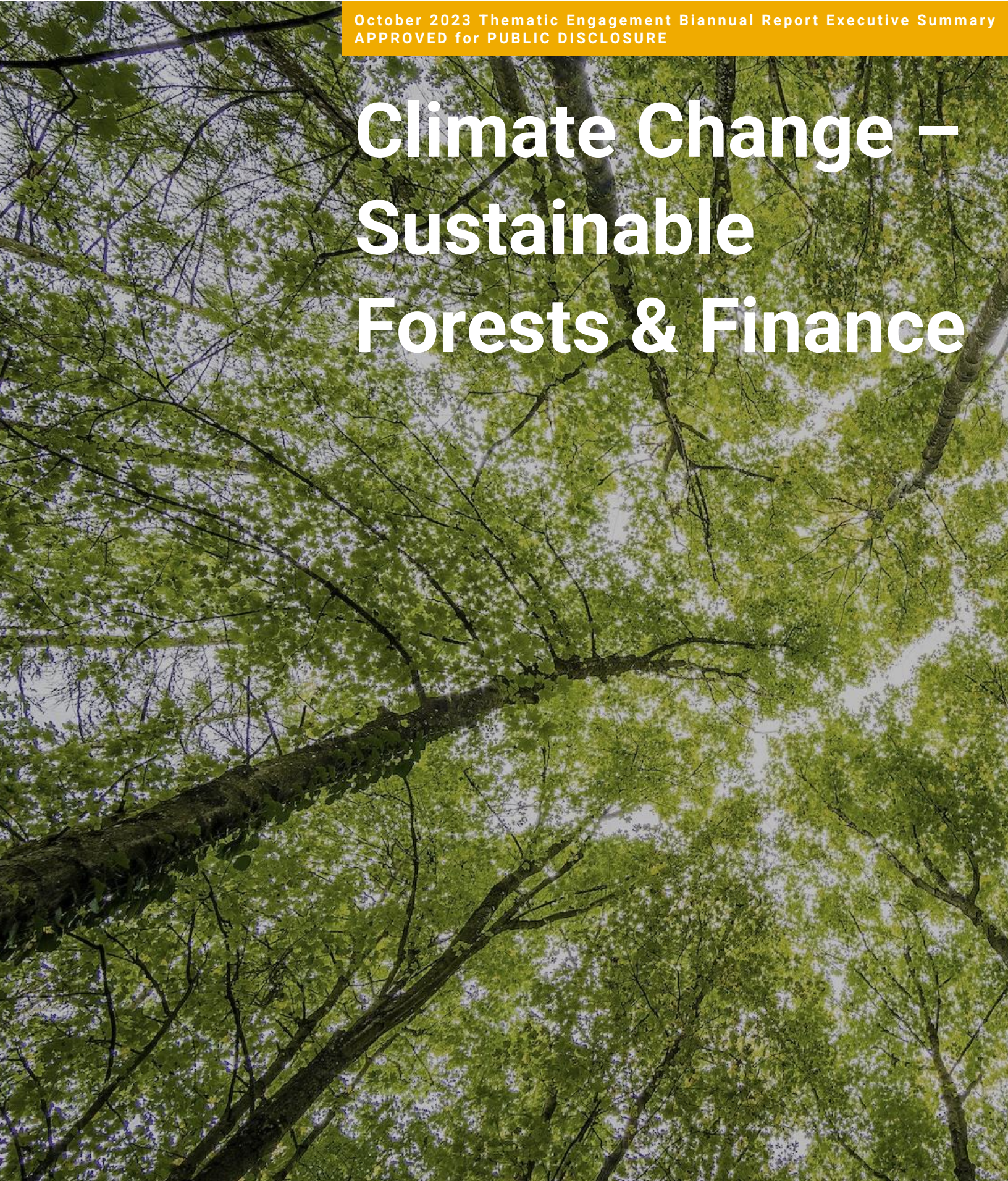


# Climate Change – Sustainable Forests & Finance



## EXECUTIVE SUMMARY

The Climate Change—Sustainable Forests and Finance Thematic Engagement aims to address climate-related risks and advocate for emissions reduction across the global food systems. The theme targets companies across the agriculture value chain, from commodities to retailers, restaurants and the financial sector. The engagement objective focuses on companies’ management of decarbonization which should be in line with international disclosure standards and science-based targets aligning with a 1.5-degree pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

This summary presents the third biannual update for the Thematic Engagement Climate Change—Sustainable Forests and Finance. This report summarizes the progress made between 1 April 2023 and 30 September 2023 with an update on engagement efforts, high-level insights and outcomes and looking ahead.

