

Sustainable Palm Oil Investor Working Group

The Sustainable Palm Oil Investor Working Group (IWG) is a grouping of investment organizations, representing assets under management of over \$1.4 trillion, which are members of the United Nations-backed Principles for Responsible Investment (PRI) and support the development of a sustainable palm oil industry through the work of the Roundtable on Sustainable Palm Oil (RSPO).

Like other members of the PRI who are institutional investors, IWG members have a duty to act in the best long-term interests of our beneficiaries and believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investee companies. IWG also recognizes that long-term returns for investors are threatened by the consequences of climate change, including those driven by unsustainable agricultural practices.

The palm oil industry has become important to the development goals of many palm oil producing nations. Demand for palm oil is strong, driven mainly by its low relative cost to other vegetable oils and high yield. Combined with global population increases and a focus on renewable energy sources (of which palm oil is a leading biofuel input candidate) there are further significant growth opportunities for the industry. However, unfettered clearing of high conservation value forests for the creation of palm oil plantations is strongly linked to:

- (1) increased carbon in the atmosphere;
- (2) destruction of vital ecosystem services through loss of watersheds and biodiversity; and
- (3) social injustice in circumstances when the rights of indigenous peoples are neither recognized nor enforced.

We are concerned by estimates that only nine percent of total palm oil production was certified as sustainable in 2010¹. However, we are encouraged by the size and number of international buyers committing to 100% sustainable sourcing of palm oil. Buyers who commit early to sourcing only sustainable palm oil and invest in infrastructure and supply chains to provide for these commitments will incur up-front costs but may be able to lock up future supply at better prices and be more competitive than those who do not. Producers who take steps now to anticipate this future demand by implementing sustainable growing practices may be at a competitive advantage as buyers' commitments to full sustainable sourcing come good.

Furthermore, it is recognized globally that sustainable development is a desirable core value. To be consistent with this broader sustainable development framework, companies involved in the palm oil industry should comply with these sustainable development values. Producers and buyers of palm oil face the risk of loss or material impediment to their social license to operate, new or more punitive regulation, and reputation risks where they contravene these values. These risks may restrict demand and weigh on share prices, presenting potential financial risks to investors with positions in companies involved in the palm oil industry.

¹<http://www.rspo.org/?q=content/rsपो-trademark-next-phase-transformation-sustainable-palm-oil>

Sustainable Palm Oil Investor Working Group

In summary, IWG has been formed to operate at two levels. First, it aims to expand investor interest in this important issue and to provide a coherent and unified investor perspective in support of the development of a sustainable palm oil industry. The IWG believes that the Roundtable on Sustainable Palm Oil currently represents best practice with respect to the development of a sustainable palm oil industry. Second, we will engage directly with investee companies to encourage adherence to practices that are consistent with the development of a sustainable palm oil industry.

APG Asset Management



Arisaig Partners



Aviva Investors



Ecofi Investissements



First State Investments



Generation Investment Management*



Guardians of New Zealand
Superannuation



Sustainable Palm Oil Investor Working Group

Hermes Equity Ownership Services*



Local Authority Pension Fund Forum



Local Government Super



NEI Investments



Nelson Capital Management



PGGM Investments



Robeco



Sustainable Asset Management AG



*Denotes organizations that are Ordinary or Affiliate members of the RSPO