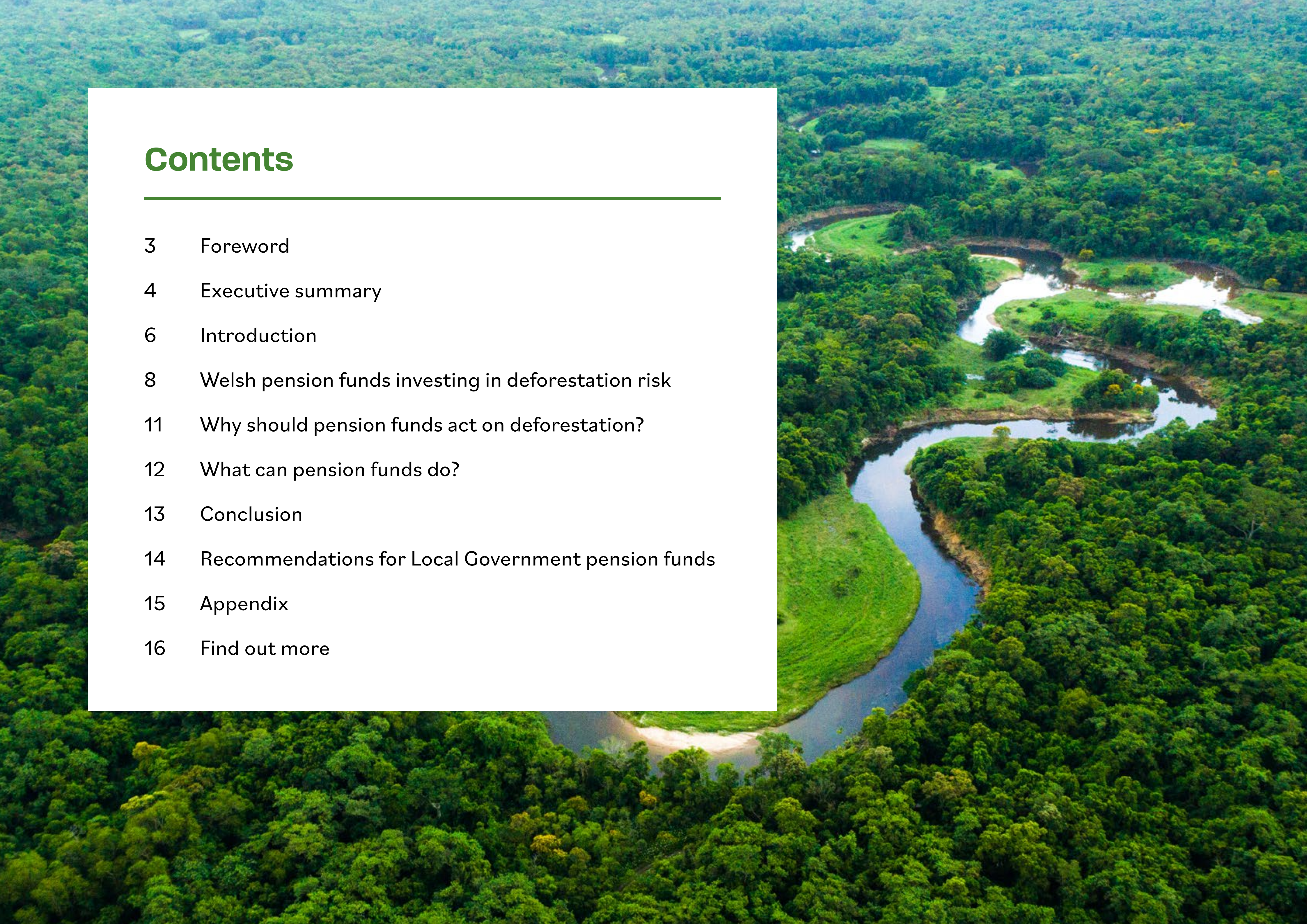
Global Canopy

Size of Wales
Maint Cymru

Saving for the future:

A report into Wales' public pension exposure to global deforestation



Contents

Foreword

by Guarani People, Brazil

We the Guarani people live on Indigenous lands in southern Brazil. Our lands have been devastated, confined between fields of monocultures. This impacts the very foundations of the *nhandereko*, our way of life, which is deeply rooted in agroecological practices and knowledge and inseparable from the forest. The forests contain materials and species that are fundamental to our culture. They are also sacred places, home to spirits, which must be respected and protected.

