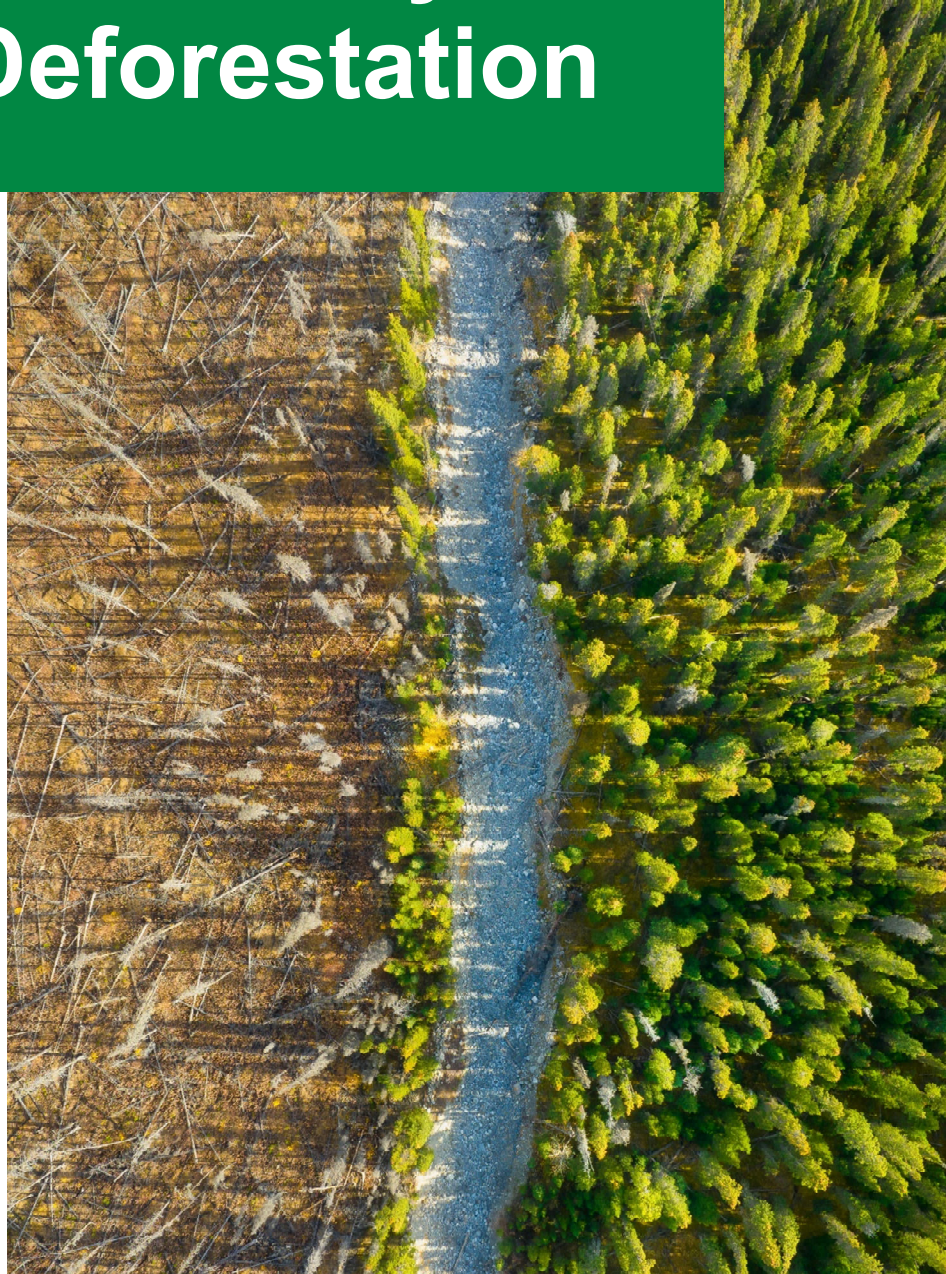


LGIM's Policy on Deforestation



As a global investor, Legal & General Investment Management (LGIM) is committed to assessing and addressing the risks of deforestation, which we believe to be firmly part of our fiduciary duty of managing our clients' assets.

