

INVESTOR SURVEY – 2016 ANALYSIS

DECEMBER 2016

How Are Investors Using the Business Benchmark on Farm Animal Welfare? 2016 Analysis

Rory Sullivan and Nicky Amos

Introduction

The fourth Business Benchmark on Farm Animal Welfare (BBFAW)¹ was launched in London in January 2016. In this briefing note, we describe how investors have used the Benchmark and how they plan to use the Benchmark in the future. We also present investors' views on how the Benchmark might be made more useful to them.

Our Survey of Investor Opinion

In May and June 2016, we conducted a formal online survey of the organisations and individuals that have registered on the BBFAW website². In total, we received 21 responses:

- 17 institutional investors (ACTIAM, Aegon Asset Management, ASR Nederland, Australian Ethical Investment, Aviva Investors, BlueBay Asset Management LLP, BNP Paribas Investment Partners, Central Finance Board of the Methodist Church, Clearbridge Investments, Edentree Investment Management, NEI Investments, Rathbones, Robeco Institutional Asset Management, Standard Life Investments, Trillium Asset Management, Triodos, Walden Asset Management),
- Three service providers (Asia Research and Engagement, Ethical Screening, oekom)
- One investor network (ICCR).

¹ 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>

² We conducted similar surveys following the release of the previous benchmarks. These can all be found on the BBFAW website, www.bbfaw.com

In addition to the formal survey, we have, since mid-2015, consulted extensively with investors. This has included a series of one-to-one meetings with European investors, and participation in conferences and roundtables in the UK, Canada and the US on investment and farm animal welfare. We have also, as part of the process of developing the Global Investor Statement on Farm Animal Welfare³ (launched in May 2016) and as part of the BBFAW-led investor collaboration on farm animal welfare⁴, had extensive discussions with participating investors about how they use the Benchmark.

We acknowledge that this approach may not provide a completely representative picture of current practice. Therefore, the following findings are best seen as providing a general picture of current activity rather than a comprehensive assessment.

Key Findings

Perhaps the most striking conclusion from our survey is that investors appear more likely to consider farm animal welfare in their investment processes than they are to engage with companies on farm animal welfare. This reflects the manner in which investors analyse sustainability issues; they start by trying to understand the implications for their portfolios. Once the investment implications (risks or opportunities) are understood, investors then start to think about how they might manage these risks; one such strategy is to engage with companies to encourage them to better manage the issue of farm animal welfare.

Using the Benchmark in Investment Analysis and Decision-making

The Benchmark and the associated briefings and company notes have been used to:

- Assess the business risks and opportunities of farm animal welfare for individual companies and for the food sector as a whole. Interestingly, two respondents highlighted that the Benchmark was also being used for fixed income research.
- Provide insights into companies' quality of management of farm animal welfare. For example, one respondent commented that it referred to companies' positions in the Benchmark as a gauge for the quality of management of the issue. Another commented that it tracked the year-on-year progress of individual companies in the Benchmark.
- Assess the suitability of companies for inclusion in screened (ethical) funds. One asset manager noted that it had instructed its screening research providers to use the Benchmark results and the Benchmark questions in its evaluation of companies. This is particularly noteworthy as it suggests that the Benchmark

³ <http://www.bbfaw.com/media/1435/investor-statement-on-farm-animal-welfare.pdf> At the time of writing (December 2016), the Statement has 22 signatories, representing £1.83 trillion in assets under management.

⁴ <http://www.bbfaw.com/news-and-events/press-release/bmo-global-asset-management-emea-joins-global-collaboration-on-farm-animal-welfare/> At the time of writing (December 2016), 19 institutional investors representing £1.34 trillion in assets under management are participating in the collaboration.

questions may start to be incorporated into the analysis being conducted by research providers, and thereby influencing practice beyond the companies covered by the Benchmark.

- Identify potential investment opportunities in the food sector.
- Build internal knowledge on specific farm animal welfare issues, and on risks and trends in the food and farming industry more generally. One asset manager pointed to the Benchmark as an important input to a major internal research project on sustainability in the meat supply chain.
- Provide insights into how companies are identifying and managing risks in their supply chains.

Using the Benchmark for Engagement

The Benchmark has been used to:

- Prioritise 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).
- Inform investors' engagement with companies, whether on the specific subject of farm animal welfare or as part of wider discussions on sustainability strategy and governance. In 2015, BBFAW produced a short guide on how investors could use the Benchmark in their engagement with companies⁵.
- Underpin the BBFAW-led global investor collaboration on farm animal welfare⁶. This, in summary involves writing to companies in Tiers 1 and 2 of the Benchmark and to companies that have significantly improved their performance in the Benchmark to commend them for their performance. It also involves writing to companies in Tiers 5 and 6 of the Benchmark and to companies whose scores have not changed substantially to encourage them to improve their performance.
- Guide company action on farm animal welfare. One asset manager, for example, noted that it had referred a company to the Benchmark when enquiring about the company's approach to animal welfare in its product supply chains. This points to the role that investors might play in raising standards across the food industry, not just in those companies covered by the Benchmark.
- Inform engagement with other sectors (e.g. other food sub-sectors, financial institutions) on farm animal welfare.

