



Investing for Sustainable Food Systems: Current Practice in Australia

Findings brief | August 2021

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Summary

- Food systems are a major driver of climate change, biodiversity loss, depletion of freshwater resources and pollution of waterways.
- We examined the extent to which major institutional investors engaged in responsible investment in Australia consider sustainable food systems as part of their investment approach.
- Nineteen out of 35 investors incorporated considerations related to sustainable food systems into investment decisions in some way.
- We identified six strategies that investors used to incorporate sustainable food system considerations into their decision making.
- The most common strategy used by investors was 'corporate engagement and shareholder action' (using shareholder power to influence corporate behaviour).
- The sustainable food system themes most commonly mentioned by these investors were 'human rights' (specifically labour rights in the food supply chain) and 'animal welfare and anti-microbial resistance'.
- Only one company, Australian Ethical, had a comprehensive policy on investment decisions related to sustainable food systems.
- Examples of good practice included engaging with companies in relation to modern slavery concerns in the food supply chain, negatively screening intensive animal agriculture due to concerns about animal welfare and environmental sustainability, and investing in agricultural land to support a climate transition.
- Future research will focus on engaging with investors to identify opportunities for progressing an investment agenda that promotes sustainable food systems in Australia.

Background

Food systems are a major driver of climate change, biodiversity loss, depletion of freshwater resources and pollution of waterways. Between 21% and 37% of total greenhouse gas emissions are attributable to food systems. Enteric fermentation from cattle and land use change for agriculture are significant sources of greenhouse gas emissions and must be reduced in order to meet the Paris Agreement target of no more than 1.5 or 2 degrees warming.

Agriculture is directly responsible for the livelihoods of more than a billion people and provides employment for more than a quarter of the global population.¹ Yet land rights and livelihoods from food are threatened by poor labour conditions and the expansion of vast soy and palm oil plantations.

Responsible investment (RI) – in which environmental, social and governance (ESG) considerations are incorporated into investment decision-making – is potentially a powerful avenue for increasing the accountability of agri-food industries for addressing these issues and promoting sustainable food systems.

Why should investors focus on sustainable food systems?

Food systems are likely to become an increasing concern for RI, as the centrality and vulnerability of the food system to significant ESG issues becomes clear. This includes issues such as climate change, biodiversity loss, water scarcity, modern slavery and animal welfare concerns.

Investor interest in agriculture and the food industry is growing. Most institutional investors are invested in agri-food businesses. Agricultural producers and agribusinesses shape the sustainability of the food system through their farming practices. Food processing and retail businesses have significant influence over agricultural producers, and can also influence consumer diets, making them too a focus of efforts to ensure sustainable healthy food systems. Due to their power and influence over agri-food businesses, financial actors have significant capacity to pull levers that can transform food systems.

Our research investigated how institutional investors engaged in responsible investment in Australia consider sustainable food system issues in their decision-making.

What we did

We carried out a desktop review of responsible investment in sustainable food systems for a ‘best practice’ sample of 35 asset managers and superannuation funds in Australia.² The sample was identified from benchmarking reports published by the Responsible Investment Association of Australasia (RIAA).^{3,4}

We searched the websites of these companies and their reports on the United Nations Principles of Responsible Investment (up to December 2019) using key terms related to food system sustainability. We identified ways in which these investors incorporated seven sustainable food system themes into their decision-making (see Table 1 for a list of themes).⁵

Table 1 Sustainable food system themes and definitions

Theme ⁵	Definition
Climate Change	Greenhouse gas emissions from the food system, including land use change.
Biodiversity	Biodiversity loss attributable to deforestation and land use change for agriculture, over-fishing, pesticide use and management of genetically modified organisms.
Water	Use of water in agricultural production and food processing; and risk of water scarcity.
Food loss and waste	Adoption of initiatives to reduce food loss and waste throughout the food supply chain.
Human rights	Human rights relating to labour rights (modern slavery obligations, underpayment and other fair labour practices), land rights and Indigenous rights.
Animal welfare and antimicrobial resistance (AMR)	Animal welfare and animal cruelty in animal agriculture and aquaculture for food. Over-use of antibiotics in animal agriculture and aquaculture creating risk of AMR with harm to human or animal health.
Sustainable food production practices	Adoption of approaches to promote environmentally (and socially) sustainable agriculture. Also includes issues related to sustainable food production not captured by the categories above.

What we found

Nineteen out of 35 investors incorporated considerations related to sustainable food systems into investment decisions in some way.

Only one company, Australian Ethical, had a comprehensive policy on investment decisions related to sustainable food systems. Sixteen of the 35 investors did not mention sustainable food system issues at all as a consideration for investment decision-making.

The sustainable food system themes most commonly mentioned were ‘human rights’ (specifically labour rights in the food supply chain) and ‘animal welfare and AMR’ (10 investors each). Eight investors mentioned ‘sustainable agriculture’ as a consideration and six mentioned ‘climate change’, ‘biodiversity loss’ and ‘water use’. Only two investors addressed, food loss and waste’ (see Table 2).

