

ESG SERIES: SUSTAINABLE FINANCE AND TROPICAL FORESTRY

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CLARA MELOT

SPOTT Engagement and Impact Manager,
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Sustainable finance and tropical forestry

27 January 2021

Clara Melot, Zoological Society of London



Climate, forests and the timber and pulp sector

- Just four commodities are estimated to be responsible for over a third of tropical deforestation (forest loss) each year:
 - palm oil;
 - **timber and pulp**;
 - cattle;
 - and soy.
- About 26% of forest disturbance is attributed to forestry operations.
- Widespread use of fire for land clearing is used for timber and pulp plantations as well as for palm oil plantings – the emissions from Indonesia's 2015 haze crisis alone were at times greater than those of the entire US economy.

“Unprecedented murder charges for loggers in deaths of indigenous activists”

Two timber executives and three loggers charged (...)

“Maluku indigenous people arrested amid conflict with company over disputed forest”

“Pandemics: another reason to stop financing deforestation”

Zoonotic diseases will rise due to deforestation says Zurich Insurance group’s Head of Sustainability Risk (...)

“We are letting banks off the hook for financing environmental destruction – that must change”

“Forestry sector ‘failing’ to combat forced labour”

“Gabon’s timber industry reeling after corruption scandal”

“XXX in Amazon: ‘World’s largest investor in deforestation”

Report by Friends of the Earth faults asset manager for investing in companies that contribute to Brazil’s Fire Risk

“Giant Norway pension fund ways Brazil divestment over Amazon deforestation”

“EU customers warned over possible illegal timber from the Congo”

Do your investees have exposure?

Timber

- Producers and traders
- Biomass
- Construction
- Railways
- Furniture/decoration
- Flooring
- Musical instruments

Wood Pulp

- Producers and traders
- Paper companies
- Packaging companies
- Paper and packaging buying companies
- Fashion (cellulose)
- Food industry (additive)

What is SPOTT?

- **SPOTT.org** is a **free online platform** dedicated to supporting transparency amongst upstream commodity producers
- SPOTT assesses (**>200**) the world's largest producers and traders of palm oil, timber & pulp and rubber. It is a **free source of ESG data**
- Companies are assessed on the public disclosure of their policies, operations and commitments – **100+ indicators across 10 ESG categories**
- Used by financial institutions and supply chain companies to inform investment & purchasing decisions



SPOTT

Tracking transparency, supporting sustainability



Timber and pulp: ESG policy transparency assessments

Latest update: July 2020 | Next scheduled: July 2021

[Download data \(CSV\)](#) | [View summary \(PDF\)](#)

SPOTT assesses multiple timber and pulp producers and traders on the public disclosure of their policies... [Show more](#)

[Modify score weighting](#)

