

## **INVESTOR SURVEY – 2017 ANALYSIS**

JULY 2017

# **How Investors Are Using the Business Benchmark on Farm Animal Welfare**

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### **Introduction**

The fifth Business Benchmark on Farm Animal Welfare (BBFAW) Report<sup>1</sup> was launched in London in January 2017. In this briefing note, we describe how investors are using the Benchmark. We also present investor views on how the Benchmark might be made more useful to them.

### **BBFAW Survey of Investor Opinion**

In May and June 2017, we conducted our annual survey of the investment-related organisations and individuals that have registered on the BBFAW website<sup>2</sup>. The aims of the survey were to understand how investors are using the Benchmark and other materials produced by BBFAW in their investment research and engagement, and to identify potential areas for strengthening or improving the Benchmark.

In total, we received 16 complete responses<sup>3</sup>:

- Thirteen (13) institutional investors: Australian Ethical Investment, Aviva Investors, BlueBay Asset Management LLP, BNP Paribas Asset Management, Castlefield Investment Partners, Cornerstone Capital Group, M&G Investments, NEI Investments, Standard Life Investments, Triodos Investment Management, USS, Walden Asset Management, and Wells Fargo.
- Three (3) service providers or consultants: Aliment Capital, Ethical Screening, and Oekom Research.

In addition to the formal survey, we have, since our last survey in mid-2016, consulted extensively with investors. We have had one-to-one meetings with European investors, and participated in conferences and roundtables in Europe and North America on investment and farm animal welfare. We have also, as part

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<sup>1</sup> Nicky Amos and Rory Sullivan (2017), *The Business Benchmark on Farm Animal Welfare: 2016 Report* (BBFAW, London), <https://bbfaw.com/media/1450/bbfaw-2016-report.pdf>

<sup>2</sup> The results of previous surveys can be found on the BBFAW website, [www.bbfaw.com](http://www.bbfaw.com), with the 2016 survey results at <https://bbfaw.com/media/1469/how-are-investors-using-the-bbfaw-2016-analysis.pdf>.

<sup>3</sup> Two respondents did not provide their names or their organisational affiliations. We, therefore, excluded these responses from our analysis.

of the BBFAW-led investor collaboration on farm animal welfare<sup>4</sup>, had extensive discussions with participating investors about how they use the Benchmark.

We acknowledge that there is likely to be some bias in our conclusions, given that much of our engagement is with individuals and organisations that are familiar with BBFAW and/or are interested in farm animal welfare as an investment or as an ethical issue. Therefore, the following findings are best seen as providing a general picture of current activity rather than a comprehensive assessment.

## **Key Findings**

Our survey and discussions with investors suggest that investors are not only considering farm animal welfare in their investment research and decision-making but are increasingly likely to engage with companies to encourage them to better manage the issue of farm animal welfare. This is most obviously seen in the number of investors – currently 19 asset owners and asset managers representing £1.5 trillion in assets under management – supporting the BBFAW investor collaboration on farm animal welfare<sup>5</sup>.

## **Using the Benchmark in Investment Analysis and Decision Making**

The Benchmark and the associated briefings and company notes are used to:

- Assess the business risks and opportunities of farm animal welfare for individual companies and for the food sector as a whole.
- Provide insights into companies' quality of management of farm animal welfare.
- Provide insights into companies' wider quality of management, including supply chain management. That is, these investors use practice and performance on farm animal welfare to test or interrogate companies' risk identification and management processes. One survey respondent explained that each company's BBFAW score is systematically integrated in its yearly assessment of the ESG (environmental, social, governance) performance of the company. Another noted that "When analysing businesses from an ESG point of view we feel that evidence of robust animal welfare policies are indicative of the quality of a business".
- Assess the suitability of companies for inclusion in screened (ethical) funds.
- 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. For example,

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<sup>4</sup> <https://bbfaw.com/news-and-events/press-release/continuing-investor-support-for-global-collaboration-on-farm-animal-welfare/> At the time of writing (June 2017), 19 institutional investors representing £1.5 trillion in assets under management are participating in the collaboration. These are: Actiam, Australian Ethical, Aviva, BNP Paribas, BMO Global Asset Management, Castlefield, the Central Finance Board of the Methodist Church, Collier Capital, EdenTree Investment Management, Epworth Investment Management, NEI, Rathbone Greenbank Investments, Robeco, Schroders, Sonen Capital, The Sustainability Group, Trillium Asset Management, Triodos Bank and Walden Asset Management

<sup>5</sup> See Note 4.

some of the survey respondents stated that they share the annual Benchmark results with their investment teams.

A number of the survey respondents commented that their ability to integrate the Benchmark results into their investment portfolios is constrained by the fact that the Benchmark does not cover all of the companies in their particular investment universe. They explained that to fill these gaps would either require them to develop a set of questions and metrics that would be practicable for them to apply in their research or, alternatively, ESG research providers to add those data points to their reports.

