

**PRI Sustainable Palm Oil investor working group**  
***'Can the Jurisdictional Approach deliver value in the short term?'***

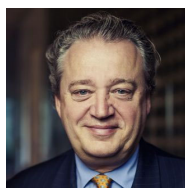
Kota Kinabalu, 15 November 2018

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RSPO RT16

For professional investors

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Gilbert Van Hassel, CEO of Robeco:  
 "The investment industry will move from  
 creating only wealth to creating wealth  
 and well-being. We are more committed  
 than ever to contribute to that shift."



"Sustainable development is development  
 that meets the needs of the present  
 without compromising the ability of  
 future generations to meet their own  
 needs."

Source: Report of the World Commission on Environment and Development: Our Common Future, Gro Harlem Brundtland, Oslo, 20 March 1987

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### The relationship between economic growth, sustainability and the financial industry



#### The Tragedy of the Commons

The link between self-interest and open access, where individuals choose not to act for the common good and well-being of future generations



#### Resource scarcity & circular economy

Despite ongoing innovation and productivity increases, future generations will face increasing resource scarcity and challenges linked to climate change



#### The price of progress

As populations grow, economies develop, wealth expands, and new technologies proliferate, resources are stretched



#### The doughnut economy

The notion of the doughnut economy combines the planetary boundaries with the social foundation that is at the core of any sustainable economic system

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### The price of progress



Demographic Change



Shifting consumer preferences



Demand from emerging economies

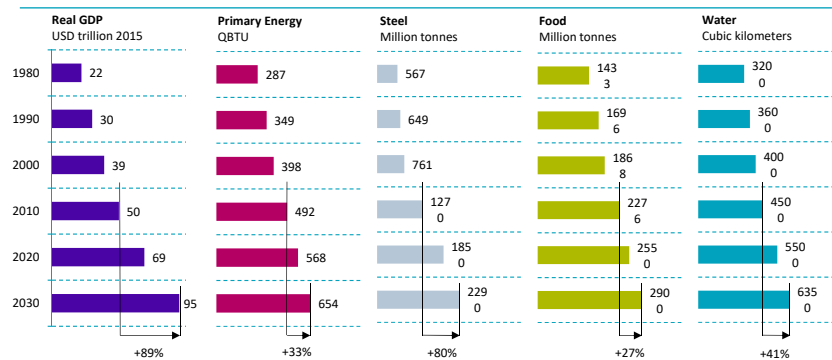


Energy & resource security



Environmental pressure

**Demand for most resources has grown strongly since 2000, a trend that is likely to continue to 2030**



Source: Global Insight; IEA; UN Environmental Program (UNEP) FAO; World Steel Association; McKinsey analysis

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### Sustainable Development Goals



Sustainability is not only about the planet's finite resources



The doughnut economy combines planetary boundaries with a social core



Reflected in the UN Sustainable Development Goals



The business community and financial sector must contribute

#### United Nations Sustainable Development Goals



Source: United Nations Sustainable Development Goals

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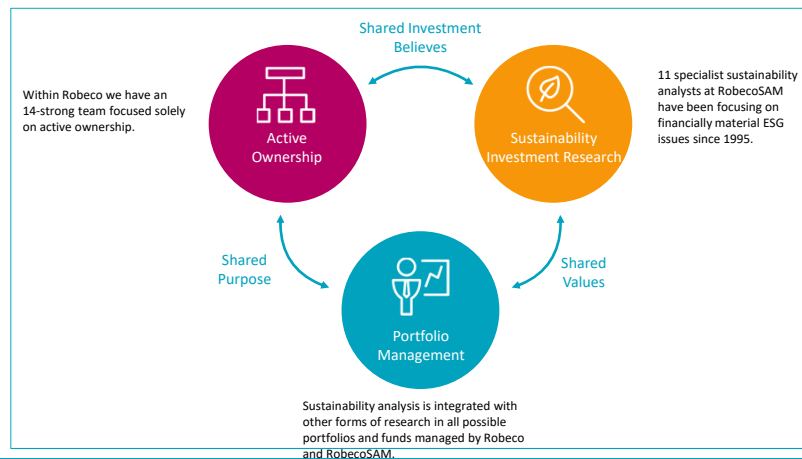
### Sustainability Investing at Robeco

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### Sustainability is not the responsibility of just one team

#### Close cooperation between dedicated, expert teams

Our research teams, portfolio management teams and active ownership team share the same beliefs, values and purpose which enables us to leverage their expertise across the organization.



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### Integration of financial & sustainability analysis

#### Sustainability dimension of analysis strengthens our security selection process

##### Credit Selection



- > A critical consideration in credit investing is the assessment of downside risk.
- > Robeco's fixed income team assesses an issuer's ESG profile in conjunction with a fundamental analysis of corporate structure, financial profile, business position and corporate strategy.
- > We have found that ESG information has a financially material impact on our fundamental view on an issuer in approximately 35% of cases (5/2017).

