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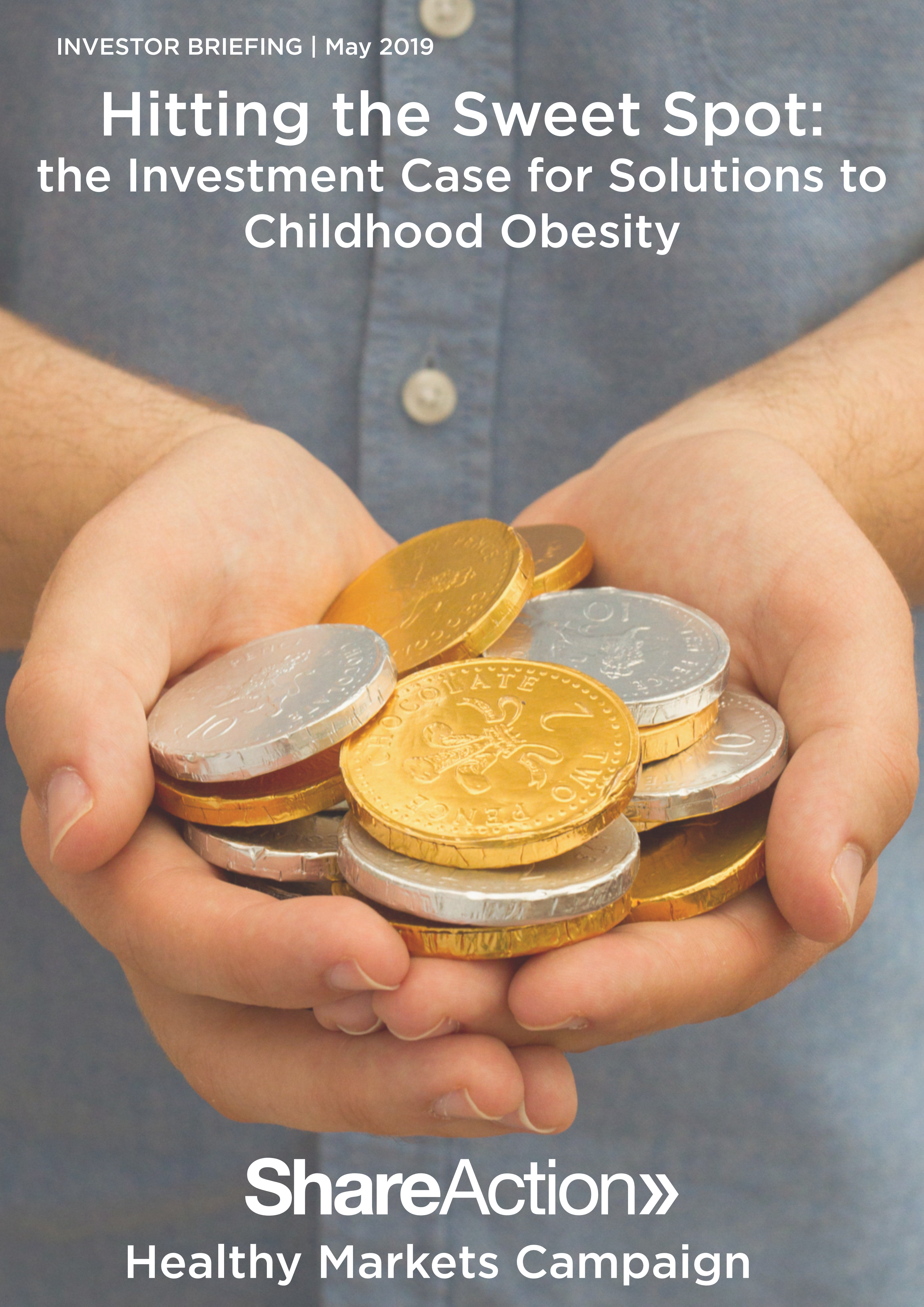
Hitting the Sweet Spot: the Investment Case for Solutions to Childhood Obesity



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Healthy Markets Campaign

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About ShareAction

ShareAction is a UK registered charity working globally to lay the tracks for responsible investment across the investment system. Its vision is a world where ordinary savers and institutional investors work together to ensure our communities and environment are safe and sustainable for all.

In particular, ShareAction encourages institutional investors to be active owners and responsible providers of financial capital to investee companies, while engaging meaningfully with the individual savers whose money they manage.

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Executive Summary

This briefing provides an introduction for investors on the topic of childhood obesity and the potential risks and opportunities associated with their portfolios. Obesity is among the most pressing global public health problems in modern times, and as a result, major food and beverage manufacturers' and retailers' actions are receiving increased attention from policy makers, regulators, civil society, and customers. Given this, there are important reasons why investors in the food and beverage sector need to understand companies' actions and risks in this area and to drive improvements. This theme throws up a range of investment-related risks and opportunities. It also offers pension funds and other long-term investors' opportunities to advance their beneficiaries' and the public's broader interests.

