

abrdrn Position Statement – Deforestation

March 2023

Deforestation is a key environmental issue which we aim to address in our investment process. It is embedded in our natural capital strategy as outlined in Preserving natural capital – Our approach for investments.

The issue

The world's forests play an important role in the fight against climate change, supporting biodiversity and the provision of many other important ecosystem services. Currently, if global deforestation was a country, it would be the third largest emitter of greenhouse gas emissions. At the same time forest loss is the largest driver of terrestrial biodiversity loss given forests hold 80% of terrestrial biodiversity.

The main cause of deforestation is the production of unsustainably sourced Forest Risk Commodities (FRCs) including cattle produce, palm oil, soy, cocoa, coffee and plantation wood fibre. These commodities are found in many of the products that we buy. It is estimated that 40% of global deforestation is commodity-driven and the production of just six commodities drove 25% of global tree cover loss in 2001–2015. The unsustainable production of these FRCs leads to increased greenhouse gas emissions, and the loss of ecosystem services for the economy and is linked to human rights and labour risks.

Due to these issues, global policy and regulations are increasingly looking to decouple the production of these commodities from forest loss.

We recognise that these commodities, when sourced sustainably, are important to the global economy and have created economic benefits to the countries producing and exporting them.

Risks

Unsustainable production of FRCs poses a financial risk to some of the companies we invest in and therefore to the funds we manage on behalf of our clients.

Regulatory impacts – those sectors most exposed to FRCs (Consumer staples, Consumer discretionary, Materials, Industrials, Healthcare, Energy, Utilities and Financials) face potential fines, increased regulatory burden and loss of markets. Additionally, the potential of more stringent

regulations that encompass FRCs may result in further transition risks, such as stranded assets. Responding to regulation in a reactive manner is often costly and may result in slower growth or being less agile.

Reputation – shifting public sentiment and increased scrutiny on FRCs pose reputational risks for our investments. This damage to corporate reputation could stem from a variety of stakeholders such as the media, campaigns by non-governmental organisations or shareholder resolutions. Customers are increasingly switching to sustainably sourced or certified products. For firms that are perceived negatively, changing customer preferences may affect their ability to operate and therefore increase financial risks for investors.

Operational – As a result of failing ecosystem services, natural resources may become inaccessible and therefore lead to production disruptions. This may result in broad supply-chain disruption and price volatility. Despite these risks, many investments or potential investments can fail to recognise their dependence on ecosystem services and the likelihood of operational disruptions or degraded services.

Opportunities

Leaders – Given the increased regulatory focus there are clear opportunities for those companies able to evidence that FRCs have been sourced more sustainably.

Solution providers – the regulatory landscape creates opportunities around supply chain due diligence (for auditors for example and for solutions which help improve traceability). There is also growing demand for companies providing restoration services and for Nature-based solutions (NbSs). Alternatives to these key FRCs could also see market growth, although greenwashing is a key concern here. Examples of alternatives are plant-based proteins, soy feed substitutions and vegan leather.



Our approach for investments

Where we invest in companies that face forest loss as a material issue, we have the opportunity to influence these companies through setting expectations and active engagement.

We aim to ensure that the following is true of our FRC-exposed investments:

1. They are not knowingly involved in, or knowingly purchasing resources sourced from areas of illegal deforestation (as determined by the legislation in the country of origin). We expect companies to have clear policies on this. If a holding falls short of this, we aim to engage with them to understand how they are resolving this and set clear milestones to address the risk.
2. They are adopting no deforestation, no peat, no exploitation (NDPE) policies or no conversion commitments with clear timelines and disclosure on their progress towards achieving this commitment.
3. They are working towards internationally recognised certification and are disclosing the proportion of FRCs covered by this.
4. They protect globally important landscapes (including UNESCO World Heritage Sites, RAMSAR wetlands, IUCN category 1-4 areas and protected areas).
5. They have processes to identify and manage risks linked to deforestation, both within their own direct operations as well as their supply chains.

Active ownership

For our actively managed investments, we engage with our portfolio companies to do the following:

- a. Gain a better understanding of how they manage risks around forest loss
- b. Ensure compliance with regulations
- c. Encourage improvements in the business practices

We vote in line with our principles and, where appropriate, will support shareholder resolutions that require investee companies to improve management standards, and implement better policies and practices.

We believe that strong management and governance generate positive outcomes for our investments and their stakeholders.

Following on from research into our exposure on this issue we plan to engage with our largest holdings linked to beef supplied from Latin America.

Collaboration

We know that our impact is amplified when we collaborate with other investors, NGO's or industry associations. We are therefore actively involved in the following initiatives around deforestation:

Investors Policy Dialogue on Deforestation (IPDD) – The IPDD seeks to ensure the long-term financial sustainability of investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights, with an initial focus on tropical forests and natural vegetation.

Finance for biodiversity pledge – as pledge signatories we join a call on global leaders and commit to protecting and restoring biodiversity and we agree to: Collaborate and share knowledge, engage with companies, assess impact, set targets and report publicly on this before 2025.

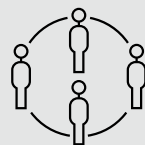
FAIRR (Farm Animal Investment Risk and Return) – We are a proud Member of the FAIRR Initiative's investor network, helping to build a more sustainable food system by raising awareness of the material risks and opportunities present in global protein supply chains.

Our research

We undertake research into the issue of deforestation and more broadly the preservation of natural capital which can be found [here](#).

We have also published other position statements linked to the issue of forest loss:

- **Business ethics and governance**
- **Governments and Human Rights**
- **Biodiversity**
- **Palm oil**



Sustainable investing at abrdn

As a leading global asset manager, we believe that investing sustainably can help generate long-term value for our clients. How and where the world chooses to invest has critical implications for the wellbeing of society and our planet. Equally, investments that could have negative social and environmental impacts can pose risks for the investment performance we can deliver for our clients.

Environmental Social and Governance (ESG) considerations are an integral part of our decision-making when investing your capital. By understanding how ESG factors affect our investments, we believe that we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes. Dedicated ESG asset-class analysts provide an additional layer of expertise. Please visit our website for more detail.

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