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A Healthy Investment

The Importance of Prioritising Health in the Food and Drink Manufacturing Sector

ShareAction»

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Executive summary

Obesity is one of the most pressing global public health issues. Its negative effect on people's health, national health services and the economy is considerable. The severity of its impact is only being amplified by the current Covid-19 pandemic, with obesity-related illnesses such as heart disease and diabetes being closely associated with an increased risk of complications and death. The crisis has underscored the need to build a healthier and more resilient society. Coupled with increasing public and political awareness of the need to reduce obesity rates, especially among children, this has further strengthened an already robust case for increasing regulation to tackle this crisis. In fact, due to the impact of Covid-19 the UK Government has already announced plans to introduce a series of policies to tackle obesity, including a ban on unhealthy food promotions and displays in supermarkets, and a ban on unhealthy food adverts before 9 pm.

One of the biggest contributors to this problem is unhealthy food environments, characterised by the widespread prevalence of unhealthy products high in fat, sugar, salt and calories. In total, over two thirds of packaged food and drink products in the UK are unhealthy. Worth £105 billion,¹ the UK food and drink manufacturing sector is also highly concentrated, with just a handful of companies making the majority of these products. This means that major decisions shaping the nation's diet are in the hands of very few players who have the power, reach and responsibility to create healthier food environments

Through increasing the proportion of healthy products in their portfolio, and focusing their marketing activities to drive healthy sales, food and drink manufacturers have a significant opportunity both to improve the population's health and to future-proof their business. Packaged food and drink products are increasingly being targeted by regulators around the world with an array of measures including taxes, tobacco-like health warnings, and marketing restrictions. Yet it is possible for manufacturers to make swift progress towards healthier products while meeting consumer expectations and tapping into rising trends towards healthy food, as the experience of the Soft Drinks Industry Levy in the UK shows.

On the other hand, manufacturers who fail to adapt to regulatory and consumer trends are likely to see negative financial impact and lose valuable market share. The outright ban of flagship products such as Kinder Surprise Eggs in Chile or the recent US lawsuit against Kellogg's for the use of misleading health claims, illustrate some of the serious financial and reputational consequences at stake.

Despite the clear risks and opportunities at play for investors, most manufacturers do not disclose critical information on the healthiness of their product portfolios and their sales. Most information currently reported in this area relies on the work of third parties, notably independent corporate benchmarks like the Access to Nutrition Index, or investor-led initiatives.

Therefore, shareholders and debt financiers in the food and drink manufacturing sector should engage with these companies to drive transparency and positive corporate change as well as protect future returns. By asking global food and drink manufacturers to make and sell healthier products, responsible investors also have an opportunity to drive significant progress in the reduction of childhood obesity in the UK and around the world.

This is the latest of a series of briefings forming part of ShareAction's Healthy Markets initiative, which initially intends to inform and support investor stewardship of those food and drink manufacturers and retailers who have the most important roles to play in addressing childhood obesity in the UK. These include a number of UK-based and global companies.

By collaborating, investors can achieve faster and greater influence by virtue of coordinating their actions. Section 5 of this briefing sets out how investors can be involved in this work, including through becoming members of the Healthy Markets investor coalition.



Introduction

1.1 – Obesity and food environments

Obesity is one of the most urgent public health issues of our time. In the UK, the scale of the issue is a significant concern, with a majority (64 per cent) of the adult population, and more worryingly a third of children, being either overweight or obese.^{2,3} This has negative consequences on both their mental and physical health, increasing the chances of developing non-communicable diseases and mental health conditions. Childhood obesity also increases the likelihood of ill health later in life, with obese children five times more likely to be obese in adulthood.

Alongside affecting people's health and wellbeing, obesity also has an impact on society and the economy. Widespread ill health caused by the disease now accounts for 8.4 per cent of total health expenditure in the UK, while the resulting reduction in productivity reduces overall growth equivalent to an estimated 3.4 per cent reduction in GDP.⁴

While the causes of obesity are complex, the shift towards unhealthier diets low in fruits, vegetables and fibre and high in ultra-processed foods high in fat, sugar, salt (HFSS) and calories plays a central role. In the UK, only 18 per cent of children consume the recommended five portions of fruit and vegetables per day,⁵ and overall children consume three times the recommended daily intake of free sugars.⁶ Obesity is also strongly linked to deprivation, with children from deprived areas consuming higher quantities of sugar than their peers from more affluent households.⁷

Our food environments, dominated by the sale and marketing of cheap and unhealthy HFSS products, are central to this dietary pattern.⁸ Efforts to reduce obesity should therefore focus on creating healthier food environments by increasing the prevalence and marketing of healthier products and limiting the availability of unhealthy products and their marketing.

In light of this public health issue, in 2016 the UK Government set an ambitious childhood obesity plan, bringing forward regulation to create healthier food environments with the aim of halving childhood obesity rates by 2030.⁹ To date, the government has introduced a series of policies, including fiscal measures, and has set out plans to introduce more legislation, which are covered in this briefing in section 3. Increased regulation shows that obesity is likely to remain a political priority for the near future. While challenging, changes to our food environment are possible if the food and drink industry adapts and recognises its role in tackling obesity. This not just about corporate responsibility but also about staying ahead of regulatory changes and consumer demand for healthier products to ensure manufacturers remain commercially competitive.

Covid-19 and obesity

Emerging evidence from the ongoing Covid-19 pandemic highlights obesity as a clear risk factor in the severity of disease, with excess weight identified as the second leading cause of complications from the virus after old age.¹⁰ In the UK, data shows that obesity raises the risk of death from Covid-19 by 33 per cent and that over 70 per cent of ICU patients with the virus are either overweight or obese.¹¹

Overall, the pandemic has highlighted the importance of tackling the underlying obesity crisis to create a more resilient society that can withstand future health crises. The UK Government has responded to the identification of obesity as a key risk factor by announcing that it will take “a much more interventionist” approach to reduce obesity rates in the future.¹² This signals the likelihood of further, and possibly tougher, regulation to create healthier food environments. This political commitment has been widely welcomed, with 74 per cent of the public supporting increased government action to reduce obesity.¹³

Public health experts have also warned that childhood obesity rates might increase as a result of lockdown measures enforced to slow the spread of the pandemic.¹⁴ The combination of lack of exercise, increased consumption of unhealthy processed HFSS products, and increased exposure to online advertisement of HFSS products could make the current childhood obesity crisis even worse. Others have also warned that due to reduced spending power caused by the economic crisis, consumption of cheap unhealthy foods may increase, as the price of fresh food rises and becomes less affordable.¹⁵ This further strengthens the case for the food and drink industry to make their products healthier and adopt responsible marketing practices.



