

Creating the world's first water security indices

Thomas Schumann Capital (TSC), in partnership with index experts Anatase Ltd., developed the world's first water security index family using a proprietary methodology to incorporate financial water risk into securities with the help of high-quality, granular water data provided by LSEG.

Minimising water risk in investments

TSC was founded in 2011 by Thomas Schumann. A world-leading solutions provider of water security and responsible investing, the company's goals are aligned with UN Sustainable Development Goal 6: 'Ensure availability and sustainable management of water and sanitation for all'.

TSC's mission is to provide investors, asset managers and financial institutions with the tools and transparency they need to incorporate financial water risk into investment strategies, enabling them to achieve sustainable equity market performance.

Water usage and stewardship are a source of major financial risk that is largely absent from equity valuations today. This risk directly translates to earnings risk which can negatively impact stock prices and investment performance in the future. If water risk remains unaccounted for in benchmarks, investors have little or no reliable means to reduce exposure to companies with high water risk.

TSC's aim was to quantify water risk and build company rankings fuelled by data on water utilisation, water stewardship and environmental controversies. To do this, they set out to launch the world's first water security indices.

To achieve this aim, collaboration with a leading water and sustainability data provider was essential to provide the rich data and unrivalled expertise required to create a ground-breaking index methodology.

"After engaging with all of the leading data providers, LSEG was the only financial market data and risk intelligence provider that met TSC's requirements," says Thomas Schumann, Founder at TSC.

The Challenge: Creating a diverse and scalable water index

Existing water indices are highly concentrated, focussing on only 30-50 companies, and limited to companies in the water purification and recycling product manufacturing industries plus water utilities. Water risk is absent from their design.

The key challenge was to develop water indices that invest across all sectors while targeting at least a 50% reduction in water usage in the index.



TSC required the data in order to design an attractive, marketable investment product that empowers investors to incorporate water risk into their decision-making. Markus Barth, veteran index pioneer and CEO of Anatase Ltd, partnered with TSC in October, 2020 to develop a solution to meet the challenge of a broad-based water index that quantifies water risk at the company level. Extensive modelling and testing led to normalising the LSEG water data in order to create water risk rankings for eligible stocks.

The solution: the most comprehensive water metrics in the market

The richness of LSEG's broad-ranging water data enabled TSC to create the most comprehensive water indices in the market. In addition to the indices, Anatase also developed the world's first water footprint using LSEG data.

As with all our customers large and small, LSEG supported TSC closely throughout the data exploration and implementation process. Due to the depth and breadth of our ESG data, we delivered a custom solution which exclusively contained 8 unique metrics for quantifying water risk.

The outcome: the world's first water security indices

After normalising and scaling the LSEG water data, TSC was able to design a suite of water security indices for the US and Eurozone with a global index planned:

1. The TSC US Water Security Index®
2. The TSC Euro Water Security Index®
3. The TSC Global Water Security Index®

Once water risk is quantified, it informs index constituent weightings. The company has also leveraged the digital platform of index administration innovators, Moorgate Benchmarks in London, so that global investors can access the indices in real time.

The bonus: lower carbon footprint

Discussions with market participants discovered that an unexpected benefit of good water stewardship is a lower carbon footprint – which is logical when considering that companies who manage their water well also target better carbon efficiency." The TSC Water Security Indices carbon footprint is 49% lower in the Eurozone and 20% lower in the USA than their equity benchmarks.

Tapping into LSEG's high-quality data, market-leading expertise and superior technology, TSC has sponsored a ground-breaking range of investable indices that helps advance the financial community by providing greater exposure to low-water-risk and lower carbon emissions thereby addressing SDG 6 (Clean Water) as well as SDG 13 (Climate Action).

The TSC Water Security Indices can be invaluable to a broad spectrum of financial professionals, used as the foundation of innovative financial instruments that meet global demand for responsible investment. Moreover, they can help clients gain a better understanding of climate and water risk.

About LSEG ESG data

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We help organisations fund innovation, manage risk and create jobs by partnering with customers at every point in the trade lifecycle: from informing their pre-trade decisions and executing trades to raising capital, clearing and optimisation.

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London Stock Exchange Group plc

10 Paternoster Square

London EC4M 7LS

Telephone +44 (0)20 7797 1000

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