This process led to a wave of invasions and violent expulsions of our communities, who are still fighting to return to their territories and receive reparations for the damage they have suffered, facing intense land conflicts and legal disputes.

The massive use of pesticides in monoculture plantations around our villages severely affects the human and environmental health of our communities, making people ill, killing animals and contaminating the soil, rivers and traditional crops. Many pesticides that affect the villages have been banned or have their use restricted in countries of the global North, including the European Union, precisely because of their health impacts, including death. The companies that produce them are based in those countries where consumption is banned or restricted, but they are not prohibited from selling these toxic products to other countries where the poisoning of the most vulnerable populations is authorised.

One of the significant impacts of agribusiness is the loss of biodiversity, the restriction of access to forests, and the contamination of the environment. Our traditional Guarani seeds have already been partly lost, and the protection of those still preserved is challenged by land restrictions, pesticide contamination and the severe effects of increasingly pronounced extreme weather events.

As a result of the devastation of our people's territory by agribusiness, especially soybeans, hunger has become a reality for many families who, paradoxically, have had their territory taken by the very people who claim to be responsible for ending world hunger – Brazilian agribusiness.

For the Guarani people, it is worrying that soybeans and other grains from regions that have displaced Indigenous Peoples or directly impacted their territories are imported and financed by international companies and banks, pension funds and others, for animal feed production, without taking the local communities into account.

The profound socio-environmental impacts of agribusiness does not only systematically affect Indigenous Peoples and traditional communities but also the whole of society and the future of the planet.

Comissão Guarani Yvyrupa (CGY) is an autonomous indigenous organisation that brings together communities of the Guarani people in the south and southeast of Brazil.

We call on Wales and countries around the world to act to ensure that investments in pension funds are not driving the destruction of our home in the Atlantic forest. We hope that you learn from our way of life, where we harvest traditional seeds and care for our forests. We must believe that the world can be different. We are uniting our energies to preserve life on the whole planet. Each person, each community, each country should be able to at least dream of many ways that, together, we can continue on this path, to take care of this world that we share.

Credit: Commissao Guarani Yvyrupa

Executive summary

Home to 80% of the world's life on land, forests are crucial to maintaining biodiversity. But some of the world's most critical ecosystems are being lost at an alarming rate. This is mainly through the production, procurement and financing of a handful of commodities, including beef, soy, and palm oil. Although there are some positive signs of progress, an area of forest more than eleven times the size of Wales[1] was lost in 2022.

If deforestation were a country, it would be the third highest emitter in the world[2]. Given deforestation is a critical driver of climate change, net zero targets cannot be met without action on this issue.

Pension funds are exposed to deforestation, land conversion and associated human rights abuses, especially facing Indigenous peoples, through the sectors and industries they invest in. As a result, they have a unique ability to help drive change, both within their own investments and across the finance sector more broadly.

Size of Wales and Global Canopy have taken an in-depth look at how the eight Local Government Pension Schemes in Wales, under the umbrella of the Wales Pension Partnership, are exposed to deforestation risk through their financing activities.

The research reveals that all eight pension funds making up the Wales Pension Partnership are currently financing companies and financial institutions that are exposed to deforestation risk.

Youth and Indigenous leaders at side event at COP26 Nov 2021. Credit: Huw James

At least £1 in every £10 of investments made by the eight pension funds are at a high risk of financing deforestation. This is equivalent to £2.6 billion across the partnership.

For some of the pension funds in the Wales Pension Partnership, at least 14% of their investments are in clients or holdings with a high deforestation risk.

But when looking at investments that are not high risk, but are likely exposed to deforestation risk, we found that 45% of the investments are financing such clients or holdings.

That means, in total, more than half (55%) of the WPP's investments are in clients or holdings at risk of being exposed to deforestation – equivalent to £14 billion.

