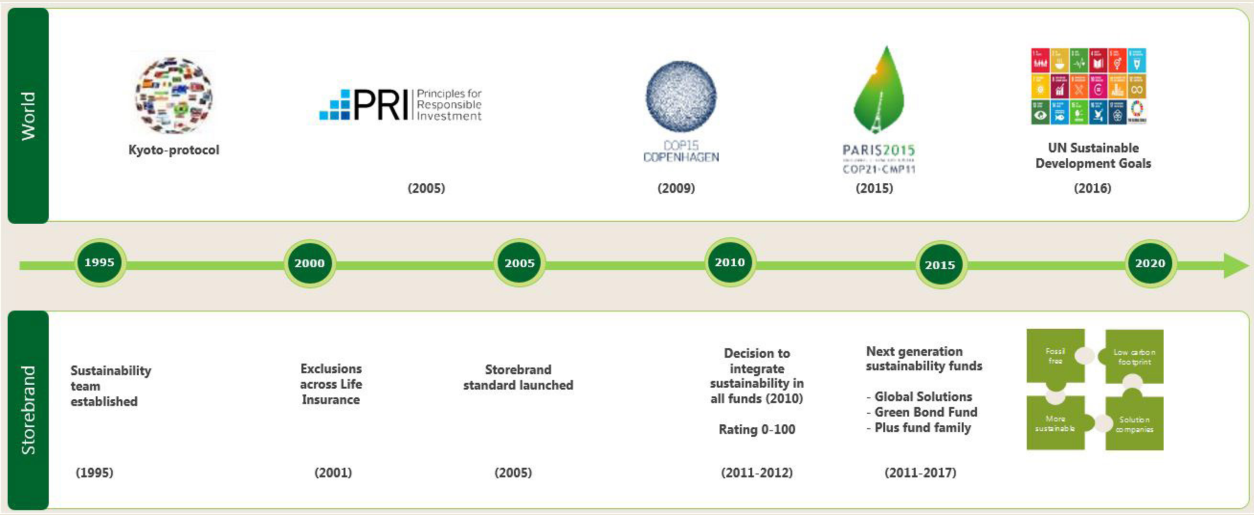
storebrand

Solutions

Autumn
2018

Contents

Published 8 November 2018



Deforestation:

Halting the race to the bottom

Matthew Smith
Head of Sustainable Investments

Deforestation is not a new issue. Great Britain lost its oak forests to the construction of ship masts for the burgeoning British shipping industry 400 years ago. However, the economic development of Emerging Markets over the last 25 years has driven deforestation on an unprecedented scale. In Brazil, 17% of the Amazon rainforest has been lost over the past 50 years. Meanwhile, in countries like Cambodia and Thailand, only small pockets of the forest that previously covered almost the entire country remain. The steadily increasing production of red meat, soya beans, palm oil and timber has meant that the negative trend of forest loss continues unabated.

For institutional investors like Storebrand Asset Management, the destruction of the natural environment is very much our problem. With commitments to clients over the next 20, 30 and 40 years, we as a company are not only dependent on economic growth now, but on sustainable growth throughout the century. Without it, our clients will suffer directly through lower returns on their investments and a less secure financial retirement.

Since the 1980s, the world economy has seen almost constant growth, thanks to a potent mix of de-regulation, free trade and efficiency gains. The main advantage of such a free and unregulated economy is competition, and its ability to channel resources to where they can be used most effectively. Unfortunately, this strength is also a catastrophic weakness. Unbridled enterprise has in many areas led to a race to the bottom, where short-term return on capital has trumped the long-term sustainable use of resources. Forests are perhaps the best example of this development. Their rapid destruction has enabled explosive economic growth in many countries in desperate need of development. The flipside is that this growth is based on the exploitation of finite resources. When the resources are gone, so is the growth, leaving local populations with a degraded natural environment that only inhibits further development. A world struggling with polluted fresh water, degraded forests, poor soil and an overheated and unstable climate is also a world that will struggle to maintain consistent economic growth, to the detriment of all.

