

Effective Climate-Risk Disclosure in the Agricultural and Forestry Sectors through the Lens of the Task Force on Climate-related Financial Disclosures

Michael Younis

Assistant Vice President
Asset Stewardship

Maher Colayat

Senior Associate
Asset Stewardship

- **The agricultural and forestry sectors collectively account for nearly one quarter of global greenhouse gas (GHG) emissions¹. These sectors are likely to bear some of the greatest financial impacts of climate change. Companies in these sectors clearly communicate how they mitigate climate-related risk; however, more disclosure is needed on how they are adapting their business to the impacts of climate change.**
- **Currently the goal-setting process is driven by risk mitigation; as companies focus on adapting their business strategies, we believe the sustainability-related goal-setting process will encompass this focus as well.**
- **Given growing investor interest in this area, we have developed guidance to help directors and management evaluate the quality of their own climate-related disclosure against market and investor expectations.**

Climate change represents a considerable and growing risk for companies. State Street Global Advisors believes that boards should respond to this as they would any other significant risk to their business. As long-term investors, we advocate for companies to have a sustainable climate strategy. To us, this means boards and management should focus both on mitigating a company's impacts on the climate, as well as ensuring that the business is resilient to the impacts of climate change.

In 2015, we published *Climate Change Risk Oversight Framework For Directors*. Most recently, in 2017, we published the paper *SSEA's Perspectives on Effective Climate Change Disclosure*, which assesses the quality of climate-related disclosure in the oil and gas, mining, and utilities sectors. This publication expands our climate focus into the agricultural and forestry sectors.

Why Agriculture and Forestry?

Globally, the agricultural and forestry sectors are some of the most likely sectors to bear the greatest financial impact as a result of climate change. The risks that climate change will inflict on these companies are poised to cause significant disruption and financial burden if left unaddressed. The industry is a significant contributor to climate change as it accounts for nearly one quarter of global greenhouse gas (GHG) emissions¹.

Methodology

Recommendations by the Task Force on Climate-related Financial Disclosure (TCFD) are increasingly considered a valuable framework for investors and companies to assess, manage, and disclose climate risk. State Street Global Advisors reviewed the existing disclosure and sustainability-related reporting of agricultural and forestry companies using the TCFD framework. The findings and views in this paper are informed by our evaluation of the quality of disclosure of 60 companies across 12 sub-GICS² that we most closely associated with the agricultural and forestry space. We also leveraged the information we gathered from over 130 agricultural and forestry engagements we have conducted since 2015 to further inform our views.

TCFD's Framework

How the Agricultural and Forestry Sectors Stack Up

Core Area	TCFD Expectation	Percent of Companies Meeting Expectations	State Street Global Advisors' View
Governance	Disclose the organization's governance around climate-related risks and opportunities.	53%	While most companies in these sectors have some level of board oversight, formal board oversight of climate-related risk can be strengthened.
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	12%	Overall, we found that there is little to no disclosure around the actual and potential impacts of climate-related risks and opportunities on the organization's specific businesses, strategy, and financial planning.
Risk Management	Disclose how the organization identifies, assesses, and manages climate-related risks.	82%	Companies in these sectors broadly recognize that climate change poses a material risk.
Metrics and Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	75%	Companies in these sectors have strong communication regarding how they mitigate their impacts on the climate.

Using the TCFD framework for each of the core areas (Governance, Strategy, Risk Management, & Metrics and Targets), below we have provided:

- Our views on the specific TCFD core area
- Findings from our comparative analysis
- Illustrative examples of industry best practices to guide disclosure
- Specific recommendations intended to improve the quality of disclosure

As companies look to better incorporate sustainability into long-term strategy, we hope this paper provides guidance as well as sets investor expectations relating to climate-related disclosure. Our investor perspective is intended to help directors and senior management as they tackle this complex issue. We hope this publication is useful for directors seeking to evaluate their own approach to disclosure of climate-related practices and how these practices relate to long-term strategy.

Governance

53%

of companies disclose some level of board oversight of sustainability-related risk

Our view We expect boards to be strong, effective, and independent from management, and to oversee and mitigate the key risks facing the company. Board members should consider climate risk as they would any other material risk to the sustainability of their business. We encourage companies to include oversight of sustainability at the committee or full board level.

Research findings Over 50% of companies we examined have some level of board oversight of sustainability issues. However, 82% of companies identified climate change as a material risk. This is an indication that there is a significant gap in the disclosure of board oversight of material risks. To better address the necessary oversight of climate as a material risk, we expect formal board oversight of this topic to be reflected in board committees, charters, or other disclosure materials.

Industry-leading examples:

- One retail supplier of agricultural products has a dedicated Environment and Safety Committee on its board.
- To reflect the growing importance of sustainability to returns, a paper and forestry products company repurposed an existing board committee to provide greater oversight.

Recommendations In addition to disclosing board oversight of sustainability-related matters, directors should be prepared to discuss with investors how they oversee sustainability issues as part of the strategic review process.

Strategy

12%

of companies disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material

Our view Companies should disclose how they are adapting their business practices and investment activities to make their businesses more resilient to the effects of climate change. Companies should not view climate change only as a risk but also as an opportunity that can differentiate them from their peers if incorporated effectively into strategy.

