

# Working towards an investment portfolio that does not contribute to deforestation: Storebrand case study

## Summary:

*In this case study Storebrand Asset Management provide a comprehensive overview of their approach to tackling deforestation, from designing a policy to delivering real-world impact.*

*Storebrand show how existing datasets like Trase and Forest 500 can be effectively employed to map deforestation risk and select companies for priority engagements. They give examples of ongoing engagement work with the automotive industry and with US agricultural traders, and show how joined-up action is already delivering results in the Brazilian soy and Norwegian salmon industry.*

*Storebrand argue that collaboration amongst and between investors and other stakeholders is vital to driving the global transition to sustainable production and highlights the COP 26 Commitment on Eliminating Agricultural Commodity-Driven Deforestation, the Investor Policy Dialogue on Deforestation, the Aligned Accountability project and Finance for Biodiversity Pledge as important shared industry initiatives and approaches.*

*They explain how, despite some challenges, integrating deforestation into the investment processes is an essential part of risk management and can be a highly rewarding and productive project.*

## 2019: Deforestation as a material financial issue

We have considered deforestation to be a material financial issue for close to a decade, initiating our first deforestation assessment, set of dialogues, and exclusions of companies on account of deforestation back in 2013. In 2019, using the [Accountability Framework](#) as a guide, we set out our Deforestation Policy and formalised our ambition to have an investment portfolio that does not contribute to deforestation by 2025.

To start our journey towards a deforestation-free portfolio, we needed quality data on companies' exposure to, and management of, deforestation-risks. Yet while deforestation-related data sets and tools were available from NGOs and research organisations, there was no clear commercial product on offer from mainstream ESG providers.

To get an overview of available data sources, we teamed up with Rainforest Foundation Norway, KLP and Hindsight Consultancy to produce the report '[Deforestation tools assessment and gap analysis](#)', in which we assessed the quality and suitability of the ten leading tools and databases for the purposes of deforestation-risk management by institutional investors.

## Mapping deforestation-risk: Using Trase and Forest 500

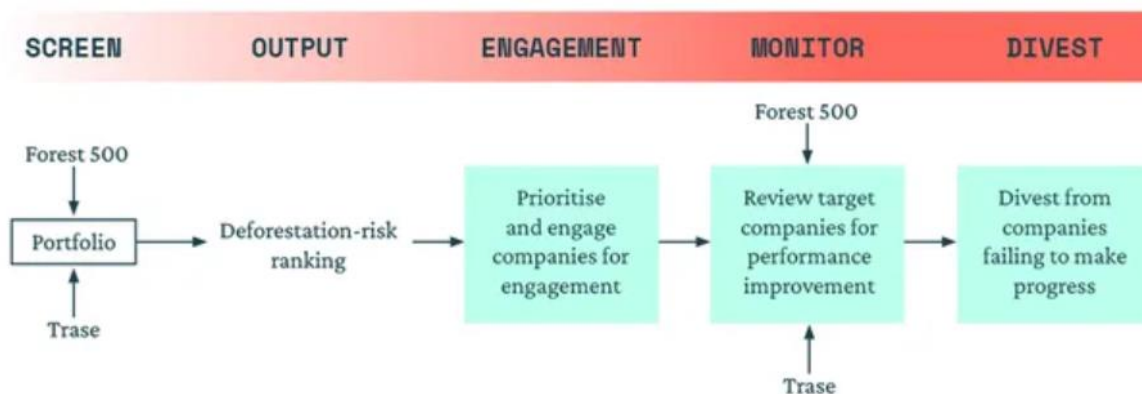
Following this analysis, we developed an approach using two tools - [Forest 500](#) developed by Global Canopy, and [Trase](#), developed by the [Stockholm Environment Institute](#), [Global Canopy](#) and [Neural Alpha](#).



Forest 500 uses company-reported, publicly available data to identify and rank the most influential companies and financial institutions in forest-risk commodity supply chains. Companies are assessed on commitments, policy strength, action plans and progress reporting, and the results provide useful information on companies' awareness and management of deforestation risk.

Trase brings together disparate, publicly available data on trade relationships, sourcing areas and deforestation to estimate deforestation impacts associated with soft commodity producers and traders in high deforestation-risk commodity supply chains, and Trase Finance allows mapping of corporate ownership structures and financial flows to the separate legal entities within them.

To begin with, we used scores from Forest 500 to categorise our portfolio companies into three groups: green, yellow and red, and then selected the 40 that fell into our red category for our first round of direct engagement. We supported this assessment using Trase data to further drill down and identify deforestation risk as measured in hectares of deforestation.



This portfolio screening showed that we were mostly exposed to deforestation risk through companies with indirect links to deforestation through their supply chains or financing, and allowed us to identify the companies on which to focus our attention.