Summary

LGIM supports the steps taken at the United Nations Climate Change Conference (COP26) in 2021 to accelerate and align action across the public and private sector through signing the [COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios](#).

Sustainable forestry has a critical role in both combating climate change and preserving biodiversity, two systemic risks for the global economy today with significant implications for our clients' assets if left unaddressed. Deforestation and land conversion need to be considered from various perspectives, assessing both the environmental and social aspects, such as the impact on indigenous people and respective labour rights in operations and supply chains.

In this policy, we outline:

- Why we believe deforestation matters to investors
- LGIM's commitments on deforestation and our approach
- Information on our engagement, assessment and reporting on deforestation

In the Appendix, we include examples of best practices that we would increasingly monitor/measure and engage on with companies in the scope of this policy.

Deforestation and why it matters to investors

The world's forests store approximately 662 billion tonnes of carbon,¹ a number equivalent to approximately 20 years of current annual fossil fuel emissions.² They are also home to 80% of amphibian species, 75% of bird species, 68% of mammal species and 60% of all vascular plant³ species.⁴ Moreover, forests are home to 21% of the world's human population.⁵ From an economic standpoint, ecosystem services, such as carbon sequestration and crop pollination, underpinned by biodiversity, are worth over one and a half times the size of global GDP – between \$125-140 trillion annually.⁶

Between 1990 and 2020, around 420 million hectares of forest were lost through conversion to other land uses.⁷ From 1970 to 2016, there was on average a 68% decrease in population sizes of mammals and birds, as well as amphibians, reptiles and fish.⁸ This decline in nature is occurring at an unparalleled rate, with the rate of species extinction simultaneously increasing.⁹

Agriculture, Forestry and Other Land Use ('AFOLU') accounts for 22% of total anthropogenic (human-caused) greenhouse gas (GHG) emissions, around half of which come from deforestation and land conversion driven by commodities providing food, fibre, feed and fuel.¹⁰ Tropical deforestation linked to agricultural commodities such

¹ [The State of the World's Forests 2022 \(fao.org\)](#)

² [How much is a ton of carbon dioxide? | MIT Climate Portal](#)

³ Plants that have "veins" that transport water/food. These make up 80% of all plant species.

⁴ [The State of the World's Forests 2022 \(fao.org\)](#)

⁵ [Deforestation and Forest Degradation | Threats | WWF \(worldwildlife.org\)](#)

⁶ <https://www.oecd.org/environment/resources/biodiversity/Executive-Summary-and-Synthesis-Biodiversity-Finance-and-the-Economic-and-Business-Case-for-Action.pdf>

⁷ [The State of the World's Forests 2022 \(fao.org\)](#)

⁸ <https://www.worldwildlife.org/press-releases/68-average-decline-in-species-population-sizes-since-1970-says-new-wwf-report>

⁹ <https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/>

¹⁰ [Why net-zero needs zero deforestation now - June 2022.pdf \(unfccc.int\)](#)

as palm oil, soy, beef, pulp and paper has been estimated to account for 8% of all CO₂ emissions – more than the entire European Union.¹¹

Delivering the goals of the Paris Agreement cannot be achieved without action on AFOLU emissions – with the largest potential for reduction coming from reduced deforestation and forest degradation. By stopping deforestation and maintaining forests, we could prevent emissions of approximately 3.6 gigatonnes of carbon dioxide (CO₂) between 2020 and 2050. Committing to reforesting degraded lands could remove up to 1.5 gigatonnes of CO₂ from the atmosphere per year through to 2050.¹²

We believe climate change and biodiversity loss are inextricably linked and should not be tackled in isolation. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. **Changes in land use are the most significant drivers of biodiversity loss on land.**¹³ In Brazil, 17% of the Amazon Forest has been lost in the past 50 years – mainly due to forest conversion for cattle ranching.¹⁴

This is why deforestation has been a key focus area for LGIM for several years. Since the launch of our [Climate Impact Pledge](#) in 2016, deforestation policies have been a core theme of engagement with investee companies. We have acted by voting against, and in certain cases divesting from, companies not meeting our minimum expectations on deforestation. We have amplified our voice by raising concerns with relevant governments and calling for the enforcement of regulations to halt deforestation, as detailed in the “policy engagement” and “collaborative engagement” sections of this policy.