The role of food and drink manufacturers

2.1 – The importance of the packaged food and drink sector

Packaged products made by food and drink manufacturers are increasingly part of diets around the world,¹⁶ representing a central element of our food environment. Despite the many brands and products on supermarket shelves, in reality the food and drink manufacturing sector is highly concentrated. The so-called “Big 10”, namely Associated British Foods (ABF), Coca-Cola, Danone, General Mills, Kellogg, Mars, Mondelez, Nestlé, PepsiCo and Unilever dominate the global food and drink manufacturing industry,¹⁷ generating almost \$400 billion in revenue in 2018. Their leadership is heavily reliant on marketing and advertising, with Nestlé spending over \$7 billion¹⁸ and Coca-Cola spending \$4 billion¹⁹ in a year (almost double the World Health Organisation’s yearly budget).²⁰ Figure 1 and Figure 2 provide additional information on these companies and other major food and drink manufacturers operating in the UK market.

These companies are responsible for manufacturing many of the type of highly processed products that have been identified as the biggest contributors to childhood obesity, such as confectionery, breakfast cereals and ice cream. As a result, these product categories have been included in Public Health England’s (PHE) 20 per cent sugar and calorie reduction programmes.^{21,22}

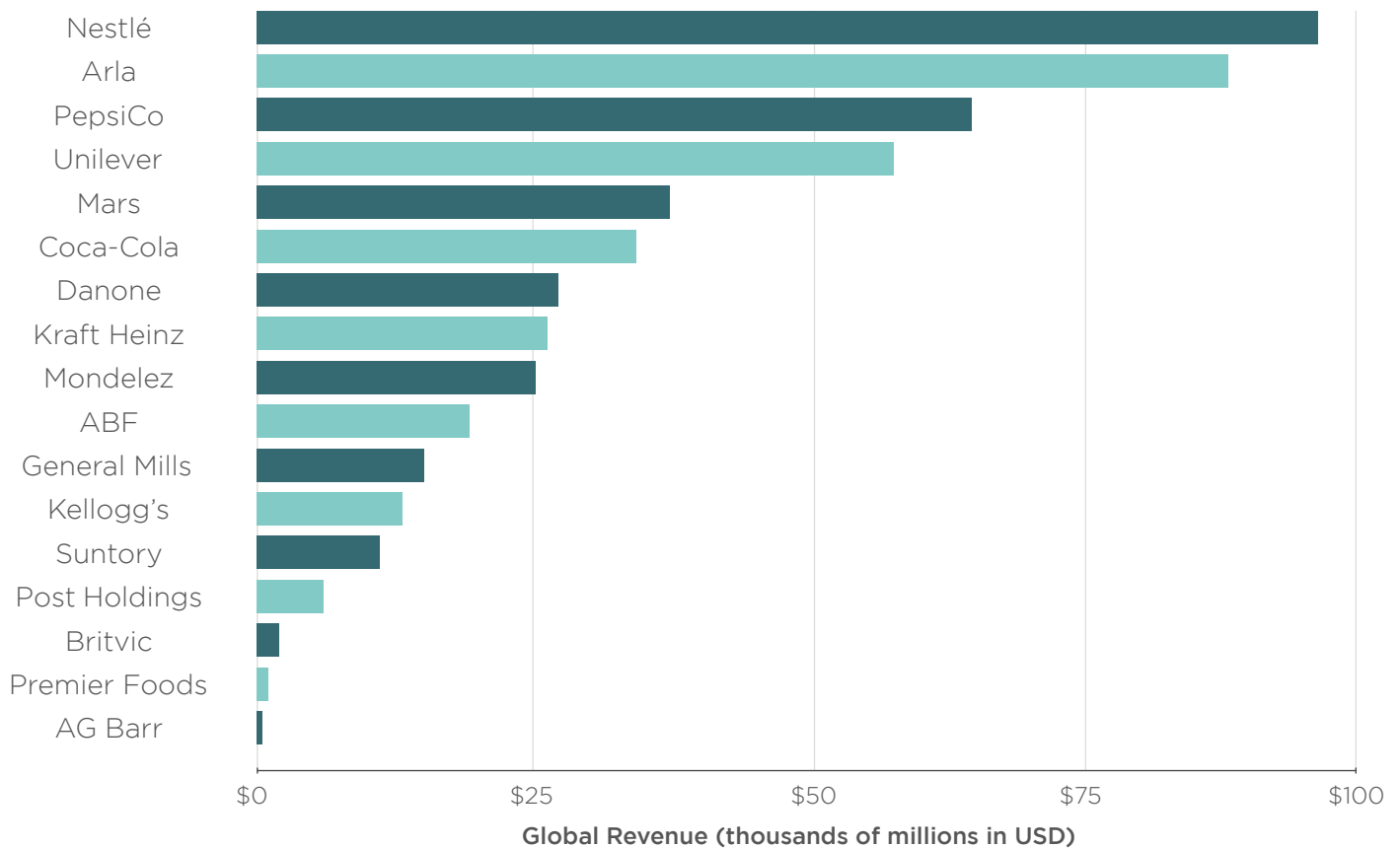
The industry’s over-reliance on unhealthy products that contribute to childhood obesity, and hence its high exposure to regulatory and consumer trends, is also evident. In the UK, 78 per cent of packaged food and drink companies come from unhealthy products and only 11 per cent from products suitable to be marketed to children.²³



