

The Business and Investment Case for Farm Animal Welfare: The US Perspective

On May 9, 2016, Collier Capital hosted a roundtable on the business and investment case for farm animal welfare. The event brought together investors and leading food companies in North America to explore the business risks and opportunities associated with farm animal welfare management and reporting¹.

It provided an opportunity to hear from the Business Benchmark on Farm Animal Welfare (BBFAW) and its partners, Compassion in World Farming, World Animal Protection and Collier Capital, on the role of the Benchmark in catalyzing change, and from Compass USA on the drivers for managing farm animal welfare as a business issue. A copy of the agenda is provided as Appendix 1 to this note.

1. Setting the Context: Farm Animal Welfare as a Business and as an Ethical Issue

Every year, more than 50 billion animals are farmed for meat, milk and eggs, and are typically raised in intense confinement. The production of food at scale raises many serious concerns linked to the conditions in which animals, as sentient beings, are reared, transported and slaughtered.

Animal welfare NGOs, Compassion in World Farming and World Animal Protection, believe that food companies need to treat animals in their supply chain with respect – to give them a 'life worth living'. Their view is that this outcome simply cannot be achieved without robust processes for managing, reporting on, and improving their farm animal welfare performance. The NGOs recognise that farm animal welfare needs to be built in to companies' management systems and processes, not treated as 'bolt on'.

But this is not just an ethical argument. There is also a compelling business case for action. Food scandals and media coverage of poor practices – in Europe, the United States and Asia – provide compelling evidence of the downside risks to companies that fail to manage these issues effectively. Furthermore, US companies see that there are many business opportunities from taking a proactive approach - from opening up new markets, improving security and quality of supply and improving brand image. Leading companies are seizing the opportunity to create business advantage through their farm animal welfare approaches.

¹The participants included representatives of Bank of America Merrill Lynch, Boston Common Asset Management, Boston Trust, Business Benchmark on Farm Animal Welfare, Business for Social Responsibility, Clearbridge Investments, Collier Capital, Compass USA, Compassion in World Farming, Cornerstone Capital, Impax Asset Management, Interfaith Center on Corporate Responsibility, Morgan Stanley, Nestlé, Sodexo, Tyson Foods, and Trillium Asset Management.

2. The State of Play: The BBFAW Global Benchmark on Farm Animal Welfare

The Business Benchmark on Farm Animal Welfare² – an independent program, sponsored by Compassion in World Farming, World Animal Protection and Collier Capital – is the first global measure of farm animal welfare management and disclosure in food companies.

Now in its fifth year, the Benchmark is designed to help investors, companies, NGOs and other stakeholders to understand the relative performance of food companies in this area.

The BBFAW has a long-term aim to drive higher farm animal welfare standards in the world's leading food companies. It conducts an annual assessment and ranking of leading food companies. It also has extensive engagement with companies and investors, it provides practical tools for companies and investors, and it produces a series of briefings on key animal welfare issues.

The annual Benchmark assesses how global food companies – retailers and wholesalers, food producers and manufacturers, and restaurants and bars – are managing farm animal welfare. The Benchmark assesses the quality of companies' policies, management practices and controls, performance and reporting on farm animal welfare. The most recent Benchmark analysed 90 global food companies (a universe which included 23 US and 2 Canadian companies)³. Of these, 90 companies, 36 (or 40%) were considered to provide little or no information on how they manage farm animal welfare. More encouragingly, 11 companies were considered to manage farm animal welfare as an integral part of their business strategy. The analysis also showed that there has been significant progress with 34 of the 64 companies (53%) considered to have significantly improved their practices or reporting since 2012.

The Benchmark provides a variety of investor insights into corporate practice: it allows different companies to be compared; it allows trends in individual company performance to be tracked over time; it provides insights into different aspects of corporate practice (e.g. the proportion of companies with policies on specific farm animal welfare-related issues). One of the key outputs is a two-page summary assessment for each company (available to investors in a password-protected section of the BBFAW website) summarising the company's score, its strengths and weaknesses, its engagement with the BBFAW and the BBFAW's recommendations for improvement.

