From risk to revenue:
The investment opportunity in addressing corporate deforestation

Written on behalf of 380 investors with US$29 trillion in assets

CDP Report I November 2017

Global Forests
Scoring Partner

south pole group

Contents

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Introduction

> **By encouraging companies to disclose standardized data regarding deforestation risks, CDP's forests program will empower investors to undertake strategic engagement and portfolio allocation decisions to reduce these risks and support the ecosystems on which we rely.**

Seventeen years ago, CDP set out to transform capital markets by making environmental disclosure and risk management a new business norm.

Today, there is increasing evidence that awareness, disclosure and management of environmental risk is becoming mainstream around the world.

The Paris Agreement, the Sustainable Development Goals and evolving market forces—from shareholder and customer requirements to the rapidly improving cost curves of clean technology—are moving us towards a tipping point that will help protect us from climate change, water insecurity and the effects of deforestation. To reach that point we need critical shifts in financial capital and policy, as well as strong leadership, innovation, measurement, transparency and accountability.

CDP's vision is for a thriving economy that works for people and planet in the long term.

Our mission is to focus investors, companies and cities on taking urgent action to build a truly sustainable economy by measuring, understanding and reducing their environmental impact.

The stakes are high and we are not yet doing enough to halt deforestation.

Addressing deforestation driven by soft commodities such as cattle products, palm oil, timber products, and soy is critical to achieving international climate goals, as well as to protecting biodiversity and the rights and livelihoods of local people.

There are tangible supply and financial risks that cannot be ignored by investors if they want to successfully operate in the new climate economy. Research by CDP last year found up to US$906 billion of turnover in publicly listed companies was dependent on commodities linked to deforestation. This continues to rise – with up to US$941 billion being reported this year. Companies increasingly recognize that the environmental and social impacts of deforestation threaten to reduce returns and increase risks.

Conversely, to realize business advantage, forward-thinking financial institutions should be actively aware of emerging opportunities related to the reduction of deforestation, such as access to sustainable financial markets and the mitigation of public pressure that can lead to loss of revenue.

The next few years will be critical to securing long-term climate stability, and the protection of forests is a prerequisite for a stable climate. By encouraging companies to disclose standardized data regarding deforestation risks, CDP's forests program will empower investors to undertake strategic engagement and portfolio allocation decisions to reduce these risks and support the ecosystems on which we rely.

Morgan Gillespy
Director, Forests, CDP

About this report

This year, we asked 1,103 of the largest global companies to provide data about their efforts to stop deforestation. In total, 272 companies responded.

This data is used by 380 institutional investors, representing US$29 trillion in assets, to engage with portfolio companies, inform investment decisions and catalyze action. In addition and for the first time, eight purchasing organizations, with a combined spend of US$80 billion, are now using CDP forest data to drive greater insight, accountability and action throughout their global supply chains.

CDP's 2017 Global Forests Report draws on the disclosures from 201 companies that responded to the investor request for information[1] on the risks and opportunities linked to four commodities responsible for the majority of deforestation and forest degradation: cattle products, palm oil, timber products and soy. It makes a clear business case for investor action, highlighting both the material risks that come with deforestation, and the opportunities emerging for those financial institutions that are acting against it.

Key findings

1. The lack of engagement and accountability surrounding deforestation masks corporate risk, which cascades directly to investors.

- Less than a quarter (23%) of the companies approached by CDP on behalf of investors this year responded to the information request, showing that disclosure on forests is still not the norm.

2. Companies recognize that the environmental and social impacts of deforestation threaten to reduce profits and increase risks.

- 87% of companies recognize at least one risk – and 32% have already experienced impacts – associated with the production or consumption of forest-risk commodities.

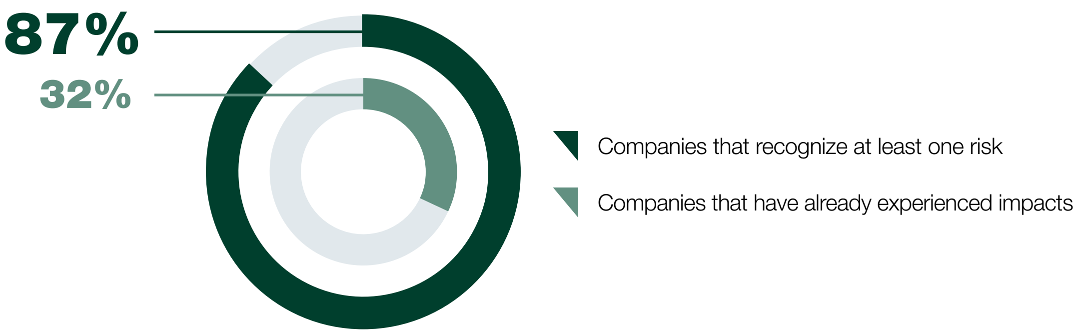
3. Developing sustainable sources of forest-risk commodities creates opportunities for companies – and therefore investors – to generate attractive, stable long-term returns.

- 87% of companies identify opportunities related to the sustainable production, marketing or sourcing of at least one of the commodities.

4. Leading companies are taking meaningful steps to remove deforestation from supply chains, but corporate action has not yet reached a tipping point.

- Of the companies disclosing in 2017, only six achieved an 'A' grade.

Deforestation risks and impacts reported



1 Companies included in the analysis are those that responded by August 2nd, 2017.

Deforestation's hidden risks:
The case for action

Investors are increasingly concerned about the impacts that climate change will have on the value of their portfolios and therefore on their ability to fulfill their fiduciary duties to their beneficiaries.[2]

Much of this concern has been directed towards carbon emissions from energy and other industrial processes and, to a lesser extent, to how climate change will affect the world's water systems. Finance regulators have responded, building on and complementing the work done by CDP with the Task Force on Climate-related Financial Disclosures (TCFD). This Task Force proposes a framework for companies to provide relevant information to investors, lenders, insurers and other stakeholders.

Investors are just beginning to recognize the role that forests play in climate change and in managing the water cycle – and the vulnerability of rainforests, in particular, to deforestation associated with key 'forest risk' commodities such as soy, timber products, palm oil and cattle products.

Forests absorb and store vast quantities of carbon dioxide, helping to mitigate the effects of greenhouse gas emissions. Deforestation accounts for around 15% of greenhouse gas emissions.[3] However, by addressing deforestation, we could achieve up to one third of the carbon mitigation needed annually to keep temperature rises in check[4] , while saving more than $100 billion per year through 2030.[5]

Companies that directly or indirectly cause deforestation by producing or consuming unsustainable forest-risk commodities are faced with physical, regulatory and reputation risk. 87% have identified at least one risk related to forest-risk commodities that has the potential to cause a substantive change in operations, revenues or costs.

Risks are being felt, with 32% of companies having experienced impacts from them, such as corporate losses and share price falls. The value of **IOI Corporation**, one of Malaysia's largest conglomerates, fell by around 18% after temporarily losing its sustainable palm oil certification, and thus a number of high-profile customers, in 2016.[6] This wiped some US$1.3 billion off its market capitalization.

Further, countless supply chains depend upon commodities linked to deforestation. Research by CDP last year found that up to US$906 billion of turnover in publicly listed companies is dependent on commodities linked to deforestation. This figure increased to up to US$941 billion in 2017.

Nearly two thirds of companies (65%) say they are exposed to physical risk, such as a reduction or disruption of supply, or increased costs of forest-risk commodities.

Up to US$ 941 billion

of turnover is dependent on commodities linked to deforestation

> **Increasing transparency makes markets more efficient, and economies more stable and resilient.**
>
> **Michael R. Bloomberg, Chair, TCFD**

- **Empresas CMPC**, a Chilean pulp and paper company, reports that fires affecting large swathes of forests in its home market cost it US$41 million in 2016.
- Japan's **Dai Nippon Printing Co. Ltd** says that stable supplies of forest resources "exerts a significant impact on business." A 1% increase in material prices would increase operating costs by almost US$9 million.

