



Zero deforestation engagement

Phase 2 - update

THE PATH TOWARDS ZERO DEFORESTATION 2030

As part of its sustainable investment strategy, ACTIAM has set the goal to reach zero deforestation by 2030. One of the challenges towards reaching that goal is the complexity of consistently measuring deforestation taking place in the supply chains of investee companies.

To help with this, in 2019 ACTIAM partnered with Satelligence, a geodata-analytics company, to measure and reduce company-specific deforestation. In 2020, ACTIAM teamed up with other investors, representing €1.8 trillion in assets, to launch the investor initiative [Satellite-based engagement towards zero deforestation](#). This group of investors enters into dialogue with companies to address deforestation cases found by satellite detection and to call for preventative measures for deforestation. The goal is to speed up the transition to deforestation free supply chains.

ENGAGEMENT EFFORTS JULY '21 - NOVEMBER '21

Following the first phase of engagements that took place at the end of 2020 and into early 2021, ACTIAM along with a group of investors - Achmea Investment Management, Aegon Nederland N.V., a.s.r. Asset Management, Aviva Investors, Fidelity International, Nomura Asset Management, Robeco and Zwitserleven and joined in phase two by MN (also on behalf of pension funds PME and PMT), NN Investment Partners, PGGM and Resona Asset Management started a second phase of engagements with a new set of companies that source palm oil from Indonesia and Malaysia.

Similar to the first phase, the engagement targets two groups of companies.

- **Group A**
Those that are not yet disclosing supplier lists for the soft commodities (including palm oil) that they source. It is not yet possible to connect satellite imagery of deforestation incidents to this group of companies, because of the lack of transparency.
- **Group B**
Companies that do publicly disclose their soft commodity supplier and mill lists. For these companies deforestation rates and incidents captured by satellite imagery can be connected to the companies. Here we receive data from Satelligence to use in our engagement conversations.

The investors are asking companies to publicly disclose supplier lists for soft commodities for the Group A companies, as these products present high risks for deforestation. Companies linked to cases of deforestation are being asked to mitigate the effects of such deforestation and putting in robust processes to prevent it from happening in the future.

Companies targeted in phase 2

We have reached out to these companies and have had initial conversations or expect to schedule a first call.	
BASF SE	Food, Beverage & Tobacco
Cargill	Consumer Goods
Carrefour	Food & Staples Retailing
Colgate-Palmolive Co.	Household & Personal Products
Danone	Food, Beverage & Tobacco
L'Oréal SA	Household & Personal Products
Mitsubishi Corp.	Trading Companies
Mitsui & Co. Ltd.	Trading Companies
Mondelez International Inc.	Food, Beverage & Tobacco
Nestle SA	Food, Beverage & Tobacco
Procter & Gamble Co.	Household & Personal Products
Unilever Plc	Household & Personal Products
Yum! Brands Inc.	Consumer Services
These companies have declined to participate or not responded after several attempts to initiate a dialogue	
Johnson & Johnson	Pharmaceuticals
Reckitt Benckiser Group Plc	Household & Personal Products
We will reach out to these companies further into Phase 2	
AAK AB	Food, Beverage & Tobacco
Henkel AG & Co. KGaA	Household & Personal Products
Nisshin Oillio Group Ltd.	Food, Beverage & Tobacco
PepsiCo Inc.	Food, Beverage & Tobacco
Sime Darby Bhd.	Trading Companies

