

July 2024 Thematic Engagement Executive Summary Report APPROVED
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Feeding the Future



THE ISSUE AT HAND

Ensuring a sustainable supply of food for the world’s fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.7 billion¹ (18% higher than today²), putting more pressure on already constrained resources. Food production will need to increase by 56% over a 2010 baseline to feed the larger population,³ meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

Morningstar Sustainalytics’ Feeding the Future Thematic Engagement has aimed to contribute to a more sustainable food system by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It has targeted the entire value chain including companies from the agriculture, agricultural chemicals, packaged foods, and food retail sectors. This engagement was initiated in Q2 2021 and has now run for three years. Through this engagement, we have sought to contribute to a sector-wide transition to more sustainable agriculture practices.

This is the sixth and final biannual update for the Thematic Engagement since the baseline report was published in June 2021. The purpose of the report is to outline our engagement activity over the last three years, illustrate the progress of the companies on our engagement objective and propose future areas of focus for investors in dialogues with food system companies.

ENGAGEMENT RESULTS

Since the start of the Thematic Engagement, Morningstar Sustainalytics and investors have held 84 conference calls with companies, averaging 28 calls per year. We have also exchanged over 1,300 emails with companies and made 53 telephone calls to keep the dialogues progressing. Since the preparation of the January 2024 biannual report, we have held nine conference calls and organized a roundtable on regenerative agriculture in May 2024, in which seven companies and eleven institutional investors took part. Over the course of the Thematic Engagement, we have regularly evaluated companies’ progress on our KPI framework, covering their governance, strategy, practices and targets in relation to material and interconnected sustainability issues, such as climate change, biodiversity and land stewardship. As of July 2024, eight of the 20 engaged companies (35%) have a high-range overall score, ten (50%) have a medium-range score and two (10%) have a low-range score. The eight companies with an average KPI score in the high band are distributed across the four focus sectors.

¹ “Population.” United Nations. Accessed July 14, 2024. <https://www.un.org/en/global-issues/population#:~:text=The%20world's%20population%20is%20expected,billion%20in%20the%20mid%2D2080s.>

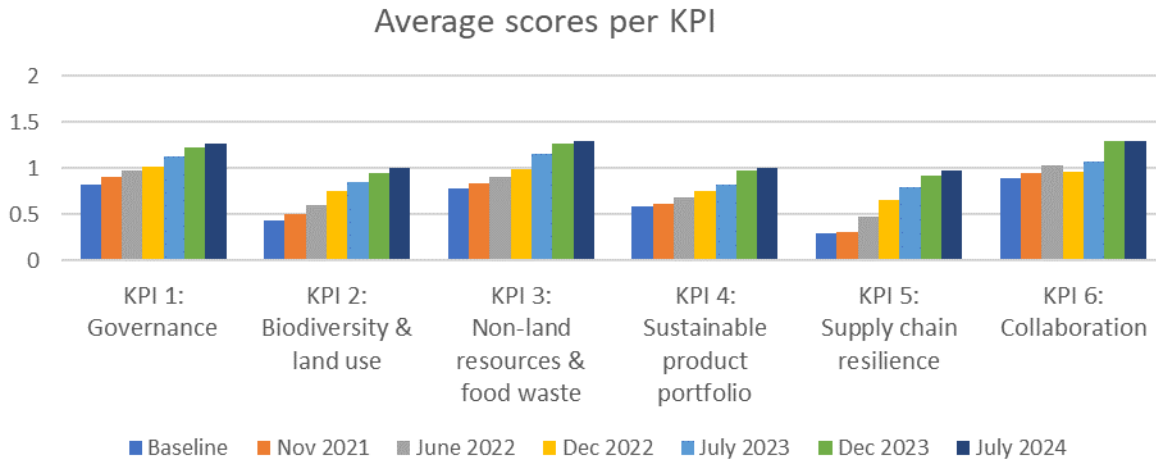
² World population prospects 2024 - United Nations. Accessed July 14, 2024.

https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesa_pd_2024_wpp_2024_advance_unedited_0.pdf

³ “How to Sustainably Feed 10 Billion People by 2050, in 21 Charts.” World Resources Institute, December 5, 2018. <https://www.wri.org/insights/how-sustainably-feed-10-billion-people-2050-21-charts.>

FINAL CONCLUSIONS

The chart below breaks down these overall scores into average scores for each of the 6 KPs.



