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# Tracking for Health

2021 Update

ShareAction»



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# Executive summary

This briefing provides an update on UK retailers' commitments to increase the proportion of sales from healthier products to improve diets. Last year, our "Tracking for Health" briefing showed that only Sainsbury's and Marks & Spencer (M&S) had commitments to increase sales of healthier products. A year on, we are starting to see very encouraging signs that the retail industry as a whole is shifting in the right direction. Now, retailers representing 60 per cent of the UK grocery retail market have made commitments to increase healthier sales across at least some of their products including ALDI UK, Lidl, M&S, Sainsbury's and Tesco.

Setting long-term targets to increase the proportion of sales from healthier products is a key performance indicator (KPI) that our Healthy Markets initiative, amongst others, has been calling for. Retailers can adopt this KPI to help investors and other stakeholders understand how they are adapting to rising consumer demand for healthier products and increased obesity regulation.

Alongside the current tax levy on sugary drinks and the sugar and calorie reduction programmes, in 2022, the UK government plans to introduce restrictions on the promotion and advertising of high fat, sugar, salt (HFSS) products to limit their harmful impact on health and drive healthier consumption. These measures are also supported by consumers, who are increasingly demanding healthier products.

In this context, it's positive to see more retailers making commitments to increase the proportion of sales from healthier products compared to last year. But more effort is needed. There are still retailers who do not disclose any information or commitments on the healthiness of their sales, some that only partially disclose. There are also still issues with targets and definitions not being aligned and comparable across the industry.

We encourage investors to use the asks set out in the conclusion of this briefing when engaging with retailers to drive positive change. These include:

- Aligning their definition of healthier products with the government's HFSS model (also known as the UK NPM 2004/5);
- Increasing the proportion of sales from healthier products and ensuring the scope includes all products (branded and own brand);
- Encouraging retailers who only report on improving the healthiness of their products to report and set targets on increasing sales from healthier products;
- Setting long-term SMART targets and report on yearly progress in annual reports.

An example of investor impact in this area is the recent Tesco resolution. Investors, coordinated by ShareAction, filed the first ever health-based resolution in the UK asking the retailer to commit to increasing the proportion of sales from healthier products. Tesco responded by setting industry-leading targets. This shows that investor action on health can be an effective way to improve retailer commitments and drive the whole industry forward.

Table 1. Overview of retailers reporting on healthier food and drink sales

	Long-term targets	Aligned with UK regulators' HFSS model?	Progress				
			2016/17	2017/18	2018/19	2019/20	2020/21
<b>% sales of food and drink products (branded and own-brand)</b>							
Sainsbury's*	56.8% healthy by 2025 26.3% better for you by 2025	No				55.6% healthy 24.7% BFU	55.3% healthy 24.4% BFU
Tesco	65% by 2025	Yes					58%
<b>% sales of food and drink products (own-brand only/mostly)**</b>							
ALDI UK	70% by 2025	Yes					66%
Lidl**	85% by 2025	No				73% healthy 7% healthier	
Marks & Spencer	50% by 2022	No	41%	43%	40%	N/A	38%
<b>% food and drink products (own-brand only) - no sales related information</b>							
Asda	60% by 2024	Yes					
Co-op	No target	No	44%	44%	45%	46%	46%
Morrisons	65% by 2025	Yes				48%	54%
<b>No reporting</b>							
Iceland							
Ocado Retail							
Waitrose							

\* According to Sainsbury's definition: "healthy" products have no red traffic lights and "better for you" can have maximum one red traffic light (or two when naturally occurring)

\*\* According to Lidl's definition: "healthy" products must have 1 amber or less and no red traffic lights, while "healthier" products can have 2 ambers or more and no red traffic lights. Lidl's targets also include branded products in promotional lines

\*\*\* Own-brand products represent the majority of food and drink sold by these retailers

# Introduction

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## Action on obesity gains pace