Governments around the world are starting to implement interventions aimed at addressing market levers fuelling the obesity crisis. In the UK, these include an array of fiscal and policy measures to reduce the number of unhealthy products available on the market and discourage their consumption. Headline measures include the introduction of a sugar levy on soft drinks, the setting of voluntary sugar and calorie reduction goals for food and drink manufacturers, and enhancing restrictions on the marketing and sales of unhealthy products.[1]

There is a compelling public health and economic case underpinning UK regulatory actions, making it more likely that they will be enhanced than reversed. Two thirds of adults and a third of children are now classified as overweight or obese, making obesity a leading cause of avoidable illness and premature death.[2, 3, 4] Obesity also has significant economic implications for public finances. Treating related disease already costs the strained National Health Service (NHS) £6.1 billion annually but also imposes costs on business and wider society through reduced productivity and economic growth.[5, 6] Alongside such impacts, there is a growing body of evidence demonstrating that food choices are heavily influenced by factors such as the local availability of affordable healthy options and the marketing of unhealthy ones, many of which are the direct result of companies' actions.[7, 8]

In parallel, consumer awareness about the benefits of healthy food is also shifting significant product sales towards healthier alternatives, especially low-sugar and low-calorie variants.[9, 10] This trend is particularly noticeable in diverse food categories such as condiments, soft drinks, confectionery, biscuits and snacks, with some healthier products' annual sales figures seeing triple-digit growth in 2018.[11] As a result, a competitive opportunity for manufacturers and retailers, not least via own brand, is emerging to proactively reformulate products to introduce new healthier options and incentivise their sales. Companies have an opportunity to produce food that is both healthier and fulfils consumers' expectations, and in such a way, capitalise on growing consumer demand while pre-empting the risks of further regulatory change.

Investments in laggard companies that fail to adapt to these diverse trends could represent financial risks to portfolios. An inability to respond to the current climate and inaction by such manufacturers and retailers could lead to falling sales, lost market share, damage to brand and corporate reputation. Ultimately, these companies may also be faced with litigation.

Public discourse is hardening when it comes to unhealthy food and drink, particularly products high in sugar. A growing number of public figures and influencers, including celebrity chefs, health professionals, and politicians, are regularly speaking out on the topic and drawing comparisons to tobacco. Such arguments are backed up by an emerging scientific consensus linking excessive free-sugar intake with increased incidence of certain non-communicable diseases such as type-2 diabetes.[12] This association is putting further pressure on the UK Government to increase taxation and restrictions on unhealthy products, and ultimately increases the risk of litigation being brought against food and beverage companies that fail to act.[13]

This briefing concludes by offering investors a list of some of the major food and beverage manufacturers and UK retailers most exposed to the opportunities and risks posed by these regulatory and market trends, as well as an illustration of some of the actions such companies could be taking. It also provides information on ShareAction's planned next steps, including an open call encouraging investors to join a Healthy Markets' Investor Coalition.

1. Introduction

1.1 A Global Problem on the Rise

Childhood obesity is one of the most serious public health challenges of our time. The prevalence of obesity among children and young people has increased dramatically in the last few decades and today, according to the World Health Organization (WHO), almost four hundred million children and young people globally are either obese or overweight.[14]

In the UK, a third of children and young people are estimated to be overweight or obese, and this is only predicted to get worse.[15, 16] Although this issue affects children across the socio-economic spectrum, disadvantaged children are disproportionately impacted by obesity and this is now a leading cause of health inequalities. Already today, children from low income families are twice to three times more likely to be obese than their more affluent peers.[17]

The associated public health impacts of this crisis are on an unprecedented scale. Overweight and obese children are more likely to develop conditions such as heart disease, type-2 diabetes and certain types of cancer in adulthood.[18] In fact, Cancer Research estimates that of a total of 22,800 cases of cancer occurring in the UK, more than one in twenty, are caused every year by excess weight.[19] The health impacts are not only of a physical nature, as obese and overweight children are also more likely to experience bullying, stigmatisation, and low self-esteem.

Moreover, it is worth noting that children who are obese are five times more likely to be obese adults, and the UK already has the highest level of adult obesity in Europe. Unless urgent measures are taken, a recent report from the Organisation for Economic Co-operation and Development (OECD) estimates that levels of obesity are expected to reach 26 million people in the UK as soon as 2030. This would place the UK in the top three nations for obesity rates, only exceeded by the United States and Mexico.[20, 21]

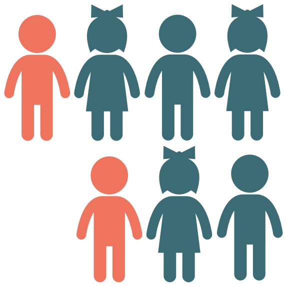
Current levels of overweight and obesity among children and adults are not only a public health crisis but also have significant financial ramifications. In the UK alone, medical costs of treating overweight and obesity-related diseases are estimated to place an annual burden of £6.1 billion on the NHS.[22] In addition, they create a cost of £27 billion to society and business, through reduced productivity levels and the weaker economic growth associated with a less healthy workforce.[23]

Most notably, higher levels of sickness and absence from work are likely to affect the profitability of businesses.[24] Individuals living with obesity have worse health and are more likely to suffer from issues such as back problems or sleep apnoea, which means that even if attending work, their health conditions can affect their productivity.[25] Ultimately, the increasing obesity levels among the UK workforce presents a range of long-term operational risks to employers.

Overall, obesity not only threatens the health and well-being of individuals and their families, but places an additional strain on the Exchequer through a combination of increased NHS costs and reduced tax revenue from lower economic growth. In fact, without significant action, the wider annual costs to the NHS and UK society as a whole associated with predicted numbers of overweight and obesity cases in 2050 could almost double to £9.7 and £49.9 billion respectively.[26]

While the current scale of the problem is undeniable, simple solutions are possible. This briefing sets out the underlying drivers of childhood obesity and the opportunities to make healthier food options available, affordable and accessible to all.