Pensions are supposed to provide for the future but, as this research reveals, their substantial level of exposure to deforestation is putting the future at risk. It does not have to be this way. As this report highlights, deforestation is a solvable crisis. There is a wealth of information, guidance, and data available for pension funds to take practical steps today and ensure they are globally responsible.

1 https://research.wri.org/gfr/forest-extent-indicators/forest-loss
2 https://www.wri.org/insights/numbers-value-tropical-forests-climate-change-equation

At least

£1 in every £10

of investments made by the eight pension funds are at a high risk of financing deforestation.

This is equivalent to

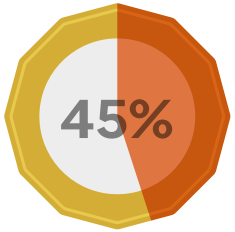
£2.6 billion

across the partnership.

For some of the pension funds in the Wales Pension Partnership,

AT LEAST 14%

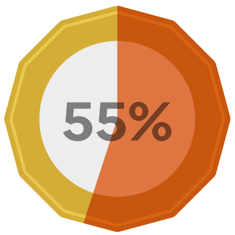
of their investments are in clients or holdings with a high deforestation risk.



But when looking at investments that are not high risk, but are

LIKELY EXPOSED TO DEFORESTATION

risk, we found that 45% of the investments are financing such clients or holdings.



That means, in total,

MORE THAN HALF

(55%) of the WPP's investments are in clients or holdings at risk of being exposed to deforestation – equivalent to £14 billion.

Introduction

In 2015, the Welsh government passed the Well-being of Future Generations (Wales) Act (WFG Act), a critical piece of legislation that requires public bodies in Wales to consider the long-term impact of their decisions and actions, through the lens of future generations. This groundbreaking legislation was the first of its kind to put sustainability at the forefront of any decisions made by Welsh bodies, including climate change.

What is the Wellbeing of Future Generations Act?

***Figure 1.** Wales' seven wellbeing goals*

The WFG Act places a legal duty on public bodies, including national government, local government and health boards, to work towards improving the economic, social, environmental and cultural well-being of Wales. To do this, public bodies must apply the sustainable development principle's five ways of working and take steps to contribute to Wales' seven well-being goals across their functions.

(See Figure 1). In 2017, public bodies under the Act set and published their well-being objectives to maximise how they contribute to Wales' goals through their own particular remit. This is reviewed by the Future Generations Commissioner every five years.

The act puts in place seven well-being goals, derived from the UN Sustainable Development Goals. One of the wellbeing goals is to be a Globally Responsible Nation – a nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes account of whether doing such a thing may make a positive contribution to global well-being.

A key national milestone to measure progress against this goal and to tackle Wales' tropical deforestation footprint is for Wales to use only its fair share of the world's resources by 2050. According to recent research, Wales' Ecological Footprint was found to be 12.3 million global hectares in 2018. This is just over twice the estimated biocapacity of Wales. In other words;

if the entire world population lived like the citizens of Wales, humanity would require 2.08 Earths.

The Sustainable Development Principle means that public bodies 'must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.'

To apply this principle, public bodies must ensure they follow the five ways of working:

***Figure 2**: Five ways of working*

Deforestation is one of the critical drivers of climate change, driving around 11% of global greenhouse gas emissions. But the impacts of deforestation go beyond the climate. Tropical forests hold up to 80% of the world's biodiversity, and their loss puts species and life as we know it at risk. Deforestation is also frequently preceded or accompanied by human rights abuses, including threats and violence against Indigenous peoples, forest, land, and human rights defenders at the frontlines of deforestation.

There are many drivers of deforestation, including agriculture which is responsible for over 90% of tropical deforestation for commodities like beef, soy and palm oil, as well as mining, infrastructure, and construction.

The impact of deforestation has been recognised by laws set by both the UK and EU governments, through the form of due diligence legislation. The UK Environment Act requires companies to conduct due diligence to ensure that their products are not contributing to illegal deforestation, while the EU due diligence regulation (EUDR) requires companies to ensure their products are not driving deforestation regardless of legality. At the moment these legislations only apply to companies and not the financial institutions which finance them, but this is being reviewed and the laws could be extended.

Financial institutions, including pension funds, have a unique ability to influence rates of global deforestation through their financing of companies and other financial institutions which are potentially linked to deforestation, conversion, and associated human rights abuses on the ground. Through effective engagement, financial institutions can use their financing as leverage to create change in company supply chains.

