

The background of the slide features a large, faint, light blue watermark of the City of Vancouver coat of arms. The crest includes a crown at the top with four maple leaves, a shield divided into four quadrants (top-left: a saltire, top-right: a stag's head, bottom-left: a sailing ship, bottom-right: an eagle), and a banner at the bottom with the motto "A NE FOR A".

Agenda Item 6

Engagement and Voting Activity

Falkirk Council

Subject: Engagement and Voting Activity

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 1 December 2022

Submitted by: Director of Transformation, Communities & Corporate Services

1. Purpose of Report

- 1.1 This report outlines the engagement and voting activity undertaken by the Fund during Quarter 3 of 2022.

2. Recommendations

- 2.1 **The Pensions Committee and Pension Board are invited to note and comment on:**

- (1) the contents of this report, and**
- (2) the reports provided by Hermes EOS.**

3. Engagement Services provided by Hermes EOS

- 3.1 Each quarter Hermes provide:

- a voting report showing the number of votable meetings held during the quarter and an overview of how votes were cast,
- an engagement report showing the split of engagements by region and theme, and
- a public engagement report commenting on the engagements that quarter.

- 3.2 The Quarter 3 reports attached to this report are:

- Appendix 1 – voting report
- Appendix 2 – engagement report
- Appendix 3 – public engagement report

- 3.3 The public engagement report is supported by a “highlights” report which has been uploaded to the SharePoint portal. Committee and Board are asked to treat the highlights report as confidential. This is on the basis that effective engagement relies on Hermes being able to build trusting relationships with companies – relationships that could be jeopardised if sensitive exchanges were made public.

- 3.4 The Hermes website - [EOS Library | Federated Hermes \(International\) \(hermes-investment.com\)](https://eoslibrary.com/federated-hermes-international/hermes-investment.com) - contains a variety of material for clients, including the Hermes Public Engagement Plan, their Responsible Ownership Principles as well as blogs and podcasts on areas of interest.
- 3.5 Quarterly reports are produced approximately two months after the end of the quarter being reported on.

4. Hermes Approach

- 4.1 Hermes believes that responsible investment is fundamental to creating long term wealth. Through their stewardship services, they engage with companies on strategic and sustainability matters to drive positive client outcomes.
- 4.2 The Hermes strategy is to focus on areas where engagement is likely to improve shareholder value, or alternatively, prevent the loss of shareholder value.
- 4.3 In considering how to progress with an engagement, Hermes will have regard to:
- the level of a company's exposure to the issue at hand
 - the extent to which there is scope for engagement success
 - the aggregate value of clients' ownership of a company
- 4.4 The effectiveness of any engagement is determined by measuring progress against so-called milestones. These are:
- Milestone 1 – the raising of the issue with the company
 - Milestone 2 – recognition by the company that the concern is valid
 - Milestone 3 – a plan to address the particular issue
 - Milestone 4 – successful delivery of the objective.
- 4.5 Depending on the subject matter under discussion, an engagement process may be short term, involving just one or two meetings, or, in more complex cases may require multiple meetings with management and board over several years.
- 4.6 Hermes preference is to work patiently and in private with companies to effect change. However, where no progress is made over an extended period, they will use public channels to air concerns. Further sanctions would include making voting recommendations and tabling of resolutions at shareholder meetings.
- 4.7 The approach of Hermes, which is to engage constructively with companies, is aligned with that of the Fund as set out in the Statement of Responsible Investment Principles and reinforced at the Special Meeting of 23 October 2021. Hermes ability to measure company progress against key risks such as climate change also helps address the wish expressed at the October meeting that the Fund should have the means of tracking a company's responsiveness to ESG challenges.

5. Quarter 3 2022 - Fund Engagement Activity

- 5.1 The engagement statistics report for Quarter 3 of 2022 is attached as Appendix 2 to this report. This report shows that Hermes engaged with 42 companies on a range of 164 environmental, social and governance (ESG) issues and objectives during Quarter 3. Information on specific Hermes engagements has been uploaded to the SharePoint portal in the highlights report and includes updates on exchanges with a number of companies.
- 5.2 The public engagement report is attached as Appendix 3 to this report. This report covers a range of areas in which Hermes engage with companies to drive ESG issues through active ownership, ongoing stewardship, and other measures, including public policy advocacy. The main feature this quarter is the engagement work by Hermes to eliminate commodity-driven deforestation by requiring companies to take responsibility for deforestation in their supply chains, including monitoring the risk and going beyond certification to trace commodities back to their source.
- 5.3 The Local Authority Pension Fund Forum (LAPFF) engagement report for Quarter 3 2022 and ESG reports from Schroder, Newton and Legal and General have been uploaded to the SharePoint portal.

