
# Food glorious food

## Impact of food and shifts in appetites

Demand for food is expected to grow by 50% between now and 2050 as the population is expected to exceed 9 billion. This places extreme pressure on our natural resources, at the same time that production for certain food products is expected to decline due to disruptions caused by extreme weather, rising temperatures and droughts.

The World Resource Institute shows that 28% of all cropland are in areas of high to extremely high water stress. More specifically for wheat, fruits and maize it is between 35% and 43% respectively, posing huge supply chain risks.

It is reported that 80% of deforestation globally is due to agriculture, with deforestation reportedly the second leading cause of climate change behind fossil fuels. These concerns focus around use for cattle, soy, palm oil and timber.  As a result, many food suppliers are under pressure to ensure their supply chain is free from deforestation, as consumers increasingly focus on sustainable produce.

**80%**
**of deforestation is due to agriculture**

There are serious concerns for the Cerrado savannah in Brazil, which covers a quarter of the country. It is said it has lost half of its original area due to agricultural expansion for soy and cattle. The Carredo Manifesto is a pledge by many companies to avoid deforestation in the region, but not all companies have signed up and there are examples of companies sourcing from illegal areas.

There has been a notable increase in commitments regarding palm oil, in terms of certification to stringent rules, but also traceability to plantation level. **Danone** is a leader in terms of all products certified to RSPO standards, whilst over 60% of palm oil products are traceable to the plantation level. However, on the whole, companies still face criticism for their lack of commitment, with the likes of **Unilever** and **P&G**, huge buyers of palm oil, facing strong pressure to purchase more from certified plantations.

**Shifting for the good**

The climate consequence of meat production and the desire for healthier lifestyles has led to an increase in those seeking meat alternatives. Whilst a number of meat alternative food suppliers remain private, there is a growing spotlight on the industry, with more and more companies raising cash for expansion plans.

One company we include in portfolios is **Beyond Meat**, a US listed company that was founded in 2009 which supplies meat substitutes to an ever expanding audience, with demand coming from direct retailers for home cooking, as well as restaurants for dine in and takeaway meals. Whilst initially breaking ground in the burger space, where their burgers a enriched with beetroot juice to give the authentic feel, they offer meat alternatives in a number of products, with the likes of KFC trailing 'Beyond Fried Chicken'.

**$3.17b**
**Expected growth in plant based foods market by 2024**

The stocks rise at its IPO was astronomical, rising from $25 to close to $240 in the space of a couple of months, largely due to this being seen as a first in equity market history. Whilst retracing strongly from these highs, the stock has definitely been a winner since the outbreak of Covid-19. Technavio recently estimated that the plant-based meat market is set to grow by $3.17 billion during 2020-2024, progressing at a CAGR of over 17%.

MSCI note that companies who are offering healthier products, including meat alternatives saw higher sales growth versus their peers as well as better 3 and 5 year returns for shareholders. So it was no surprise that last month the amount of investment into meat alternatives surpassed that of the whole of 2019, highlighting the shift we are seeing in the market as investors seek to capitalise on the expected growth. Although it's interesting to note that Beyond Meat has a short interest on the stock of around 15%, so some investors do not agree with the growth potential and feel the stock is overvalued.

Another interesting company that appears in portfolios that is worth a mention is **Chr Hansen**, as their products are natural cultures and enzymes that are used in various food and beverages as well as the agricultural industry, and they too will benefit from a shift towards a healthier lifestyle. Their products improve the health benefits and durability of food and drink to avoid waste, whilst also improving the sustainability of agriculture, providing stronger yields, reducing the use of pesticides, and also removing antibiotics from our farmed animals.

**Playing catch up**

Whilst Beyond Meat has been around since 2009, a number of traditional meat and dairy companies have sought to expand into the space, either by launching Venture Capital firms or instigating mergers or acquisitions to gain exposure to the meat alterative or 'free from' markets.

In recent weeks we have been looking at **Danone**, who appear to a leader amongst peers in terms of the amount of organic and meat free products they supply, and they are also directing investment into these areas and making it a foundation of their future growth plans. This was seen with their acquisition of WhiteWave a couple of years ago for $12.5 billion. WhiteWave were leaders in the US in organic/vegan products. However, a large part of their offering is diary, so a no go for any vegan investors.

Other companies also seen as breaking ground in the meat alternative area are Kellogs & Tyson food. With Tyson foods being the largest meat producer in the US, they obviously hedging their bets that this is not just a fad. Elsewhere, Impossible foods directly competes with Beyond Meat, although they are a private company.

**Impact of Covid-19**

We feel Covid-19 has accelerated some of the take up in meat alternatives for a few reasons. Firstly there has been supply issues with meat, take note of a number of high profile manufactures shutting down plants due to widespread outbreaks of the virus. This has reduced the supply on shelves and in some cases seen prices rise. Meat alternatives are seen as a premium product, and therefore priced accordingly, however Beyond Meat for example, have benefitted from the supply issues and have been able to cut their prices slightly in order to compete further.

Secondly, alongside the virus comes this feeling that if you are healthy in terms of your diet and exercise, you have a better chance of survival, and coupled with our third point of the idea of a 'reset' to improve the health of our planet moving forward, we expect to see the meat alternative market to continue is capture of market share. We have seen disruptors in most sectors come out of the virus in a good position, and this definitely true of the meat alternative space.

**'Separating the Wheat from the Chaff'**

Whilst I write this, and with the recent headlines, we wanted to confirm our commitment to screening out Nestle from portfolios (models & bespoke). The company scores highly from MSCI in areas such as commitments to advancing nutrition and health and their carbon footprint, however the controversies surrounding the company cannot be ignored. The company's record is littered with a number of controversies relating to labour rights, supply chain standards (including child labour), its customers and the environment. MSCI flag the company for no less than 48 controversies, with the most recent as June this year, with the controversy headline 'Child Labour in cocoa & Pam Oil supply chain'. On top of this, Nestle have recently announced they will no longer buy Fairtrade cocoa and sugar, with Fairtrade estimating a loss of almost £2 million for some 27,000 small scale producers.

As with ethical/SRI investing, I would be wary of some of the greenwash out there, (or what we would call Vegan Wash?). We have seen the launch of a Vegan Climate ETF about a year ago, which promises to 'address the concerns of vegans, animal lovers, and environmentalists' but it includes a number of stocks that a lot of investors with a darker green mandate would probably not want to hold. We fully understand they are animal product free, but companies such as Apple, Facebook, and Google etc. still fall short of many people's expectations. The fact that a company such as Beyond Meat is only 0.04%, or the 268th smallest holding of 280 sums it up.



**Company Information**

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