Pension funds are investing on behalf of their members, meaning their members' savings could be exposed to deforestation risk and the wider issues that come with it. Research has shown that switching pension funds is among the most impactful actions we can take in reducing our own contribution to global emissions.

In Wales alone, £22.5 billion is invested by the Wales Pension Partnership on behalf of the eight county pension funds; Carmarthenshire, City and County of Swansea, Cardiff and Vale of Glamorgan, Flintshire, Gwynedd, Powys, Rhondda Cynon Taf and Torfaen. Through Freedom of Information requests to the Wales Pension Partnership and its eight member funds, Size of Wales and Global Canopy have identified how much of these assets are at risk of financing deforestation – and what pension funds can do to address this risk.

What is the Wales Pension Partnership?

One of eight Local Government Pension Pools in the UK, the Wales Pension Partnership began in 2017 as a collaboration between the eight local government pension schemes (LGPS) which cover all of Wales. The eight LGPS which make up the partnership are Cardiff & Vale of Glamorgan, Clwyd, Dyfed, Torfaen, Gwynedd, Powys, Rhondda Cynon Taf, and Swansea.

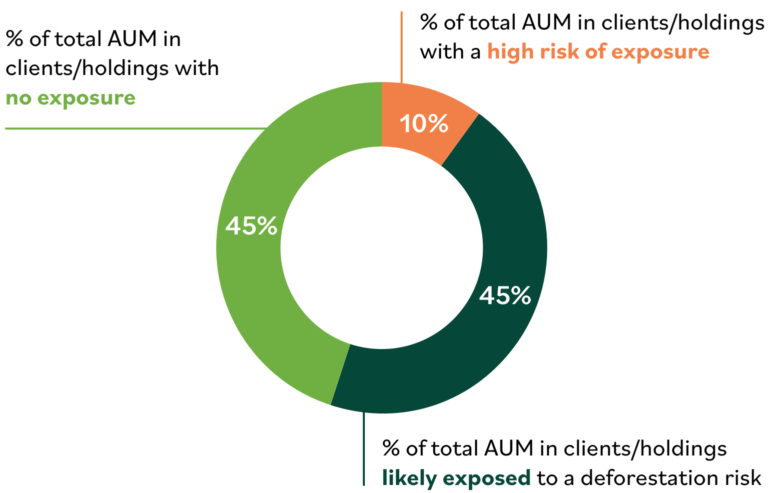

Pamuk Ayatke (Vice President) of the Wampis Nation.
Credit: Florence Goupil/ GTANW

Welsh pension funds investing in deforestation risk

At least 10% of the assets under management (AUM) invested by the Wales Pension Partnerships' member funds is financing clients/holdings with a high risk of being linked to deforestation. This is equivalent to £2.6 billion.

A further 45% are financing companies and financial institutions in sectors that are likely exposed to deforestation risk, meaning more than half (55%) of the total assets equating to over £14 billion are at risk of financing deforestation.

Figure 3 *– Percentage of total Wales Pension Partnership assets under management (AUM) exposed to deforestation risk*



What sectors are the pension funds invested in?

The pension funds in the Wales Pension Partnership are invested in thousands of companies across hundreds of sectors, including those which are key drivers of deforestation, conversion, and associated human rights abuses. This includes diversified banks, apparel, pharmaceuticals, packaged foods and meats, and metals.

LARGE-SCALE FORESTRY

LARGE-SCALE LIVESTOCK

OIL & GAS DRILLING

What is the difference between having a **'high risk of financing deforestation'** and **'likely exposed to deforestation risk'?**

