RESPONSIBLE LEADERSHIP
PROTECTING PORTFOLIO VALUE THROUGH NATURE

WHAT ASSET OWNERS NEED TO KNOW – AND DO – ABOUT FOREST–RELATED RISKS AND OPPORTUNITIES.

Deforestation, nature loss, climate risk, and evolving regulatory expectations are creating new risks—and new opportunities—for investors. As markets increasingly recognize the value of natural assets, sustainable forestry is emerging as a strategic lens for managing risk, strengthening resilience, and creating long-term value.

Why Forests Matter to Investors

NATURE RISK IS MOVING INTO MAINSTREAM FINANCE AND BUSINESS

Nature-related risks are becoming a key consideration for investors, driven by growing regulation around biodiversity loss and deforestation. For instance, more than 700 organizations representing over US$22 trillion in assets under management have adopted the Taskforce on Nature-related Financial Disclosures (TNFD), while regulations such as the EU Deforestation Regulation are increasing the importance of traceability, due diligence, and responsible sourcing in maintaining market access.

IS YOUR PORTFOLIO EXPOSED TO FOREST RISK?

Forest-related risks are financial risks arising from deforestation, forest degradation, biodiversity loss, and the disruption of forest ecosystem services. These risks can affect portfolio performance through physical impacts, regulatory change, supply-chain disruption, reputational exposure, changing market expectations, and higher insurance costs.

Physical Risks

Deforestation and ecosystem degradation can increase exposure to flooding, water scarcity, wildfires, reduced land productivity, and supply-chain disruption—creating financially material impacts for businesses and investors.

Transition Risks

Emerging regulations, disclosure requirements, and market expectations are increasing the costs of non-compliance while creating incentives for deforestation-free sourcing, traceability, and responsible forest management.

Reputational Risks

Companies linked to deforestation, biodiversity loss, or social conflict may face reputational damage, investor scrutiny, and consumer backlash.

Your assets may be exposed to forest-related risks through holdings in sectors such as agriculture, consumer goods, construction, packaging, infrastructure, energy, and manufacturing—even if you do not directly invest in forestry. Understanding and managing these risks is becoming an increasingly important part of long-term portfolio resilience, and should be a key consideration for your asset manager.

What Asset Owners Can Do

Asset owners play a critical role in shaping investment and stewardship outcomes. Working collaboratively with asset managers, asset owners can set expectations for risk management, company engagement, proxy voting, and capital allocation to help address nature-risks and support responsible forest stewardship.

Assess Exposure: Identify portfolio exposure to companies and sectors dependent on forests, forest-risk commodities, and ecosystem services. Leverage frameworks such as TNFD to better understand nature-related dependencies, impacts, risks, and opportunities of your current assets.

Set Stewardship Expectations: Communicate expectations to asset managers regarding responsible sourcing, supply-chain traceability, deforestation-free commitments, and the integration of credible forest stewardship practices, including consideration of FSC-certified products and materials where appropriate.

Integrate Forest Risk into Manager Oversight: Ask asset managers how they identify, assess, and manage deforestation and nature-related risks within investment processes. Review stewardship activities, proxy voting records, and engagement outcomes to ensure alignment with your forest-related expectations and nature-risk tolerance.

Allocate Capital to High-Integrity Solutions: Prioritize investments in companies, funds, and projects that demonstrate credible approaches to responsible forest management, sustainable land use, FSC-certified supply chains, and supply-chain transparency.

To learn more about how FSC can support your investment goals, contact: **financing@fsc.org**

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How FSC Can Strengthen Portfolio Resilience

FSC serves as market infrastructure for responsible forestry. By connecting forest management, supply chains, and capital markets through trusted standards and independent verification, FSC helps investors evaluate risk, improve transparency, support regulatory readiness, and identify more resilient investments.

SUPPORT STEWARDSHIP AND MANAGER OVERSIGHT

FSC standards and verification systems can provide asset owners with a credible reference point for engaging asset managers and portfolio companies on forest-related risks and opportunities. Certification data and traceability information can support stewardship activities and oversight of responsible sourcing and forest management practices.

IMPROVE RISK VISIBILITY AND TRANSPARENCY

FSC certification, chain of custody requirements, and independent verification can provide investors with greater visibility into forest-related risks across assets and supply chains. This information can support due diligence, portfolio monitoring, and investment decision-making by improving transparency around sourcing practices and forest management performance.

IDENTIFY RESILIENT LONG-TERM INVESTMENT OPPORTUNITIES

FSC-certified forests and forest-based value chains can provide exposure to growing markets for sustainably sourced products. Sustainable forestry may offer long-term investment potential through land appreciation and increasing demand for responsible materials, while also providing diversification and potential inflation-hedging benefits within long-term portfolios.

ENHANCE REGULATORY AND DISCLOSURE READINESS

FSC's requirements for due diligence, growing traceability capabilities for compliance on deforestation-free value chains and third-party verification can help investors assess alignment with evolving disclosure frameworks and regulations, including TNFD and EUDR. Increasing end-to-end traceability across forest management, supply chains, and market claims can also strengthen confidence in reported sustainability performance and sourcing practices.

STRENGTHEN REAL ASSET RESILIENCE AND LONG-TERM VALUE CREATION

FSC-certified forest management promotes practices that protect biodiversity, safeguard workers and local communities, and maintain ecosystem health. These factors can contribute to operational stability, reduced risk exposure, and the long-term resilience of forest assets and forest-dependent value chains.

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