6. Voting

- 6.1 Details of how Fund votes have been cast during Quarter 3 are attached at Appendix 1 in the voting report. This shows that 10 votable meetings were held in Quarter 3.

7. Implications

Financial

- 7.1 Provision has been made in the 2022/23 Fund budget for engagement and voting services.

Resources

- 7.2 The relationship with engagement and voting providers requires to be managed and, therefore, has a modest resourcing impact on the Pensions team.

Legal

- 7.3 Committee and Board members are asked to note the confidential nature of detailed engagements between Hermes and investee companies.

Risk

- 7.4 Increased engagement with investee companies will help to reduce financial and reputational risks for the Fund.

Equalities

- 7.5 No equalities issues are raised by this report, although equality and diversity are themes on which Hermes can be expected to engage with companies.

Sustainability/Environmental Impact

- 7.6 No sustainability/environmental issues are raised by this report, although these are themes on which Hermes can be expected to engage with companies.

8. Conclusion

- 8.1 The report provides details of the Fund's engagement and voting activities during Quarter 3 of 2022.
- 8.2 The engagement and voting activity is consistent with the aspirations of the Committee to maintain and enhance the Fund's reputation as a responsible investor.

pp

Director of Transformation, Communities & Corporate Services

Author: Catherine Carruthers, Pensions Manager
01324 501196 catherine.carruthers@falkirk.gov.uk

Date: 22 November 2022

Appendices:

Appendix 1 – Voting Report
Appendix 2 – Engagement Report
Appendix 3 – Public Engagement Report

List of Background Papers:

Hermes Engagement Highlights Report - Quarter 3 2022
Quarter 3 ESG Reports from LAPFF, Schroder, Newton and Legal and General

Falkirk Council Pension Fund

EOS at Federated Hermes

Over the last quarter we made voting recommendations at **ten** meetings (**182** resolutions). At **three** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **one** meeting. We supported management on all resolutions at the remaining **six** meetings.

Global

We made voting recommendations at **ten** meetings (**182** resolutions) over the last quarter.



- Total meetings in favour **60%**
- Meetings against (or against AND abstain) **30%**
- Meetings with management by exception **10%**

United Kingdom

We made voting recommendations at **ten** meetings (**182** resolutions) over the last quarter.

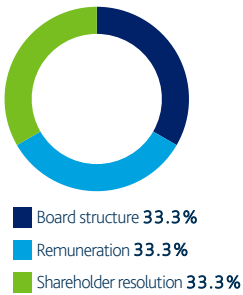


- Total meetings in favour **60%**
- Meetings against (or against AND abstain) **30%**
- Meetings with management by exception **10%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

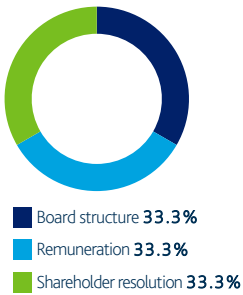
Global

We recommended voting against or abstaining on **three** resolutions over the last quarter.



United Kingdom

We recommended voting against or abstaining on **three** resolutions over the last quarter.



Falkirk Council Pension Fund

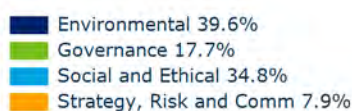
EOS at Federated Hermes

Engagement by region

We engaged with 42 companies held in the Falkirk Council Pension Fund portfolio on a range of 164 environmental, social and governance issues and objectives