The scale of the problem in the UK

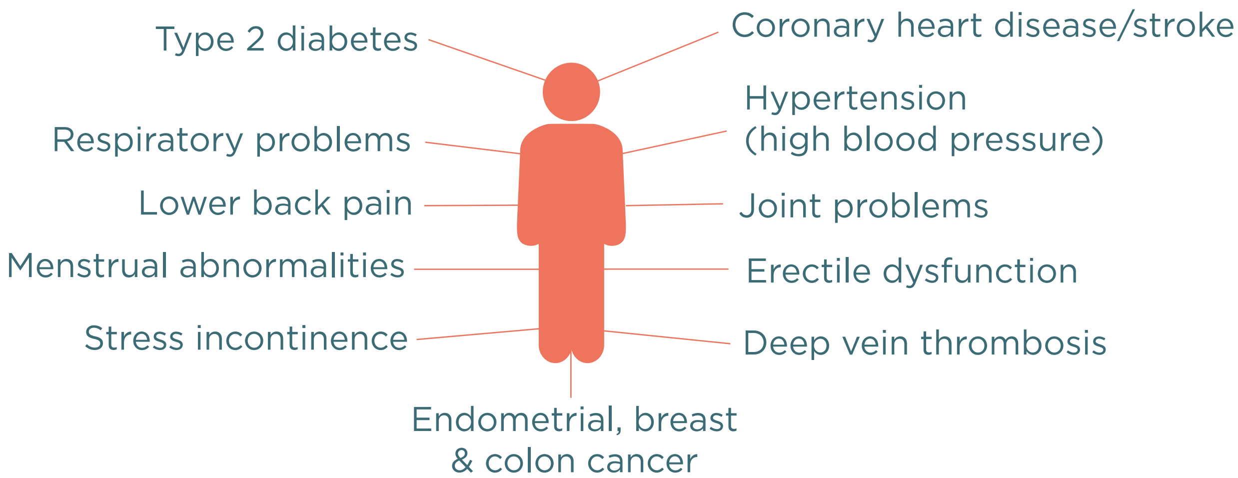


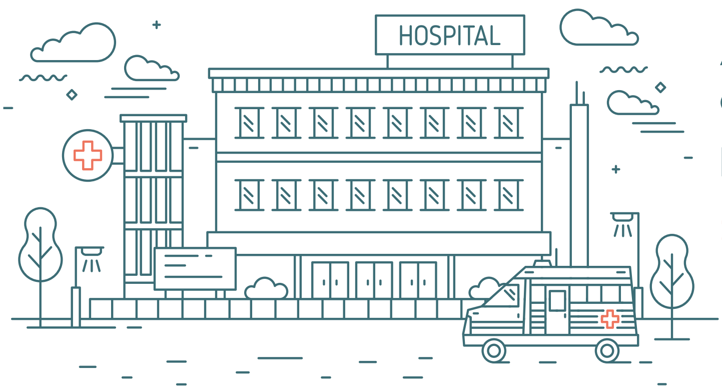
Nearly one in four reception-age children are overweight or obese, rising to one in three Year 6 children

Two in every three adults are overweight or obese

Children from low income families are two to three times more likely to be overweight or obese

The health risks of obesity





Annual costs to the NHS of treating overweight and obesity-related ill health is £6.1 billion, set to rise to £9.7 billion in 2050

& annual costs to the wider economy are currently £27 billion, set to rise to £49.9 billion in 2050

1.2 The Drivers of Childhood Obesity

Although the underlying drivers behind obesity are complex, the fundamental cause is less so. Obesity results from an energy imbalance, in which the number of calories consumed by an individual is higher than those they are expending. Globally, the WHO reports a growing trend towards energy-dense foods, larger portion sizes, and increased sedentary time, and cites these as the major contributory factors in driving the rise of obesity and overweight cases.[27]

While the impact of low energy expenditure cannot be ignored, evidence suggests that when seeking to reduce childhood obesity rates, particular focus should be placed on improving diets by reducing energy intake. This is for two reasons. Firstly, physical activity burns relatively few calories and secondly, there is a risk of compensatory consumption behaviour, in which individuals consume more calories through diet after exercise than were exerted during the activity.[28, 29, 30]

Crucially though, there is growing evidence to demonstrate that the choices we make about food and drink are heavily influenced by our physical, social, and informational environment, and are not necessarily active or deliberate ones. In fact, evidence demonstrates that many people simply don't have good access to healthy options.[31] The realisation that personal responsibility and motivation are unlikely to drive mass behaviour change in the absence of an environment that supports and privileges healthier choices has led the public health community to look beyond the traditional solutions to childhood obesity framed around increased education.[32]

In fact, governments, public health specialists, and civil society increasingly recognise that actions to improve the food environment and make healthier choices easier, more affordable, and accessible need to be prioritised in the fight against obesity. Food and beverage manufacturers are key to this, not least because families in the UK dedicate on average two-thirds of their food budget on eating at home.[33] This shift in the framing of solutions to obesity, from individuals to their food environment, is likely to keep the actions of companies in the food and beverage sector under increased scrutiny.

1.3 UK Diets, Sugar, and the Regulatory Framework

The typical UK diet continues to be made up of too many foods rich in sugars and saturated fats, and does not contain enough fruit, vegetables, oily fish, and fibre.[34] This dietary imbalance means that the UK population is consuming too many calories.

On average, overweight and obese UK adults consume more than 320 calories than is recommended per day. For children and young people, obese boys and girls consume more than 140-500 and 160-290 calories more than is recommended per day respectively. This shows how even small dietary changes can have a significant impact on reducing weight gain and subsequently rates of obesity and overweight.[35, 36]

In this context, sugar is a major contributor to excess calorie intake in UK diets, leading to weight gain and obesity. Over 10 per cent of the daily calorie intake of children and adults comes from sugar, which is more than twice the maximum amount recommended by the UK's Scientific Advisory Committee on Nutrition (SACN).[37]

For the reasons above, manufacturers and retailers have, through reformulating their own-brand food products and downsizing their portion sizes, an opportunity to drive reduction in people's calorie and sugar intakes. Although these are not the only interventions companies can make in the fight against childhood obesity, research suggests that they are among those most likely to result in improved diets, as they do not require behaviour change on the part of consumers.[38, 39] Additional actions that companies can take include adding clear interpretative front-of-pack nutrition labelling and following responsible advertising and marketing practices, for example through removing children's cartoon characters on the packaging of unhealthy products. In store, retailers can also encourage a switch towards healthier products through price promotions and priority shelf placement for healthier options.