Figure 1: Top packaged food and drink companies operating in the UK

| Holding Company | Headquarters | Examples of well-known UK brands |
|---------------------------------------|----------------|--|
| Nestlé | Switzerland | Shreddies, Cheerios, Aero, Milkybar, Smarties, Yorkie, Kit Kat, Toffee Crisp, Quality Street, Rowntrees, Nesquik |
| Arla | Denmark | Arla, Cravendale, Skyr, Yeo Valley |
| PepsiCo | United States | Pepsi, 7up, Tropicana, Quaker, Naked, Walkers, Doritos |
| Unilever | United Kingdom | Magnum, Ben & Jerry, Carte D'Or, Cornetto, Lipton, Wall's, Marmite, Pot Noodle, Knorr, Solero, Viennetta |
| Mars | United States | Celebrations, Galaxy, Mars, Maltesers, M&M's, Milky Way, Twix, Dolmio |
| Coca-Cola | United States | Coke, Fanta, Sprite, Lilt, Minute Maid, Rose's, Powerade, Appletiser, Fuze Tea |
| Danone | France | Danone, Activia, Actimel, Cow & Gate, Oykos |
| Kraft Heinz | United States | Heinz, Farley's, TinyTums, Lea & Perrins, HP sauce |
| Mondelez | United States | Cadbury, Dairy Milk, Côte D'Or, LU, Milka, Nabisco, Toblerone, Trident |
| Associated British Foods (ABF) | United Kingdom | Jordans, Dorset Cereals, Ryvita |
| General Mills | United States | Häagen-Dazs, Yoplait, Nature Valley, Betty Crocker, Fibre One, Larabar |
| Kellogg's | United States | Coco pops, Crunchy Nut, Frosties, Pop Tarts, Rice Krispies, Special K, Pringles |
| Suntory | Japan | Ribena, Lucozade, Orangina |
| Post Holdings | United States | Weetabix, Alpen, Weetos |
| Britvic | United Kingdom | Robinsons, J20, Tango, Gatorade |
| Premier Foods | United Kingdom | Ambrosia, Angel Delight, Birds, Lloyd Grossman, Lyons, Mr Kipling |
| AG Barr | United Kingdom | Irn Bru, Barr, Rubicon, Snapple, Simply Fruit, Tizer, Bundaberg |

Figure 2: Global revenue of top food and drink manufacturers in the UK



Source: Eikon database and Forbes²⁴

The appeal of highly processed foods

Highly processed foods (also known as ultra-processed foods) are products which consist of multiple industrial processes and ingredients, such as additives, oils, fats, sugar and salt, and containing very little whole foods such as vegetables and fruits. This includes products such as packaged sweet and savoury snacks, ice cream, confectionery, ready meals, packaged noodles and soups.²⁵ Highly processed foods are a lucrative business for food and drink manufacturers as they are cheap to make. Profits are also higher for processed food than for primary produce, with value added at every stage of the product line, from packaging and branding to marketing.²⁶

These energy-dense but nutritionally-poor products are also designed to appeal to consumers. Often high in fat, sugar and salt, highly processed foods are engineered to be extremely palatable. They are also convenient and cheap, with longer shelf life compared to fresh foods and designed to be consumed immediately with no or minimal preparation (such as reheating). They are also heavily marketed, with 46 per cent of food and drink advertising spent on confectionery, sweet and savoury snacks and soft drinks, compared to 2.5 per cent spent on fruit and vegetables.²⁷ As a result, highly processed foods have become a staple in the UK diet, with over half of people's energy intake coming from them.²⁸

2.2 – How food and drink manufacturers can create healthier food environments

The overall unhealthiness of the food and drink manufacturing sector shows that the potential and need for improvement in this space is significant. Manufacturers need to create healthier products and decouple their growth and profits from unhealthy food and drink. By doing so, companies can futureproof their business from the impact of childhood obesity regulation and have a positive impact on food environments (see Section 3 of this briefing on the risks and opportunities for investors).

There are a number of interventions companies can implement to prioritise health in both their portfolios and their sales, which are summarised in Figure 3. To achieve this shift multiple different actions are needed and it is also important that companies focus on increasing the healthiness of both portfolios and sales. Focusing on just improving sales from healthy products while not improving the healthiness of portfolios may leave companies over reliant on a handful of healthier products in a highly competitive market. On the other hand, only improving the healthiness of the portfolio while still relying on sales of unhealthy products will make them more vulnerable to regulation.

To be transparent and accountable for their actions in this space, companies should also disclose goals and progress towards creating healthier products and sales. Policies and SMART targets linked to the interventions they implement should be publicly available to allow investors and other stakeholders to assess their efforts. Furthermore, to reflect whether these are leading to tangible change, and to understand the investment risk profile of each company compared to its peers, there are two key metrics that companies should report:

- Percentage of healthy products in their portfolio
- Percentage of sales generated by healthy products

Publicly reporting the percentage of healthy products in portfolios and sales is uncommon for manufacturers. However, widespread use of these metrics in the sector would likely increase overall transparency and scrutiny, while also incentivising competition around health objectives. At the same time, focusing on disclosure of these two key metrics will also give companies the flexibility to implement the interventions that are most suited to their business to deliver impact.

To report on these two metrics, it is important that companies first develop a robust and transparent nutrient profiling system (NPS) based on public health guidelines to define thresholds for nutrients per product category. This allows them to differentiate the products into healthy and unhealthy varieties and consequently measure the percentage of products that are healthy within the portfolio and the sales they generate. Companies should also set yearly incremental targets to demonstrate steady improvement over the years.

Figure 3: Interventions for healthier product portfolio and sales



GOAL 1 Achieve a healthier product portfolio

Intervention areas for Goal 1



- ▶ **Product (re)formulation:** Improving the nutritional composition of products is one of the most effective actions to improve healthy diets.²⁹ Product reformulation and new product development should be underpinned by a robust Nutrient Profiling System (NPS) defining the thresholds for nutrients in different product categories.



- ▶ **Portion and product size:** Evidence shows that a reduction in portion size reduces energy intake and has a positive effect on weight loss.³⁰ As a result, PHE has recommended portion and product reduction as one of the tools companies can use to reduce sugar content in food.³¹



- ▶ **Mergers and acquisitions:** When considering mergers and acquisitions, companies should include nutrition and health considerations to ensure that their product mix improves and gets healthier rather than less healthy.

Key metric to assess Goal 1



- ▶ **Percentage of healthy products in their portfolio**



GOAL 2 Achieve healthier sales

Intervention areas for Goal 2



- ▶ **Marketing and advertising:** companies should focus their marketing and advertising activities on healthy food and drink rather than on unhealthy options. Companies should also ban the use of cartoons, brand mascots and celebrities when marketing to children under the age of 18 across all platforms and use a robust NPS to guide their marketing activities.



- ▶ **Labelling:** clear and effective labelling such as front-of-pack (FOP) interpretive labelling (such as the voluntary FOP traffic light labelling system in the UK) is more effective in driving consumers towards healthier products compared to regular back of pack nutritional labelling.³²

Key metric to assess Goal 2



- ▶ **Percentage of sales generated by healthy products**

Investing in food and drink

3.1 – Investor responsibility and the rise of S in ESG

Investors are under increased scrutiny and pressure to understand the impact of their investments on global issues and act responsibly.³³ Moreover, the new UK Stewardship Code 2020 requires investors to report on the outcomes of their stewardship activities.³⁴

Investors are also increasingly expected to look at social issues. Until recently, the environmental, social and governance (ESG) agenda prioritised governance and environmental concerns, but Covid-19 has highlighted the materiality of social factors within ESG and how global public health is an issue investors need to take into account to truly be responsible.³⁵ With childhood obesity being a global health crisis, investors have the opportunity to engage on a rising ESG issue that needs to be addressed to create a more resilient society and economy in the future. Those seeking to incorporate social and health issues into their ESG practices should consider whether the companies they invest in are contributing positively or negatively to obesity, and use their stewardship activities to improve corporate business practices.