### Engaging with 'red' companies

A set of key asks form the backbone of our engagements; stronger governance of deforestation risks, a publicly disclosed commodity-specific deforestation policy (with quantifiable, time bound commitments covering the entire supply chain and sourcing geographies), and traceability across the entire commodities supply chain.

In addition to 40 companies in the red category, we included 10 companies in the yellow category for engagement. These were companies where we had already established dialogue directly, or through collaborative investor engagement groups like the PRI. While these companies had a higher Forest 500 ranking, they were initially chosen either due to direct high deforestation exposure or their high influence on the supply chain.

For example, we had already engaged with large US agricultural traders, Archer Daniels Midland and Bunge, for several years. While both companies have made recent improvements to their commitments, policies and action plans, Storebrand considers the companies' respective timeframes for achieving verifiable deforestation-free operations to be too long, and their current efforts insufficient to eliminate deforestation risk from their supply chains.

We placed both companies on our observation list in December 2021, requesting that they implemented full traceability of supply chains to farm level, committed publicly to not source from suppliers that have deforested or converted native vegetation since 2020, and included restoration of deforested areas in supplier contracts. While these companies remain on our observation list, our investment in them is capped at the current level.

Of course, engagement can be a lengthy process – and it’s never 100% possible to attribute positive changes to any single effort, but we are beginning to see encouraging shifts. For example, following an engagement by Storebrand along with other investors and NGOs with Norwegian aquaculture companies, Brazilian soy suppliers to the Norwegian salmon industry - CJ Selecta, Caramuru and Imcopa - are now implementing [a deforestation-free soybean value chain](#), within which no soy grown on land deforested after 2020 is to be traded.

This is a big success, showing the power of collaborative engagement alongside other joined-up action, and is a process and result we are hoping to replicate elsewhere. For example, we are working with a group of investors mobilised through the [Finance for Biodiversity Pledge](#) and elsewhere, on deforestation-risks across leather and rubber supply chains in the automotive sector – an industry which has not previously been targeted by investor engagement on deforestation.

Leather is a financially important by-product of meat production, which is the main driver of deforestation in South America. A large share of Brazilian leather is exported for use in car seats, which is why we are asking auto makers and car seat producers to adopt ‘No Deforestation’ policies, map their supply chains, and monitor and engage with their suppliers.

### **Countering challenges with collaboration**

Despite these encouraging results, challenges remain, especially around data on the deforestation impact of companies. This means bottom-up company by company analysis is still often required to get the granularity of information we need.

However, again, there is a lot of encouraging progress in this area, and a growing number of financial institutions now have [a shared ambition](#) to tackle the deforestation in their portfolios by 2025. As part of this commitment, we have the benefit of regular cooperation with other financial institutions with the same goals and can use our combined influence to influence companies and encourage better data from mainstream ESG providers.

This group of financial institutions are very heterogeneous and will need to use different datasets in multiple ways, and there is not yet one tool that will work for everyone. Despite this, it’s good to see different types of sector-wide guidance emerging, such as the [Deforestation Free Finance Roadmap](#), a useful guide to support all financial institutions on their journey.

We are supporting our data efforts further through the [Aligned Accountability](#) project, which seeks to devise a common database of corporate performance metrics on deforestation and create standardised data for financial institutions, financial information providers, and ESG ratings agencies.

### **Looking ahead to 2025**

As we look ahead to 2025, we are focused on finding the best metrics for measuring progress and reporting annually on our progress towards a deforestation-free portfolio.

We are also ramping up engagement with companies and supporting the mobilisation of more investors to work on ending deforestation. It is clear to us that there is no solution to climate change or biodiversity loss without ending deforestation, and we need joint investor action to give the issue the attention it merits.

While company engagement is very important, government policies and regulations can be even more effective in changing business practices for the better. In order to create a level playing field for all businesses, we need strong legislation on forest protection and sustainable management of natural capital. We are therefore working to encourage and accelerate the implementation of such measures through our co-chairing of The [Investor Policy Dialogue on Deforestation](#) (IPDD). This initiative, created in 2020, is a cooperation of more than 60 financial institutions which actively engages authorities in Brazil and Indonesia, as well as markets for forest risk commodities like the EU and the US.

While headwinds remain, it's very clear to us at Storebrand that integrating deforestation into our analysis and decision making has been a hugely important and rewarding project. Aside from being a crucial part of managing material financial risk, it has provided us with a solid entry route into factoring in biodiversity and nature risk more broadly to our processes and analyses; and now that we are part of the shared commitment to act on deforestation by 2025, we have the advantages of being part of a wider group for collaboration and learning.