Satellite imagery shows forest cover loss between two time periods



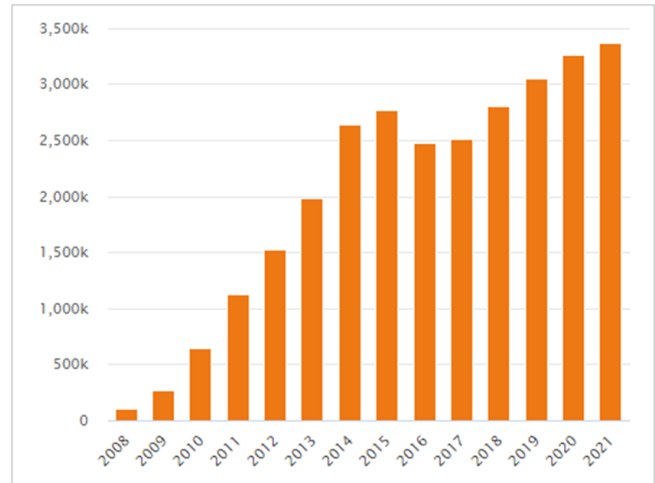
Source: Satelligence

PHASE 2 - INSIGHTS AND PROGRESS

We managed to secure eight calls with the target companies in the initial rollout of phase two including conversations with Carrefour, L'Oréal, Nestle, Procter & Gamble, and Mitsui & Co. Ltd., among others. We were pleased with the general willingness of the companies to speak openly with us. Based on these conversations, we can summarize our key takeaways and achievements thus far:

- On the positive side, we are seeing leading companies such as L'Oréal, Nestle and Procter & Gamble going well beyond policy and putting in place monitoring and verification systems for their suppliers in addition to having grievance systems specifically for reporting deforestation incidents and related environmental issues.
- Increasingly companies are acknowledging the need for transparency and publishing supplier and mill lists which is a testament to the fact that they are also taking the steps towards full traceability.
- Companies are holding suppliers responsible by suspending those that breach zero deforestation policies or do not make substantive improvements following a breach.
- Using RSPO certification for supplier monitoring is becoming increasingly common and companies such as Mitsui & Co. Ltd. are setting targets to reach full certification (see this reflected in chart below)
- More robust than certification is to add tools including satellite data for tracking and investigating incidents that occur among suppliers - we see a number of companies such as Procter & Gamble also adding this to their toolbox - and we are encouraging others to consider this.
- Challenges remain in that deforestation is increasingly happening on smallholder farms making it harder to get ahead of. In Indonesia and Malaysia, approximately 40% of palm oil production comes from farms smaller than 50 hectares¹. Companies cutting off individual suppliers may not yet lead to a significant impact in preventing deforestation; especially as long as demand for non-certified palm oil remains high.
- Virtually every company we spoke with noted that industry-wide initiatives are necessary to reach a level playing field and to see broader on the ground impacts; the Consumer Goods Forum's Forest Positive Coalition is one such initiative that is taking a multi-stakeholder approach to create a uniform expectation of sustainable practices for all producers, traders and suppliers of soft commodities to achieve a sector transformation.
- Large challenges remain with palm oil transparency and the deforestation linked to plantations, but this supply chain has seen more transparency improvements than meat and soy as animal feed; therefore we have expanded our conversations to include risks associated from other commodities to increase the impact of our engagement.

Certified Sustainable Palm Oil Production Area (ha)



Source: RSPO, 2021

NEXT STEPS

For the continuation of phase two, we aim to schedule conversations with the five companies we have not yet spoken with which are listed in the bottom section of Table 1. At the end of the first quarter of 2022, we will also schedule second calls with companies we have already spoken with. We have already received positive confirmations from companies including Carrefour, L'Oréal and Procter & Gamble among others, that they are willing to continue the discussion with us. While we're seeing achievements and positive developments occurring in the palm oil supply chain in Indonesia and Malaysia, considering the ambitious targets we have set to reach zero deforestation we need to move quickly and effectively to close the gap.