Deforestation risk is a system-wide risk

We believe that the most prevalent risk relating to deforestation and our clients' portfolios comes from the resulting system-wide implications of climate change and biodiversity loss. Clients may be exposed to indirect and direct deforestation-related risks, which could relate to:

- physical risk – for example, the loss of/insufficient access to raw materials
- litigation and reputational risks – such as companies involved in illegal deforestation through their value chains, or companies being associated with human rights abuses linked to deforestation
- risk of increasing regulation – for instance, a sharpened focus on both illegal and legal deforestation the UK's Environment Act, EU Regulation and US Federal and State laws
- systemic risk – as outlined above, and as recognition grows of the linkages and interdependencies between deforestation, climate change and biodiversity

LGIM believes it is vital that companies proactively analyse, assess, and address deforestation risks within their operations and supply chains and pay attention to the rising expectations from investors and a broader set of stakeholders. We believe policymakers and regulators should take action to provide an appropriate enabling backdrop.

LGIM has a crucial role to play by holding investee companies to account for understanding the deforestation risks, opportunities and impacts to which they are exposed or contribute, and by providing relevant disclosure about these issues. In addition, in our role as an owner and asset manager of direct investments, it is critical to consider deforestation risk within our supply chain, in particular across real estate developments and major refurbishments. We comply with our internal sustainable sourcing principles, which provide internal guidance and a benchmark for sustainable and responsible procurement of timber and wood-derived products.

¹¹ [Deforestation Commitment Letter](#)

¹² <https://www.fao.org/3/cb9360en/online/src/html/key-messages.html>

¹³ <https://cpree.princeton.edu/land-use-change-and-biodiversity>

¹⁴ ¹ WWF, 2020. [Link](#).

LGIM's deforestation commitment

In 2021 LGIM signed the [COP 26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios](#).

The commitment **encourages a focus on active ownership and ongoing stewardship**, to collectively work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities.

As a signatory, **we commit to use best efforts** to tackle commodity driven deforestation impacts in investment portfolios by 2025, and work towards the following milestones:

By 2022:

- Assess exposure to deforestation risk, with a focus on 'forest-risk' agricultural commodities -- palm oil, soy, beef and leather, pulp and paper
- Establish investment policies addressing exposure to agricultural commodity-driven deforestation
- Deepen engagement of the highest risk holdings on deforestation in their supply chains, operations and/or financing

By 2023:

- Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement

By 2025:

- Publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment portfolios through successful company engagement

LGIM's approach

Governance

LGIM sees responsible investing as the incorporation of ESG considerations into investment decisions, alongside engagement with companies, regulators, and policymakers, with the aim of generating sustainable outcomes. We are a 'universal owner' on behalf of our clients, holding a slice of the global economy. The governance of our approach is outlined on the [Active Ownership](#) page on our website.

Scope of this policy

Our commitment to use best efforts to tackle commodity-driven deforestation impacts in our investment portfolios by 2025 is company-wide and applies to new and existing LGIM corporate holdings. We seek to address the climate, biodiversity, and social aspects of commodity-driven deforestation, both legal and illegal. Social aspects include consideration of human rights, including indigenous people and land rights. The commodities covered include: palm oil, soy, cattle products (beef and leather), and timber products (forestry, pulp and paper). We focus on 'deforestation-critical' sectors¹⁵ and 'high-risk' countries.¹⁶ The full application of our policy is subject to data availability.

Developing our approach

LGIM has steadily evolved its approach to assessing and engaging on deforestation risk, most recently with a new risk assessment tool and a refresh of our assessment, with voting sanction implications, of deforestation policies and programmes.

We seek to assess all relevant companies in 'deforestation-critical' sectors within our portfolios; however, there are limitations due to data availability and coverage. Metrics related to deforestation are increasing in availability, but more action is required to improve the standardisation and increase the scope and coverage of data to support assessment across investors' portfolios. In collaboration with other Finance Sector Deforestation Action (FSDA) signatories, we have written to data providers to engage and work with them on further developing their offering, particularly in relation to an increased set of key commodities. Additionally, we are working with our primary deforestation data provider, Sustainalytics, on expanding its coverage. We will continue to work with research and data providers on this matter.

