Water Stewardship in the Coca-Cola System: Addressing Long-Term Sustainability Risks

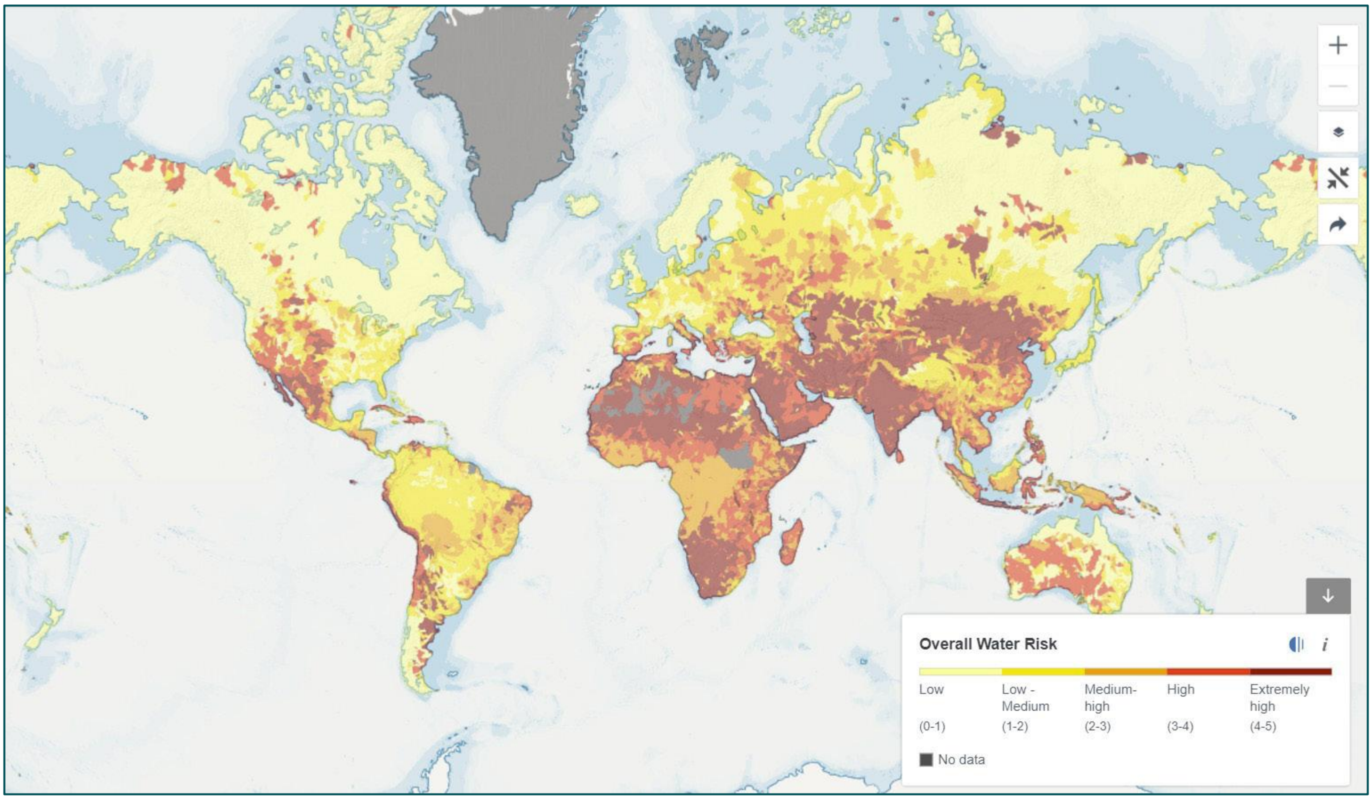
Water consumption is a material topic in the context of our strategies, given a sizeable exposure to consumer sector companies. In particular, because water is central to Coca-Cola's operations and those of its bottlers, sustainability efforts in this area are critical, especially in the face of climate change and increasing global water stress.

WATER SCARCITY – A GROWING ISSUE

'Water stress' describes a situation where the demand for water is greater than the available supply in a particular area, whether because of insufficient quantity or poor quality. According to the World Resources Institute, nearly a quarter of the global population face extreme water stress each year and roughly half the global population face water stress for at least one month per year[1].

