SPOTT

February 2021

Case study #3

Sustainable finance and tropical forestry

Engaging for Biodiversity

ROBECO
The Investment Engineers

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 30 September 2020, Robeco had EUR 158 billion in assets under management, of which EUR 138 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.

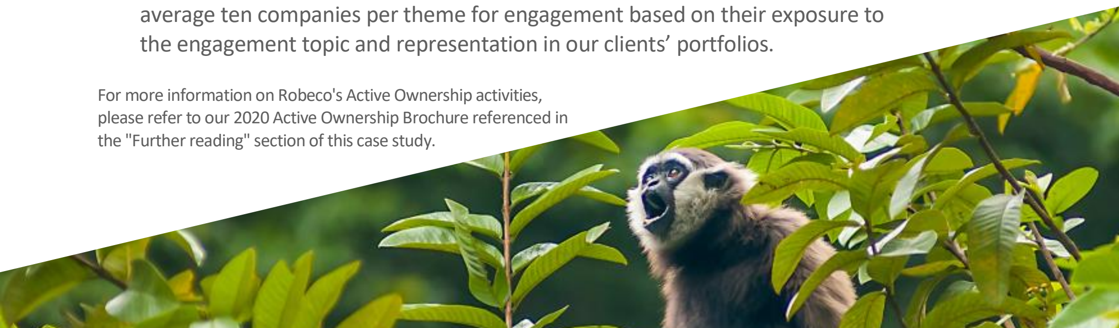
Active Ownership and Engagement at Robeco

Active ownership is a key tenet of sustainable investing, which is integral to Robeco's overall strategy. We engage with companies on behalf of our clients in a constructive manner. We engage with them worldwide, covering both equity and credit portfolios, on a wide range of themes aligned with the United Nations' Sustainable Development Goals (SDGs). Our engagement program has been in place since 2005 and encompasses individual engagements, as well as collaborations with other investors. We distinguish between two types of engagement:

- **Enhanced engagement** focuses on companies that severely and structurally breach principles of the United National Global Compact (UNGC) and/or OECD Guidelines for Multinational Enterprises. This type of engagement is aimed at eliminating the identified breach, and installing proper management systems to prevent such a breach from recurring. We allow for a maximum of three years of engagement with a company in this program, and exclusion is considered in case the engagement is unsuccessful.

- **Value engagement** is a proactive approach centred on material sustainability themes that have the most potential to create value for shareholders. Three to five engagement themes are selected every year in close consultation with clients and Robeco's investment teams. The themes always focus on financially material topics that address ESG issues in a variety of investible arenas. Engagement themes run for a three-year period and we select on average ten companies per theme for engagement based on their exposure to the engagement topic and representation in our clients' portfolios.

For more information on Robeco's Active Ownership activities, please refer to our 2020 Active Ownership Brochure referenced in the "Further reading" section of this case study.



A new engagement theme: Biodiversity

Investors are exposed to biodiversity loss predominantly through land use change as a result of deforestation through clearing land for expansion of agricultural crop production.

Our engagement therefore focuses on the impact on biodiversity from deforestation that is linked to five high-risk crop commodities: cocoa, natural rubber, soy, beef, and tropical timber and pulp.

This program will focus on twelve companies sourcing these five commodities, which include two companies operating in the tropical timber and pulp sector.

Why we engage on biodiversity

Biodiversity loss is one of the major global ecological threats expected to impact society in the coming decades. More than half of the world's GDP is dependent on nature and its services and the unprecedented loss of biodiversity we are currently facing places this value at high risk. As such, we decided to make biodiversity the focus of one of the five new engagement themes selected as part of our engagement program for 2020-2023.

What our engagement will focus on

To frame our engagement with the selected companies and allow us to assess their performance, we determined five SMART (Specific, Measurable, Achievable, Relevant, Time-bound) engagement objectives.

