FARM TO FORK
INTRODUCTION

Growing and distributing food to feed the more than 7 billion people inhabiting the planet is a challenge, and one that is growing, especially with global population projected to reach 9.6 billion by 2050.\(^1\)

At present, 805 million people around the world do not have enough food to live a healthy, active life and over three million children under the age of five die each year from poor nutrition,\(^2\) a problem that will very likely be exacerbated by the impacts of climate change, further complicating efforts to remedy food security concerns around the world. In contrast, diet-related disease and illness, caused in large part by a combination of declining physical activity and poor diets, has become prevalent worldwide. An estimated 3.4 million adults die each year as a result of being overweight or obese and the World Health Organization projects that diabetes deaths will double between 2005 and 2030.\(^3\)

Countries often face a double burden of overnutrition combined with low physical activity and under nutrition. In the U.S., two-thirds of adults are overweight or obese while more than 49 million people live in food insecure households.\(^4\) This double burden is not limited to high income countries; changing diets and lifestyle choices in low- and middle-income countries have increased the prevalence of obesity in both adults and children.

Our food system is highly complex and resource intensive. The carbon footprint of the food system accounts for 20% of the consumption-based GHG emissions in the world\(^5\) and the agricultural sector accounts for 67% of freshwater withdrawals and 86% of freshwater consumption.\(^6\)

Research has shown that in the continental U.S., produce travels an average of 2,400 kilometres to reach its point of sale.iii

Meanwhile, global estimates suggest that one-third of the food produced in the world for human consumption gets lost or wasted.ix In Canada, the value of food wasted is over $30 billion annually.x

Faced with these daunting challenges, what role can investors play in creating an efficient and equitable food system? Ethical Funds works with companies along the entire food value chain – from Farm-to-Fork – to mitigate risk to long-term value.

Farm-to-fork represents a holistic view of the food value chain and its components. It encompasses each segment of the food value chain – production, harvesting, processing, distribution, and consumption – and includes the stakeholders that interact throughout this value chain, including governments, regulators, civil society and companies. Each segment of the value chain has unique environmental, social, and governance (ESG) risks; however, we also find that there are universal risks faced by all companies involved in the food value chain.
ETHICAL FUNDS’ FARM TO FORK APPROACH

For more than a decade, Ethical Funds has worked to address risks and opportunities that companies operating throughout the food value chain face. The topics we engage on have evolved to reflect our understanding of the food system and emerging risks to companies in the sector.

MANAGING PERVERSIVE RISKS

As recent examples demonstrate, issues like food safety and ethical sourcing are pervasive in the food system. Ethical Funds addresses these risks by having criteria in place to ensure that companies we invest in have the appropriate governance oversight and management systems to ensure that these risks do not erode the long-term value of our investments. Our ongoing monitoring of food companies held in the Ethical Funds portfolio provides additional assurance that companies in our investment universe continue to meet our expectations and helps determine which companies become candidates for engagement.

Labour Standards in Agricultural Supply Chains.

In 2013, NEI joined a Principles for Responsible Investment (PRI) collaborative investor engagement focused on labour standards in the agricultural supply chain. Thirty-four food and beverages companies were engaged by investors, including NEI, and over 60% of the companies engaged improved supply chain practices as a result. NEI signed onto a statement of Investor Expectations on Labour Practices in Agricultural Supply Chains based on the best practices gathered during the project.
**Pervasive Risk Spotlight**

A myriad of environmental and social concerns are present throughout the food value chain, and there is a strong indication that failure to address ESG risks in the food sector can have real and lasting impacts on businesses. Brand reputation and value can be harmed by food safety scandals and companies that fail to innovate to meet changing consumer demands for healthy products could lose market share and potential consumers.

**Sourcing**

**Risk:** Food production uses a variety of inputs — water, fossil fuels, chemicals and land resources — and can have negative consequences for the environment. In addition, over one billion people are employed in the agricultural sector and there have been well-documented cases of human rights violations in the food supply chain.

**Example:** In 2014, it was reported and verified that fishing boats producing fish meal for the Thai shrimp industry were using forced and slave labour. The industry was found to be supplying major western supermarkets, including Walmart, Costco, Tesco and Carrefour.

**Food Safety**

**Risk:** Food safety incidents can erode company value and reputation. Recent food safety scandals from well-known global brands have had negative consequences on stock price and company performance. Companies that effectively manage consumer concerns about food ingredients, including GMOs, and have systems and policies in place to ensure food safety throughout the supply chain can minimize risk and exposure to litigation.

**Example:** Companies have been implicated in serious food safety incidents and scandals. In 2014, a Yum! Brands supplier was found to be using expired meat in products and in late 2015, Chipotle customers became sick from E. coli bacteria, resulting in a fall in sales and stock price.

