ <https://www.unep-wcmc.org/en/news/the-value-of-freshwater-ecosystems-and-the-benefits-from-their-restoration>

and incomes could cut up to 6% of their GDP by 2050.⁶

On the quantity side, freshwater – just 3% of the world’s water⁷ - ecosystems are under increasing pressure both from the demand side (e.g., population growth; industrial, energy and agricultural use), and from the supply side (e.g., land-use change, aging infrastructure, depleted groundwater reserves and climate change). Indeed, agriculture irrigation accounts for 70% of freshwater use worldwide⁸ and by the end of this decade freshwater demand will outstrip supply by 40%⁹.

Water quality is continuing to deteriorate, threatening human health, ecosystem functioning and restricting economic growth¹⁰. Wastewater treatment is insufficient and being neglected, with about 80%¹¹ of all industrial and domestic wastewater being discharged directly into groundwater and surface water¹². According to the United Nations, 44%¹³ of global household wastewater is not treated safely, impacting ecosystems and human health. Human activities have had a significant impact on marine ecosystems, including exploitation of fish, shellfish and other organisms, land- and sea-based pollution, including from river networks, and land-/sea-use change, including coastal development for infrastructure and aquaculture.¹⁴

Companies’ exposure to different water-related risks will be determined by geography and sector. Physical risks can include acute events such as flooding, limited water availability, or poor-quality water, while transition risks can include changes in regulation to limit extraction, increases in the price of water to reflect true costs of environmental and social cost i.e. the polluter pays principles, reputational damage, or liabilities from legal claims of pollution.

These risks could occur as a result of a company’s direct operations or anywhere in their value chain. It is important for companies to have a greater understanding of any location-specific impacts and dependencies, risks and opportunities, and transparently disclose them.

In 2021, not-for-profit disclosure system provider CDP estimated that companies collectively stand to lose \$301 billion of business value by 2050 if no action is taken to address water risks, while the cost of responding now would amount to \$55 billion.¹⁵ Indeed, we believe water is likely to be a central part of assessing nature-related risks. An Oxford University study¹⁶ suggest that water-related risks are dominant and could constitute 7 – 9% of global GDP.

Figure 1. *The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) identified five drivers of nature change¹⁷ – aligned with the Taskforce on Nature-related Financial Disclosures (TNFD) - mapped against relevance of LGIM’s Investment Stewardship’s prioritised water sub-theme¹⁸.*

⁶ The World Bank. ‘High and Dry: Climate Change, Water, and the Economy’. 2016.

<https://www.worldbank.org/en/topic/water/publication/high-and-dry-climate-change-water-and-the-economy>

⁷ WWF. <https://www.worldwildlife.org/threats/water-scarcity>

⁸ <https://www.oecd.org/agriculture/topics/water-and-agriculture/>

⁹ Global Commission on the Economics of Water. ‘Turning the Tide. A Call to Collective Action’. 2023.

<https://watercommission.org/wp-content/uploads/2023/03/Turning-the-Tide-Report-Web.pdf>

¹⁰ <https://www.sciencedirect.com/science/article/pii/S2590332222000434>

¹¹ <https://www.sciencedirect.com/science/article/pii/S2590332222000434>

¹² <https://www.unwater.org/water-facts/water-quality-and-wastewater>

¹³ <https://www.unwater.org/water-facts/water-quality-and-wastewater>

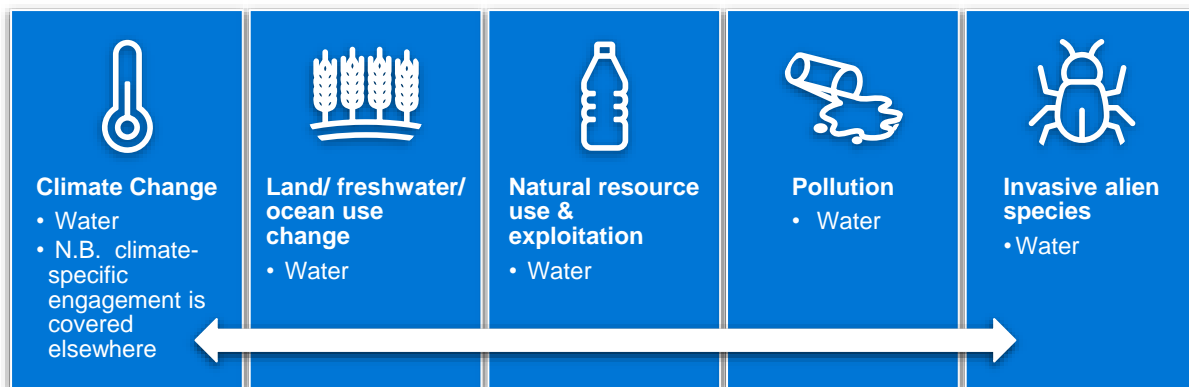
¹⁴ <https://www.ipbes.net/global-assessment>