Global

We engaged with 42 companies

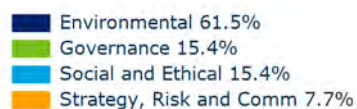


Australia & New Zealand

No Engagement Activity

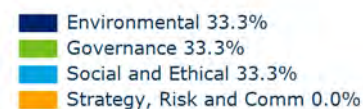
Developed Asia

We engaged with three companies



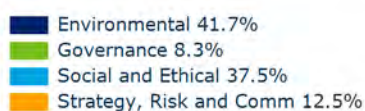
Emerging & Developing Markets

We engaged with one company



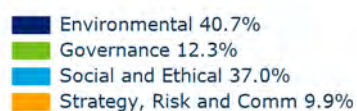
Europe

We engaged with five companies



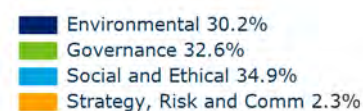
North America

We engaged with 20 companies



United Kingdom

We engaged with 13 companies



Engagement by theme

We engaged with 42 companies held in the Falkirk Council Pension Fund portfolio on a range of 164 environmental, social and governance issues and objectives



Public Engagement Report

GROWING PAINS

**Why palm oil is becoming
a planet-sized problem**

Tackling aggressive tax practices

**Voting season highlights from
Asia and emerging markets**

Q3 2022

Welcome to our Public Engagement Report for Q3 2022. In our cover feature this quarter, we take an in-depth look at why palm oil production is having such a devastating impact on the climate and wildlife habitats. Palm oil’s usefulness means that it is found in everything from food to personal hygiene products. As a result, the clearing of virgin rainforest for palm oil plantations is proving difficult to eradicate. We explain how we engage with companies on this challenging issue.

Public services are under immense strain in many countries in the wake of the pandemic, with soaring inflation adding to the pressure. Against this backdrop, it is vital that tax burdens are distributed fairly, rather than falling on the most vulnerable segments of the population. Joanne Beatty sets out our expectations on tax transparency and reporting, amidst a tightening regulatory landscape that seeks to tackle aggressive tax practices.

Finally, Shoa Hirosato and Judi Tseng bring us all the highlights from the voting season in developed Asia and emerging markets. This includes a look at some of Japan’s key climate change resolutions and how investors in Brazil are increasingly using voting as a tool for stewardship.

Our regular sections include our company engagement case studies and public policy highlights. Also, we continue our sustainable food systems series with an article on the problem with ultra-processed and pre-packaged food.



Claire Milhench
Associate Director – Communications & Content

Table of contents	
Why cheap palm oil is a price the planet can’t pay	4
Palm oil can be found in everything from food to soap. Strong demand and high yields make it an attractive crop for growers, but the clearing of tropical rainforest for palm oil plantations is a major contributor to climate change and biodiversity loss.	
Paying a fair share	11
Companies that seek to aggressively minimise their tax payments will face increasing legal, financial and reputational risks as regulation tightens. Joanne Beatty explains why tax revenues are vital for cash-strapped public services, and how we engage with companies to ensure they pay a fair share.	
Key voting season trends from Asia and the emerging markets	17
The voting season in developed Asia and global emerging markets saw renewed attempts to improve board diversity and independence – as well as some surprising and positive shareholder action in Japan and Brazil. Shoa Hirosato and Judi Tseng identify the key trends.	
Company engagement highlights	20
Short company case studies where we have completed objectives or can demonstrate significant progress.	
Public policy and best practice	25
Highlights of our advocacy and collaborative work.	
Engagement and voting activity	27
The EOS approach to engagement	32
EOS Team	33

Why cheap palm oil is a price the planet can't pay

Palm oil can be found in everything from food to soap. Strong demand and high yields make it an attractive crop for growers, but the clearing of tropical rainforest for palm oil plantations is a major contributor to climate change and biodiversity loss.

Setting the scene

Tropical rainforests are home to more than half¹ the world's plant and animal species. They also play a vital role in climate change mitigation by storing carbon and absorbing a third of the carbon released from burning fossil fuels every year. But the rate of deforestation rose in Asia, Africa and Latin America during the Covid-19 pandemic, with extensive monocropping for palm oil production one of the main causes of deforestation alongside urbanisation, cattle ranching, soybean production and logging.

Demand for palm oil continues to grow due to its cheapness and versatility, as it can be used in everything from household cleaning products to ice cream, while growers benefit from high yields. But the removal of tree cover from peatland, often carried out in Southeast Asia for palm oil plantations, releases highly concentrated carbon stores. Halting and reversing tropical deforestation is therefore essential if we are to avoid the consequences of severe climate change and biodiversity loss.