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Diets high in fat, sugar, salt and calories have played a central role in driving up rates of obesity both in the UK and around the world. Less healthy food and drink have become more available and accessible than healthier options. They are also more heavily promoted and marketed, leading to their overconsumption. UK adults and children are not consuming enough fruit, vegetables or fibre.<sup>1</sup> The food industry has been critical in driving the increase in unhealthier products sales, relying on them for growth and profit. As a result, half of all UK retail sales are estimated to come from less healthy food and drink.<sup>2</sup>

Two in three adults and one in three children in the UK are overweight.<sup>3,4</sup> The need to improve diets and tackle the personal, social and economic costs of obesity has increased. There has been a shift from individual solutions to address obesity, such as more education, to focusing on improving the products and practices of the food industry. This has led to higher consumer demand for healthier products<sup>5</sup> and a rise in regulation aimed at food and drink companies.

The Covid-19 pandemic has further amplified the importance of health for both consumers and policymakers. Countries with high levels of obesity such as the UK have seen higher rates of hospitalisation and death from the virus.<sup>6</sup> In response to the impact of the pandemic, the UK Government announced a new obesity strategy in July 2020. This will fast-track obesity regulation to restrict the advertisement and promotion of less healthy products. Table 2 provides an overview of both current and upcoming obesity regulation in the UK. These measures are also widely supported by the public. Surveys from The Grocer and Cancer Research UK found that the majority of the public supports restricting advertising of less healthy products on television and online,<sup>7</sup> and their promotion and placement in prominent locations in stores.<sup>8</sup>

To adapt to upcoming regulation and keep up with changing consumer demand, the food industry needs to shift towards creating and selling healthier products. In particular, the retail sector, whose product promotion tactics are targeted by upcoming regulation, will need to adapt its marketing strategies around healthier products to drive sales. Investors also need to understand how companies are responding. Retailers who fail to adapt to changing regulation and consumer attitudes will expose themselves and investors to greater risk of negative financial consequences from reduced sales and profits, and consequently lower investment returns.

Table 2 - Current and upcoming anti-obesity regulation in the UK

Health taxes
<p>The UK introduced a tax on sugary soft drinks in 2018 and is considering extending it to other milk-based drinks “if the evidence shows that industry has not made enough progress”.<sup>9</sup></p> <p>Public Health England (PHE) has also implemented voluntary sugar and calorie reduction programmes 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”<sup>10</sup> if progress is slow in reducing sugar.</p>
Front-of-pack labelling
<p>A voluntary front- of-pack traffic light labelling system was introduced in 2007. In 2020 the government consulted on bringing in mandatory front-of-pack labelling. The consultation included proposals to introduce new labelling systems such as the Nutri-Score and tobacco-like health warning labels on products high in fat, sugar, salt and calories.<sup>11</sup> Such schemes are already being implemented or have been implemented in Chile, Mexico, Uruguay, Ecuador, Peru, Colombia and Israel.</p> <p>The UK Government also announced mandatory calorie labelling on menus for restaurants and cafes from 2022.<sup>12</sup></p>
Promotions
<p>The government announced plans to restrict volume promotions of less healthy high fat, sugar, salt (HFSS) products in stores and to ban the placement of these products in prominent areas, such as end of aisle, store entrances, and checkouts. These restrictions will come into force in April 2022 and will apply to HFSS products included in the sugar reduction and calorie reduction programmes, and sugary drinks tax categories.<sup>13</sup></p>
Advertising
<p>HFSS advertising was banned in children’s broadcast media in 2007 and in non-broadcast media (such as online, cinema, print and out of home) where children make up 25% or more of the audience in 2017. HFSS advertising bans have also increased at a local level with Transport for London (TfL) banning HFSS advertising across the entire public transport network, and Bristol and some London boroughs banning HFSS advertising on all council-owned property.<sup>14</sup></p> <p>The government has also confirmed plans to ban HFSS advertising on broadcast media before 9pm and all HFSS advertising online from 2023. This will apply to HFSS products included in the sugar reduction and calorie reduction programmes, and sugary drinks tax categories.<sup>15</sup></p>
Definition of less healthy HFSS products
<p>To regulate advertising restrictions in children’s media, the Food Standards Agency developed a nutrient profiling model (known as the UK NPM 2004/5) to help identify and regulate HFSS products. This HFSS model considers the balance of all positive and negative components of a food and drink product. Based on these components, the model then assigns a nutrient profiling score (NPS) to the product which determines whether it can be classified as a healthier or “less healthy” HFSS product.</p> <p>The HFSS model will also be used to regulate products included in the scope of upcoming restrictions on promotions, product placement and further marketing and advertising restriction on broadcast media and online.</p>