¹⁵ <https://www.cdp.net/en/articles/media/cost-of-water-risks-to-business-five-times-higher-than-cost-of-taking-action>

¹⁶ https://www.eci.ox.ac.uk/sites/default/files/2023-12/INCAF-MacroCriticality_of_Nature-December2023.pdf

¹⁷ As identified by the identified by Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Service (IPBES) and aligned with the framework of the Taskforce for Nature-related Financial Disclosures (TNFD).

¹⁸ There are strong connections with LGIM Investment Stewardship’s six strategic themes



LGIM's approach

We aim to use our influence to raise standards on a wide range of ESG (environmental, social and governance) issues across capital markets, from diversity to climate change. We seek to do this first through demanding corporate transparency and disclosure, and then through informed and targeted actions that aim to improve practices. As outlined in Figure 1 (above), water cuts across all the direct



drivers of nature change. As part of LGIM's approach to restoring and protecting nature, we are focused on two critical aspects of a sustainable global water system: water quantity and quality.

We are aware that there are strong connections between our strategic themes, therefore our work on nature is closely aligned with our other strategic priorities, including climate change, health, people,

and human rights. Our approach to water encompasses several different avenues.

Developing our capacity

We see it as our responsibility to provide a framework to address ESG risks and opportunities, including those related to nature and water. We have developed a variety of proprietary ESG tools, used across different asset classes and investment strategies, with the ability to incorporate relevant ESG metrics. Where relevant and available, nature and water-related metrics are incorporated into tools that are used to support investment analysts and fund managers, develop new investment solutions, assist the Investment Stewardship team in its engagements with companies and help clients understand more about the ESG profile of portfolios.

LGIM's ESG Score

LGIM has developed its own scoring methodology by which we assess companies on their ESG credentials. Through this scoring system – designed to introduce greater transparency – we believe we can help drive positive long-term change in the companies in which we invest, and indeed in the broader investment market. Water is a key metric included to calculate a company's ESG score. The scores are subject to continuous review and development; our score methodology document is available here: [ESG for companies \(huguenots.co.uk\)](https://www.huguenots.co.uk/ESG-for-companies)

Climate Impact Pledge

Interdependencies between nature and climate are varied, complex and critically important; we do not solve either the nature or the climate crisis without addressing both. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. We have integrated nature considerations into our Climate Impact Pledge (CIP) – our

climate engagement programme – both within our quantitative scoring and qualitatively into our assessment and expectations of companies. LGIM's CIP assesses over 5,000 companies in 20 climate critical sectors. This assessment not only covers climate-related metrics but also nature-related metrics including circular economy, biodiversity, deforestation and water. We publish our assessment on our dedicated Climate Impact Pledge [website](#), and more information on the methodology can be found [here](#).

European Union's Sustainable Finance Disclosure Regulation - Principal Adverse Indicators

The European Union has introduced the Sustainable Finance Disclosure Regulation (SFDR) Delegated Act that covers asset managers. Included in the SFDR is the 'Regulatory Technical Standards' that require entity reporting against principal adverse indicators (PAI). The nature related PAIs are PAI 7, PAI 8 (water-related), and PAI 9.

While metrics related to water are increasing in availability, we recognise that more needs to be done to improve the standardisation and the quality as well as increase the scope and coverage of this data to support assessment across investors' portfolios. We will continue to work with companies, stock exchanges, regulators, and research and data providers to this end.

