

# INVESTORS 2015 RESULTS



To ensure deforestation free  
supply chains, companies  
need to adopt and implement  
timebound and measurable  
policies for forest risk  
commodities



[www.forest500.org](http://www.forest500.org)



**About the Forest 500:**

The Forest 500 is the world's first rainforest rating agency. It identifies and ranks the most influential companies, investors and governments in the race towards a deforestation-free global economy.

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**About the Global Canopy Programme:**

The Global Canopy Programme (GCP) is a tropical forest think tank working to demonstrate the scientific, political and business case for safeguarding forests as natural capital that underpins water, food, energy, health and climate security for all. GCP works through its international networks – of forest communities, science experts, policymakers, and finance and corporate leaders – to gather evidence, spark insight, and catalyse action to halt forest loss and improve human livelihoods dependent on forests.

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## EXECUTIVE SUMMARY

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- BNP Paribas has become the first Forest 500 investor<sup>1</sup> to make a commitment to zero net deforestation in their agricultural lending and joins HSBC in the top score band.
- While 18 investors have strengthened their policies since last year, the financial community has a long way to go in setting a strong framework to achieve deforestation-free lending and investment.
- Nearly a third of the investors assessed have no policies or commitments at all on deforestation-free investment and lendings.
- However, leading investors are beginning to engage with, and divest from, companies that are associated with deforestation.
- Investor action has so far focused on companies operating in palm oil supply chains. If deforestation is to be significantly reduced, attention needs to widen to other commodity supply chains and target companies with weak policies and jurisdictions with high rates of deforestation.

## INTRODUCTION

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Political momentum and ambition to tackle the loss of tropical forests is stronger than ever. Tropical forests are now widely recognised by governments for their important role in climate, food, water, energy, and livelihood security. Yet forest loss shows little sign of slowing down; deforestation rates are rising rapidly in parts of South-East Asia and Africa, and remain high across parts of South America.

Over the last few years, increasing attention has been focused on companies across supply chain segments and sectors, and their links to deforestation. Now, increasing attention is being focused on investors, in recognition of the critical role that green investment and lending can play in the transition to a deforestation-free global economy. Specifically, by making commitments that ensure they only invest in or lend to companies that are making progress towards removing deforestation from their supply chains, investors could minimise their own reputational and portfolio risks, and leverage their unique position to have positive impact at scale.

Forest 500 is the world's first rainforest ratings agency. Among the 500 powerbrokers it identifies and ranks are 150 investors from around the world. Among the selection criteria is the size of their holdings in publicly listed Forest 500 companies, amounting to around US\$1.7 trillion worth in 2015. The world's largest banks, sovereign wealth funds, and pension funds are also included since their large portfolios create a high risk of exposure to forest risk commodities (i.e. palm oil, soy, beef, leather, timber, paper).

The Forest 500 specifically tracks the commitments that have been made by these 150 investors related to their investments in, or lending to, companies involved in forest risk commodity supply chains. To assess the strength of their sustainability policies and the extent to which these are being applied, investors have been scored relative to indicators within three overarching categories: overall forest policy; policy strength; and reporting and transparency. Investors have been scored based on publicly available policies and information.

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<sup>1</sup> The Forest 500 uses the term "investors" broadly, including; banks, institutional investors, pension funds, sovereign wealth funds, insurance companies, and national banks.

## ABOUT THIS REPORT

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This report tracks the progress of investors in terms of their policies and gives examples of how they are engaging with companies, and the next steps required for the sector to transition towards deforestation-free investment and lending. The report is split into three sections:

- **Forest 500 results:** This section examines the progress made by 150 investors towards tackling tropical deforestation.
- **Investors interacting with companies:** This section discusses the ways in which investors are putting their policies into action and interacting with companies.
- **Next steps for the investment community:** This section provides a brief overview of the next steps that will enable the investor community to have positive impact at scale.

## FOREST 500 RESULTS

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Investors are becoming increasingly aware of the business risks associated with investing in, or lending to, companies that are linked to deforestation. While there are a number of leaders in this space who have put in place policies to ensure that they do not fund deforestation, many others have yet to do so. The Forest 500 results bring to light both leaders and laggards.