For further information please contact:



Sonya Likhtman
Theme co-lead: Climate Change
sonya.likhtman@FederatedHermes.com

The UK supermarket chain Iceland had to temporarily revert to using palm oil in some of its own-brand products this year, after Russia's invasion of Ukraine sent the price of sunflower oil soaring.² Iceland has tried to remove palm oil from its staple products since 2018, but the difficulties it encountered have underscored the ubiquity of palm oil and the scale of the challenge.

Palm oil is used in 70% of cosmetic and personal hygiene products, including soap bars, toothpaste and face creams. It is also a key ingredient in staple foods such as bread and margarine, as well as treats such as chocolate, ice cream and biscuits due to its creamy texture and absence of odour. Its natural preservative qualities help to extend the shelf life of food products, reducing waste. It can be used in the production of biodiesel and biofuel for cars and power plants, and is a primary cooking oil in many Asian and African countries.

Palm oil is used in

70% of cosmetic and personal hygiene products, including soap bars, toothpaste and face creams.



This diversified demand makes it an attractive cash crop for low and middle-income nations such as Indonesia and Malaysia. These two countries account for around 84% of all palm oil production globally, according to US Department of Agriculture data.³

It is also appealing to growers in tropical regions because palm trees produce between four and 10 times more oil than other crops per unit of cultivated land, and consume less water in the process. Alternatives such as sunflower or coconut oil are likely to result in even greater environmental damage as more land would have to be cleared to produce the same amount of oil.⁴

Palm oil's high yield makes it the cheapest vegetable oil on the market. This is important to food manufacturers trying to keep consumer staples within the reach of strained household budgets as the cost of living crisis continues. Eradicating palm oil from staple foods and household products may therefore be neither achievable nor desirable. But this \$64bn growth industry⁵ poses an existential threat to life on earth.

Palm trees produce between four and

10 times more oil than other crops per unit of cultivated land, and consume less water in the process.

The climate and biodiversity impacts of deforestation

The insatiable demand for palm oil exacts a steep environmental toll, despite its more efficient use of acreage. In Indonesia and Malaysia, the clearance of tropical forests for palm oil plantations accounted for 47% and 16% of all deforestation respectively, between 1972 and 2015.⁶ Deforestation fuelled by palm oil plantations has also expanded in some parts of Africa in recent years, as Ghana, Cote d'Ivoire and the Democratic Republic of Congo have embraced the crop.

Deforestation fuelled by palm oil plantations has expanded in some parts of Africa in recent years, as Ghana, Cote d'Ivoire and the Democratic Republic of Congo have embraced the crop.

Of course, palm oil isn't the only contributor to deforestation. Over two-thirds of the habitat loss in Brazil and Argentina is driven by beef and soy production, with soy grown primarily for animal feed.⁷ Deforestation in the Amazon rainforest surged to a 12-year high under Brazil's President Bolsonaro,⁸ and the Amazon is now a net emitter of CO₂.⁹

³ <https://ipad.fas.usda.gov/cropeexplorer/cropview/commodityView.aspx?cropid=4243000>

⁴ <https://rspo.org/about/about-sustainable-palm-oil>

⁵ Palm Oil Market Size & Share Report, 2022 - 2030 (grandviewresearch.com)

⁶ ZSL

⁷ <https://www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation>

⁸ <https://www.theguardian.com/environment/2020/dec/01/amazon-deforestation-surges-to-12-year-high-under-bolsonaro>

⁹ <https://www.theguardian.com/environment/2021/jul/14/amazon-rainforest-now-emitting-more-co2-than-it-absorbs>

¹⁰ <https://www.ipcc.ch/srccl/>

¹¹ <https://www.worldwildlife.org/places/borneo-and-sumatra>

¹² <https://forest500.globalcanopy.org/>

¹³ <https://www.consilium.europa.eu/en/press/press-releases/2022/06/28/council-agrees-on-new-rules-to-drive-down-deforestation-and-forest-degradation/#:~:text=The%20Commission%20published%20its%20proposal,the%20scope%20of%20the%20regulation;https://chainreactionresearch.com/report/eu-deforestation-regulation-implications-for-the-palm-oil-industry-and-its-financers/>

¹⁴ <https://www.gov.uk/government/news/government-sets-out-plans-to-clean-up-the-uks-supply-chains-to-help-protect-forests>

¹⁵ <https://www.gov.uk/government/news/over-100-leaders-make-landmark-pledge-to-end-deforestation-at-cop26>

Alternatives such as sunflower or coconut oil are likely to result in even greater environmental damage.