We have even more motivation to continue and expand on this engagement with additional regulatory schemes coming into force like the deforestation-specific due diligence law in the UK. The UK Government passed an Environment Bill into law in November 2021 which requires that UK businesses ensure that commodities they use which have potential links to deforestation - are produced legally. At COP26 it was revealed that 30 financial institutions, including ACTIAM made a commitment to implement best efforts to eliminate deforestation triggered by agricultural commodities from investment and lending portfolios by 2025. ACTIAM will continue to implement its zero deforestation goal via engagement in the short term and as we approach 2025 and beyond, we may need to resort to certain exclusions. We use engagement as a tool since our goal is to have a positive impact on the real economy and environment, in addition to addressing sustainability risks in our portfolios. With more than 100 countries that account for 85% of the world's forests committing at COP26 to "working collectively to halt and reverse forest loss and land degradation by 2030", we expect that this will speed up the implementation of country-wide programs to encourage sustainable land use and that it will also stimulate uptake of our engagement.

¹ Fair Trade Advocacy Office, IUCN NL, Solidaridad and Tropenbos International (2021) Including smallholders in EU action to protect and restore the world's forests. Briefing Paper. The Netherlands

From here, we intend to focus our conversations and activities on the following:

- For companies with whom we've already discussed incidents identified by Satelligence data, we will follow up with them to understand their views and what the challenges are with preventing recurrence.
- While many companies in this engagement program have their own targets to reach zero deforestation by 2030 or even sooner including Unilever and Cargill, how management teams are incentivized play a role in whether and how quickly these are reached. We will therefore ask companies about how they are linking KPIs and compensation to these targets.
- Rather than only the prevention of deforestation we will also focus on companies' efforts to remediate past incidents and work on reforestation. Companies such as Nestle have "Forest Positive" strategies and reforestation efforts are an important part of these goals.
- We will investigate industry-wide initiatives and organizations such as the IDH - The Sustainable Trade Initiative, that are tackling these issues to develop a clear sense of what to encourage companies to move towards. The goal is to have the industry collectively work together to define uniform deforestation free expectations and then steer their purchasing practices towards suppliers that are complying. This will increase the rate of achieving our targets.
- While it remains to be seen what the country level commitments made at COP26 specifically mean in terms of further regulatory development and program implementation, we will discuss with companies our expectations for their transparency about lobbying. We want to ensure their lobbying activities are not supporting regulatory action that could be counter-productive to their stated goals. How companies use their influence to encourage governments through their industry groups can have a sizable impact on the speed at which zero deforestation is reached.

About ACTIAM

ACTIAM stands for: active and passive management, sustainable investment strategies and impact investing. We aim for financial results, social returns and risk management. With our focus on sustainability, we structurally lower the risks and increase the opportunities in our investment portfolios. We serve clients through both funds and mandates; we supply a variety of tailor-made solutions.

For equity investments, our objective is an optimal financial and sustainable return via passive and active solutions. Our equity team has a long-standing history in sustainable investments and realizes a solid performance, both financially and socially. All our equity funds receive no less than four stars in the Morningstar rating (source: Morningstar, September 2021). The ACTIAM Global Equity Impact product also receives four Morningstar globes in the field of sustainability! It is not without reason that we were awarded Winner Lipper Group Awards "Equity Large" in 2019.

We also pursue an active and passive fixed-income policy for our bond investments with far-reaching ESG integration. We succeed in achieving stable long-term results for our clients, over multiple cycles. The ACTIAM Sustainable Euro Bond Fund receives four stars in the Morningstar rating (source: Morningstar, September 2021).

Finally, we are a trendsetter in impact investing. In 2007 and 2008 we launched our first institutional microfinance funds, ACTIAM Institutional Microfinance Fund I and II. Our strength is making investment opportunities scalable in high-impact themes. In 2020, we were voted the best impact investing provider by the readers of Cash magazine and achieved a top score of 51 (out of 62) in a survey conducted by Phenix GEMS.

Find out what our [investment solutions](#) can do for you or go directly to [our funds](#).

ACTIAM manages assets of approximately €22 billion (ultimo September 2021). Our solid (impact) strategies and sound performance track record will help you to achieve your goals. We offer sustainable solutions to insurance companies, pension funds, banks and distribution partners. This is achieved through actively and passively managed investment funds and mandates.

Read more [about ACTIAM](#) on our website.

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