## UPDATE ON ENGAGEMENT EFFORTS

Since the publication of the April 2023 biannual report, Sustainalytics exchanged 348 emails with 202 outgoing emails and 146 incoming emails, held 16 meetings including one in-person meeting in the Netherlands. There are 22 companies in this engagement theme and most of them participate actively in the dialogue.

In addition, Sustainalytics joined four Annual General Meetings (AGM) this AGM season and observed the trends of shareholder resolutions related to climate topics this year. In terms of shareholder resolutions across the globe, there are more resolutions asking for transparency regarding the company’s lobbying activities and positions, which supports our engagement with the banking sector especially. Lobbying is one of the most powerful tools for the banking sector to push for Paris agreement-aligned commitment across trade unions and other associations; however, most banks are not leveraging the tool and might accidentally support opposite ideas financially. Therefore, our engagement will continue focusing on the company’s lobbying activities and disclosure in the next six months. In Japan, we saw an unprecedented number of climate resolutions for big corporate groups as shareholders requested companies to have a clear pathway to achieving net zero by 2050, in line with Japan’s commitment to be a carbon-neutral country. As a result of the trend in this Japanese AGM season, the companies we engage with are committed to continuing to enhance their climate-related disclosure to ensure strong strategies, targets, and monitoring mechanisms are in place.

There are two positive outcomes related to the company’s public disclosure that we observed in the past six months. One company confirmed in August that its CDP climate change response is publicly

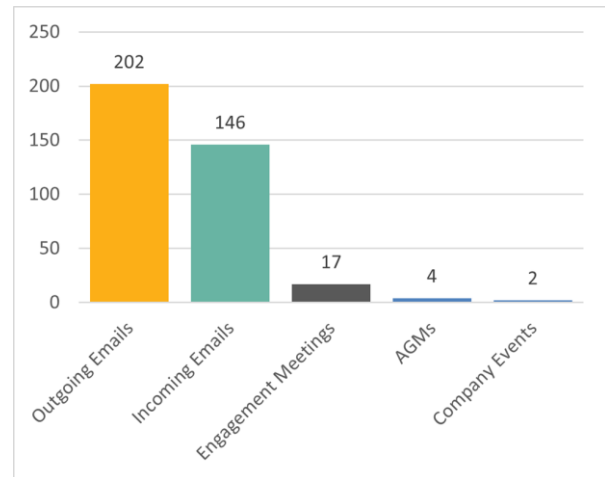


FIGURE 1 - ENGAGEMENT DIALOGUE BETWEEN 1 APRIL AND 30 SEPTEMBER 2023

available on its own website after Sustainalytics’ recommendation in March 2023. The other company also disclosed its CDP disclosures regarding climate, forest and water online after Sustainalytics’ recommendation in May 2023. These developments are important for investors and other stakeholders to gain better insights into companies’ performance and progress on the topics. These actions show that our engagement with companies is strong and the potential for further outcomes is high.

## HIGH-LEVEL INSIGHTS AND OUTCOMES

Aggregately, companies continue to score the highest for KPI 1 focusing on disclosure and governance across the three targeted sectors, as seen in figure 2. This is mostly driven by stricter regulations across jurisdictions on climate disclosure, as many countries are mandating climate-related financial disclosures, such as the UK, Japan, Hong Kong and Singapore. The US Securities and Exchange Commission (SEC) is also finalizing a climate-related disclosure ruling and the momentum has pushed many American companies for better disclosure and climate governance structure. A challenging KPI for companies is KPI 5 regarding natural resource management. This is especially true for end value chain companies and financials due to complex value chains and portfolios. Nevertheless, with the finalization of the TNFD framework and the development of SBTN guidelines, companies will have a better understanding and instruction on their risk assessment and management of nature topics, such as water, biodiversity, and land.

For KPI 2, on strategy and targets, most of the banks we engage with have already joined net zero initiatives, so we continue seeing improvement in their sector coverage. After one year of the release of the SBTi Forest, Land and Agriculture (FLAG) guidance, most of the companies in the engagement have started assessing how to adapt or renew their science-based targets, and our engagement dialogue will continue to monitor the progress. For KPI 3 on practical mitigation and forests, the commodity companies perform the strongest as they usually have better forestry management mechanisms in place. For KPI 4 focusing on physical risk, financiers have better scores as most of them have analyzed its physical risk exposure across sectors and locations and the potential financial impacts.