As figure 1 shows, the majority of these countries are emerging markets, making this issue even more important to our investment universe. Water demand is expected to grow by 20–25% globally by 2050 and the number of regions facing water stress is also set to expand. Large economies with young populations – such as India, Mexico and Egypt – face some of the biggest issues.

Figure 1. World Resources Institute, Aqueduct Water Risk Atlas (as of 16 August 2023)[2]



Coca-Cola and its bottling partners recognise the risks associated with water scarcity and are taking steps to mitigate them. This includes investing in innovation and infrastructure solutions, enabling legislation and collaboration with others including industry peers, local governments and civil society.

COCA-COLA'S 2035 WATER STEWARDSHIP GOALS

Coca-Cola has set two key objectives to improve water resilience by 2035[3].

1. **Aim to return more than 100% of the water used in finished products globally, on an aggregate level, to nature and communities.**
2. **Seek to return 100% of the total water used in each of the more than 200 high-risk locations across the Coca-Cola system.**

Water is essential to people and ecosystems and because it is sourced locally, replenishment or return goals and investment, particularly in areas of high risk or water stress, are crucial. High-risk locations, determined through extensive analysis in 2024, represent almost a third of Coca-Cola system's locations globally[3].

A key metric in this strategy is the water use ratio (WUR), which tracks the number of litres used per litre of beverage produced. Although this is useful for driving best practice and efficiency comparisons (as in table 1 below), it should be noted that WUR does not account for water-intensive packaging production.

Table 1. Water use efficiency comparison within the Coca-Cola system

Water/Unit of Product (in Litres)										
Company	**Geography**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Chg % Last 3 Yrs***	**Chg % Last 5 Yrs***
Coca-Cola FEMSA	Latin America	1.58	1.52	1.49	1.47	1.46	1.42	1.38	-6	-9
China Foods	China	1.46	1.49	1.51	1.49	1.50	1.51	1.47	-2	-1
Arca Continental	Latin America & US	1.66	1.61	1.55	1.51	1.52	1.52	1.52	1	-5
Coca-Cola Icecek	Turkey, CIS, Asia	1.55	1.71	1.69	1.65	1.66	1.64	1.64	-1	-4
Embotelladora	Latin America	2.01	1.96	1.86	1.77	1.71	1.72	1.64	-7	-16
Coca-Cola Europacific	EU, AU, Indonesia	1.60	1.61	1.57	1.60	1.61	1.74	1.76	10	10
The Coca-Cola Company	Global	1.89	1.85	1.84	1.94	1.79	1.78	n/a	-3	-6
Coca-Cola HBC	EMEA	1.79	1.74	1.82	1.80	1.82	1.83	1.84	2	6
Coca-Cola Japan	Japan	3.34	3.26	3.23	3.24	3.25	3.20	3.09	-5	-5

*Source: company and Bloomberg reports. (*Using calendar year end data available as of 30 June 2025)*

BOTTLER-LED INITIATIVES

Many Coca-Cola bottlers are leading sustainability projects tailored to local needs – for example:

- **Arca Continental:** rainwater recovery from school roofs and a wetland project in Baja California[4].
- **Andina:** watershed restoration at Lake Ypacaraí and agricultural water tracking via satellites[5].
- **Coca-Cola HBC:** ionised air rinsing technology to save millions of litres[6].
- **FEMSA:** achieved Alliance for Water Stewardship certification at nine plants. Some Mexican plants now operate at a WUR of 1.20 l/l or better, while Colombia's Tocancipá plant leads at 1.17 l/l[7].

Additionally, the Coca-Cola bottlers are focusing on agriculture, which accounts for over 70% of global freshwater use[8]. Partnerships with KILIMO and regional farming programmes aim to optimise irrigation and reduce consumption[8].

BOTTLED WATER – AN ADDITIONAL CHALLENGE IN LATIN AMERICA

Latin America – particularly Mexico – consumes a large amount of bottled water. Given concerns over rising water stress, this has created regulatory and reputational risks for bottling companies[9]. Water extraction rights have historically been stable, but events such as the Nuevo León drought in 2022 underscore emerging challenges[10]. With bulk water sales in particular facing increasing scrutiny, diversifying into functional beverages, energy drinks and coffee could reduce reliance on bottled water over time.

Nestlé's 2021 sale of its North American water business highlights another potential strategy for Coca-Cola and its bottlers[11]. Whether through divestment, innovation or operational shifts, long-term resilience will be key to ensuring sustainable growth in an era of rising water scarcity.

