PLATING UP PROGRESS

POLICY BRIEF

FINANCIAL RISKS IN THE FOOD SYSTEM

Why investors are increasingly interested in food policy

The Food Foundation

About Plating Up Progress

Plating Up Progress is a project run in the UK by The Food Foundation. It aims to demonstrate how sustainability and health metrics can and should be used to assess the UK food industry's progress in transitioning to healthy, just, and sustainable food systems.

The project has two objectives: 1) to build consensus on metrics and reporting mechanisms; and 2) to engage stakeholders to advance the uptake of those metrics and track progress in the industry.

Executive Summary

This is the third policy briefing from **Plating Up Progress**. In the **first** we argued that a lack of transparent data is currently hindering progress towards healthy, just, and sustainable food systems, and that the Government should introduce mandatory reporting by the food industry against a variety of metrics. In the **second** we highlighted the growing number of voluntary data reporting initiatives in the food sector, showcased examples of existing best practice on food business reporting, and explored the issues that will need to be considered by the Government as they implement new reporting requirements, as committed to in the 2022 **Government Food Strategy**.

In this briefing we explore the material financial risks associated with a failure to make healthier and more sustainable diets affordable and accessible for everyone – systemic, direct and transitional – and the growing interest that investors are therefore showing in whether and how dietary transitions are being supported by businesses across their portfolios.

Investors are already showing an interest in the policy-making space related to dietary shifts, and we conclude that this interest is only likely to increase further. Policy-makers therefore need to recognise investors as a key stakeholder group in their work.

Changing diets is essential for our long-term health and the health of our planet

The **National Food Strategy**, an independent review of England's food system which was commissioned by the government and published in July 2021, recommended that four key dietary shifts are needed by 2030 to improve our health and the health of the environment:

FIBRE
UP BY
50%

FRUIT AND VEG
UP BY
30%

MEAT
DOWN BY
30%

HIGH FAT SUGAR AND SALT FOODS
DOWN BY
25%

Our health: Overall, less than 0.1% of the UK population currently eat a diet which meets all of the government's healthy eating 'Eatwell Guide' recommendations[1], leading to a situation in which 4 out of the top 5 risk factors for ill health in the UK are related to diet[2]. This makes diet the leading cause of avoidable harm to our health. High BMI and poor diets combined already account for more deaths than tobacco, alcohol or drug use[3], and on current trends obesity rates are set to rise further still, with 3 in 4 children born in 2022 set to have overweight or obesity by the time they are 65 years old[4].

The planet: Food systems are responsible for approximately 30% of anthropogenic greenhouse gas emissions[5], 70% of freshwater withdrawals[6], and are key drivers of both terrestrial and marine biodiversity loss[7,8,9]. One of the primary culprits is high levels of meat consumption, principally because meat production is a highly inefficient use of land. Current levels of meat consumption are widely recognised to be too high to be compatible with the UK's climate mitigation and adaption goals. 85% of the farmland that feeds the UK, both at home and abroad, is currently used for grazing or animal feed[10] – land which could otherwise be used to grow food directly for human consumption, capture carbon or restore nature. Analysis by the Climate Change Committee suggests a potential land saving of 7 million hectares by 2050 if healthier low carbon diets were adopted[11].

THE FOOD INDUSTRY PLAYS AN IMPORTANT ROLE IN SHAPING WHAT WE EAT.

Our food choices are shaped to a large extent by the options which are available to us, how appealing those options are, and how affordable they are. Food businesses across the sector (retailers, manufacturers, food service and out of home) all play an important role in shaping each of these factors.

In particular, food businesses can determine:

- **Availability:** what products are stocked in store and which dishes are featured on menus
- **Appeal:** how products/dishes are positioned and marketed, how products are packaged and labelled, and how menu items are described
- **Affordability/Price:** how products and menu items are priced