3.2 – Opportunities and risks

Alongside driving corporate responsibility, investors need to understand how companies are responding to rising consumer awareness around diets and demand for healthier foods. Currently 85 per cent of UK shoppers are actively trying to improve their diet when shopping³⁶ and sales of healthier options are rising across many product categories.³⁷ In particular, health-focused challenger brands have swiftly and successfully tapped into this emerging trend, representing the fastest growing food and drink brands in the UK in 2018.³⁸ Companies within the competitive food and beverage sector must therefore adapt their business models accordingly to remain relevant and maintain market share in light of this structural shift in demand.

Another major risk for investors remains the changing regulatory landscape and its impact on the profits of the food and drink industry. Several countries have already passed legislation to tackle childhood obesity, and we see this as likely to increase around the world. Figure 4 provides a snapshot of the current regulatory changes taking place in the UK and globally that will affect companies in the food and drink industry if they do not adapt.

It is important to note that company inaction in this space may also negatively impact brand reputation, which in turn may affect brand profitability. Consumers will view brands that do not adapt to regulatory and market trends as unethical and engaging in questionable practices and may ultimately stop buying them. As a result, companies and investors have everything to gain from becoming more health-focused and contributing towards a reduction of childhood obesity in the UK and worldwide.

In order to assess how companies are taking the above issues into consideration, investors need access to information. Unfortunately, the lack of company data and harmonised reporting across the sector makes it challenging for investors to understand and compare performance of food and drink manufacturers. Currently most companies do not disclose information on how they are transitioning towards healthier portfolios. This makes it hard to analyse risk adequately, which in turn can negatively influence valuations and investment decisions. To solve this issue, investors should urge companies to disclose more. Section 5 provides additional details on how investors can engage with companies on this issue and drive increased disclosure and impact.

Figure 4: Regulatory risks globally and in the UK

| Health Taxes | |
|--|--|
| Global | There are now over 40 sugar taxes worldwide, ³⁹ making them more popular than carbon taxes. Moreover, there has also been a trend towards increasing the amount of tax or extending sugar taxes to other drink categories (such as milk-based drinks). ⁴⁰ |
| UK | <p>The UK has implemented a tax on sugary soft drinks and is considering extending it to other milk-based drinks “if the evidence shows that industry has not made enough progress”.⁴¹</p> <p>PHE has also implemented a voluntary 20 per cent sugar and calorie reduction programme to incentivise the food industry to make healthier products. In 2018 the UK Government promised it will not “shy away from further action, including mandatory and fiscal levers” if progress is slow in reducing sugar.⁴²</p> |
| Strict Labelling Laws | |
| Global | <p>There has been a trend towards stricter labelling, with a number of countries such as Chile, Mexico and Israel introducing tobacco-like health warning labels on products high in fat, sugar, salt and calories.⁴³</p> <p>In Europe there has been a shift towards adopting the FOP colour-coded Nutri-Score system.⁴⁴ The European Commission will propose legislation for a harmonised FOP labelling system in 2022.⁴⁵</p> |
| UK | In the UK the voluntary FOP traffic light labelling system was introduced in 2007. Brexit may lead to further changes, with the UK Government committed to explore “opportunities leaving the European Union presents for food labelling”. ⁴⁶ |
| Restrictions on Marketing and Promotions | |
| Global | In Chile, alongside stricter labelling laws, the Government introduced a ban on HFSS marketing and advertising to children and a ban on the sale of HFSS products in schools. This has already had an impact on the industry, with a 23 per cent decrease in sugary drinks consumption ⁴⁷ and a reduction in HFSS broadcast advertisement from 41.9 per cent to 14.8 per cent. ⁴⁸ |
| UK | <p>HFSS broadcast advertising in children’s media was banned in 2007. In 2017 the Advertising Standards Authority (ASA) passed new regulation banning HFSS non-broadcast advertising (such as online, cinema, print and out of home) in children’s media or other media where children under 16 comprise 25 per cent of the audience. There has also been increased regulation at a local level, with Transport for London (TfL) banning HFSS advertising across the entire public transport network⁴⁹, and some London boroughs banning HFSS advertising on all council-owned property.^{50,51}</p> <p>While children’s exposure to HFSS broadcast advertising has declined by 70% since 2005, children are still seeing 9.6 HFSS ads on television per week.⁵²As such, the UK Government has consulted on plans to ban HFSS advertising on broadcast media before 9pm. In light of the impact of the Covid-19 pandemic, the UK government has announced it will introduce the 9pm watershed and is also considering a ban on all online HFSS adverts.</p> <p>Alongside these advertising restrictions, the government has also announced restrictions on price promotions and placement in prominent locations of HFSS products in supermarkets⁵³</p> |

The impact of voluntary and mandatory sugar reduction regulation in the UK

As part of the voluntary sugar reduction programme, PHE has been tracking progress towards its target to reduce sugar by 20 per cent by 2020. Data shows that companies are not doing enough to meet this target. Between 2015 and 2018, the average sugar reduction for food and drink manufacturers was only 3.3 per cent, while calorie reduction was just 2.1 per cent.⁵⁴ Overall, these poor results show that voluntary regulation does not lead to the industry action required.

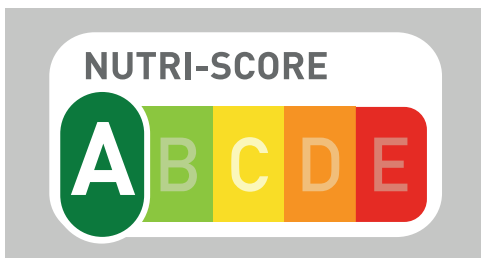
In comparison, the effect of mandatory regulation can be seen in the success of the UK's sugary drinks industry levy (SDIL). Introduced in 2018, this tax on soft drinks containing more than 5g of sugar per 100ml of product has led to rapid and widespread reformulation. Drink manufacturers have reduced the sugar content of soft drinks by 29 per cent on average. The tax has also had a positive financial effect on companies. Prior to the introduction of the SDIL companies warned of predicted financial losses as a result of the tax. However, research has found that two years after implementation, the share price of UK soft drink companies has increased.⁵⁵

Sugar Reduction from SDIL for top UK soft drink companies

| Company | Sugar Reduction |
|-----------|-----------------|
| A.G.Barr | -54% |
| Britvic | -37% |
| Suntory | -36% |
| Coca-Cola | -14% |

Data taken from PHE's data sheets on sugar reduction progress.⁵⁶
Data was unavailable for PepsiCo soft drinks.

