

May 27, 2021

Assembly Member Ash Kalra
State Capitol P.O. Box 942849
Sacramento, CA 94249-0027

Sent via web portal

Re: Investor Support for California Deforestation Free Procurement Bill

Dear Assembly Member Kalra,

We, the undersigned investors, representing over \$1.6 trillion in assets under management, are writing to express our support for the California Deforestation-Free Procurement Act (the "Act"). The Act's mandate for No Deforestation, No Peat, and No Exploitation ("NDPE") policies, certification and public disclosure from certain state contractors and subcontractors would provide investors with important information on material financial and climate-related risks to companies potentially linked to deforestation. Additionally, passage of the Act would help investors mitigate material risks faced by our portfolios and the companies in which we invest, identify companies that are fulfilling their commitments to net-zero emissions, zero-deforestation and NDPE policies, as well as potentially offer opportunities to invest in deforestation-free government bonds.

As fiduciaries, we recognize the material systemic and specific risks posed by deforestation to companies, our portfolios, and markets broadly. Forests play an essential role in combatting climate change, reversing biodiversity loss, and protecting human health and human rights. Deforestation is linked to increased risk of infectious diseases like the COVID-19 pandemic, which only reinforces the urgency of reversing the persistent trend of deforestation. Deforestation is also one of the largest drivers of climate change: currently an estimated 15% of all greenhouse gas emissions result from deforestation and forest degradation.¹ Evidence is emerging that we may be approaching tipping points in key forest biomes like the Amazon rainforest, where recent studies suggest portions of the forest are releasing more carbon than they store.² Deforestation-related loss of biodiversity may also seriously jeopardize the global food system. Each of these effects hold serious consequences for global markets.

Deforestation may also be a source of material company-specific risks, both for companies that impact deforestation and those that depend on forests. Many sectors, such as agriculture and the pharmaceutical industry, depend on ecosystem services supported by forests: agricultural outputs are directly affected by the loss of forests' cooling and water cycling services and one quarter of all pharmaceuticals are derived from the genetic compounds of wild plants.³ Companies involved in sourcing inputs and products from forests may face significant reputational risks associated with adverse environmental and human rights impacts. Deforestation is often closely linked to illegality, violation of indigenous land tenure and rights and violation of civic rights and freedoms particularly with respect to human rights defenders.

¹ "Forest Habitat." World Wildlife Fund. Accessed October 2, 2020. <https://www.worldwildlife.org/habitats/forest-habitat>.

² Welch, Craig. "First Study of All Amazon Greenhouse Gases Suggests the Damaged Forest Is Now Worsening Climate Change." National Geographic. Last modified March 11, 2021.

³ Seymour, Frances, and Jonah Busch, comps. *Why Forests? Why Now? The Science, Economics, and Politics of Tropical Forests and Climate Change*. Last modified November 1, 2016. Accessed March 22, 2021.

While considerable responsibility has been placed on the exporting countries of forest-risk commodities, we recognize the importance of policy and practice in importing countries as well. This Act would help address deforestation risk by both shifting corporate behavior and improving corporate transparency. Many companies committed to reaching ‘zero deforestation’ by 2020 as part of the New York Declaration on Forests, yet not a single commitment was met. The Act would help ensure that companies fulfill NDPE commitments in the future and incentivize compliance where NDPE policies already exist. It would further aid companies and their investors by mandating public disclosure of their policies and corresponding data, supporting due diligence processes.

Finally, passage of this Act would mean that, after its effective date, state and municipal government bond issuances would offer investors a new way to manage deforestation in their debt portfolios. The market has demonstrated strong growth in demand for sustainable debt products like green bonds. More broadly, “environmental, social and governance investing” has become increasingly mainstream for investors in the fixed-income markets. States implementing such legislation could be a leader in issuing sustainable government debt in the United States.

We appreciate your efforts on this important issue and, for the reasons stated above, we support the passage of the California Deforestation-Free Procurement Act this legislative session.

Signed,

Adasina Social Capital

AJF Financial Services Inc.

As You Sow

Boston Common Asset Management

Change Finance

Christian Brothers Investment Services

Congregation of St. Joseph

Daughters of Charity, Province on St. Louise

Domini Impact Investments

Everence and the Praxis Mutual Funds

Figure 8 Investment Strategies

Friends Fiduciary Corporation

Green Century Capital Management

Harkins Wealth Management

Impax Asset Management LLC

Interfaith Center on Corporate Responsibility

Investor Advocates for Social Justice

KLP Kapitalforvaltning AS

LGIM

Maryknoll Sisters

Mercy Investment Services

Miller/Howard Investments, Inc.

Missionary Oblates of Mary Immaculate JPIC

Missionary Oblates/OIP Trust

Natural Investments

NorthStar Asset Management, Inc.

Oxfam America

Seventh Generation Interfaith, Inc.

SharePower Responsible Investing

Signet Strategic Wealth Management, Inc.

Sjunde AP-fonden (AP7)

Skye Advisors LLC

SRI Investing LLC

The Sustainability Group of Loring, Wolcott & Coolidge

Trillium Asset Management

Vert Asset Management

Zevin Asset Management