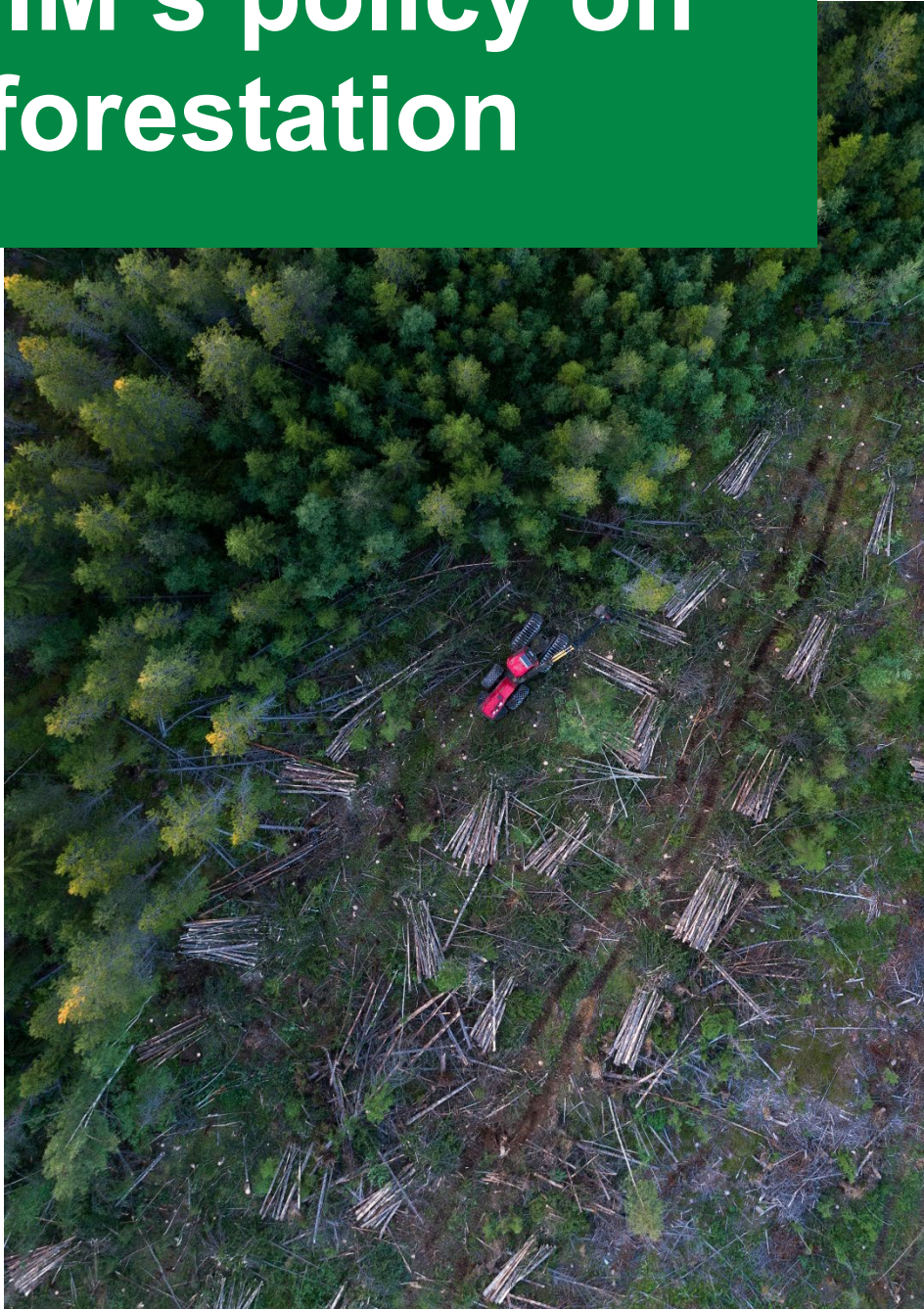


LGIM's policy on deforestation



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

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 was lost due to 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 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 rainforest has been lost in the past 50 years – mainly due to forest conversion for cattle ranching.¹⁴