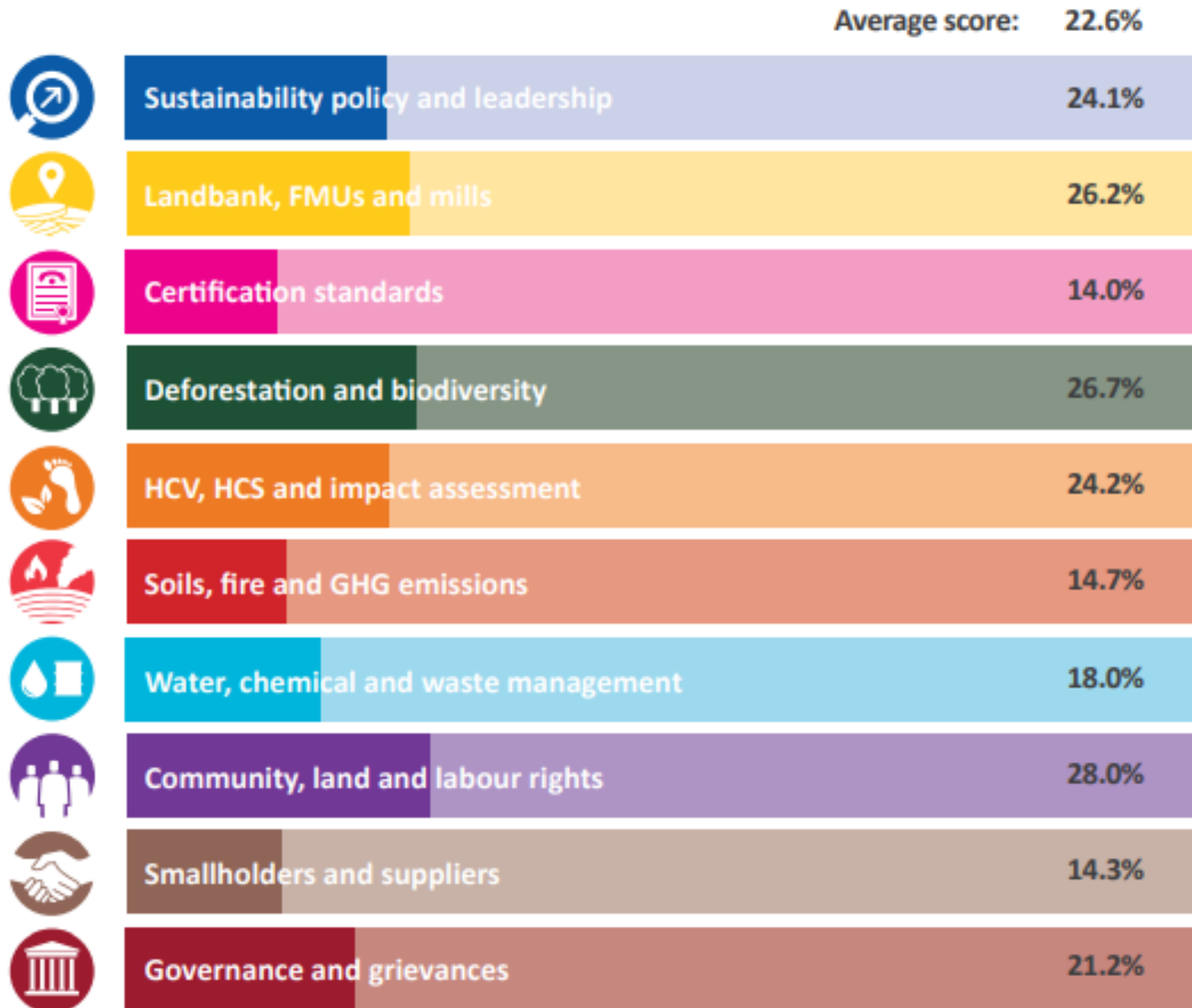
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Disclosure types: ☐ Organisation ☒ Policy ☐ Practice [?]

[Show overview](#)

Company	Rank	Total score	Change	Disclosure	Engaged	Headquarters	Landbank	Market cap	Media
Interholco	1	90.7%	-4.0%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Switzerland	801.7 KHa	Private co.	18
Precious Woods	2	89.1%	+11.7%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Switzerland	1,103.5 KHa	Private co.	6
Woodbois	3	75.9%	+6.4%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	United Kingdom	337.5 KHa	\$17.6M	3
Duratex	4	75.8%	+10.2%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Brazil	139.2 KHa	\$1,870.8M	8
Klabin	5	73.6%	-4.9%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Brazil	257.0 KHa	\$4,316.3M	11
Compagnie des Bois du Gabon	6	73.3%	+5.8%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Gabon	568.5 KHa	Private co.	4
Olam International	7	70.8%	-7.6%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Singapore	2,200.0 KHa	\$3,206.4M	24
▲ APP (Asia Pulp and Paper)...	8	69.9%	-4.5%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Indonesia	1,082.8 KHa	Private co.	228
Maderacre	9	69.5%	+2.1%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Peru	209.1 KHa	Private co.	0
▲ APRIL	10	62.9%	-10.7%	<div><div></div><div></div><div></div></div>	<input checked="" type="checkbox"/>	Singapore	445.7 KHa	Private co.	113

SPOTT Timber and Pulp Assessments 2020 – Scores by category



In comparison,
the average
SPOTT score for
palm oil sector
companies was

41.5%

How does SPOTT assess companies?

