



# Responsible investment Palm oil and your investment portfolio

Anyone who invests in Asia or emerging markets, whether directly or via global investment funds, may have palm oil companies in their portfolio.

In this article you can read more about these companies, our investment policy and why we cannot entirely exclude investments in palm oil.

Palm oil is a product that is extracted from the fruits of the oil palm, a tree that occurs in countries with a tropical climate. 90% of all oil palm plantations are located in Indonesia and Malaysia. Other countries where the oil palm is cultivated are Colombia, Nigeria and Thailand.

### **Palm oil is a popular product**

The fruits of the oil palm are used for the production of palm oil. Palm oil is popular. The reason? It is an important and versatile raw material for a great many staple products, such as margarine, biscuits, shampoo and fuel. So you probably use it every day without knowing it. In fact, consumer goods giant Unilever is the largest buyer of palm oil worldwide. Palm oil fat offers diverse advantages. It is healthier than animal fats or sunflower oil. And is also an extremely efficient crop. The oil is extracted from both the fruit and the kernel, so that the yield per kilo of fruit is high. As a result, palm oil requires up to nine times less land to produce the same amount of oil than other natural oil crops.

**Palm oil is a product we use daily**



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## Production of palm oil is sometimes controversial

### A controversial product that provokes much public debate

Despite its important role in our daily lives, palm oil attracts considerable controversy. This is mainly because of the environmental and ethical issues surrounding the development and management of palm oil plantations. The enormous demand for palm oil has led to a proliferation of plantations in countries like Indonesia and Malaysia, sometimes at the expense of the original ecosystems. Forests are frequently burned to obtain land for plantations. Apart from destroying the forests, these clearances also often have a devastating impact on the underlying peatland. This causes smog pollution in the region and, of course, releases high levels of CO<sub>2</sub>. The new plantations are thus displacing the tropical rain forest and the wildlife living there. Another controversial element stems from the manual harvesting process. This is labour-intensive and many palm oil plantations fail to treat their workers in a fair and equitable manner. Pay is often low and the working conditions arduous.

## We believe in change through engagement

The controversies surrounding palm oil regularly spark passionate public debate. Some parties call upon financial institutions such as ING to abandon palm oil altogether. Others, such as the non-governmental organisations IUCN and WWF, press for dialogue and engagement. That, in their view, is the only way to bring about a change for the better in the sector. We, too, believe that divestment solves nothing. Demand for palm oil remains as great as ever and is expected to grow further. In the long run, we are convinced that we can contribute more to the sustainability of the sector by staying involved, carefully looking at what we do and do not invest in and engaging in dialogue with managers of funds with exposure to palm oil.

## Awareness and certification to achieve more sustainable palm oil

### Towards a sustainable palm oil sector

Due to the lack of good and cheaper alternatives, users of palm oil find themselves compelled to continue using palm oil and producers remain active in this sector. To tackle the environmental and ethical abuses surrounding the production of palm oil, users and producers have united in the RSPO, the Roundtable on Sustainable Palm Oil. This organisation, which also issues a certificate for sustainable palm oil, aims to advance the sustainability of palm oil production. The RSPO has adopted various sets of transparency and accountability criteria for the environment, workers' rights and society. The RSPO has many thousands of members. These currently include 78 plantation holders, large corporate players like Unilever and ING, as well as non-governmental organisations such as Oxfam and UTZ. The list of members can be viewed at [RSPO.org](http://RSPO.org). The World Wildlife Fund has launched an [information platform](#) on which consumers can check whether a producer uses sustainable palm oil in its products.

## Investors and financiers have different relationships with companies

### Investor versus financier

ING adheres to a strict financing policy for its loans to large corporate clients. Lending to palm oil producers is permitted, provided certain conditions are met. More about this topic can be read [here](#) on the ING website. Loans typically involve personal contact, a detailed preliminary investigation, a long-term relationship and a clear purpose. As a result, a lender usually maintains a close relationship with the borrower.