These objectives are the ones we believe have the most potential to create value for companies, and therefore investors:

- **The first three engagement objectives** will focus on the environmental management of the companies under engagement, with a clear focus on: zero deforestation commitments, biodiversity impact assessments, fauna and flora restoration and conservation, and circular economy principles within the companies' production lines.
- **The fourth objective** will address disclosures, certifications (e.g. FSC and PEFC certifications in the case of the tropical forestry sector) and traceability.
- **The fifth objective** will focus on the social aspect of the production of the commodities, tackling both community and land rights, together with labour rights.

"For each company, we defined a challenging but realistic threshold of objectives that we expect to be met at the end of the engagement timeframe. If this threshold has been met, we will close the engagement case successfully."

Peter van der Werf,
Senior Engagement Specialist
ROBECO

These five objectives cover the impacts that the selected companies have, their approach towards minimizing such impacts, and their reporting.

Prior to any dialogue, we conduct an extensive baseline thematic research and prepare detailed company profiles, mapping each company's exposure to the theme.

Benefits

This three-year engagement program will help us contribute to achieving SDG 15 'Life on Land'. It will allow us to promote more sustainable practices among some of our investee companies which have high exposures to material biodiversity-related risks, such as adopting time-bound zero-deforestation commitments and increasing traceability within their supply chains to improve monitoring of these commitments. We strongly believe that engagement with companies will have a positive impact on both long-term investment results and on society.

Challenges

One of the main challenges we face is that there currently still is an important gap of available data to measure the biodiversity footprint of a company. Companies can contribute to closing this data gap, for example by increasing traceability and transparency within their supply chain, and looking at measuring the biodiversity value of the regions they operate in.

Measuring biodiversity indeed requires data across different spatial scales and ecological dimensions. Efforts still need to be directed to design and implement metrics that will help measure a company's biodiversity footprint.

Next steps – Integrating biodiversity in our portfolios management

On 30 September 2020, Robeco and 25 other financial institutions from around the globe launched the Finance for Biodiversity Pledge during the Biodiversity Summit of the United Nations General Assembly, committing to protecting and restoring biodiversity through their financial activities and investments. By signing the pledge, we commit to collaborating and sharing knowledge, engaging with companies, assessing the biodiversity impact of our financing activities and investments, setting targets and reporting publicly on progress by 2024 at the latest.

Implications for investee companies

The commitments we took under the Pledge will lead us to go beyond our engagement with companies in the context of the biodiversity engagement theme and to look into the biodiversity footprint of our portfolios.

To live up to our commitments, we will develop criteria for biodiversity, assess impacts to identify investments with significant positive or negative impacts on biodiversity, and set biodiversity targets to reduce the overall impact of our portfolios on biodiversity.

> *"We expect companies operating in sectors which are strongly linked to deforestation and biodiversity loss – which includes companies operating in the tropical forestry sector and all other companies sourcing from high-risk commodities – to take action to measure and mitigate their impacts on biodiversity. Companies that do not address biodiversity will face the risk of becoming less attractive to financial institutions due to the growing attention and commitments towards biodiversity conservation."*

Peter van der Werf,
Senior Engagement Specialist
ROBECO

Our expectations for other stakeholders

As a signatory to the Finance for Biodiversity Pledge, we call on global leaders to agree on effective measures to reverse nature loss in this decade to ensure ecosystem resilience. We also strongly encourage financial institutions that are not yet involved with the Pledge to sign up to it. Furthermore, we call on companies sourcing from high-risk commodities, including tropical timber and pulp companies, to also take collective action at the industry level to reduce biodiversity loss. More information on the Pledge can be found at: www.financeforbiodiversity.org/

Further reading

- Robeco's SI Opener on Biodiversity: https://www.robeco.com/en/insights/2020/09/si-opener-loss-of-biodiversity-is-a-bigger-threat-than-climate-change.html
- Link to Robeco’s 2020 Active Ownership Brochure: https://www.robeco.com/docm/docu-brochure-governance-active-ownership.pdf

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Developed by ZSL (Zoological Society of London), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice. SPOTT assesses commodity producers, processors and traders on their public disclosure regarding their organisation, policies and practices related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

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