- The **annual assessment** process relies on regular, **constructive engagement** between the SPOTT team and assessed companies
- Opportunity for companies to understand industry expectations, **respond** to ZSL, and potentially **improve disclosures** ahead of the final review and publication on SPOTT
- Supporters and engagement increase the incentive for companies to meet industry expectations and improve their transparency
- Got to **SPOTT.org** or get in touch for more information on coverage, methodology or data downloads.



Timber guide and Case studies

www.spott.org/news/



TROPICAL TIMBER: A GUIDE TO RESPONSIBLE SOURCING AND FINANCING



January 2021
Case study #1

Timber, Pulp and Sustainable finance

*Moving the needle in private equity
secondaries*

Coller Capital

Coller Capital, founded in 1990, is one of the world's leading investors in private equity's secondary market – widely acknowledged as an innovator and a stand-out player at the complex end of secondaries. The firm provides liquidity solutions to private equity investors worldwide, acquiring interests in private equity funds, portfolios of private companies, and other private equity-related assets.

Integrating ESG in Private Equity Secondaries

At Coller Capital, we believe that our funds' investment performance may be materially impacted by the risks and potential opportunities associated with environmental, social and governance (ESG) factors. ESG integration assists in ensuring our fiduciary duties to investors are discharged appropriately, thereby helping to maximise value to beneficiaries.

Due to the limitations inherent within our mandate as an investor in private equity secondaries,¹ being removed from the portfolio assets, our approach and core objective is necessarily on influencing the underlying General Partners (GPs) into whose funds we invest rather than at the level of a GP's portfolio.

Secondaries : A new frontier

The private equity secondary market is recording significant growth with the volume of transactions at US\$85 billion in 2019 (Source: Coller Capital) and we predict this growth will continue over the long-term. As secondaries have a potential to play a meaningful and important role in integrating ESG into private equity, the opportunity to be an influencer in the sector from an ESG perspective is clear.

1. A strategy which consists in buying and selling of pre-existing investor commitments to private equity and other alternative investment funds.

Our Approach

We integrate ESG into every stage of our investment process, undertake analysis for every investment and seek to influence the behaviour of managers we invest in. Since 2016 we have analysed and provided bespoke ESG commentary for 1,000+ distinct investment opportunities. Where we could not gain comfort on ESG, we have not proceeded with an investment.

When necessary, our communication with GPs extends far beyond the standard checklist approach to due diligence, and, where Coller has most influence, we often take a more hands-on role by working directly with GPs.



Janvier 2021
Etude de cas #2

Finance durable et foresterie tropicale

Evaluer les entreprises à l'aide de critères ESG

BNP Paribas Asset Management

BNP Paribas Asset Management est le métier gestion d'actifs de BNP Paribas, l'une des premières institutions financières au monde. Elle propose des solutions aux épargnants, aux entreprises et aux investisseurs institutionnels. Au 30 septembre 2020, BNP Paribas Asset Management gère 598 milliards d'euros d'encours au sein de quatre pôles de gestion : Actions, Obligations, Dette Privée & Actifs Réels, et Multi-Actifs, Quantitatif et Solutions (MAQS). Ses 500 professionnels de l'investissement et près de 500 spécialistes du service client conseillent des clients particuliers, entreprises et institutionnels dans 71 pays.

Intégration des critères ESG dans la stratégie « Sustainability »

Les enjeux environnementaux, sociaux et de gouvernance peuvent avoir un impact sur la valeur et la réputation des investissements de BNP Paribas Asset Management. Intégrer des normes ESG dans les critères d'investissement conformément à son obligation fiduciaire permet d'aider ses clients à atteindre leurs objectifs d'investissement et à protéger leurs intérêts.