⁵ Rory Sullivan, Nicky Amos and Abigail Herron (2015), *Engagement on Farm Animal Welfare: A User's Guide. Investor Briefing No. 19* (BBFAW, London). <http://www.bbfaw.com/wp-content/uploads/2015/05/Investor-Briefing-No-19-Engagement-on-Farm-Animal-Welfare-A-Users-Guide.pdf>

⁶ Note 4.

- Inform questions at company AGMs, with ShareAction raising the question of Compass Group's, Dairy Crest's, Greggs', Premier Foods' and Whitbread's performance in the Benchmark at their respective AGMs. ShareAction also referenced the BBFAW in follow-up meetings with a number of companies, including JD Wetherspoon, Marks & Spencer, Mitchells & Butlers, Premier Foods, J Sainsbury's, Tesco, The Restaurant Group and Unilever.

It is interesting to note that a number of respondents to the survey noted that they publish their policies on farm animal welfare, their support for the Benchmark and their involvement in the BBFAW-led collaboration. They commented that, by making their support explicit and publicly available, they expected to contribute to wider company and investor awareness of the relevance of farm animal welfare.

Using the Benchmark to Engage Clients and Stakeholders

An increasing number of investors are discussing the Benchmark in the updates and reports they provide to clients. Increasingly, this is not confined to clients with a particular interest in farm animal welfare (and related issues around the food industry). Investors are starting to integrate farm animal welfare into the wider client communications (see the examples in the box below).

Some examples of investor publications that reference BBFAW are provided in the box.

Australian Ethical:

- <https://www.australianethical.com.au/wp-content/uploads/2015/05/AEF-Shareholder-Update-February-2016.pdf>
- https://www.australianethical.com.au/wp-content/uploads/2015/06/Advocacy-Fund-Sept-Quarter-2015_FINAL.pdf

NEI Investments:

- <https://www.neiinvestments.com/documents/FocusList/Focus%20List%202015%20April%20Update%20EN.pdf>
- <https://www.neiinvestments.com/documents/FocusList/Focus%20List%202015%20July%20Update%20EN.pdf>
- <https://www.neiinvestments.com/documents/FocusList/Focus%20List%202015%20October%20Update%20EN.pdf>

Triodos:

- www.triodos.com/downloads/about-triodos-bank/position-food-agriculture.pdf
- www.triodos.com/downloads/investment-management/research/company-engagement-report-2015.pdf
- www.triodos.com/downloads/investment-management/research/company-engagement-report-2014.pdf

Others distribute the information more widely. For example, investors have used the Benchmark and/or their involvement with BBFAW initiatives such as the Global Investor Statement on Farm Animal Welfare or the BBFAW-led investor collaboration in pitches and in their communications with NGOs and other civil society organisations to demonstrate how they consider animal welfare in their investment practices and processes.

The Future

Many of the investors that we have spoken with have indicated that they expect to pay greater attention to farm animal welfare over time. In the short to medium term, this is likely to focus on better understanding the investment risks and opportunities associated with farm animal welfare. This is likely to focus on both stock-specific risks as well as the wider risks for the sector.

Thereafter, it is likely that investors will start to engage with the companies in which they are invested, in particular, to encourage them to effectively manage the business risks presented by farm animal welfare.

While this is encouraging, we are also very aware that many investors have yet to take significant account of farm animal welfare in their investment processes or in their engagement with companies. There is much to be done to demonstrate that farm animal welfare is not just an 'ethical' issue but rather a mainstream investment issue. Furthermore, asset owners (and their beneficiaries) need to increase the demand for their asset managers to pay attention to farm animal welfare.

Suggestions for Strengthening the Benchmark

In response to previous surveys of how investors use the Benchmark, we have made a series of changes. We have changed the structure and content of the main Benchmark report, we have produced two-page company summary documents setting out each company's strengths, weaknesses and areas for improvement and, in 2015, we produced a short guide on how investors might use the Benchmark in their company engagement⁷.

In the course of the survey and the investor engagement, we received a number of comments on how the Benchmark might be strengthened. We set out these comments here and provide some initial responses in italics:

- Since only public information is used, is there a risk of a positive bias to bigger companies with more resources to score better?

⁷ Sullivan, Amos and Herron (2015) (Note 5).

