

Diageo

Diageo has developed a robust and effective system for monitoring and mitigating water stress. Critical to the company's products and manufacturing processes, EOS continues to engage with the company on its water stewardship.

Background

Diageo is a global producer and distributor of beverage alcohol with a collection of brands across spirits and beer. Its stated ambition is to be one of the best performing, most trusted and respected consumer products companies in the world. It produces brands such as Smirnoff, Johnnie Walker, Gordon's, Baileys and Guinness.

Water is a primary ingredient in its products – constituting over 90% of beer and 60% of spirits¹ – and a key component in its manufacturing processes. In 2011, 6.9 litres of water were required to make one litre of product². Access to a reliable and abundant supply of clean water is therefore critical to its business model.

In recognition of this, the company has a long-standing commitment to improve water efficiency and minimise use, particularly in water-stressed areas, to ensure it can sustain production growth, address climate risk and respond to the global demand for water, as scarcity increases. It reports on progress versus its targets in its Annual Report and its Sustainability & Responsibility Performance Addendum.

Some of the company's operations, including in Brazil, Tanzania and India are located in water-stressed sites³, with others in locations at risk of future water stress. In addition to managing its environmental impacts, there are operational and cost efficiency benefits to minimising water use. There are also reputational and social considerations: where communities lack access to clean water and sanitation, irresponsible water consumption may pose a challenge to Diageo's social license to operate.

¹ https://www.diageo.com/PR1346/aws/media/6072/74125_diageo_water_blueprint_2018-06-28_v2.pdf

² Diageo Annual Report 2014, p.22

³ https://www.diageo.com/PR1346/aws/media/6212/b0000391_diageo_ar-2018_interactive.pdf

Sustainable Development Goals



Engagement objective:
Environment

The company builds upon its water management systems to manage risks at water-stressed sites across its supply chain.

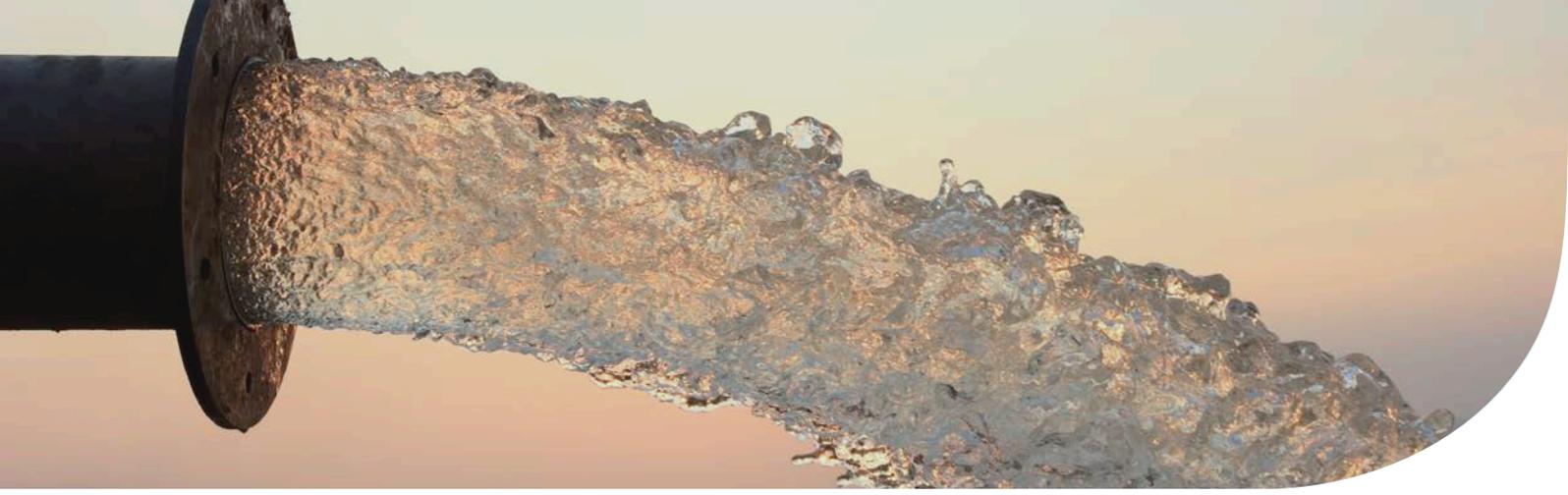
We questioned how it effectively shared best practices across its geographically distinct business units.



Our engagement

EOS at Federated Hermes began speaking to Diageo about water management in 2012, raising concerns about the future impact that water stress could have on the business.

Although the company was already focussed on water stress as a priority, it was noted there were relatively short-term targets focussed on action at its more water-stressed sites in Africa, which were part of a long-term strategy on water management. We discussed the work that was underway at the company and questioned how it effectively shared best practices across its geographically distinct business units.



Over subsequent years, we held regular meetings with heads of sustainability and, latterly, the chief sustainability officer. In 2015, the company set five-year targets and we continued to discuss progress, annually. We were especially interested in how it was developing and then implementing a robust approach to water management to meet its 50% improvement in water efficiency target, its goal to replenish the amount of water used in its final products in water-stressed areas, and monitor for sites that may become stressed in future.

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Changes at the company

Over the years, we have been pleased to see the company's approach to water management become increasingly sophisticated, comprehensive and integrated into wider business operations.

In 2015, informed by a materiality assessment, which confirmed water as one of its most material environmental impacts, the company set a number of water targets for 2020. We welcomed these goals and sought annual updates on progress against them in 2016, 2017 and 2018 – when we heard the company had achieved 40% of its 50% target for water efficiency and was focussed on how it could achieve the final and most challenging 10%.

In 2019, in a meeting with the chief sustainability officer, we discussed the water risk assessments conducted by the company every three years at all of its manufacturing sites, which have resulted in sites in Ethiopia, South Africa and Mexico being identified as water stressed. Through the assessments, the company has visibility of potentially stressed sites to 2030, enabling longer-term business planning.

The company employs various methods to reduce water use at stressed sites, enabled by new technologies and processes developed at particular sites and shared across markets.

For example, a new approach to barley steeping, developed at its Scottish sites, is now used in Maharashtra, India, where water consumption has fallen by 35%. Overall, the ratio of water used to make one litre of product has fallen from 6.9 in 2011 to 6.4 in 2019⁴.

Next steps

The company has an established system for monitoring and mitigating water stress, which appears to be robust and effective.

It set ambitious targets for 2020 as part of its water strategy, against which it has made good progress. Although it is likely to fall short of its detailed targets in a few areas such as water discharge, it has identified where further investments and innovation are required and is committed to continuing to work to achieve them.

The company's work on water stewardship continues with the publication of its 2030 targets expected in summer 2020. We consider the initial objective of assessing and monitoring progress of Diageo's system to manage water risks across its supply chain, to be substantially completed.

We will continue to engage with the company on its water stewardship.



Amy Wilson
Engagement
EOS

Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

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- **Fixed income:** across regions, sectors and the yield curve
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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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