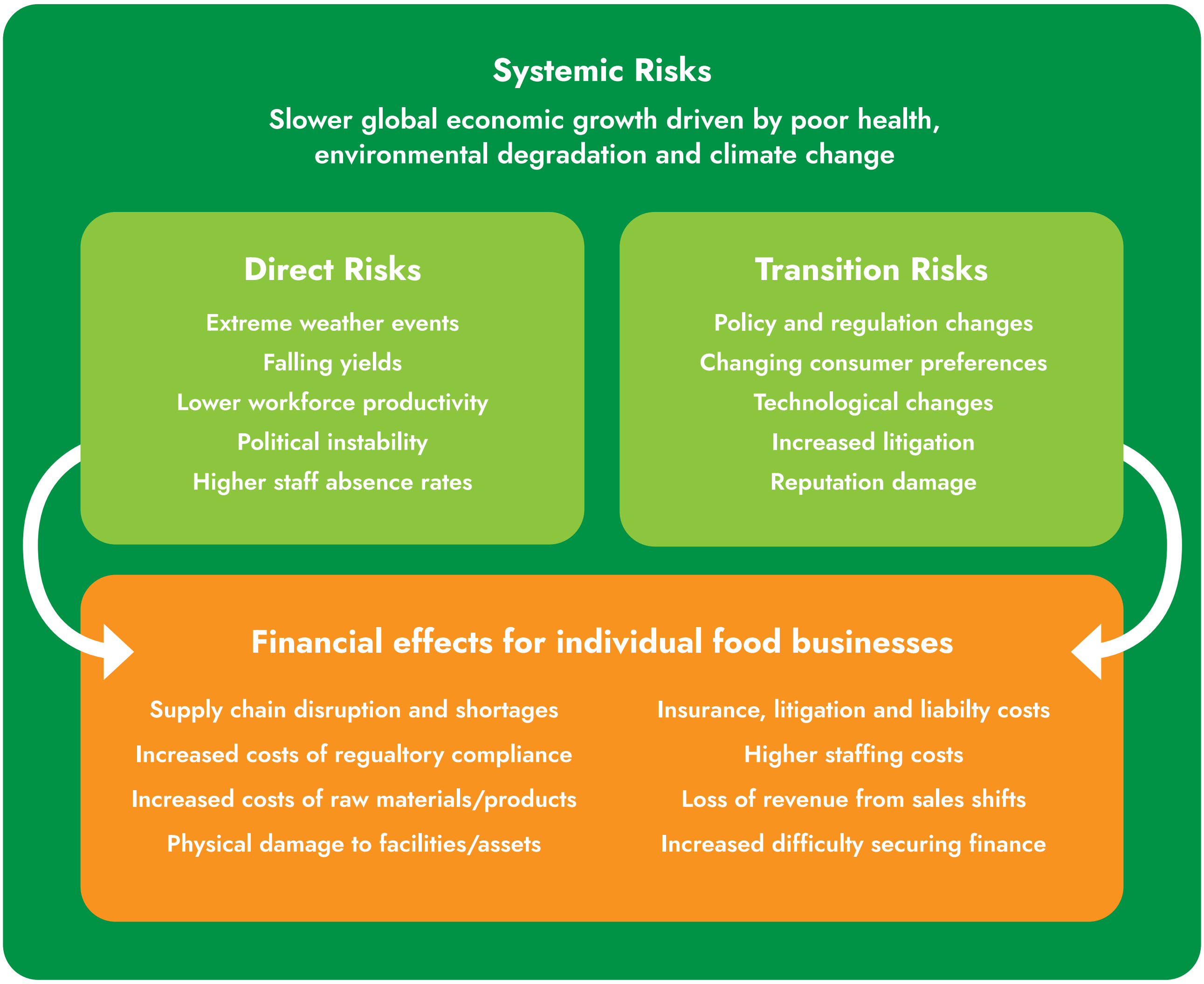
A FAILURE TO SHIFT DIETS IN A MORE HEALTHY AND SUSTAINABLE DIRECTION CREATES BUSINESS RISKS.

When considering short-term profits, it is not often in the best interest of businesses to voluntarily stock and promote healthier and sustainable options, or to price them favourably. Our current food system traps food businesses (as well as consumers) in what the National Food Strategy described as a 'junk food cycle'. The foods which are most profitable to produce and sell tend to be those that are more processed, often higher in sugar, salt and saturated fat, highly palatable, easy to brand and market, more convenient for consumers, with longer shelf lives and with lower ingredient input costs. Businesses therefore have an economic incentive to stock and sell more of these types of products. By contrast, less processed whole foods, such as fruit and vegetables, are not easy for businesses to market and do not generate high levels of added profit.

However, when taking a longer-term view, the future financial success of food businesses will be put at risk in a number of different ways by a failure to shift diets.