**Consumer preferences**

**Risk:** Awareness of diet-related illnesses and changing food trends have spurred consumers to demand new products that are innovative and offer different health attributes. Companies that are unable to respond to this challenge by innovating and releasing new products risk losing market share in the hyper-competitive food and beverage industry.

**Example:** For the past decade, sales volumes of soft drinks have been on the decline while sales of non-carbonated beverages and water have increased.

**Engagements**

Our engagements are organized around the overarching themes of access to nutrition and food system sustainability. Under these themes, we have a range of subjects we discuss regularly with companies, including responsible product marketing, programs to promote better nutrition, environmental and social criteria in supplier codes of conduct, sustainable packaging, food waste and animal welfare. We actively engage companies throughout the food value chain, including Canadian supermarkets such as Loblaw and Metro, large food and beverage companies, including Nestle, Coca-Cola and Unilever, and companies in the restaurant sector, including Yum! Brands and McDonald’s. We either lead these engagements or participate as part of a collaborative investor dialogue.
Tackling Risk and Promoting Food System Sustainability

Food system sustainability, one of Ethical Funds’ engagement themes, encompasses a wide range of topics. When discussing food system sustainability with companies, we look for some of the following information:

- **Governance:** A strong governance structure, characterized by board level oversight of environmental and social issues and a dedicated senior management team that ensures strategies for mitigating environmental and social issues are integrated through the company.
- **Food safety and quality:** Company-wide food safety and quality management systems.
- **Responsible sourcing:** Supplier codes of conduct that incorporate social and environmental considerations, including human rights. Specific sourcing policies for controversial food commodities such as fish, soy and palm oil. Disclosure of the results of supplier audits conducted by third-party auditors.
- **Access to nutrition:** Healthy eating programs and healthy food options available at all retailer banner stores – including discount stores. Food and beverage company efforts to modify products or offer new products that meet consumer demand for different nutritional properties, including low or no-calorie beverages and lower sodium and trans-fat foods.
- **Animal welfare:** Acknowledgement of the importance of animal welfare, with accompanying animal welfare policy or guidelines.
- **Waste management:** Initiatives to reduce or eliminate food waste.
- **Water management:** Systems, initiatives, innovations to manage water use.
- **Greenhouse gas emissions:** Company report on GHG emissions and active role in advancing climate policy. Company initiatives to reduce GHG emissions in the food supply chain.

Collaborations

We collaborate with other global and North American investors on a range of topics, including access to nutrition, water sustainability, human rights in the supply chain and responsible food marketing; including leading dialogues with major companies such as Coca-Cola and Yum! Brands.

NEI is working with other investors through the Business Benchmark on Farm Animal Welfare (BBFAW) to engage companies on farm animal welfare issues. BBFAW ranks global food companies, including restaurants, retailers, food manufacturers and agricultural companies, on disclosure of animal welfare practices. The goal of the benchmark is to improve farm animal welfare management and reporting and drive improvements in practices and performance. In May 2016, NEI was one of the founding signatories to the Investor Statement on Farm Animal Welfare, which recognizes farm animal welfare as a potentially material risk to long-term investment value.

[Click here to view statement](#)

Endorsing Access to Nutrition

In 2013, Ethical Funds signed the Access to Nutrition Index (ATNI) Investor Statement. The ATNI assesses food and beverage companies on nutrition commitments and performance. During our engagements, we have briefed companies about the Index and encouraged them to improve initiatives to enable access to nutrition and disclose details of these activities. As an investor supporter of the ATNI, we will further explore the role of consumer companies in ensuring that everyone has access to a healthy diet.
What’s next for food?
Global population trends are shifting patterns of food consumption. The global “middle class” is set to expand to 4.9 billion by 2030, an increase of about 3 billion people from 2009 levels. As incomes rise, so too does the demand for more resource intensive food products, including meat and dairy products. This growth will create unprecedented challenges for the global food system, including the natural resources and human capital that support food production. At the same time, technological developments are making food production, harvesting, and distribution more efficient, and consumer demand for food products that meet ethical, nutrition and sustainability standards is increasing. Ethical Funds continues to keep a close watch on food system innovations that pose both a risk and an opportunity for companies in the food-value chain. All investors have a long-term interest in making sure companies operating in the food value chain help create a more resilient, equitable and safe food system.

2 World Food Programme - https://www.wfp.org/hunger/stats
3 http://www.wpro.who.int/mediacentre/factsheets/diabetes/en/
6 http://www.unep.org/dewa/vitalwater/article48.html
sus-conventional-produce-sales-iowa-institution.pdf
9 http://www.unep.org/wed/2013/quickfacts/
12 http://www.fao.org/docrep/005/ac911e/ac911e05.htm

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