It is easy to become disillusioned in the face of such a fundamental challenge to sustainable development. No one organisation, government or company can alone make a dent in the rate of deforestation. For Storebrand this realisation has led us to seek strength and influence in numbers. We have recently joined the PRI (Principles for Responsible Investment) working groups for soya, cattle and palm oil. This means that together with other large investors, we can put pressure on companies in these industries to manage the forests they operate in a more sustainable and long-term way.

In this edition of Solutions, we focus particularly on one of the main drivers of deforestation in South-East Asia, namely palm oil production. Two of our analysts recently toured palm oil plantations in Indonesia, met with companies operating in the area and visited indigenous peoples dependent on the forests for their livelihood. They returned with both a better understanding of the problems associated with palm oil and a renewed sense of urgency that we hope will be contagious.

Sustainable Development Goals

The UN's Sustainable Development Goals (SDGs) are global guidelines aimed at ending poverty, protecting the planet and ensuring peace and prosperity. The UN's 193 nations and thousands of businesses have contributed to shaping the goals, making the SDGs increasingly important for companies' strategies and investment priorities. Storebrand has decided to include the SDGs in our sustainable investments strategy towards 2030. We have defined three SDG categories on the back of our analysis: Investable business models, key enablers and fundamental outcomes. The first is product oriented, with many measurable and company-specific sub-indicators. Second, the enablers are important tools to achieve the first category, but are more operations-oriented. The third category, fundamental outcomes, is more state-oriented and less directed at companies' products or operations. However, if companies operating in the two first SDG categories have sound management in line with the goals, there will be a positive effect also on the third SDG category.

Example of SDG quantification

To enable the integration of the SDGs in financial analysis, there is a need to quantify the sub-targets and indicators of the most financially relevant SDGs. An example of relevant and measurable indicators are energy efficiency and renewable energy. A thorough assessment has been performed to adjust our in-house sustainability rating to include the most financially relevant targets and indicators in the final score. The adjusted sustainability rating will enable optimisation of company selection in alignment with the SDGs. It was implemented across all asset classes in the summer of 2018. The rating is updated biannually to incorporate the most recent ESG data.

The sustainability team at Storebrand Asset Management (from left): Philip Ripman, Tulia Machado Helland, Sunniva Bratt Slette, Matthew Smith, Karin Gjerde-Meyer, Emine Isciel and Andreas Bjørbak Alnæs.

News to note

New sustainability analysts

Emine Isciel spent 10 years working for the Norwegian Ministry of Climate and Environment with multilateral environmental agreements and the Sustainable Development Goals (SDGs) advising the government on sustainability policies and strategies and leading the work on implementing the SDGs. She holds an MA in Political Science from the University of Oslo in addition to studies from University of Cape Town, New York University, and Harvard Extension School. At Storebrand her specialist areas will be the SDG 7 «Affordable and Clean Energy» and SDG 13 «Climate Change», as well as broader environmental issues and active ownership.

Andreas Bjørbak Alnæs joined Storebrand Asset Management after working with aid management and anti-corruption in Norad, the Ministry of Foreign Affairs and UNDP. He holds an MSc in Economics and Business Administration from The Norwegian School of Economics (NHH) and the International University of Japan. At Storebrand his specialism will be on the SDG 16 «Peace, Justice and Strong Institutions», with a focus on anti-corruption.

Storebrand leads the debate on coal

Storebrand Asset Management's Chief Executive, Jan Erik Saugestad, led a debate on coal in the international media in October. He challenged the power company RWE in the German newspaper Wirtschaftswoche, due to the company's long-term plans to develop coal mining. A particularly high profile case is the expansion of a coal mine that would lead to deforestation of the ancient German forest Hambach, parts of which have been untouched for 12,000 years. Storebrand divested from RWE in November 2017. If the world wants to limit global warming to 1.5 degrees Celsius, Saugestad believes that "continued expansion of coal mines and support of coal-fired power have no future."