##### Equity Valuation



- > The focus of our equity analysis is the assessment of upside price potential. Where ESG considerations are relevant we analyse how well company management is addressing them.
- > Where appropriate we adjust the assumptions of the return on invested capital and the weighted average cost of capital so that our fair value assessment balances shorter term financial projections with longer term sustainability considerations.
- > Company ESG profiling influenced Robeco's valuation of approximately 50% of listed companies worldwide.
- > Companies with positive ESG valuation impact out-performed companies with negative valuation impact (2014 – 2016)

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### Integration of financial & sustainability analysis

#### Sustainability dimension of analysis strengthens our security selection process

Equity Example:

**POSCO – South Korean steel producer**

Base Case	ESG analysis	Adjusted Case	Active Ownership
<b>6.5%</b> WACC  <b>+176%</b> Upside	<ul style="list-style-type: none"> <li>&gt; The company has allegedly turned tropical forests into palm oil plantations in Indonesia via its subsidiary Posco DAEWOO.</li> <li>&gt; The company appears to be using cotton produced by child labour and forced adult labour in Uzbekistan.</li> <li>&gt; POSCO community relations programs appear weak: their project in Odisha, India has faced significant and violent opposition from local residents.</li> <li>&gt; Former POSCO chairman, among other executives was arrested and investigated in relation to a 'slush fund' of USD 8.8m.</li> </ul>	<b>+200bp</b> WACC surcharge  <b>8.5%</b> WACC  <b>-118%</b> Reduced Upside  <b>+58%</b> Upside	  <b>Voting &amp; Engagement</b>

Source: Robeco  
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### PRI Sustainable Palm Oil investor working group

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### Why do we invest in palm oil companies?

- > From 1980 to today, global palm oil production increased from 4.5 million MT to 70 million MT.
- > Palm oil plantations occupy an area of 18.7 million hectares worldwide.
- > Palm oil produces about 35% of all vegetable oil on less than 10% of the land allocated to oil crops.
- > Opportunity to engage smallholders palm oil plantations in the supply base.
- > From 2018 to 2030, Rabobank Food & Agri Research expects global palm oil consumption to grow at a compound annual growth rate (CAGR) of 2.8%, while production will climb at a CAGR of 1.4%.
- > Prices expected to return to sustainable levels on the back of demand outstripping a suppressed supply.
- > Clear business case for sustainable production of palm oil.

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### PRI Sustainable Palm Oil investor working group

#### Influencing the behavior of companies we invest in

##### Engagement collaboration

- > 33 global institutional investors
- > Representing USD 7.2 trillion in assets under management
- > We analyze public sources, discuss with research providers, speak to company representatives and visit the company.
- > Engagement collectively with a group of 25 palm oil producers and traders.
- > Expanding our engagement now to the banks that finance palm oil operations.
- > We typically engage with 2 – 4 investors collectively with a company and report our high level findings back to the group.

##### Exclusion

- > A few European investor have excluded palm oil producers all together from their investments. This is a position that is not shared by the PRI Sustainable Palm Oil investor working group.



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**What is the investor perspective on the Jurisdictional Approach?**

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### **Investor perspective on the Jurisdictional Approach**

#### **Promising concept but complex with large execution risk**

- Weak laws and enforcement to mitigate deforestation
- Weak incentives exist for political leaders leading to lack of long-term buy-in
- With large jurisdiction boundaries the complexity and number of stakeholders increases
- Unproven commitment by palm oil traders and downstream supply chain actors to preferential sourcing or investment in jurisdictions that successfully reduce deforestation
- Limited means to prevent displacement of avoided palm oil deforestation to other sectors, until a cross-sectoral approach is pursued
- Securing funding and incentives to cover opportunity and management costs for 'convertible' forests and peat lands allocated to conservation
- Need for transparent, robust, accepted systems of forest, peat, fires and license monitoring
- Lack of a system to assess and publicize jurisdiction wide land management performance

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### How can investors support the Jurisdictional Approach?

#### Investors reduce risk and create value through engagement

- Engage with palm oil buyers in our investment portfolio's to pro-actively become part of a multi-stakeholder forum to develop a JA
- Review results from Landscape Assessment Framework or the Sustainable Landscapes Rating Tool in our sustainability research
- Provide clear guidance on preferential sourcing by the procurement team of food producers/retailers for palm oil that originates from growers in the jurisdiction
- Engage with companies in other sectors beyond palm oil that operate in the same jurisdiction to prevent deforestation displacement
- Explore together with local banks if green bonds can be issued that reward actors in the jurisdiction for conservation over deforestation
- Provide a statement of support to the relevant jurisdictions with all the signatories of the PRI Sustainable Palm Oil Investor working group

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### What value can we expect from JA in the short term?

#### Will implementation of the JA succeed?

- Monitoring of sustainability performance by palm oil producers, traders and CPG companies in the jurisdiction.
- Will the JA be a design that needs to be redone for every single jurisdictional unit?
- How can the JA come to scale to cover a significant portion of the produced volume of producers or sourced volume for buyers?
- Will political change on the jurisdictional level threaten the longevity of the JA projects that have been started?

#### *Questions for my other panelists:*

- What are the plans from Unilever to apply The Commodities/Jurisdiction Approach as published together with Marks & Spencer in December 2015?
- What is your view on the value of the Landscape Assessment Framework and the Sustainable Landscapes Rating Tool?

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