Food and drink manufacturers and retailers are finding themselves under increased scrutiny from public health authorities, with the UK Government showing significant leadership in this area. In this context, the 2016 Government's Childhood Obesity Plan included bold steps to push food and beverage manufacturers and retailers, via own brand, to create healthier products and improve nutritional labelling.[40] The headline measure was the announcement of the Soft Drinks Industry Levy (SDIL), which required soft drink manufacturers to pay tax from April 2018 on drinks sold based on their sugar content.[41, 42]

Moreover, the UK Government has introduced sugar and calorie reduction targets to be delivered by voluntary manufacturer and retailer commitments. This includes a 20 per cent voluntary sugar reduction target for 2020 (Sugar Reduction Programme) for manufacturers and retailers of food and drink products most widely consumed by children including breakfast cereals, biscuits, cakes and morning goods, ice-cream, puddings, chocolate and sweet confectionery, fruit juice, soft drinks, and yogurts.[43] In the 2018 update, the UK Government expanded these measures to include other high-calorie foods (Calorie Reduction Programme) by 2024. This means that food categories that account for over half of children's calorie intake are now covered by these two voluntary reduction programmes.[44] The UK Government has already indicated it would be willing to make these measures mandatory if sufficient progress is not made.[45]

In parallel, the UK Government is also considering the introduction of further restrictions on the sale and promotion of unhealthy food and drink products. There has been consultation on the restriction of price promotions on unhealthy foods, such as "buy one, get one free" and multi-buy offers, the introduction of a 09:00 pm watershed on TV and internet advertising, and on end-of-aisle and checkout product placement. The consultation on banning sales of energy drinks to children was so well supported that the majority of UK retailers have voluntarily taken action to restrict the sales of these products to under-16s.[46, 47]

2. Opportunities and Risks for Investors

2.1 Capitalise on Growing Consumer Demand for Healthier Products

The number of consumers in the UK demanding healthier products continues to grow across food and drink categories and shows no sign of receding. Through investing in product innovation and reformulation, some companies are getting ahead and starting to cash in. At the other end, companies failing to adapt may not only miss out on potential sales but also find themselves at a greater competitive disadvantage, particularly should any major technological breakthroughs that deliver successful new products emerge.

Increased public awareness of the health risks associated with overconsumption of high-calorie foods and sugar is driving consumer demand for healthier options. In fact, regular opinion surveys conducted by the Food Standards Agency (FSA) have identified that "the amount of sugar in food" is the top concern for UK consumers related to food and has been since overtaking "food prices" in 2010.[48]

This trend is driving sales and innovation across diverse food categories. It presents both a risk to laggard companies of losing revenue and market share and an opportunity for leaders who follow consumer trends and introduce healthier products ahead of their competitors.

UK sales figures reported in The Grocer's 2018 Top Product Survey illustrate how important it is for food and drink manufacturers to respond to this trend. Health considerations, including low-sugar and low-calorie claims, are a major driver of sales across diverse food categories ranging from carbonated drinks to table sauces. This is also the case within many treat categories such as sweet biscuits, with healthier versions accounting for an impressive two-thirds of growth in 2018. Conversely, sales of jams and marmalades declined by 0.6 per cent over the same period. This is attributed to UK consumers shunning products perceived as too sweet and highlights a lack of progress towards healthier product variants in this specific category.[49]

There are also some signals that health concerns may also be starting to drive some growth in fresh produce, as 2018 saw sales of fresh fruit go up by three per cent in the UK. Some retailers are starting to capitalise on this trend. For example, supermarket chain Lidl boosted its fresh produce range by 25 per cent during the same period, seeing particular growth in their Oaklands Fun Size range aimed at children.[50]

> "**It's a growing trend that is showing no signs of slowing. Just take the number of sugar-free and sugar-reduced (sweet confectionery) products – these have increased by 25 per cent in the last 12 months alone. With such a strong influx of new products, manufacturers and retailers will naturally optimise their ranges to focus on the strongest performing products.**
> Claire James, Trade Marketing Manager, Haribo (as told to The Grocer)[51]"

At product level, this trend has delivered some eye-catching sales growth figures. For example, Ferrero's Nutella B-Ready, containing only 115 calories per bar, saw an 886 per cent growth in sales in 2018. Equally, low-calorie table sauces varieties, such as Heinz Tomato Ketchup 50% Less Sugar & Salt and Hellmann's Lighter than Light Mayo, had the highest annual product growth with sales up 127 and 33 per cent respectively, while sales of their standard products decreased over the same period. In the snack category, products such as Walkers Oven Baked grew by 42.3 per cent in 2018, and KP's Hula Hoops Puft lowest calorie snack variant at 71 calories, drove sales growth for the whole category. In fact, companies such as KP attribute increased sales of some of their healthier products such as Skips by leading with low-calorie front of pack claims.[52]

> **Healthier eating has become an important factor for many consumers, and sugar and salt content continues to be highly relevant. Shoppers are increasingly aware of what they're putting in their bodies.**
> Martina Davis, Senior Brand Manager, Kraft Heinz (as told to The Grocer)[53]

With this emerging trend, many manufacturers are investing heavily in innovative technological solutions for product reformulation, in order to reduce the sugar content of their products while maintaining a similar texture and taste. Priority areas of research include the development of new sugar substitutes and sweeteners, improving the understanding of the science of taste and smell, and finding solutions to increased risk of microbiological spoilage.[54] This has led manufacturers trialling new products such as Nestlé's Milkybar Wowsomes, which is comprised of aerated, porous sugar crystals, and promises the same level of sweetness without a high sugar content, and Mondelez' 30% less sugar Cadbury Dairy Milk, which involved replacing sugar content with fibre.[55]

Innovative practices and particularly any technological breakthroughs that prove successful with consumers could rapidly deliver a significant competitive market advantage to any major manufacturer or retailer.

