

INVESTOR'S GUIDE TO



Egg Track

2019

EDITION



FARMED ANIMAL WELFARE AND INVESTMENT MATERIALITY

The treatment of farmed animals in the supply chains of food companies is increasingly understood as a material investment issue. Failure to adequately manage farmed animal welfare can lead to a number of issues that can impact the bottom line of food companies:

- **Food safety issues and product recalls**, such as the California-based meatpacking company Hallmark/Westland which was forced into bankruptcy after animal welfare violations in 2008 led to the largest meat recall in history.
- **Reputational damage and media scrutiny** as consumer interest in animal welfare and transparency rises—with 58% of US consumers* more concerned about farmed animal welfare in 2017 than they were 2 years prior.
- **Regulatory risk** from tightening legislation such as the potential EU-wide ban on prophylactic antibiotic use which has been approved by the European Parliament, and US state laws such as the 2016 Massachusetts and 2018 California ballot initiatives, outlawing close-confinement.
- **Exacerbation of wider risks to food sector and society**, such as the human health risks from antibiotic resistance linked to intensive livestock production. High standards of farmed animal welfare also enable future-proofing of a business in the face of inevitable escalation of wider risk issues such as emissions and resource use.

Increasingly, company management of farmed animal welfare is also seen as a proxy for good governance and can give insight into supply chain control more broadly, which is especially important for large, global food companies with complex, multi-species supply chains.

But farmed animal welfare isn't just a risk issue for companies; it also presents upside opportunities. Higher standards of farmed animal welfare can mean access to new markets and opportunities to demonstrate business leadership and innovation.

* Packaged Facts, *Animal Welfare: Issues and Opportunities in the Meat, Poultry and Egg Markets in the US* (2017)

CAGE-FREE EGG PRODUCTION IS A FAST-MOVING TREND

The shift towards cage-free egg production has been a fast-moving trend in the US egg industry over the past three years. Over 200 companies have made corporate commitments on this issue since 2015 when McDonald's announced their policy to move their entire North American egg supply to cage-free, with a ten year timeline. As such, cage-free commitments are one of the most developed animal welfare indicators in terms of corporate policies and, where relevant (i.e. for companies with egg supply chains), investors should be factoring this into their assessment of food companies.

CORPORATE COMMITMENTS AND THE IMPORTANCE OF TRANSPARENCY ON PROGRESS

An increasing number of food companies now publicly disclose a high-level policy on farmed animal welfare. The latest Business Benchmark on Farm Animal Welfare (BBFAW) report published in February 2019 found that 71% of the 150 companies surveyed had published farmed animal welfare objectives, compared to just 26% in 2012.

However, many companies currently fail to publicly specify details of their objectives and targets, or of the performance outcomes that they will track. This makes it difficult for investors to adequately assess companies on both risks and opportunities linked to farmed animal welfare, and presents a barrier to effective engagement with individual companies.

Where companies do specify concrete commitments, transparency on progress towards these commitments is crucial. Particularly when the time frame for targets is long-term, as is often the case with cage-free egg commitments, it is a risk for companies to focus on the initial opportunity of publicizing targets and then fail to report on progress against them. Although historically reporting on performance has largely been considered as primarily for internal purposes rather than for

public disclosure, more forward-thinking businesses are starting to realize the competitive advantage in being as transparent as possible on issues like farmed animal welfare, as consumers and clients increasingly demand this transparency.

Being ahead of commitments is a market opportunity for companies in terms of being able to respond to client and consumer expectations and demands, and also potentially to gain positive PR opportunities through leadership on this issue.

USING EGGTRACK IN THE INVESTMENT PROCESS

EggTrack is a practical indicator for use in investment monitoring and engagement. In its third iteration, the report is a critical instrument of structured, quantitative year-on-year data on animal welfare. Given that the majority of companies (60%) did not report on their progress towards cage-free commitments this year, non-reporting companies must be encouraged to do so before the next iteration of the report in 2020, in order to provide comparable data across a broader universe of companies.

Actions for investors:

- Encourage portfolio companies to publicly disclose their cage-free progress for inclusion in the EggTrack tool
- For companies who are already reporting, use EggTrack's data to understand a company's progress towards goals, and to flag companies who are falling behind on their commitments

Questions to ask portfolio companies to engage on this issue:

- How is the company progressing towards its cage-free goals? Is the company behind or ahead of intended milestones?
- What practical challenges does the company see in meeting its targets on cage-free? How does the company plan to overcome these?
- Has the company engaged directly with suppliers over farmed animal welfare issues including cage-free eggs? Does the company believe its suppliers are prepared to fulfill its requirements on cage-free eggs?
- Does the company have a timeline for expanding a cage-free egg commitment to other geographies that it operates in?

USING EGGTRACK IN THE INVESTMENT PROCESS, CONT'D

- Does the company have timelines for expanding its animal welfare policies to other species, such as phasing out sow-stalls/gestation crates for pigs?
- Is the company's cage-free commitment included as part of a holistic policy on farmed animal welfare and clearly flagged as part of the company's broader sustainability agenda?
- Has senior management been assigned responsibility and accountability for farmed animal welfare? Is there awareness of farmed animal welfare issues at Board level?
- Does animal welfare performance or animal welfare KPIs (for example execution on cage-free egg policy) feature in executive and/or management remuneration?

MORE WORK TO BE DONE

Despite the rising importance of farmed animal welfare for food companies and investors alike, there is a great deal of work to be done before food corporations globally are adequately and transparently managing this issue. The **EggTrack** tool is important progress in this regard and the more investors can do to encourage transparent, uniform reporting on this issue across global food companies, the better investors and other stakeholders will be able to understand and assess company performance on this issue.



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