CONCLUSION

In our valuation work we try to differentiate the severity of this longer-term risk for various bottlers that have more or less exposure to high-water-stress areas. We do this by assessing both the appropriate long-term growth and discount rate applied to future cashflow growth as well as their own volume mix by category.

There is very little visibility on exactly how the challenges of water stress will play out over time, which is an issue not only for us but also for the management team at Coca-Cola and those within the Coca-Cola system. We do, however, seek to identify management teams who are far-sighted and fair-minded in their approach to the analysis and mitigation of such risks and continue to engage actively with the management teams of our holdings on this front. In this case we believe Coca-Cola and its bottlers are looking after the long term by investing in resilience.

1 World Resources Institute (16 August 2023). *25 countries, housing one-quarter of the population, face extremely high water stress*. www.wri.org/insights/highest-water-stressed-countries

2 World Resources Institute – Aqueduct Water Risk Atlas. (16 August 2023) https://www.wri.org/applications/aqueduct/water-risk-atlas/#/?advanced and https://www.wri.org/research/aqueduct-40-updated-decision-relevant-global-water-risk-indicators

3 The Coca-Cola Company (February 2024). *The Coca-Cola Company evolves voluntary environmental goals. https://www.coca-colacompany.com/media-center/the-coca-cola-company-evolves-voluntary-environmental-goals*

4 Arca Continental (8 May 2025). *Arca Continental and Fundación Coca-Cola México inaugurate 8 rainwater harvesting systems in Tlaquepaque*. www.arcacontal.com/en/noticia/sustainability/arca-continental-and-fundacion-coca-cola-mexico-inaugurate-8-rainwater

Arca Continental (4 December 2024). *Arca Continental and Coca-Cola México inaugurate artificial wetland to clean water in Mexicali, Baja California*. www.arcacontal.com/en/node/904

5 Coca-Cola Andina. Annual Sustainability Report 2024. https://koandina-prod-files-bucket.s3.amazonaws.com/wp-content/uploads/2025/05/08144221/Memoria-Integrada-2024-ENG.pdf

6 Coca-Cola HBC (May 2021). Water stewardship stakeholder event https://www.nature.org/content/dam/tnc/nature/en/documents/Coca-Cola-Co-Partners-Approach-Addressing-Watershed-Health_March-2024.pdf

7 Mexicobusiness.News (1 April 2025). *FEMSA expands water stewardship certification in Latin America*. https://mexicobusiness.news/agribusiness/news/femsa-expands-water-stewardship-certification-latin-america

8 Coca-Cola Company (March 2024). *The Coca-Cola Company and Partners' approach to addressing watershed health*. https://www.nature.org/content/dam/tnc/nature/en/documents/Coca-Cola-Co-Partners-Approach-Addressing-Watershed-Health_March-2024.pdf

9 The Guardian (28 July 2022). *'It's plunder': Mexico desperate for water while drinks companies use billions of litres*. www.theguardian.com/global-development/2022/jul/28/water-is-the-real-thing-but-millions-of-mexicans-are-struggling-without-it

La Jornada (17 September 2023). *Mexico, the largest consumer of bottled water in the world*. www.jornada.com.mx/notas/2021/04/02/economia/mexico-el-mayor-consumidor-de-agua-embotellada-en-el-mundo

10 Reuters (30 July 2022). *Mexico declares drought in northern state of Nuevo Leon matter of 'national security'*. www.reuters.com/world/americas/mexico-declares-drought-northern-state-nuevo-leon-matter-national-security-2022-07-30

11 USA Herald (8 May 2025). *Nestlé $5.6B water unit sale amid brand overhaul*. https://usaherald.com/nestle-5-6b-water-unit-sale-amid-brand-overhaul

Disclaimer

For Professional Investors Only

This document is issued and approved by Skerryvore Asset Management Ltd (formerly BennBridge Ltd) ("Skerryvore"). Skerryvore may be referred to herein as the Investment Manager, Investment Adviser or Firm. The Firm is based at 45 Charlotte Square, Edinburgh EH2 4HQ in the United Kingdom. The registered office of the Firm is Windsor House, Station Court, Station Road, Great Shelford, Cambridge CB22 5NE.