Storebrand received international media attention from publications including The New York Times, Daily Mail and ABC News, all of which covered the story.

KRITIK AN KOHLEWIRTSCHAFT

RWE-Aktien sind riskant – so schnell wie möglich abstoßen!

Gastbeitrag von Jan Erik Saugestad
23. Oktober 2018

Kohleabbau in Nordrhein-Westfalen.
Bild: dpa

Warum Norwegens größter privater Pensionsfonds Investoren empfiehlt, die Anteile von Kohleunternehmen - insbesondere RWE - abzustoßen, erklärt der Storebrand-CEO Jan Erik Saugestad.

Nominated for best ESG team

Storebrand's sustainability team is one of seven nominees for Investment Week's Sustainable & ESG Investment Awards for 2018 in the category "Best ESG Research Team".

The awards are aimed at fund managers and organisations which are at the forefront of facilitating or investing in themes that take into account the environment, ethics, as well as social and corporate responsibility, and whose work promotes a greater understanding of the sector's potential.

"This nomination recognises the systematic work we do to make all our investments more sustainable," says Head of Sustainable Investments in Storebrand, Matthew Smith.

Historical returns provide no guarantee of future returns. Future returns depend on market development, managerial skill, fund risk and costs. The return may be negative as a result of capital losses.

Active Ownership:

Changing the Palm Oil Industry

Tulia Machado-Helland
Senior Legal Adviser ESG

When Storebrand started a targeted analysis of the palm oil industry a few years ago, we soon discovered an industry characterised by severe climate and environmental degradation and human rights violations. A visit to Indonesia this autumn largely confirmed our impressions.

Climate and environmental degradation in Indonesia are often linked to deforestation. This is particularly serious because rainforest and other areas with a high degree of biodiversity are cleared to make way for plantations. The burning of virgin forest also causes significant greenhouse gas emissions. The human rights violations found in the industry are mainly linked to poor working conditions in the plantations, characterised by very long days, low wages, and also instances of child labour. In addition, local populations, including indigenous peoples, are affected when the establishment of new plantations causes forced relocation and expropriation of land. Storebrand has divested from dozens of companies due to such violations.

Improvement requires dialogue

However, these challenges are not resolved by exclusion from the investment universe alone. During our trip, we visited Wilmar and Golden Agri Resources, two companies that have strong policies and procedures in place to prevent deforestation as well as violation of workers' and indigenous rights. We have been in dialogue with these companies over the past few years to influence them to establish best practice policies and procedures. The hope is that such companies will in turn act as an example to others in the industry.

> As a group they have few demands. They are primarily concerned with re-acquiring land, gaining access to healthcare and attaining education for their children.

Setbacks necessitate continued follow-up

Despite the fact that the above-mentioned companies have good policies in place, they continue to be involved in controversial events. Close follow-up is therefore required to effect lasting change. Visiting companies on the ground helps to establish relationships, obtain a better understanding of the challenges the companies face and communicate clear expectations to the industry. Investors need to fully understand all parts of palm oil production to be able to assess whether corporate operations adequately address the associated risks.

When engagement can make a difference

In Indonesia, we also visited a plantation belonging to a company excluded from our investment universe. The purpose of the visit was to determine how the indigenous people are managing after their land was taken to allow for the establishment of the company's plantation. The Orang Rimba people continue to live on the plantation but have lost their land rights. We spoke first with representatives of the indigenous people's group and then visited a small settlement to speak specifically with the women. We witnessed their impoverished circumstances first hand. Having been deprived of their land, they have also lost their livelihoods since there is no longer any forest in which to gather fruit and vegetables or to hunt. In order to survive, they collect fruit that has fallen from the palm trees but this often leads to confrontations with company guards.