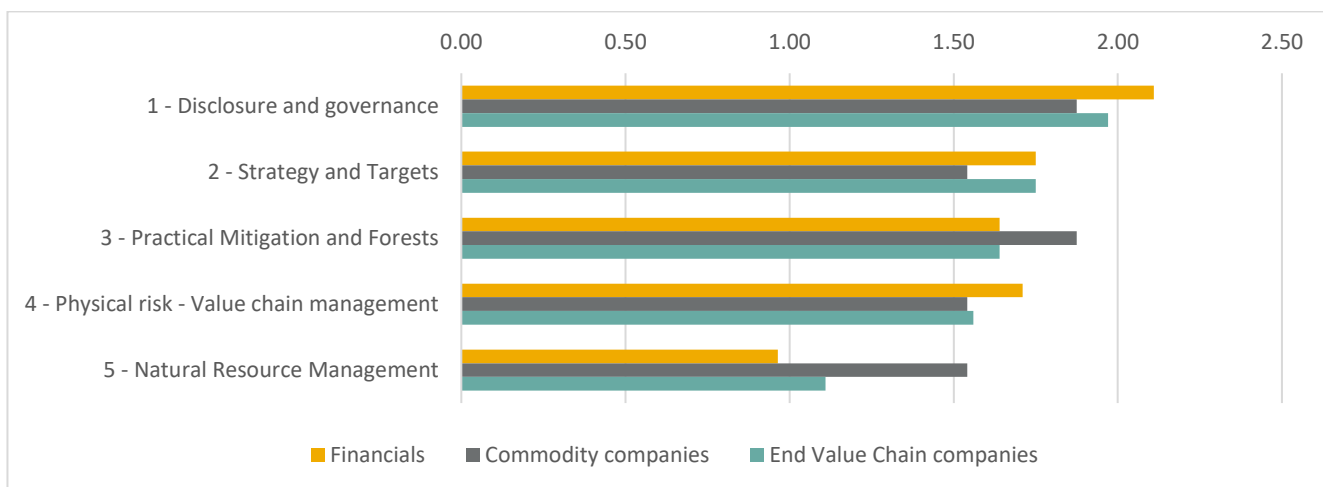


FIGURE 2 - AVERAGE SCORES PER SECTOR IN VALUE CHAIN

## LOOKING AHEAD

For the next six months, we will continue to monitor the global development on climate topics. One crucial event—COP 28—will take place from 30 November until 12 December 2023 at the Expo City, Dubai, which focuses on accelerating decarbonization, just transition and climate finance. The first-ever Global Stocktake under the Paris Agreement will conclude at COP 28. The Global Stocktake is an inventory of assessments which show where we are at on climate action on a global scale. Parties in the Paris Agreement agreed that the Global Stocktake should inform countries' climate plans. It has the potential to inform and guide nation-states as well as non-state actors' actions including investment actions. We will be monitoring this development and its impact on this engagement.<sup>1</sup> In addition, we are expecting in October 2023 the finalization of the much-delayed yet anticipated SEC climate disclosure ruling. The outcomes of these global developments have the possibility to shape policy-making and worldwide attitudes, subsequently affecting the rate at which our companies undergo transformative change.

Regarding the codification of TNFD, we aim to organize a series of roundtable events with companies we engage with. We are currently in conversations with TNFD, and we hope to provide a platform for industry peers to share some good practices and concerns regarding nature-related risk assessment and management. The individual engagement meeting will also focus on the company's TNFD preparedness and provide support if possible. Besides TNFD, the engagement will continue focusing on the impacts of EUDR and how will companies prepare for the regulations. In addition, we will continue to explore the possibility of collaboration with IIGCC and follow up with interested investors on how we can support their participation in NA100. Last but not least, we will continue to encourage companies to set more ambitious science-based targets to accelerate climate transition, disclose their climate risk assessments, financial impacts, mitigation strategies and progress toward climate targets.

Finally, the engagement progress of the upcoming six months will be provided in the next biannual report that will be published in April 2024.

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<sup>1</sup> Srouji, Jama and Deirdre Cogan. "What is the "Global Stocktake" and How Can It Accelerate Climate Action?" World Resources Institute, September 8, 2023. [https://www.wri.org/insights/explaining-global-stocktake-paris-agreement?utm\\_medium=email&utm\\_source=publication&utm\\_campaign=GSTCOP28](https://www.wri.org/insights/explaining-global-stocktake-paris-agreement?utm_medium=email&utm_source=publication&utm_campaign=GSTCOP28)

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