Skerryvore is authorised and regulated by the Financial Conduct Authority in the UK and is registered as an investment adviser with the U.S. Securities and Exchange Commission ("SEC") (registration of an investment adviser does not imply any level of skill or training). The information in this document has not been approved or verified by the SEC or by any state securities authority.

As at the date of this document, the Firm manages the following Emerging Market Equity strategies; the Skerryvore Global Emerging Markets Equity Strategy ("GEM Equity") and the Skerryvore Global Emerging Markets Equity All-Cap Strategy ("GEM All-Cap"), each a "Strategy".

Skerryvore provides this material as a general overview of the Firm, our processes and our investment capabilities. It has been provided for informational purposes only. It is not a recommendation of, or an offer to sell or solicitation of an offer to buy, any particular security, Strategy or investment product that may be referred to herein and must not be construed as investment or financial product advice. The Firm has not considered any reader's financial situation, objective or needs in providing the relevant information. For the avoidance of doubt, this information has not been tailored to the needs of the recipient.

This material may contain privileged and confidential information and is intended only for the recipient/s. Any distribution, reproduction or other use of this presentation by recipients is strictly prohibited. If you are not the intended recipient and this document has been sent or passed on to you in error, please contact us immediately. Confidentiality and privilege are not lost by this document having been sent or received.

The value of investments may fall as well as rise and you may not get back your original investment. Past performance is not indicative of future performance or returns. The Firm has taken all reasonable care to ensure that the information contained in this material is accurate at the time of its distribution, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information.

Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. The performance of the index represents unmanaged, passive buy-and-hold strategies, investment characteristics and risk/return profiles that differ materially from managed accounts or investment funds, and in investment in a managed account or investment fund is not comparable to an investment in any index or in the securities that comprise the indices. The volatility of the index may be materially different from the individual performance attained by a specific investor.

In addition, a Strategy's holdings may differ significantly from the securities that comprise the index. The index has not been selected to represent an appropriate benchmark to compare an investor's performance but rather is disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized indices. You cannot invest directly in an index. Information is current as at the date of this document and may change without prior notice. This document may not be reproduced or distributed by the recipient, in whole or part, except that this document may be provided to the recipient's advisers in connection with an evaluation of a potential investment.

Any projections, market outlooks or estimates contained in this document constitute forward looking statements and are based on certain assumptions and subject to certain known and unknown risks. Accordingly, such forward looking statements should not be relied upon as being indicative of future performance or events.   The information provided in this document relating to specific stock examples should not be considered a recommendation to buy or sell any particular security.

An investment in a Strategy should be viewed as medium to long term. Potential investors in Emerging markets should be aware that investments in these markets can involve a higher degree of risk. An investment should only be made by those persons who could sustain a loss on their investment. It should not constitute a substantial portion of an investment portfolio and may not be appropriate for all investors. The value of investments and the income from them may go down as well as up and may be subject to sudden and large falls in value. An investor may lose their entire investment.

The Firm's research for this document is based on current public information that the Firm considers reliable, but the Firm does not represent that the research or the document is accurate or complete and it should not be relied on as such. The views and opinions contained herein are those are those of Glen Finegan and his team. They do not necessarily represent views expressed or reflected in other Firm investment communications or strategies and are subject to change.

The distribution of this document and the offering of or entering into an agreement with regards to a Strategy may be restricted in certain jurisdictions. No person receiving a copy of this document in any such jurisdiction may treat this document as constituting marketing or an invitation to them to enter into an agreement with regards to a Strategy. It is the responsibility of any persons in possession of this document, including individuals who may be employed by or a consultant to the recipient, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. If any recipient, including individuals, is or becomes aware that the receipt of this document by them contravenes any law or regulation, they must destroy it or return it to the Firm immediately. Prospective clients should inform themselves as to the legal requirements of entering into an agreement and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence, or domicile.

Disclaimer

Although the information in this document is believed to be materially correct as at the date of issue, no representation or warranty, express or implied, is given as to the accuracy, reliability, or completeness of any of the information provided as at the date of issue or at any future date. Certain information included in this document is based on information obtained from third-party sources considered to be reliable. Any projections or analysis provided to assist the recipient of this document in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among many alternative methodologies that produce different results.