- **BBFAW Comment:** Given that the Benchmark focuses on the largest global food companies, our view is that all of these companies should have the capacity and resources needed to manage farm animal welfare effectively and to report in a credible manner. We acknowledge that smaller companies would face more challenges. However, given that the Benchmark has been designed to align with standard management practices and common client reporting requirements, we do not see company size as a necessary determinant of company scores.
- Can you encourage screening agencies to include the Benchmark in their screening assessment, and professional engagement providers to include the Benchmark in their engagement offer?
 - **BBFAW Comment:** These are both priority areas. We intend, in 2017, to conduct a review of how screening research providers and SRI indices analyse farm animal welfare. We have also initiated discussions with a number of engagement providers about including farm animal welfare in their engagement. In that context, we note that two of the leading engagement service providers are already actively involved with the Benchmark: BMO Global Asset Management is a participant in our global investor collaboration and Hermes is a signatory to the Global Investor Statement on Farm Animal Welfare.
- Will you expand the Benchmark to other sectors?
 - **BBFAW Comment:** In the short-term, we expect that we will continue to focus on three sub-sectors: retailers, restaurants and bars, and food producers. However, we will review the coverage of the Benchmark as we expand the scope of the Benchmark in future years.
- Will you broaden the number and geographic scope of the companies covered by the Benchmark? Will you extend the scope to cover all companies within specific investment indices, such as MSCI Europe?
 - **BBFAW Comment:** We have increased the number of companies covered by the Benchmark from approximately 70 in the first two Benchmarks to around 100 companies in the 2016 Benchmark.
 - **BBFAW Comment:** In relation to geographic coverage, we started by focusing primarily on companies with a significant presence in Europe. We have progressively extended our coverage of US-based companies and, have added a handful of companies from Australia, New Zealand, China and Brazil. We intend to extend this coverage of emerging markets in future years. We will, as we have done since the inception of the Benchmark, consult with investors on the universe of companies to ensure that we are focusing on companies and geographies that are relevant to them.

- **BBFAW Comment:** *We have also received comments on how we can ensure that the Benchmark and the associated company and investor engagement are relevant to Asian investors. We will build these suggestions into our work as we look to build out the Benchmark.*
- Can you provide more information on the business case for farm animal welfare, including information that is relevant to credit analysis?
 - **BBFAW Comment:** *This is a priority for us. We have received an increasing number of questions about the business case for companies to focus on farm animal welfare. Over the past two years we have produced several briefings on elements of the business case (e.g. on the scale of consumer demand for higher welfare products). We have also encouraged the sell-side to produce research on the investment case for farm animal welfare.*
 - **BBFAW Comment:** *We have been reluctant to comment on how farm animal welfare issues affect companies' financial performance. We see this as analysis that is best done by the sell-side. Where the sell-side does produce such research, we do reference it in our work and we look to bring it to the attention of investors and other stakeholders.*
- Can you provide regular updates on policy and regulation, and link changes to the questions being asked in the Benchmark?
 - **BBFAW Comment:** *We already provide updates on policy and legislation but will look to more closely link this to the Benchmark results and findings.*
- Can you develop company snapshots or other tools that provide quick insights for investors?
 - **BBFAW Comment:** *We will review our communications tools and see if we can make these more engaging and useful for investors.*
- Can you more explicitly link the Benchmark to other sustainability issues?
 - **BBFAW Comment:** *We are very aware of the many relationships between animal welfare and other sustainability issues such as climate change. However, the Benchmark has been explicitly developed as a tool to measure corporate practice on farm animal welfare, and we expect to maintain this as our core focus⁸.*

⁸ There are initiatives, such as the Farm Animal Investment Risk and Return (FAIRR) initiative (www.fairr.org), which consider animal welfare in a wider sustainability context.

Concluding Comments

We are encouraged by the feedback we have received. We are pleased that the robustness and credibility of the Benchmark is recognised by investors and we are pleased that more investors are starting to use the Benchmark in their investment research and decision-making and in their engagement with companies. We do, however, recognise that farm animal welfare remains a relatively immature investment issue and that we have a long way to go, even among those investors that are aware of and supportive of our work.

The investor survey has been hugely valuable and we are grateful to all the organisations that have taken the time to provide us with such useful feedback. It has provided important insights into how the Benchmark is being used by investors, and into how the Benchmark might be made more useful to investors. We intend to repeat the survey again in 2017 following the publication of the fifth Benchmark report.

Authors' Details

Dr Rory Sullivan is Expert Adviser to the Business Benchmark on Farm Animal Welfare. He is an internationally recognised expert on responsible investment. He is Strategic Advisor, Ethix SRI Advisers and a Senior Research Fellow at the University of Leeds. He has written/edited seven books on finance, environmental and development issues, including *Valuing Corporate Responsibility* (2011) and *Responsible Investment* (2006).

Nicky Amos is the Executive Director of the Business Benchmark on Farm Animal Welfare. She is a corporate responsibility professional with 20 years' experience in managing and directing corporate responsibility in global companies, including The Body Shop International. She is recognised for her pioneering work around supply chain development, responsible sourcing and sustainability reporting, and for her work in developing global sustainability strategies, campaigns and communications for leading international businesses.

The **Business Benchmark on Farm Animal Welfare** is designed to help drive higher farm animal welfare standards in the world's leading food businesses. It is the first global measure of animal welfare standards in food companies and is designed for use by investors, companies, NGOs and other interested stakeholders.

For more information, go to www.bbfaw.com or contact the Programme Director, Nicky Amos: nicky@nicky-amos.co.uk.