Different types of risk in the dietary transition:

- **Systemic risks:** these risks cannot be diversified away from – they will affect the success of the economy as a whole.
- **Direct risks:** these risks will directly affect the success of individual businesses.
- **Transition risks:** these risks will only affect those individual businesses that fail to rapidly support the transition towards healthier and more sustainable diets.



1. SYSTEMIC RISKS

The poor health and environmental damage caused by poor diets are themselves systemic risks, which will affect the success of the economy as a whole, as well as individual food companies.

Good health is essential if people are to work, live independently and thrive. It benefits the economy and supports its resilience. By contrast, poor health reduces productivity amongst those of working age, and results in high healthcare costs, which are shared by the country as a whole. McKinsey have estimated that better health could add US$12 trillion to global GDP by 2040 – this is equivalent to 0.4% faster growth per year[12]. A recent report by IPPR found that 2.5 million people in the UK are economically inactive due to long-term health issues[13]. OECD research has shown that obesity reduces the employment rate, and increases early retirement, absenteeism and presenteeism resulting in a reduction in labour market outputs by the equivalent of 944,000 full time workers per year in the UK[14].

Similarly, a healthy and well-functioning natural environment is the bedrock of a flourishing society. If left unchecked, climate change and environmental degradation will result in both direct impacts to food production and human health, and severe global economic losses. These economic losses will be caused by disruption and stagnation across the economy – including for security, infrastructure and water. If the Paris Agreement goals are not successfully met, it is estimated that global temperature rises of around 4 degrees Celsius will result in $23 trillion of global economic losses over the next 80 years[15].

Because of the size and scope of systemic risks, it is not possible for investors to hedge their investment portfolios in order to mitigate them. Poor health, a failure to address climate change, and a failure to improve the health of the environment will dampen economic growth for all companies and squeeze the long-term returns that investors might expect from their investments.

2. DIRECT RISKS

The health and environmental impacts of a failure to shift diets also result in direct physical risks for food businesses.

Poorer population health will mean that food businesses experience diminishing productivity and higher health-related absence rates in their own workforces, leading to poorer economic returns for the business and investors.

In the face of climate change, environmental degradation, deforestation, water scarcity and biodiversity loss, food businesses will face the direct supply chain disruption caused by worsening extreme weather events like droughts, heatwaves, fire and floods, diminishing yields, and increased political turbulence, conflict and migration in affected countries. More frequent product shortages are likely, as is worsening supply chain resilience and higher price volatility (including in energy markets).

Historically, downstream food businesses such as retailers could manage these risks by changing suppliers and avoiding direct sourcing issues. However, recent shortages on supermarket shelves are demonstrating the limits of such approaches, with weather-related supply chain disruption reaching levels that that are leaving retailers not always able to find alternative suppliers. Over time, risk management opportunities could be reduced

further as food production productivity decreases and prices become still more volatile. One UK supermarket's risk analysis found that only 5% of their fresh product range will not be affected by climate change[16].

3. TRANSITION RISKS

Transition risks will result from things such as policy change, shifting consumer preferences, innovation and changes to the competitive landscape – all of which may restrict or penalise specific food businesses that fail to shift towards selling healthier and more sustainable foods. 'Laggard' businesses that retain high revenue dependency on sales of foods that are unhealthy and environmentally damaging may find that their strategies become less effective over time and may struggle to reach their defined goals, losing value as a result.

Regulation and fiscal policies can increase costs and reduce profitability for food businesses that are not leading the way in selling healthy, sustainable foods. Such policies might include sugar taxes, regulations on advertising and selling practices, or new labelling requirements. In addition, direct risks to a business' ability to operate could result from penalties, litigation and exposure to legal liabilities for their operations causing harm.

Changing consumer preferences can impact a business' social license to operate. As consumer demand for healthier and more sustainable foods increases[17], businesses continuing to profit primarily from less healthy and sustainable products will see sales impacted. Consumer demand for greater transparency and greater scrutiny by public health bodies will result in reputational risks, potentially affecting recruitment, sales, and the ability to secure finance and policy influence. Workers are increasingly willing to walk away from jobs with companies that do not have strong values[18].

The links between systemic, direct and transition risks:

Systemic, direct and transition risks are inter-related. Aggressive policy action to improve population health and limit climate change would increase transition risks whilst reducing systemic and physical risks. Conversely, limited action to transition towards healthy, sustainable diets would limit key transition risks, but would result in worsening population health, environmental degradation, and higher risks of not meeting key emissions reduction goals – all exacerbating direct and systemic risks.