### OVERARCHING ZERO DEFORESTATION COMMITMENTS

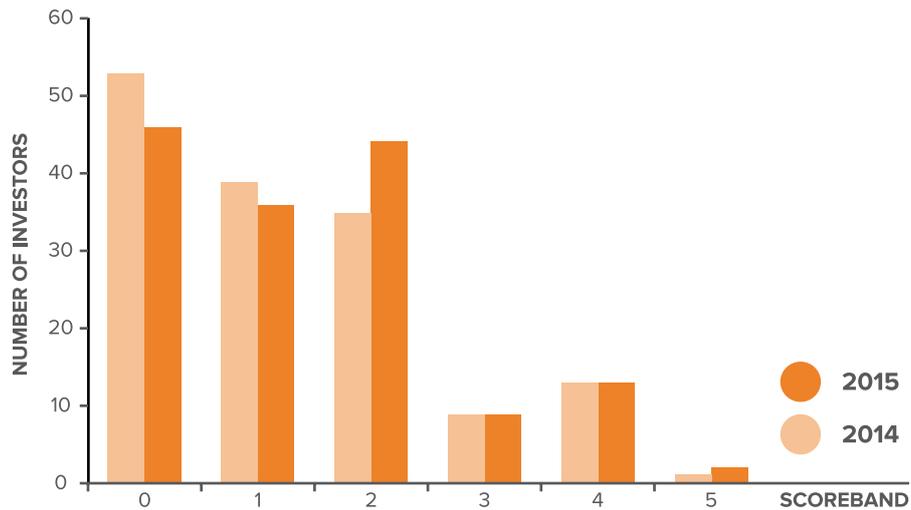
BNP Paribas became the first Forest 500 investor to make a zero net deforestation commitment that applies to all their lending activities in companies involved in agricultural supply chains. Owing to this new overarching pledge, BNP Paribas joined HSBC in the top scoreband, scoring 5 points out of 5.

### PROGRESS ACROSS THE SECTOR

Banks continue to lead the way, accounting for 9 out of the top 15 ranked investors. Overall, banks score 33 points out of 100 on average, whereas the next highest scoring investor type, insurance companies, score 21 points out of 100.

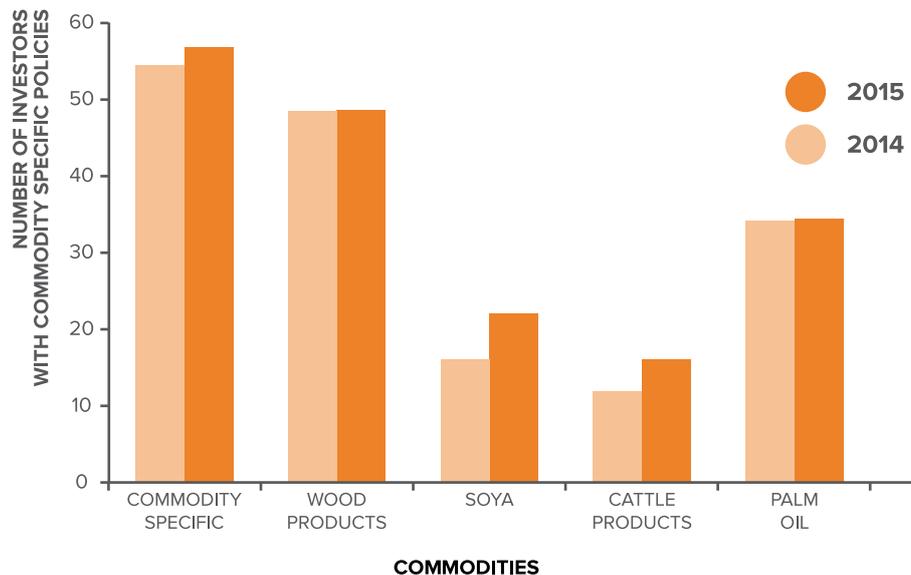
### PROGRESS AMONGST INVESTORS AS A WHOLE

Overall, there was a slight increase in the average number of points scored by investors from 9 to 14. A number of investors who did not have any policies in place previously have made commitments this year. However, nearly a third of investors still have no policy in place to ensure that the companies that they are associated with are not involved in unsustainable practices. However, three investors – ATP, Columbia Threadneedle Investments, and Ontario Teachers Pension Plan – stand out as having made significant progress by strengthening their policies significantly and moving up two scorebands (out of five).



### COMMODITY-SPECIFIC POLICIES

There has been an increase in the number of investors that have made commodity-specific policies relevant to their lending activities. In particular, the number of investors making commitments in relation to the soya and cattle companies that they invest in, or lend to, increased from 8 to 11, and 6 to 8 respectively. These commodity-specific policies are an important catalyst for change amongst the companies with which investors do business.



