

Ontario Teachers'

Our Investment in Chilean Water Utilities



Background: Chilean Water Industry

Context and Situation

Less than two decades ago, public water infrastructure in Chile needed major investment in order to increase consumer access to water and to improve public health in general. In 1998, Chile had only 24 waste-water treatment plants. Urban coverage for potable water was 97%, but it was 83% for sewage collection and only 15% for sewage treatment.

The government did not have the funding or expertise required to adequately operate and manage water facilities, so they adopted a privatization strategy for utilities, which delivers clean drinking water, takes away wastewater and treats sewage.

Between 1998 and 2004, the Chilean government sold majority stakes in public water companies to private investors, such as Ontario Teachers'. However, the government maintained minority interests in order to retain regulatory control and to derive revenues.

The results of privatization were dramatic. Between 2000 and 2010, coverage levels for potable water, sewage collection and sewage treatment approached 100%. Chile is now a global leader in urban sewage treatment coverage in urban centres.

Chilean Water Evolution

<i>Early 1990s</i>	<i>1998</i>	<i>1998-2004</i>	<i>2007</i>	<i>2010</i>
Urgent investment in public water needed; crisis in sewage treatment for cities	Potable water coverage improves sewage treatment lags; 24 waste-water plants established	Government sets privatization agenda; water assets sold to private interests	Ontario Teachers' acquires majority stakes in four Chilean water companies	Coverage levels for potable water, sewage collection, treatment approach 100%



Why Water?

Strategic Alignment

Investing in water utilities is well-suited to our mission of providing retirement security for the plan's 316,000 members. These holdings represent safe, long term assets, which offer predictable returns over many years.

As a responsible investor, our involvement in the water infrastructure sector also enables us to have a positive impact on local communities and to deliver societal benefits in general.

Our Investment

We entered the Chilean water industry in 2007 by acquiring a majority stake in four water companies. This industry represented a high-potential area for growth because it required a great deal of external capital in order to modernize the nation's water infrastructure and utilities.

Chile's robust regulatory framework also made it a favourable environment for us to do business.

Ontario Teachers' Holdings: Chilean Water Utilities

<i>Company</i>	<i>Stake</i>
Esval S.A.	94.1%
Essbio S.A.	89.6%
Nuevosur	90.1%

Esval owns 100% of Aguas del Valle, which operates in the IV region of Chile.



Responsible Investing Approach

ESG Factor Alignment

Our goal is to remain effective stewards of the companies we own for as long as we own them. We also believe that companies that are good at managing environmental, social and governance (ESG) factors are likely to be well-run and therefore will deliver sustainable returns. Our investment in Chilean water considers each of these factors.

<i>Environmental</i>	<i>Social</i>	<i>Governance</i>
<p>We have influenced water companies in Chile to prioritize the growing impacts of climate change on the security of the water supply.</p> <p>The threat of environmental changes, including droughts and extreme weather events, compel water companies and investors like Ontario Teachers' to seek operational innovations that keep water safe and accessible.</p> <p>Our efforts to improve efficiencies and reduce losses from leakages enabled local communities in Chile to withstand a five-year drought (from 2010-2015).</p> <p>Continual improvements in sewage treatment means more potable water comes back to Chilean communities.</p>	<p>Our investment has led to improved water quality and expanded access to clean water in Chile.</p> <p>This has resulted societal benefits such as health improvements. For example, Chile has experienced a decline in diseases linked to poor sewage treatment, such as shigellosis and typhoid.</p>	<p>Our companies are subject to regulations that focus on driving innovation. They are rewarded with incentives for delivering better services at a lower cost.</p> <p>We have used our position to ensure that organizations meet, or exceed, regulations because our return is linked to the achievement of these standards.</p> <p>We also push our companies to undertake long-term planning for sustainability, risk management and continuous improvement purposes.</p>



UN Position on Water

Standards Alignment

The United Nations General Assembly explicitly acknowledges that clean drinking water and sanitation are essential to human rights. They have established a framework outlining several key aspects. Our investment in Chilean water aligns with this framework.

UN Standard	Chilean Water Standard
Sufficient Water supply must be sufficient and continuous for personal and domestic use. The World Health Organization suggests that this is between 50 to 100 litres of water per person, per day.	In Chile, the household levels for water consumption are higher than the standard prescribed by the UN, standing at 137 litres of water per person, per day, in 2015. Our water companies have contributed to this standard by improving operations, which lead to a reduction in water losses and an increase in sewage treatment..
Safe and Acceptable Water must be free from micro-organisms, chemical substances, and radiological hazards. Water should be of an acceptable colour, odour and taste for personal use.	Since privatization, Chile has witnessed a steady decline in hospital admissions for typhoid and shigellosis as sewage treatment has increased.
Accessible Everyone has the right to water and sanitation service that is physically accessible.	Through privatization, Chile was able to increase coverage levels for potable water, sewage collection and treatment to almost 100%.
Affordable Water and water services must be affordable for all. The UN says that water costs should not exceed 5% of household income. Whenever a customer falls into arrears, providers should attempt to contact the user to understand the reasons for his behaviour. If the user has financial difficulties in coping with payments, the service provider should assist in payment facilitation.	As of 2015, the average water tariff rate in Santiago, Chile was 1.26 cents per litre (compared to 3.06 cents per litre in Ottawa, Canada). Low income families have received subsidies that can cover up to 100% of the costs of drinking water and sewage for the first 15 cubic meters per month and are given directly from municipalities to end customers. In 2015, 14.8% of urban clients in Chile were subsidized.



About Ontario Teachers'

The Ontario Teachers' Pension Plan (Ontario Teachers') is Canada's largest single-profession pension plan, with \$171.4 billion in net assets at December 31, 2015. It holds a diverse global portfolio of assets, 80% of which is managed in-house, and has earned an annualized rate of return of 10.3% since the plan's founding in 1990.

Ontario Teachers' is an independent organization headquartered in Toronto. Its Asia-Pacific region office is located in Hong Kong and its Europe, Middle East & Africa region office is in London.

The defined-benefit plan, which is fully funded, invests and administers the pensions of the province of Ontario's 316,000 active and retired teachers. For more information, visit www.otpp.com and follow us on Twitter @otppInfo.