Research findings Strategy is the area where we found the most significant gap between the TCFD framework and market practices. Only 12% of the companies examined articulated how a specific climate risk, such as drought or warmer temperatures, would impact their business operations or products.

Industry-leading examples:

- One manufacturer of consumer foods identified 10 ingredients that represent half of the company's total raw material purchases and established goals to sustainably source 100% of these priority ingredients by 2020.
 - An Australian food retailer is investigating how climate will affect its water supply as well as how inclement weather may affect its supply chain.
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Recommendations Companies need to address the strategic implications of climate change; management should be ready to articulate the link between climate risk and strategy. For example, companies may consider disclosing how a company's assessment of climate change is impacting capital allocation decisions, investments in research and technology, diversification of the supply chain, and/or the hardening of physical assets. This type of disclosure helps investors understand which sustainability-related issues may affect the business and how the company plans to address these risks.

Risk Management

82%

of agricultural and forestry companies include climate change as a material risk in their public disclosures

Our view Companies should have strong risk disclosure around climate change. This disclosure should provide a narrative regarding the different types of risks associated with climate change and should be contextualized through the lens of the company's strategy. In doing so, companies will be better positioned to incorporate climate-related issues into the long-term strategy.

Research findings We found that, overall, agricultural and forestry companies are doing an effective job disclosing information about the processes they have implemented for identifying, assessing, and managing climate-related risk. In fact, 82% of the companies we evaluated include climate change as a material risk in their public disclosures. We found that these companies' disclosures most often reference the regulatory and physical climate-related risks.

Industry-leading examples A multinational confectionery, food, and beverage company is taking a robust approach to disclosing its risk-management process. The company describes how it administered a lifecycle assessment of its products to determine where it had potential exposure to climate change. The company also describes how it used information from this assessment to prioritize its risk-mitigation efforts and set sustainability-related goals.

Recommendations Agricultural and forestry companies are doing a commendable job of disclosing climate-related risk at the enterprise level. However, companies could further improve disclosure quality by providing more information on how these risks could specifically affect integral activities such as operations or external parts of the supply chain.

Metrics and Targets

75%

of agricultural and forestry companies disclose goals for emission reduction and/or intensity

Our view We expect companies to set goals, identify metrics and targets, measure progress, and manage issues material to their business. While sustainability issues may vary by sector, generally agricultural and forestry companies should disclose metrics and targets related to emissions, water, and waste.

Research findings Agricultural and forestry companies exhibited a high level of adoption of sustainability-related goals more broadly, but the robustness of disclosure varies significantly across sustainability topics as highlighted below:

- 75% of companies disclose goals for emission reduction and/or intensity targets.
 - 60% of companies disclose goals related to water efficiency and/or reduction in water use.
 - 40% of companies disclose goals to certify the sustainability of their products or materials through a third party.
 - 37% of companies disclose goals for reducing residual waste through more effective recycling of outputs and other improvements to operations.
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Industry-leading examples Examples of companies that are setting goals to address the many forms of climate risks include:

- **Emission reduction** An agricultural chemical company established a target to reduce its combined Scope 1 and Scope 2 GHG emissions by 10% per ton of finished product by 2020.
- **Water efficiency** A beverage company adopted a global goal to improve water-use efficiency by 15% in high-water-risk areas of the company's direct agricultural supply chain by 2025.
- **Sustainability certifications** An agricultural products company aims to achieve 100% traceability of its palm oil suppliers by 2020.
- **Recycling** A food retailer established a goal of reducing food waste in its operations by 50% by 2050.

Recommendations Metrics and targets to mitigate the climate change impacts from a company's operations is an area of strength for companies within the agricultural and forestry sectors. However, few companies establish targets to support strategic initiatives that help companies adapt to the impacts that climate change may have on their business. As these companies strengthen their risk-management processes and further incorporate sustainability into business strategy, future targets should reflect this change.

Conclusion

The agricultural and forestry sectors are highly susceptible to climate change. Using the TCFD framework, this report provides our perspective on the current state of climate-related disclosure in the agricultural and forestry sectors, as well as our recommendations for how companies can enhance their climate-related reporting and disclosure. We find that while companies are strong at communicating their impacts on climate risk, they fall short in disclosing how they are adapting their business strategies to accommodate climate change. Going forward, boards should be prepared to engage with investors on their sustainable climate strategies, which encompass both the mitigation and adaptation activities around climate change.

Contributors

Michael Younis
Assistant Vice President
Asset Stewardship

Maher Colaylat
Senior Associate
Asset Stewardship

Endnotes

1 United States Environmental Protection Agency. "Global Greenhouse Gas Emissions Data." <https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data>.

2 Global Industry Classification Standards.

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Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O. Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +61 2 9240-7600. F: +61 2 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077.

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Germany: State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin").

Registered with the Register of Commerce Munich HRB 121381. T: +49 (0)89-55878-400. F: +49 (0)89-55878-440.

Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200.

Ireland: State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300.

Italy: State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and

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Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Netherlands: State Street Global Advisors Netherlands, Apollo Building, 7th floor Herikerbergweg 29 1101 CN Amsterdam, Netherlands. T: 31 20 7181701. SSGA Netherlands is a branch office of State Street

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Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of

Singapore). T: +65 6826-7555. F: +65 6826-7501.

Switzerland: State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered

with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 577659181. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

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