Examples of front of pack labelling systems around the world



1. Nutri-Score



2. UK traffic light labelling



3. Chile warning labels

→ Case Study: The effect of regulation on flagship products

Companies who rely on unhealthy products targeted at children and adolescents are at high risk of regulation. Their products risk being banned or severely restricted by regulation aimed at protecting children from HFSS marketing. For example, the strict labelling and marketing regulation of HFSS products introduced in Chile in 2016 led to the outright ban of Ferrero's flagship product, the Kinder Surprise Egg. As this law prohibits products high in fat, sugar and salt to use a "commercial hook" to attract children under 14. Ferrero's product, which contains a surprise toy inside a chocolate eggshell, was banned on basis that the toy exists to entice children to buy and consume the product.⁵⁷

More recently, in 2019 the UK Government announced a ban on sales of energy drinks to children under 16.⁵⁸ Many retailers anticipated this and acted proactively by banning the sale of energy drinks to under 16s before the ban was announced. This is due to widespread concern over excessive consumption of energy drinks among UK children, with over a quarter of children consuming three cans in one sitting.⁵⁹ This is particularly worrying given that a single can may contain up to 33 grams of sugar, which is the total daily recommended sugar intake for adolescents. The announced ban is a step forward in protecting the health of children and adolescents⁶⁰, but the government assessment shows that it will have a significant economic impact on companies who rely on the sale of energy drinks, such as Monster and Red Bull, with loss of retail sales of up to £242 million per year.⁶¹

→ Case Study: The rising risk of litigation in the US

Sugar is often referred to as the "new tobacco" due to its harmful effects and addictive quality.⁶² This comparison has also led to widespread concern that food and drink companies selling high-sugar products might be subject to similar lawsuits as the tobacco industry.

In the US, lawsuits against misleading marketing practices of high sugar products are becoming more frequent and more successful. While previous sugar lawsuits against General Mills, Coca-Cola and Mondelez were dismissed, recent cases have been more impactful. In 2019, Kellogg's were accused of using misleading words such as "healthy", "nutritious", "wholesome" and "lightly sweetened" to promote products that contained between 18 and 40 per cent added sugar. Judges ruled that a class action lawsuit could proceed on this basis.⁶³ Rather than going to trial, Kellogg's decided to settle out of court and agreed to stop using certain words and health messaging perceived as misleading when marketing a range of products high in added sugar.⁶⁴

The increased litigation risk has significant implications for the sector. These are both financial, resulting from the cost of lawsuits, but also from the loss of market share caused by the potential reputational damage of lawsuits as consumers switch to brands perceived to be more trustworthy and healthier.

State of play: what current data tells us about manufacturers' efforts

4.1 – Investor data: Candriam

Due to a lack of company data, a number of investor initiatives have emerged to assess how food and drink companies are responding to the sugar risk, as most regulation and concern around childhood obesity has focused on this particular nutrient. In particular, asset manager Candriam has developed a methodology to assess the sugar risk level of food and drink manufacturers they invest in.⁶⁵ This is calculated by:

- assessing a company's exposure to regulatory pressure across different regions in the world (based on policy appetite and obesity rates in individual countries)
- calculating the amount of added sugar in their portfolio (based on a company's product categories and the revenue they generate from them).

Based on these two factors Candriam assigns a risk level to food and drink manufacturers (OK, medium risk, or at risk). Candriam also takes into account how companies compare to their peers, if their company valuation already accounts for sugar risk, and how engaged company management is on the issue. Candriam however noted that their assessment was impacted by the lack of publicly available data. They state "most company disclosures are insufficient to precisely assess the sugar content of their product range. This raises many questions about management awareness and their ability to address the sugar issue."⁶⁶

4.2 – Independent initiative: ATNI

One of the leading organisations that has already provided in-depth information on both company performance and disclosure in this space has been the Access to Nutrition Initiative (ATNI). Since 2013, ATNI has conducted both global and country-specific benchmarks to monitor how the top food and drink manufacturers are contributing to addressing nutritional challenges and have recently developed a set of expectations for investor engagement in this area.⁶⁷ Particularly insightful are their 'Product Profiles' that assess the healthiness of both the product portfolios and sales of the biggest food and drink manufacturers.

In 2019, in partnership with ShareAction, ATNI published a Product Profile that zoomed into the nutritional quality of packaged food and drink sold in the UK using data collected as part of their Global Access to Nutrition Index.⁶⁸ ATNI based its analysis on two different nutrient profiling systems:

- the Health Star Rating (HSR)⁶⁹ which determines the overall healthiness of a product and assigns a rating between 0.5 and 5, with anything rated 3.5 or above considered healthy;
- the WHO Regional Office for Europe Nutrient Profile Model⁷⁰ (WHO EURO) to identify which products are suitable to market to children.

A rise in corporate scrutiny and benchmarking

Alongside Candriam and ATNI, other independent organisations and investors have developed their own benchmarks and frameworks to address the lack of data in the food and drink industry. To address poor disclosure on sugar, Schroders and Rathbone Greenbank Investments have developed a set of key expectations that companies need to address to improve transparency and show investors they are taking action on risks and opportunities in this space.⁷¹ Schroders has also assessed food and drink retailers and manufacturers against these investor expectations and found that transparency around how boards are assessing the sugar risk is improving.⁷²

One of the most ambitious benchmarking projects on the food industry comes from the World Benchmarking Alliance, who are due to publish “a first of its kind to benchmark leading companies across the entirety of the food system, from farm to fork”⁷³ in 2021. This benchmark will look at healthy diets and nutrition as well as other issues such as the environment and social inclusion and will assess 350 companies in the food industry.

4.3 – Company performance: A lack of health-focused portfolio and sales

Data from Candriam and ATNI’s UK Product Profile provide a detailed overview of how food and drink manufacturers are adapting their products and sales to the risks and opportunities around childhood obesity. All of the companies relevant to the UK included in Candriam’s assessment have a medium to high sugar risk, meaning that for the risk of regulation these companies still have a considerable amount of sugar in their portfolios.