Identifying and assessing deforestation exposure

Companies can be associated with deforestation directly or via their supply chain. To assess deforestation risk across our holdings, using our proprietary deforestation tools, we assess:

- **Potential exposure to deforestation risk**

We assess companies based on sector; commodity; geography; and controversies or incidents related to deforestation and human rights in operations and supply chains. We categorise companies as having low, medium, or high potential exposure to commodity-driven deforestation and its associated risks. We use data from a range of third-party providers and our analysis is informed by Global Canopy's guide, *Deforestation Free Finance*.

- **Management of potential deforestation risk**

We assess companies on whether they have deforestation policies and programmes – and how robust they are. The criteria include a commitment to zero deforestation exposure; targets related to deforestation management; and develop and adopt traceability systems. Additionally, we do the same for companies' human rights policies and may engage on this as appropriate.¹⁷

¹⁵ 'Deforestation-critical' sectors or 'high-risk' sectors are defined using Ceres' [Investor Guide to Deforestation and Climate Change](#). We also follow [Deforestation Free Finance guidance](#) on which GICS sub-industries to cover.

¹⁶ 'High-risk' countries defined using the [Deforestation Free Finance guidance](#).

¹⁷ We currently use data from Sustainalytics in these assessments.

This helps us identify companies that are failing to meet our minimum standards on the management of commodity-driven deforestation, and helps us direct and prioritise our engagement activity.

Additional assessments

Deforestation and human rights metrics and assessment criteria are incorporated into a range of other LGIM frameworks:

Deforestation:

- [LGIM's Climate Impact Pledge](#) assesses over 5,000 companies in 20 climate critical sectors. In relevant sectors such as food, apparel and forestry, this assessment includes action on deforestation (having a deforestation policy and programme in place).
- LGIM integrates deforestation in its ESG score, used in the construction of LGIM ESG index funds. Our ESG scoring tool includes the strength of a company's deforestation programme in its range of metrics. It also captures the strength of biodiversity programmes. We publish our assessment on our dedicated [ESG Score website](#).

Human rights:

- Our Future World Protection List (FWPL) identifies companies failing to meet globally accepted business practices on human rights and sustainability. LGIM excludes (from funds that specifically apply the FWPL) companies that are in violation of one or more principles of the United Nations Global Compact. In addition, we will vote against the election of the chair of the board at the next annual general meeting (AGM) at these companies for funds which hold the shares. This list and the methodology are publicly available on our website.

Where relevant and available, deforestation metrics are incorporated into tools that are used to assist the investment stewardship team in its engagements with companies, support investment analysts and fund managers, develop new investment solutions, and help clients understand more about the ESG profile of portfolios.

Engagement with consequences

Our minimum expectation is that **all companies in 'deforestation-critical sectors', for which we have data, have both a deforestation policy and a programme.**¹⁸

When we assess that companies are not meeting these minimum standards, we will apply a vote sanction against them. This will usually be applied against the re-election of the chair of the board. Our minimum expectations and escalation will increase over time.

We engage with investee companies in 'deforestation-critical' sectors¹⁹ by writing to them, outlining our deforestation expectations and minimum standards. We inform non-compliant companies that they may be subject to a vote against the chair at their next AGM. We will raise the issue of human rights abuses linked to deforestation where such companies do not have a human rights policy.

We also encourage companies to disclose via CDP Forests and collaborate with data providers such as Forest500, Sustainalytics, Trase, SPOTT and CDP, to ensure data captured is accurate.

In line with our voting policies, we will continue to proactively consider and vote on shareholder resolutions related to deforestation.²⁰

¹⁸ As assessed by Sustainalytics, using its criteria. Companies in selected sectors, where we have data, scoring 0 on either deforestation policy or programme will receive a vote against.

¹⁹ 'Deforestation-critical' sectors or 'high-risk' sectors are defined using Ceres' [Investor Guide to Deforestation and Climate Change](#). We also follow [Deforestation Free Finance guidance](#) on which GICS sub-industries to cover

²⁰ For more information on our approach to climate-related shareholder resolutions, please see our blog post, here: [LGIM Blog: The big vote question this proxy season: shareholder resolutions on climate](#) All our votes are disclosed on our vote disclosure website, here: [VDS Dashboard \(issgovernance.com\)](#)

Direct engagement

We use our deforestation risk exposure assessment tool to help us identify potential targeted engagements with companies where we might be able to encourage change, and where we believe action may be influential. This helps drive our targeted and collaborative engagement.