2.2 Stay Ahead of Regulatory Changes

In line with global developments, the UK Government has taken some bold steps in the form of new fiscal and policy measures to tackle rising obesity rates. In this context, regulatory pressure on food and beverage manufacturers and retailers is only likely to increase. Through improving the health profile of their products and acting responsibly when it comes to marketing them, not only are companies likely to profit from current market trends towards healthier products but would also pre-empt the risks of further regulatory changes.

Regulators across the world are no longer shying away from implementing regulatory measures on sugary and other high-calorie food products to tackle the obesity crisis. It is worth noting the case of Chile, where a battery of bold fiscal and regulatory measures have recently been introduced. Examples of these include a steep tax of 18 per cent on sugary drinks, the inclusion of tobacco-like health warnings on unhealthy food and drink products, and severe marketing restrictions that ban cartoon characters from product labels and prevent companies from incentivising the sale of their products to children through including gifts such as toys. This should serve as an illustration to companies of the level of burden they could face should lack of overall progress in reducing obesity continues.[56, 57]

Sugar taxes are most popular. Since 2015, the number of these taxes has tripled, with more than forty in place across the world.[58] As well as having been introduced in the UK, taxes on some sugary products exist at city, state, or federal level in many large markets such as the US, Mexico, Chile, India, France, Spain, Portugal, Ireland, Belgium and South Africa, and are under consideration in many more including Canada, Australia and New Zealand.[59, 60] This means that more people are now covered by a sugar tax than a carbon tax.[61]

In the UK, the Soft Drinks Industry Levy (SDIL) is currently focused on drinks,[62] but the scope of UK sugar taxation is expected to expand to cover additional product categories. In this context, the Government has specifically announced that it will be reviewing "the sugar reduction progress achieved in sugary milk drinks (currently exempt from SDIL)" and that these products may be included "if insufficient progress has been made".[63]

Unsurprisingly, UK fiscal levers are proving to be much more effective in delivering calorie reductions than their voluntary counterparts. For example, the SDIL has led to a five-times greater sugar reduction in branded beverages (i.e. 11 per cent reduction in sugar levels per 100ml) than that achieved in branded food products by the Sugar Reduction Programme (i.e. two per cent reduction in sugar levels per 100g). These contrasting results have led the UK Government to make clear that it will "consider further use of the tax system to promote healthy food if the voluntary sugar reduction programme does not deliver sufficient progress". In addition, it has stated it will "not shy away from further action (more generally), including mandatory and fiscal levers, if industry is failing to face up to the scale of the problem through voluntary reduction programmes."[64]

Food and drink manufacturers and retailers are also finding themselves subject to regulation aimed at restricting marketing and sales of unhealthy products to children. The UK Government is currently exploring strengthening current TV advertising restrictions on unhealthy products to include a 9pm watershed and to expand these to the internet in recognition of preferences of younger audiences. In addition, retailers are expected to be soon faced with restrictions on sales of unhealthy products, including banning price promotions like "buy one get one free" or "multi-buy offers", or banning the sale of "energy drinks" to children.[65, 66]

In this context of increased regulatory activity, food and drink manufacturers and retailers who switch to healthier portfolios of products should be better placed to capitalise on business opportunities that emerge from anticipated legislative changes. The case study below provides a practical illustration of how important it is for food and beverage manufacturers and retailers to develop and implement plans to stay ahead of regulatory changes in this space.

Case Study: Product Reformulation Weathers the Sugar Levy Storm

Product reformulation and the development of sugar-free carbonated drink varieties has been one of the strategies used by manufacturers to reduce their exposure to the new soft drinks levy in the UK. This is an example of how firms have been able to adjust to regulatory measures imposed on them while the public benefits from healthier products.

Research conducted in 2016 for the British Soft Drinks Association ahead of the introduction of the SDIL anticipated negative economic impacts for the sector as a result of the levy's introduction. It predicted that reduced sales would lead to the loss of more than four thousand jobs across the UK and an associated reduction in GDP of £132 million.[67]

In reality, the majority of players in the soft drink industry have been able to mitigate negative economic impacts. They accelerated product reformulation plans before the SDIL came into force in April 2018 by, for example, replacing the sugar content of their products with a range of low or no-calorie sweeteners that are considered safe for human consumption. [68, 69] Two such cases are Tesco and Asda whose own-brand soft drinks now have sugar levels below levy rates. Also notable is the major reformulation of AG Barr's drinks portfolio, manufacturer of known UK brands such as Irn-Bru, with 99 per cent of products now exempt from SDIL, while at the same time seeing an 8.9 per cent increase in sales and a 6.4 per cent improvement in the gross profit.[70]

Major brands have been able to mitigate financial impacts of regulation by reducing the size of their full sugar varieties and increasing the sales of their sugar-free varieties, while tapping into growing consumer demand towards low-sugar products.[71] In fact, Coca-Cola and Pepsi made their biggest gains in 2018 in the UK from their zero-sugar or diet variants (i.e. Pepsi Max and Coca-Cola Zero grew by 21.3 per cent (£58.3m) to £332m, and by 38.6 per cent (£52.2m) to £187m, respectively). This compensated for the drop in sales of their full-sugar varieties (i.e. standard Pepsi Cola saw a 6.2 percent decrease (£7.1m) in value and Standard Coke volumes were down by 14.8 per cent). Coca-Cola Zero is now the fastest growing major cola in the UK at retail level.[72]