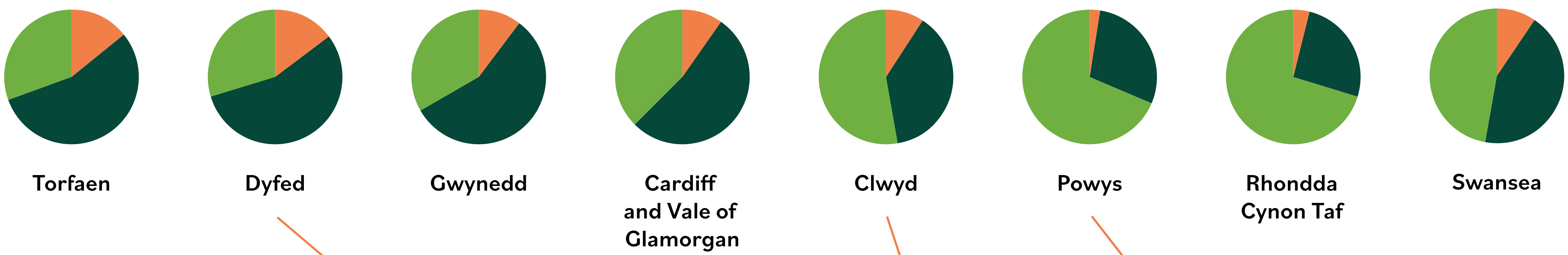
Clients/holdings defined as having a 'high risk of financing deforestation' are those that are in sectors defined as having a 'Very high' or 'High' risk by ENCORE, a tool that enables financial institutions to map their dependencies and potential impacts on nature. This includes sectors like large-scale forestry, large-scale livestock (meat and dairy), and oil and gas drilling.

Other sectors are categorised as being likely exposed to deforestation risk, meaning these sectors may be linked to deforestation, but the severity of that risk is currently unknown. As a result, clients/holdings that were in these other sectors were categorised as being 'likely exposed to deforestation risk', including personal care products, automobile manufacturers, and food retail. Some of these sectors, like the three listed, may have a high or very high risk.

This is detailed further in the methodology in the appendices.

Credit: Daniel Beltrá, Greenpeace

Figure 4: *Explore of WPP member funds to deforestation-risk (additional information on page 10)*



Through their financing, Welsh pension funds have a huge potential to drive change through engaging with the companies and holdings they finance, and requiring them to act on their exposure to the risk.

But not all of the member pension funds are equally exposed to deforestation risk.

Torfaen had the highest overall exposure, with 14% of their investments being in high risk clients/holdings, and an additional 55% of their investments in clients/holdings likely exposed to deforestation risk.

Despite their varying levels of exposure, each of these pension funds still has an opportunity to reduce their exposure to deforestation-risk, and enable the clients/holdings they finance to drive positive change on the ground.

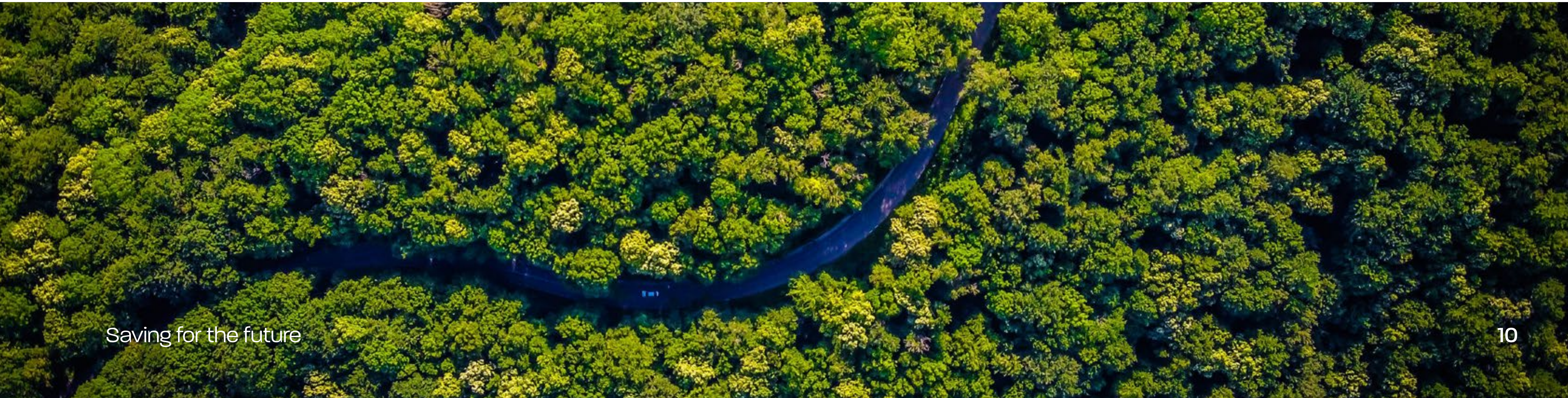
The pension fund with the greatest proportion of its clients/holdings in high risk sectors is **Dyfed**, with 15% of their investments in high risk clients/holdings.