Equally, 59% of companies report risk of damage to their reputation and brands linked to deforestation that could reduce demand for their goods or services.

- **Mars, Incorporated**, a US food company, was one of the companies that stopped buying palm oil from IOI Corporation in 2016. It states that it does not source from palm suppliers without commitments equivalent to RSPO certification – and it adds that by finding alternative suppliers, it was able to avoid losing sales of US$160 million to its clients who expect to buy sustainable products.
- **UPM-Kymmene Corporation** notes that, as a leading forest product company, it is under constant scrutiny by "critical stakeholders." Failing to meet their expectations raises the risk the Finnish company could be subject to consumer campaigns, it says.

In addition, companies are subject to tightening regulations that can have material impacts on market access and, therefore, revenues. For example, the EU's Timber Regulation governs imports of timber, as does Australia's Illegal Logging Prohibition Act, while the US Lacey Act bans the trade in illegally sourced wildlife, including plant products. All three place the burden of responsibility on the importer.

As **Conagra Brands** states in its response to CDP's forest program, the US food company's investors, NGOs, the media and regulators expect it to take a lead in terms of the sustainable sourcing of forest-risk commodities. A failure to do so would put it "at risk of shareholder activism, other stakeholder campaigns, or compliance actions that could impact shareholder confidence and our stock price."

Campaigners have particularly targeted financial institutions over their financing of deforestation. Earlier this year, **HSBC Plc.** found itself the subject of a sustained campaign by Greenpeace over the bank's financing of palm oil companies. In response, it toughened its agricultural commodities policy by including a 'No Deforestation, No Peat and No Exploitation' (NDPE) commitment, and extending it to include refiners and traders, among other things.[7]

How do we ensure the sustainable management of the world's forests?

All stakeholders have a role to play. Companies are responsible for the production and sourcing of these commodities, and governments are responsible for regulating companies, and for protecting at-risk forests. Investors are uniquely positioned to influence corporate action by engaging with companies to improve disclosure and performance.

2 For example, the number of institutional investors backing the CDP climate program has risen from 315, managing US$41 trillion of assets in 2007, to more than 800, responsible for US$100 trillion, in 2017.

3 Kissinger, G., M. Herold, V. De Sy, 2012, 'Drivers of Deforestation and Forest Degradation: A Synthesis Report for REDD+ Policymakers'. Available at: http://www.forestbonds.net/sites/default/files/userfiles/1file/6316-drivers-deforestation-report.pdf

4 The Prince's Charities, International Sustainability Unit, 2015, 'Tropical Forests: A Review'. Available at: https://www.pcfisu.org/wp-content/uploads/2015/04/Princes-Charities-International-Sustainability-Unit-Tropical-Forests-A-Review.pdf

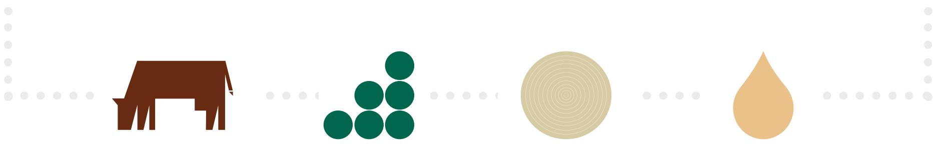
5 Seymour, F., Busch, J, 2016, 'Why Forests? Why Now? The Science, Economics and Politics of Tropical Forests and Climate Change'. Available at: https://www.cgdev.org/publication/why-forests-why-now-science-economics-and-politics-tropical-forests-and-climate-change

6 *The Straits Times*, 22 September 2017, 'How to fight haze three times a day'. Available at: http://www.straitstimes.com/singapore/environment/how-to-fight-haze-three-times-a-day

7 'HSBC Statement on Revised Agricultural Commodities Policy: Palm Oil', 20 February 2017. Available at: http://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/hsbc-statement-on-revised-agricultural-commodities-policy

How company risk becomes investor risk

Corporate risk		Investor risk
Decline in value and credit rating downgrade. Local climatic impacts of deforestation affecting commodity supply and quality. Supply chain disruption and threats to corporate licences to operate and grow from social grievances involving land use and tenure. Increased operational costs due to reduced offer of sustainable supply. Potential for stranded assets and reduced market access as other major players act to produce and/or procure deforestation-free commodities.	**Operational**	Capital loss due to stranded assets, particularly in production regions. Loss of revenue due to drop in share values of companies linked to deforestation.
Public pressure leading to brand damage, boycotts and loss of consumer trust.	**Reputational**	Investor brand damage due to NGO or media campaigns highlighting links of investors and banks with deforestation. Update of internal policies in a quick turnaround due to public pressure.
Fines from producing and/or procuring material in contravention of current regulations. Increased cost of commodity inputs if regulatory measures restrict availability of land for conversion to agriculture, alongside greater demand for commodities for bioenergy and animal feed. Increased operational costs and potential supply disruption from rapid regulatory changes in response to climate change and other threats to ecosystem services.	**Regulatory**	Failure to disclose ESG risks in portfolio.



Q&A with Leslie Samuelrich
President, Green Century Capital Management

> CDP allows shareholders to evaluate a company's progress towards eliminating threats to long-term shareholder value, like deforestation, and engage with corporates accordingly.

Why is deforestation an investor concern?
Deforestation poses a number of material concerns to investors, including restricted market access, competitive disadvantage, and reputational damage. Luckily, curbing deforestation is one of the most cost-effective ways to address climate change. That's why eliminating deforestation in corporate supply chains may help shareholders avoid risks and position companies to enjoy certain opportunities.

Why is corporate transparency important to you? How do you use CDP's forests data and what are the outcomes of this use?
Investors must demand rigorous disclosure from companies in order to defend against potential risks. CDP allows shareholders to evaluate a company's progress towards eliminating threats to long-term shareholder value, like deforestation, and engage with corporates accordingly. Because of the data provided by CDP on a company's exposure to certain forest-risk commodities and how it is implementing policies and procedures to ensure deforestation-free supply chains, Green Century is able to more effectively work with companies to both drive new zero-deforestation commitments and ensure the integrity of those already secured.

How do you work with companies to drive the transition required to a deforestation-free economy and what results have you seen?
Green Century has worked with over 20 companies to support deforestation-free supply chains. Our shareholder advocacy program has secured zero-deforestation policies, provided implementation support, pressed verification and certification programs to strengthen standards, and even supported regulatory policies that provide the environment necessary for private sector commitments to thrive. In 2012, when Green Century began engagement on deforestation, only about 5% of all palm oil refineries were covered by zero-deforestation policies. Today, that number is at 75%. This industry transformation will help decrease the impact agriculture has on the climate. For example, one of the commitments Green Century helped secure will keep 1.5 gigatons of carbon in the ground. While this progress is worth celebrating, much work remains to ensure sustainable supply chains and protect investors and companies from risk.

From disclosure to delivery

By affecting company valuations and the ability of companies to repay debt, the risks faced by companies dealing with forest-risk commodites are ultimately borne by investors.

Investors are uniquely placed to ensure that companies act to understand, manage and mitigate these risks.

The 380 signatory investors who backed CDP's forests program in 2017 (see page 26) did so to ensure the companies in which they invest are properly managing exposures to deforestation-related risk.