¹ [The State of the World's Forests 2022 \(fao.org\)](https://www.fao.org/3/cb9360en/online/src/html/key-messages.html)

² [How much is a ton of carbon dioxide? | MIT Climate Portal](https://climate.mit.edu/how-climate-change-affects-carbon-cycles)

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 \(fao.org\)](https://www.fao.org/3/cb9360en/online/src/html/key-messages.html)

⁵ [Deforestation and Forest Degradation | Threats | WWF \(worldwildlife.org\)](https://www.worldwildlife.org/press-releases/68-average-decline-in-species-population-sizes-since-1970-says-new-wwf-report)

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 \(fao.org\)](https://www.fao.org/3/cb9360en/online/src/html/key-messages.html)

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 \(unfccc.int\)](https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/)

¹¹ [Deforestation Commitment Letter](https://www.fao.org/3/cb9360en/online/src/html/key-messages.html)

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

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

¹⁴ WWF, 2020. [Link](#).

Deforestation and why it matters to investors

We understand the critical importance that sustainable forestry has in both combating climate change and preserving biodiversity, two systemic risks facing the world economy today, with significant implications for our clients' assets if left unaddressed. We also recognise that deforestation needs to be considered through a holistic lens, assessing both the environmental and social aspects of this issue; for example, the impact on indigenous people, and respective labour rights in operations and supply chains.

Deforestation has therefore 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, over which time we have acted by voting against, and in certain cases divesting from, those not meeting our minimum expectations on deforestation. In 2016, we also joined the PRI Investor Working Group on Sustainable Palm Oil and we were subsequently an early member of the PRI/Ceres Investor Initiative on Deforestation, where engagement focus expanded to other forest risk commodities, such as soy and cattle. We have further amplified our voice by raising concerns with relevant governments and calling for the enforcement of regulations to halt deforestation. We have done this both directly and collaboratively through our involvement in initiatives such as the Investor Policy Dialogue on Deforestation (IPDD).

However, we know more needs to be done and that we need more finance and business leaders to see nature as a critical ally in net zero. That is why we were pleased to support the steps taken at COP26 in 2021 to accelerate and coordinate action across the public and private sector through signing the COP26 [Commitment](#) on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios.

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.

As referenced in our [biodiversity policy](#), clients may also be exposed through their portfolios to other indirect and direct related risks, which in the case of deforestation 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
- 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 therefore believes it is vital that companies proactively analyse, assess and address deforestation risks within their operations and supply chains, and that they pay attention to the rising expectations of corporations from investors and a broader set of stakeholders. We believe it's vitally important that policymakers and regulators take action to provide an appropriate enabling backdrop.

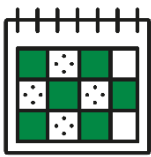
LGIM has a crucial role to play in holding investee companies to account for understanding the deforestation risks, opportunities and impacts to which they are exposed or contributing, and in providing relevant disclosure about these issues. In addition, in our role as an owner and asset manager of direct investments, it is critical that we 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.

Deforestation commitment

In 2021 LGIM signed the COP 26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios.

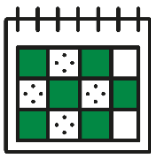
The commitment **encourages a focus on active ownership and ongoing stewardship**, to collectively work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities.