All in all, while the overall volume of carbonated drinks sold in the UK in 2018 stayed the same, the Government now expects that a much higher share of products will avoid the SDIL, halving HMRC's revenue expectations for the 2018/19 tax year from £520m down to £240m.[73, 74]

2.3 Reputational Risks for Laggards are Increasing

Increasing public awareness of the negative health impacts associated with poor diets, particularly excessive sugar intake, is not only driving sales towards healthy products but also condemning unhealthy habits. Facing increased scrutiny from politicians, popular figures, and the general public underpinned by growing scientific evidence, companies acting irresponsibly on the issue of sugar and childhood obesity are increasingly at risk of criticism and reputational damage, and could ultimately be faced with litigation.

Public awareness of the links between unhealthy diets and poor health is high, with six out of ten UK adults stating that they try to eat healthily most or all of the time, with "low sugar" being the important most important factor in this.[75, 76] This is in part due to a rise in public figures, from celebrity chefs, to health professionals, and politicians consistently speaking out on the topic.

From an institutional perspective, childhood obesity and sugar are already high on the political agenda and are likely to remain there for the foreseeable future. For example, NHS England's Chief Executive Simon Stevens consistently calls for overeating to be tackled with the same ferocity as teenage pregnancy or drink driving, and has labelled obesity and unhealthy diets as "the new smoking".[77] Influential politicians are also publicly pushing for increased measures to tackle childhood obesity. Labour's deputy leader MP Tom Watson claims to be "on the frontline of the fat and sugar war" after a personal journey involving losing seven stone and reversing type-2 diabetes by removing refined sugar from his diet.[78, 79]

Film and media content is also becoming saturated with outputs exposing the negative health consequences of unhealthy diets and challenging irresponsible corporate behaviour in this space. Popular documentary films, including Morgan Spurlock's 2000s Super Size Me series and more recently Damon Gameau's That Sugar Film, demonstrate the negative physical and psychological health impacts of following diets high in sugar, fat and salt. They also highlight the irresponsible behaviour of food and drink corporations and criticise their attempts to improve the nutritional content of their food.[80, 81]

Charismatic personalities, such as chefs Jamie Oliver and Huge Fearnley-Whittingstall, have become influential campaigners on the topic and regularly use their public profile to speak out. Their recent work including Hugh's Britain's Fat Fight TV programme and Jamie's campaigns for advertising and energy drink restrictions have significantly contributed to both raising public awareness and persuading the UK Government into regulatory action.

In addition, public support for strengthening and expanding these types of restrictions is also growing. The recently implemented advertising restrictions of unhealthy food and drink products across the Transport for London network was supported by 82 per cent of Londoners.[82]

Therefore, companies that are seen to be acting irresponsibly on the issue of sugar and childhood obesity are increasingly at risk of reputational damage. This may lead to consumers refraining from purchasing these products or being subject to regulatory bans, or public boycotts.

Finally, food and beverage manufacturers that fail to act may find themselves at increased risk of litigation. In this context, a recent report from Schroders shows that the food and beverage sector is already in third position when it comes to total number of lawsuits brought against them globally for mislabelling and health claims, only behind the banking and pharmaceutical industries. Although no lawsuit against the contribution of corporate practices to obesity has yet been successful, the later report concludes that "litigation risk remains material, and estimates that average forecast earnings for staples could decline by 1.3 per cent due to this risk alone."[83]

Penny Wise, Pound Foolish: Are Institutional Pension Funds Fattening Obesity Driving Companies?

In the context of childhood obesity, Institutional Pension Funds have additional reasons, beyond those outlined above, to ensure that they understand the actions of the food and beverage companies they are investing in.

This is particularly the case for Local Authority Pension Funds. Following the introduction of the Health and Social Care Act in 2013, public health responsibilities in England were transferred from the NHS to local authorities.[84] Therefore, local authorities have an opportunity, via making informed investment choices in this area, to drive positive company behaviour and deliver improvements in the well-being of the population.

Such benefits are not only of a public health nature but have budgetary and broader social implications at local level. Tackling obesity already has a significant impact on Local Council Budgets, accounting for over £1bn of the total £15bn spent in public health 2013.[85] Rising obesity rates are translating into increased spend in this area, with councils reporting a 50 per cent increase on childhood obesity spend between 2013/14 and 2016/17.[86] Moreover, obesity rates vary significantly across England and so does the financial and social burden it represents to the local area – i.e. the rate of overweight and obese adults in areas such as Doncaster and St Helens (68-78%) is double that of London boroughs of Camden or in the City (37-48%).[87]

Lastly, Pension Funds investing in irresponsible companies may also find themselves at the receiving end of hardening public discourse. For example, Essex County Council faced strong media criticism in 2014 following revelations that it had invested £40m, despite this being less than 1% of its total budget, "in companies which made unhealthy products like fizzy drinks, fast food or cigarettes."[88]

3. Target Companies for Investor Engagement

3.1 Major Food and Beverage Manufacturers and Retailers in the UK

Food and beverage manufacturers and retailers are both central to creating healthier food environments and are the companies most exposed to the opportunities and risks posed by regulatory and market trends. This sector is highly-concentrated with a few large multinational manufacturers and retailers responsible for the majority of sales of key product categories. This presents both challenges and opportunities for change. The decisions of a few companies are pivotal in whether rapid market transformation occurs, or it is resisted and obstructed.

For this reason, we have identified a priority list of companies who operate in the UK food and beverage sectors and we recommend investors engage with.