As a group, they have few demands. They are primarily concerned with re-acquiring land, gaining access to healthcare and attaining education for their children. Storebrand divested from the company that owns the plantation, partly because of this conflict with the indigenous people. It was important for us to meet the Orang Rimba and hear their concerns to confirm our findings. We can now also have a more informed dialogue with the excluded company to make realistic demands on the company that will have a positive impact on the Orang Rimba people's livelihoods.

Case study:

Singapore – The Smart City

Sunniva Bratt Slette
Sustainability analyst

Sustainable urban development is essential if the Paris Agreement and UN's Sustainable Development Goals are to be achieved. To fully integrate sustainability in urban planning, the Singaporean government has initiated Smart Nation Singapore, a blueprint to build the nation's smart city goals.

Singapore is a usual suspect in rankings of the world's most sustainable cities, for instance in the Global Smart City Performance Index (Juniper Research, 2016 and 2017). Themes like smart mobility, internet of things (IoT), renewable energy, open data, greenification, connectivity and living laboratories are streamlined to secure the interplay between technology, legislation, business and inhabitants. Targeted investments in urban planning and sustainable infrastructure demonstrate how new technology and citizen habits could expedite a smarter city.

NEWater

A visit to the NEWater Visitor Centre displayed how companies contribute with innovative solutions to reduce the water consumption. Used water from industry and houses is filtered and treated with ultraviolet radiation. NEWater is developed by PUB, Singapore's National Water Agency. In 2003 NEWater was launched to the public, after thorough testing since 1970. Through information campaigns the concept was relatively quickly embraced by the public. Today, NEWater is produced in five factories around the city, which covers 40 percent of Singapore's water demand.

> The award-winning and environmentally certified building complex had green zones for pedestrians, hydroponic walls (vertical plant covered walls) and 1,800 m2 of solar panels producing 219,000 kWh annually

Storebrand's sustainability analyst Sunniva Bratt Slette has recently returned from a trip to Indonesia and Singapore. The main focus was to meet companies and see technology that contributes to sustainable urban development in one of the smartest cities in the world.

Greenification

Greenification and sustainable buildings is another aspect of smart cities. A meeting with the real estate developer City Developments Limited (CDL) provided a good overview. Being partners in UNEP FI's investor group on TCFD integration, CDL was a valuable contact with whom to discuss sustainable real estate investments. The company provided insight into how they use the SDGs to target their long term investments. A visit to their property South Beach gave an impression of how greenification works in practice. The award-winning and environmentally certified building complex had green zones for pedestrians, hydroponic walls (vertical plant covered walls) and 1,800 m2 of solar panels producing 219,000 kWh annually. The display of technical innovations like façade integrated solar panels and rainwater capture and use was implemented in several sites, with a high potential for upscaling.

Smart City summarised

Storebrand's recently adjusted sustainability rating is based on the UN's Sustainable Development Goals. The visit to Singapore particularly covered SDG numbers 11 (sustainable cities), 12 (responsible consumption and production) and 13 (climate action). The visit provided inspiration for potential new data sources for the KPIs that feed into Storebrand's sustainability rating.

A splendid example of greenification was Gardens by the Bay. The park is constructed as a bio energy power plant and air pollution filter system and is a tourist magnet. The lighting system is driven by solar energy. The park is also designed to delay water during heavy precipitation as a climate change mitigation measure. Cooling systems for the botanical gardens and the irrigation are of course run with NEWater.

The Analyst's Corner:

Investors starting to see the wood for the trees

Emine Isciel
Senior Analyst Climate and Environment

Forests generate a great deal of short-term profit if the trees are cleared and the land reused to meet the global demand for commodities. In tropical regions around the world, tree cover is disappearing quickly; an area the size of 40 football pitches is clear-cut or burned every minute to increase production of the big four drivers of deforestation (soy, beef, palm oil, and wood products).

Why has there been such a high global demand for these big four commodities?

