

Tortoise QuickTake

Water Podcast



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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of Tortoise provides a timely update on trending topics in the market.

Hello, I'm Tortoise Portfolio Manager Matt Weglarz. Last time on the Tortoise water podcast, we discussed our takeaways from the Global Water Summit. Today we're going to shift gears a little bit, to discuss ESG and water investing. ESG is an acronym that stands for environmental, social and governance. Other terms besides ESG that get used are sustainable investing, or impact investing. While not entirely synonymous, generally speaking, they all intend to target investments that go about their businesses as stewards for their clients, the environment and for humanity. And are strategies that have gained significant traction in the investment industry. In our opinion they will continue to do so.

At Tortoise, we believe that companies that score well on sustainable criteria, be it ESG or some other definition, have the ability to perform better over time. At the simplest level, these companies are spending the time, effort and money to ensure that they meet the strictest of ESG criteria; it's generally the case that these efforts are culturally driven, meaning these companies take the same diligent approach across their businesses. It's our opinion that over the longer term, these stronger cultures that embrace oversight, involve themselves in the community and push sustainable operations, can drive success relative to companies that do not, all else equal.

So let's talk first talk quickly about water, and then we'll shift back to ESG. Water is an essential asset for which there is no substitute. Demand growth is steady, and we use water in ways that we don't even think about. In fact, 90% of water usage is actually for things that we don't see every day; growing crops for humans, growing crops for livestock as a food source, generating power, creating industrial goods, among many others. As our diets shift toward higher protein worldwide and our population urbanizes, demands from non-personal water use greatly amplifies demand and growth alongside global populations.

To meet that demand, we have a very limited supply. Water used for showers or to flush toilets becomes treatable waste water. But the water consumed outside of personal use is much less controllable, and can create serious issues. Some agricultural land uses pesticides and some industries uses chemicals, all of which can pollute water. While efforts are certainly being made to protect the environment from pollutants, regulations and rules vary widely across the globe. We believe that it's vitally important to understand that the water value chain is circular; meaning we reuse the same water over and over. The way we treat our water today affects us for generations to come. We really only get one shot at this.

So to quickly summarize; our global population requires increasingly more water for the foreseeable future, but we have a limited and possibly shrinking supply. In our view, it really is quite a scary problem.

So then what obligation do we have to maintain this resource? At Tortoise, we ask that same question from an investment angle; what is the obligation of companies in the water value chain to ensure that they are protecting this resource for future use, how do we evaluate that and how do we invest accordingly?

Gathering enough data to effectively gauge the ESG status of companies is a very intense process. Our active portfolio managers utilize proprietary models, relationships with management teams and tiering processes to perform reviews of water companies. Our passive portfolio managers engage a third party research firm, Sustainalytics, who is the largest ESG and sustainability-dedicated research firm. Sustainalytics rates each company and each company must adhere to a certain numerical rating threshold in order to be included in the index. Our active portfolio managers also utilize third-party research, including Sustainalytics, as part of their process.

When you actually look at the companies that participate in the water industry, you see water utilities, water treatment, pipe makers, desalination, etc. While they all deal with water, the specific type of businesses among these companies varies

widely along with their role in the global water cycle. Diving further into what the various industries and companies do is a topic for a different day. Today we're just going to talk about one.

Geberit is one of the largest "pure play" water companies in the world, as defined by percentage of revenue, and based off of Sustainalytics rankings, contributes the most on a weighted average basis to the Tortoise Global Water ESG Index's overall ESG score. They manufacture, sell and install cisterns, faucets, fittings, piping systems, etc. and their specialization in sanitary systems means that use of its products is highly water intensive. So what does Geberit do well to deserve such a high ESG score?

Environmentally, Geberit has a comprehensive product line that we think supplies high-quality, integrated and water-saving sanitary technology. Nearly 100% of water consumption for their products occurs in the product usage phase, meaning that they don't use much themselves. They have among the strictest supply chain requirements for sustainable products and services, making active efforts to reduce their carbon footprint and water consumption. They also have a strong and detailed program to improve the environmental performance of their distribution fleet, and actively pursue energy generated from renewable sources.

Socially, Geberit emphasizes the role industry plays in providing sustainable design and development for robust infrastructure in cities and rural areas. They have extremely high standards for their supply chain to be socially responsible as well, and an excellent process in place for monitoring the adherence of their supply chain to Geberit's own standards of social impact.

Finally, Governance. We believe this company has a very strong culture with value-oriented management. Geberit has strong policies in place for bribery, corruption and whistleblowers. They have slightly higher than average board independence, audit committee and remuneration committee effectiveness. They are also a member of key industry initiatives for green buildings, and have strong policies against political involvement and lobbying.

Additionally, Geberit has an ESG governance committee that monitors overall adherence to and advancement of ESG efforts.

Tortoise is a firm believer in sustainability and ESG, and as we continue to manage investor's capital, we will provide products that adhere to these thresholds. Our approach to investing in water is reflective of that. We hope you enjoyed the podcast today. Thank you for listening.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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