How to feed the world safely

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Before we start today, a quick note from me regarding the events of Saturday night.

First of all I hope that your family, friends and acquaintances are all safe. The attacks on Saturday have affected the team at Southbank Investment Research particularly keenly this time. Not because anyone was injured, thankfully, but because the attacks took place extremely close to our office.

To the best of our knowledge it is still behind a police cordon. So I write this to you from my house (and indeed this email has been edited, set up and broadcast from remote locations all over London and the south-east, since no one can get to the office).

It's a minor inconvenience, especially given the wider context of murder and chaos on Saturday evening. But it's enough to give you extra pause for thought and reflection.

Of course, as a financial publisher I also have other decisions to make. Is it right and appropriate to talk about becoming a better, more informed investor in circumstances such as this? I think the answer is yes, and not just because of the "if we change our behaviour, we're letting them win" argument (which I agree with).

More than that, I try to think back to the founding idea that made me want to start *Exponential Investor* a year and a half ago. It's a fundamentally optimistic mission. No matter how many problems the world faces, (economic or otherwise) and no matter how destructive or divisive the actions of a tiny majority of people may be, the people who're working to make the world a better, happier, healthier and freer place vastly outnumber them.

It's hard to remember that in the face of grim economic data and even more so when our lives feel under assault. But I think it does us good to remember that fact. That's our mission here at *Exponential Investor* – we're your optimists' guide to the future, and we'll help make you a better investor while we're at it. That mission continues today.

All the best,

Nick O'Connor
Publisher, *Exponential Investor*

How to feed the world safely

Factory farming is the dirty secret in everyone's food cupboard. We like to think of our sausages as coming from happy pigs, which have spent their lives rooting around in woodland. However, the reality is both very different, and very grim. Battery cages for chickens, farrowing crates for pigs, and concrete feedlots for cattle – these are the reality for billions upon billions of farm animals.

Today, our food is produced much like any other industrial product – and animal welfare is an afterthought, at best.

This way of eating doesn't only affect the animals concerned – it leads to a myriad of problems beyond the farm gates. These range from poisonous slurry leaks, to deforestation and antibiotic-resistant bacteria.

With the connivance of the farming, food processing, and marketing industries, we turn a collective blind eye to these horrors.

This is certainly a moral issue – but could it be an investment risk, too?

Today, I'm talking to a man who thinks factory farming is a very serious business risk. After reading this interview, you might be checking your portfolio just as carefully as you check your shopping basket.

I'll let Jeremy Coller explain…

AL: Hi Jeremy. Can you start off by telling me a bit about the FAIRR Initiative?

JC: Thanks Andrew. FAIRR is an investor initiative. It was started just over a year ago, to raise awareness about the material impacts of factory farming. It's not something many investors realise, but factory farms now constitute over 70% of the world's farmed animals – and a remarkable 99% in the US. This method of farming is increasingly linked with significant environmental damage, and public health risks. Given that most large investors are exposed to food and farming companies, this is putting significant shareholder value at risk.

FAIRR is all about raising awareness of this issue among the global investment community, and sharing knowledge on how to manage it.

AL: What got you started?

JC: If I'm being honest, I used to pay lip service to the concept of environmental, social and governance (ESG) issues. However, I have realised now how powerful ESG is – and why half the world's investable capital has now signed up to the UN-supported Principles for Responsible Investment.

I'm personally very interested in the meat industry, and I believe this sector has become something of a forgotten ESG issue. This led me to take a deeper look at the impacts of factory farming and, subsequently, to develop FAIRR.

AL: What are the investment risks you are talking about?

JC: Factory farming has created a system where the world is supplied with large amounts of cheap meat. I think there are four risks inherent in the model, which are only now emerging. These are what I call the four inconvenient truths:

Firstly, threats to human health. Factory farms are the number one user of all antibiotics in the US (80%) and Europe (50%). This is seen, by many, to have catalysed the development of antibiotic-resistant bacteria. That is a major health risk to all of us – as discussed by the highest levels of the UN. We're also seeing other health effects of factory farming, too. Girls are hitting puberty far too early – potentially due to artificial animal hormones getting in the food chain. Furthermore, pandemics like avian flu, and swine flu, may be arising more frequently – due to the concentrated nature of intensive farming methods, which cause disease to spread more readily.

Secondly, there are environmental threats. The livestock sector produces 14.5% of global greenhouse gas emissions. Remarkably, that's more than the whole transport sector – so ditching meat could make more difference to your carbon footprint than getting rid of your car. But it's not just about global warming. Factory farming is responsible for substantial water and air pollution. Overall, as the world transitions to a low-carbon economy, this puts food and agriculture companies at significant financial risk.

Thirdly, factory farming exacerbates undernourishment. On average, it takes around 6kg of plant protein to produce 1kg of animal protein. In a world of limited resources, factory farming is actually hindering our attempts to feed the world. Traditionally, animals used to eat things that humans couldn't – such as grass and waste food. Nowadays, they are typically fed manufactured feeds, which could easily be processed into human foods instead.

Fourthly, factory farming wastes scarce natural resources. It's the world's biggest consumer of fresh water. That water is often from unsustainable groundwater sources, not rain. Furthermore, due to the growing use of soya as an animal feed, it is the number one cause of deforestation – responsible for up to 91% of Amazon deforestation.

AL: What has the response from the investment community been so far?

JC: It's been remarkable. Members with over a trillion dollars of assets under management have already signed up to FAIRR. Some of the corporate engagements that FAIRR has backed have been featured widely in financial publications – such as the Financial Times, Bloomberg, Reuters and Institutional Investor. I am surprised that the FAIRR issue is rising so swiftly up the investment agenda. It's clear that it has struck a chord in the markets.

AL: Could there be a risk of class-action lawsuits, like those we've seen on tobacco?

JC: It's hard to know. As with tobacco, many of the risks have been hidden in plain sight. If it becomes clear that elements of the sector are acting against the long-term interests of society, it's possible we'll see elements of society take action against firms in this sector.

AL: What type of investments do you think private investors need to avoid?

JC: There is an annual benchmark, of how around 90 of the world's largest food and farming companies are reporting and managing on farm animal welfare. It's called the Business Benchmark for Farm Animal Welfare (BBFAW). A good first step for investors is to look at the companies performing badly in that benchmark, or those showing no improvement. In particular, look out for any livestock production company that employs methods such as close confinement, gestation crates, or excessive use of chemicals and medicines. These firms will be on the front line of the risks I've been describing.

Do you think factory farming is a risk to your portfolio? Please let us know your views – **andrew@southbankresearch.com.**

Best,

Andrew Lockley
Exponential Investor