QUILTER CHEVIOT

SUSTAINABLE OPPORTUNITIES

Making A Splash

As climate change and demographic pressures intensify, water scarcity and quality are emerging as defining global challenges. This shift transforms water stewardship from a compliance obligation into a source of competitive advantage. To understand how leading operators are responding we engaged with companies aligned with our 'Water' investment theme to explore emerging trends and solutions in water risk management.

SDG Alignment

> *"Anyone who can solve the problems of water will be worthy of two Nobel prizes — one for peace and one for science."*
>
> John F Kennedy

One of the Sustainable Opportunities' five positive investment themes is Water. Companies aligned with this investment theme provide solutions to water quality and scarcity issues. Water is one of the most critical resources for life, society, and the global economy. Yet, it is increasingly under pressure from climate change, population growth, and rising demand across sectors. For companies, water is not just an environmental issue, it is a material business risk. Scarcity, pollution, and infrastructure challenges can disrupt operations, increase costs, and damage reputations. Globally, more than 8.5 trillion gallons of water are lost annually due to leakage. Enough water to meet the needs of every person on earth for 22 days. Effective water risk management is therefore essential for long-term resilience and value creation.

Beyond managing their own risks, companies have a vital role to play in driving solutions. Innovation in water efficiency technologies and services can help address systemic challenges such as water scarcity and quality degradation. These solutions not only support sustainable development but also create opportunities for growth and differentiation in a resource-constrained world.

As part of our sustainable investment strategy, we have engaged with water related companies held in our portfolio to understand how they are addressing these issues, in managing their own risks and, crucially, in innovating for their customers. This thematic engagement reflects our belief that proactive water stewardship is fundamental to building a sustainable and investable future.

AMERICAN WATER · xylem Let's Solve Water · VEOLIA · WATTS · Halma · sabesp

Managing Operational Water Use and Efficiency

All companies are increasingly focused on reducing their own operational water footprint, a critical first step in building resilience and credibility. Across our engagements, we saw strong examples of data-driven strategies and innovative technologies delivering tangible results. This included the utilities, for which water is a much more significant risk, but also the technology providers, who in many cases modelled best practice themselves, putting their own technologies to work.

Watts Water stood out for its exceptional progress: a 62% reduction in operational water intensity since 2018, far surpassing its original 15% goal. This achievement reflects a rigorous, data-led approach, including real-time monitoring and benchmarking against peers. While early gains came from operational fixes, future improvements will require more complex, capital-intensive changes. Watts has now reset its baseline to 2023 and is targeting a further 3% annual reduction.

American Water is tackling wastage through digital meters and advanced leak detection systems, particularly focused on its non-revenue water which currently accounts for around 20% of its water emissions. Its target to cut overall water use by 15% is ambitious, and success will hinge on regulatory support and customer engagement.

SABESP, operating in Brazil's challenging climate, has adopted a multi-pronged strategy. Night-time pressure reduction has helped curb leakage, while AI-powered verification and a "Report a Leak" app accelerate repairs. The company is replacing 4.4 million water meters with smart versions to enable early detection. SABESP also leverages over a century of meteorological data to anticipate rainfall variability, a growing challenge as climate change drives erratic precipitation patterns.

Building Resilient Infrastructure

Operational efficiency alone is not enough; resilience is critical as water stress intensifies and infrastructure ages. Veolia highlighted that seven regions in England could face severe water stress by 2030, a stark reminder of the urgency even for our own, typically wet, island.

SABESP has embedded resilience into its Water Supply Master Plan, developed after Brazil's 2014-2015 drought. Measures include interconnecting reservoirs for flexible transfers, adding backup sources, and advancing indirect drinkable water reuse by treating and returning wastewater to reservoirs.

American Water, while estimating only ~3% exposed to high-stress regions, is investing heavily in climate resilience. Its $40-42 billion decade-long infrastructure plan includes flood defences, reservoir construction, and even a desalination plant. These investments are essential to future-proof systems, though the scale and pace of delivery remain critical.

Importantly, while investment is significant, this is critical long-life infrastructure that will depreciate over multiple decades. One can draw a clear distinction between this CapEx and the (arguably more speculative) currently much discussed data centre investment that will i) typically depreciate over a much shorter time span and ii) has less direct social benefit.

Forever Chemicals

Per- and polyfluoroalkyl substances (PFAS) have been commonly used in industrial manufacturing to create water repellent and grease resistant materials. Also known as “forever chemicals” they have been observed to persist in water, bio-accumulate in plants & animals and are a growing health concern, prompting tighter regulations in the US (e.g. the new contaminant limit on drinking water) and EU. All companies engaged recognise PFAS as a rising risk. For some this is a growing opportunity, with providers Xylem, Watts Water, and Veolia proactively innovating PFAS detection and filtration solutions. American Water and SABESP, on the other hand, focus on regulatory compliance readiness. SABESP takes a more cautious approach due to its local context and primary focus on rolling out universal water access.

