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Risk Management and Water: Consortium Launches New Water Index Initiative

By Clay Landry

The business sector continues to recognize the nexus between water security and economic prosperity. Following the lead of several other global financial institutions, Goldman Sachs, in partnership with General Electric and the World Resources Institute (WRI), announced at the close of 2009 the launch of an initiative to measure water-related risks facing companies and their investors.

The initiative will develop a Water Index as a standardized approach to identify and mitigate water-related corporate risk. Goldman's announcement comes on the heels of the world's second largest sovereign investment fund, Norges Bank Investment Management's declaration that water-related risks will be evaluated for all future investments (See November 2009 Impact column for more information).

The Index being developed by the consortium of Goldman, GE and WRI claims to offer one of the most expansive measures of water risks currently available. It will aggregate up to 20 factors that measure water availability, regulations, water quality and reputational issues. All information in the Index will be derived from publicly available information about scarcity and quality, with a major difference between this Water Index and previous attempts to quantify water-risk being the inclusion of elements not always considered in assessing water-risk, like regulatory issues and the impact of social and reputation issues.

As water resource constraints affect nearly all industries, the Water Index will be widely applicable. The Index will allow companies and investors to transparently and adequately capture the various components of water-related risk and will enable business leaders to make more well-informed investment decisions.

"In many regions around the world, water scarcity from climate change and pollution is starting to impact a company's performance, yet few analysts account for water-related risks," says Jonathan Lash,



president of WRI. “WRI hopes that investors will begin ‘pricing in’ these under-appreciated risks, driving investments to support more hydrologically-efficient designs and technologies.”

Several other water indices have been launched, including the Palisades Water Index (Ticker: ZWI) introduced in 2003 by the American Stock Exchange. ZWI is an equal weighted index of stock values for publicly traded companies active in the global water industry, such as water utilities, filtration and treatment. In February 2006, Dow Jones, in cooperation with several European Banks, created the World Water Index (Ticker: WOWAX), which is comprised of the market share prices of the 20 largest global corporations whose earnings rely mainly on water. The most recent, the Janney Global Water Index (Ticker: JGI), launched in June 2007, and is comprised of 60 of the largest companies in the global water industry.

One of the limitations of these indices is that they are a better indicator of company performance and general market risk than the risk associated with water management issues, such as availability and quality. In contrast, the Goldman – WRI – GE index will attempt to provide companies and investors an assessment of water-related risk and opportunities.

“Many environmental factors, including water, pose both challenges and opportunities for investors and businesses,” says Tracy Wolstencroft, global head of environmental markets for Goldman Sachs. “The Water Index will provide valuable insights that can inform investment decisions and will help identify new opportunities across sectors and geographies.”