## The importance of measuring and disclosing healthier sales

As we set out in our 'Tracking for Health' briefing last year,<sup>16</sup> retailers can communicate to investors how they are adapting to existing and potential regulation by disclosing the percentage of their total sales generated from healthier products and setting long-term targets to increase them as a key performance indicator (KPI). Reporting on this KPI shows that companies are taking steps to decouple growth and profit from increasingly regulated less healthy products. On top of this, focusing disclosure and efforts on increasing the healthiness of sales will also improve their customers' diets, ultimately leading to improved public health outcomes overall.

We also recommend that retailers use a definition of healthier products aligned with the government's HFSS model since this is used for regulatory purposes. Using the HFSS model allows investors to assess the proportion of total sales at risk from upcoming HFSS regulation and to compare performance across the sector.

Finally, we recommend that retailers set out a comprehensive food and health strategy outlining the interventions used to achieve this shift in sales. Retailers should report on progress towards implementing these strategies on a yearly basis in their annual reports or corporate sustainability reports.

Figure 1 provides an overview of what retailers should disclose so that investors can understand how they are measuring and achieving sales from healthier products.

### Figure 1. Approach to increasing volume of sales from healthier products

<ul style="list-style-type: none"> <li>• <b>Set long-term targets and disclose yearly progress</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Include all product sales in commitment scope (own-brand and branded)</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Use the government's HFSS model to define healthier products</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Publish nutrition and health strategy outlining efforts to increase sales of healthier products</b></li> </ul>

It's not just our Healthy Markets investor coalition that is asking retailers to disclose in this area. Calls for more transparency around the healthiness of total sales are increasing. Recently, the National Food Strategy, an independent review commissioned by the Department for Environment, Food and Rural Affairs' Secretary of State, has recommended that the government introduce mandatory reporting on the health profile of the food industry's sales, including retailers.<sup>i</sup> This includes reporting on the percentage of sales generated from HFSS products.

This formal recommendation signals a marked interest from stakeholders in understanding how retailers and the wider food industry are adapting and doing their part to improve diets in the UK. As such we encourage retailers to be proactive with their disclosure.



## Box: HFSS regulation as a business opportunity

With a wave of new regulation coming into force, retailers and the wider food industry can adapt and innovate their products and practices to give them a competitive edge.

The new regulatory measures present an opportunity to create and market healthier options over and above industry competitors. As Katharine Jenner for Action on Sugar states “*The NPS works on a sliding scale of healthiness – from less healthy to healthier. You can often move from being ‘unhealthy’ to ‘healthy’ with a simple ingredient swap. More protein, fibre or vegetable content, or less salt, saturated fat or sugar, gives you a lower (healthier) score.*”<sup>17</sup>

While certain categories are harder to make healthier, such as confectionery, there are others where there is a lot of intra-category variation, where less healthy and healthier versions sit side-by-side. The upcoming advertising and promotional HFSS restrictions will reveal which companies have not been proactive in reformulating and creating healthier products. Those companies that have taken steps to improve the nutrient profile of their products will gain an advantage. They will be able to keep advertising and promoting their products.



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*Images and examples from Action on Sugar showing how two similar products will be differently affected by upcoming HFSS regulation.<sup>18</sup>*

Companies should focus on future-proofing their business. We are already seeing companies taking action. Kellogg's has reformulated four out of its top five selling cereals in the UK to be non-HFSS (Special K, Coco Pops, Corn Flakes and Rice Krispies) along with its entire children's cereal range.<sup>19</sup> With more regulation on the horizon and a widely recognised definition of “healthier” used to regulate products, the path for companies to follow has been set.