Removing deforestation from global supply chains is possible. To encourage companies to do so, there are five key actions investors should require of the companies in which they invest or lend:

Transparency

Report material deforestation information

Risk assessment

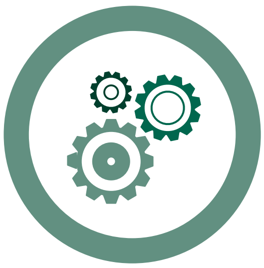
Assess and understand risks

Opportunities

Realize opportunities associated with deforestation-risk management

Governance

Put governance, policies and standards in place



Implementation

Introduce certification, traceability and supplier engagement systems

Transparency

Investors are unable to properly assess deforestation risk unless companies **disclose** key information. As **Golden Agri-Resources**, the Singapore-based palm-oil company notes, investors and regulators expect reporting and transparency on ESG issues alongside financial and operational metrics, to better measure the company's performance.

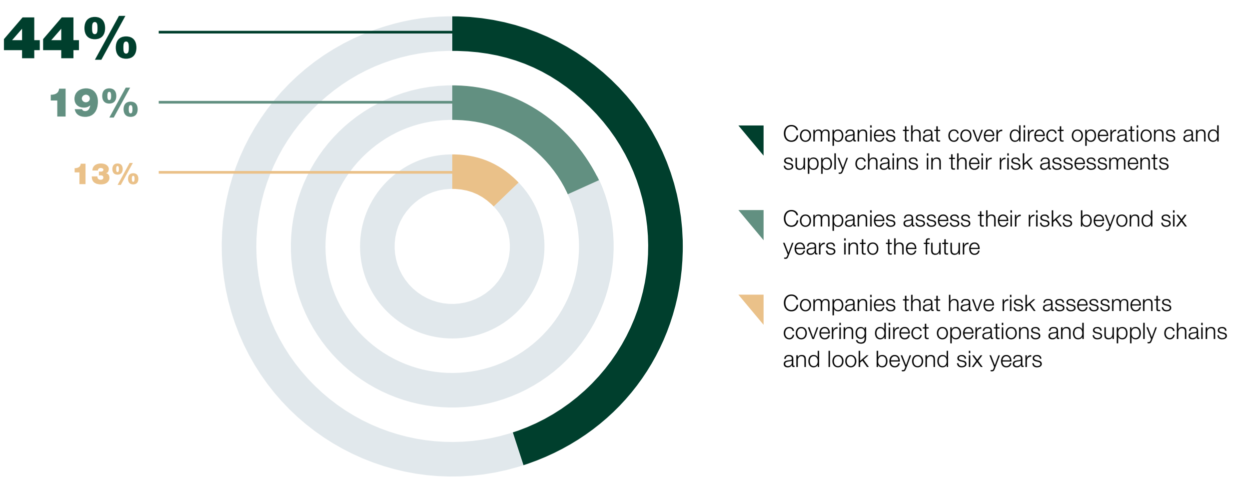
Unfortunately, disclosure remains the exception rather than the rule: barely less than a quarter (23%) of the 838 companies companies approached by CDP on behalf of investors this year responded to the information request. This means that more than three quarters (77%) ignored a request from investors to disclose financially material environmental data. It is critical that investors increase the pressure on companies to disclose, both by becoming a CDP forests program signatory, and through direct engagement with companies in which they invest.

Risk assessment

Identifying, understanding and mitigating risk is a crucial first step in addressing deforestation. While the vast majority of companies reporting to CDP (88%) carry out a **risk assessment**, many of these are insufficiently comprehensive, frequent or forward looking.

To be effective, risk assessments should cover both direct operations and supply chains, and should look sufficiently far into the future – at least beyond six years – to provide confidence that new risks can be anticipated. This year, 13% of companies analysed conducted risk assessments that met these criteria. This leaves nearly 90% of companies, and their investors, with unassessed exposures and potentially unforeseen risks.

Companies undertaking risk assessments across commodities



Forestry Sector clients are encouraged to participate in CDP's Forests Program so as to promote transparency regarding the overall impacts of the supply chain.

Societe Generale's Forestry and Forest Products policy

From disclosure to delivery

Opportunities

87% of companies report opportunities associated with the production, marketing or sourcing of forest-risk commodities, such as more demand for sustainable materials, or increased brand value.

Firmenich S.A., a Swiss perfume company, sees a significant opportunity for products derived from sustainable sources. The company identifies potential revenue growth of more than 5% from its 'sustainable product' branding.

Spanish infrastructure company **Ferrovial S.A.** notes that global biodiversity markets are estimated to be worth between US$2.4 billion-4 billion per year, presenting financially material opportunities for its activities. For example, the company has prepared a project in partnership with the Massachusetts Institute of Technology to develop habitat banks for sale with the aim of tapping into a financial opportunity while mitigating risk.

Forests assets at risk of stranding

The concept of 'stranded assets' has transformed the investor view of climate risk – and the forces at work apply similarly to the unsustainable production of forest-risk commodities.

Stranded assets are those whose value is written down before the end of their expected life. In the context of forest-risk commodities, productive assets linked to deforestation could lose access to end markets, reducing their economic value.

For example, a report from **Chain Reaction Research** warns that almost a third of the land-bank held by Indonesian palm oil producers cannot viably be developed, due to tighter regulations and the growing market role of buyers with NPDE policies. Because companies' market valuations are partly based on their undeveloped land banks, "a period of company revaluations to adjust for any stranded land may occur," the report says.[8]

The **Tropical Forest Alliance 2020**, a public-private partnership that seeks to address deforestation caused by forest-risk commodities, estimates that business-as-usual investments in these commodities can put tens of billions of dollars of investment at risk of stranding over the next 10 years. If all production areas that were illegally deforested in the past are included, that figure rises to the hundreds of billions.[9]

Clearly, financial institutions that invest in commodity producers face substantial risks if these producers lose access to their markets, due to their failure to embrace sustainable practices.

To ignore the risks presented by deforestation is to ignore the vital role that forests play in mitigating climate change, the multitude of critical ecosystem services they provide, and the vast economic value that they can create, directly or indirectly. As responsible, long-term investors we therefore believe it is essential to encourage companies to identify, report and manage the impact their operations and supply chains have on forests worldwide.

John David, Head of Rathbone Greenbank Investments

8 Chain Reaction Research, February 2017: 'Indonesian Palm Oil's Stranded Assets: 10 Million Football Fields of Undevelopable Land'. Available at: https://chainreactionresearch.files.wordpress.com/2017/02/palm-oil-stranded-land-size-equals-ten-million-football-fields-crr-170407.pdf

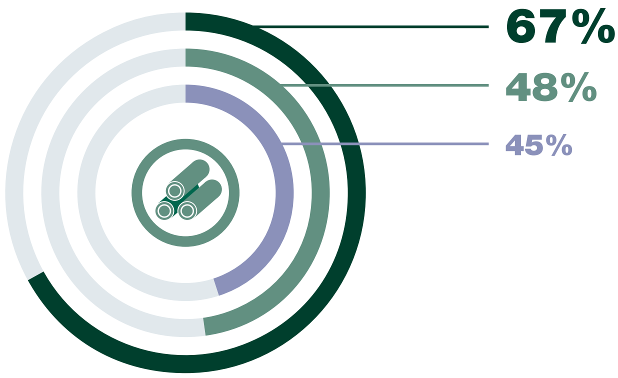
9 World Economic Forum TFA 2020, January 2017, 'The Role of the Financial Sector in Deforestation-free Supply Chains'. Available at: https://www.tfa2020.org/wp-content/uploads/2017/01/TFA2020_Framing_Paper_130117.pdf

Top opportunities reported by sector

Agricultural Production

Consumer Durables, Household and Personal Products

Food, Beverage and Tobacco Processing



Materials

Retailing

- Increased brand value
- New market or product/service opportunities
- Increased shareholder value
- Increased transparency
- Increasing capacity of sustainable commodity markets
- Driving demand for sustainable materials
- Staff retention / satisfaction

