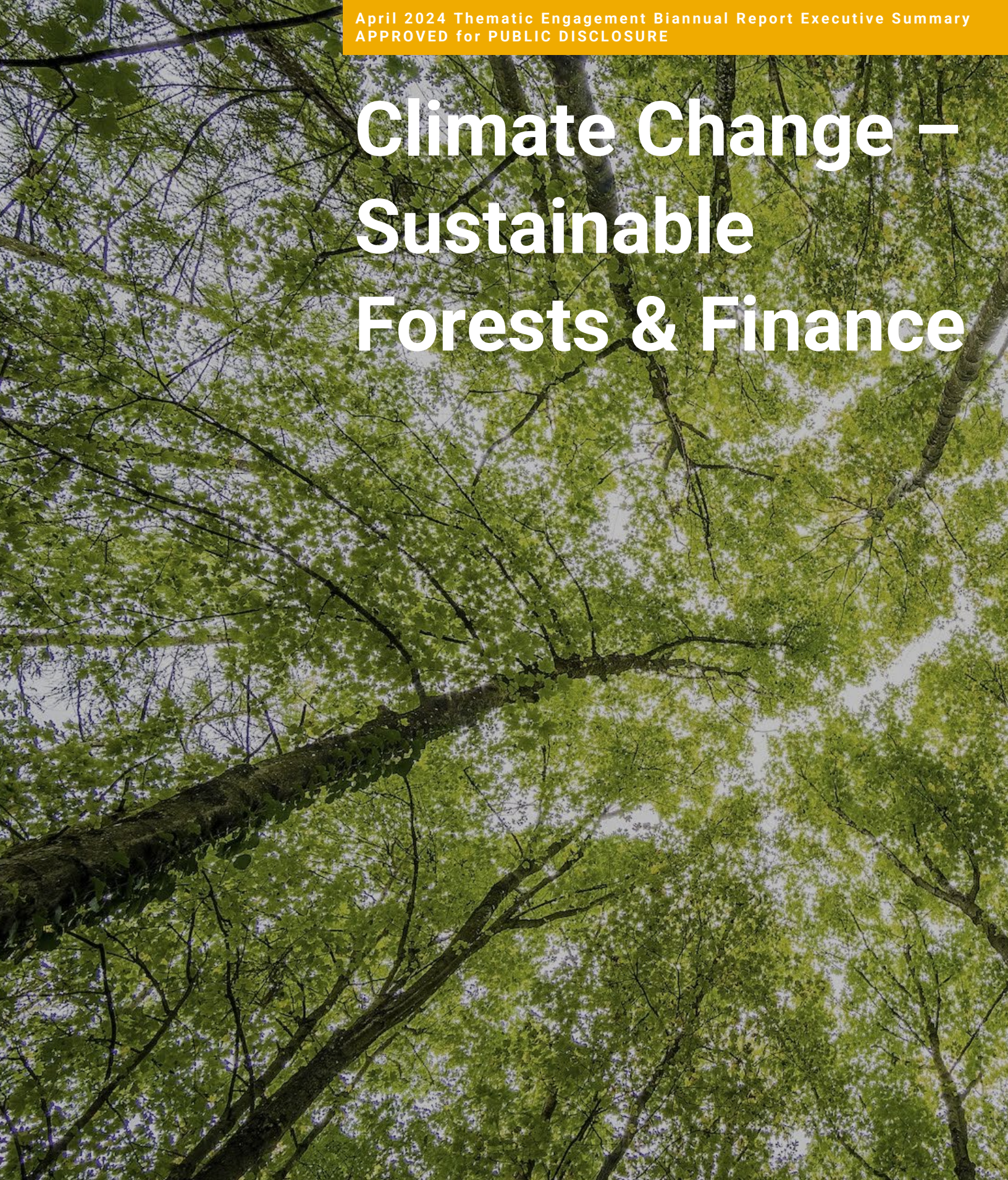


Climate Change – Sustainable Forests & Finance



EXECUTIVE SUMMARY

The Climate Change—Sustainable Forests and Finance Thematic Engagement aims to address climate-related risks and advocate for emissions reduction across the global food systems. The theme targets companies across the agriculture value chain – from commodities to retailers, restaurants and the financial sector. The engagement objective focuses on companies’ management of decarbonization which should be in line with international disclosure standards and science-based targets aligning with a 1.5-degree pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

This summary presents the fifth biannual update for the Thematic Engagement Climate Change—Sustainable Forests and Finance. This report summarizes the progress made between 1 October 2023 and 30 March 2024 with an update on engagement efforts, high-level insights and outcomes and looking ahead.