Figure 5: Candriam sugar risk assessment

| Company | Risk level |
|---------------|-------------|
| Nestlé | Medium Risk |
| PepsiCo | At risk |
| Unilever | Medium Risk |
| Coca-Cola | At risk |
| Danone | Medium Risk |
| Kraft Heinz | Medium Risk |
| ABF | Medium Risk |
| General Mills | At risk |
| Kellogg’s | At risk |
| Suntory | Medium Risk |

Source: Candriam

The UK Product Profile further illustrates how heavily companies' portfolios and sales are reliant on unhealthy products. Out of all 12 companies identified in Figure 6, only three (PepsiCo, Arla and Kraft Heinz) have a portfolio that includes over 50 per cent of healthy products (above 3.5 HSR) with Suntory and Mondelez having only 6 per cent of healthy products. Even more disappointing, just two companies (Arla and Kraft Heinz) generated more than half of their UK sales from healthy products, with less than 10 per cent of UK sales from Nestlé, Suntory and Mondelez coming from healthy products.

Companies in Figure 7 seem to be especially unaware of the importance of having products suitable to be marketed to children (meeting the WHO EURO standards). None of the companies' portfolios or sales included a considerable proportion of products healthy enough to be marketed to children (50% or more), with Suntory, Mondelez, PepsiCo, Coca-Cola and Mars generating less than 10% of sales from products suitable for children. This is a significant blind spot as regulation in this space is gaining traction worldwide due to the negative impact HFSS marketing and advertising has on both children and adolescents.⁷⁴

Figure 6: Healthiness of product portfolios and sales of major UK food and drink manufacturers

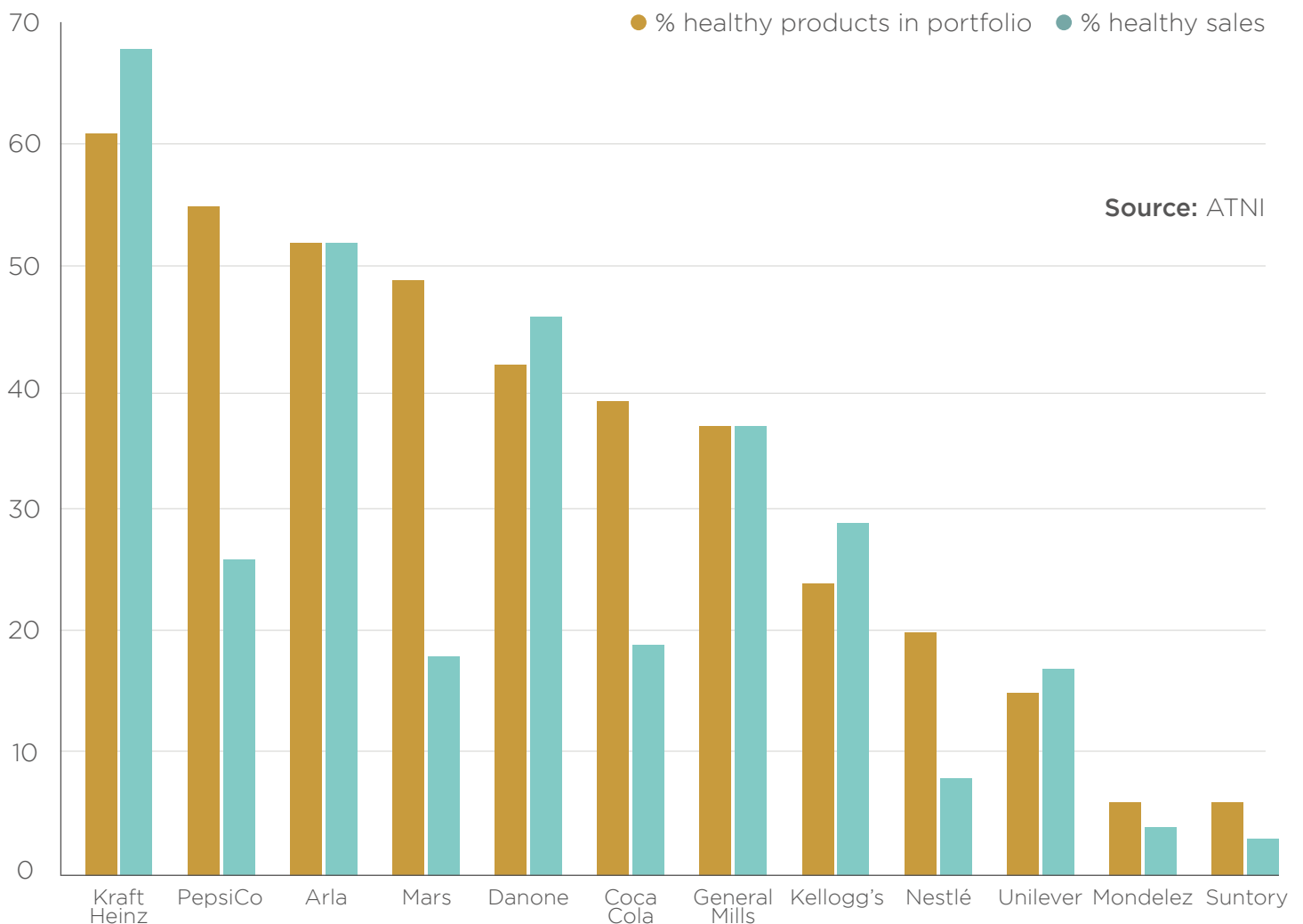
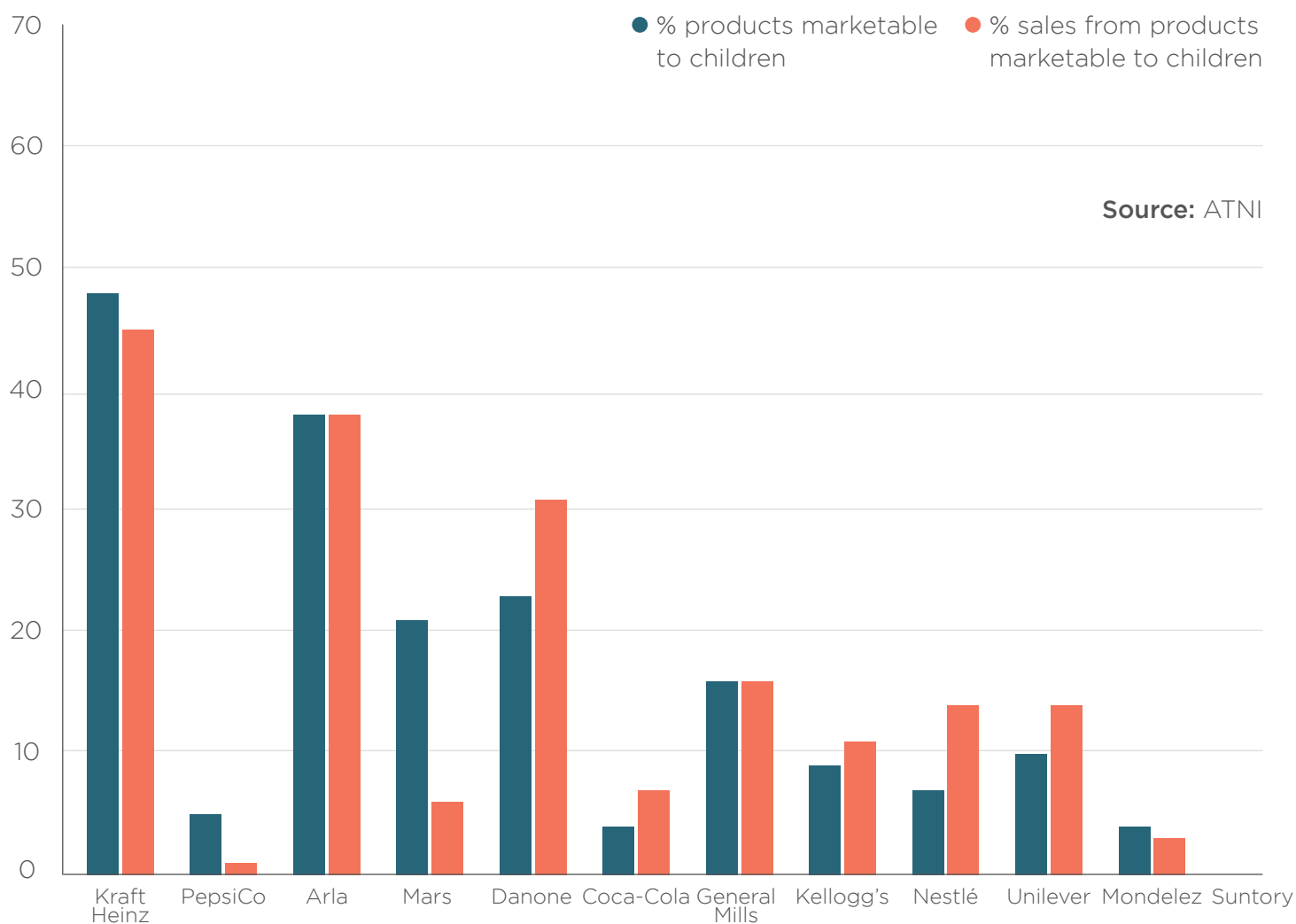