From disclosure to delivery

Governance

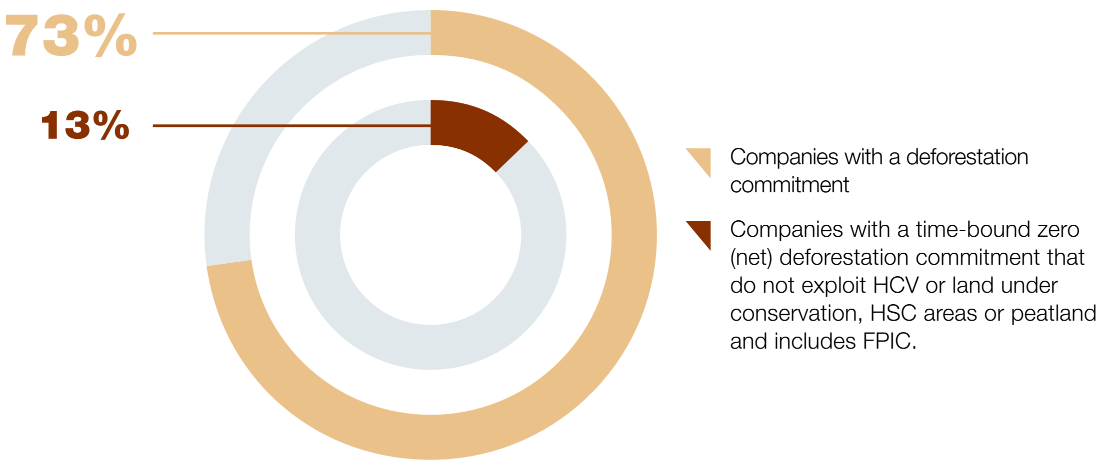
Governance to address deforestation risk should be on the agenda of the board of every major global corporation. Currently less than two-thirds (64%) of companies report board-level oversight of deforestation.

Companies also need to set ambitious high-level **commitments** to reduce deforestation impacts and risks. For companies to show leadership, CDP expects them to adopt a time-bound zero (net) deforestation commitment that excludes high conservation value (HCV) or land under conservation and high carbon stock (HCS) land or peatland from exploitation, and which requires the free, prior and informed consent of local people to any land-use activity that affects them. Only 13% of companies reporting via CDP have made such commitments. These include **Asia Pulp & Paper** and **McDonald's Corporation**.

Companies must also put policies in place to implement commitments. For example, **Colgate Palmolive Company** is working with the Rainforest Alliance to develop a policy specific to the sustainable sourcing of pulp and paper.

Companies not directly producing forest-risk commodities should introduce appropriate environmental **standards** governing their procurement, which might include certification or commodity-specific procurement criteria. More than four fifths (81%) report that they have set such standards across commodities. For example, US restaurant company **Dunkin' Brands Group, Inc.**, requires its suppliers to meet specific environmental requirements within its responsible palm oil sourcing guidelines.

Commitments



UBS requires companies producing palm oil, soy or timber in markets at high risk of tropical deforestation to be publicly committed to achieving full certification of their production, by 2020, against the standards of recognized sustainability schemes, such as the RSPO, the Roundtable on Responsible Soy (RTRS), and the Forest Stewardship Council (FSC).

UBS

Implementation

The aim of strong corporate governance is to improve performance. Investors assessing deforestation risks posed by companies within their portfolios should seek to understand the progress companies are making in meeting their sustainability goals. While we have seen an increase in the number of deforestation-related commitments, implementation of those commitments continues to lag: this presents a critical opportunity for investors to exert their influence over companies.

Implementation requires companies to put into practice the standards they have established. For example, Swiss food manufacturer **Barry Callebaut** addresses deforestation in both its soy and palm oil policies, which are shared with suppliers for compliance against them. In some supply chains, **certification** that commodities have been produced to the appropriate level of sustainability is the leading mechanism for meeting company standards. **94%** of companies using certification for at least one commodity are able to recognize business opportunities, as opposed to **59%** that do not use certification.

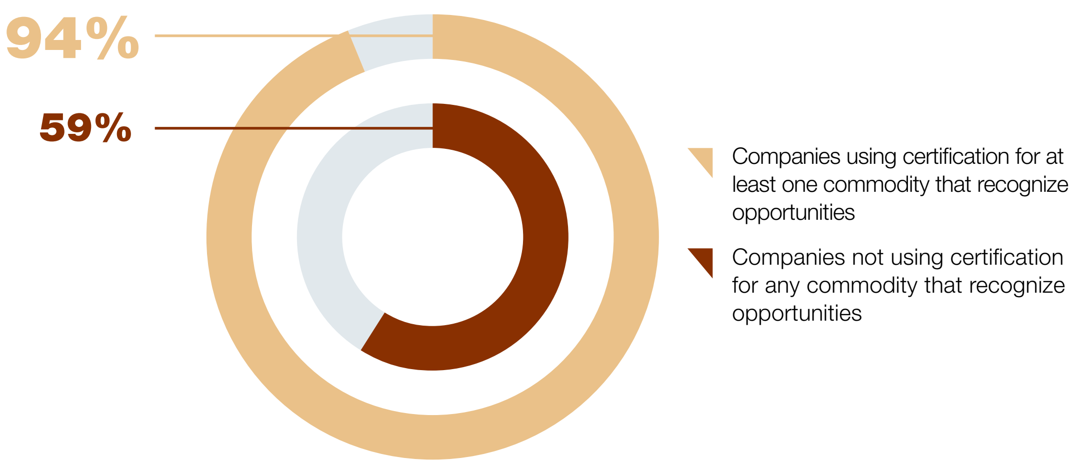
However, while certification is often considered a proxy for sustainability, not all certification schemes are sufficiently rigorous.

For example, nearly **40%** of manufacturers and retailers reporting on their sourcing of palm oil use Green Palm. However, this is an offsetting scheme, as opposed to mass balance, segregated or identity preserved, which ensure some or all of the physical palm oil consumed is from sustainable sources.

Traceability to the point of origin allows customers to understand the source of the commodity. As with certification, **94%** of companies with traceability systems for at least one commodity are able to recognize business opportunities associated with the sustainable production or consumption of this commodity, compared with **47%** that do not have traceability.

However, traceability systems do not guarantee that the commodity in question is sourced from a sustainably managed plantation. Instead, they provide visibility to where the commodity is sourced or produced.

Opportunities recognized based on use of certification



From disclosure to delivery

Manufacturers and retailers able to trace some portion of their forest-risk commodities back to the point of origin:

Palm oil:
mill and plantation

56%

Cattle products:
farm

29%

Soy:
farm and plantation

12%

Timber:
forest, forest management unit, mill and plantation

50%

Implementation

Traceability and certification schemes therefore may not be sufficient to ensure sustainable sourcing. **Supplier engagement** offers an important additional tool to implement sustainable commodity sourcing, offering a means for consumers to work with suppliers to improve practices.

While 84% of manufacturers and retailers say they work with their direct suppliers across commodities, there is limited evidence that this engagement is sufficiently deep. Across all four commodities:

- Only **3%** of manufacturers and retailers offer financial support to suppliers.
- Only over a third (35%) of manufacturers and retailers encourage their suppliers to work with multi-stakeholder initiatives.
- Just over half (51%) of manufacturers and retailers have procurement standards that influence how they engage with their suppliers.

One company which directly engages with its suppliers is US personal care company **Kimberly-Clark Corporation**. It has supported one of its suppliers' Forest Stewardship Council (FSC) certification process by providing it with funds to map HCV forests. British supermarket company **J Sainsbury Plc** provides training to their palm oil suppliers for them to convert to RSPO certified palm oil and meet the company's requirements.