This dynamic will require companies and investors to understand in detail and plan robustly for systemic, transition and direct risks.

BUT THERE ARE OPPORTUNITIES FOR FORWARD-THINKING BUSINESSES TO PROFIT FROM THE TRANSITION.

The food sector is not facing the same existential risk as sectors like the tobacco industry. Food is fundamental to human existence and we will always need a food industry.

The transitional risks discussed above will therefore not hit all companies equally. If we succeed in transitioning diets to deliver better health and environmental outcomes, businesses that successfully support health and sustainability will do well.

Retailers, caterers, manufacturers and restaurants that are able to develop, market and sell healthier and sustainable options are more likely to be able to adapt to shifts in regulation or consumer preferences. Whereas those with less diversity or flexibility in their product offerings will find themselves losing market share over time.

As we have seen in the transition from fossil fuels towards renewables in the energy industry, there will be huge market growth in some areas. The rise of growing numbers of challenger brands launching new healthier and more sustainable products and offerings will create frequent merger and acquisition opportunities for major businesses. And for forward-thinking investors, there are potentially very significant gains to be made from investing in innovative and growing sectors.

The rise of a wide variety of alternative proteins (including plant-based, cultivated and fermented proteins) is one frequently discussed example. These products avoid the feed-to-food conversion loss typically associated with animal protein (significantly reducing land-use requirements and environmental impacts). It is estimated that 1.3 kg of arable crops are needed to produce 1 kg of plant-based meat compared with 7-10 kg of feed per kg for beef[19]. The public health community has also emphasised the need for these products to be nutritious as well as sustainable if they are to successfully support the transition towards healthy, sustainable diets. As investor awareness of the risks associated with animal agriculture has grown over recent years, interest in alternative proteins has surged. Many investment banks and analysts are projecting rapid growth in the sector. Even in its lowest growth scenario, Credit Suisse forecasts that alternative proteins could reach 25% of the market by 2050[20].

Other food sectors with a focus on sustainability, such as plant-based dairy, fish and egg alternatives, are also growing rapidly[21].

Another growth area is likely to be in weight loss pharmaceuticals, with semaglutide a recently approved example in the UK. Such drugs are initially expected to be offered on a restricted basis to those patients with a weight that is near the top of the obese BMI range, but may eventually be used more widely. These drugs, while a potentially effective tool for the treatment of obesity and associated non-communicable diseases, will not support the prevention of obesity. They will not address the underlying structural drivers of high levels of overweight and obesity in the UK population, and further research is required into the potential side-effects of long-term use.

INVESTORS ARE AWARE OF THESE RISKS AND OPPORTUNITIES.

Increasing attention is being paid by investors to the health and environmental impacts of the food system and the urgency of a shift towards healthier and more sustainable diets.

In response to **systemic risks** investors are increasingly recognising the need for all businesses in their portfolios, including food businesses, to act in a manner which supports the transition towards a healthier and more sustainable future, including a dietary transition.

In response to **direct risks** investors are keen to see increased transparency from businesses in their portfolios so that they can understand whether these businesses are dependent for revenue on resources or activities which will be directly affected by the risks associated with poor health and environmental degradation, and also to see them acting to reorient their business models accordingly.

In response to **transition risks** investors want to see the businesses that they are investing in acknowledging the importance of dietary shifts, reformulating and innovating to protect their reputations, maintaining their consumer appeal, and reducing their exposure to the impacts of regulation.

