Food and Wealth Creation

By Maria Lettini
Director of the Fairr Initiative

The number of assets managed using responsible investment strategies has risen dramatically in recent years, growing 25% to $22 trillion in 2016 according to the Global Sustainable Investment Alliance. We have also seen this evolution within the wealth management community, as more clients become aware of environmental, social and governance (ESG) issues and their related products.

However recent analysis has shown that one of the most financially material ESG issues is also one that is least talked about. There is an overall lack of awareness amongst the investment community, including wealth managers, about the significant risks that surround the world's reliance on conventional meat production. This type of intensive farming poses a significant threat not only to consumer health and wealth, but also to investment portfolio value. This knowledge gap was the impetus for the creation of the Fairr Initiative. Fairr is an institutional investor network founded by private equity pioneer Jeremy Coller, with support from investors who collectively hold over $4 trillion of assets under management.

A problem hidden in plain sight

Fairr's analysis of the food sector shows that large-scale factory farming (i.e. the industrialized system of rearing large quantities of livestock in confined spaces, typically with poor ventilation and, in many cases, unhygienic conditions) has emerged at a remarkable rate in a relatively short period of time. More than 70% of the world's livestock is now intensively farmed, and that figure rises to an astonishing 99% in the United States. As recently as the 1990s, just 30% of pigs in the U.S. were factory farmed, compared to almost 97% today. Unfortunately, these techniques are spreading around the world.

Bad for animals, bad for investors

As you would expect of industrialized production, intensive livestock farming methods are very efficient, keeping costs to a minimum in the short term, but also at the risk of creating longer-term liabilities. A landmark investment-risk report gives credence to this claim and highlights no less than 28 material ESG issues associated with intensive farming methods. Perhaps one the most significant of these risks is antibiotic resistance. Antibiotic resistance is one of the world's most rapidly emerging public health threats, already responsible for around 700,000 deaths per year. The overuse of antibiotics in the global livestock industry is widely recognized as a factor in this growing issue. The majority of all antibiotics produced today are given not to humans, but to farmed animals. In the EU, 70% of antibiotics go to the animal farming industry, and in the U.S. the figure exceeds 75%. Stopping the needless misuse of antibiotics has already led to stricter regulations for livestock producers in both the EU and U.S., with further regulation and trade restrictions likely to come. This puts the business models of a wide range of companies across the entire food-supply chain at risk.

There are also several other environmental issues associated with animal factory farming. For example, it is estimated by the UN's Food and Agriculture Organization (FAO) that livestock is responsible for 14.5% of all greenhouse gas emissions, more than all the world's cars, planes and trains.

Recently, two Brazilian meat companies were implicated in a tainted-meat scandal. One, JBS, lost billions of dollars in shareholder value and is facing lawsuits, fines and criminal charges. The current supply chain for animal protein will struggle to meet this growing demand. From the perspective of a wealth manager, that could lead to a short-term overvaluation of farming and food companies and puts trillions of dollars of value at risk.

Alternatives and opportunities

As well as managing risk, there are also significant opportunities for wealth managers. There is a growing interest in start-ups which are applying cutting-edge thinking in biotechnology, medical science, manufacturing and data management in an attempt to reinvent the way we think about food. The 'meat substitute' market is set to grow 8.4% annually over the next five years according to recent research. Similarly, we can see the non-dairy milk space already exhibiting such expansion, with sales growing 9% in 2015 in the U.S. alone.

One new development is 'replacement innovations', i.e. foods that use biotechnology and other methods to provide an identical or improved sensory experience vis-à-vis the product they replace. For example, California-based *Impossible Foods* has found a way to make a veggie-burger have the look, taste and feel of real meat, with backers including the likes of UBS and Bill Gates. The second type of innovation shaping the future of food is sustainable 'cultured meat' – i.e. laboratory-developed beef and chicken which can eventually be sold to a mass market. The sector is led by firms such as *Memphis Meats*.

Industrialization and technology have been the most powerful forces shaping food production in the last 40 years and can continue to be so in the future, but only if they are applied through the filter of sustainability. For wealth managers, the investment case is a compelling one – not only to avoid risk, but to seize the potential profits on offer.

www.fairr.org