Deforestation contributes to climate change and biodiversity loss, with about 22% of anthropogenic greenhouse gas emissions coming from agriculture, forestry and other land use, according to the Intergovernmental Panel on Climate Change.¹⁰ Forests absorb carbon dioxide from the atmosphere, providing a valuable carbon store, while producing oxygen during photosynthesis. Clearing and burning forests releases carbon dioxide back into the atmosphere.

Forests are also home to an estimated 80% of the world's plant and animal life, including endangered species such as the orangutan, Bornean elephant and Sumatran rhino.¹¹ Addressing climate change and biodiversity loss go hand-in-hand.

Deforestation contributes to climate change and biodiversity loss, with about

22%

of anthropogenic greenhouse gas emissions coming from agriculture, forestry and other land use, according to the Intergovernmental Panel on Climate Change.

Although the impacts of global heating and deforestation are clear, the 2022 Forest 500 report¹² found that too many of the most influential companies were still failing to act. The ranking by UK charity Global Canopy found that 72% of the 350 companies assessed did not have a deforestation commitment for all the forest-risk commodities in their supply chains.

Even when companies had made commitments, many failed to provide evidence of how they were implementing these, the report noted. The finance sector was a notable laggard, with 93 of the 150 most exposed financial institutions without a deforestation policy covering their investments and lending to companies in key forest-risk commodity supply chains.

¹ <https://education.nationalgeographic.org/resource/rain-forest>

² <https://www.theguardian.com/business/2022/mar/28/iceland-reverts-to-palm-oil-with-regret-as-ukraine-war-hits-food-prices>

Regulatory risk

As well as the twin systemic risks of climate change and biodiversity loss, companies could face regulatory, financial and reputational risks by failing to act. New EU¹³ and UK¹⁴ legislation will introduce mandatory due diligence rules, ensuring that operators and traders assess their exposure to illegal deforestation in their supply chains. We responded to the UK government's consultation on this, supporting the proposal to ensure companies use forest risk commodities that have been sourced in accordance with the relevant laws in the country where they are grown.

But we stressed that the legislation should be applicable to a wide range of companies and not just a small number of large companies, which may already have a due diligence process in place. We also emphasised the importance of going beyond legality, referencing some countries where governments are attempting to deregulate, which may increase the risk of accelerating deforestation.

The critical role of nature in climate change adaptation and mitigation was recognised at COP26, with some

130 countries agreeing to halt and reverse forest loss and land degradation by 2030.

Our engagement approach

The critical role of nature in climate change adaptation and mitigation was recognised at COP26, with some 130 countries agreeing to halt and reverse forest loss and land degradation by 2030.¹⁵ In support of this pledge, Federated Hermes Limited (FHL) endorsed the financial sector's commitment letter on eliminating commodity-driven deforestation, also released at COP26. This requires FHL to make best efforts to eliminate commodity-driven deforestation from its portfolios, principally through active ownership, ongoing stewardship, and other measures, including public policy advocacy.

We expect companies to take responsibility for deforestation in their supply chains, including monitoring the risk and going beyond certification to trace commodities back to their source.

To this end, EOS will engage with relevant companies including palm oil producers, processors, traders, consumer goods and retail companies, and banks providing financing. We already ask companies to ensure that the components for their products are not derived from deforested areas. We expect companies to take responsibility for deforestation in their supply chains, including monitoring the risk and going beyond certification to trace commodities back to their source.

Forests are also home to an estimated 80% of the world's plant and animal life, including endangered species.

Companies that source palm oil, soy, beef, leather, pulp and paper, amongst other relevant commodities, must commit to clear timelines for eliminating deforestation from their supply chains. This commitment should cover all commodities, regions and suppliers, including indirect suppliers. We expect companies to communicate a clear strategy for how a deforestation-free supply chain will be achieved through implementation measures, monitoring, independent verification and collaboration. Companies that can achieve traceability of commodities back to source will be best placed to achieve a deforestation-free supply chain.