### **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). One survey respondent described its engagement as follows: "The Benchmark forms part of our pre-engagement research with companies. Depending on their score in the Benchmark and our own research, it helps us ask specific questions on areas of concern highlighted by the Benchmark. We will also highlight to companies if they do very well in the Benchmark".
- 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 companies<sup>6</sup>.
- Underpin the BBFAW-led global investor collaboration on farm animal welfare<sup>7</sup>. This involves writing to all companies covered by the Benchmark, commending those with good performance or that have improved significantly, and encouraging the poorer performers to improve their performance.
- Guide company action on farm animal welfare, e.g. at the level of the individual farm.
- Inform questions at company AGMs. For example, some respondents explained that farm animal welfare or performance in the Benchmark is one of the factors considered when integrating environmental and social considerations in their AGM proxy voting decisions.

It is interesting to note that a number of respondents to the survey 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 expect to contribute to wider company and investor awareness of the relevance of farm animal welfare.

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<sup>6</sup> 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.bbfa.com/wp-content/uploads/2015/05/Investor-Briefing-No-19-Engagement-on-Farm-Animal-Welfare-A-Users-Guide.pdf>

<sup>7</sup> Note 4.

**Case-study: Standard Life Investments - Animal Welfare and Intensive Farming<sup>8</sup>**

"Animal welfare remains a concern for investors in our ethical funds. In the 2016 Ethical Survey, it ranked above adult entertainment and gambling in terms of importance. The intensive farming industry has received a great deal of criticism and media attention for the routine use of antibiotics, as well as links to antimicrobial resistance, which the World Health Organisation has labelled a global threat to human health. Consumer concerns have been further fuelled by a number of high-profile food scares, such as the 2013 horsemeat scandal.

Besides reputational risks, intensive farming faces a higher likelihood of disease outbreak than free-range farming, and relies on feed inputs with volatile pricing and sourcing concerns, such as the Thai shrimp industry. Regulation on water pollution, methane emissions and antibiotics use is another key risk. For example, companies could face high costs when converting from intensive farming to free range models, and potential fines and litigation if they do not comply with regulation...

Our ethical funds are committed to avoiding investment in companies with significant exposure to activities which may lead to poor animal husbandry (such as intensive or factory farming). This is where there is evidence of poor practices or where companies do not respect the five freedoms (freedom from hunger and thirst; discomfort; pain, injury and disease; fear and distress; and freedom to behave normally). However, many screening providers lack the appropriate data points to screen companies for intensive farming, making the implementation of the policy challenging.

To overcome this challenge, our Responsible Investment function uses different sources of information. A key source is the Business Benchmark for Farm Animal Welfare (BBFAW), which ranks companies in the food industry, including restaurants, food retailers and producers. It aims to provide information for stakeholders and improve company disclosure and performance. Companies are assessed against criteria that includes management commitment and policy, governance, leadership and innovation, and reporting.

During the year, we engaged with the BBFAW on numerous occasions. This included our response to the annual investor survey, the results of which can be found on the BBFAW website. Standard Life Investments signed an investor statement on farm animal welfare and committed to contribute to the development of the BBFAW and take into account its findings in our investment process."

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<sup>8</sup> [http://www.standardlifeinvestments.com/Ethical\\_Funds\\_Annual\\_Review/getLatest.pdf](http://www.standardlifeinvestments.com/Ethical_Funds_Annual_Review/getLatest.pdf)

## **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 their wider client and market communications, as illustrated in many of the examples and cases presented in this report.

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.

### **Case-study: Australian Ethical's Advocacy Fund – June Quarter 2016<sup>9</sup>**

"Advocacy Commentary

Responsible agriculture:

The choices we make about food shape our future. If current dietary and agricultural trends continue, we face worsening climate, health, animal welfare and ecological crises. Alternatively, switching to Mediterranean, fish-based or vegetarian diets will reverse or vastly reduce these harms.

Given the importance of sustainable food production, we were the first Australian investor to join international investors promoting ethical agriculture using tools like the Business Benchmark on Farm Animal Welfare (BBFAW) and the Farm Animal Investment Risk & Return (FAIRR) initiative.

BBFAW scores global food producers and supermarkets (including Woolworths and Coles) on their treatment of farm animals. This gives us a point of leverage to encourage poor performers to improve.

FAIRR has launched a campaign targeting over-use of antibiotics in agriculture, which we are supporting. Indiscriminate antibiotic use is concerning for many reasons: the way it facilitates overcrowding of farm animals; the harm to animals when used to promote growth rates; and the encouragement of antibiotic resistant super-bugs.

We draw on research by BBFAW, FAIRR, and others in our ongoing assessment of salmon farming company Tassal (which is the only animal agriculture company we currently invest in). Tassal has developed a 'zero harm fish welfare program'

<sup>9</sup> <https://www.australianethical.com.au/wp-content/uploads/2015/06/Advocacy-Fund-June-Quarter-2016.pdf>

developed in line with RSPCA's salmon welfare standards. Tassal also strictly limits and discloses all antibiotic use in its operations, and has worked with the World Wildlife Fund to achieve the highest global standard of responsibly produced seafood from the Aquaculture Stewardship Council for all their sites."