Companies that are leading the way

Corporate action to halt deforestation has not yet reached a tipping point, as shown by the low number of companies recognized as leaders by CDP. More must be done urgently to save what is left of the world's forests.

A CDP score is an indicator of a company's commitment to transparency around its environmental risks, and the sufficiency of its response to them. This year, we recognize six corporates as pioneers in taking action on deforestation and building a sustainable economy that works for both people and planet. The companies on the following page have achieved an 'A' rating in accordance with our publicly available forests scoring methodology.

The forests score seeks to grade companies on their efforts to remove commodity-driven deforestation from their supply chain. Scores are awarded separately for each of the four commodities responsible for most global deforestation: timber products, palm oil, cattle products and soy. It allows companies to improve their understanding of the risks related to deforestation, while identifying and engaging with other companies in their supply chain that are not currently taking action.

We celebrate this year's A list and highlight on the next page examples of the actions leading organizations are taking.

Commodities:

Brambles (Australia)

To monitor, manage and limit its risk, the company set up its Sustainability Risk Committee to align its environmental objectives with those of the UN Sustainable Development Goals. In doing so, the company is committed to sourcing 100% of its timber from certified sources, achieving zero-waste at all its sites and assisting its customers in reducing greenhouse emissions. With the introduction of its Share and Repair scheme, **Brambles** saved 1.4 million trees from being felled in 2016 alone, and reduced by 14.3% the carbon per unit of goods delivered.

L'Oréal (France)

With a commitment to zero-deforestation by 2020, **L'Oréal** already sources 100% of its palm oil derivatives from sources certified by the RSPO. The company worked with external stakeholders to design a tool – Sustainable Palm Oil and Traceability – to evaluate the environmental and social performance of all its products. By supporting 500 smallholder farmers in Sabah, Malaysia, L'Oréal has increased the availability of certified sustainable palm oil, helping to future-proof the business.

SCA (Sweden)

SCA has worked to build the capacity of its suppliers to provide sustainable materials. In collaboration with its suppliers, it developed the SCA Supplier Standard to drive shared values and priorities through the supply chain. For example, SCA's purchasing policy for raw-wood materials includes a step-by-step process to support suppliers in their transition to third-party certification.

Tetra Pak (Sweden)

Tetra Pak has a procurement policy to ensure all paperboard comes from forests with permanent forest cover. The packaging company sourced all its paperboard from FSC approved suppliers in 2016. The company is also working with the FSC to encourage smallholders to attain FSC certification.

Unilever (Netherlands, UK)

Unilever has successfully encouraged its Brazilian suppliers to disclose to CDP and develop origin maps of all their beef feedstocks. This engagement process has helped Unilever gain a better understanding of the cattle products supply chain. To further mitigate risks, the consumer goods giant works with direct suppliers to locate where cattle products originate.

UPM-Kymmene Corporation (Finland)

Aproximately US$11 billion of **UPM**'s sales is dependant on only one commodity – timber. To mitigate risks, it ensures that 100% of its timber supplies are chain-of-custody certified and verifies that they are compliant in different jurisdictions. In addition, the Nordic company sources wood from areas where the annual increment of roundwood in forests is greater than the annual removal, allowing for the surplus forests to act as a carbon sink.

The sustainable supply chain investment opportunity

Demand for sustainable commodities is growing. Three-quarters (73%) of companies responding to the forests program report a commitment to reduce or remove deforestation from their supply chains. This represents a large and growing market for deforestation-free commodities.

Meanwhile, sustainable commodity production offers advantages over traditional, deforestation-oriented approaches. Sustainable commodities may command a price premium if demand outstrips supply, while sustainable producers are able to tap nascent payment for ecosystem services markets, such as those that produce carbon credits in exchange for projects that reduce or avoid deforestation.

Even when sustainable products do not command a price premium, sustainable practices deliver quantifiable financial benefits. A study of Brazilian beef production by **New York University's Stern School of Business** found that deforestation-free supply chains delivered positive financial returns due to improved innovation, risk management, operational efficiency, customer loyalty, better supplier and employee relations, and reputational benefits. For ranchers particularly, improved product quality dramatically improved revenues – by 12-23%.[10]

However, there are near-term costs involved in switching to sustainable practices, such as foregone revenues from setting aside land, costs of obtaining certification, and staff training and technical assistance.

These costs represent an opportunity for investors: **TFA 2020** estimates that there is a need for US$200 billion annually for deforestation-free finance and investment. "Investors equipped to support this transition can benefit from the opportunity to deepen their involvement across supply-chain financing. The hundreds of billions of dollars in fixed capital, working capital and trade financing currently deployed in these commodities in tropical forest countries will need to shift to deforestation-free commodity production," it says.

It continues by arguing that investors are well-positioned to apply their skills in business planning, risk assessment, measuring, reporting and verifying outcomes, and aggregating projects, to enable and profit from this sustainability transition.

Some investors already undertaking real-asset investments in emerging markets may be well-placed to make these investments directly. For others, specialist investment funds are emerging that invest in sustainable agriculture enterprises linked to conservation. The **Althelia Ecosphere** fund, for example, uses revenues from carbon credits to underwrite the costs involved in converting farming enterprises to sustainable practices. Similarly, the **Moringa Partnership** specializes in sustainable agroforestry investments in Latin America and Africa. The Banking Environment Initiative's (BEI) Sustainable Shipment Letter of Credit (LCs) is another platform offering opportunities to those banks that at are engaged in shipment of sustainably produced commodities. The banks issuing these LCs could be eligible to receive preferential treatment such as partial or full guarantees covering payment risk on trade under the Global Trade Finance Program (GTFP) of the International Finance Corporation (IFC).[11]

Alternatively, multilateral development banks and governments are seeding public-private partnerships to address deforestation. At the start of this year, the Norwegian government announced it is providing an initial US$100 million to a potentially US$400 million fund to kick-start investments in deforestation-free agriculture, for which it is seeking private sector co-investors.[12]

10 *Harvard Business Review*, 13 September 2017, 'How to Quantify Sustainability's Impact on Your Bottom Line'. Available at: https://hbr.org/2017/09/how-to-quantify-sustainabilitys-impact-on-your-bottom-line

11 University of Cambridge, 2014, 'The Banking Environment Initiative's Sustainable Shipment Letter of Credit' Available at: https://www.cisl.cam.ac.uk/publications/publication-pdfs/the-banking-environment-initiative-sustainable-shi.pdf

12 World Economic Forum, 18 January 2017, '$400 Million Fund Launched in Davos to Stop Tropical Deforestation and Boost Farming'. Available at: https://www.weforum.org/press/2017/01/400-million-fund-launched-in-davos-to-stop-tropical-deforestation-and-boost-farming/

An investor roadmap for tackling deforestation

Investors have a crucial role to play in eliminating deforestation from their financial assets. Taking such action will reduce the risks these companies face, will allow them to tap into more stable and lucrative markets for sustainable forest-risk commodities, and generate positive social and environmental outcomes.

1 Draft a deforestation policy

Investors should clearly communicate their expectations to investee companies regarding deforestation risk. Leading financial institutions have drafted policies for lending to deforestation-risk sectors, such as palm oil production. The **Global Canopy Programme's Forest 500** project assesses the policies of 150 financial institutions providing finance to companies in forest-risk commodity supply chains. In 2017, 31% of the 150 financial institutions assessed had a sustainable lending or investment policy for at least one commodity driving deforestation.

2 Request disclosure from investee companies

Transparency is vital if investors are to understand the risks to which portfolio companies may be exposed. CDP provides a reporting and engagement system that helps companies identify and provide the most investor-relevant information relating to deforestation and its links to their use of forest-risk commodities.