We identified six strategies that investors used to incorporate sustainable food system considerations into their decision making (see Table 3).

The most common strategy used by investors was ‘corporate engagement and shareholder action’ (using shareholder power to influence corporate behaviour). Thirteen investors used this strategy. The next most common strategies were ‘negative or exclusionary screening’ (excluding specific sectors, companies or practices), ‘ESG integration’ (inclusion of ESG issues in decision-making) and ‘sustainability-themed investment’ (investment that aims to improve social and environmental sustainability). Seven investors used each of these strategies. Just two investors said that they used ‘positive’ or ‘best-in-class’ screening (including sectors, companies or projects based on positive ESG or sustainability performance) or ‘impact or community investing’ (investments that aim to address social or environmental issues while also creating positive financial returns). No investors said that they used ‘norms-based’ screening for sustainable food system issues.

Table 3 Categorisation of responsible investment strategies

Responsible investment strategy	Definition ⁶
Negative/exclusionary screening	Screening that systematically excludes specific sectors, companies or practices based on ESG criteria.
Positive/best-in-class screening	Screening that includes sectors, companies or projects based on positive ESG or sustainability performance relative to industry peers.
Norms-based screening	Screening of investments that do not meet minimum standards of business practice, based on international norms and conventions (e.g., those from the United Nations).
Corporate engagement and shareholder action	The employment of shareholder power to influence corporate behaviour in relation to ESG issues (e.g. corporate engagement, filing or co-filing shareholder proposals and proxy voting).
ESG integration	The systematic and explicit inclusion of ESG factors into traditional financial analysis and investment decision-making.
Sustainability-themed investing	Investment in themes or assets that specifically relate to improving social and environmental sustainability.
Impact/community investing	Impact investing includes targeted investments aimed at addressing social or environmental issues whilst also creating positive financial returns. Community investing includes investment in underserved individuals or communities, as well as businesses with a social and environmental purpose.

Table 2 Australian Institutional Investors' Reported Use of RI Strategies to address Food System Sustainability Themes 2019 (n=35)

RI Strategy	Climate Change (6)	Biodiversity (6)	Water (5)	Sustainable Food Production (8)	Food Loss & Waste (2)	Animal Welfare & AMR (10)	Human Rights (10)
Negative/ Exclusionary screening (7)	AE* Stewart	AE Christian Perpetual	AE			AE Care** Christian Future Pengana**	AE
Positive/ Best-in-class screening (3)	AE			LG Stafford			
Norms based screening (0)							
ESG integration (7)	Stafford Stewart	Future Stafford Stewart	Stafford Stewart Wavestone	LG	Stewart	Stewart	AMP Colonial
Sustainability-themed investing (7)	AMP CBUS Stafford Stewart	Stewart	Stewart	AMP AE HESTA Stafford U Ethical			
Impact/ Community investing (2)			Vic Super	Christian Vic Super	Christian		Christian
Corporate engagement and shareholder action (13)	UniSuper	AE Future Stewart	Wavestone	AE		AMP Ausbil AE Future HESTA UniSuper	AMP Ausbil AE IFM Pental U Ethical Vision
No sustainable food system theme reported (16)	AustralianSuper, Dexus, First State, Sentier, IFM, Investa, Lendlease, Magellan, Maple-Brown Abbot, Mercer, QIC, RARE, Realindex, Resolution, Solaris, Uniting						

*Names of businesses have been abbreviated. The full names of all the businesses in the sample are shown in Endnote 2 at the end of the report.

**There is a 5-10% threshold at which companies can generate revenue from animal use (eg how much meat they sell) before they are negatively screened.

Examples of the ways that investors consider sustainable food system themes:



Corporate engagement in relation to human rights and labour concerns, particularly related to implementation of the Modern Slavery Act 2018:

“Ausbil reported in their 2018 Engagement Report that they would “continue engagement on labour issues in Australia, including the agricultural supply chain and the franchise industry” and that they had “already had a number of meetings with listed companies (such as BlueScope Steel, Woolworths, and Wesfarmers) in terms of how they are preparing for the MSA [Modern Slavery Act], mapping out the supply chain, and how they intend to engage with suppliers to effectively reduce these risks.”⁷



Consideration of ESG factors and corporate engagement in relation to water management in agriculture:

“...Currently only 0.5% of the planet’s water is available for use by mankind [sic] and global ecosystems and massive investment will be needed to upgrade and expand current water infrastructure to meet future demand and protect water quality. Equally industries heavily reliant on water could face significant risks due to conflict over water supply and consequently costs of water usage will rise. We assess and engage with companies on how they manage their water usage, interact with the local community and manage supply risks.”⁹



Negatively screening intensive animal agriculture due to concerns about animal welfare and environmental sustainability:

“Current commercial meat production causes great suffering to animals. The majority of animal products consumed today are produced in intensive systems with high density stocking and accelerated fattening... We assess the harm to animals and the environment (including climate) caused by current large-scale commercial animal agriculture as unnecessary because balanced plant-based diets can sustain healthy human life ... As a result, we exclude investment in current systems of commercial animal agriculture including meat, dairy, eggs and seafood ...”⁸



Investing in agricultural land for climate transition:

“Stafford’s emphasis on sustainability and climate aware investment products is in part a reflection of the Firm’s awareness and attempt to position the business and our investments for the transition to a lower carbon economy that is already unfolding... [S]ustainable capital, infrastructure, agriculture and timberland are all vital assets to help support and enable the transition that is required, both in developed and developing economies. Stafford is making efforts to support this transition process through these targeted investment products, as well as striving for higher standards of integration and awareness amongst the investment managers of private equity and venture capital funds that do not have an explicit sustainability themed dimension.”¹⁰

Our findings indicate that some institutional investors in Australia are considering sustainable food system issues in decision-making, albeit in a limited way. ‘Hot’ issues are being addressed by some investors (e.g. labour rights and animal welfare), but comprehensive consideration of how to promote socially, ecologically and economically sustainable food systems through investment is rare.

What could support investors to make evidence-based decisions about sustainable food system investments?

- The development of industry codes and metrics to guide investment in sustainable food systems;
- Guidance on best practice in sustainable food system investment for investors and the food industry;
- Inclusion of food system impacts in reporting and disclosure of significant ESG issues that intersect with the food system, including climate change, biodiversity and modern slavery.

Our future research will focus on engaging directly with investors to identify opportunities for progressing an investment agenda that promotes sustainable food systems in Australia. We welcome feedback from stakeholders on how best to progress this work.

More information

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For more information on this project, please refer to our open access publication here: <https://findanexpert.unimelb.edu.au/scholarlywork/1553491-responsible-investing-for-food-system-sustainability--a-review-of-current-practice-in-australia>

For more information about current practice in Australia in relation to investing for nutrition and obesity prevention, please refer to the companion findings brief *Investing for Nutrition and Obesity Prevention: Current Practice in Australia*.

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References

- 1 HLPE (2020) Food Security and Nutrition, *Building a Global Narrative Towards 2030* (High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security).
- 2 The sample included: AMP Capital, Ausbil Investment Management, Australian Ethical, Australian Super, CareSuper, Cbus, Christian Super, Dexus Property Group, First Sentier Investments, First State Super, Future Super, HESTA, IFM Investors, Investa Property Group, Lendlease Investment Management, Local Government Super, Magellan Asset Management, Maple-Brown Abbot, Mercer Australia, Pandal, Pengana Capital Group, Perpetual Investments, QIC, RARE Infrastructure, Realindex Investments, Resolution Capital, Solaris Investment Management, Stafford Capital Partners, Stewart Investors, U Ethical Funds Management, UniSuper, Uniting Financial Services, VicSuper, Vision Super, Wavestone Capital.
- 3 Boele, N., Coles, N., Iyer, N., and Thompson, R. (2019). *Responsible Investment Super Study 2019*. (Sydney, Australia: Responsible Investment Association Australasia).
- 4 Thompson, R., and Bayes, S. (2019). *Responsible Investment Benchmark Report Australia 2019*. (Sydney, Australia: Responsible Investment Association Australasia).
- 5 The themes are based on the 'issues of concern' for the food system identified by Will Nicholson and the UK Food Foundation's *Plating Up Progress* project at <https://foodfoundation.org.uk/plating-up-progress-home-page/>
- 6 Adapted from Thompson, R., and Bayes, S. (2019). *Responsible Investment Benchmark Report Australia 2019*. (Sydney, Australia: Responsible Investment Association Australasia).
- 7 Ausbil (2018). *Ausbil – ESG Engagement Report 2018* [Online]. Available: <https://www.ausbil.com.au/Ausbil/media/Documents/Research%20and%20Insights/Ausbil-%e2%80%93-ESG-Engagement-Annual-Report-2018.pdf> [Accessed 5 September 2019].
- 8 Australian Ethical (2019). *Our ethical criteria when investing in food production* [Online]. Available: <https://www.australianethical.com.au/news/ethical-approach-food-production/> [Accessed 5 July 2019].
- 9 Wavestone Capital (2018). *Wavestone's approach to EAG integration* [Online]. Available: https://www.wavestonecapital.com.au/wp-content/uploads/2018/12/WaveStone-ESG-Approach_Public-document_Dec-2018.pdf [Accessed 6 September 2019].
- 10 Stafford Capital Partners (2019). *Principles for Responsible Investment PRI reporting framework 2019* [Online]. Available: https://www.unpri.org/Uploads/x/a/b/strategyandgovernance2019_501247.pdf [Accessed 6 September 2019].

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