UPDATE ON ENGAGEMENT EFFORTS

During the six months, Sustainalytics exchanged 375 emails with 214 outgoing emails and 161 incoming emails, and held 20 meetings including one in-person meeting in Singapore. There are 22 companies in this engagement theme and most of them participate actively in the dialogue. During these six months, we conducted engagement meetings with 19 individual companies among the 22. For the 3 companies without meetings, Sustainalytics has scheduled a climate-focus meeting with one in June and will follow up with another after the release of its sustainability report in mid-2024. Meanwhile, Sustainalytics is in the process of preparing a proxy voting recommendation for the third one due to its unresponsiveness and low willingness to engage.

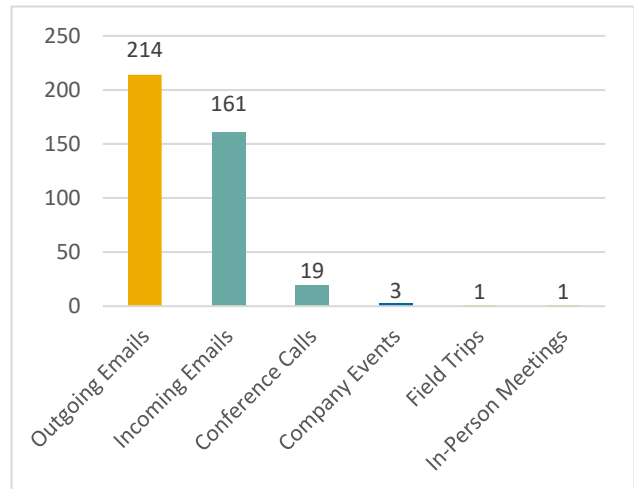


FIGURE 1 - ENGAGEMENT DIALOGUES BETWEEN 1 OCTOBER 2023 AND 30 MARCH 2024

Several key discussion points have emerged during this period. For the financial sector, forestry-related policies and current due diligence approaches have been an area of focus. For banks we encouraged one bank to join the Net Zero Banking Alliance (NZBA), and for the six that have already committed to the initiative we discussed their annual progress and challenges. Moreover, SBTi’s FLAG guidance is a key focus area for soft commodities companies and end-value-chain companies. Specifically, the requirement of zero deforestation by 2025, is the most challenging part for companies to comply with. Nevertheless, we are pleased to see that two companies in our theme have their renewed climate targets verified by SBTi recently, which we then cite as leading practices in dialogues with their peers. Lastly, the implications of EU Deforestation Regulation (EUDR) have also been a focal point in our dialogues. Most companies are confident that they can comply with the regulations, however many highlighted works need to be done on documentation in order to prove compliance.

During 12-18 March, Sustainalytics conducted an engagement trip to visit companies in Malaysia and Singapore. Besides an in-person meeting with a bank in Singapore, Sustainalytics alongside investors also visited a palm oil company’s plantation in Malaysia. Besides learning their net zero journey experience and natural conservation efforts, we have built up a strong relationship with the company and our contacts welcome us for a next visit in Sabah, Malaysia in the future.

HIGH-LEVEL INSIGHTS AND OUTCOMES

According to Figure 2, KPI 1 disclosure and governance continues to score the highest among all KPIs. This is mostly driven by stricter regulations across jurisdictions on climate disclosure, as many countries are mandating climate-related financial disclosures, such as the UK, Japan, Hong Kong and Singapore. With emerging regulations, such as the recently approved US SEC climate ruling and California Senate Bills, these will mandate more advanced disclosure and climate governance structures.

For KPI 2, on strategy and targets, two companies have had their climate targets reviewed and verified by SBTi taking into account the latest SBTi FLAG guidance, which are remarkable milestones for their journey to net zero. Twelve other companies we engage with across soft commodity and end-value-chain sectors have started assessing how to adapt or renew their climate targets based on the new SBTi FLAG guidance, and our engagement dialogue will continue to monitor the progress. During the past six months, our KPI 3 on practical mitigation and forests, has focused on companies’ forestry-related commitment and policy. However, we still see gaps in their current policies, and we will continue to focus on the topic in the next six months. For KPI 4 on physical risk management, there is still space for disclosure improvements among companies and engagement going forward will focus on company mitigation strategies.