En mars 2019, BNP Paribas Asset Management a lancé une stratégie globale « Sustainability », s'engageant ainsi à adopter une approche d'investissement durable sur l'ensemble de ses activités. Cette stratégie intègre les éléments clés de l'investissement durable:

- Recherche approfondie et intégration complète des facteurs environnementaux, sociaux et de gouvernance (ESG) ;
- « Stewardship » des investissements incluant des activités d'engagement individuel et collectif ;
- Conduite responsable des entreprises et politiques sectorielles couvrant les activités sensibles
- Une attention particulière à trois thématiques pour promouvoir un avenir durable.

L'objectif de cette approche est de renforcer la manière dont BNP Paribas Asset Management investit, génère des idées d'investissement, construit des portefeuilles, contrôle le risque et influence les entreprises et les marchés.

Pour plus d'informations, un lien vers la stratégie globale « Sustainability » de BNP Paribas Asset Management se trouve dans la section « Pour aller plus loin » de cette étude de cas.



Acknowledgement



The SPOTT initiative as well as this webinar and the publications it presents were funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.



Developed by the Zoological Society of London (ZSL), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice.

SPOTT assesses commodity producers and traders on the public disclosure of policies, operations and commitments related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

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Head of ESG & Sustainability,
Coller Capital



January 2021

Perspectives on ESG and sustainability



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ESG at Collier Capital – innovation and discipline in secondaries

- Drive systemic change in PE via our portfolio GPs – through education, best practice standards, and collaboration
- ESG modus operandi and resources:
 - ESG is led by a dedicated member of the Investment Team
 - Adam Black, ESG specialist for 28 years
 - ESG focus is cross-functional
 - ESG risk analysis is an integral part of each Collier investment recommendation
 - ESG Committee sets policy, and monitors adherence and progress

Collier is a signatory to:



Other memberships, recognitions and awards

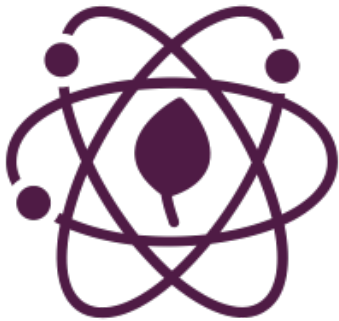


BVCA Awards 2020 commendation



Concluding remarks

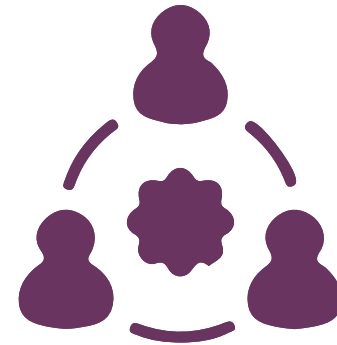
The science



The politics and policy environment



The role of private finance



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ESG Specialist,
Asia Pacific,
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TIMBER, PULP AND SUSTAINABLE FINANCE

