



Water is a precious resource that no one can live without. Yet, access to safe, clean water has reached crisis levels in many parts of the world. Today, nearly two billion people lack access to safely managed drinking water,¹ and by 2030 roughly 700 million people stand to be displaced by intense water scarcity.²

Despite these dire statistics, increased government and private sector spending on infrastructural and technological solutions has helped water emerge as a compelling investment theme, particularly within the ESG space.

“The increasing demand for water has instigated a wave of environmental regulations,” explains Terrence Demorest, Westmount’s Chief Investment Officer for public markets. “And since water impacts nearly every environmental issue, we can easily make room for water investments in our ESG portfolio—not only as a diversifier but as an alpha generator. This is an opportunity to invest in companies that do good in the world.”

To obtain exposure to responsible water companies, Westmount has curated relationships with mutual funds specializing in this niche space. In some cases, the portfolio managers in charge started out in scientific fields before pivoting to the investment world. This gives the funds a leg up in sourcing water companies that align with communities, farmers, and utilities in a broad effort to mitigate climate risks. Besides improving quality of life for ordinary citizens, this investment strategy also contributes to reduced energy consumption, elevated crop yields, lower deforestation rates, and more efficient crisis relief efforts.

A GLOBAL CONCERN

Investments in sustainable companies are only viable if they generate profits. That’s why activist water companies tend to have an emerging markets tilt, where the need for solutions looms strongest. Europe is likewise a hotbed for companies excelling in the renewable energy space.

The water scarcity issue isn’t just an overseas challenge, as has been observed in American cities like Flint, MI, Jackson, MS,

and Lake Mead. In Los Angeles, too, residents regularly grapple with seasonal droughts, historically low reservoir levels, and numerous restricted water use mandates.

“This makes investors extra mindful of how this issue more profoundly impacts people on a global basis. By pairing water with clean technology and renewable investments, we strive to honor their personal values while yielding returns that meet market expectations,” notes Demorest. “I suspect this will be a profitable space for a long time since water scarcity isn’t going away any time soon.”

AN INCREASINGLY DIRE SITUATION

- 2.4 billion people lack access to basic sanitation services, such as toilets or latrines¹
- Nearly 1,000 children die from water and sanitation-related diseases daily³
- More than 80% of wastewater resulting from human activities is discharged into rivers or seas without pollution removal measures⁴
- For each degree increase in global warming, approximately 7% of the global population is projected to experience a 20% decline in renewable water⁵

Have a question about our ESG portfolio?

Visit westmount.com/esg for more information or call [310-556-2502](tel:310-556-2502) to speak with an advisor.

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PORTFOLIO SPOTLIGHT: KBI GLOBAL INVESTORS

One of the newest additions to our ESG portfolio is **KBI Global Investors**. KBI has been investing in water since 2000 and is recognized globally as one of the largest managers of water investments in the world. They take a “solutions provider” approach, investing in water infrastructure, utility and technology companies that seek to address critical issues within the water theme. The team applies a rigorous ESG overlay to their analytical work and are active holders of their portfolio companies.

Here’s a look at some of the companies KBI has invested in:



CORPORATE TRANSFORMATION

With KBI’s help and engagement, **Orbia** has evolved from a chemicals and cables manufacturer in 2017 to a leading global drip irrigation company focused on addressing water scarcity issues and creating sustainable farming practices.

One example where Orbia is making a difference is in the area of irrigation. Historically, farmers, especially in the developing world, have employed a highly inefficient and wasteful irrigation method, called flood irrigation, to water crops. By contrast, Orbia supplies equipment that helps farmers transition to a more sustainable method, known as drip irrigation, to reduce water consumption and waste while increasing agricultural yield. The company also helps developing markets and smaller farms with unique solutions like irrigation-as-a-service and remote operation capabilities.

KBI has helped guide Orbia on this transformative journey and continues to engage with management on topics such as greenhouse gas emissions, water utilization, and waste reduction.



INCREASING THE WATER SUPPLY

One of KBI’s largest holdings is **Veolia**, a French utility company that provides a low-cost source of sustainable water through its re-use and recycling technologies. Veolia’s technology improves the quality and safety of used water sources and reduces the environmental damage caused by the release of untreated wastewater, of which only about 11% is recycled worldwide.⁷

Sources
¹<https://unstats.un.org/sdgs/report/2021/> • ²<https://www.unicef.org/wash/water-scarcity> • ³<https://www.un.org/sustainabledevelopment/water-and-sanitation/> • ⁴<https://www.un.org/sustainabledevelopment/water-and-sanitation/> • ⁵https://www.ipcc.ch/site/assets/uploads/2018/02/WGIAR5-Chap3_FINAL.pdf • ⁶<https://www.unicef.org/wash/water-scarcity> • ⁷<https://www.sciencedaily.com/releases/2021/02/210208085457.html>

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Besides being one of the largest water utility companies in the world, Veolia is also a major player in the power space. KBI has engaged extensively with Veolia in recent years, pressuring the company to be more transparent about the role of coal in its energy production and revenue generating activities. KBI has also pushed Veolia to reduce its future coal use. In May 2020, the company committed to converting all its power-generating assets away from coal by 2030 (at a cost of €1.2 billion). In September 2021, the company committed to the [Science Based Target initiative \(SBTi\)](#)’s “Business Ambition for 1.5C” campaign, with the goal of achieving ‘net zero’ emissions by 2050.



SAVING BATTERY PARK

Stantec is another holding that is helping change the water space. This Canadian infrastructure engineering and consulting company designs and builds infrastructure to withstand the effects of future climate change.

One example is the \$129 million Battery Coastal Resilience Project in Lower Manhattan. Battery Park City is a key hub in downtown New York City that currently sits at an elevation that will be completely submerged as sea levels rise. The project will rebuild and elevate The Battery wharf to protect the area from future flooding while preserving the park’s historic and cultural character.

Stantec is also one of the first and key beneficiaries of the water infrastructure spending stimulus that was enacted in the United States through the 2021 American Rescue Plan Act and Infrastructure Investment and Jobs Act, which both have significant provisions for water infrastructure spending.

KBI is actively engaging with Stantec to improve their reporting transparency, having encouraged the company to pledge to be carbon neutral by 2022 as a first step in achieving net zero operations across its entire global footprint by 2030. Because of these changes, Stantec has received an A- rating from the Carbon Disclosure Project (CDP) for the last three consecutive years.