3 Understand risks, opportunity and corporate progress

CDP data provides insights into how companies are addressing deforestation risks and realizing the related opportunities. Within these disclosures, investors should focus on:

Risk assessment

- Does the company cover its supply chain as well as its own operations in their risk assessment? How far into the future are risks considered?

Governance, polices and standards

- Does the board take responsibility for managing deforestation-related issues?
- Does the company have a time-bound commitment that includes zero (net) deforestation, the protection of vulnerable and valuable forests, and social protections?

Implementation

- Traceability: Can the company trace commodities back to their point of origin?
- Certification: While certification is often used as a proxy for sustainability, not all schemes are sufficiently rigorous – which ones are companies using?
- Supplier engagement: Do companies work with their suppliers to help them address deforestation?

4 Engage

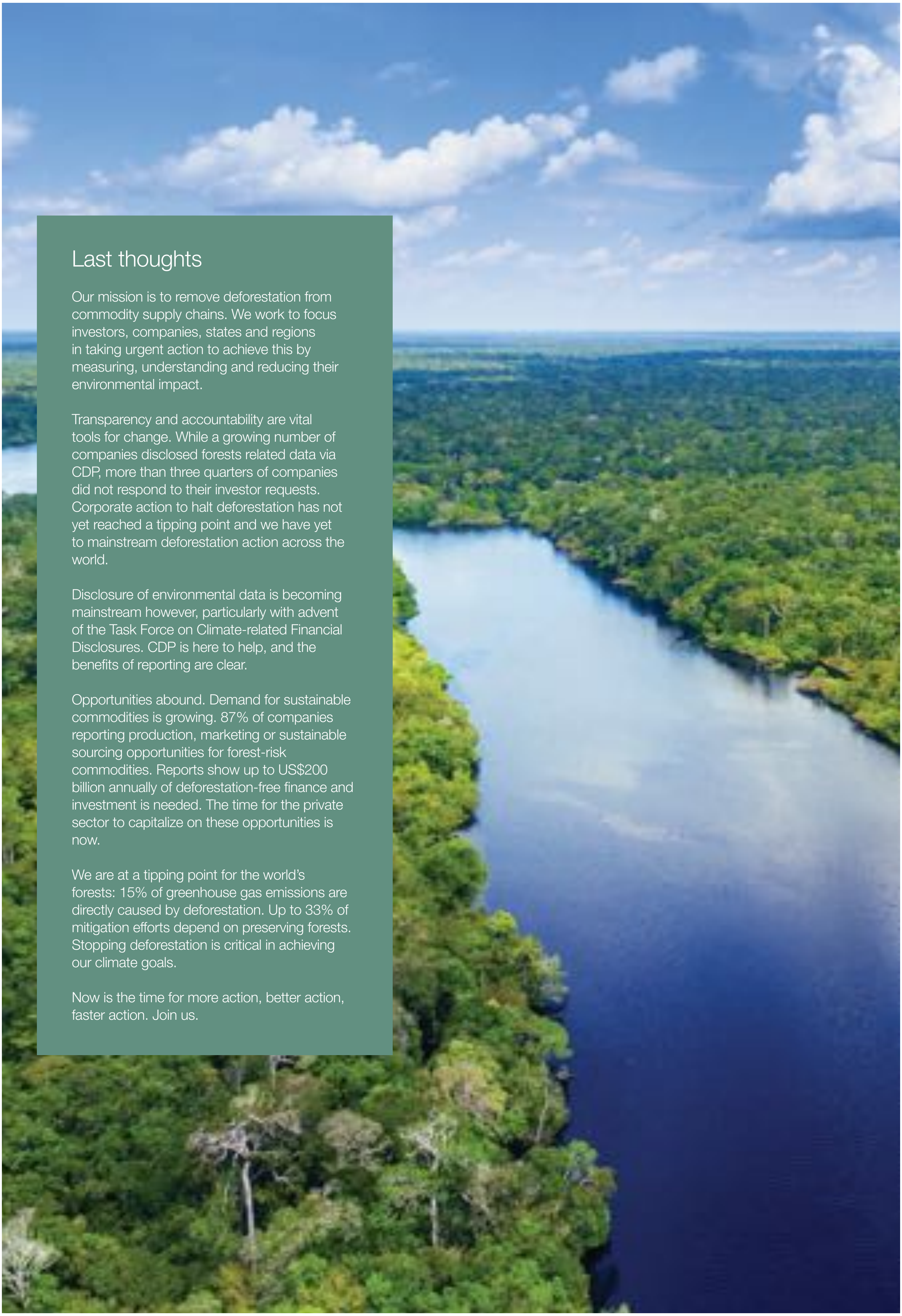
Investors should engage with companies exposed to deforestation risk across all the relevant commodities, to ensure they understand the issues at stake and the opportunities that sustainable practices offer. Engagement on ESG issues has been shown to have a measurable effect on financial performance.[13] Dialogue between company management and shareholders can help contextualize deforestation risk in financial terms.

For companies that do not wish to engage, investors should be prepared to file shareholder resolutions, individually or in collaboration with other investors. While these resolutions should be considered a last resort, they are often successful. Between 2011 and 2017, Ceres recorded 51 shareholder resolutions focused on issues relating to deforestation.[14] Just over half of the 23 resolutions that went to a vote at the company annual general meeting led to a commitment by the company to address the issue raised.[15]

13 CalPERS, October 2014, '"CalPERS Effect" Continues to Improve Company Performance'. Available at: https://www.calpers.ca.gov/page/newsroom/calpers-news/2014/company-performance

14 See the Ceres Shareholder Resolutions database at https://tools.ceres.org/resources/tools/resolutions

15 Forest 500 Global Canopy Programme, July 2017, 'Investor concern for forests: Can shareholders prompt companies to take action?' Available at: https://globalcanopy.org/sites/default/files/documents/resources/Investor_concern_for_forests.pdf



Last thoughts

Our mission is to remove deforestation from commodity supply chains. We work to focus investors, companies, states and regions in taking urgent action to achieve this by measuring, understanding and reducing their environmental impact.

Transparency and accountability are vital tools for change. While a growing number of companies disclosed forests related data via CDP, more than three quarters of companies did not respond to their investor requests. Corporate action to halt deforestation has not yet reached a tipping point and we have yet to mainstream deforestation action across the world.

Disclosure of environmental data is becoming mainstream however, particularly with advent of the Task Force on Climate-related Financial Disclosures. CDP is here to help, and the benefits of reporting are clear.

Opportunities abound. Demand for sustainable commodities is growing. 87% of companies reporting production, marketing or sustainable sourcing opportunities for forest-risk commodities. Reports show up to US$200 billion annually of deforestation-free finance and investment is needed. The time for the private sector to capitalize on these opportunities is now.

We are at a tipping point for the world’s forests: 15% of greenhouse gas emissions are directly caused by deforestation. Up to 33% of mitigation efforts depend on preserving forests. Stopping deforestation is critical in achieving our climate goals.

Now is the time for more action, better action, faster action. Join us.