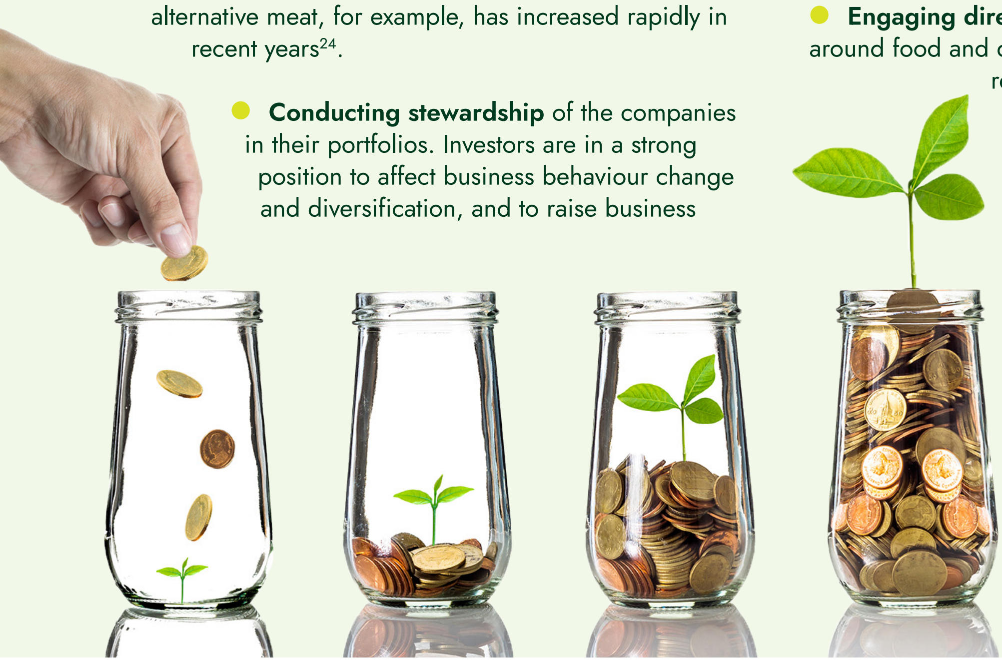
AND ARE BECOMING INCREASINGLY FRONT-FOOTED ABOUT ADDRESSING THEM.

Investor strategies for managing the risks associated with dietary transitions include:

- **Balancing their portfolios** to reduce exposure to businesses that are producing and selling less healthy and sustainable foods. As the world cannot live without food, full divestment is not a serious option in the food sector for investors, but isolated examples do exist. Schroders, for example, have reduced their exposure to several soft drinks companies as a direct result of sugar taxes and slow or unsuccessful reformulation attempts. More common is acting to redirect investment decisions in favour of businesses that will accelerate the dietary transition, including likely growth-sectors such as plant-based alternatives. Both private and public investment into alternative meat, for example, has increased rapidly in recent years[24].

- **Conducting stewardship** of the companies in their portfolios. Investors are in a strong position to affect business behaviour change and diversification, and to raise business ambition. Stewardship can take a wide range of forms, from direct engagement and management meetings to shareholder resolutions and proxy voting. Many investors have increasingly high expectations of the businesses that they invest in – often wanting to see evidence that they are delivering against a range of criteria, such as board-level understanding of dietary risks and a commitment to addressing them, clear strategies and targets for sales shifts, and increased transparency on their portfolios, products and sales. Through effective engagement investors can put pressure on food and beverage businesses to take an active role in the development, marketing and promotion of healthy and sustainable foods.

- **Engaging directly with policy-making processes** around food and dietary shifts and advocating for regulatory change. Investors recognise the power of policy to level the playing field and raise minimum standards across the whole food sector on healthy, sustainable diets. Investors are keen to see policies put in place that enable more effective oversight of business progress, and support businesses to transition effectively. In addition, many investors would like to see a supportive policy environment for sectors which they hope will see a lot of innovation and growth during the transition, such as plant-based meat alternatives.



In recent years there has been an improvement in the alignment and extent of data being made available to investors through different benchmarks and assessments. This has opened up much greater opportunity for investors to ask the right questions of businesses and to engage strategically with issues relating to food and diets. A number of initiatives have emerged that aim to coordinate investor activities in this space:

