INVESTOR EXPECTATIONS ON DEFORESTATION IN CATTLE SUPPLY CHAINS

This statement is endorsed by 46 investors representing approximately US $6.8 trillion in assets.

As investors, we believe that environmental, social and governance issues can impact long-term performance and financial returns for portfolio companies.

Climate change has been identified as one of these issues, and poses material transition, physical, and liability risks to client assets. Its causes have been linked to anthropogenic increases in GHG levels, with land use and land use change contributing the second largest anthropogenic source of carbon dioxide in the atmosphere, after fossil fuel combustion. Overall, agriculture accounts for approximately one third of these emissions.

Within agriculture, cattle production has been identified as a leading driver of tropical deforestation, primarily through the conversion of forest to pasture and through the cattle industry's demand for soy-based feed products. The associated land use change also increasingly risks degrading the welfare of communities that depend upon tropical forests for livelihood.

Under a two-degree scenario, countries committing to achieve their Nationally Determined Contributions will not achieve their goals without reducing emissions from land use and land use change driven by the production of soft commodities in tropical forest regions. Companies with supply chain exposure to these commodities, and their investors, should anticipate that country-level efforts will increasingly impact their activities.

With a view toward protecting long-term value and mitigating risks, we will seek to engage relevant investee companies on deforestation risk within their supply chains, particularly those with direct or supply chain exposure to cattle and related products.

While its impact on climate is a key concern, soft commodity-driven deforestation also presents other sustainability related risks to companies, including:

- Regulatory risks associated with legislation such as the Brazil Forest Code, EU FLEGT, and US Lacey Act;
- Legal, reputational, and social risks, including loss of livelihoods, social unrest, and economic marginalisation, from the violation of land and labour rights;
- Reputational risks associated with investigations and media attention on companies found to have contributed to deforestation directly, or indirectly through supply chains; and,
- Transition risks from increasingly knowledgeable and vocal consumers, concerned about the environmental and social impacts of the products they purchase.

As well as mitigating risk, maintaining a deforestation-free supply chain can contribute to a company's competitive advantage, strengthen its long-term financial stability, and provide other opportunities, including:

- Cost savings through improved efficiency and risk management, such as fewer supply chain disruptions;
- Improved relationships with stakeholders including employees, suppliers and consumers; and,
- Improved ability to protect reputation and deliver products that meet the expectations of increasingly well informed and environmentally conscious consumers.

We therefore expect companies to demonstrate commitment to eliminating deforestation within their supply chains, and will seek evidence of this on multiple levels, including:

1. **Awareness and Governance**
    a. Awareness and oversight at board level
    b. A publicly-disclosed, commodity-specific deforestation policy with quantifiable, time-bound commitments covering the entire supply chain and sourcing geographies

2. **Risk Management and Traceability**
    a. Public disclosure of processes to identify, assess, and manage deforestation risks and opportunities across the entire supply chain, including:

i. Materiality and dependency on cattle products as inputs or outputs; and,
ii. Ability to accurately determine the source geography of an input and that area's deforestation risk, land use change, displacement of indigenous peoples, and land/labour risks.

3. **Strategy and Risk Mitigation**
    a. Public disclosure of procurement standards and systems for verifying supplier compliance
    b. Public disclosure of participation in relevant collaborative initiatives (eg. industry roundtables, standards/certification development, moratoria, or public-private industry partnerships)

4. **Metrics and Monitoring**
    a. Public disclosure of the metrics used to assess cattle-driven deforestation risks and opportunities and progress to mitigating them across the entire supply chain
    b. Public disclosure of quantifiable progress towards deforestation commitments, verified or otherwise, across the entire supply chain
    c. Public disclosure of science-based GHG emissions calculated in line with the GHG Protocol methodology[1]

Endorsed by:

Aberdeen Standard Investments

Achmea Investment Management

ACTIAM

Aegon Asset Management

[1] The four key expectations within this statement are intentionally aligned with the final recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The signatories to this statement recommend that companies follow the TCFD's guidance in their disclosures to investors.

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