Scoring companies on ESG criteria

MARKETING COMMUNICATION



SPOTT CASE STUDY
January 2021

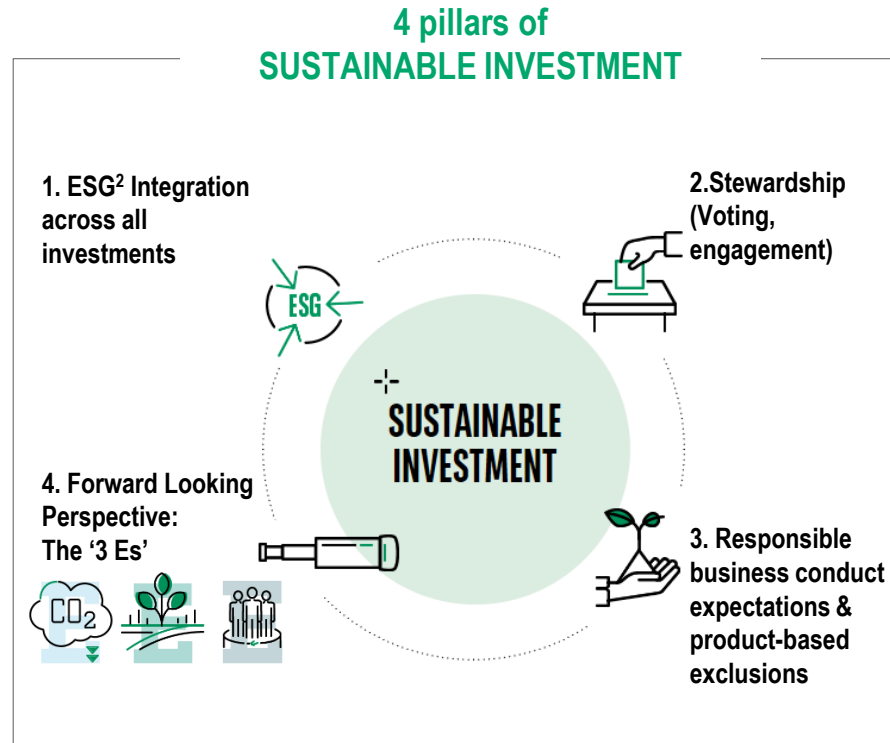


BNP PARIBAS
ASSET MANAGEMENT

The asset manager for a changing world

A firm-wide approach to sustainable investment

Our Global Sustainability Strategy defines our sustainable investment approach based on **five pillars**



1. As of 09/30/2020. The four pillars of our sustainable investment approach don't apply to some of our AUM, such as mainstream passive/ETF and some assets delegated to external or affiliated managers.

2. ESG: Environmental Social and Governance

3. Enhanced ESG + Thematic = Fund of funds that invests in enhanced ESG funds and thematic funds

Source : BNP Paribas Asset Management, December 2020

Of which AUM¹: EUR 74 billion in

SUSTAINABLE+

Enhanced ESG

(Multi factor, Best in Class, ESG index etc...)

Thematic

(Water, Climate, Environment, sustainable food, Human development etc..)

Impact

(Green bonds, Social investment etc..)

Enhanced ESG + Thematic³



ESG integration is facilitated by our proprietary ESG scoring framework

We conduct our own independent research, combining multiple sources and direct contact with issuers where possible



Source: BNP Paribas Asset Management, November 2020.

Timber and pulp sector specific approach

Responsible Business Conduct

Wood pulp sector policy sets out criteria for investments covering:

- **Environmental and biodiversity** issues (e.g. deforestation)
- **Social** issues
- **Water and wastewater** management
- **Occupational health and safety**
- **Environmental management** (e.g. air emissions)

ESG research

- **The ‘E’ lense isn’t enough...** health & safety, working conditions, supply chain, business ethics can have **material financial impacts**
- **Qualitative analysis and overlay is particularly critical** due to lack of widely available metrics

Stewardship

Can help in 3 ways:

- 1) **Information gathering** (e.g. SPOTT assessment)
- 2) **Educate and influence** (e.g. Investor Initiative for Sustainable Forests)
- 3) **Contribute to policies and regulations** (e.g. TNFD*)

ESG integration

- **Systematic ESG integration, incl. KPIs** (ESG score vs. the reference benchmark)
- Investment in **weakly-rated companies** requires additional qualitative ESG analysis
- Using the ESG assessment to **engage with portfolio companies**

Source: BNP Paribas Asset Management, January 2021. *TNFD: Task Force on Nature-related Financial Disclosures.

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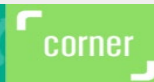
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BNP PARIBAS
ASSET MANAGEMENT

The asset manager for a changing world

PANEL DISCUSSION

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THANK YOU !