Key indicators

	Global	Cattle	Palm	Soy	Timber
Disclosure					
Total responders	201	48	87	55	167
Public responders	141	37	61	38	122
Non public responders	60	11	26	17	45
Response Rate	23%	N/A	N/A	N/A	N/A
Companies requested on behalf of investors	838	N/A	N/A	N/A	N/A
% companies disclosing production and/or consumption data	65%	56%	71%	60%	74%
Risk assessment					
% companies with a risk assessment process that covers direct operations and supply chain	44%	40%	45%	44%	46%
% companies that assess risks beyond six years	19%	15%	18%	16%	27%
% companies that include changes in availability and quality of forest-risk commodities in their risk assessment	69%	N/A	N/A	N/A	N/A
Risk & Opportunities					
% companies recognizing risks	87%	85%	89%	85%	89%
% of companies that have experienced detremimental impacts related to forest-risk commodities	32%	19%	40%	16%	21%
% companies that identify opportunities	87%	75%	90%	75%	89%
Governance					
% companies with board level oversight of deforestation issues	64%	N/A	N/A	N/A	N/A
% companies with a time-bound zero (net) deforestation commitment	28%	35%	43%	36%	29%
% companies with a time-bound comprehensive zero (net) deforestation commitment[16]	13%	13%	24%	15%	14%
% companies with a comprehensive commodity specific sustainability policy[17]	17%	6%	36%	15%	11%
Standards					
% companies that have more than 90% certified for at least one form of the commodity	23%	15%	41%	5%	32%
% producers, processors and traders with production standards in place	74%	62%	81%	82%	73%
% manufacturers and retailers with procurement standards in place and audit their suppliers	36%	33%	38%	25%	46%
Traceability					
% producers, processors and traders that can trace all of their production or consumption to the point of origin	64%	71%	54%	56%	75%
% manufacturers and retailers able to trace 90% of total consumption	51%	58%	46%	46%	56%
% manufacturers and retailers able to trace back to the poin of origin	37%	29%	56%	12%	50%
Suplier Engagement					
% producers, processors and traders working with smallholders	68%	71%	67%	60%	75%
% manufacturers and retailers working with direct and indirect suppliers	56%	58%	58%	50%	58%
% manufacturers and retailers carrying out workshops and training for suppliers	28%	24%	36%	25%	27%
% manufacturers and retailers providing financial support to suppliers	3%	0%	4%	6%	1%
% manufacturers and retailers providing technical support to suppliers	8%	0%	13%	10%	8%

16 That includes companies with a time-bound zero (net) deforestation commitment considering HCV or avoidance of land area under conservation, HSC or no peatland conversion and FPIC.

17 Commodity specific policies that include as criteria zero (net) deforestation, HCV or Avoidance of land area under conservation, HCS or No peatland conversion and FPIC.

Investor signatories

List of current investor signatories to CDP's forests program.[18]

3Sisters Sustainable Management LLC
AB
ACTIAM
Active Earth Investment Management
Addenda Capital Inc.
AGF Investment Inc.
Alberta Investment Management Corporation (AIMCo)
Align Impact LLC
Alliance Trust
Alquity Investment Management Ltd
AMF
Amundi AM
ANBIMA – Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais
Antera Gestão de Recursos S.A.
APG Group
Arabesque Asset Management
Arisaig Partners
Arjuna Capital
ASM Administradora de Recursos S.A.
Atlantic Asset Management Pty Ltd
ATP Group
Ausbil Investment Management
Australian Ethical Investment
Avaron Asset Management AS
avesco Financial Services AG
Aviva Investors
Aviva plc
AXA Group
AXA Investment Managers
BAE Systems Pension Scheme
Baillie Gifford & Co.
Banco Bradesco S/A
Banco BTG Pactual SA
Banco da Amazônia S.A.
Banco do Brasil Previdência
Banco do Brasil S/A
Banco Santander
Banesprev – Fundo Banespa de Seguridade Social
Bank J. Safra Sarasin AG
Bankinter
Banque Libano-Française
Barncancerfonden
Basellandschaftliche Kantonalbank
BASF Sociedade de Previdência Complementar
Becker College
Blom Investment Bank
Bluebay Asset Management LLP
Blumenthal Foundation
BM&FBOVESPA
BMO Global Asset Management
Boston Common Asset Management, LLC
Brasilprev Seguros e Previdência S/A.
Breckinridge Capital Advisors
British Airways Pensions
BSW Wealth Partners
CAI Corporate Assets International AG
Caixa Econômica Federal
Caixa Geral de Depósitos
Caja Ingenieros Gestión, SGIIC
California State Teachers' Retirement System (CalSTRS)
California State University, Northridge Foundation
Calvert Investment Management, Inc
Candriam Investors Group
CareSuper
Carnegie Fonder
Caser Pensiones E.G.F.P
Cathay Financial Holding
Catholic Super
CBRE Group, Inc.
Cbus Superannuation Fund
CCLA Investment Management Ltd
Central Finance Board of the Methodist Church
CERES-Fundação de Seguridade Social
Christian Brothers Investment Services Inc.
Christian Super
Christopher Reynolds Foundation
Church Commissioners for England
Church Investment Group
Church of England Pensions Board
ClearBridge Investments
CM-CIC Asset Management
Colorado College
Columbia Threadneedle Investments
CommInsure
Commonwealth Superannuation Corporation
Compton Foundation, Inc.
Confluence Capital Management LLC
Connecticut Retirement Plans and Trust Funds
Conser Invest
CPR AM
Crayna Capital, LLC
Credit Agricole
CTBC Financial Holding Co., Ltd
Cultura Bank
CUT POWER AG
Dana Investment Advisors
Degroof Petercam
Delta Lloyd Asset Management
Development Bank of Japan Inc.
DLM INVISTA ASSET MANAGEMENT S/A
Domini Impact Investments LLC
DoubleDividend Management BV
Doughty Hanson & Co.
East Capital AB
EBG Capital
Ecofin Limited
EdenTree Investment Management
Edmond de Rothschild Asset Management
EEA Group Ltd
EGAMO
Ekobanken - Din Medlemsbank
Element Investment Managers
ELETRA - Fundação Celg de Seguros e Previdência
Elo Mutual Pension Insurance Company
Environment Agency Pension fund
Environmental Investment Services Asia
Erste Asset Management
Ethos Foundation
Etica SGR
Evangelical Lutheran Church in Canada Pension Plan for Clergy and Lay Workers
Evangelical Lutheran Foundation of Eastern Canada
Evangelisch-Luth. Kirche in Bayern
Evli Bank Plc
FACEB – Fundação de Previdência dos Empregados da CEB
FAELCE – Fundacao Coelce de Seguridade Social
FAPERS- Fundação Assistencial e Previdenciária da Extensão Rural do Rio Grande do Sul
Federal Finance
Finance S.A.
Financiere de l'Echiquier
FIPECq - Fundação de Previdência Complementar dos Empregados e Servidores da FINEP, do IPEA, do CNPq
First Affirmative Financial Network
First Financial Holding Co
First State Superannuation Scheme
Folksam Ömsesidig Sakförsäkring
Fondo Pegaso
FRANKFURT-TRUST Investment Gesellschaft mbH
Friends Fiduciary Corporation
FUNCEF - Fundação dos Economiários Federais
Fundação AMPLA de Seguridade Social - Brasiletros
Fundação Atlântico de Seguridade Social
Fundação Banrisul de Seguridade Social
Fundaçâo Calouste Gulbenkian
Fundação Corsan - dos Funcionários da Companhia Riograndense de Saneamento
FUNDAÇÃO ELETROBRÁS DE SEGURIDADE SOCIAL - ELETROS
Fundação GEAP Previdência
Fundação Itaipu BR - de Previdência e Assistência Social
FUNDAÇÃO ITAUBANCO
Fundação Itaúsa Industrial
Fundação Rede Ferroviaria de Seguridade Social – Refer
FUNDAÇÃO SANEPAR DE PREVIDENCIA E ASSISTENCIA SOCIAL FUSAN
Fundação Sistel de Seguridade Social (Sistel)
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GameChange Capital LLC
Generation Investment Management
Genus Capital Management
German Equity Trust AG
Global Forestry Capital S.a.r.l.
Globalance Bank
GMO LLC
GOOD GROWTH INSTITUT für globale Vermögensentwicklung mbH