But when looking at the financial exposure of the pension funds to deforestation risk, **Clwyd** provides the most finance, nearly £0.9 billion, to clients/holdings in high-risk sectors, and £3.7 billion to those likely exposed to deforestation risk.

Meanwhile **Powys** provides the least finance to high-risk clients/holdings, providing £16 million – equivalent to 2% of their total investments respectively.

Exposure of pension funds

	High exposure to deforestation risk		Likely exposed to deforestation risk		No known exposure to deforestation risk	
WPP member fund	**Investment in £B**	**% of investments**	**Investment in £B**	**% of investments**	**Investment in £B**	**% of investments**
Torfaen	0.34	14%	1.3	55%	0.72	30%
Dyfed	0.37	15%	1.39	56%	0.74	30%
Gwynedd	0.25	10%	1.33	56%	0.79	33%
Cardiff and Vale of Glamorgan	0.24	10%	1.29	53%	0.91	37%
Clwyd	0.89	9%	3.71	38%	5.1	53%
Powys	0.02	2%	0.23	29%	0.54	69%
Rhondda Cyon Taf	0.03	4%	0.19	26%	0.52	70%
Swansea	0.48	10%	2.2	43%	2.39	47%
Total for WPP	**2.6**	**10%**	**11.65**	**45%**	**11.7**	**45%**



Why should pension funds act on deforestation?

With the EU already stating that in 2025 it will review whether its due diligence legislation should apply to financial institutions, the regulatory risks for financial institutions continue to grow. So too do reputational risks for being potentially linked to deforestation, conversion, and associated human rights abuses on the ground, and the financial risks that are driven by deforestation. Some of the world's largest agribusiness companies could lose over a quarter of their value by 2030, through inaction on deforestation and climate change, meaning investments in those companies are also at risk.

To achieve net-zero by 2050, the UN has stated that financial institutions must eliminate commodity-driven deforestation from their financial portfolios by 2025. Commodity-driven deforestation is not inevitable, but still accounts for over 90 percent of all deforestation – with a handful of commodities like beef, soy, palm oil and timber driving agricultural expansion. Although 2025 is drawing closer, rapid progress can still be made to work towards eliminating deforestation, conversion, and the associated human rights abuses.

In line with the Paris Agreement, the Environment (Wales) Act and the Well-being of Future Generations Act (WFG), pension funds in Wales should be demonstrating how they are considering climate risk in their investment decisions. The WFG Act places a legal duty on public bodies, including national government, local government and health boards, to work towards improving the economic, social, environmental and cultural well-being of Wales.

One of the wellbeing goals is to be a Globally Responsible Nation – a nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes account of whether doing such a thing may make a positive contribution to global well-being.

One of the wellbeing indicators used to measure a globally responsible nation is the global footprint which is the total environmental burden that society places on the planet.

Currently Wales is consuming more natural resources than the world is able to replace. The target is for Wales to only use its fair share of the world's resources by 2050. Without tackling our overseas deforestation footprint linked to our pension funds, we won't be able to meet that target.

What can pension funds do?

Pension funds have a critical role to play in ending deforestation, conversion, and associated human rights abuses, and helping to ensure a future that pension fund holders can retire into as part of their fiduciary duty.

For pension funds that have not yet begun addressing deforestation risk in their portfolios, there is no better time to start than right now. In the past few years, there has been a significant increase in both the quality and quantity of data and guidance available to support pension funds to identify, assess, and address their exposure to risks of deforestation, conversion, and associated human rights abuses.

One of the first things a pension fund can do is to understand how they might be exposed to deforestation risk through their financing activities, and then map their exposure to those risks to identify exactly what deforestation-related risks and impacts they are potentially exposed to. From there, they can set a strong deforestation policy, committing to ensure that their investments will be free from deforestation, the conversion of natural ecosystems, and associated human rights abuses – ideally by 2025.