### GROWING MOMENTUM

The Forest 500 results indicate that the investment community as a whole has a long way if it is to achieve deforestation-free investment and lending; yet the individual actions of leaders in this sector demonstrate both that the business case is being recognised, and that change is achievable. Many of the leaders now attach commodity-specific conditions to their investment and lending activities. These policies have the scope to significantly change the behaviour of relevant companies by ensuring that they, in turn, formulate and implement their own sustainable policies.

## INVESTORS INTERACTING WITH COMPANIES

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Due to the complexity of agricultural supply chains and the large portfolios of major financial institutions, it is currently difficult for investors to monitor all their investments and loans. Many investors do not have the expertise or resources to verify that the supply chains in which they invest are sustainable or deforestation-free. Platforms such as the Forest 500 offer a rapid insight into corporate policies. In addition, corporate disclosure on exposure to deforestation risk through CDP's Forests Programme highlights where they are making progress and where further action is required.

However, due to a lack of transparency in supply chains, it is particularly difficult for investors to determine whether they are indirectly funding deforestation. In turn, the implementation of policies has been patchy.

### ENGAGEMENT

Investors are setting increasingly clear requirements around sustainability for companies in which they invest. For instance, in its forests policy published in 2014<sup>1</sup> HSBC states:

“HSBC does not wish to finance unacceptable impacts in this potentially high- risk sector. We wish to ensure that our customers operate in accordance with good international practice, helping those that make acceptable progress, but closing relationships with those who do not meet our standards.”

Such an approach allows companies to modify their business practices before investment or lending is terminated. Another approach that has been used extensively to engage with companies is shareholder resolutions. If successfully passed, these motions put forward by shareholders typically require the company to comply with certain Environmental Social Governance (ESG) criteria. To date, these resolutions have typically focused on reducing deforestation in palm oil supply chains (e.g. a resolution recently passed by Green Century Fund<sup>2</sup>). Expanding such resolutions across all commodities would ensure that downstream actors in agricultural supply chains push their suppliers to produce or procure sustainable commodities.

### DIVESTMENT

There has already been considerable divestment from fossil fuel companies. More recently, divestment has become a risk for companies linked to deforestation. For example, the Norwegian Government Pension Fund Global, which manages over 7.15 trillion kroner (over US \$800 billion) of investments, has a clear mandate to ensure environmental protection. In September 2015, the fund divested from four companies associated with the unsustainable production of palm oil: Daewoo International, Genting, Posco, and IJM. This followed an earlier series of divestments from 23 palm oil producers by the fund in 2013<sup>3</sup>. Similarly, Deutsche Bank<sup>4</sup> and HSBC<sup>5</sup> have also divested from palm oil companies. While divestment remains an important deterrent to companies producing commodities unsustainably, it is important that this is the final step taken by investors, as alternative funding or loans can often be sourced elsewhere.

## STOCK EXCHANGE MECHANISMS THAT INCREASE RESPONSIBLE INVESTMENT

A number of stock exchange mechanisms to increase responsible investment already exist<sup>6</sup>, but these differ in scope and strength. One example is Japan's Stewardship Code, which aims to promote medium- to long-term growth among companies through engagement with investors. Another example is the Sustainable Stock Exchange Initiative<sup>7</sup>, which is a collaborative platform bringing together stock exchanges, investors, regulators, and companies to improve corporate transparency. Momentum is also growing around the development of standardised stock exchange listing requirements that compel companies to disclose their sustainability policies<sup>8</sup>. Such requirements would improve the consistency of information available to investors and highlight the impacts of corporate actions.

## NEXT STEPS FOR THE INVESTMENT COMMUNITY

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It is encouraging to see that some leading investors are improving their policies. In particular, BNP Paribas should be commended for being the first Forest 500 investor to put in place a zero net deforestation policy that applies to all its lending activities in agricultural commodities. However, more investors need to recognise the materiality of this issue and put in place commitments accordingly. Furthermore, given that alternative sources of capital can often be available from investors with less stringent ESG requirements, direct engagement with companies is an important step. Domestic investors, particularly in emerging economies, often have weaker policies in place to prevent companies in which they have a stake from causing deforestation<sup>9</sup>.

Moving forward, these steps should be taken into urgent consideration:

- International investors need to engage with local financial institutions they are linked to in order to help them develop and apply stronger ESG criteria and practices.
- Investors should help pilot and develop new tools that take environmental criteria into account for investment and lending decisions (e.g. the Natural Capital Declaration's Forest Risk Assessment Tool<sup>10</sup>, and ZSL's SPOTT tool<sup>11</sup>).
- Investors need to develop and apply policies to companies involved across a range of agricultural supply chains, especially those of soya and cattle. Until now, most attention has focused on palm oil.

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