These commodities are found in many everyday products we buy; take your average beefburger, for example – there's beef in the burger, palm oil in the bun, and pulp and paper in the packaging. World population continues to grow, and an exploding middle class in emerging countries will have an impact on the volume and type of food people consume. Developing economies are projected to account for 35 percent of the future global increase in food demand, as their population growth will coincide with a shift towards more animal protein-based diets.

Why is it essential to halt deforestation?

At the current rate, the natural rainforest will be gone within 100 years. Sustainable forest management is vital for achieving the Sustainable Development Goals (SDGs) and essential for biodiversity and the livelihoods of local communities. The protection of the world's forests also plays a critical role in the fight against climate change. Forests absorb around a third of human-caused CO_2 emissions and their destruction itself accounts for 10-15

percent of global greenhouse gas emissions; the same amount as the entire global transportation sector.

Why should investors care about deforestation?

Environmental degradation and the impacts of climate change are material business risks. A World Economic Forum global risk survey of more than 700 leaders identified sustainability issues – water, extreme weather and climate change – as the most important global business risks. Companies that source agricultural commodities from suppliers that illegally destroy forests face material financial risks, such as reputational damage, regulatory action and loss of market access.

A couple of years ago, eight major Norwegian food producers cut their use of palm oil use by two thirds in response to public pressure and a national consumer boycott. According to Rainforest Foundation Norway, the campaign had an immediate impact — Norwegian food producers started to scale back on, or even phase out, palm oil. Stabburet, which was once one of the country's largest palm oil buyers, banished palm oil from its products completely, while Mills, the largest buyer, cut use by 95 percent.

Mini-CV: Emine Isciel

Position: Senior analyst (Climate and Environment)
Educational background: MSc Political science (University of Oslo/Cape Town), Continuing education in Global Affairs and Environmental Ethics (NYU and Harvard).
Research interest: The role of finance sector in sustainable development
Other interest: Languages and travelling
Live/address: Gamlebyen (Oslo old town)
Vehicle: Bicycle

> According to a recent report 'Better Business, Better World', achieving the goals opens up US$12 trillion of market opportunities in the four economic systems; food and agriculture, cities, energy and materials, and health and well-being.

More positively, forests can create huge business opportunities for companies. An estimated two-thirds of the world's plant species grow in rain forests. The National Cancer Institute (NCI) estimates that 70 percent or more of the plants that are used to treat cancer are only found in tropical rainforests. Less than one percent of their plant species have actually been studied to determine their medicinal value. Forests provide a multitude of renewable goods and services in addition to medicines. The successful companies of the future will recognise this opportunity, use it to boost their own bottom lines, and help ensure that forests survive and thrive.

As a former UN employee working on Sustainable Development Goals, what is the private sector's role in achieving SDGs, in particular SDG 15 which relates to forests?

It is imperative for businesses to play a part in implementing the SDGs for them to be successful. Today's consumers, employees and investors increasingly expect it. It is no longer possible for companies to ignore their broader social and environmental impact – as many have found to their cost. Investors seeking to link the UN SDGs to their investment strategies have an opportunity to help reduce tropical deforestation associated with agricultural commodities. Mitigating exposure to deforestation risk in investment portfolios relates directly to SDG15 (protecting terrestrial ecosystems), SDG13 (climate action) and SDG6 (water availability and quality). Through engagement with high-risk companies, investors can help drive stronger company zero-deforestation policies, supply-chain traceability, and supplier assurance mechanisms.

Finding solutions to the SDGs also presents huge business opportunities. According to a recent report 'Better Business, Better World', achieving the goals opens up US$12 trillion of market opportunities in the four economic systems; food and agriculture, cities, energy and materials, and health and well-being. As Unilever CEO Paul Polman states: "it is the greatest economic opportunity of a lifetime".

86095 11/2018 Foto: Stock photos/ Colourbox/Tulia Machado Helland/Sunniva Bratt Slette

Storebrand Asset Management AS
Professor Kohts vei 9
P.O. Box 484, 1327 Lysaker
NORWAY
Telephone +47 915 08 880
storebrand.no/sam

storebrand