The fifth annual Benchmark will be conducted in August and September 2016. The number of companies covered will be increased from 90 to 100 (a list of the new companies will be published in the BBFAW's annual consultation document in mid-June). The criteria will remain broadly unchanged, although the weighting given to the performance-related questions is expected to increase from 10% to around 18% of the overall score.

² www.bbfaw.com

³ Nicky Amos and Rory Sullivan (2016) *The Business Benchmark on Farm Animal Welfare 2015 Report*, (BBFAW, London) <http://www.bbfaw.com/media/1338/bbfaw-2015-report.pdf>

The Collier Capital Perspective

“Collier Capital believes farm animal welfare is an important issue, which has historically had too low a profile within the investment management industry. The firm incorporates farm animal welfare in its own Environmental, Social & Governance (ESG) policies, and is delighted to encourage greater industry engagement with the issue through its support for the Business Benchmark.

Over the past five years, there has been a dramatic change in the way in which investors look at farm animal welfare in their investment processes and in their company engagement.

Prior to the publication of the first BBFAW Benchmark in early 2013, it is fair to say that animal welfare was barely on the agenda of most global investors. There were various reasons: the investment case was poorly defined, the linkages between factory farming and other more established ESG issues were not recognized, and there were no practical tools that enabled investors to factor these issues into their investment process.

BBFAW has changed that. By providing the first global measure of company performance on animal welfare, BBFAW has catalyzed investor interest in this area. Investors now have a tool that they can use to integrate farm animal welfare into their investment processes. Building on the annual benchmark, BBFAW has established a major collaborative engagement program - comprising 18 major institutional investors including the likes of BMO, Aviva Investors, BNP Paribas and Schroders - to encourage major global food companies to strengthen their farm animal welfare approaches. BBFAW has also created the momentum for other initiatives. For example, the investor members of FAIRR, the Farm Animal Investment Risk & Return Initiative, now represent over \$750bn in AUM.

Not only has BBFAW put animal welfare on the investment agenda, it has also catalyzed real substantive change in corporate management of and reporting on animal welfare practices. From producers to restaurants and retailers – companies involved with BBFAW have started the journey to improve.”

Alan Briefel, Senior ESG Advisor, Collier Capital

3. Investor interest in farm animal welfare

Farm animal welfare is an emerging investment issue. BBFAW research⁴ shows that investors use the Benchmark and associated materials in a variety of ways, including:

- To assess the business risks and opportunities of farm animal welfare for companies.
- To provide insights into how companies are identifying and managing risks in their supply chains, including as a proxy indicator for the overall strength of a company's supply chain management, opportunities associated with higher welfare products.
- To cross-check investors' own assessments of companies' sustainability approaches and strategies.
- To understand the evolution of farm animal welfare as an investment subject and as a corporate management priority.
- To communicate with internal investment research teams on the investment relevance of farm animal welfare issues.
- To prioritize companies for engagement. Investors have used the Benchmark both to identify laggards (i.e. poor performers) and leaders (to understand what has enabled these companies to become leaders).
- To inform investors' engagement with companies.
- To report to clients and stakeholders.

The investors at the roundtable indicated that they have used, or are considering using, the Benchmark in similar ways. They also identified a number of other ways that they could use the Benchmark including:

- Understanding what good/best practice looks like.
- Identifying best in class companies.
- Linking (or integrating) farm animal welfare into wider discussions about sustainability and responsible food production (e.g. food safety, food quality, sustainable agriculture, alternative proteins).

4. Company interest in the BBFAW

The companies that participated in the roundtable were all familiar with and are using the BBFAW as a management tool. They commented that the Benchmark has been very useful in helping to focus senior management's attention on the issue of farm animal welfare. They noted that the Benchmark provides an independent assessment of their strengths and weaknesses, that it indicates where the company sits relative to its sector peers, and that improving the company's score in the Benchmark is increasingly seen as an important objective for their work on farm animal welfare.