Figure 7: Proportion of portfolio and sales from products suitable for children



The UK Product Profile data also shows that, while predominantly unhealthy, some companies appear to be shifting towards health in certain categories (see Figure 8). Mean HSR scores in categories such as breakfast cereals (PepsiCo), dairy (General Mills), ready meals (Kraft Heinz), beverages, (PepsiCo) rice, pasta and noodles (Mars) prove that better product formulation is possible and that unhealthy does not have to be the standard. Peers in these categories who make unhealthier products have no excuse not to adapt. Overall, the slight shift towards health is encouraging, but the performance of the sector as a whole is worrying. Most companies score poorly in all categories they operate in, showing an overreliance on unhealthy products across their entire portfolio.

Lastly, this data shows the importance of disclosure. Candriam and ATNI provide valuable data, but the information needed was not available for all relevant UK companies. Food and drink manufacturers have a responsibility to disclose this information, and investors should also urge them to report on these metrics so that they can have a better understanding of performance and risk in this space to guide their investment decisions.

Figure 8: Mean HSR per company across product categories (maximum five categories per company)

- **Red:** below 3.5 HSR (unhealthy)
- **Green:** 3.5 HSR and above (healthy)

| Company | Baked Goods | Breakfast Cereals | Confectionery | Dairy | Ice cream and frozen desserts | Ready meals |
|---------------|-------------|-------------------|---------------|-------|-------------------------------|-------------|
| Nestlé | | 3.4 | 0.7 | 2.8 | | |
| Arla | | | | 3.2 | | |
| PepsiCo | | 4 | | | | |
| Unilever | | | | 2.9 | 1.7 | |
| Mars | | | 0.9 | | 1.7 | |
| Coca-Cola | | | | | | |
| Danone | | | | 3.1 | | |
| Kraft Heinz | | | | | | 3.5 |
| Mondelez | 1 | | 0.8 | 3.1 | | |
| General Mills | 1.8 | | | 3.6 | 1.8 | 2.5 |
| Kellogg's | | 3.2 | | | | |
| Suntory | | | | | 3 | |

| Company | Rice, pasta and noodles | Sauces, dressings, condiments | Savoury snacks | Spreads | Sweet biscuits, snacks bars and fruit snacks | Beverages |
|---------------|-------------------------|-------------------------------|----------------|---------|--|-----------|
| Nestlé | | | | | | 2.2 |
| Arla | | | | | | |
| PepsiCo | | | 2.4 | | | 3.8 |
| Unilever | 3.2 | 2.5 | | 0.7 | | |
| Mars | 3.6 | 3.4 | | | 1.4 | |
| Coca-Cola | | | | | | 3 |
| Danone | | | | | | 3.2 |
| Kraft Heinz | | 2.4 | | 2 | | |
| Mondelez | | | | | 1.4 | 0.5 |
| General Mills | | | | | 2.5 | |
| Kellogg's | | | 2 | | | |
| Suntory | | | | | | 1.7 |

Source: ATNI. Product categories included reflect categories in which the companies sold products in the UK using Euromonitor International data (up to five top-selling categories per company).⁷⁵

HFSS advertising and marketing during the Covid-19 pandemic

Both in the UK and abroad, manufacturers of unhealthy food and drink have taken advantage of the Covid-19 pandemic to adjust their marketing strategy to keep advertising their products to both adults and children. In some cases this has been illegal, with Kellogg's going against the UK ban on HFSS ads to under 16s by advertising its Pringles crisps during popular children exercise classes on YouTube.⁷⁶ In other cases the marketing practices are legal, but questionable. Considering the context of the pandemic, its impact on people living with obesity, and the role these unhealthy products play in the obesity crisis, many campaign groups and public health professionals have marked them as irresponsible.⁷⁷ With the public and families supporting additional regulation to limit the marketing of unhealthy foods, companies who continue to engage in such marketing practices risk reputational damage as a result.

Food and drink manufacturers advertising tactics used during the pandemic included:

- Making "junk food" donations to health workers or charitable donations to vulnerable groups⁷⁸
- Creating emotional adverts about the pandemic to promote their products⁷⁹
- Promoting games to do at home during lockdown to entertain children or to make working from home more fun (such as provide branded backgrounds to use on video calls)⁸⁰
- Repurposing the "stay at home" and social distancing messaging through their branding on social media⁸¹



How investors can get involved

5.1 – Equity holders

The majority of food and drink manufacturers operating in the UK are listed companies, meaning investors have a significant role to play in engaging with them on this topic through their stewardship activities.