Veolia has significant operations in commercial PFAS remediation in Europe. Its proprietary treatment suite has already processed over 90 billion litres of contaminated water. The company deploys a combination of activated carbon, ozonation, and advanced membrane technologies tailored to different PFAS molecules, supporting clients in meeting tightening discharge limits across Europe and North America. Veolia’s PFAS solutions are embedded in its broader industrial wastewater treatment systems, designed for on-site reuse and circular water management.

Watts Water is expanding its filtration product line to address PFAS removal, particularly in high-risk geographies such as Arizona and northern Italy. The company confirmed it is developing PFAS-targeted filtration systems as part of its commercial offering. Watts views PFAS as a commercial opportunity and is aligning its innovation roadmap with anticipated regulatory shifts.

Xylem is preparing for increased demand for PFAS-related solutions, particularly through its Evoqua Water Technologies acquisition. Evoqua’s portfolio includes ion exchange resins and advanced filtration systems capable of targeting PFAS and other emerging contaminants. Xylem’s integration of Evoqua’s technologies into its broader water treatment and reuse systems positions it well for future regulatory-driven demand. The company estimates that 80-90% of wastewater can be cost-effectively recycled, and its hardware and digital platforms (e.g. Xylem Vue) are being adapted to support PFAS detection.

American Water and **SABESP** are focused on regulatory compliance. American Water is preparing for U.S. Environmental Protection Agency rules by planning filtration upgrades, while SABESP is monitoring global PFAS developments but prioritises universal water access in Brazil. Where regulation on PFAS levels is tightening (like the US), although utilities will be required to meet water quality standards, they are not legally liable for the pollution caused by legacy industrial processes.

Innovating for Customers

Of particular importance to our sustainable investment strategy is the innovation that water technologies are undertaking to provide a range of solutions that help their customers better manage water risks.

Veolia is deploying Automated Meter Readers (AMRs) to give clients real-time visibility of water flow, enabling rapid leak detection and efficiency gains. Its expertise in industrial wastewater treatment is another differentiator: tailored, on-site systems using advanced membranes and bioprocesses, allow industries to reuse water and minimise discharge. Veolia’s broad technology suite, from reverse osmosis to digital process control, positions it as a key partner for businesses in water-stressed regions.

Halma helped Oak Park, a village within a Chicago Suburb, to identify and fix 29 previously undetectable leaks in the first month of piloting ‘acoustic loggers’. These devices listen for the tell-tale noise of a water leak (similar to that of a flute) and automatically issue alerts. The partnership is playing a crucial role in facilitating Oak Park’s target to save 175 million gallons of water loss annually, equivalent to 265 Olympic sized swimming pools.

Xylem has helped reduce over 3.5 billion cubic meters of non-revenue water since 2019 through smart metering, leak detection, and pressure management. Its Xylem Vue digital platform enables real-time monitoring and has supported cities like Monterrey and Mexico City in progressing toward water neutrality. In St. Petersburg, Florida, Xylem’s smart meters maintained connectivity during a hurricane, enabling rapid repairs, a powerful example of resilience through technology. The company is also advancing energy-efficient hardware, such as hybrid electric pumps that cut fuel use and emissions, linking water stewardship with broader climate goals.

Watts Water is commercialising innovations developed internally, such as its Nexa platform, a building water management system that optimises consumption and detects leaks. Initially trialled within its own operational sites, Nexa is now being rolled out to commercial customers. We saw this as an excellent example of the link between sustainability goals and commercial benefit. Watts is also developing solutions for water-intensive sectors like data centres, aiming to enable closed-loop cooling systems and reduce freshwater demand.

Final Thoughts

Across the sector, the trend is clear: data-driven solutions, circular water systems, and energy-efficient technologies are becoming central to both risk management and growth strategies. Companies that combine operational excellence with customer-focused innovation are best positioned to thrive in a resource-constrained world.

Water is not just a resource, it is a foundation for economic stability, public health, and environmental resilience. As climate change accelerates and demographic changes exacerbate an imbalance in water supply and demand, the risks facing water systems are intensifying. Our engagement shows that leading companies are responding with a dual approach: strengthening their own operations and infrastructure while innovating to help customers use water more efficiently and sustainably.

The progress we've seen, from smart metering and AI-driven leak detection to advanced reuse technologies and energy-efficient hardware, demonstrates that water stewardship is evolving from a compliance exercise into a source of competitive advantage. Companies that invest early in resilience and innovation will not only mitigate risk but may unlock new growth opportunities in a world where water quality and scarcity is becoming a defining challenge.

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