TABLE 1: EXISTING INITIATIVES THAT COORDINATE INVESTOR ACTIVITIES IN DRIVING TRANSFORMATION

The Food Foundation's **Plating Up Progress** project	Plating Up Progress conducts an annual assessment of progress by the UK's largest consumer-facing food companies towards supporting healthier and more sustainable diets, considering a wide range of criteria spanning health, environment, supply chains and inequalities. The project encourages investors to utilise the assessment in their engagement with businesses.
The Investor Coalition on Food Policy	The Investor Coalition on Food Policy came together following the publication of the independent National Food Strategy in 2021. The coalition exists to harness the power of the investment community to engage with the UK Government on food-related issues. The Food Foundation acts as secretariat for the coalition, providing regular investor briefings, convening events, and coordinating policy engagement opportunities. The coalition now comprises of over 20 investors, representing over £6 trillion assets under management. More information on the work of the coalition over the past two years can be found in the case study box below. The advisory group for the coalition is made up of Rathbone Greenbank Investments, Legal and General Investment Management and Guy's and St Thomas' Foundation.
FAIRR's **Sustainable Protein Engagement**	The Sustainable Protein Engagement aims to coordinate investor engagement with 23 leading global food companies on issues relating to protein diversification. Targeted companies are asked to diversify their protein sources in order to drive growth and reduce risk exposure. As part of the engagement, FAIRR have **assessed** how these 23 companies are currently performing. To support further investor action on alternative proteins, they have also developed (in collaboration with the Good Food Institute) two **Alternative Proteins Reporting Frameworks**, which enable investors to measure and analyse the progress being made by businesses. The latest round of the engagement was supported by 84 investors representing almost $23 trillion in combined assets under management.
ATNI's Investors in Nutrition and Health	ATNI facilitate collaborative investor engagement with companies globally on issues related to nutrition and health. They provide the necessary data and analysis required to support this engagement through a series of indexes which assess business progress. To support further investor engagement ATNI released in July 2020 their **Investor Expectations on Nutrition, Diets and Health**. As of December 2022, 80 investor signatories representing $19.9 trillion assets under management have signed up to the Investor Expectations.
ShareAction's **Healthy Markets** Initiative	The Healthy Markets initiative brings together a coalition of investors to tackle obesity by encouraging food retailers and manufacturers in the UK to support healthier diets by reducing the proportion of their sales that come from HFSS (high fat, sugar, salt) products and to improve their transparency. ShareAction coordinates collaborative engagement via meetings, investor-signed letters, AGMs and shareholder resolutions. The coalition includes 45 investors with $7.5 trillion assets under management. The initiative is part of ShareAction's broader **Long-term Investors in People's Health** (LIPH) – a global program aimed at raising the profile of health more broadly as a systemic risk amongst investors.
Good Food Institute's Investment network	The Good Food Institute encourages investors to support the growing alternative protein market by helping them to understand the sector and by connecting them with opportunities to invest.

Issues relevant to dietary shifts are also starting to be incorporated into expectations and benchmarks on a broader range of issues. For example, World Benchmarking Alliance's Food and Agriculture benchmark now incorporates metrics relating to nutrition[25], and Norges Bank Investment Management (NBIM) has established a set of investor expectations for companies in relation to children's rights, which recognise that companies can impact children through their marketing practices and food offerings[26]. In addition in 2017 Schroders and Rathbone Greenbank Investments published their Investor Expectations: Sugar, Obesity and Non-communicable Diseases to support engagement by investors with companies that rely heavily on revenue from unhealthy products, particularly those high in sugar[27].

CASE STUDY:
Investor Coalition on Food Policy

Much of the Coalition's work so far has been focussed on pushing for mandatory reporting of health and sustainability metrics by large food sector companies. Over the past two years the Coalition have written letters to Government (both in support of the recommendations which were made in the National Food Strategy, and on new emerging issues), met with Government Ministers, engaged with policy officials, convened events, and shared the investor perspective on food policy extensively in the media.

In 2022 the group welcomed the commitment in the Government's Food Strategy to establish a new Food Data Transparency Partnership (FDTP). In 2023 the Coalition are focused on engaging fully with the FDTP process, advocating for policies from the 2020 Obesity Strategy to be implemented in full, and better articulating the risks and opportunities for investors of the current food system. Members of the coalition will be part of the FDTP's Expert User Group.

Recommendations for Government

The investment community brings a unique long-term perspective to policy discussions and has a wealth of expertise which policy-makers can draw on. In light of the fact that it is likely that investors will become only more active in the food and diets space over time, we recommend that the UK Government strengthen engagement with the investment community on relevant policy issues, and recognise investors as a key stakeholder group.

Conclusion

A failure to shift towards healthier and more sustainable diets creates a range of different financial risks for food businesses – systemic, direct and transitional.

Investors are increasingly viewing the failure of businesses to shift towards selling more healthy and sustainable food as a material financial risk and are acting to mitigate this risk – by changing their capital allocations, by more actively conducting stewardship with businesses in their portfolios, and (crucially for policy-makers) by engaging more frequently in the policy-making space related to dietary shifts.

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DATE **April 2023**

Acknowledgements

We would like to thank our funders Impact on Urban Health, and the Joseph Rowntree Charitable Trust.

Impact on Urban Health

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