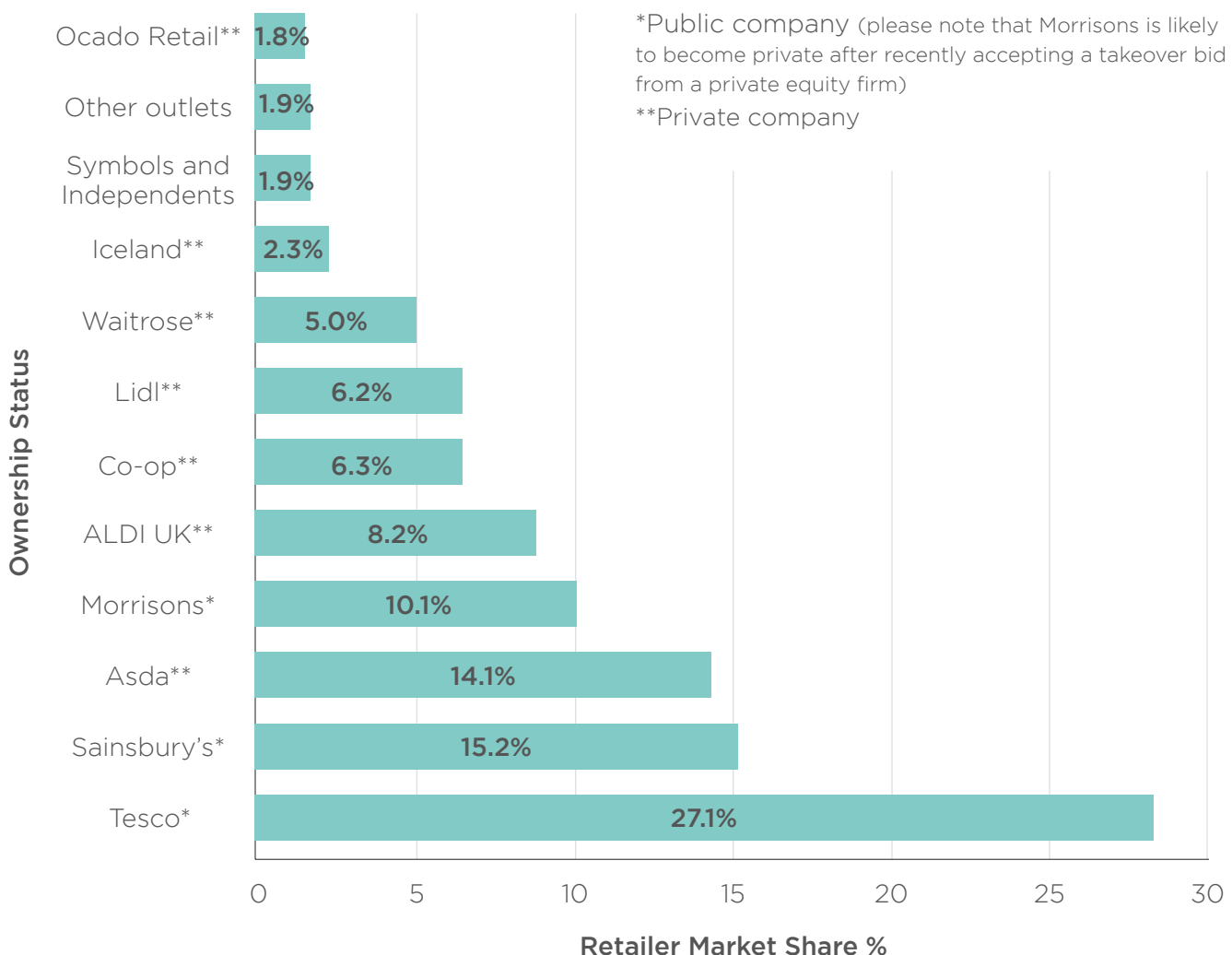
# Tracking progress on how retailers define and measure healthier sales

Last year our “Tracking for Health” briefing provided an overview on how retailers are reporting on healthier sales. Disappointingly, we found that most retailers failed to disclose much information in this space.

