



# Stewart Investors Sustainable Funds Group

## Sustainable Palm Oil?

Second Quarter 2017

---

### **Recent forest fires across Malaysia and Indonesia cast a haze over many parts of Southeast Asia.**

Driving these fires was the production of palm oil, one of the most widely used vegetable oils in the world.

Palm oil has a high resistance to oxidation and consequently a long shelf life, making it an ideal ingredient for a variety of products, from detergents to baked goods.

It can now be found in half of all products in a supermarket. It also produces higher yields per hectare compared to other oils, such as rapeseed, sunflower and soy.

### **Palm oil has become a major source of income for local communities and an important part of the rural economy in many countries.**

However, rising demand has led to large-scale conversion of natural forest areas for plantations, resulting in carbon dioxide emissions, loss of high conservation value forests, soil erosion, air pollution, loss of biodiversity, as well as social conflict.

In an effort to address some of these challenges and promote the use of sustainable palm oil through credible global standards, the Roundtable for Sustainable Palm Oil (RSPO) was established in 2004.

There are four types of RSPO certified palm oil, and unfortunately the most common types, GreenPalm and Mass Balance, are not completely deforestation free.

The complete separation of certified and non-certified palm oil is expensive and difficult to achieve. Mass Balance is a cost-effective mixture of certified sustainable palm oil and non-certified palm oil.

GreenPalm allows manufacturers and retailers to buy GreenPalm certificates from an RSPO certified palm oil grower to offset each tonne of palm oil they purchase.

The two other types of RSPO palm oil are Segregated and Identity Preserved, which ensure higher levels of traceability and physical separation of certified and non-certified palm oil.

These are more expensive and not currently available in the quantities required by many large consumer companies. Speedy certification may not always be the answer to solve the issue.

Many companies now require RSPO certification as a minimum but are increasingly finding ways to build on RSPO criteria by working with suppliers to ensure additional protection against forest loss and degradation and social conflict.

### **An encouraging number of companies have made commitments to source sustainable palm oil.**

Putting these goals into action can be arduous, as the palm oil supply chain is vast, complex and relies heavily on small processors and farmers whose palm oil is difficult to trace.

Unilever, one of the world's largest buyers of palm oil, is working to source all of its palm oil from traceable and certified sources by 2020.

To achieve this target, they've started using a tool called Known Sources which allows them to gather information about suppliers and ensure compliance with their Supplier Code.

As of 2014, they achieved 70% traceability to known mills and have visibility of over 1,800 crude palm oil mills.

Henkel is another consumer company which has decided to phase out GreenPalm certificates and is working directly with suppliers to ensure they are at minimum Mass Balance certified.

Our approach to engagement is one that is always based on encouraging companies to protect long-term shareholder value.

Forest fires in Indonesia continue to heighten the focus on deforestation and the multinational consumer goods companies purchasing palm oil are an easy target for concerned stakeholders.

**However, large volumes of palm oil are also purchased by emerging markets consumer companies.**

Engagement with these companies can be more challenging because consumers are less engaged and NGOs (non-governmental organisation) less influential. However, we see this gradually starting to change.

While not targeting palm oil, Singapore supermarket operators, including Sheng Siong stopped sourcing paper products from listed company Asia Pulp & Paper due to concerns around their green credentials in light of the Indonesian forest fires.

We believe this may be a sign of things to come from a more environmentally engaged Asian community.

**We are convinced that companies that choose to strengthen their supply chains will minimise risk and be better placed over the long run to deliver improved shareholder value.**

Source for company information: Stewart Investors investment team and company data. For illustrative purposes only. Reference to the names of each company in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of Stewart Investors.

## Important information

This document has been prepared for general information purposes only and is intended to provide a summary of the subject matter covered. It does not purport to be comprehensive or to give advice. The views expressed are the views of the writer at the time of issue and may change over time. This is not an offer document, and does not constitute an offer, invitation, investment recommendation or inducement to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any matter contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information. We do not accept any liability for any loss arising whether directly or indirectly from any use of this document.

References to “we” or “us” are references to Stewart Investors. Stewart Investors is a trading name of First Sentier Investors (UK) Funds Limited, First Sentier Investors International IM Limited and First Sentier Investors (Ireland) Limited. First Sentier Investors entities referred to in this document are part of First Sentier Investors, a member of MUFG, a global financial group. First Sentier Investors includes a number of entities in different jurisdictions. MUFG and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

Past performance is not a reliable indicator of future results.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

### Hong Kong and Singapore

In Hong Kong, this document is issued by First Sentier Investors (Hong Kong) Limited and has not been reviewed by the Securities & Futures Commission in Hong Kong. In Singapore, this document is issued by First Sentier Investors (Singapore) whose company registration number is 196900420D. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Stewart Investors is a business name of First Sentier Investors (Hong Kong) Limited. Stewart Investors (registration number 53310114W) is a business division of First Sentier Investors (Singapore).