Figure 1: Major Food and Beverage Manufacturers of Priority Food Categories Operating in the UK (continued overleaf)

Name	Priority Food Categories	Examples of Known UK Brands	Type of Company
Coca-Cola (US)	Soft drinks and juices	Coke, Dr Pepper, Fanta, Sprite, Lilt, Oasis, Minute, Maid, Rose's	Public
Mondelez (US)	Biscuits and confectionery products	Cadbury, Côte D'Or, LU, Milka, Nabisco, Toblerone	Public
Mars (US)	Confectionery products and various processed food products	Celebrations, Galaxy, Mars, Maltesers, M&M's, Milky Way, Twix, Snickers	Private
PepsiCo (US)	Soft drinks, juices, breakfast cereals and snacks	Pepsi, 7up, Tropicana, Quaker, Walkers, Doritos, Copella, Snack A Jacks	Public
Nestlé (CH)	Biscuits, confectionery products, breakfast cereals, hot drinks, dairy products	Shredded Wheat, Shreddies, Cheerios Aero, Crunch, Lion, Milky Bar, Smarties, Yorkie, Kit Kat, Toffee Crisp, After Eight, Quality Street, Rowntrees	Public
Danone (FR)	Drinks, yoghurts and dairy desserts, baby foods	Danone, Activia, Cow & Gate	Public

Sources: companies' own websites

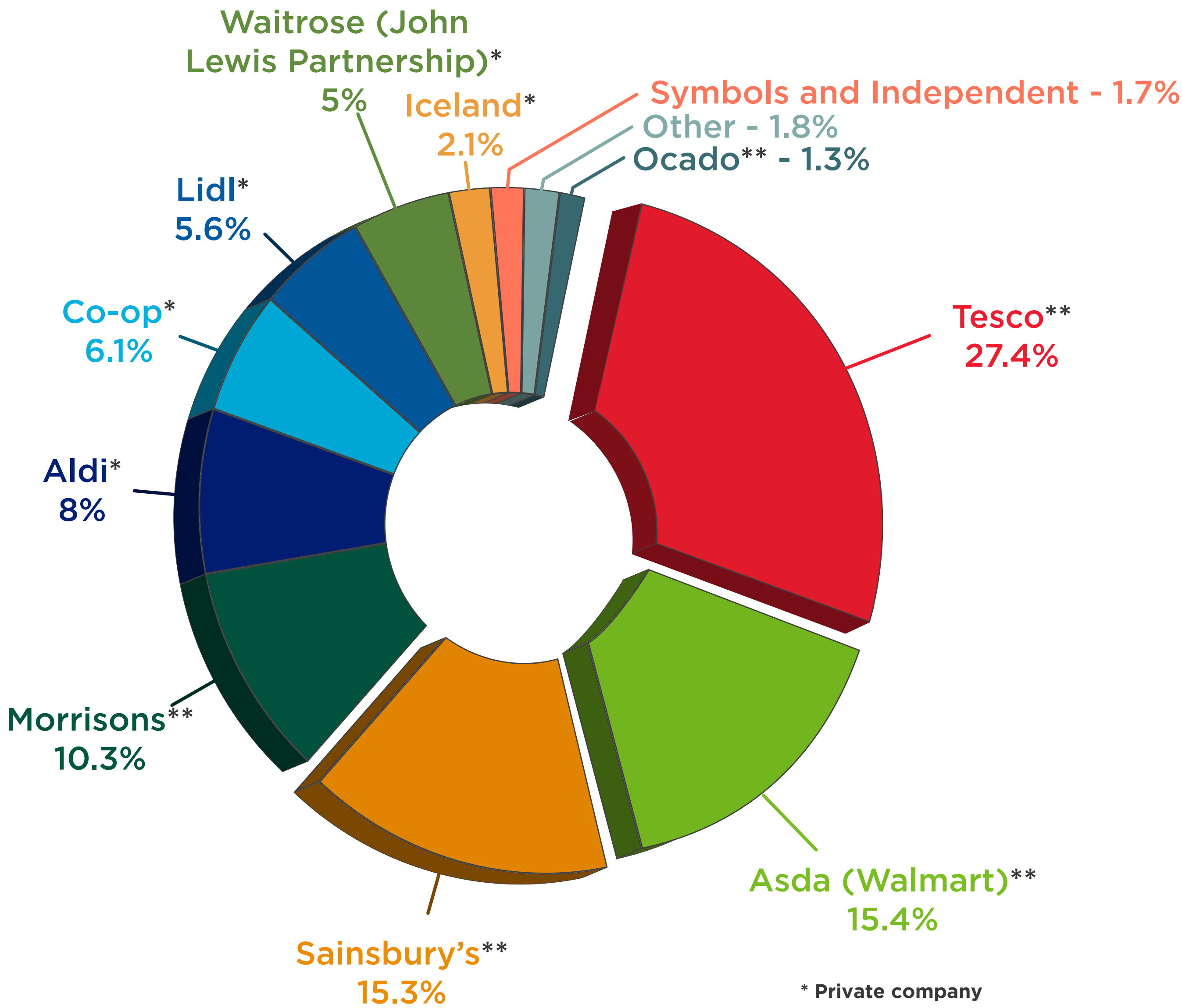
Unilever (NL/UK)	Ice cream & frozen desserts, condiments, drinks	Magnum, Ben & Jerry, Carte D'Or, Cornetto, Hellmann's, Wall's	Public
Yildiz Holding (TR)	Biscuits and confectionery products	McVitie's, Jacobs, Godiva	Private
Suntory (JP)	Soft drinks	Ribena, Lucozade, Orangina	Public
Müller (DE)	Yoghurts and dairy products	Müller	Private
Arla Foods (DK)	Yoghurts and other dairy products	Arla, Cravendale, Skyr	Private
Kellogg's (US)	Breakfast cereals and snacks	Kellogg's	Public
General Mills (US)	Ice cream, yoghurts and various processed foods	Häaggen Dazs, Yoplait, Jus Rol, Betty Crocker	Public
Premier Foods (UK)	Confectionery, desserts, condiments, Cooking sauces and various processed foods	Ambrosia, Angel Delight, Birds, Cadbury (under license from Mondelez), Lyons, Mr Kipling	Public
Red Bull (AT)	Energy drinks	Red Bull	Private
Britvic (UK)	Soft drinks and juices.	Britvic, Robinsons, J20, Tango, Gatorade, Pepsi Brands (UK license)	Public
Ferrero (IT)	Confectionery and sweet spreads	Kinder, Nutella, Thorntons	Private
Kraft Heinz Co (US)	Baby foods, condiments and various processed foods	Heinz, Farley's, TinyTums, Lea & Perrins, HP sauce	Public