Pension funds have significant leverage through the financing their investments provide. By engaging their asset managers or directly with their clients/holdings, pension funds can require the clients/holdings they invest in to improve their practices with a time-bound threat of redirection of finance – driving real change on the ground.

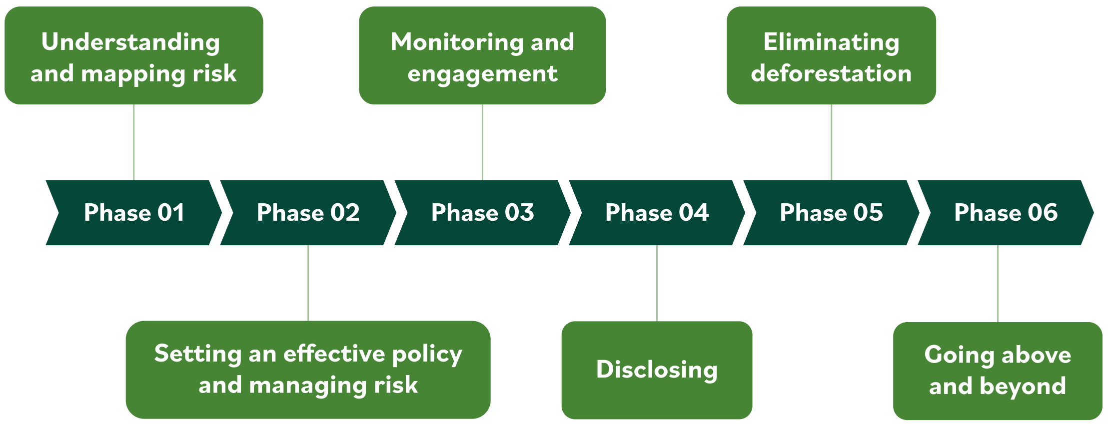
An example of an LGPS making progress on deforestation

One example of a local government pension scheme (LGPS) making positive progress on deforestation is London CIV, which was established by London Local Authorities in 2015. Global Canopy's 2023 Deforestation Action Tracker found that London CIV had published an overarching deforestation commitment, as well as commodity-specific policies for the four commodities driving over two-thirds of tropical deforestation. Their commitment also declared that they "will map out and publish [their] exposures to deforestation risks and use this as a basis for [their] engagement and voting decisions."

In 2022, Global Canopy, Make My Money Matter, and SYSTEMIQ, with input from a working group of pension funds, developed detailed guidance to take pension funds through from understanding the need to act on deforestation, conversion, and associated human rights abuses through to assessing and identifying their exposure, to addressing and reducing that risk.

The guide is structured into six phases, each of which has specific guidance for different types of pension funds; those that have trustees, those that manage their own assets, and those that have external asset managers. Pension funds can select which criteria are most relevant to them, and then view the applicable guidance for each phase and subsequent step of the guidance.

Figure 5



Soy plantation on Guarani territory.
Credit: Tiago Fioreze

Conclusion

The Wellbeing of Future Generations Act was designed to drive positive change through their public bodies.

- Pension funds should also keep the wellbeing of future generations in mind, both in terms of ensuring pensions are well invested but also ensuring there is a future to retire into.
- We need to see pension funds free from deforestation, conversion and associated human rights abuses. Only then will it be possible to achieve net zero and mitigate climate change, and to achieve a globally responsible Wales.
- It has never been easier for pension funds to act on these issues due to the wealth of guidance and data now available, and the growing legislative landscape.
- As part of Wales' journey to be a globally responsible nation, we need to make the right financial decisions now, to enable future generations to thrive. By applying long-term and preventative principles in decision-making processes, pension funds can contribute positively to a sustainable planet, its people, and mitigate against climate change.
- The eight local government pension funds must urgently address this issue to ensure that they are globally responsible and meet their decarbonisation targets by 2030. Working together can drive change. This is in line with the strategy to ensure that the Welsh public sector reaches net zero greenhouse gas emissions by 2030.
- Action on decarbonising pension funds has started, for example Swansea City and County pension fund is channelling more of its wealth into green investments to reach a "net zero" position by 2037. But we need bold action that promotes deforestation-free pensions, to ensure that nature's best solution to the climate crisis is protected for future generations.