18 List of investor signatories as of November 10th, 2017

Good Super
Government Employees Pension Fund (“GEPF”), Republic of South Africa
Great Lakes Advisors
Greater Manchester Pension Fund
Green Alpha Advisors
Green Century Capital Management
Green Science Partners
GROUPE OFI AM
Grupo Financiero Banorte SAB de CV
Grupo Santander Brasil
Hana Financial Group
Hannon Armstrong Sustainable Infrastructure Capital, Inc
Harbour Asset Management
Hazel Capital LLP
Janus Henderson Investors
Hermes Fund Managers
HESTA
HIP Investor INC.
HSBC Fundo de Pensão Multipatrocinado
Iguana Investimentos
Ilmarinen Mutual Pension Insurance Company
Impax Asset Management Group plc
Inflection Point Capital Management
Insight Investment Management (Global) Ltd
Instituto Sebrae De Seguridade Social - SEBRAEPREV
Integre Wealth Management of Raymond James
Interfaith Center on Corporate Responsibility (ICCR)
Invesco Perpetual UK Smaller Companies Trust
Investec plc
Irish Life Investment Managers
Itaú Asset Management
Itaú Unibanco Holding S.A.
Jantz Management LLC
Jessie Smith Noyes Foundation
JLens Investor Network
JOHNSON & JOHNSON SOCIEDADE PREVIDENCIARIA
Johnson Private Wealth Management
Kagiso Asset Management
Kaiser Ritter Partner Privatbank AG (Schweiz)
KBI Global Investors
Kepler Cheuvreux
KEVA
KeyCorp
KLP
KPA Pension
La Banque Postale Asset Management
La Financiere Responsable
La Francaise AM
Laird Norton Family Foundation
Legal and General Investment Management
LGT Capital Partners
Liontrust Asset Management PLC
Local Authority Pension Fund Forum
Local Government Super
LocalTapiola (LähiTapiola)
London Pensions Fund Authority
LUCRF Super
Ludgate Investments Limited
Maine Public Employees Retirement System
Marc J. Lane Investment Management, Inc.
Martin Currie
Maryknoll Sisters
Mediobanca
Mellon Capital Management
Mendesprev Sociedade Previdenciária
Mercer
Merck Family Fund
Mercy Investment Services, Inc.
Merseyside Pension Fund
Metrus – Instituto de Seguridade Social
Metzler Asset Management GmbH
Miller/Howard Investments
Mirabaud Asset Management
Mistra, The Swedish Foundation for Strategic Environmental Research
MN
Moneta Asset Management
Mongeral Aegon Seguros e Previdência S.A.
Montanaro Asset Management Limited
Morgan Stanley
Nathan Cummings Foundation, The
National Australia Bank
National Grid UK Pension Scheme
National Pensions Reserve Fund of Ireland
National Treasury Management Agency
Natural Investments LLC
NEI Investments
NEST - National Employment Savings Trust
Neuberger Berman
New Amsterdam Partners LLC
New Forests
New Resource Bank
New South Wales Treasury Corporation (TCorp)
New York City Comptroller on behalf of the NYC pension funds
New York State Common Retirement Fund (NYSCRF)
Newground Social Investment
Newton Investment Management Limited
NN Group NV
Norges Bank Investment Management (NBIM)
Northern Ireland Local Government Officers’ Superannuation Committee (NILGOSC)
NorthStar Asset Management, Inc.
Northward Capital
Notenstein Privatbank AG
Oceana Investimentos ACVM Ltda
OceanRock Investments Inc.
Oddo & Cie
Office of the Vermont State Treasurer
ÖKOWORLD LUX S.A.
Oliver Rothschild Corporate Advisors
OP Wealth Management
Opplysningsvesenets fond (The Norwegian Church Endowment)
Overlook Investments Limited
P+(DIP/JOEP)
PAI Partners
Park Foundation
Parnassus Investments
Pax World Funds
PCJ Investment Counsel Ltd.
Pensioenfonds Vervoer
Pensionsmyndigheten
PETROS - Fundação Petrobras de Seguridade Social
PGGM
Pictet Asset Management SA
Polden Puckham Charitable Foundation
Porto Seguro S.A.
POSTALIS - Instituto de Seguridade Social dos Correios e Telégrafos
Presbyterian Church (USA)
PREVHAB PREVIDÊNCIA COMPLEMENTAR
PREVIG Sociedade de Previdência Complementar
Previnorte - Fundação de Previdência Complementar
Priests of the Sacred Heart, US Province
Progressive Asset Management, Inc.
Province of St. Joseph of the Capuchin Order
Psagot Investment House Ltd
Railpen Investments
Rathbone Greenbank Investments
RBC Global Asset Management
Real Grandeza Fundação de Previdência e Assistência Social
Reynders McVeigh Capital Management
Rhode Island General Treasurer
River Twice Capital Advisors, LLC
Robeco
RobecoSAM AG
Rockefeller Asset Management
Rothschild & Co
Rothschild Martin Maurel Asset Management
Royal London Asset Management
Ruffer LLP
Russell Investments
Samsung Fire & Marine Insurance
Sanso Investment Solution
Santa Fé Portfolios Ltda
Santam Ltd
Sarasin & Partners
Schroders
Shinkin Asset Management Co., Ltd
Sisters of St Francis of Philadelphia
Sisters of St. Dominic of Caldwell NJ
Smith Pierce, LLC
SNW Asset Management
Social Impact Investing, Wells Fargo Private Bank
Sociedade de Previdência Complementar da Dataprev - Prevdata
Società reale mutua di assicurazioni
Societe Generale
Solaris Investment Management
Sompo Holdings, Inc
Sonen Capital LLC
South Yorkshire Pensions Authority
Spring Water Asset Management, LLC
Sprucegrove Investment Management Ltd
Standard Life Investments

Investor signatories

- Standish Mellon Asset Management
- StatewideSuper
- Stewart Investors
- Storebrand ASA
- Strathclyde Pension Fund
- Stratus Group
- Sul América Investimentos Distribuidora de Títulos e Valores Mobiliários S.A.
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- Sustainable Insight Capital Management (SICM)
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- Sycomore Asset Management
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- Taaleri Plc
- Tasplan Super
- TD Asset Management (TD Asset Management Inc. and TDAM USA Inc.)
- TD Securities (USA) LLC
- Telstra Super
- Terra Alpha Investments LLC
- Terra Global Capital, LLC
- The Bullitt Foundation
- The Children's Investment Fund Foundation
- The Clean Yield Group
- The Council of Lutheran Churches
- The Daly Foundation
- The Joseph Rowntree Charitable Trust
- The New School
- The Norinchukin Bank
- The Russell Family Foundation
- The Sustainability Group
- The Trustees of Columbia University in the City of New York
- The University of Edinburgh Endowment Fund
- Trillium Asset Management, LLC
- Triodos Bank
- Tri-State Coalition for Responsible Investment
- Trusteam Finance
- Tundra Fonder
- UBS
- UniCredit
- Union Investment Privatfonds GmbH
- Unionen
- UNISON staff pension scheme
- Unity College
- University of California
- University of Massachusetts Foundation
- University of Toronto
- University of Toronto Asset Management Corporation (UTAM)
- University of Washington
- Veris Wealth Partners
- Veritas Pension Insurance
- VicSuper Pty Ltd
- Vinva Investment Management
- Vision Super
- Vontobel Holding AG
- Voya Investment Management
- Walden Asset Management, a division of Boston Trust & Investment Management Company
- Walter Scott & Partners Limited
- Washington State Investment Board
- West Midlands Pension Fund
- Westfield Capital Management Company, LP
- WHEB Asset Management
- Whitley Asset Management
- Xoom Capital
- Yuanta Financial Holdings
- Zevin Asset Management
- Zurich Cantonal Bank

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morgan.gillespy@cdp.net

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