KPI 5 on natural resource management is still the most challenging one, especially for end value chain companies and financials due to complex value chains and portfolios. Commodity companies score the highest among the three industry sectors, especially palm oil companies as they have abundant experience in natural resources related assessments, such as High Conservation Value (HCV) and High Carbon Stock (HCS) assessments, which are compulsory to showcase their no deforestation and conversion commitment. To improve companies’ approaches on natural resources, the finalization of the TNFD framework and the development of SBTN guidelines will certainly become useful resources for companies to deal with topics of nature, such as water, biodiversity, and land.

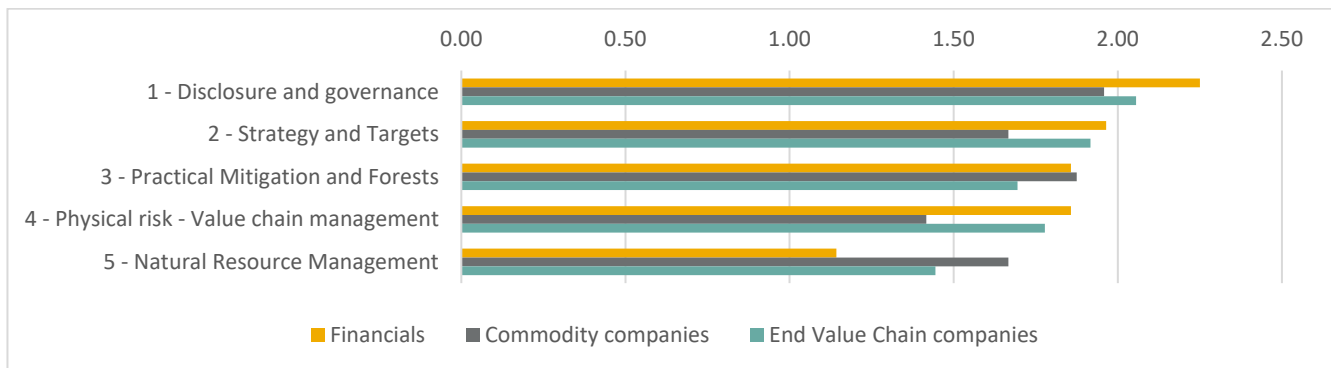


FIGURE 2 - AVERAGE SCORES PER SECTOR IN THE VALUE CHAIN

LOOKING AHEAD

This report marks the last biannual report for the Climate Change – Sustainable Forests and Finance Thematic Engagement as the engagement will be concluded in October 2024 with a final report published in the same month. Hence, in the next six months, we will continue to schedule meetings to discuss progress towards engagement objectives and wrap up the climate-related conversation with the 22 companies targeted in the theme. In addition, we will ensure all the engagement dialogue has been transferred smoothly to the ongoing Biodiversity and Natural Capital Thematic Stewardship Programme. As climate and biodiversity topics are inextricable from one another, we believe we will continue to drive systemic impacts with companies across the agricultural value chain by focusing on biodiversity and nature.

This engagement will continue to encourage companies to set more ambitious science-based targets to accelerate climate transition, and disclose climate risk assessments, financial impacts, and mitigation strategies while making progress toward climate targets. In addition, a key element to continue monitoring is proxy voting season. Despite the anti-ESG headwind in US, there are a record number of climate resolutions filed for North American companies, which demonstrates that climate continues to be a prevalent topic in companies' Annual General Meetings (AGMs). Sustainalytics will seek opportunities to join AGMs where possible and integrate certain discussion points to our upcoming engagement meetings to ensure our engagement is aligned with the focus of the companies' shareholders. In addition, with the EUDR coming into force by the end of this year, we will encourage our engaged companies to have a robust deforestation policy and due diligence mechanism in place to mitigate transition risks.

In addition to engagement meetings, we are organizing a roundtable event focusing on regenerative agriculture on 14 May, 3-4 pm CET to exchange insights and perspectives on opportunities and challenges associated with regenerative agriculture. In addition, we are planning another roundtable focusing on the topic of just transition. With the growing awareness on human rights issues as part of companies' climate transition strategies, the roundtable will be a good opportunity for companies to share their experiences and potentially create sparks for further strategy implementation.

The final report will be released in mid-October 2024. In the meantime, if you have any questions regarding the Climate Change and Sustainable Forests and Finance Thematic Engagement, the upcoming roundtable events or anything else, please feel free to reach out.

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