

Sustainable Water Statement

This statement details how we consider water-related issues in our investment decision-making to improve the long-term investment returns for members and positively impact the world in which they live, work and retire into.

The Sustainable Water Statement has been developed by H.E.S.T Australia Limited (“**the Trustee**” or “**HESTA**”) and should be read in conjunction with the HESTA Responsible Investment Policy. This Statement is aligned with the Trustee’s duty to comply with the ‘sole purpose test’ set out in the *Superannuation Industry (Supervision) Act 1993*.

Achieving sustainable water resources and supplies is among the foremost global economic, social and environmental challenges. Population and economic growth are expected to increase future water demand from agriculture, households and industry. Further, water pollution and climate change will exacerbate this already complex issue.

Fresh water is much more than an input in industry operations; it has a critical role in supporting natural biological, community, and economic systems and activities, creating risks and opportunities.

As a finite resource that is rarely priced to reflect its scarcity value, it requires strong governance and effective multiple-party efforts to ensure it is managed in a way that is equitable and beneficial for broader society.

As a “Universal Owner” – a large, globally diversified, long-term investor – we endorse the ambitions of the United Nations Sustainable Development Goals (“SDGs”)¹ as a way of delivering a healthy economy, environment and society. HESTA has identified seven SDGs to focus our impact.

Water is an important area of impact and it is reflected in multiple SDGs but in particular:

SDG 6 – Clean Water and Sanitation – *Ensure availability and sustainable management of water and sanitation for all*

HESTA Sustainable Water Principles

1. Water-related risks are systemic in nature

The impacts of water availability are felt across the economy and present in several ways. For all societies, water is fundamental to human life and is a human right, the role of water in human consumption and effective sanitation is a precondition to the health of communities. More directly to economies, water is a material input in many basic sectors such as water services, food and agriculture, mining and some heavy industrial and energy uses. Finally, water is also key in maintaining biodiversity and ecosystem services on which humans rely. The unavailability of clean water in any of these instances can materially disrupt the orderly function of our economies and societies.

¹ <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Further, climate change is likely to add to the complexity of water-related issues as it will exacerbate the severity and intensity of weather events such as droughts and flooding.

The systemic nature of water-related issues, the complexity of accurately pricing water to reflect its scarcity and its value to industries, communities and ecosystem services means that a pricing mismatch often exists.

2. Companies must have a long-term approach to water risks and its externalities.

Companies for whom water represents a material risk to their operations or supply chains must have a strategic approach to water use and management. Industries that fail to manage water risks can face financial impacts through increased costs and restricted supply as well as reputational damage from a loss of social licence where they do not appropriately manage water supply and waste/pollution into waterways that impact communities and the environment.

Even when water is not a material input for companies, we expect them to recognise and address their negative impact on the communities and environment. Companies should consider how their operations impact water availability, conservation and quality considering multiple stakeholder expectations. This is particularly important as regulatory standards might not exist or be stringent enough, so companies should seek to understand appropriate standards by considering community, civil society expectations, and future users' expectations.

3. Water can present investment opportunities for investors and companies

The challenges faced by industries that depend on water can represent investment opportunities. Technologies and business models that solve the world's problems around water and sanitation are likely to see their markets grow. There are also capital needs for infrastructure upgrades to make water distribution systems more efficient.

Also, companies with strong governance and systems as well as investment in technologies to deal with water challenges, could be better positioned to mitigate water risks and identify new market opportunities over time.

4. Sustainable water requires a multilateral approach with strong policy action

A collaborative approach between governments and regulators, NGOs and the private sector is required for sustainable water management. At times, this might involve the existence of water markets, however, strong regulatory structures are required, noting that prices rarely reflect scarcity value, or the value to communities and ecosystem services provided by water.

Policy should aim to create the right incentives for businesses and investors to get involved, consider the needs of broader stakeholders (i.e. local community via NGOs and other independent parties), and safeguard the sustainability of water sources.

5. Transparency and disclosure of water management risks is important

We expect organisations in our investment value chain to make appropriate disclosures regarding risk management, and to take steps to mitigate water risks and impacts. For some sectors the most material water exposure is as a key input in operations including direct operations and supply chain. For others, it could be water pollution risks – and associated reputational risk – that need to be managed. Disclosure of risk management should include compliance with regulatory standards

as a baseline expectation. We expect to see more proactive action including conducting a water risk assessment for the full value chain, setting and reporting on measurable, robust targets informed by local conditions to reduce impacts to freshwater systems and improve water efficiency and quality, and management of broader community social licence risks associated with water use and pollution.

Implementation

HESTA implements our Sustainable Water Statement through our investment, active ownership and advocacy activities.

Infrastructure for water management and distribution is capital intensive. As long-term providers of capital we seek to invest in attractive water infrastructure opportunities such as water management companies and desalination plants. In our cleantech portfolio we also invest in new technologies that will improve water use and efficiency.

Through our engagement partners we encourage companies to develop long-term strategies for managing water demand. We also seek to achieve outcomes such as zero pollution above levels harmful to human life or other living organisms and the long-term sustainable use of all-natural resources, including water. We do this by encouraging companies to adopt robust practices to prevent leakage of harmful substances, spills and catastrophic events, as well as implementing effective waste reduction and circular economy practices.

From an advocacy perspective, HESTA is a founding member of the Valuing Water Finance Taskforce, which aims to develop a set of investor expectations for corporations on valuing water. Additionally, our engagement providers support the CDP Water initiative, which seeks to promote improved market engagement and reporting on water stress.