With investments, the relationship is usually more transient and the distance is larger with the organisation in which the investment is made. In addition, we often make use of third-party investment funds. This makes it more difficult to ascertain the activities being invested in and to exert influence over the companies in which we invest for our clients. This also applies to companies that are active in the palm oil sector.

### The client chooses

ING offers various investment options;

- Execution only. You make your own investment choices.
- Discretionary. In this case the ING Investment Office manages your investment portfolio.
- Advisory. Sometimes you can also opt to invest with an adviser, in which case you make the investment choices together.

ING strategies are broadly diversified

In the latter two cases, you can choose between diverse investment strategies, focused on sectoral developments, income, index funds or sustainability. These strategies consist of investment funds, sometimes supplemented with individual equities and bonds.

All our strategies are aligned as closely as possible with each other in terms of risk and profile and adjusted to the outlook for the financial markets. All strategies invest worldwide as broader diversification leads to a better risk/return ratio. The Sustainable strategy also takes other elements on board: in addition to financial criteria, companies and governments are also judged on their performance on environmental, social and governance (ESG) factors.

### ING adheres to a responsible investment policy

The ING Investment Office adheres to a responsible investment policy for all its investment strategies. The policy for the Sustainable strategy goes a step further and serves as a compass for the manner in which we take responsibility as an investor on behalf of our clients.

The diagram below provides a summary of this policy.

We do not invest in highly controversial companies ourselves



More information about the responsible investment policy and the Non-Financial Indicator (NFI) can be found in our publication: [Investors have influence](#).

### Palm oil in the investment portfolio

We do not exclude all companies that are active in the palm oil sector, not even for the Sustainable strategy. Because palm oil is not harmful in itself. The damaging side effects for people and planet stem mainly from the abuses surrounding the production process. The ING risk policy, together with our check to exclude the worst offenders of the Global Compact Principles, is designed to ensure that the companies with the most controversial track record on people and planet are kept out of the investment portfolios. With portfolios comprising individual equities and bonds, the Investment Office can monitor this policy one on one, as in this case we determine which companies make it into the portfolio.

### Few investment funds exclude palm oil up front

Rigorous monitoring is more difficult with portfolios consisting of investment funds, as in this case the fund managers decide which equities or bonds are selected for the portfolio. In addition, each fund manager has his own approach to responsible investing. Some funds, for instance, focus on Asia or emerging markets. These may have exposure to the palm oil sector, depending on the fund manager's investment policy, company selections and market outlook.

According to a survey of the Centre for Research on Multinational Corporations (SOMO) from October 2018, two investment funds included at that time in the various ING strategies contained companies active in the palm oil sector. These were the Vanguard Global Fund and the Vanguard Japan Fund. Both are index funds and had holdings in one or more companies with palm oil activities at the time of the SOMO survey.

## The Sustainable strategy invests in more sustainable companies

In October 2018, the total amount invested via these two funds in palm oil companies for our advisory and discretionary management clients ran to €3.4 million. That is about 0.023% of the funds invested for our clients. Very few investment funds exclude palm oil as a matter of policy. Even sustainable index funds do not go this far. Whether the fund takes on exposure to the palm oil sector is up to the fund manager.

### Our Sustainable strategy invests in more sustainable companies

Our clients are entitled to expect that a sustainable fund only invests in companies that have a relatively rigorous policy on environmental, social and governance factors and are not involved in controversial behaviour or activities. With the Sustainable strategy you can invest indirectly in more than one thousand different companies. The managers of most of these funds pursue an active investment policy. This entails that the portfolio is continuously monitored and that positions in individual companies can be sold or purchased at any time. As a result, the composition of these portfolios can constantly change. In October 2018, the Sustainable strategy had no exposure to palm oil companies. If any such investments are made in the future, we will contact the fund manager to hear the underlying reasons and expectations of these investments.

## Want to know more?

 Go to [ing.nl/beleggen](https://ing.nl/beleggen)

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