⁴ Nicky Amos and Rory Sullivan (2015), *How are Companies Using the Business Benchmark on Farm Animal Welfare?* Investor Briefing No. 21 (BBFAW, London), <http://www.bbfaw.com/media/1317/how-are-companies-using-the-business-benchmark-on-farm-animal-welfare-2015.pdf>; Rory Sullivan and Nicky Amos (2015), *How are Investors Using the Business Benchmark on Farm Animal Welfare.* Investor Briefing No. 20 (BBFAW, London), <http://www.bbfaw.com/media/1077/how-investors-are-using-the-business-benchmark-on-farm-animal-welfare.pdf>.

The companies were particularly interested in understanding (a) how the Benchmark criteria are evolving, (b) how investors are looking at farm animal welfare as an investment topic, and (c) the role of the BBFAW in providing an objective and robust assessment of company practice and disclosure on farm animal welfare.

5. Comments and Reflections on BBFAW

The meeting participants made a number of suggestions about how the Benchmark (and the wider work of BBFAW) could be made more useful to them. These included:

- Providing greater information on the reasons for changes in company scores, i.e. to what extent do changes reflect changes in the Benchmark methodology, to what extent do changes reflect the actions taken by companies, and to what extent do changes reflect wider market conditions (e.g. government policy changes, consumer demand).
- Being careful with company-published information (because of the risks of greenwashing). Participants recommended that BBFAW look to validate and check these disclosures against other data sources.
- Broadening the coverage of the Benchmark, both increasing the number of US companies and also considering moving towards a comprehensive global index (i.e. covering all major listed global food companies).
- Strengthening the evidence base on the business case for action (e.g. impacts on share prices and other financial metrics, evidence of how higher standards of farm animal welfare improve company financial performance).

BBFAW Response

We are extremely grateful for these suggestions and proposals. We will discuss them with the BBFAW Technical Working Group and will seek to integrate them into the future development of the Benchmark.

Acknowledgements

We would like to thank Collier Capital for hosting the roundtable and the roundtable participants for their contributions and insights into the US market.

We would also like to acknowledge and thank the BBFAW sponsors – Compassion in World Farming, World Animal Protection and Collier Capital – for their ongoing support.

Authors

This Briefing Note has been prepared by Nicky Amos (Executive Director, BBFAW) and Dr Rory Sullivan (Expert Advisor, BBFAW).

Appendix 1: Meeting Agenda

The Business and Investment Case for Farm Animal Welfare

Roundtable hosted by Collier Capital Inc
Monday, May 9, 2016, 1400 – 1600 hrs
Collier Capital Inc, 950 3rd Avenue, New York NY10022

Chair and Moderator:
Nicky Amos, Executive Director, Business Benchmark on Farm Animal Welfare
(BBFAW)

Agenda

- 14.00 Welcome and introductions**
Alan Briefel, Senior Advisor, ESG Committee, Collier Capital
- 14.10 Animal welfare and modern agricultural practices**
Rachel Dreskin, Corporate Engagement Manager, Compassion in World Farming USA
- 14.15 The business case for farm animal welfare**
Cheryl Queen, Vice President, Corporate Communications, Compass Group
- 14.25 The Business Benchmark on Farm Animal Welfare: Program Overview**
Nicky Amos, Executive Director, BBFAW
- 14.45 Farm animal welfare as an investment issue**
Dr Rory Sullivan, Expert Advisor, BBFAW
- 14.55 Investor outreach: Regional perspective**
Darren Vanstone, Corporate Engagement Manager (North America), World Animal Protection
- 15.00 Roundtable discussion on the future business and investment agenda**
- 15.50 Summary and reflections**
Nicky Amos, Executive Director, BBFAW
- 16.00 Close**