KPI 1: Governance includes the board’s mandate and the company’s commitment to promote sustainable agriculture, but also reflects the company’s assessment of risks, dependencies, and impacts. This has been a frequent topic of discussion during our dialogues, and we have seen a marked improvement over the last three years. While Taskforce on Climate-related Financial Disclosures (TCFD) reporting was well-established in 2021, the main evolution has related to evaluation of companies’ relationship with nature. Some companies have been motivated by the crystallization of the TNFD Recommendations over the last three years to conduct or commission their own assessment, while others have taken a more cautious approach and are only now considering how to proceed, following the publication of the Taskforce on Nature-related Financial Disclosures (TNFD) Final Recommendations in September 2023.

Responsible stewardship of land and other natural resources is linked to KPIs 2 and 5 in our evaluation framework and has been the dominant theme in our dialogues with companies in all four sectors. This helps to explain the increase in the average score on both KPIs from the low scoring range to the medium scoring range. Companies have displayed a range of biodiversity-related projects and programmes, including surveys of operational areas and restoration initiatives, but need to build these into comprehensive strategies in our view. While target-setting in relation to nature is in its infancy, many companies in our engagement group have drawn on their carbon footprint analysis to set timebound emissions targets, contributing to improvement on KPI 3: management of non-land resources & food waste.

We have also sought to understand whether companies have a strategy for product development and innovation which aligns with their sustainability goals and considers regulatory changes and consumer demands. The convergence between consumer interests, regulatory developments and sustainability strategy takes various, overlapping forms, including organic, locally sourced, vegetarian and sustainability-certified foods and alternative protein. Although the average score on the relevant sub-

indicator has remained within the medium scoring band since the baseline, it has increased by 64%, signifying a proliferation of marketing initiatives by different companies.

KPI 5: Supply chain resilience covers companies' evaluation, support and monitoring in relation to sustainable practices among their suppliers. This issue is important for agricultural sector companies, where even primary producers may also rely on third-party growers, and for packaged food and food retail companies, which are completely dependent on their agricultural and processing supply chains. Accordingly, it has been a pervasive topic in our dialogues, inextricably bound up with the theme of land stewardship. The improvement of average scores in this KPI has been based on evidence of companies' systems to assess supply chain resilience and support farmers, including small-scale producers, in building more sustainable farming practices, particularly in the packaged food and food retail sectors. However, we would like to see this work backed up by additional measures to monitor the effectiveness of companies' interventions.

KPI 6 on peer and stakeholder collaboration serves as a proxy for engagement companies' progress on driving systemic change. It has been a key area of focus during the second half of this engagement and, along with developments in public reporting, this has resulted in an increase in the average score for KPI 6 by 20%. However, performance on the various aspects of stakeholder collaboration is not uniform. We consider that, while companies are comfortable engaging with the academic community and participating in multi-stakeholder initiatives, they have a less ready appetite for dialogue with their peers on pre-competitive sustainability issues. They may benefit from a greater exchange of ideas with other companies on present and challenging questions such as navigating the EU Deforestation Regulation, measuring scope 3 carbon emissions and assessing biodiversity risk.

CONSIDERATIONS FOR FUTURE ENGAGEMENT

We will continue dialogue with nearly all the companies included in this Thematic Engagement through the Biodiversity & Natural Capital (BNC) Thematic Stewardship Programme. To complement continued engagement through the BNC programme, we would recommend various areas for investors to focus on in further dialogues with food system companies. Investors may want to hold companies to account for: efforts to assess their impacts and dependencies on nature with the help of the TNFD Recommendations and the Science-Based Targets Network (SBTN) methodology; progress towards their existing short-, medium- and long-term carbon emissions targets; and review of such targets at the end of their term. Investors may also want to encourage companies to: develop comprehensive biodiversity strategies based on their assessment of impacts and dependencies on nature; consider using sustainable product innovations as a pilot for wider and longer-term changes to sourcing practices; complement existing systems to assess and support supply chain resilience with measures to monitor and track the progress of different support activities; and provide information on peer-to-peer collaborations on assessment, management and reporting of sustainability risk. Investors may also want to encourage leading companies to continue to use their platform to stimulate debate and promote good practices beyond their sector.

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