Companies that source palm oil, soy, beef, leather, pulp and paper, amongst other relevant commodities, must commit to clear timelines for eliminating deforestation from their supply chains.

For palm oil, we include a commitment to no deforestation, no expansion on peat and no exploitation (NDPE) in our expectations for companies and banks. No exploitation means addressing the risk that communities and workers may be exploited by palm oil producers. When land is cleared for palm plantations, disputes can arise with local communities over access to resources, meaning that companies may be directly or indirectly responsible for human rights violations.¹⁶ It can be difficult to resolve legacy issues related to the absence of free, prior and informed consent (FPIC) in older plantations, so it is important to have a process to address land conflict where it is too late for FPIC.



Companies should also carry out human rights due diligence to monitor labour practices and working conditions to ensure that employees earn a living wage, there is good health and safety on site, and no modern slavery or child labour exists anywhere in the supply chain.¹⁷ Palm oil produced under an NDPE policy may be described as sustainable, as NDPE¹⁸ goes beyond legal or certification requirements (see box, page 9), although some leakage still occurs.

¹⁶ <https://www.hrw.org/report/2019/09/23/when-we-lost-forest-we-lost-everything/oil-palm-plantations-and-rights-violations>

¹⁷ <https://www.washingtonpost.com/climate-environment/2021/10/09/png-palm-oil-undercover-sting/>

¹⁸ <https://chainreactionresearch.com/report/ndpe-policies-cover-83-of-palm-oil-refineries-implementation-at-75/>



CASE STUDY

Posco International

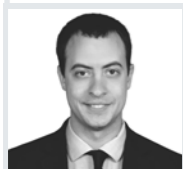


We began engaging with South Korea's Posco International on sustainable palm oil in 2016. This followed a divestment by a major pension fund in 2015 and severe criticism of the company by NGOs over deforestation related to palm oil development in Indonesia.

Following our suggestion, Posco International began a discussion with the Roundtable on Sustainable Palm Oil (RSPO) to develop its sustainable palm oil strategy. In 2017 our engagement intensified, including a joint meeting with the company and NGOs that resulted in a robust discussion about the company's potential commitment to a no deforestation, no peat, no exploitation (NDPE) policy and contribution to reforestation.

In July 2018 the company became a member of the RSPO and committed to a plan to obtain Indonesia Sustainable Palm Oil (ISPO) certification by 2020. In August 2019 this goal was met. We continued to engage, and in March 2020 the company committed to an NDPE policy, promising to preserve areas of high conservation value and high carbon stock. It also said it would implement a programme outside its concessions on a scale that corresponds to the size of the developed plantation. In September 2021 the company achieved RSPO certification for all its plantations and mills, including smallholders.

In an August 2022 virtual meeting with parent Posco, it confirmed that its palm oil subsidiary's NDPE policy was being implemented in close co-operation with the RSPO. According to the company, a large-scale environmental conservation and community development programme has been developed in accordance with RSPO guidelines. This is being carried out by transparently communicating with relevant stakeholders, including indigenous peoples. We verified that the company's human rights grievance mechanisms were available to domestic and overseas workers, as well as people in impacted communities.



Nick Pelosi
Theme co-lead: Human Rights
nick.pelosi@FederatedHermes.com

CASE STUDY

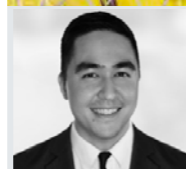
DBS and palm oil financing



We began engaging on palm oil financing with Singapore's largest bank DBS in January 2019. We urged the bank to demonstrate that its palm oil lending criteria were able to meet the latest Roundtable on Sustainable Palm Oil (RSPO) standard for all borrowers, and that it closely monitored implementation. The bank confirmed that its new borrowers were asked to demonstrate alignment with no deforestation, no peat and no exploitation (NDPE) or an equivalent.

We continued to engage, urging the bank to ask its existing borrowers to obtain RSPO certification in September 2020, as this would help to ensure compliance with NDPE through its auditing process. In March 2021, we were pleased to learn that DBS had raised its ESG standards for the palm oil sector, encouraging its customers to apply an NDPE policy throughout the supply chain. Its clients are also asked to achieve full RSPO certification via a time-bound action plan that is communicated to DBS.

