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QUESTIONS FOR INVESTORS

standing of the company's name may suffer damage in the eyes of consumers. Such reputation damage can have a direct negative impact on the performance prospects of the company, the value of its shares and returns to investors.

Energy footprint

How dependent on energy is the stock you are eying? What concrete material information regarding energy use and planning are they sharing with you (website, annual report)? How dependent are they on dirty Eskom coal-based electricity? Can they benefit from the shift towards greener energy, such as biomass that is a bi-product of agricultural activity or through starting to use or produce biofuels? Have they set realistic energy-reduction targets? How much are they spend-

Are food companies good investments?

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SO YOU ARE THINKING OF CASHING IN ON THE BULLISH JSE, think black diamonds are going to keep spending and fancy the food sector. But you have also seen Al Gore's inconvenient movie, believe in empowerment and want your investment to make a positive difference to rural agricultural communities. Well done! You have the makings of an ethical investor. Where do you start and what questions should you be asking of the companies you are considering buying into?

Firstly, welcome to the club. You are in good company. Global growth in ethical investment has been phenomenal in recent years. The signatories to the United Nations Principles of Responsible Investment today have assets under management totalling US\$8 trillion. These are funds owned and managed by pension funds and asset managers internationally. The South African signatories are Frater Asset Management, Advantage Asset Managers, Empowerdex and the Government Employees Pension Fund.

Now to get you going, here are just some of the sustainability-related investment risk areas with a few questions you should be asking companies in the food sector before committing your cash, particularly if you are a longer-term value investor, because over time these so called 'non-financial risks' have a way of finding their way into the bottom line.

Governance, ethics & pricing

You have read reports that the Competitions Commission is investigating allegations of price collusion in the dairy and bread industries.

News such as this gives warning to potential investors that they have to be concerned about the quality of management at the helm of companies they want to invest in. The company may be managed on the basis of principles contrary to yours. If companies can act clandestinely to keep the price of brown bread and milk artificially high, making unreasonable profits on the back of the poorest members of society, a socially conscious investor may not be happy about this. The risk is also that the



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ing on electricity, and if prices adjust to reflect the true cost (electricity is heavily subsidised in South Africa), how will this affect the bottom line?

Climate change and water-use

We all know that Southern Africa is drought prone and water is a scarce resource. But how is this going to affect companies involved in the food value chain? Climate change models concur that the region is going to get significantly drier and that agricultural land-use will shift. Some areas and



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industries will suffer (like the Western Cape wheat belt), whilst others may actually benefit from the shift in rainfall patterns. How is all of this going to affect your favourite food stock?

Genetically Modified Organisms (GMO)

South Africa is one of only six countries worldwide that grows genetically engineered (GE) crops. It is the only country in Africa growing GE crops commercially. These include: insect-resistant maize for animal fodder; insect-resistant and herbicide-tolerant cotton; herbicide-resistant soya and insect-resistant white maize for human consumption. But not everyone thinks GMO or GE is great. There is growing global concern over inadequate risk assessment, corporate secrecy and non-disclosure. On which side of the debate do you stand, and how much is the food company you are researching telling you about this risk area?

Packaging waste

Government is stepping up its efforts through enabling policies and legislation to start realising the ambitious targets (zero waste by 2022) set out in the Polokwane Declaration on Waste Management, signed by government, civil society and business in 2001.

Does the company you are looking at produce large amounts of packaging waste? Food producers and retailers are among the first to come under the spotlight. How is the company you are looking at fairs in this department? Do they have proper plans in place to

reduce their packaging waste by these levels? Are they taking full responsibility for this issue?

Environmental compliance

For food manufacturers this is immediate, whilst for food retailers this is mainly about supply-chain risk. A key question here is whether food factories are compliant with increasingly stricter SHE legislation. What legacy risks lie lurking in those old sites (buried barrels of chemicals, leaking underground storage tanks etc.)? How do they know? Is there adequate disclosure on this issue?

Occupational health and safety and HIV/Aids

The occupational health of employees in the food sector is an area that, as a potential investor, should also concern you. Here you should be asking questions about the manner and conditions in which the food is produced and the working conditions on the farms and in the factories. South African companies have come a long way to improving on-site care for their staff. However the frequency of accidents and death is still above international averages. What are their accident frequency rates and what are they doing about bringing these down?

The high incidence of HIV/Aids in the South African workplace requires that companies invest in workplace education and care programmes to prevent and fight this disease. Is the company you are sizing up doing this? What is their risk profile

compared to others in the sector? Do you think they are doing enough in this area?

Empowerment

As a South African you are aware that black economic empowerment has become necessary to redress the racial economic imbalances created by apartheid. And you want to make sure that your prospective investment is doing its bit toward deracialising wealth and poverty. Firstly you want to know that the BEE deal at ownership level is done right the first time. You want to know that the transaction gets the full benefits of the DTT's BBBEE Score Card. You want to know that there is real transfer of share ownership to the BEE partners, ownership that is accompanied by the accruing benefits and voting rights. After all you don't want to invest in a company that does a deal that does not meet the spirit of the BEE legislation – only to realise that the company may have to do subsequent BEE deals to correct the shortcomings, at further cost to you as a shareholder. You also want to make sure that the BEE partners can add value to the growth prospects of the company in which you want to invest.

As an astute investor you also know that BEE is not only about striking a deal at ownership level. You know that the real and lasting impact on bridging the country's gaping wealth gap will come from opening up opportunities for black people to have jobs in the private sector. So you want to ask the managers of your prospective investment if they have plans to recruit, train and promote black employees into middle, senior and top management. The company should also be using its procurement budget to support entrepreneurship by procuring services from empowered companies. **W**

The four main approaches to socially responsible investment (SRI)

1 Negative screening involves avoiding companies which are known to have a negative social or environmental impact. Companies involved in arms, nuclear power, the fur trade, tobacco, gambling and pornography are common exclusions. An example of negative screening is Shari'ah compliant investment portfolios that utilise qualitative and quantitative Islamic investment principles, screen stocks and exclude those, for example, that rely heavily on debt and interest income.

2 Positive Screening involves actively seeking to invest in companies with a commitment to responsible business practices. This typically involves indications of good corporate governance, ethics, social equity and transformation, and sound environmental policies and practices. The JSE SRI Index relies on this principle. Key food-related companies that are part of the JSE SRI include Illovo, Tongaat-Hulett, Bidvest, Oceana, PnP and Woolworths. Conspicuous by their absence are large food producers AVI, Tiger Brands and Afgri, and food retailers Shoprite Checkers and Spar.

3 Active or engagement shareholding occurs where a fund manager invests in a company and then enters into a dialogue to determine the company's social and environmental policies, performance and risks - with the aim of influencing positive change.

4 Cause-based investments is a much narrower approach that enables investors to support a particular (typically social-good-based) cause, such as increasing social capital in disadvantaged communities or, by financing job creation through investment.