



Ground-truthing on deforestation

Sawan Kumar, Head of Stewardship

2020





A key area of focus for us in the year was adding more colour and depth to our ESG risk score analysis. As an example, we felt there was a real need to create more awareness and initiate debate on what practical steps can be taken to better understand and respond to the real situations on the ground in terms of land conflict and rights abuse in high deforestation risk sectors.

Due to the impacts of industrial agriculture, indigenous communities are facing threats to land, livelihoods and lives and we were concerned about the societal consequences of these threats, as well as the risks they may pose to the companies in our portfolios, financial institutions and the market more generally. At present, we feel there is a gap between what is happening on the ground and companies' sustainability policies. Ground-truthing (defined as the use of information about the actual situation on the ground, gathered from primary or secondary sources that are independent of companies in the supply chain, as opposed to relying on paper-based compliance indicators and company self-reporting) can be the first step to a wider solution. In conducting our ground-truthing exercise, we are trying to hopefully bridge the information gap and look to better manage the reputational risk of some of the largest holdings in the Evenlode portfolios.

Deforestation is an environmental, social and governance issue. The environmental and social side are intertwined – deforestation causes the loss of a valuable carbon sink and accelerates climate change, whilst destroying biodiversity and increasing the chances of soil erosion and coastal flooding. It is often directly linked to land conflict and human rights abuses too. As large amounts of forests

are destroyed, the indigenous peoples and local communities who live there and depend on the forest to sustain their way of life face threats and violence. Local communities claim or use more than half of the world's land and forests but have recognised rights to own or use only 18%.¹² Research shows that legally recognised community lands store more carbon, have lower emissions and have significantly lower deforestation rates than land owned by other actors. From a governance perspective, board oversight of deforestation risks, more robust controls and greater transparency are required to address these complex issues, including for the shadow companies that are often involved in more egregious human rights and environmental abuses.

In October this year, we organised a virtual roundtable with a diverse group comprising of investors, data providers, consumer goods companies, academics, specialist NGOs, UNPRI and the FRC to discuss the intersection of industrial agriculture, deforestation, human rights and indigenous peoples in local communities. The conversation was rich and informative, and there was broad consensus that further collective steps are needed. Next steps involve a series of engagements. We are looking to escalate and further engage with a target list of companies that the participants in the roundtable and Evenlode have highlighted as most exposed to deforestation risk in their supply chains. In these engagements we will be trying to answer the following question: What practical steps can be taken to better understand and respond to the real situations on the ground in terms of land conflict and rights abuse in high deforestation risk sectors?



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We realise that investors play a crucial role but that investee companies also need to be actively involved to help achieve solutions. A representative present at the discussion had experienced first-hand violence against indigenous communities and the expropriation and destruction of community property. They commented that human rights abuses are often overlooked by existing due diligence and monitoring processes in place, and that ground-truthing can help companies downstream and investors to identify issues. Clearly collaboration is key to taking action on human rights abuses.

We look forward to reporting on the progress of this initiative in the coming year(s).

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