This section looks at retailers’ progress on commitments and reporting on increasing sales from healthier products. It outlines the relevant investor expectations in a UK context. These are in line with recommendations set out in the Access to Nutrition Initiative’s (ATNI) recent Investor Expectations on Nutrition, Diets & Health. These investor expectations are applicable in a global context and are endorsed by investor with US\$15.5 trillion in assets under management (AUM).

We draw on information from publicly available data from retailers’ 2021 annual reports and other documents found on their websites.

Figure 2. GB grocery market share (June 2021)



Data from Kantar Worldpanel<sup>20</sup>

## Setting long-term targets and disclosing progress

### Investor expectations

Aligning with ATNI's investor expectations number two and four,<sup>21</sup> retailers should set SMART targets (Specific, Measurable, Achievable, Relevant, and Time-bound) and report on progress in order to deliver and communicate tangible progress on their commitments.

**Retailers should set a long-term goal to increase the proportion of healthier product sales and report year-on-year progress towards it.** Retailers should aim to generate the majority of their food sales from healthier products.

Table 3. Overview of retailers disclosing long-term targets and progress

	Long-term targets	Progress				
		2016/17	2017/18	2018/19	2019/20	2020/21
<b>% sales of food and drink products (branded and own-brand)</b>						
Sainsbury's*	56.8% healthy by 2025 26.3% better for you by 2025				55.6% healthy 24.7% BFU	55.3% healthy 24.4% BFU
Tesco	65% by 2025					58%
<b>% sales of food and drink products (own-brand only mostly)</b>						
ALDI UK	70% by 2025					66%
Lidl**	85% by 2025				73% healthy 7% healthier	
Marks & Spencer	50% by 2022	41%	43%	40%	N/A	38%
<b>% food and drink products (own-brand only) - no sales related information</b>						
Asda	60% by 2024					
Co-op	No target	44%	44%	45%	46%	46%
Morrisons	65% by 2025				48%	54%

► No Reporting: Iceland, Ocado Retail and Waitrose

\* According to Sainsbury's definition: "healthy" products have no red traffic lights and "better for you" can have maximum one red traffic light (or two when naturally occurring).<sup>22</sup>

\*\* According to Lidl's definition: "healthy" products must have 1 amber or less and no red traffic lights, while "healthier" products can have 2 ambers or more and no red traffic lights.<sup>23</sup> Lidl's targets also include branded products in promotional lines

## Transparency on healthier sales targets is improving

Compared to last year there has been significant progress in retailers setting targets and disclosing figures on the healthiness of their sales. This year five retailers were found to disclose information in this area, up from only two retailers last year. Tesco, ALDI UK and Lidl have made new commitments to increase sales from healthier products, while Sainsbury's has refreshed its long-standing commitment to increase sales from healthier products as part of its new Net Zero by 2040 strategy.<sup>24</sup>

Many retailers have set targets for 2025. Tesco has committed to achieving 65 per cent of sales generated from healthier products by then,<sup>25</sup> ALDI UK has set a target of 70 per cent<sup>26</sup>, Sainsbury's of 83.1 per cent and Lidl of 85 per cent.<sup>27</sup>

It's worth noting that both Sainsbury's and Lidl's overall figures on healthier sales appear to be higher than those of other retailers. This is because their commitments include both "healthy" products and "better for you" or "healthier" products with a slightly less healthy profile, according to their definition of healthier products (see section 2.3 for more details). Both also report separately on just "healthy" products sales, providing an additional level of detail.

M&S continues to report on their commitments to increase sales from healthier products to 50 per cent of total sales by 2022, although performance has declined. To date its sales from healthier products have declined to 38 per cent of total sales,<sup>28</sup> going below its 2017 baseline figure of 41 per cent.<sup>29</sup> Sainsbury's performance also declined slightly between 2020 and 2021.

Positively, all five retailers that have commitments in this area disclose their baseline or progress figures.