In addition, through our [Climate Impact Pledge](#) we engage with 'dial-mover' companies where we believe change can be pivotal to reducing carbon emissions in their sectors and beyond. Our sector guides, available on our website, outline our expectations and 'red lines'. We write to companies in the food, apparel, and forestry and paper & pulp sectors, outlining our expectations. Where 'dial-mover' companies fail to meet our expectations, we may apply a vote sanction or, for -persistent offenders, divest from applicable funds.

Examples of best practices that we would increasingly monitor/measure and engage on can be found in the Appendix.

Collaborative engagement

We joined the PRI Investor Working Group on Sustainable Palm Oil in 2016²¹ and were subsequently an early member of the PRI/Ceres Investor Initiative on Deforestation,²² where engagement focus was expanded to other forest risk commodities, such as soy and cattle.

LGIM is part of the global Finance Sector Deforestation Action (FSDA),²³ an initiative involving over 30 financial institutions and linked to the investor commitment we have made. The initiative has published guidance on [investor expectations](#) for companies around commitments, disclosure and actions related to deforestation. LGIM has taken the lead on engagements alongside FSDA members with key companies in deforestation critical sectors.

We also believe it is important to support and help shape initiatives such as The Taskforce on Nature-related Financial Disclosures (TNFD), of which LGIM is a 'forum member', and which seeks to provide a framework for corporates and financial institutions to assess, manage and report on their dependencies and impacts on nature.²⁴

Policy engagement

As a major long-term investor with global coverage, LGIM engages with policymakers to help them identify and address emerging risks, so they can take transformative steps to tackle systemic market issues and accelerate progress against complex global sustainability challenges. Our policy dialogue aims to produce real tangible change by designing, implementing and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment and the economy.

The Glasgow Leaders' Declaration on Forest and Land Use saw 141 countries (together representing 90% of the world's forests and including key exporters like Canada, Brazil and Indonesia) commit to halting and reversing deforestation and land degradation by 2030.²⁵ The commitment was backed up by promises from 12 nations to allocate \$12 billion of public funds to protect and restore forests, alongside private investment.²⁶ In support of this declaration by sovereigns, LGIM was proud to become a founding signatory of the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which was signed by 30 financial institutions representing about \$9 trillion in AUM.²⁷

²¹ [PRI Investor Working Group on Sustainable Palm Oil | PRI Web Page | PRI \(unpri.org\)](#)

²² [PRI-Ceres Investor Initiative for Sustainable Forests | PRI Web Page | PRI \(unpri.org\)](#)

²³ [nature-and-tackling-deforestation - Climate Champions \(unfccc.int\)](#)

²⁴ [About – TNFD](#)

²⁵ [The Glasgow Leaders' Declaration on Forests \(unu.edu\)](#)

²⁶ [\\$12 billion donor support to halt and reverse forest loss and protect land rights - GOV.UK \(www.gov.uk\)](#)

²⁷ [FAQ_FI-commitment-letter_COP27.pdf \(unfccc.int\)](#)

We have long emphasised the need for national and international policy ambition on deforestation. We have done this by engaging with policymakers in the UK, EU, and globally both directly and collaboratively with other investors, think-tanks and civil society. This has been carried out through various forums, including our membership of the Institutional Investor Group on Climate Change (IIGCC), the UN Principles for Responsible Investment (PRI), the Investors Policy Dialogue on Deforestation (IPDD) and the FAIRR initiative.²⁸ We attended the United Nations Biodiversity Conference (COP15) to encourage global action to support nature.