The bank pledges not to knowingly finance companies that are involved in the conversion of high carbon stock forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved. DBS has adopted a zero-tolerance approach to forest burning.



Miguel CuUnjieng
Sector lead: Financial Services
miguel.cuunjieng@FederatedHermes.com

In addition to our in-depth, multi-year engagements on palm oil, we engaged with US food producer General Mills in June, asking if it would commit to being deforestation-free by 2025. The company said that it was working to eliminate deforestation from its key commodities such as palm oil and cocoa, and engages with suppliers to monitor land use change. We also asked Japan's Sumitomo to commit to NDPE, and encouraged it to source 100% certified RSPO palm oil. The company said that one of its consolidated subsidiaries SC Foods obtained RSPO supply chain certification in 2021.

Beyond palm oil, we have engaged with commodity trader Cargill on accelerating its efforts to tackle deforestation associated with soy production in South America. We asked the company to bring forward its time-bound deforestation- and conversion-free commitment from 2030, to 2025 at the latest, in line with best practice and peers.

We have also engaged with Brazilian meat producer JBS on traceability to eliminate deforestation. In 2021, JBS promised to have full traceability of its supply chain in the Amazon by 2025 and in other regions in Brazil by 2030. We followed up in 2022 to discuss the progress made, and learned that in its first year of operation, the tracking system processed 14.8% of the total number of animals. The CEO confirmed JBS's commitment to achieving 100% of the animals processed with full traceability by 2025.

Deforestation considerations in our vote policy

We hold the chair or other responsible directors accountable through voting recommendations where we believe companies' actions are materially misaligned with the goals of the Paris Agreement or where companies are not responding sufficiently to the risks and opportunities posed by climate change. We include a focus on companies that are involved in activities that are clearly incompatible with limiting global warming to safe levels, such as causing deforestation.

In 2021, we recommended voting against directors at companies that were failing to address deforestation risks, including at Yakult Honsha and Li Ning Company. In 2022, we recommend votes against directors at TJX, Kikkoman Corp and WH Group. We also included financial institutions in our policy for the first time, which led to recommended votes against directors at Power Corporation of Canada, Malaysia's Public Bank and Industrial and Commercial Bank of China due to concerns about deforestation.

Public policy advocacy

We are active participants in several industry working groups, including the PRI's Sustainable Commodities Practitioners Group, which explores how the finance sector can address deforestation by sharing best practice. We serve as co-chair of the Engagement and Public Policy Advocacy Working Groups within the Finance for Biodiversity Foundation, where participants commit to protecting and restoring biodiversity through their activities. With a small group of investors, we are also working to establish a Nature Action 100 initiative, which would facilitate collaborative engagements with companies that have the greatest impact on biodiversity.



Certification schemes and their limitations

The Roundtable for Sustainable Palm Oil (RSPO)¹⁹ is the main certification scheme for palm oil operations and supply chains. The strongest level of RSPO certification is Identity Preserved Certified Sustainable Palm Oil (CSPO), which can be traced back to a single certified mill and its supply base.

The Indonesia Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) certifications are national schemes with less stringent sustainability criteria. NGOs have repeatedly raised questions about the effectiveness of certification schemes given the markets in which palm oil producers operate.²⁰

The Indonesia Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) certifications are national schemes with less stringent sustainability criteria.

We have engaged with Bank Rakyat Indonesia Persero, which in 2022 confirmed it had implemented a mandatory requirement for all small, medium and corporate borrowers in the palm oil plantation sector to be ISPO or RSPO certified. It carries out site visits and checks that borrowers are not clearing land.

We said that we want to see the bank take a leadership position in palm oil financing. This would include a commitment to implementing robust palm oil requirements, in addition to the current standards, a policy of RSPO or NDPE, and free, prior and informed consent financing only. There should also be a requirement for supply chain transparency, the exclusion of leakage palm oil refiners, engagement with local communities, and grievance mechanisms. The company said it was planning to improve its focus in this area.

We are active participants in several industry working groups, including the PRI's Sustainable Commodities Practitioners Group, which explores how the finance sector can address deforestation by sharing best practice.

¹⁹ <https://rspo.org/about/our-organisation>

²⁰ https://www.greenpeace.org/static/planet4-southeastasia-stateless/2021/10/85efa777-illegal_palm_oil_in_forest_estate.pdf