## Other targets

We also found an increasing number of retailers focusing their commitments and targets on improving the healthiness of their portfolio rather than their sales. While the Co-op was found to report on this last year, Asda and Morrisons have recently made new commitments in this area. This is a positive step, but this KPI does not demonstrate how their efforts on health (such as product reformulation and healthier promotions) are shifting their sales towards healthier products in preparation of upcoming regulation. It is also a missed opportunity to align KPIs with other leading retailers.

Ocado Retail, Waitrose and Iceland are lagging behind, they do not disclose any information on the healthiness of their sales or their portfolios.



## Scope of reporting

### Investor expectations

Aligning with ATNI's investor expectation number four,<sup>30</sup> retailers should be transparent when disclosing the scope of reporting on increasing sales from healthier products. **Total food and drink sales (excluding alcohol) should be included in the scope of retailers' commitments and reporting.** As such, figures should cover all fresh and processed food and drink products, including branded and own brand products.

Figure 3. Overview of retailers' scope of reporting



### Reporting on the healthiness of all sales is increasing

Both Tesco and Sainsbury's report and commit to increasing the healthiness of total sales including both own brand and branded products. Tesco measures its proportion of healthier products by volume of sales. On the other hand, Sainsbury's recently changed from measuring volume of sales to tonnage of sales, which considers both the number and weight of units sold. It stated that "reporting the tonnage of healthy sales relative to total sales is a more credible way to reflect the weight of plate from healthy choices, similar to the approach of the Eatwell Guide".<sup>31</sup>

ALDI UK and M&S measure the healthiness of their total own-brand sales only, whereas Lidl's targets also include some branded products. Lidl has committed to reporting on increase in tonnage of sales, while ALDI UK and M&S measure volume of sales.<sup>32,33</sup> It's understandable that these three retailers focus their scoping on own brand products, as these make up the majority of their sales.

## Other scoping criteria used

As mentioned in section 2.1, Asda, Morrisons and the Co-op have made commitments on increasing the healthiness of their own brand portfolio, but this KPIs does not provide a clear picture of how their sales will be affected by upcoming regulation and how they are driving positive public health outcomes

Ocado Retail, Waitrose and Iceland do not disclose any information on the healthiness of their sales or their portfolio.

## Defining healthier products

### Investor expectations

Aligning with ATNI's investor expectation number two, retailers should articulate a definition of healthy products using an independent nutrient profiling model (NPM).<sup>34</sup>

In the UK, **best practice would involve using the government's HFSS model** to categorise healthier and less healthy HFSS products and any updated versions of the NPM in the future.

Table 4. Overview of retailers using the HFSS model

Retailer	Uses regulator's HFSS model to define healthier products
ALDI UK	Yes
Asda	Yes
Co-op	Traffic light labelling
Iceland	No information
Lidl	Traffic light labelling
M&S	British Nutrition Foundation criteria
Morrisons	Yes
Ocado Retail	No information
Sainsbury's	Traffic light labelling + PHE targets and Eatwell guide
Tesco	Yes
Waitrose	No information

## HFSS model increasingly becoming common industry practice

Four retailers now use the government's HFSS model used for regulatory purposes to define healthiness of products. Tesco, ALDI UK, Morrisons and Asda have all started using this definition in the last year. This is a positive step as it provides investors with a clearer, more comparable picture of how they will be impacted by regulation.

### Other criteria used

To define healthier products, M&S is using criteria developed with the British Nutrition Foundation.<sup>35</sup> The Co-op<sup>36</sup> and Lidl<sup>37</sup> are instead using the Food Standards Agency's traffic light labelling system as the criteria to define healthier products in their commitments. Lidl further classifies products as healthy (one amber or less, no red traffic lights) or healthier (two ambers or more, no red traffic lights)<sup>38</sup> and counts both in its commitment to increase healthier sales.

Sainsbury's has published a new definition which uses the traffic light labelling system as one of the main criteria to categorise products alongside PHE's sugar and salt reduction targets and the Eatwell guide.<sup>39</sup> Depending on the colour of the traffic lights, the retailer classifies products as "healthy" (no red traffic lights) or "better for you" (maximum one red traffic light or two when naturally occurring). It counts both in its commitment to increase sales from healthier products.