### Case-study: NEI's Reporting on Farm Animal Welfare

NEI regularly mentions the Benchmark on several occasions in its reporting to its end clients (Canadian retail investors)<sup>10</sup>. It has drawn attention to the Benchmark among its Canadian investment peers, through the RIA listserv and through mentioning the Benchmark in various Canadian media interviews on animal welfare.

In 2016, NEI featured the Benchmark in its *Farm to Fork* report outlining its interest in food-related investment risk<sup>11</sup>. It stated: "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."

NEI also mentioned the Benchmark in its submission<sup>12</sup> on the Canadian Federal Sustainable Development Strategy, noting: "In the longer term, we encourage the Federal Government to consider the topic of animal welfare as a further aspect of agricultural sustainability. The investment community is paying increasing attention to risks and opportunities relating to the treatment of farm animals, as evidenced by the Business Benchmark on Farm Animal Welfare, which is supported by investment institutions representing some UK£1.2 trillion in AUM, including NEI. The Federal Government can play an important role in standard setting in this area, which we believe will become an increasingly important factor for access to markets. In this context, we have taken note of the Federal Government's support for the multi-stakeholder National Farm Animal Care Council (NFACC) process for Codes of Practice on the care and handling of farm animals across Canada."

<sup>10</sup> <https://www.neiinvestments.com/pages/about-nei/about-ethicalfunds/esg-difference/corporate-engagements/>

<sup>11</sup> <https://www.neiinvestments.com/documents/Research/Farm%20to%20Fork.pdf>

<sup>12</sup> <https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2016/Environment%20and%20Climate%20Change%20Canada%20-%20Federal%20Sustainable%20Development%20Strategy%202016-19.pdf>

## **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, and on engagement (individual and collective) with companies to encourage them to better manage the risks and opportunities associated with farm animal welfare.

We are, however, 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**

Much of the feedback from investors about the Benchmark was extremely positive and supportive. This reflects a variety of factors: the Benchmark is now in its sixth year and investors are now familiar with its methodology and results; the universe of companies has increased, increasing the usefulness of the Benchmark to portfolio investors; we have made changes in response to suggestions from investors, including changing the structure and content of the main Benchmark report, producing two-page company summary documents setting out each company's strengths, weaknesses and areas for improvement, and producing a short guide on how investors might use the Benchmark in their company engagement<sup>13</sup>.

We did receive a number of comments on how the Benchmark might be strengthened or might evolve over time. Two themes dominated these comments:

- The number of companies covered by the Benchmark.
- The geographic and industry sector scope of companies covered by the Benchmark.

Many of the survey respondents stated that the coverage of the Benchmark remains – despite increasing the company score from 67 in 2012 to 99 in 2016 – relatively narrow. That is, it does not cover all the companies in relevant benchmarks or company universes, and this gap is not being filled by ESG research providers or other organisations.

*BBFAW Comment: We recognise that broadening the coverage of the Benchmark is important to investors. We intend to address this in two ways. First, we are in discussions with the Benchmark partners about how we can increase the universe of companies to around 250 companies, which would enable the Benchmark to cover all of the major retailers, producers and restaurants and bars globally. Second, we will, in 2017 and 2018, engage*

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<sup>13</sup> Sullivan, Amos and Herron (2015) (Note 6).

*with ESG research providers to encourage them to strengthen their focus on farm animal welfare and to provide coverage across the key large cap investment indices and markets.*

A number of survey respondents asked about the potential for extending the Benchmark to cover other geographic regions, smaller companies, and other food-related activities (e.g. pet food).

*BBFAW Comment: Each year, we consult with investors and other stakeholders on the scope of the Benchmark (including geography, sub-sector and specific companies). The current universe of companies reflects that feedback. As we expand the universe of companies covered by the Benchmark, we expect that we will progressively meet the requests being made to extend the Benchmark. In the short-term, however, we expect that we will continue to focus on three sub-sectors (retailers, restaurants and bars, and food producers) and progressively add companies from Latin America and Asia. Our focus on larger companies is expected to be maintained.*

Investors have asked us to provide more information on the business case for farm animal welfare.

*BBFAW Comment: This is an ongoing priority for us. 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. For example, following the launch of the 2016 BBFAW report, Morgan Stanley published a report, *Animal Welfare: Proxy for Supply Chain Governance?*, discussing the relationship between company scores in the Benchmark and their wider quality of management.*

## **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 that more investors are using the Benchmark in their investment research and decision-making and in their engagement with companies. We do, however, acknowledge 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. The survey respondents have 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 2018 following the publication of the sixth Benchmark report.



### Authors' Details

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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.

Nicky and Rory have led the development and delivery of the Business Benchmark on Farm Animal Welfare since its inception. They are the co-editors of *The Business of Farm Animal Welfare*, published by Routledge in 2017.

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.bbfaq.com](http://www.bbfaq.com) or contact the Programme Director, Nicky Amos: [nicky@nicky-amos.co.uk](mailto:nicky@nicky-amos.co.uk).

