INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

Leading Global Investors Urge Food and Beverage Companies to Better Manage Water Risks

Investors Managing $2.6 Trillion Send Letters to 15 Companies with Poor Risk Disclosure and Management

BOSTON (August 19, 2015) Amid growing concerns over escalating water scarcity and pollution risks, more than 60 leading North American and European institutional investors collectively managing $2.6 trillion in assets sent joint letters to 15 food and beverage companies last week calling for increased water risk management and disclosure practices.

The letters were sent to companies identified as poor performers on water management issues, including **Archer Daniels Midland Co. (ADM), Monster Beverage (MNST), Tyson Foods (TSN)** and **Kraft Heinz Co. (KHC).**

"We…believe that global water risk management is a critical aspect of financial risk oversight in the food and beverage sector," say the letters, which were coordinated by the nonprofit sustainability organization Ceres, with support from the Interfaith Center on Corporate Responsibility and the United Nations-supported Principles for Responsible Investment. "These threats can, and already are having profound near-term business impacts on food and beverage companies that are disrupting operations and supply chains, increasing capital expenditures and operating costs, and constraining revenue growth."

"Many food sector executives are holding onto a mistaken view that water will forever be cheap and limitless, " said **Brooke Barton, senior water program director at Ceres** who co-authored a recent *Feeding Ourselves Thirsty* report, which gave the companies low scores on their water performance. "But the era of cheap, plentiful water is coming to an end, and, more than ever, food companies need to address it."

Read an example of the full letter, complete list of signatories and list of companies that received the letter.

This year, the World Economic Forum ranked water crises as a top global risk. The food sector, which uses 70 percent of the world's freshwater supplies, according to the United Nations, is especially exposed due to its reliance on water as both a direct ingredient and as an input to agricultural commodity production. Growing competition for water, weak regulations, aging water infrastructure, water pollution and climate change are having increasingly adverse affects across the food industry, from supply chains to direct operations.

Increasingly, it's affecting financial bottom lines. Last week, Tyson Foods announced layoffs, a beef processing plant shutdown in Iowa and disappointing quarterly earnings due to reduced cattle herds from prolonged dry conditions in the Southwest U.S. Cargill also reported reduced earnings this month, in part due to the four-year drought and major impacts on beef production. Just earlier this year, Illovo, a South African sugar producer, shut down a large sugar mill as drought was predicted to reduce $81 million in local production.

"In California, we are keenly aware of how water scarcity can impact lives and businesses, as our state struggles to manage a depleting water supply," said **California State Teachers' Retirement System, Director of Corporate Governance Anne Sheehan.** "CalSTRS actively engages market participants on improving environmental risk management and disclosure and we believe that water scarcity can materially impact portfolio value, so we want to know how companies are managing and mitigating water risks, as we work to ensure a secure retirement for California's teachers."

California is not the only global food hub with water problems. A recent University of Illinois study found that excessive water withdrawals from three key groundwater aquifers— California's Central Valley Aquifer, the Midwest's High Plains Aquifer and the Mississippi Embayment Aquifer—could impact both domestic food security and international markets. Similarly, recent NASA data show that roughly one-third of the world's largest groundwater basins are in distress.

Limited freshwater supplies can lead to rationing and abrupt water rate hikes as competition for water increases worldwide. Interruptions in production can also increase operating costs if alternative water sources need to be found. Community resistance to corporate use of scarce groundwater resources can also lead to reputational risks.

"Global food companies need to step up their risk management of both water scarcity and water pollution," said **Stu Dalheim, vice president, Shareholder Advocacy at Calvert Investments, with 13 billion in assets under management.** "Beyond concerns about quarterly returns, our global food supply and water security is at risk."

Water pollution is another growing problem. Fertilizer run-off from farms is the most significant source of water pollution in the U.S. and can create toxic algal blooms that trigger oxygen-deprived "dead zones." Lake Erie's ongoing algae bloom is expected to be the most severe in recent years, according to the National Oceanic and Atmospheric Administration, and the current "dead zone" in the Gulf of Mexico is larger than the states of Connecticut and Rhode Island combined.

"Pollution from farm runoff poses environmental, reputational and financial risk to food companies, especially those in the meat industry," said **Mary Beth Gallagher, acting director of the Tri-State Coalition for Responsible Investment.** "We'd like to see exposed companies outline specific practices for improving water quality for their facilities, their contract facilities and their suppliers to reduce the impacts of their operations on the right to water in nearby communities."

"Our shareholders are increasingly concerned about water risks, said **Julie Gorte, Senior Vice President for Sustainable Investing at Pax World Management.** "We need a deeper understanding of how companies in our portfolios are not only analyzing these risks and reporting, but developing robust strategies for managing them."

The 15 companies receiving letters were selected based on their relatively low water management risk scores in a recent Ceres' report*, Feeding Ourselves Thirsty: How the Food Sector is Managing Global Water Risks*. Of the 31 publicly traded U.S. companies evaluated by Ceres' report, 90 percent cite water as a material risk in their 10-K filings, yet only 30 percent indicated that water risks were part of major business planning activities and investment decision-making.

"Better disclosure of water risks is the first step, but ultimately we'd like to see the companies in our portfolios moving from risk to opportunity with innovative water management strategies," said **Hervé Guez, director of research at Mirova, a subsidiary of Natixis Asset Management**, which manages 3.9 billion euros, including a global water and agriculture equities fund.

Participating investors have asked the 15 companies to disclose additional water risk information to the CDP Water Questionnaire in the coming year and will be following up with company management in the coming weeks and months.

About Ceres
Ceres is a nonprofit organization mobilizing business and investor leadership on climate change, water scarcity and other sustainability challenges. Ceres directs the Investor Network on Climate Risk (INCR), a network of institutional investors with collective assets totaling more than $13 trillion. Ceres also directs Business for Innovative Climate & Energy Policy (BICEP), an advocacy coalition of dozens of companies committed to working with policymakers to pass meaningful energy and climate legislation. For more information, visit www.ceres.org or follow on Twitter @CeresNews and @ValueEveryDrop.

The Interfaith Center on Corporate Responsibility

Currently celebrating its 44th year, ICCR is the pioneer coalition of active shareholders who view the management of their investments as a catalyst for change. Its 300 member organizations with over $100 billion in AUM have an enduring record of corporate engagement that has demonstrated influence on policies promoting justice and sustainability in the world. ICCR members advocate for responsible corporate water stewardship including safeguarding the human right to water throughout global supply chains www.iccr.org

United Nations-supported Principles for Responsible Investment (PRI)

The PRI Initiative is an international network of approximately 1400 signatories, with US $59 trillion assets under management, working together to put six Principles for Responsible Investment into practice. The PRI is coordinating an investor-led collaborative engagement, focused on the water risks faced by companies in their agricultural supply chains. As part of this the PRI released a research report on the issue, developed in collaboration with the World Wildlife Fund (WWF) and PwC Germany. The report highlights the risks to investors and the companies they invest in, and guidance on engaging with companies on the issue. For more information, visit http://www.unpri.org/

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