Investors should set clear expectations that companies take the risk and opportunities linked to childhood obesity seriously. This means going beyond simply expressing their commitment and instead embedding health in their corporate strategy and disclosing how they are shifting towards a healthier portfolio and healthier sales. This is important as the current available data shows that this is not the case.

Investors are also encouraged to use the questions set out in our Investor Expectations in section 5.3 to help guide engagement with food and drink manufacturers. These questions cover a wide range of different areas that companies need to address to improve food environments, become more health-focused, and ultimately address the risks and opportunities connected to childhood obesity.

If, over time, investors consider companies have not made sufficient progress – for example, companies do not meet investors' expectations for disclosure or they do not fulfil their expectations for taking action in certain areas – investors should look into possible methods of escalation. This could include voting against companies at their annual general meetings (AGMs) or tabling related shareholder resolutions. Divestment may be considered as a last resort.

5.2 – Bond holders

An additional route of influence available for investors to engage with manufacturers is through their role as financiers of corporate debt in primary markets. Many of the major food and drink manufacturers issue debt and many rely heavily on these methods of external financing. If investors consider the progress made to be insufficient within a reasonable timeline, they should make any new debt issuance conditional on action being taken. This would send an important signal to companies to act, while limiting their exposure to market risks. Informal communications with banks involved in the marketing of new debt issues could be an effective start to this process.

Figure 9: Equity and bonds in top UK food and drink manufacturers

| Holding Company | Ownership | Equity | Bonds |
|-----------------|-----------|--------|-------|
| Nestlé | Public | Yes | Yes |
| Arla | Private | No | Yes |
| PepsiCo | Public | Yes | Yes |
| Unilever | Public | Yes | Yes |
| Mars | Private | No | Yes |
| Coca-Cola | Public | Yes | Yes |
| Danone | Public | Yes | Yes |
| Kraft Heinz | Public | Yes | Yes |
| Mondelez | Public | Yes | Yes |
| ABF | Public | Yes | No |
| General Mills | Public | Yes | Yes |
| Kellogg's | Public | Yes | Yes |
| Suntory | Public | Yes | Yes |
| Post Holdings | Public | Yes | Yes |
| Britvic | Public | Yes | No |
| Premier Foods | Public | Yes | Yes |
| AG Barr | Public | Yes | No |

5.3 – Investor expectations

Investors can use the following questions to understand company commitments to improve the healthiness of portfolios and sales, and to guide engagement with companies on this topic. While some of these questions are tailored to the UK context, they can all be used and adjusted to guide engagement on a global level.



Goal 1: Healthier portfolio

- Does the company report the percentage of healthy versus unhealthy products in their product portfolio? Has it set targets to increase the healthiness of its portfolio?
- Who is accountable for these targets at board level?
- Does the corporate strategy outline how the company intends to improve its product portfolio over time?
- Does the company have a robust and evidence-based nutrient profiling system that aligns with public health guidelines? Is it differentiated for adults and children?
- For sales in the UK, has the company set SMART reformulation targets aligned with Public Health England's sugar, and calorie reduction objectives? Does it report and publish progress against these targets regularly?

- Does the company have a mergers and acquisitions strategy focused on health?
- Does the company have a new product development strategy focused on health?



Goal 2: Healthier sales

- Does the company report on percentage of sales from healthy products? Has it set targets to increase the sales of healthy products?
- Who is accountable for these targets at board level?
- How is healthiness incorporated in the company's marketing strategy?
- Does the company focus marketing activities on healthier products rather than unhealthier ones?
- Does the company market healthier options to children and have strong policy in place to limit unhealthy marketing to children up to age 18?
- For sales in the UK, does the company use front-of-pack colour-coded labelling in all its products in line with Food Standards Agency's guidelines?

5.4 – Healthy Markets investor coalition

The Healthy Markets Investor Coalition, coordinated by ShareAction, brings together asset managers and owners who recognise the risks and opportunities associated with childhood obesity. The coalition is committed to engaging with companies to create healthier food environments, for example by asking food and drink manufacturers to address the issues highlighted in this briefing. Through such engagement, investors can help to secure the long-term value creation of their investments and contribute towards positive social impact. Research, data and analysis collected and conducted by ShareAction is disseminated among coalition members and used as a framework for company engagement. Investors are supported, both individually and collaboratively, to engage with companies, including through facilitated calls or meetings, co-signing company letters, invitations to roundtables, and other collaborative events.

Supporting asset managers are asked to agree to a set of commitments, including acknowledging the case for solutions to child obesity and actively engaging with companies on this topic. For asset owners who are not able to support these commitments directly, the expectation is to request that their asset managers undertake commitments on their behalf.

If you are an asset manager or asset owner and would like to find out more about the coalition, please contact:

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louisa.hodge@shareaction.org

Conclusion and next steps

Companies that manufacture packaged food and drink play a significant part in determining people's diets. They have the responsibility, power and resources to drive change and reduce childhood obesity. At the same time, they are financially vulnerable to increasing regulation in the UK, and worldwide, aimed at creating healthier food environments and reducing the prevalence and marketing of unhealthy products.

Companies can adapt to such risks by shifting their product portfolio and sales towards healthier products and disclosing this information to demonstrate to investors that they are mitigating such risks. Unfortunately, most companies do not disclose this information and the available third-party data shows that there is widespread inaction in the sector. Overall, the industry still depends on unhealthy products to generate profits and is currently at risk from further regulation, evolving consumer trends and emerging reputational and litigation risks.

Investors in the food and drink manufacturing sector need to understand how companies are adapting to the rising risks and opportunities linked to childhood obesity and the potential impact these may have on investment returns. Through their engagement with companies, they have a real opportunity to drive a shift towards healthier product offerings and sales, which will benefit both the public health agenda and the profitability of their investments. However, if insufficient progress is made through stewardship, investors must not shy away from escalating their engagement or being selective on primary market transactions.

ShareAction invites investors to join its Healthy Markets coalition and is committed to facilitating a coordinated and collaborative approach alongside asset managers and owners with similar concerns. Going forward, ShareAction hopes to publish in-depth thematic briefings on food and drink companies and their practices to help investors make informed decisions regarding their investments and to guide their engagement activities.

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ShareAction is a campaigning organisation pushing the global investment system to take responsibility for its impacts on people and planet, and use its power to create a green, fair, and healthy society.

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