Working with stakeholders

Policy and regulation

As a global issue, water requires a systems and market-wide approach. That is why a vital part of our approach is engagement with broader stakeholders and market participants, such as other investors, policymakers, regulators, non-governmental organisations (NGOs), academia, and stock exchanges. Our policy dialogue aims to produce real tangible change by designing, implementing and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment and the economy. Illustrative examples include:

- **Comprehensive strategies:** Given the breadth and complexity of the global water system, governments must ensure there is a comprehensive and systems-wide approach. We believe governments need to implement or strengthen their water strategies, including introducing time-bound and binding targets for improving the water system. It is important to be cognisant of international commitments that relate to water, including the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework.
- **Integration:** We are supportive of strengthening nature-related domestic and international policies that addresses water-related risks and protects, manages, and restores the global water system. For example, the Taskforce for Nature-related Financial Disclosures (TNFD) and the IFRS International Sustainability Standards Board (ISSB).

Taking action at the companies in which we invest

LGIM seeks to protect its clients' assets through raising market standards and best practice. One of the ways we try to do this is through the expectations we set of investee companies in public markets. Our engagement with company boards and executive directors is central to advancing on all facets of stewardship themes, and water is no exception.

Investee company expectations

Our commitment is to advocate that as part of their approach to nature, that all companies assess, act, and report on their water-related impacts and dependencies, risks and opportunities in line with TNFD. Companies must be cognisant that this will cover their own operations but also their value chains and be very location specific.

LGIM's expectations of companies include:

- **Assessment** – Companies should identify, assess, manage and disclose their interactions with water.

It is important that companies identify, assess, manage and disclose their water-related risks. This should cover both direct operations and along value chains, and these will be location specific. The assessment should include both risks and opportunities, and how the company's actions impact and depend on water. This would include their contribution to ecosystem use-change (marine and freshwater), how it ensures access to water and sanitation (WASH), what monitoring processes are in place, whether there is board-level oversight of water management, whether there is a water policy in place (or integrated in a broader nature policy), and how indirect and direct policy advocacy is aligned with reducing impact on water, as well as with the Kunming Montreal Global Biodiversity Framework.¹⁹ There are approaches that can support this assessment, for example, through the LEAP approach (Locate, Evaluate, Assess and Prepare).

- **Target setting** - Companies should start to set science-based targets to track its performance and report (outlined in 'Disclosure' below) on the progress of their approach to water.

Companies should ensure these science-based targets are measurable, actionable, and with clear deadlines. Companies should consider how water targets and processes are incorporated into their broader strategy for nature. Guidance from the Science Based Target Network (SBTN) and the Alliance for Water Stewardship has been produced for nature and currently includes freshwater.²⁰

- **Collaboration** – Companies should consider how they can enable and collaborate with peers and others across their industry to address water-related risks, and how they can contribute to the protection, management, and restoration of the global water system.

Collaborative initiatives

We believe in regularly collaborating and working with peers and other stakeholders where relevant. By joining forces with collaborative organisations, we aim to broaden our reach and strengthen our voice in improving the water management of the companies we invest in. This will not only allow us to further assess companies' potential water-related risks, but also to push for greater transparency and progress in the market.

¹⁹ [Kunming-Montreal Global Biodiversity Framework \(cbd.int\)](https://www.cbd.int/kunming)

²⁰ [Freshwater – Science Based Targets Network](https://www.allianceforwaterstewardship.org/)

Initiative	Description
Ceres Valuing Water Finance Initiative	This is a global investor-led effort to engage 72 companies with a high-water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. These companies have the potential to better steward and protect freshwater resources within their business operations and global supply chains to drive meaningful, global change.
Investor Forum – Water Working Group	LGIM has joined a collaborative working group that is being led by the Investor Forum focused on short, medium and long-term concerns with UK water system. The collaborative engagement is crucially approaching the topic at both a corporate and policy and regulatory level.
Nature Action 100	This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.
Taskforce for Nature-related Financial Disclosures (TNFD)	The TNFD has developed a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities.