Accordingly, any projections or analysis should not be viewed as factual and should not be relied upon as an accurate prediction of future results. Furthermore, to the extent permitted by law, the Firm and its affiliates, agents, service providers and professional advisers assume no liability or responsibility and owe no duty of care for any consequences of any person acting or refraining from acting in reliance on the information contained in this document or for any decision based on it.

FOR INVESTORS RESIDING IN THE UNITED KINGDOM OR THE EUROPEAN ECONOMIC AREA

In the United Kingdom this document is only available to professional investors meeting the criteria for Professional Clients set out in COBS3.5 of the Conduct of Business Sourcebook in the Financial Conduct Authority's Handbook of rules and guidance.

FOR PROSPECTS OR CLIENTS RESIDING IN CANADA

Please be advised that the Firm is not registered in any province in Canada. As at the date of this document, the Firm satisfies the requirements set out in section 8.26 of National Instrument 31-103 to reply on the International Adviser Exemption in the provinces of Alberta, British Columbia, Ontario and Quebec.

FOR INVESTORS RESIDING IN AUSTRALIA OR NEW ZEALAND

In Australia this document and investment in a Strategy is only made available to professional investors meeting the criteria for wholesale clients as defined in section 761G of the Corporations Act 2001 (Cth) (Corporations Act). In New Zealand this document and investment in a Strategy is only available to investors meeting one of the criteria to be considered a wholesale investor under clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 (New Zealand) (FMC Act). The receipt of this material by a prospective New Zealand investor does not constitute an offer, or part of an offer, of financial products or securities and this publication is not a product disclosure statement or any other form of offer or disclosure document.

This information is issued and approved by Skerryvore Asset Management Ltd (formerly BennBridge Ltd) ("Skerryvore"). Skerryvore is exempt from the requirement to hold an Australian financial services licence under the Corporations Act pursuant to ASIC Instrument 25-0112, issued under section 926A(2)(a) of the Corporations Act. This exemption enables Skerryvore to provide financial product advice and to deal in financial products in relation to foreign exchange contracts, securities and interests in a managed investment scheme (that is not required to be registered under Chapter 5C of the Corporations Act) in Australia to wholesale clients only. As any offer of financial products Skerryvore may make in New Zealand is limited to wholesale investors, Skerryvore is not required to be licensed or registered under the FMC Act to make any such offer, and any such offer if made will not constitute a regulated offer for the purposes of the FMC Act.

Skerryvore is authorised and regulated by the Financial Conduct Authority (with Firm Reference Number 769109) under UK laws, which differ from Australian and New Zealand laws.

This publication is not an offer of investment or financial product advice. Skerryvore has prepared this publication based on information available to it. Although all reasonable care has been taken to ensure that the facts and opinions stated herein are fair and accurate, the information provided has not been independently verified. Accordingly, no representation or warranty, expressed or implied, is made as to the fairness, accuracy or completeness or correctness of the information and opinions contained within this document. Whilst Skerryvore has taken all reasonable care in producing the information herein, subsequent changes in circumstance may at any time occur and may impact on the accuracy of this information. Neither Skerryvore, nor its directors or employees, guarantee the success of Skerryvore's funds, including any return received by investors in the funds. Past performance is not necessarily a guide to future performance. The information contained within this document is a general summary only and has been prepared without taking into account any person's individual objectives, financial circumstances or needs. Before making any decisions to invest, a person should consider the appropriateness of the information to their individual objectives, financial situation and needs, and if necessary, seek advice from a suitably qualified professional. Information in this publication is current as at the date of this document, unless stated otherwise.

This publication includes 'forward-looking statements'. These forward-looking statements are based on current views, expectations and beliefs as at the date they are expressed. They involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of Skerryvore to be materially different from those expressed or implied by the forward-looking statements. Accordingly, there can be no assurance or guarantee regarding these statements, and you must not place undue reliance on these forward-looking statements. Skerryvore disclaims any responsibility for the accuracy or completeness of any forward-looking statements.

Disclaimer

Telephone calls may be recorded for training and monitoring purposes.

RISK FACTORS

- Capital is at risk and there is no guarantee the Strategy will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Strategy.
- Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.
- The Strategy does not hedge currency exposure. If the currency of the investment is different from the local currency in the country in which you reside, the figures shown in this document may increase or decrease if converted into your local currency.
- Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, the Strategy may not be able to sell a security for full value or at all. This could affect performance.
- Investments in Emerging markets can involve a higher degree of risk.