With over half (55%) of investments of the Wales Pension Partnership invested in clients/holdings exposed to deforestation risk, 10% of which is in clients/holdings at high risk, there is an enormous opportunity for Welsh pension funds to drive change.

Recommendations for Local Government pension funds

Pension funds, like all financial institutions, have a unique and critical role to play in working to eliminate deforestation, conversion, and associated human rights abuses from global supply chains. Pension funds like those in the Wales Pension Partnership have an incredible opportunity to use their existing partnership to share knowledge, collaborate, and eliminate deforestation, conversion, and associated human rights abuse risks and impacts from their investments, and they can do this by:

- Identifying how they are exposed to deforestation risks and impacts through their investments
- Setting a strong public policy, committing to eliminate deforestation, conversion, and associated human rights abuses within an ambitious timeframe, ideally no later than 2025
- Pension funds must engage with their asset managers and the clients/holdings they invest in to drive progress, by setting clear expectations for compliance and processes in place to redirect finance if sufficient progress is not made within a specific timeframe
- Pension funds can also transparently disclose their exposure to deforestation risk through their investment activities, as well as their progress towards eliminating these risks. This can also include reporting to pension fund members on the extent of deforestation risk in their pension, plan of action, timeframes and progress made. This should form part of their reporting duties under the WFG Act.
- If progress is not made, and finance needs to be redirected, this redirected finance should align with the WFG Act, and be free from deforestation, conversion of natural ecosystems, and associated human rights abuses

Appendix

Methodology

Freedom of Information requests (FOIs)were shared with the Wales Pension Partnership and each of the eight constituent member funds by Size of Wales in March and April 2023. These FOIs requested information on the names and details of funds invested and fund providers, the names of investee companies/holdings (including data on the relevant financial identifiers, the Global Industry Classification Standard sector (GICS) and the country where the company/holding is headquartered) as of 28th Feburary 2023. Also shared was the proportion of their portfolio of investments which falls into different GICS sectors and their total Assets Under Management.

Once the FOI responses had been received by the Size of Wales, we were able to identify the exposure of each of the eight member funds to clients/holdings with a high, likely, and no known exposure to deforestation risk.

The exposure of different GICS sub-industries to deforestation-risk was then identified. Clients/holdings which were in GICS sub-industries identified by ENCORE as being High or Very High risk for terrestrial ecosystem use were identified. We also identified GICS sub-industries which ENCORE categorised as medium or low, sub-industries which represent the most-influential companies and financial institutions in the Forest 500 selection process, and those identified as being likely exposed to deforestation-risk by Forest IQ.

Some of the FOI data contained GICS sub-industry categories for the clients/holdings they were investing in. This level of data was not available for all eight of the pension funds, but as many of the pension funds were investing in the same funds across their portfolios, this limited data was used to cross-reference GICS to ISINs (unique financial identifiers) and company names in other portfolios, and any missing clients/holdings were filled in manually. Government bonds were considered exposed if they were for governments of countries with high rates of tropical deforestation, such as Brazil.

For portfolios where no FOI data was available the top 10 investments, and their associated GICS sub-industry, of each of the funds were identified, their risk exposure identified using the same methodology as above, and the results were extrapolated across the full amount of the portfolio if no more information was available. For those portfolios investing in only mortgages, cash or UK property, zero exposure to deforestation risk was assumed.

A full list of GICS industries and sub-industries and their risk categorisation for terrestrial ecosystem use is available from ENCORE.

A full list of companies, financial institutions, and their relevant sectors is available in the 2022 Forest 500 data.

A full list of sectors identified as likely exposed to deforestation risk is available here.

Credit: Jenipher's Coffi

Find out more

www.sizeofwales.org.uk

https://globalcanopy.org/

Authors: E. Thomson, H. Franklin, D. McKenzie (Global Canopy), B. Davies-Quy, W. Rahman-Daultrey and A. Kirby (Size of Wales)

This report was funded by the Joseph Rowntree Charitable Trust. The contents of this publication do not necessarily reflect the position or opinion of the Joseph Rowntree Charitable Trust.