Disclosures

Our disclosure expectations above are designed to be aligned with existing global reporting guidance, including the Global Reporting Initiative,²¹ TNFD and International Sustainability Standards Board. We are sensitive to reporting challenges and seek to support standardisation wherever feasible. Therefore, we are not prescriptive in terms of the location, frequency, and form of public disclosures, and would encourage companies to refer to standard setters which have extensive guidance.

Relevant TNFD Indicators

Through LGIM's [Nature Framework](#), we encourage companies to transparently disclose nature-related dependencies and impact, risks and opportunities across their operations and value chain. Standardised frameworks like the TNFD are key to supporting disclosures across markets. Water topics are a feature of these frameworks, and we encourage companies to engage with these. More details can be found in the Appendix. When companies apply TNFD's recommendations to set targets, TNFD recommends they use methods developed by the Science Based Targets Network SBTN to set science-based targets for nature.

Other guidance

In addition to the above, there is broader guidance that companies may wish to review, including the CDP Water questionnaire and the Alliance for Water Stewardship.

LGIM voting

As part of our efforts to deepen our engagement in 2024, we plan to further integrate water into our voting policies from 2025. As they arise, we will also consider water-related shareholder resolutions that align with this policy.

²¹ [GRI - Home \(globalreporting.org\)](https://www.globalreporting.org/)

Reporting to clients

We are committed to communicating our efforts to our clients. This includes publishing thought leadership pieces to inform investee companies and our clients and to help to drive the conversation forward. In line with our commitment, we will continue to publicly report credible progress.

Appendix 1. Relevant TNFD indicators

Below we highlight a selection of the current TNFD core global disclosure indicators and metrics for nature-related dependencies and impacts that relate to water. There are additional indicators and metrics that are relevant (including sector specific), both with regards to impacts and dependencies, risk and opportunities that are relevant to water.

Metric no.	Driver of nature change	Indicator	Metric	Connection to GBF targets
C1.1	Land/freshwater/ocean-use change	Extent of land/freshwater/ocean-use change	<p>Extent of land/freshwater/ocean ecosystem use change (km²) by:</p> <ul style="list-style-type: none"> • Type of ecosystem; • Type of business activity. <p>Extent of land/freshwater/ocean ecosystem conserved or restored (km²), split into:</p> <ul style="list-style-type: none"> • Voluntary; • Required by statutes or regulations. <p>Extent of land/freshwater/ocean ecosystem that is sustainably managed (km²) by:</p> <ul style="list-style-type: none"> • Type of ecosystem; • Type of business activity. 	Target 1 (A.2 Extent of Natural ecosystems), Target 2, Target 5, Target 11 (B.1 Services provided by ecosystems)
C2.0	Pollution/pollution removal	Pollutants released to soil split by type	Pollutants released to soil (tonnes) by type, referring to sector-specific guidance on types of pollutants.	Target 7 (7.2 Pesticide environment concentration), Target 11
C2.1	Pollution/pollution removal	Wastewater discharged	<p>Volume of water discharged (m³), split into:</p> <ul style="list-style-type: none"> • Total; • Freshwater; • Other. <p>Including:</p> <ul style="list-style-type: none"> • Concentrations of key pollutants in the wastewater discharged, by type of pollutant, referring to sector-specific guidance for types of pollutants; • Temperature of water discharged, where relevant. 	Target 7 (7.1 Index of Coastal eutrophication potential), Target 11 (B.1 Services provided by ecosystems)
C3.0	Resource use/replenishment	Water withdrawal and	Water withdrawal and consumption (m ³) from areas of water	Target 11 (B.1 Services provided by

		consumption from areas of water scarcity	scarcity, including identification of water source	ecosystems)
C3.1	Resource use/replenishment	Quantity of high-risk natural commodities sourced from land/ocean/freshwater	<p>Quantity of high-risk natural commodities (tonnes) sourced from land/ocean/freshwater, split into types, including proportion of total natural commodities.</p> <p>Quantity of high-risk natural commodities (tonnes) sourced under a sustainable management plan or certification programme, including proportion of total high-risk natural commodities.</p>	Target 5 (5.1 Proportion of fish stocks within biologically sustainable levels), Target 9, Target 11 (B.1 Services provided by ecosystems)

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