

Food Sustainability Demands

Investors Becoming More Engaged on Ag and Food Sustainability, Climate Risks

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In a new dynamic for the agricultural sustainability movement, major institutional investors are increasingly engaging food and agricultural corporations to find out how they are managing various climate risks.

The role of inquisitive institutional investors was a running theme at the Field to Market Agricultural Sustainability Summit this week in Kansas City, Missouri. The conference focused on the growing soil health movement as well as increased efforts within commodities to measure and establish sustainability practices.

Sustainability goals have increasingly become a driver for consumers deciding what they are going to buy, but now shareholders want to know about such risks as well.

"This year, in particular, has been the year we have felt the most inquiries and serious attention from institutional investors -- not the kind of social-impact investors but core institutional investors who value our stock want to know what we are doing about climate change," said Brittni Furrow, senior director of Sustainability of Global Food Business for Walmart Stores Inc. "For years, our chief sustainability officer has been telling our CFO and head of investor relations that investors are going to care about this, and we need to be taking this seriously. Well, that happened this year. This year, every single one of our institutional investors asked us about our IR team climate program and about how we are evaluating climate risk."

Following the hurricanes in August and September, Walmart held a board meeting just last week discussing how the company values long-term climate risks for the company, Furrow said. A big chunk of that is looking at how company distribution centers are affected by major storms, as well as disruption to the retail business.

This past year, more than 130 shareholder proposal resolutions in the agribusiness sector focused on topics dealing with climate change or related sustainability topics. Investors are looking for more disclosure around not just weather risks, but also long-term sourcing of commodities and water.

"There has been a huge uptick among institutional investors on sustainability issues, including water, looking at both water quantity and water-quality issues," said Cambria Allen, corporate governance director for the UAW Retiree Medical Benefits Fund, which manages a \$59 billion portfolio of stock in more than 8,000 companies.

What this means is the supply chain is looking more closely at farmers for sourcing commodities and what the practices are in the field that can be deemed as sustainable and address climate change. This is forcing public companies to share more details about how they are addressing climate risks on reports they file with the Securities and Exchange Commission.

"The trend is to have more reporting on water and climate issues," said Amy Braun, sustainability director for Kellogg Co. "We're improving, but we haven't cracked the nut on this. It's something we are still working on."

Jennifer James, a rice farmer from Newport, Arkansas, was named Field to Market's first Farmer of the Year award winner at this week's event. James said her family's operation began working decades ago to conserve water on their operation in various ways. The farm has undergone precision leveling, established underground pipes to move water around, and has also established a small reservoir.

"My family was very forward thinking in some of their efforts to conserve water," James said.

James chairs the sustainability committee for USA Rice, and she said her involvement in Field to Market over the past several years has opened her eyes to the entire supply chain. Most sustainability efforts have to start with the farmers that grow their commodities, she said.

"For farmers, why this matters is because it matters to the people who buy their products," James said.

"Consumers are two to three generations removed from the farm at best, and they aren't as familiar with the practices on the farms, and why would they be? But they want to know how their food is grown, and they want to know what they eat is safe."

Still, the conversation at Field to Market often comes back to how farmers who are the best stewards can be rewarded in a commodity supply chain.

Justin Knopf, a wheat farmer from Salina, Kansas, who was highlighted in Miriam Horn's book "Rancher, Farmer, Fisherman," noted everyone's grain ends up at the same spot in the elevator.

"How do we un-commoditize the commodity business, not very much, but just a little bit?" Knopf said. "What are the ways the supply chain can allow consumers to make investments back on the farmland?"

The challenge there is retailers and consumers have become used to certification programs that offer a reason for a consumer to pay more for that product. Furrow noted that incentives may require more initiatives within agriculture to credit farmers for regenerative farm practices. Furrow noted she had been on a lot of farms with great practices and stories, but said production agriculture involves hundreds of thousands of farmers. The industry needs a way to verify on-farm practices, she said.

"We can't come to every one of your operations and check them out," Furrow said. "Within our industry, a lot of agricultural commodities around the world who have created third-party verification create a standard of good products and work with NGOs and the industry to certify your products. It's done with other commodity markets that are traded all over the place."

Some groups have established ambitious goals for soil-health practices into the future. The Nature Conservancy, for instance, would like to see no-till farming, cover crops and related practices on as much as 50% of cropland by 2025.

"Most farmers who have adopted those practices are seeing they are good for productivity and good for their bottom line," said Larry Clemons, director of the Nature Conservancy's North America Agriculture Program. He added, "The amount of cover crops I'm seeing on the land is noticeable. There is a movement out there happening on the land."

Still, Clemons notes that more than 60% of cropland is owned by absentee landowners with farmers operating on year-to-year cash-rent agreements. The Nature Conservancy and others are trying to engage these landlords to support renters who farm with less tillage and use cover crops.

"We're really starting to understand that demographic of landowners and what motivates them," Clemons said.

Sustainable agriculture, though, is also high tech. The U.S. Department of Energy even has a team that is working on "moonshot" types of technology to improve energy efficiency and reduce the greenhouse-gas footprint of farmers. Agriculture takes up about 12% of U.S. energy use, and the food-supply chain amounts to about 15% of overall greenhouse emissions. DOE is working on direct-imaging technologies to see root profiles in the field and continuing precision ag tools to better highlight agronomic issues with crops instantaneously.

"We are moving into a phase where we are digitizing ag," said Joe Cornelius, program director for DOE's Advanced Research Projects Agency.

Consumers, though, are often focused more on values than science. Furrow noted Walmart is often asked what the retailer is doing to educate consumers. Consumers are driven by various influencers beyond Walmart, especially in the social-media space. That's an area farmers need to watch because younger consumers, like investors, are keyed into issues around sustainability right now.

"Our millennial consumer will be 35% of our retail sales by 2020, and they are making it very clear that sustainability matters," Furrow said. "Lots of studies tell us climate change is the No. 1 global concern that that millennial generation cares about, and they are looking to purchase with a brand they trust doing the right work on the issues they care about."