### Australia

In Australia, this document is issued by First Sentier Investors (Australia) IM Limited AFSL 289017 ABN 89 114 194 311 (FSI AIM). Stewart Investors is a trading name of FSI AIM.

### United Kingdom

This document is not a financial promotion. In the United Kingdom, this document is issued by First Sentier Investors (UK) Funds Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 143359). Registered office: Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB, number 2294743.

### European Economic Area (“EEA”)

In the EEA, this document is issued by First Sentier Investors (Ireland) Limited which is authorised and regulated in Ireland by the Central Bank of Ireland (registered number C182306) in connection with the activity of receiving and transmitting orders. Registered office: 70 Sir John Rogerson’s Quay, Dublin 2, Ireland, number 629188.

**Middle East**

In certain jurisdictions the distribution of this material may be restricted. The recipient is required to inform themselves about any such restrictions and observe them. By having requested this document and by not deleting this email and attachment, you warrant and represent that you qualify under any applicable financial promotion rules that may be applicable to you to receive and consider this document, failing which you should return and delete this e-mail and all attachments pertaining thereto.

In the Middle East, this material is communicated by First Sentier Investors (Singapore).

**Kuwait**

If in doubt, you are recommended to consult a party licensed by the Capital Markets Authority (“CMA”) pursuant to Law No. 7/2010 and the Executive Regulations to give you the appropriate advice. Neither this document nor any of the information contained herein is intended to and shall not lead to the conclusion of any contract whatsoever within Kuwait.

**UAE - Dubai International Financial Centre (DIFC)**

Within the DIFC this material is directed solely at Professional Clients as defined by the DFSA’s COB Rulebook.

**UAE (ex-DIFC)**

By having requested this document and / or by not deleting this email and attachment, you warrant and represent that you qualify under the exemptions contained in Article 2 of the Emirates Securities and Commodities Authority Board Resolution No 37 of 2012, as amended by decision No 13 of 2012 (the “Mutual Fund Regulations”). By receiving this material you acknowledge and confirm that you fall within one or more of the exemptions contained in Article 2 of the Mutual Fund Regulations.

**United States of America**

In the United States, this document is issued by First Sentier Investors International IM Limited, as SEC registered investment adviser. Stewart Investors is the trading name of First Sentier Investors International IM Limited. This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors who qualify as qualified purchasers under the Investment Company Act of 1940 (hereafter the “1940 Act”), as accredited investors under Rule 501 of SEC Regulation D under the US Securities Act of 1933 (“1933 Act), and as qualified eligible persons as defined under CFTC Regulation 4.7. It is not to be distributed to the general public, private customers or retail investors.

**Other jurisdictions**

In other jurisdictions where this document may lawfully be issued, this document is issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 122512). Registered office 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Copyright © (2021) Stewart Investors

All rights reserved.

## Contact details

### Edinburgh

#### Stewart Investors

23 St Andrew Square  
Edinburgh EH2 1BB  
United Kingdom  
e. [info@stewartinvestors.com](mailto:info@stewartinvestors.com)  
t. +44 (0) 131 473 2900  
[stewartinvestors.com](http://stewartinvestors.com)

### London

#### Stewart Investors

Finsbury Circus House  
15 Finsbury Circus  
London EC2M 7EB  
United Kingdom  
e. [info@stewartinvestors.com](mailto:info@stewartinvestors.com)  
t. +44 (0) 207 332 6500  
[stewartinvestors.com](http://stewartinvestors.com)

### Singapore

#### Stewart Investors

58 Duxton Road  
2nd & 3rd Floor  
Singapore 089522  
e. [info@stewartinvestors.com](mailto:info@stewartinvestors.com)  
t. +65 680 59670  
[stewartinvestors.com](http://stewartinvestors.com)

### Sydney

#### Stewart Investors

Suite 10, Level 3  
13 Hickson Road  
Dawes Point  
Sydney NSW 2000  
e. [info@stewartinvestors.com](mailto:info@stewartinvestors.com)  
t. +61 2 8274 8000  
[stewartinvestors.com](http://stewartinvestors.com)