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:



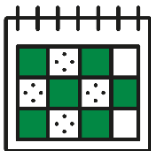
By 2022:

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



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

Our approach to deforestation encompasses a number of different avenues, including:

- **Developing our capacity to assess deforestation-related risks and opportunities** – to integrate these into the investment management of relevant portfolios by establishing key indicators and acting on financially material information
- **Working with policymakers** – to promote and support policy efforts to deliver commitments to halt and reverse deforestation and land degradation by 2030
- **Taking action with companies in which we invest** – through direct engagement, proxy voting and investments, we seek to ensure investee companies' strategies and operations address deforestation risk, thereby helping to drive the shift towards sustainable production and consumption, and that this is overseen by the board, alongside appropriate public disclosure
- **Reporting to clients** – to communicate actions taken on their behalf and progress made on LGIM's deforestation commitment

Developing our capacity to assess deforestation risks and opportunities

We see it as our responsibility to provide the right framework to address ESG risks and opportunities, including those related to deforestation, in every part of our business.

At the highest level, overall responsibility for ESG risks, insofar as they are material to investments, lies with LGIM's CEO, who has oversight of relevant risks as reported through a series of risk and investment committees.

We have developed a variety of proprietary ESG tools, used across different asset classes and investment strategies, with the ability to incorporate relevant ESG metrics. Where relevant and available, deforestation metrics are incorporated into tools that are used to support investment analysts and fund managers, develop new investment solutions, assist the investment stewardship team in its engagements with companies, and help clients understand more about the ESG profile of portfolios.

Deforestation metrics and assessment criteria are already incorporated into certain Climate Impact Pledge frameworks and we will review their expansion into other forest-risk sectors. We will also look to further incorporate deforestation metrics and analysis into LGIM's investment and asset management processes across both public and private market portfolios.

While metrics related to deforestation are increasing in availability, we recognise that more needs to be done to improve the standardisation and increase the scope and coverage of this data to support assessment across investors' portfolios. We will continue to work with research and data providers to this end.

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.

LGIM's deforestation policy

Policy engagement

As a global issue with system-wide implications, deforestation requires a market-wide approach. That is why engagement with governments and regulators is so important.

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, Russia, Brazil and Indonesia) commit to halting and reversing deforestation and land degradation by 2030. The commitment was backed up by promises from 12 nations (including the UK) to allocate \$12 billion of public funds to protect and restore forests, alongside private investment. 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.

We have already been emphasising 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.¹⁵

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.

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.

Company engagements and voting

LGIM seeks to protect clients' assets through raising market standards and best practice. One of the ways we do this is through the expectations we set of investee companies in public markets. Our engagement with company boards and executive directors are central to advancing on all facets of ESG, and deforestation is no exception.

We expect companies to build strategies that enable them to adapt and to thrive within the rapidly evolving political, societal and environmental backdrop.

While we have been incorporating deforestation into our stewardship activities since 2016, we know more needs to be done and we need more finance and business leaders to see nature as a critical ally in net zero.

As part of our commitment to eliminating agricultural commodity-driven deforestation from investment portfolios, we will deepen engagement, both direct and collaborative, on deforestation in the supply chains, operations and/or financing of our highest-risk holdings. This will allow us not only to further assess potential risks, but also to

LGIM's deforestation policy

push for greater transparency and progress in the market. As we do this, we will draw on external sources of data and research, as well as our investment and stewardship engagements and expertise.

From 2023, we will implement a new voting policy, with companies in critical sectors without a deforestation policy or programme – our minimum standard expectation – subject to a vote against. Application of this policy will be based on third-party data and voting will be escalated in subsequent years.

We will also expect companies in deforestation-critical sectors to work to improve their records against key assessment frameworks such as Forest 500 and SPOTT. Select data from these frameworks, as well as findings from our engagement activities, will be integrated into LGIM's internal ESG assessment tools.

In line with our voting policies, we will continue to vote on shareholder resolutions related to deforestation. We expect to vote in line with best practice on addressing drivers of deforestation in 2023.

Reporting

We are committed to communicating our efforts to our clients. Deforestation already forms part of our regular ESG reporting for listed portfolios, which are published quarterly and annually on our website. This includes publishing thought leadership pieces on the topic to inform investee companies and our clients and to help to drive the conversation forward.

In line with our 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.

Legal & General Investment Management
One Coleman Street
London
EC2R 5AA

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