Our policy work to date has included supporting letters sent to California and New York on strengthening deforestation regulation at a State level and providing comment on deforestation disclosure to the SEC. We have directly engaged with both the Brazilian and Indonesian governments on their deforestation regulation, historically through our members of the PRI Working Group on Sustainable Palm Oil and more recently via the IPDD. LGIM co-authored a paper and engaged with the European Commission on how to reform the EU's Common Agricultural Policy (CAP) with Net Zero and to not undermine the Taxonomy through delegating responsibility to the CAP. LGIM also supported the ['Where is the Beef'](#) statement. Recognising the important links between deforestation and climate change, we wrote to the G20 calling on nations to enact ambitious policies and disclose effective targets for greenhouse gas reductions in agriculture. LGIM supported amendments to the UK Finance Bill in 2023 which would have required companies to disclose deforestation exposure, and have continued to engage with UK government departments on this key issue

We will continue to work with both regulators and governments to encourage them to establish and enforce policies related to deforestation and to ensure that these reflect the interconnected nature of biodiversity loss and climate change.

Reporting

We are committed to communicating our efforts to our clients and stakeholders.

In line with our deforestation commitment, we will continue to publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment portfolios through successful company engagement.

We report on our deforestation assessment, engagement, vote sanctions, and divestments through our ESG quarterly reports, annual [Active Ownership](#) and [Climate Impact Pledge](#) reports and on our website.

We publish the methodologies for our Climate Impact Pledge and [ESG Scores](#) on our website.

This Deforestation Policy is reviewed on an annual basis and updates are published on our website for transparent access by all stakeholders and interested parties.

²⁸ For more information about our collaborations and policy work on nature, please see our latest Active Ownership Report: [Active Ownership report 2022 \(lgim.com\)](#)

Appendix

Examples of best practices that we would increasingly monitor/measure and engage on:

Pillar	Actions
Commitments and targets	<ul style="list-style-type: none"> Set a public timebound commitment to eliminate commodity-driven deforestation and land conversion in operations and supply chains or financing with target date of 2025
Governance and risk oversight	<ul style="list-style-type: none"> Operations and business practices across the company's value chain should comply with all applicable local, national and international laws and regulations with regards to forest-risk commodities Have board and management level oversight of deforestation-related risks
Risk management and traceability	<ul style="list-style-type: none"> Monitor and engage on operations and with suppliers for compliance with company's deforestation policy, with a process to manage non-compliance Trace all forest-risk commodities to a sourcing level sufficient to identify and address deforestation Conduct commodity-specific risk assessments related to forest risk, such as HCS, ESIA or HCV,²⁹ for new site development or land acquisition Utilise and aim to increase credible certification schemes for forest-risk commodities
Associated social and human rights impacts	<ul style="list-style-type: none"> Respect customary rights of Indigenous peoples to lands, resources, and territories and refrain from land acquisition or development until relevant conflicts have been resolved Ensure the Free, Prior and Informed Consent ('FPIC') of indigenous peoples and local communities is obtained prior to acquiring new interests in land or resources and prior to new projects or developments (and that such projects without FPIC are paused accordingly) Ensure adherence to globally recognised labour standards and implement a robust human rights due diligence process to identify and mitigate deforestation-related human rights issues
Reporting and disclosure	<ul style="list-style-type: none"> Report on deforestation-related human rights issues Disclose quantifiable progress towards deforestation commitments and targets, including metrics used

These criteria are informed by the following frameworks: Global Canopy, FSDA investor expectations, and the Accountability Framework Initiative.

²⁹ HCS – High Carbon Stock; ESIA – Environmental and Social Impact Assessment; HCV – High Conservation Value

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Important information

Unless otherwise stated, references herein to "LGIM", "we" and "us" are meant to capture the global conglomerate that includes Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser) and Legal & General Investment Management Asia Limited (a Hong Kong SFC registered adviser). The LGIM Stewardship Team acts on behalf of all such locally authorized entities. © 2023 Legal & General Investment Management Limited. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the publishers.

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates ('Legal & General', 'we' or 'us') as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. The information above discusses general economic, market or political issues and/or industry or sector trends. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the information contained in this document. The information is believed to be correct as at the date of publication, but no assurance can be given that this document is complete or accurate in the light of information that may become available after its publication. We are under no obligation to update or amend the information in this document. Where this document contains third party information, the accuracy and completeness of such information cannot be guaranteed, and we accept no responsibility or liability in respect of such information.

This document may not be reproduced in whole or in part or distributed to third parties without our prior written permission. Not for distribution to any person resident in any jurisdiction where such distribution would be contrary to local law or regulation.

© 2023 Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.