As explained in our first "Tracking for Health" briefing last year, the traffic light labelling system and the Eatwell guide are useful to help guide consumers towards healthier options and healthier diets. But using them to measure the healthiness of products in a portfolio or in sales does not give an accurate picture of how exposed a retailer is to HFSS regulation.

Ocado Retail, Waitrose and Iceland do not disclose any information on how they define healthier products.

# Conclusion and recommendations

Compared to last year, there has been significant progress in how retailers define healthier products and measure healthier product sales. Most importantly, the number of retailers reporting and committing to increase healthier product sales has more than doubled compared to last year, signalling an industry-wide shift in adopting this KPI. Commitments around healthier product sales now cover almost 60 per cent of the grocery market and have been made by a variety of retailers, from upmarket retailer M&S to discounters such as Lidl and ALDI UK.

Retailers that mainly sell their own branded products (M&S, ALDI UK, Lidl) are focusing on measuring only or mostly sales from these products. While this is understandable, if they wish to improve their transparency and ambition we would encourage them to widen their commitments to include all branded products. This would provide a more detailed picture of the healthiness of their sales.

Positively, more retailers are also using the government's HFSS model when defining healthier products. This signals an increased alignment with upcoming regulation and rising harmonisation across the sector which in turn improves comparability for investors.

We have also seen an increase in retailers (Asda, Co-op, and Morrisons) measuring the healthiness of their portfolio. While these commitments provide greater transparency on the healthiness of their own-brand products, they are not sufficient. Such reporting does not demonstrate how their efforts on health are impacting sales, reducing the potential negative financial impact from regulation, and having a positive impact on people's diets. Setting more ambitious commitments on increased healthier sales would provide investors with a better picture of how the business is adapting.



## The Tesco resolution: How investor action can drive retailer commitments on nutrition

To improve retailers' efforts to support healthier diets, investors should not shy away from escalating their engagement with companies where insufficient progress is made. Investor action on improving corporate commitments and disclosure on health can be an effective way to drive change in the industry and set a standard for others to follow.

In February 2021, a group of investors with over £140 billion AUM, coordinated by ShareAction, filed the first ever health-based resolution in the UK at Tesco. The resolution asked Tesco to commit to increase the proportion of sales generated from healthier products, set a long-term target for doing so, and disclose a strategy to achieve it. Tesco responded by committing to increase healthier sales in the UK and Ireland from 58% to 65% in 2025. This is the equivalent of £3 billion additional sales of these products each year. In addition, Tesco agreed to set similar targets across its central European operations by the end of 2022, and to start working on increasing its sales of healthier products for its wholesale operations through the Booker Group. Based on this positive outcome the resolution was withdrawn before the annual general meeting.

This shows that even a small group of investors taking coordinated action can have considerable influence in how retailers disclose and can help drive consistent, comparable reporting as well as improved public health outcomes.



While the overall direction of travel for the sector is positive, more work is needed. More retailers need to set targets for increasing sales from healthier products. It would also be beneficial for more retailers to align their definition of healthier products with the government's criteria for HFSS products to increase harmonisation across the sector. More consistency in reporting practices is needed across the industry to allow investors to compare and assess retailers, and drive competition across players.

Investors can also help improve consistency across corporate efforts and reporting by engaging with retailers and encouraging them to:

- Align their definition of healthier products with the government's HFSS model;
- Increase the proportion of sales from healthier products and ensuring the scope includes all products (branded and own brand);
- Encourage retailers who only report on improving the healthiness of their products to report and set targets on increasing sales from healthier products;
- Set long-term SMART targets and report on yearly progress in annual reports.

Investors should also encourage retailers to publish a comprehensive food and health strategy outlining how they plan to increase healthier sales and improve healthy diets. While we haven't reviewed retailers' strategies in this briefing, ATNI will be publishing a full retailer index in Spring 2022 assessing UK retailers' commitments and actions on nutrition and health.<sup>40</sup> This resource will provide investors with a detailed overview of retailer efforts in this area which can be used to guide engagement and action on specific topics.

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ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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