CHANGES IN FOOD INDUSTRY INVESTOR STANDARDS

The U.S. economy continued to strengthen over the past year, as consumers, businesses, and investors enjoyed low unemployment, growth in gross domestic product (GDP), and, for the most part, a strong stock market. Food and agriculture sectors, however, were hampered by several challenges. Extreme weather, wildfires, and labor and farmworker disruptions buffeted the country’s agriculture, energy, and distribution industries. The Trump administration’s embrace of protectionist policies resulted in retaliatory tariffs on major U.S. agricultural goods, such as soybeans, pork, and wine. The longest government shutdown in U.S. history, starting in late December 2018, put additional strain on farmers, particularly those who depend on government payments to offset hardship from tariffs.

One investor trend that has remained consistent over the past decade is the strong, steady growth in sustainable and responsible investment (SRI). In the U.S., SRI grew to $12 trillion in assets as of 2018—an increase of 38 percent over 2016 levels. The investment thesis that companies with better environmental, social, and governance (ESG) commitments will have better financial performance than their less responsible peers over time is now widely recognized as valid and valuable. As of last year, U.S. investors employ ESG analysis in $11.6 trillion—an increase of 44 percent over 2016. All told, 81 percent of institutional investors now have “a sustainability mandate.”

In addition to greater ESG investment overall, more mainstream investment firms like Blackrock and Vanguard Group are engaging in shareholder advocacy, voting their proxies in favor of select proposals that support transparency and sustainability. Investors dedicated to ESG are also stepping up advocacy through the number of shareholder resolutions filed. Membership in the Principles for Responsible Investment (PRI) group of investors continued to grow, and globally, investors were increasingly likely to support environmental and socially themed shareholder resolutions (see chart below).

Another ESG driver includes investment commitments to support the Sustainable Development Goals (SDGs), a global framework for advancing human development by 2030, replacing the Millennium Development Goals. The 17 goals include broad targets, such as eliminating poverty and hunger or achieving better working conditions and gender equity.

In addition to ongoing concerns with environmental issues such as climate change and water risk, plastic packaging waste is increasingly a topic that garnered investor concern over the past year. For example, 25 investors representing more than $1 trillion in assets under management asked Pepsi, Unilever, Procter & Gamble, and Nestlé to cut their use of plastic packaging. Investors foresee increased pressure on branded companies, as civil society organizations step up pressure. The global coalition Break Free from Plastic published a 2018 audit of over 187,000 samples of plastic cleaned up by volunteers in 42 countries, and then tagged by brand. They concluded that the “top three companies alone (Coca-Cola, PepsiCo, and Nestlé) accounted for 14 percent of the branded plastic pollution found worldwide.” These findings translate to real risk for laggard companies, and a significant upside for those that innovate their way to better packaging. A study by investment firm Schroders concluded the “soft drinks companies who fail to innovate on packaging could see margin fall by 5 percent but leading Household and Personal Care companies could see improvements of 2 percent.”

For food and beverage companies, this trend of greater investor engagement is challenging but will certainly continue.

Finally, investors are taking note of innovation trends in the food sector, which continues to be something of a pet project of tech investors. The rise of electric, autonomous vehicles is paving the way for cheaper, faster delivery of meals and groceries. These investors continue to be fascinated by alternatives to animal protein and meat alternatives made with a variety of plant-based ingredients. Venture capitalists continue to support start-ups in functional, medicinal food and edible cannabis products. Mainstream investors have yet to fully unpack the risks and opportunities afforded by the cannabis market, as most companies are not large enough to be publicly traded.

IN SUMMARY:

• Although investors and food companies have enjoyed a buoyant economy, uncertainty around climate and extreme weather, trade policy, and political stability pose significant financial risk to operations.

• Interest in sustainable investing by institutions and individuals remains extremely strong, and even mainstream investors are engaging companies through dialogue and voting proxies in support of shareholder proposals that advance environmental, social, and governance (ESG) benefits. Companies should expect this trend to continue.

• As more institutional and individual investors increase their engagement with publicly traded companies on sustainability, food and restaurant businesses will need to be especially responsive to and aware of a widening, often bundled set of concerns for investors, including human rights policies and risks, plastic waste, and climate change.