Sources: companies' own websites

Post Holdings (US)	Breakfast cereals	Weetabix	Public
Associated British Foods (UK)	Breakfast cereals, bakery products, sugar, condiments, various processed foods	Kingsmill, Sunblest, Burgen, Allison's, Westmill, Silver Spoon, Jordans, Dorset Cereals	Public
AG Barr (UK)	Soft drinks and juices	Irn-Bru, Barr, Rubicon, Snapple, Simply Fruit, Tizer, Bundaberg	Public
Haribo (DE)	Confectionery products	Haribo	Private
Lindt & Sprüngli (CH)	Confectionery products	Lindt	Public
Boparan Holdings (UK)	Biscuits, cakes and various processed foods	Fox's, Holland's, Matthew Walker	Private

Sources: companies' own websites

Figure 2: Major Retailers by Grocery Sales (Great Britain)



* Private company

** Public company

Source: Kantar World Panel

3.2. What is the Risk Profile of These Companies?

The risk profile of a company will depend on how exposed it is to the issues identified in section 2 of this briefing and their response to these. In this context, Schroders & Rathbone Greenbank Investments' work identifies a number of core areas of corporate behavior that investors should consider when conducting their valuations. These include whether effective governance mechanisms exist for assessing company risk at board level (Governance); whether clear goals to adapt to consumer and regulatory trends have been set (Strategy) and whether detailed plans for achieving these exist (Implementation); how transparent companies are on their engagement and lobbying efforts, and if these are consistent with guidance on public health (Public policy position); and lastly how transparent they are when reporting information relating to their activities (Demonstrating progress).[89]

In terms of the actions that food and drink companies can implement to profit from growing consumer demand for healthier food and address the drivers of childhood obesity, Figure 3 includes some examples for illustrative purposes only.

Figure 3: Examples of Actions that Could Be Taken by UK Manufacturers and Retailers to Tackle Childhood Obesity

One of the biggest challenges when conducting company valuations in this area is the fact that existing company reporting is often anecdotal and tends to be limited to actions related to flagship products or those projects illustrating corporate best practice. Therefore, it is in the interest of investors to encourage companies to develop comprehensive reporting methodologies in order to increase transparency of their actions across their entire product portfolio. Such inconsistency of actions, combined with a lack of a common metric and means of reporting progress, makes it very difficult to compare companies on a like-for-like basis.

For these reasons, ShareAction intends to conduct a thorough evaluation of the actions of major manufacturers and retailers across the full range of their UK products in the near future. Further briefings will also include specific recommendations for investors on asks of companies in this space.

4. Conclusion and Next Steps

Understanding how food manufacturers and retailers are responding to the challenge of childhood obesity should be of interest to a wide range of investors.

It is clear that childhood obesity rates are contributing to a public health crisis in the UK, with a disproportionate impact on the most disadvantaged children. While the scale of the problem is daunting, progress is possible, and solutions don't have to be complex. We need to ensure that healthier food options are available, affordable, and accessible to all, which is a more than achievable objective.

There is now a groundswell of political and public support for action on this critical topic. It is becoming increasingly accepted that food and drink manufacturers and retailers have a pivotal role - and responsibility - to be major drivers of the changes needed. While regulation and voluntary programmes have led to some improvements, further significant changes in company behaviour are needed to make healthy eating the norm.

As this briefing sets out, current market and regulatory trends present a major opportunity for progressive manufacturers and retailers. There is a real competitive opportunity for innovative companies to produce and promote food that is both healthier and fulfils consumers' expectations. Such companies can capitalise on growing demand for healthy products and stay ahead of further legislative changes. Conversely, there are clear financial, reputational, and operational risks for those food and beverage manufacturers and retailers that fail to act.

For these reasons, we encourage investors to ask companies to commit to full disclosure of their actions across their entire product portfolio, and to improve their understanding of companies' actions and reflect this in their stewardship of companies.

ShareAction's Healthy Markets Campaign

ShareAction will be launching its Healthy Markets' Investor Coalition in 2019, with an initial focus on childhood obesity and sugar reduction. We encourage investors to consider the associated risks and opportunities which these issues present, and we will be inviting them to attend an introductory roundtable event in September 2019 to explore these topics further and find out more about our coalition.

If you are an investor and would like to find more about the upcoming roundtable event or our new coalition, please contact, Ellie Chapman, Food and Health Programme Manager at ShareAction:

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Further Investor Briefings

ShareAction will conduct a thorough evaluation of the actions being undertaken by major food and beverage manufacturers and retailers operating in the UK market across all their products and will use this information in further investor briefings in the near future. This will include a report on the level of risk faced by companies and specific recommendations for investor engagement. The first of these briefings, focusing on UK retailers, will be published later in 2019.

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